Nigeria Sovereign Investment Authority
Annual Report & Accounts 2013

Nigeria Sovereign Investment Authority

An Era of Financial Responsibility

Contents

"Welcome to a new era of financial responsibility."

President Goodluck Ebele Jonathan, GCFR
President and Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria

Chairman's Statement

I am honoured to introduce the first Annual Report of the Nigeria Sovereign Investment Authority (NSIA) to our stakeholders across the Federation.

When I assumed the Chairmanship of the Board of this new and important national institution, I knew the first year would be dedicated to building a solid platform for the future. Like all organisations during their start-up phase, building a strong foundation is the most critical element in ensuring sustainable growth. I am also very fortunate that all my colleagues on the Board share this vision. We spent the first half of 2013 on activities such as establishing the foundation for good governance, assembling a world-class team and developing a sustainable strategy to set a solid base for the NSIA. With that in place, we commenced execution of our mandate as entrusted to us by the Nigerian people.

Whilst we can reflect briefly on how far NSIA has come and the progress made, it is pertinent to state that a lot of work lies ahead. We have been set the task of growing NSIA's assets over the longer term in a sustainable way that will make our stakeholders and the Nigerian people proud. We strongly believe that NSIA is on the right track. Our journey is a long one and will require patience, persistence and pro-activeness in achieving the Authority's goals. Indeed, with these values and continued support from all stakeholders, NSIA will achieve its goals and if I dare say, exceed the expectations of the Nigerian people.

Alhaji Mahey Rasheed, OFR
Chairman of the Board

NSIA's first year of operations coincided with a gradual return to stability in the Nigerian economy. The GDP growth rate for fiscal year 2013 is estimated at 6.87% up from 6.58% in 2012, showing clear strengthening in the fundamentals of the Nigerian economy. We also expect the global economy to continue to recover in the coming year, as developed markets consolidate on the recovery seen in 2013. We believe this outlook augurs well for NSIA.

Against this favourable backdrop, we have begun implementing our strategy in each of NSIA's three Funds. The Stabilisation Fund (SF) is now fully invested, in line with its Investment Guidelines. Again, more than half the capital allocated to the Future Generations Fund (FGF) has also been invested. We expect to deploy the remainder of the FGF in the coming year.

As regards the Nigeria Infrastructure Fund (NIF), NSIA is focused on investing in critical infrastructure that would attract and support Foreign Direct Investment, promote economic diversification and enhance growth. However, the infrastructure gap in Nigeria cannot be met by using NIF's resources alone. We have therefore been engaging with like-minded strategic partners to take a collaborative approach in investing NIF's funds. The initial response from engaging with potential partners both locally and internationally has been very positive.

At this juncture, as is common with all responsible investors, NSIA seeks not only a positive financial return on investments but also emphasises social and environmental impact. We believe these two objectives are not mutually exclusive as demonstrated by a number of recent commitments the Authority has already made with regard to infrastructure investments.

During our inaugural year of operations, NSIA earned a gross operating income of ₦1.466 billion, reporting a modest profit of ₦525.2 million. It is pertinent to state that in accordance with the law establishing it, NSIA reported its accounts under the globally accepted International Financial Reporting Standard (IFRS), ensuring the highest level of scrutiny, detail and accuracy in reported numbers.

As I reflect on the foregoing, I would like to acknowledge and express gratitude for the strong assistance and support provided to us during this initial phase by His Excellency President Goodluck Ebele Jonathan (GCFR), His Excellency Vice President Mohammed Namadi Sambo (GCON), His Excellency the Senate President, Senator David Mark (GCON), the Honourable Speaker of the House of Assembly, Rt. Hon. Aminu Waziri Tambuwal (CON) and the entire Nigerian National Assembly. In addition, I thank the Coordinating Minister for the Economy and Minister of Finance, Dr Ngozi Okonjo-Iweala for her commitment to NSIA's mission.

Finally, as I look forward to 2014, I would like to take this opportunity to thank my fellow Board members and Management for their contributions during a successful first year of operations. I am pleased with the progress made and confident that with the Board's significant range of experience and expertise, NSIA will succeed in fulfilling its important mandate.

Whilst we can reflect briefly on how far NSIA has come and the progress made, it is pertinent to state that a lot of work lies ahead.

Chief Executive's Review

I am delighted with the progress made during the course of NSIA's start-up year and I believe we have laid a solid foundation on which to build for the future.

As at year end, we have deployed capital across half the strategies for the Future Generations Fund (FGF), fully invested the Stabilisation Fund (SF) and made some commitments in the Nigeria Infrastructure Fund (NIF). It was inevitable that much of the investments in our start-up year would be made towards the end of the financial period. As a consequence, we experienced a drag on performance due to significant uninvested cash, resulting in income of ₦1.46 billion and profit of ₦525.2 million in our first year's accounts. With the benefit of the investments made in 2013 and continuing deployment in 2014, we expect a more positive result in 2014.

Setting up of Operations and Recruitment of Key Officers

Following the inauguration of the Board on 9th October 2012, we proceeded to develop a strategy for the business and to assemble a team to deliver on the mandate of the NSIA. We also commenced the search for an investment consultant and a global custodian, without which we could neither receive nor commence actual investments of our funds.

By the end of January 2013, our custodian and consultant search-processes were concluded, resulting in the appointment of JP Morgan as our global custodian and Cambridge Associates as our investment consultant. Both appointments followed a competitive and transparent process.

Mr Uche Orji
Managing Director & Chief Executive Officer

The Custody agreements were finalised in June 2013, after which we received our funds from the Central Bank of Nigeria accounts and were able to commence investment operations. Most of our key personnel were recruited before the end of June 2013, although our Chief Investment Officer assumed duty at the end of August 2013.

Commencement of Investment Operations

Taking into account the size of the funds and the early stage of the build out of the team, we decided to outsource the FGF and SF to external managers. However, due to the limited options for outsourcing the infrastructure fund, we decided to build an in-house team to manage the NIF. This ensures we have a team (both internal and external) that is focused and equipped to deliver the NSIA's mandate. Our decision was also made bearing in mind our strategy of having a lean operating cost structure.

In keeping with the statutory requirement that a minimum of 20% of our total fund be allocated to each of the funds and the remaining 40% be allocated at the discretion of the Board, we decided to allocate the funds as follows: 40% to Future Generations Fund; 40% to Nigerian Infrastructure Fund and 20% to Stabilisation Fund. This allocation, we believe, creates a balance in meeting the core need of the current generation of Nigerians which is infrastructure and fulfilling the needs of the future generation of Nigerians, through savings.

Future Generations Fund

For the Future Generations Fund, the Investment Policy Statements, Investment Guidelines and Strategic Asset Allocation were approved by the Board in July 2013. The initial selection of managers was concluded in December 2013.

Given the investment objectives of the FGF, we have set an investment horizon of about 20 years. Our near term view is positive for the market in 2014 and our asset allocation reflects this positive view, with 80% of the asset allocation in growth assets, 15% in inflation hedge assets and 5% in deflation hedge assets. Within the growth asset category, we have allocated 25% to equities, split 15% to emerging markets and 10% to developed markets. We have also allocated 25% to absolute return funds, another 25% to private equity funds and 5% to other diversifiers. Within the inflation protection assets, we have allocated 10% to real assets and 5% to commodities. And finally we have retained 5% in cash as deflation protection for the portfolio.

Managers were selected for the Absolute Returns asset class and Long-Only Equity asset class; and a couple of private equity commitments were also made. We committed approximately 50% of the FGF by the end of 2013; deployment is still on-going. We continue to search for managers to fill our needs as we allocate the remaining capital to private equity, hard assets, commodities, equity and fixed income asset classes.

Stabilisation Fund

The Investment Policy Statements, Investment Guidelines and Strategic Asset Allocation for the SF were also approved by the Board in July 2013. The search for Fund managers commenced immediately after the policy statements were approved and it concluded in September 2013. Active investments commenced in October 2013.

Given that liquidity and capital preservation are the main objectives of the SF, we have allocated assets with a mix of 75% growth assets and 25% hedge assets. Within the growth assets category, we have invested in investment grade corporate bonds with maturities of 1-3 years with a buy and hold strategy. We have initially split this mandate across two managers. Our hedge asset class at the moment consists of US treasuries with maturities of 1-3 years and we have allocated this mandate to a single manager, given the relative simplicity of this mandate.

Our vision is to establish NSIA as a best-in-class Sovereign Wealth Fund, playing a leading role in driving sustained economic development for the benefit of all Nigerians.

Nigeria Infrastructure Fund

For the Nigeria Infrastructure Fund, the Investment Policy Statement and the 5-year infrastructure rolling plan were completed in December 2013. This policy statement, we believe, addresses the critical balance of financial returns and developmental needs. In recognition of the limited size of the NIF at this start-up phase, we have decided to focus on 5 investable sectors in Nigeria infrastructure.

These sectors are Healthcare, Agriculture, Motorways, Housing/Real Estate and Power.

The choice of our current focus sectors is guided by the following principles:

— Sectors that align with national priority;
— Projects with attractive commercial and social returns;
— Sectors where we can attract private capital or unlock private sector potential; and
— Sectors where the regulatory environment is conducive.

As part of the investment policy statement, we have allocated 1.5% of the NIF towards project development funding. This is in recognition of the need to co-develop projects given the early stage of the infrastructure investment sector.

Our first two investments were in the Fund for Agricultural Finance in Nigeria (FAFIN) and the Nigeria Mortgage Refinance Company (NMRC). These were approved by the Board in December 2013 and publicly announced in January 2014. We also obtained approval to invest up to $2.5 million in initial project development funding for the Second Niger Bridge Project covering financial, technical and legal deal preparation. We expect to commit further funds as equity sponsor on execution of a concession agreement with the Federal Government.

As the NIF evolves beyond its current phase, we will look to expand NIF's focus sectors beyond the current five sectors, to include other sectors of interest like water-resources, free trade zones and manufacturing, rail transportation, aviation, mining, amongst others.

Nigeria Infrastructure Fund: Project Pipeline & Sector-specific Subsidiaries

We have developed a strong pipeline of projects across our focus sectors. In healthcare, we have signed memoranda of cooperation with a number of teaching hospitals and federal medical centres to co-develop PPP projects in the areas of specialist clinics and diagnostic imaging centres amongst others.

We continue to explore opportunities in the power sector and expect the on-going regulatory reform to present us with numerous opportunities in both generation and distribution. Within real estate, we are considering opportunities in the areas of affordable housing, commercial real estate and hospitality. We are also assessing a number of motorways and agriculture opportunities across the country. We expect a number of these projects to materialise in 2014.

To enable the implementation of our infrastructure strategy, the Board approved the creation of dedicated sector subsidiaries of NSIA in order to provide an investment platform in specific sectors. These are:

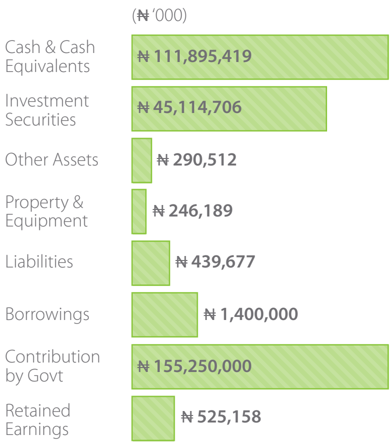
— NSIA Motorways Investment Company
— NSIA Property Investment Company
— NSIA Healthcare Development and Investment Company and;
— NSIA Power Investment Company

Strategic Partnerships

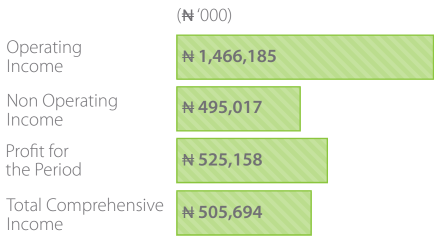
In 2013, we developed a number of strategic partnerships, which I believe will enable NSIA to better respond to Nigeria's infrastructure needs over the coming years. These included memoranda of understanding with Africa Finance Corporation, General Electric and the International Finance Corporation. We also have an ongoing collaboration with the Nigeria Infrastructure Advisory Facility (NIAF), a technical assistance programme funded by the UK's Department for International Development (DfID). NIAF has been instrumental in the development of NSIA's infrastructure strategy.

Statement of Financial Position

Statement of Financial Position



Statement of Comprehensive Income



Outlook

Our organisation has come a long way in the last 15 months. We have over the course of the year developed a capable team of professionals who are well-equipped to meet NSIA's future objectives. In October 2013, we were proud to receive the African Investor award for African Sovereign Wealth Fund Initiative of the Year. This award is a tribute to the hard work and dedication of NSIA staff.

Whilst I remain confident that we enter 2014 in a good position to achieve our set targets, we acknowledge that some of the challenges that manifested at the end of 2013 will continue into 2014. We ended 2013 with the tapering of the quantitative easing programme in the United States, leading to pressure on emerging market currencies including the Naira, as well as geo-political concerns that could have an impact on the prices of oil and other commodities. These events serve as a poignant reminder to stakeholders of the need for economic stabilisation agencies such as NSIA.

Our vision remains to fulfil that important role, as well as to build a best-in-class sovereign wealth fund manager, playing a catalytic role in driving sustained economic development for the benefit of all Nigerians. I believe we can achieve this goal and have started 2014 on a solid footing.

Uche Orji
Managing Director & Chief Executive Officer

Our Vision and Mission

Vision

To establish NSIA as a leading sovereign wealth fund globally; playing a role in promoting investments for economic development

Mission

Our mission is to play a leading role in driving sustained economic development for the benefit of all Nigerians through:

1) Building a savings base for the Nigerian people
2) Enhancing the development of Nigeria's infrastructure
3) Providing stabilisation support in times of economic stress

Overview of NSIA Funds

On 27th May 2011, His Excellency, President Goodluck Jonathan, GCFR signed the Nigeria Sovereign Investment Authority (Establishment etc) bill into law, thus creating the NSIA.

NSIA commenced operations in October 2012 with an initial allocation of US$1 billion in seed capital. As provided for by the NSIA Act, NSIA's investments are made through three distinct and ring-fenced Funds:

1 The Future Generations Fund;
2 The Nigeria Infrastructure Fund; and
3 The Stabilisation Fund.

NSIA's mandate is threefold:

Future Generations Fund
To build a savings base for the Nigerian people

Nigeria Infrastructure Fund
To enhance the development of Nigeria's infrastructure

Stabilisation Fund
To provide stabilisation support in times of economic stress

NSIA started with seed funding of $1 billion across three Funds.

The Future Generations Fund

The objective of the Future Generations Fund (FGF) is to preserve and grow the value of assets transferred into it, by investing in a diversified portfolio of appropriate growth investments, in order to provide future generations of Nigerians with a solid savings base for a time when the country's hydrocarbon reserves would have been depleted.

The Nigeria Infrastructure Fund

The Nigeria Infrastructure Fund (NIF) aims to enhance the development of infrastructure, primarily through investment in domestic infrastructure projects that meet targeted financial returns. Such infrastructure projects could potentially remove limits on the growth of the Nigerian economy, while providing opportunities to NSIA for both income yield and capital growth. We believe NSIA is uniquely placed to attract the investment required by key infrastructure projects and to manage certain project risks. Potential areas for investments include healthcare, transportation, energy and power, water resources and agriculture, amongst others.

The Authority may invest up to a maximum of 10% of the funds in NIF in social infrastructure projects, which promote economic development in underserved sectors or regions in the country.

The Stabilisation Fund

The Stabilisation Fund (SF) is intended to act as a buffer against short-term macro-economic instability. The SF's assets are therefore to be invested conservatively, striking a balance between generating a modest positive return and preserving capital in nominal terms. Given the unpredictable and short-term nature of the Fund's potential liabilities, immediate liquidity is also required. Withdrawals from the SF are to be made at the direction of the Minister of Finance, upon satisfaction of the criteria set out in the NSIA Act.

NSIA's first year has provided us with a firm base on which to build.

NSIA timeline

October 2012
NSIA Board inaugurated.

December 2012
Development of NSIA operating strategy.

February 2013
Cambridge Associates appointed Investment Advisor.

JPMorgan appointed Global Custodian.

May 2013
NSIA moves into current offices.

June 2013
NSIA opens custody account with JPMorgan.

Africa Finance Corporation & General Electric MoU signings.

Investment Policy Statements for Future Generations Fund & Stabilisation Fund completed.

July 2013
Manager selection for Stabilisation Fund initiated.

International Finance Corporation MoU signing.

August 2013
Stanbic IBTC appointed Local Custodian.

CIO assumes duty.

September 2013
Goldman Sachs, Credit Suisse & UBS appointed Stabilisation Fund Asset Managers.

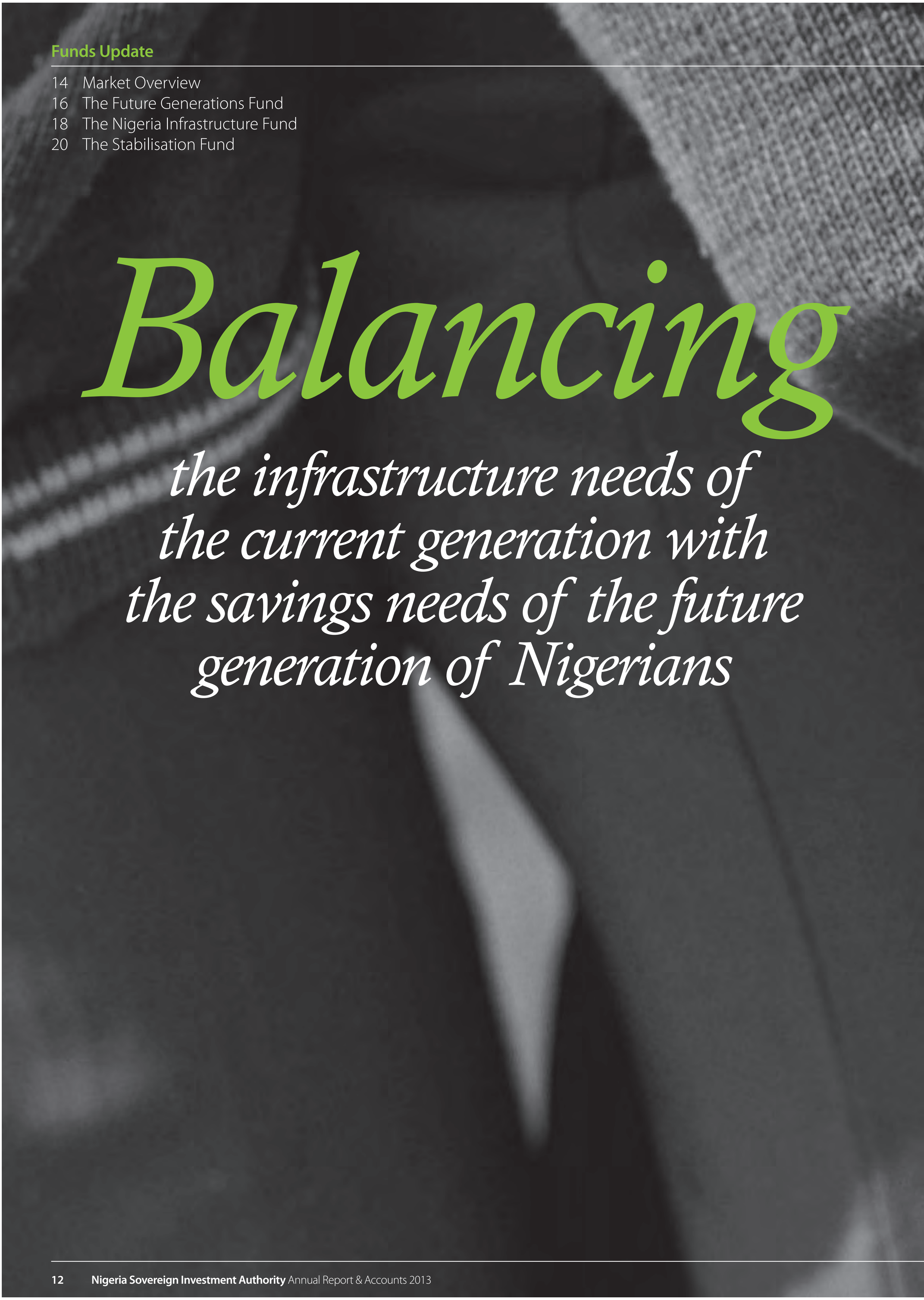
October 2013
NSIA wins 'African Sovereign Wealth Fund Initiative' of the year by African Investor.

NSIA accepted into International Forum for Sovereign Wealth Funds as 'Observer'.

December 2013
NIF invests in FAFIN & NMRC.

Board approves investments in 4 hedge funds, 3 Long Only equity managers and 1 Private Equity manager.

Board approves incorporation of 4 sector-specific subsidiaries covering Healthcare, Real-Estate, Power and Motorways.



Balancing

the infrastructure needs of the current generation with the savings needs of the future generation of Nigerians

Market Overview

Quantitative easing and accommodative global liquidity conditions have helped to bid up asset prices across the risk spectrum during 2013.

Looking ahead to 2014, several key themes should emerge. On the macro side, it is worth monitoring the evolution of global monetary policy, and the impact that tightening in markets like the United States will have on various global assets. Whilst concern that tapering and higher rates in the US may further impact a variety of assets, like sovereign bonds and emerging market (EM) currencies, one needs to understand how other central banks will react. Further easing by the European Central Bank or Bank of Japan, for example, could help blunt the potential impact of U.S. Federal Reserve actions. Nevertheless, global growth is expected to accelerate in 2014. Another macro theme would be how the aforementioned variables will influence earnings growth across markets and asset classes. On the equity side, it is worth noting the relative attractiveness of European and EM equities. In Europe, faster growth should allow earnings to rebound from a low base, given the valuation discount. However, one still needs to be aware of a number of risks such as a hard landing in China, overvaluation in consumer-focused sectors, and headwinds from balance of payments adjustments in some countries.

Developed Markets Equities

United States

It is expected that the Fed will eventually withdraw liquidity, if the economic growth environment remains supportive. This is likely to put pressure on prices of both risk assets and of bonds. Within equities it is expected that, ceteris paribus, yield-oriented assets (including dividend focused strategies, master limited partnerships, Real-Estate Investment Trusts (REITs), and minimum volatility equity strategies with hefty utility sector exposure) will face some of the greatest headwinds in an environment of tapering and eventual tightening. This is because prices will need to adjust for yields to remain competitive with bonds and cash. Within credit and bonds, the high-quality, long-duration bonds should face significant headwinds, but lower-quality credits could also face pressure, as investors that were forced to reach for yield no longer face that need.

Europe

The first quarter rally in European equities year-to-date has run ahead of improvement in underlying earnings, though valuations going into 2013 were undemanding. Although growth has also disappointed, however, recent data looks more promising and structural imbalances are being addressed. Looking ahead to 2014, valuations closer to historical averages suggest companies only need to deliver on fairly muted earnings expectations. The macro picture also needs to continue showing improvement, although again the picture outside the Eurozone looks more robust, and the troubled peripherals are a fairly small percentage of overall market capitalisation. European equities remain attractive relative to US equities given relative valuations and the earnings cycle.

Japan

Prime Minister Abe's economic reform programme is finally taking hold in the economy as businesses are borrowing again. This was achieved by initiating an aggressive fiscal and monetary stimulus programme with the Nikkei 225 stock index gaining 57% in 2013. The financial environment remains supportive and equity prices should continue to do well in 2014, which is mostly supported by a depreciating currency and a strong corporate profitability. It is unlikely that the Bank of Japan will change its low interest rates policy and is expected to continue with its asset purchases with the goal to keep interest rates near zero.

Emerging Market Equities

Emerging market equities may be poised for a burst of outperformance after lagging so much in 2013. This is based on a belief that over the long-term, valuations should normalise and EM equities do not deserve a discount quite as large as at present. However, this undervaluation is concentrated in the sectors with the strongest headwinds, whilst the consumer theme seems fully priced. Indeed, financial and energy/materials stocks seemingly hold the key to broad EM index outperformance. Furthermore, it is likely that cheap China-sensitive sectors and markets would likely drive such a rally, especially if U.S. and European demand picks up, and Chinese growth surprises to the upside, or investors take a more constructive view on Chinese banks.

EM equities performed phenomenally well over the previous cycle. As such the return differential over 2003–07 was astounding as EM equities returned 391% versus "only" 119% for the MSCI World Index. Much of this outperformance, however, was due to extremely depressed absolute and relative valuations for EM equities in 2001–02, with emerging markets trading at 50% discount to developed market equities, and nearly every sector and country was underpriced. Today's valuations are not as extreme, and undervaluation not so widespread (including EM currencies). Therefore outperformance going forward should not be as strong. Furthermore, much of the previous run-up was tied to China's integration into the global economy following its ascension to the WTO in 2001, which helped shape today's global supply chains and triggered the commodity boom. The strong performance in this period also drove widespread adoption of EM equity allocations within institutional portfolios.

Further easing by the European Central Bank or Bank of Japan, for example, could help blunt the potential impact of U.S. Federal Reserve actions. Nevertheless, global growth is expected to accelerate in 2014.

The Future Generations Fund

The Future Generations Fund (FGF) is an intergenerational savings fund, enabling future generations of Nigerians to benefit from the country's finite hydrocarbon reserves. The FGF accounts for 40% of NSIA's Assets under Management.

As such the FGF has a long investment time horizon of greater than 20 years, effectively spanning multiple economic and market cycles. This, coupled with the Fund's payout requirements, allows Management to gain exposure to certain asset classes that are less liquid and can therefore attain greater risk-adjusted returns. Though this is not a required mandate, such investments should also dampen near-term volatility in relative terms. To implement the investment objectives of the FGF, NSIA set the Fund's first Strategic Asset Allocation as detailed below.

The Asset Allocation is based on long-term risk and return objectives, giving consideration to volatility and correlation levels across the Fund. The allocation is diversified across various asset classes ensuring that underperformance in a single class is mitigated to an extent at the portfolio level. The classes are segmented into *Growth Drivers, Inflation Hedges and Deflation Hedges*. At this stage of NSIA's life cycle the vast majority of exposure to these asset classes will be sought through the hiring of external managers.

Growth Drivers

Long Only Equity

The Long Only Equity portion of the Asset Allocation comprises 25% of the FGF, and is broken down into developed market and emerging & frontier market components. Given the time horizon of the Fund, the decision has been taken that the emerging & frontier market portion should receive a larger weighting than that of developed market. This is due to the view that over a long time horizon there is greater growth potential in emerging and frontier markets than developed markets.

Absolute Return

This component received a 25% weighting of the FGF. Managers in this asset class have the discretion to invest across growth strategies and geographies. Absolute Return strategies, such as credit, long/short, or global macro, aim to earn a positive return irrespective of market direction.
As such, this asset class should provide

Asset Allocation

	Asset Allocation	Benchmark
Growth Assets	80%	MSCI All Country World Index
Developed Equities	10%	MSCI World Index
Emerging & Frontier Equities	15%	MSCI Emerging Markets Index
Private Equity, VC and value-added Real-Estate	25%	Cambridge Associates US Private Equity Index
Absolute Return	25%	HFR Event-Driven (Total) Index
Other Diversifiers	5%	TBD
Hedging Assets: Inflation	15%	Weighted Composite
Commodities	5%	S&P GSCI (Equal Weighted)
Hard Assets	10%	50% FTSE® EPRA/NAREIT Developed Real-Estate Index /50% CA Private Natural Resources Benchmark
Hedging Assets: Deflation	5%	Citigroup World Government Bond Index (Hedged)-$
Cash	5%	US T-Bill

a source of growth in times of stress in equity markets.

Private Equity
The Private Equity component also received a 25% weighting of the FGF. Again given the long-term nature of the investment horizon of the FGF, the inherent lack of liquidity in this asset class is negated. Therefore the Fund can gain exposure to an asset class that can obtain considerable outperformance to other benchmarks within the Asset Allocation. The selection of Private Equity managers will take longer than managers in any of the other asset classes.

Other
This component is a small contributor to the Asset Allocation at 5%, serving as a diversifying strategy to the other asset classes within the growth section of the allocation. This component will allow the Fund the latitude to seek exposure to asset classes such as direct lending, and shall seek out uncorrelated returns to the rest of the portfolio.

Inflation Hedges
Hard Assets & Commodities
In order to counter the impact of inflation on the rest of the portfolio, an allocation of 5% to commodities and 10% to hard assets has been made. Given the bulk of capital accruing to the Fund comes from revenues derived from oil exports, this component has been underweighted somewhat as the Fund has a natural inflation hedge built in.

Deflation Hedge
Cash
The threat of deflation is remote, as such the allocation received a small weighting of 5% to cash or cash-like instruments.

Year in Review
As 2013 represents the startup year for the FGF, several key tasks needed to be achieved at the Fund level prior to the start of investment activities. First and foremost was the finalisation of the Investment Policy Statement (IPS), which the Board of Directors approved in Q2 2013. The second core task was to set the Strategic Asset Allocation. The Asset Allocation was adopted by the Investment Committee and ratified by the Board of Directors in Q3 2013.

Having established this core foundation to the Fund, NSIA Management began the process of selecting managers to gain exposure to the set asset classes detailed in the allocation.

In conjunction with NSIA's investment consultants, Cambridge Associates, Management conducted due diligence and interviews for specialist managers in each of the asset classes.

As of 31st December 2013, the Board of Directors had ratified the Investment Committee's decision to commit capital to a number of managers across the asset classes. Managers have been selected for the Absolute Return and Long Only Equity portions of the allocation.

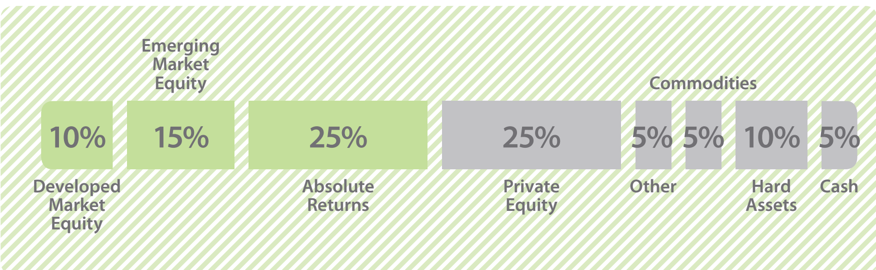
As of 31st December 2013, an investment has been made into a Credit Suisse passive equity product as part of the Long Only Equity portion of the allocation. Additionally a commitment to a manager in the Private Equity portion of the allocation was made. As such, capital commitments totalling around 50% of the Fund have been made. These commitments will be fulfilled in the next six months.

The Fund's cash balance is at relatively high levels, earning modest returns in USD fixed deposits. This short-term solution will allow Management to make high quality asset manager selection decisions, and conduct thorough due-diligence over time. Over the coming period, this facility will be drawn upon to satisfy the Asset Allocation decisions.

2014 Outlook
There are several objectives for 2014. The primary objective is the selection of managers in the Hard Assets and Commodities components of the Asset Allocation. Further to this will be the selection of additional managers in the Private Equity segment as well as strategy selection for the possible equity allocation.

Beyond the selection of managers throughout 2014, the performance of current managers within the Fund will be monitored against the stated objectives for each asset class.

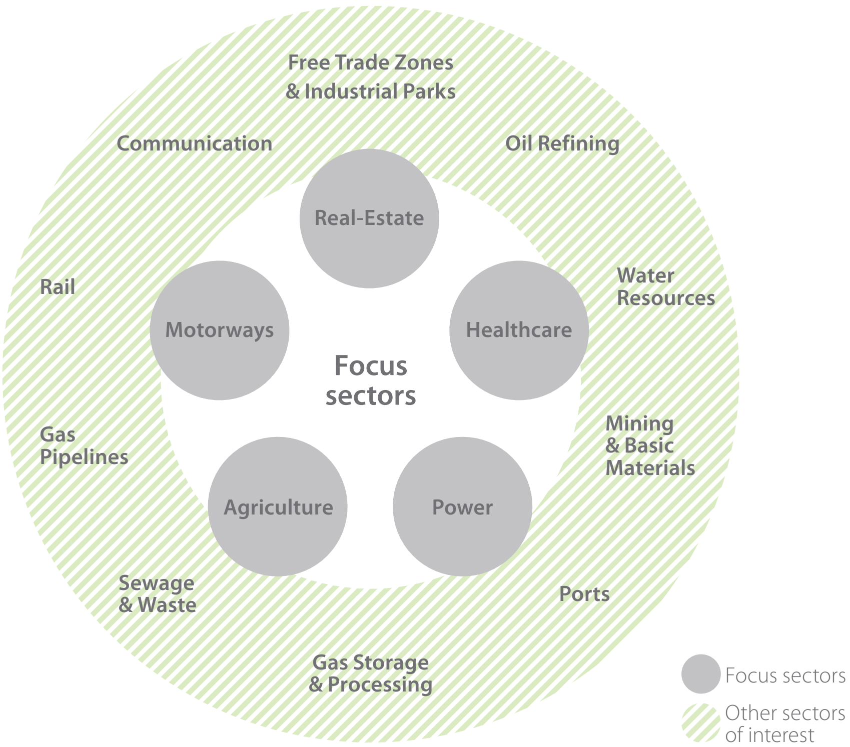
Fund Management Allocation



The Nigeria Infrastructure Fund

The Nigeria Infrastructure Fund (NIF) is a domestic infrastructure fund focused on investing in critical infrastructure that would attract and support FDI, economic diversification and growth. The NIF accounts for 40% of Assets under Management.

The Nigeria Infrastructure Fund Target Sectors



Overview

The NIF is managed by an in-house team of investment professionals tasked with identifying infrastructure investments, undertaking project development for potential investments and recommending projects for investment to the Board.

In pursuit of the objectives of the NIF, a Five-Year Infrastructure Investment rolling plan (the Five-Year Plan) has been prepared to provide strategic guidance for NIF investments. Furthermore, an Infrastructure Fund Investment Policy Statement (IPS) was also developed. The IPS provides an investment framework for the NIF, setting out the NIF's investment objectives, risk tolerance and constraints. The IPS was adopted by the Board of Directors in Q4 2013.

Choosing the Focus Sectors

In narrowing down to the focus sectors for the Five-Year Plan, Management consulted with relevant sector experts, regulatory agencies, strategic partners, Ministries, Departments and Agencies (MDAs) etc. The choice of focus sectors was guided by the following principles:

— sectors that align with national priority;
— potential for attractive commercial and social returns;
— conducive regulatory environment; and
— ability to unlock private sector participation.

Focus Sectors

Agriculture:

Agriculture is a sector of strategic importance to NSIA and an area where we see opportunities for economic impact and financial returns through direct investments in critical agriculture infrastructure, strategic trading platforms and indirectly via agriculture-focused funds. In December 2013, the Board approved a US$10 million commitment to the Fund for Agricultural Finance in Nigeria (FAFIN), as one of three Fund sponsors, alongside the Nigerian Federal Ministry of Agriculture and Rural Development (FMARD) and KfW, the German Government-owned development bank. FAFIN is a US$100 million target agriculture-focused investment fund that provides tailored capital and technical assistance solutions to commercially-viable small and medium-sized enterprises (SMEs) and intermediaries across the agricultural sector in Nigeria.

Healthcare:

NSIA is interested in "high-impact, high-value" opportunities across the entire healthcare value chain that will facilitate the delivery of high quality, affordable and accessible healthcare services to Nigerians. Consequently, NSIA has entered into strategic partnership agreements with the Federal Ministry of Health and leading global healthcare sector participants to identify and invest in healthcare infrastructure projects. We will leverage the investment and technical expertise of our strategic partners to deploy capital within the sector on a commercial basis.

Real Estate:

The affordable and mass housing real-estate segment is a critical target segment for NSIA, predicated upon Nigeria's large housing deficit and the growing middle class demography in the country. With a population of over 160 million people, rapid urbanisation and inadequate housing stock, there is a need to provide housing at all levels, particularly in the low and middle income segments. NSIA also remains interested in the commercial real-estate (office buildings and malls) and the hospitality sub-sectors (5-Star hotels and other luxury real-estate). Pursuant to NSIA's real-estate strategy of unlocking demand in the real-estate sector, NSIA, through NIF, invested in the Nigeria Mortgage Refinance Company (NMRC) in December 2013, to increase liquidity within the mortgage market, increase mortgage tenors, lower the cost of mortgages, and improve access to mortgage credit for the Nigerian population.

Motorways:

NSIA is actively pursuing investments in road infrastructure delivery and maintenance to improve the general state of Nigeria's roads, reduce the funding burden on the Federation Account and introduce private sector efficiencies to the procurement, delivery and management of road infrastructure. Consequently NSIA, in partnership with Julius Berger, is developing a project to finance, construct, operate and maintain the Second Niger Bridge, in order to improve the connection between the South-South and South-East zones of Nigeria.

Power:

Given the pivotal role of power generation and distribution in our economy, particularly in light of the nation's strategic focus on developing its industrial base, NSIA has targeted the power sector as a key focus sector. Our strategy is to invest alongside private investors in attractive projects across the power sector value chain. With the ongoing transformation of Nigeria's power sector through privatisation, there are numerous attractive opportunities to participate in.

Establishment of Sector-focused Subsidiaries

The Board approved the establishment of a number of corporate subsidiaries, to operate as legal entities under which the NIF would invest in specific target sectors. The Board also approved allocation of capital to each of these subsidiaries with potential for equity contribution from private sector partners. These corporate subsidiaries include:
- NSIA Motorways Investment Company;
- NSIA Property Investment Company;
- NSIA Healthcare Development and Investment Company; and
- NSIA Power Investment Company.

In narrowing down to the focus sectors for the Five-Year Plan, Management consulted with relevant sector experts, regulatory agencies, strategic partners, Ministries, Departments and Agencies.

The Stabilisation Fund

The Stabilisation Fund (SF) serves as a secondary source of funding to support the national economy in periods of budget revenue shortfalls. The SF accounts for 20% of Assets under Management.

Overview

The purpose of the SF is to act as a buffer against short-term macro-economic instability associated with considerable government revenues derived from hydrocarbon exports.

The SF has a short time horizon and a low returns target. The Asset Allocation is split between Hedge Assets and Growth Assets. Investments are made conservatively with a focus on liquidity given the unpredictable nature of the Fund cash calls. Given these considerations, the Asset Allocation below was set.

Growth

Investment Grade Corporate Bonds

This segment exposes the Fund to investment grade debt from corporate issuers with a maturity of less than three years. Adopting a 'Buy & Hold' strategy in this segment, the Fund takes on a degree of credit risk. However, with the securities held at cost, volatility is negated. For this strategy, maturity of such securities can be extended out to a maximum of five years. Of the two buckets in the Asset Allocation this segment is a more active approach. As such, diversification across managers is important, whilst considering cost restrictions given the lower returns profile associated with this strategy. This segment received a higher weighting of

Asset Allocation

	Policy Target	Benchmark
Growth Assets	75%	Barclays 1-3 Year Corporate Bond
IG Corporate Bonds 1-3 years		Barclays 1-3 Year Corporate Bond
Hedge Assets	25%	Barclays 1-3 Year Treasury Bond
US T-Bills		91-Day Treasury Bill Index
US Treasuries 1-3 years		Barclays 1-3 Year Treasury Bond

the portfolio than the Hedge portion, as it will yield a greater return without significantly more risk given the quality of the managers available.

Hedge

US Treasury Bills & US Treasury Bonds

This asset class provides exposure to less risky and lower yielding instruments. The maturity on US Treasury Bonds is limited to three years. This component will help to ensure the capital preservation goal of the SF. Given the simplicity and standardised nature of this mandate, diversification across managers is not necessary, rather cost considerations are at the fore.

Year in Review

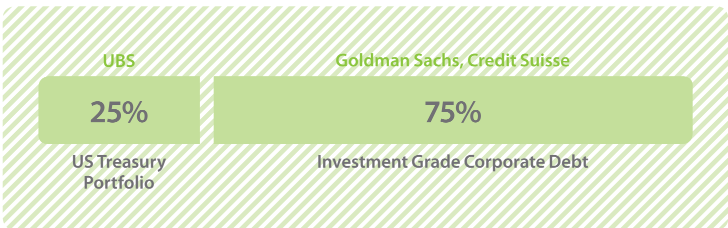
As with the Future Generations Fund, several key tasks needed to be achieved at the Fund level prior to investment. First was the setting of the Investment Policy Statement (IPS) which the Board of Directors approved in Q2 2013. Subsequent to the adoption of the IPS, the Strategic Asset Allocation was formulated. The Asset Allocation was adopted by the Investment Committee and ratified by the Board of Directors in Q3 2013.

Following the adoption of the Asset Allocation, Management began the process of selecting managers to gain exposure to the set asset classes detailed in the Allocation. In conjunction with NSIA's investment consultants, Cambridge Associates, Management conducted due diligence and interviews for specialist managers for the relevant mandates. Consequently the Board of Directors ratified the Investment Committee's decision to select UBS to manage the US Treasury Portfolio, and to select with equal weight Goldman Sachs and Credit Suisse as managers of the Investment Grade Corporate Debt portfolio. The SF is fully invested.

2014 Outlook

Management will monitor the performance of the selected managers throughout 2014. Additionally, Management will assess the merits for higher yielding strategies given the risk and liquidity constraints of the Fund.

Fund Management Allocation



Corporate Governance

Creating long-term value

NSIA Governance

Since its inception, NSIA has placed significant efforts in developing a robust and transparent corporate governance framework.

This is because strong corporate governance structures not only foster successful relationships amongst the various organs within the Authority, but also set the correct precedent to encourage long-term, sustainable corporate growth.

The NSIA Act prescribes clear obligations on NSIA's organs, which are NSIA's Governing Council, Board of Directors (Board) and Executive Management. Such obligations include the purpose and procedures concerning the Governing Council and Board, as well as the establishment of fiduciary duties upon the Board, amongst others.
All corporate governance obligations arising from the NSIA Act are reinforced by an overall responsibility on NSIA to observe international best practices. These international best practices include the Santiago Principles, which were established to define operational frameworks for Sovereign Wealth Funds.

The Santiago Principles include a number of governance practices that foster the separation of functions of the owner (the Government of Nigeria), the Authority's Governing Bodies and the Authority's Management. Such separation of functions enables the operational independence required to implement investment strategies without the fear of any form of intervention.

In line with these governance obligations, the Board has developed a framework which allows it to conduct strategic oversight of NSIA's operations, in line with the responsibility to ensure compliance with legal and regulatory requirements and acceptable parameters of risk tolerance. In 2013, the Board approved the Board of Directors Charter. This document encodes the roles, committees and procedures of the NSIA Board.

NSIA recognises that development of policies and business practices, based on corporate governance, is a continuous process. As such it will continue to focus on improving levels of corporate governance, in accordance with Nigerian law as well as international best practices.

Below are brief descriptions of the roles and members of NSIA's Governing Council and Board:

Governing Council
The Governing Council consists of His Excellency, President Goodluck Ebele Jonathan, GCFR (also represented by the Vice President), the 36 State Governors and Federal Capital Territory Minister, The Honourable Minister of Finance, Attorney General of the Federation, The Honourable Minister of Economic Planning, Governor of the Central Bank of Nigeria (CBN), Chief Economic Advisor to the President, Chairman of Revenue, Mobilisation, Allocation and Fiscal Commission, and 12 Members appointed by the Honourable Minister of Finance.

Responsibilities of the Governing Council include, but are not limited to, providing advice and counsel to the Board and Management of NSIA, whilst also observing the independence of the Board and Management. It holds one annual meeting following the issuance of NSIA's Annual Report.

Board of Directors
The NSIA Board of Directors is charged with the responsibility to oversee and approve the development of a strategic plan to meet the long-term goals of NSIA. The NSIA Board is the highest decision-making body responsible for governance and financial policy. It monitors and supervises NSIA's financial performance through:
— review of the investment performance of each of the Funds;
— review and approval of NSIA's operating and capital budgets as well as investments; and
— review and approval of quarterly and year-end financial statements.

Furthermore, the Board is expected to work with Management to identify the principal investment risks and ensure that systems are in place to manage those risks. It must also monitor NSIA's performance against agreed goals and objectives, and approve or ratify NSIA's policies.

The NSIA Board of Directors is made up of nine members, including a Non-Executive Chairman, the Managing Director/CEO, two other Executive Directors (the Chief Investment Officer and Chief Risk Officer) and five Non-Executive Directors.

NSIA Board of Directors
Alhaji Mahey Rasheed, OFR
Chairman, Board of Directors

Mr Uche Orji
Managing Director and Chief Executive Officer

Mr Hanspeter Ackermann
Executive Director and Chief Investment Officer

Mrs Stella Ojekwe-Onyejeli
Executive Director and Chief Risk Officer

Mrs Ibukun Awosika
Non-Executive Director

Mr Arnold Ekpe
Non-Executive Director

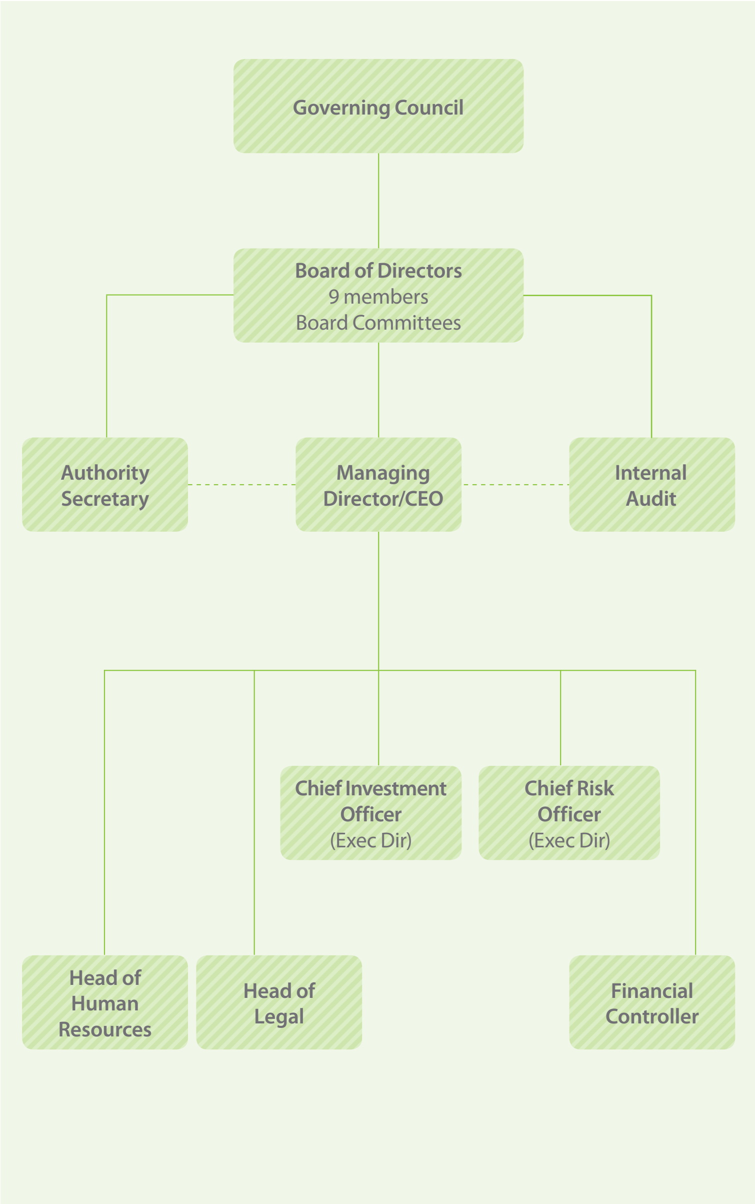
Mrs Olabisi Soyebo
Non-Executive Director

Mr Hassan Usman
Non-Executive Director

Mr Jide Zeitlin
Non-Executive Director

The success of the NSIA Board to date is due in large part to the diverse range of skills and competencies of the Executive and Non-Executive Directors, all of whom bring a mix of financial, industry-related and entrepreneurial experiences.

Operating structure



Board of Directors

Alhaji Mahey Rasheed, OFR
Chairman of the Board of Directors

- Alhaji Rasheed is a former Deputy Governor of the Central Bank of Nigeria (CBN). He has extensive experience in central banking having been a career staff at the CBN, rising to the rank of Departmental Director. He was later appointed as a Deputy Governor in 1999 and retired in 2004. While at the CBN, he led the external Reserve Management operations of the Bank for more than a decade. Also, he has been at the forefront of the formulation and implementation of monetary and financial policies, risk management strategies, and corporate governance for more than two decades.
- He is a former Chairman of the Nigerian Security Printing and Minting Company Plc and a pioneer Director of the National Insurance Supervisory Board now NAICOM (Insurance sector regulator).
- He was the Chairman of the Clearing and Exchange Subcommittee of the West African Clearing House (WACH) from May 1992 to May 1993, (the Committee handling all trade transactions in the West African sub region). During his chairmanship, he was a key member of the Committee that worked assiduously to transform the body in May 1993, into the present West African Monetary Agency (WAMA), responsible for regional monetary integration in West Africa.
- In 1999, he was appointed by the IMF to represent Africa with other eminent central bankers around the world (each member representing a continent) on the Fund's Panel of Experts on Safeguards Assessment. The panel was to advise the IMF on fiduciary assessment for member countries.
- In addition, he served on the board of a number of other public and private sector companies; and important national and international committees representing the Federal Government of Nigeria, Central Bank of Nigeria and New Nigeria Development Company, a development finance institution, where he started his career.
- Currently, he is the Chairman of Legacy Pension Managers Ltd (a pension fund management company) and a member of the Board of First Bank of Nigeria and Chairman of its Board Credit Committee.
- Mr Rasheed attended Ahmadu Bello University, Zaria and Harvard University, USA where he obtained a BSc Economics and MPA Public Policy respectively, and is an Edward Mason Fellow of Harvard University.
- He was conferred with the national honour of Officer of the Federal Republic (OFR) by the Federal Government of Nigeria in 2004.

Mr Uche Orji
Managing Director and Chief Executive Officer

- Mr Orji is the Managing Director/CEO of the Nigeria Sovereign Investment Authority. He brings a wealth of global experience in the financial services sector to his role.
- He joined NSIA as CEO in October 2012, from Switzerland's largest bank, UBS Securities, where he was Managing Director in the New York office of its Equities Division.
- Prior to his UBS experience, Mr Orji spent six years at JP Morgan in London, 2001-2006, rising from the position of Vice President to Managing Director within the Equities Division.
- Prior to JP Morgan, he worked for Goldman Sachs Asset Management, London, 1998-2001, as an Analyst/Portfolio Manager.
- His first banking and financial industry experiences were at Diamond Bank Plc, Lagos and Arthur Andersen, Lagos.
- Mr Orji studied Chemical Engineering at the University of Port Harcourt, Nigeria, graduating in 1990. He also obtained an MBA from Harvard Business School in 1998.

Mr Hanspeter Ackermann
Executive Director and
Chief Investment Officer

- Mr Ackermann joined NSIA in August of 2013. He brings over 30 years of investment experience with him.
- From 2010 to 2013 he was Assistant General Manager at Samba Capital in Riyadh, Kingdom of Saudi Arabia, where he served as Chief Investment Officer and Head of Asset Management. He was responsible for managing an asset pool of approximately US$10 billion invested across multiple asset classes.
- Prior to Samba Capital, he was Co-founder and Principal of Monteverdi International Management LLC, in New York, USA.
- Mr Ackermann joined Deutsche Bank in 1996 until 2004 where he was President and Managing Director of Deutsche Bank Investment Management Inc in New York. He served as CIO and senior portfolio manager for several closed-end mutual funds listed at the New York Stock Exchange.
- From 1993 to 1996 Mr Ackermann also served as President and Managing Partner of Eiger Asset Management, New York.
- He was Managing Director and CIO, and previously Senior Portfolio Manager at UBS where he built the institutional fund management business for Swiss Bank Corporation (UBS) in New York from 1983 to 1993.
- Mr Ackermann began his career with Banque de L'Indochine et Suez in Paris, France.
- He holds a BS in Business Administration from the Handelsschule Kaufmaennischer Verein in Basel, Switzerland. He is a Chartered Financial Analyst (CFA).

Mrs Stella Ojekwe-Onyejeli
Executive Director and
Chief Risk Officer

- Mrs Ojekwe-Onyejeli joined NSIA following a distinguished tenure as Director and Head of Operational Risk & Control at Barclays covering Emerging Markets and Africa.
- She served as Vice President and Head of Quality Assurance, Africa at Citibank with direct oversight of the enterprise risk and control environment in 14 countries across Africa.
- She had a decade-long career at professional services firms Arthur Anderson and KPMG in Nigeria and South Africa, providing financial advisory and business assurance services.
- Mrs Ojekwe-Onyejeli was a Federal Government of Nigeria Scholar, and Institute of Chartered Accountants of Nigeria Prize Winner. She is a qualified Chartered Financial and Tax Accountant, who holds a first degree in Chemistry from the University of Lagos.
- She holds an MBA from Cranfield School of Management in the UK.

Mrs Ibukun Awosika
Chair, Finance and General Purpose
Committee and Compensation
Committee

- Mrs Awosika is currently the Chairman of Intermarc Consulting Limited.
- She is also the Founder and Chairman of The Chair Centre Ltd, a market leader in the office furniture and banking security industries. She worked with Akintola Williams & Co before establishing Qubees Limited in 1989 and The Chair Centre in 1997. Ibukun independently established an ultra-modern furniture facility - Furniture Manufacturers' Mart in Ikeja, Lagos in the latter part of 2006.
- Recent additions to her entrepreneurial achievements are the expansion of The Chair Centre Ltd by opening outlets offices in Accra and Tinapa, Calabar.
- She is the host of a telecast called Business - His Way, where she shares religious views on ethical business values and principles with business people and professionals in Nigeria and neighbouring countries.
- Mrs Awosika recently won the International Women Entrepreneurial Challenges Award, given by Manhattan Chambers of Commerce and the United States Government.

Board of Directors *continued*

Mr Arnold Ekpe
Chair, Risk Committee

- Mr Ekpe has deep experience and a proven track record in banking, finance and investments in Africa.
- He has served as Chief Executive of Ecobank and UBA, two of Africa's leading financial institutions.
- He had previously established and headed Citibank's Structured and Corporate Finance business in Sub-Sahara-Africa, and was a partner at Capital Alliance, the leading private equity firm in West Africa.
- During his career, Mr Ekpe led several landmark initiatives and transactions, including leading Euromarket financings for leading South African banks, and assisting African companies and governments in accessing financing on the Euromarkets.
- As a two-time and longest–serving CEO of Ecobank, he was responsible for the transformation of the group from a West African bank to the first truly pan-African banking group.
- In between, he was responsible for turning around UBA in the early 2000s. He is acknowledged at being particularly effective at executing strategy.
- Mr Ekpe holds a first class honours degree in Mechanical Engineering from Manchester University and an MBA from Manchester Business School.

Mrs Olabisi Soyebo
Chair, Audit Committee

- Mrs Soyebo is a Partner in the law firm of Abdullahi Ibrahim & Co where she heads its Abuja office.
- She was called to the Nigerian Bar in 1988 and has since been in active legal practice with Abdullahi Ibrahim & Co. She focuses on complex civil/criminal appellate litigation and advises on commercial transactions including conveyance, corporate finance, capital markets, banking, labour, employment, and oil and gas.
- She was appointed a Notary Public in 1998 and was admitted to the Inner Bar as a Senior Advocate of Nigeria (SAN), in 2008.
- She attended College of St Elizabeth New Jersey, USA from where she obtained a BA (Hons) in Sociology in 1985.
- She subsequently proceeded to the University of Buckingham in England where she graduated with an LLB (Hons) in Law in 1987.
- Mrs Soyebo is a Securities and Exchange Commission (SEC) approved capital market consultant. She is also a member of the Chartered Institute of Arbitrators (UK).

Mr Hassan Usman
Board Member

- Mr Usman is the Managing Director and Chief Executive Officer of ASO Savings and Loans Limited.
- Prior to becoming CEO of ASO Savings and Loans, Hassan served as Executive Director (Investments) at Abuja Investment and Property Development Company Ltd, the Federal Capital Territory's premier development agency.
- He has also headed key units of the Bureau of Public Enterprises, including Petrochemicals and Gas, Transport Sector Reform and Telecommunications.
- He worked with Citibank and the Financial Markets Division of Arthur Andersen London. He has served on the boards of major corporations, including NITEL.

Board Committees

Mr Jide Zeitlin
Chair, Investment Committee

- Mr Zeitlin is an investor with interests in Asia, the Middle East and Africa.
- He was a Partner at Goldman Sachs where he held a number of senior management positions in the investment banking division, including that of Global Chief Operating Officer. He also served in the firm's executive office.
- Mr Zeitlin joined Goldman Sachs in 1987, became a Partner in 1996 and retired from the firm in December 2005.
- Mr Zeitlin is Chairman Emeritus of Amherst College and serves on the Board of Directors of Affiliated Managers Group, Inc (controlling over $500 billion in assets under management) and Coach, Inc (where he is Lead Independent Director).
- He has served as a member of the boards of various prestigious organisations, including Milton Academy, the Harvard Business School Board of Dean's Advisors, Teach for America, Doris Duke Charitable Foundation, Montefiore Medical Centre, Playwrights Horizons, Saint Ann's School, and Common Ground Community.
- Mr Zeitlin holds an AB degree, magna cum laude, in Economics and English from Amherst College and an MBA degree from Harvard University.
- He was nominated by the Obama White House to represent the USA on financial reforms at the United Nations.

The NSIA Board performs its functions through five standing committees, each with a defined purpose, composition and structure. The Chairman is not a member of any of the committees. The five standing committees are:

1 Investment Committee
Assists the Board in fulfilling its oversight responsibility for the investment assets of NSIA. These include investment processes, strategies and policies employed with respect to the investment assets.

2 Risk Committee
Assists the Board in fulfilling its oversight responsibilities for the identification and management of risks arising from the investment strategies pursued by NSIA, and to ensure that appropriate risk management controls are implemented, monitored and regularly assessed.

3 Audit Committee
Assists the Board in fulfilling its oversight responsibilities relating to NSIA's accounting and financial reporting policies and practices, compliance programmes, internal controls and general compliance with applicable laws and regulations.

4 Compensation Committee
Assists the Board in fulfilling its oversight responsibility of ensuring that the compensation structure for NSIA's employees is consistent with NSIA's long-term objectives.

5 Finance & General Purpose Committee (F&GP)
Oversees the financial, operational and administrative functions of NSIA.

The table below depicts the governance structure of the Authority.

Board's Remuneration and Expenses
The remuneration of NSIA Board members was developed on the basis of a survey conducted by the accountancy firm KPMG. It reviewed and measured compensation paid to members of Boards of Directors in a number of financial institutions in Nigeria. These financial institutions were mainly local Nigerian banks and international banks with Nigerian operations. The final compensation figures were approved by the Minister of Finance. Executive Directors who are also Board Members are not separately compensated for their performance of Board responsibilities.

Governance Structure

	Board of Directors				
	Investment Committee	Audit Committee	Compensation Committee	Risk Committee	F&GP Committee
	Added by the Board	Mandatory as per the Act			Added by the Board
Alhaji Mahey Rasheed, OFR					
Mr Uche Orji					
Mr Hanspeter Ackermann					
Mrs Stella Ojekwe-Onyejeli					
Mrs Ibukun Awosika		■	Chair	■	Chair
Mr Arnold Ekpe				Chair	
Mrs Olabisi Soyebo	■	Chair	■		■
Mr Hassan Usman	■	■	■	■	■
Mr Jide Zeitlin	Chair				

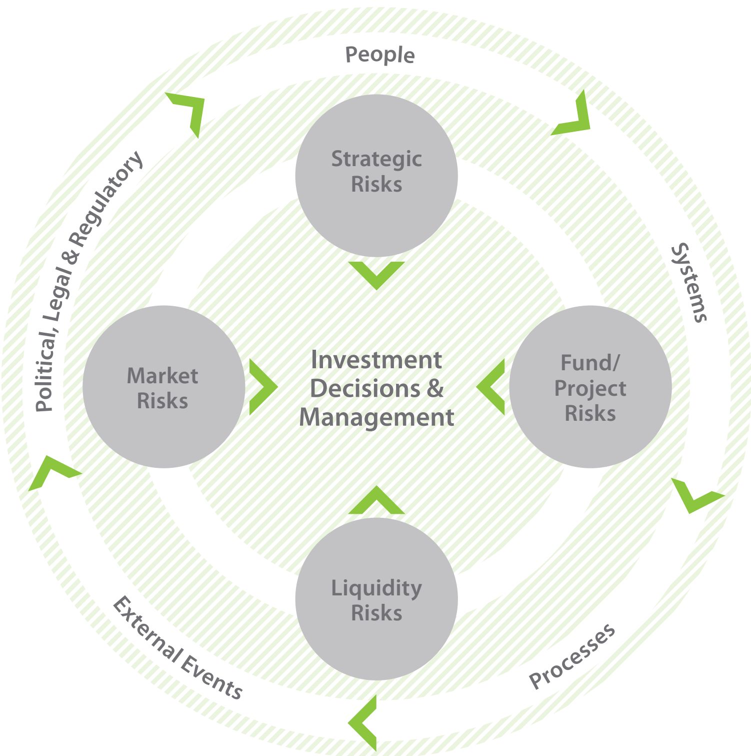
Risk Management

Building a platform for success

Risk Management

At the Nigeria Sovereign Investment Authority, we believe that a sound risk management system is the foundation for building a vibrant and viable institution.

Risk Management Structure



Risk Management Approach
NSIA's risk universe is categorised broadly under Investment, Operational, Political and Strategic risks to facilitate effective risk management and reporting.

Our strategy for managing risk is to identify and understand risks inherent in the operations of the Authority and to control them. Accordingly, our highly experienced Risk Management team has developed a comprehensive risk management process through which we monitor, evaluate and manage the risks in conducting our activities (both internal and external).

Objectives of Risk Management
The Authority's risk management objectives are as follows:
- ensure that all risks facing NSIA are identified and effectively managed and that returns are commensurate with the risks taken;
- protect the NSIA against unexpected losses and reduce the volatility of our earnings and the growth rate of savings available for stakeholders;
- negate any threat to the value of the Funds available to support the Nigerian people in times of economic stress;
- support the sustainable development of Nigeria's infrastructure by ensuring projects are selected based on careful identification and assessment of inherent risks;
- ensure that the Authority's investment plans are consistent, aligned with the

defined risk appetite, and supported by an effective and efficient Risk Management function;
- optimise the Authority's risk and return trade-offs by ensuring that every member of staff acts as a primary risk manager while establishing strong risk management protocols complemented by independent review and oversight structures;
- contribute to building a risk-smart workforce and business environment that allows for innovation and responsible risk-taking, while ensuring cost-effective and legitimate precautions are taken to protect stakeholders' interest;
- obtain assurance on the effectiveness of the Authority's risk management processes through comprehensive and regular reporting processes.

Risk Management Governance Structure

Our approach to risk management governance balances the demands for growth, with control and transparency whilst supporting our objectives with an efficient decision-making process. Risk management governance starts with our Board, which plays an important role in reviewing and approving risk management policies and practices. The management of risk in NSIA is primarily guided and monitored by the Board's Risk Committee. The Chief Risk Officer, regularly advises the Risk Committee on relevant risk metrics and material exposures. The Risk Committee in turn advises the Investment Committee and the Board as appropriate. Details regarding the composition and main responsibilities of our Board of Directors and the Board Risk Committees regarding risk management oversight are contained in the respective Charters of NSIA.

Risk Appetite

NSIA's Risk appetite – articulated by the Board - expresses the level of risk the Authority is willing to accept or tolerate in the achievement of its strategic objectives. NSIA's risk appetite is set at a level that minimises the erosion of earnings or Fund value resulting from avoidable losses in the Authority's investment transactions or as a result of fraud and operational inefficiencies. The Risk Management function periodically recommends specific measures to the Board (or its Committees) for approval as may be required.

Risk Universe

We have commented below on our strategies to mitigate the various risk groups that may impact NSIA operations;

Investment Risk

The Investment Risk Management team, which is independent of the Investment unit and reports to the Authority's Chief Risk Officer, has primary responsibility for assessing, monitoring and managing investment risk at the Authority. The Investment Risk Management portfolio covers: market risk, credit risk, portfolio risk, liquidity risk and infrastructure risk.

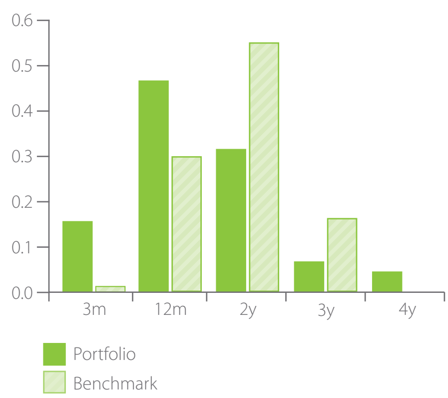
Market Risk

The market value of the financial instruments of NSIA are exposed to potential losses as a result of changes in market conditions such as interest and exchange rates, and capital market and commodity price volatility. Our assessments of these risks and their impact on our portfolio are outlined below:
- Interest Rate Risk: Interest rate movements directly affect the price of fixed-income instruments. The Stabilisation Fund is exposed to interest rate risk. Our strategy to manage this risk is through investments in instruments with short term maturities. Although this limits the potential returns of the Fund, it significantly reduces the Fund's interest rate risk exposure. The average duration of the Stabilisation Fund is approximately two years, with most of the instruments having term to maturity of less than three years as shown below.
- Equity Price Risk: This results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices. At the end of December 2013, NSIA had approximately 8% of the Future Generations Fund invested in the global equity markets.

Risk Exposure

Investment Risk	Operational Risk	Strategic & Political Risks
– Market Risk – Credit Risk – Portfolio Risk – Liquidity Risk – Infrastructure Risk	– Legal & Regulatory Compliance – Systems Risk – Outsourcing Risk – Fraud – People Risk – Physical Security Risk – External Events – Internal Processes	– Strategic Objectives – Strategic Implementation – Political Risk (domestic) – Political Risk (international)

Duration Distribution



Risk Management *continued*

— Currency Rate Risk: The value of the Funds under NSIA Management is significantly affected by exchange rate movements that result from exposures to changes in spot prices, forward prices and volatilities of currency rates. The effective currency of the NSIA is US Dollars, however due to statutory reporting requirements, the reporting currency is Naira. We are hence, significantly affected by the NGN/USD exchange rate. Throughout the inaugural year, we sought to limit NSIA's currency risk exposure and were primarily exposed to the fluctuations in the NGN/USD exchange rate. The Stabilisation Fund is invested in US Dollar assets and it is expected that this is going to be the case going forward. While most of the Future Generations Fund remained uninvested as at the year end, the Fund's strategy is to be invested globally and it is expected that there would be significant exposure to global currencies going forward. The Infrastructure Fund is held mostly in US Dollars. We expect this to change significantly going forward with the implementation of the Fund's mandate as investments are made in US Dollars and the returns are primarily expected in Naira.

— Commodity Price Risk: At the end of December 2013, there was no exposure to commodities. We expect to make investments in commodities through the Future Generations Fund in 2014.

We manage our market risk by diversifying exposures and managing the Authority's Asset Allocation to balance risk and reward. Risk Management produces risk measures and monitors them against market risk limits to ensure the portfolios remain within the risk appetite approved by the Authority's Risk Committee. We use a variety of risk measures to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Risk measures used for shorter-term periods include Value at Risk and sensitivity metrics. For longer-term horizons, our primary risk measures are stress tests.

Credit Risk

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty or an issuer of securities or other instruments we hold. Our credit risk exposures are limited to deposits with banks and our holdings of Fixed Income securities. We have defined our counterparty risk limits with Nigerian banks and use this as a guide to manage our credit risk exposures to these counterparties.

In the Stabilisation Fund, we ensure a minimum investment grade threshold based on the rating scales of either Standard and Poor's, Moody's or Fitch Ratings. A snapshot of the credit risk profile of NSIA's Stabilisation Fund is shown below.

Portfolio Risk

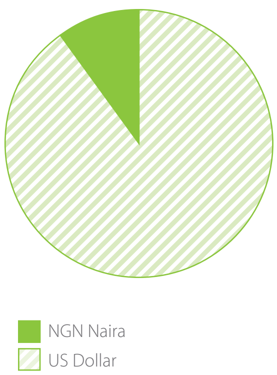
Portfolio risk represents the possibility that an investment portfolio may not achieve its objectives. There are a number of factors that contribute to portfolio risk, and whilst we take steps to minimise them, they can never be fully eliminated.

Liquidity Risk

Liquidity risk represents the potential for loss arising from the Authority's inability to meet its current or future commitments in total or when they are due, which could lead to the unplanned sale of securities in order to cover cash-flow needs. This risk is exacerbated during times of economic uncertainty, when some investments could be substantially discounted due to lack of demand or market depth.

In the Stabilisation Fund, this risk is mitigated by maintaining a high percentage of liquid short-term assets with a term to maturity of less than three years.

Currency Risk Exposure



Credit Risk Profile

		% Weight		
Rating		Benchmark	Portfolio	Difference
AAA		**0.46**	**1.43**	**-0.97**
	AA	0.46	1.43	-0.97
AA		**34.72**	**40.52**	**-5.80**
	AA+	24.94	26.8	-1.86
	AA	1.76	2.51	-0.76
	AA-	8.03	11.21	-3.19
A		**31.63**	**38.87**	**-5.24**
	A+	8.80	9.94	-1.14
	A	11.05	13.69	-2.64
	A-	11.78	13.24	-1.46
BBB		**32.10**	**21.18**	**10.92**
	BBB+	10.99	9.01	1.98
	BBB	13.83	11.13	2.70
	BBB-	7.28	1.04	6.14
BB		**1.10**	**0**	**1.10**
	BB	1.10	0	1.10

Allocations to the Future Generations Fund and the Nigeria Infrastructure Fund were yet to be deployed into approved asset classes and projects by year end. The un-deployed cash was invested mostly in liquid instruments limiting the Authority's liquidity risk. As the Authority begins to invest in more sophisticated and illiquid products and infrastructure projects through 2014 and beyond, liquidity risk will begin to play a more prominent role, which NSIA will need to manage.

Infrastructure Risk

Infrastructure risk represents the potential for loss arising from the Authority's investment in infrastructure projects. Infrastructure investments often involve complex, large, and long-term undertakings. The complex nature of infrastructure projects in Nigeria pose various challenges for NSIA. The issues here are quite significant and include, but are not limited to: regulatory matters, legal issues, community matters, security, long-term funding, project development risk, construction risk and various market risks. Infrastructure projects are thoroughly analysed and taken through rigorous due diligence and an internal risk framework that guide investment decisions. Once a project has been approved for investment, the secondary goal is to de-risk the project as much as possible to ensure sustainable investment.

Operational Risk

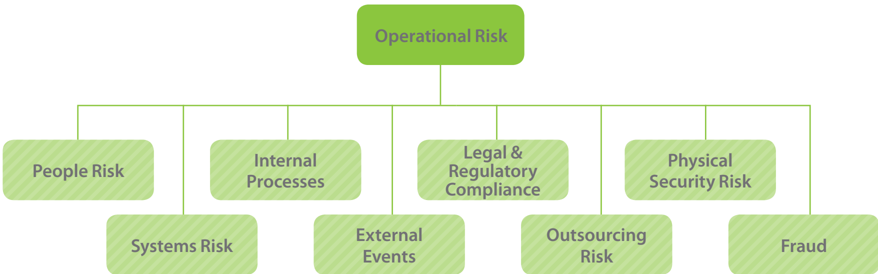
We have defined eight key operational risk categories as depicted below for more detailed and effective management. We seek to manage our operational risk through:

— active participation of all employees in proactively identifying and mitigating key operational risks across the processes and operations of the Authority;
— instituting appropriate policies and procedures in compliance with applicable local and international standards and implementing controls designed to prevent the occurrence of operational risk events; and
— independent monitoring of operational risk indicators and profile.

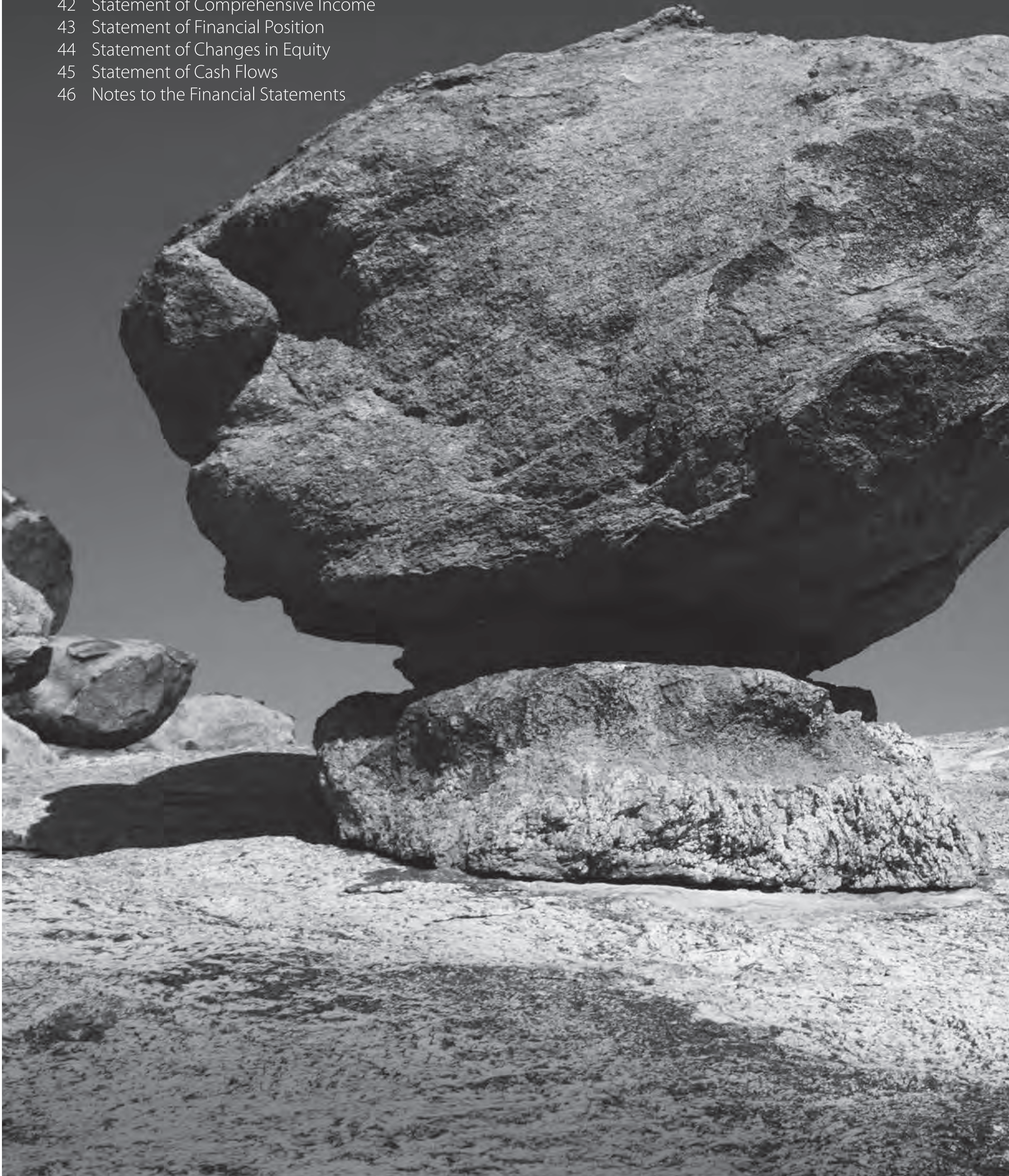
Our end goal is to provide early warning signals of any deterioration in the Authority's system of internal controls, and ultimately to minimise and, where possible, eliminate the occurrence of negative financial and non-financial impacts on our business.

NSIA has adopted the use of three key framework methodologies and tools; the Risk and Control Self-Assessment Process, Risk Events and Incident Management and Key Risk Indicator Monitoring. These tools aid the Authority in operational risk identification, assessment, treatment, monitoring and reporting.

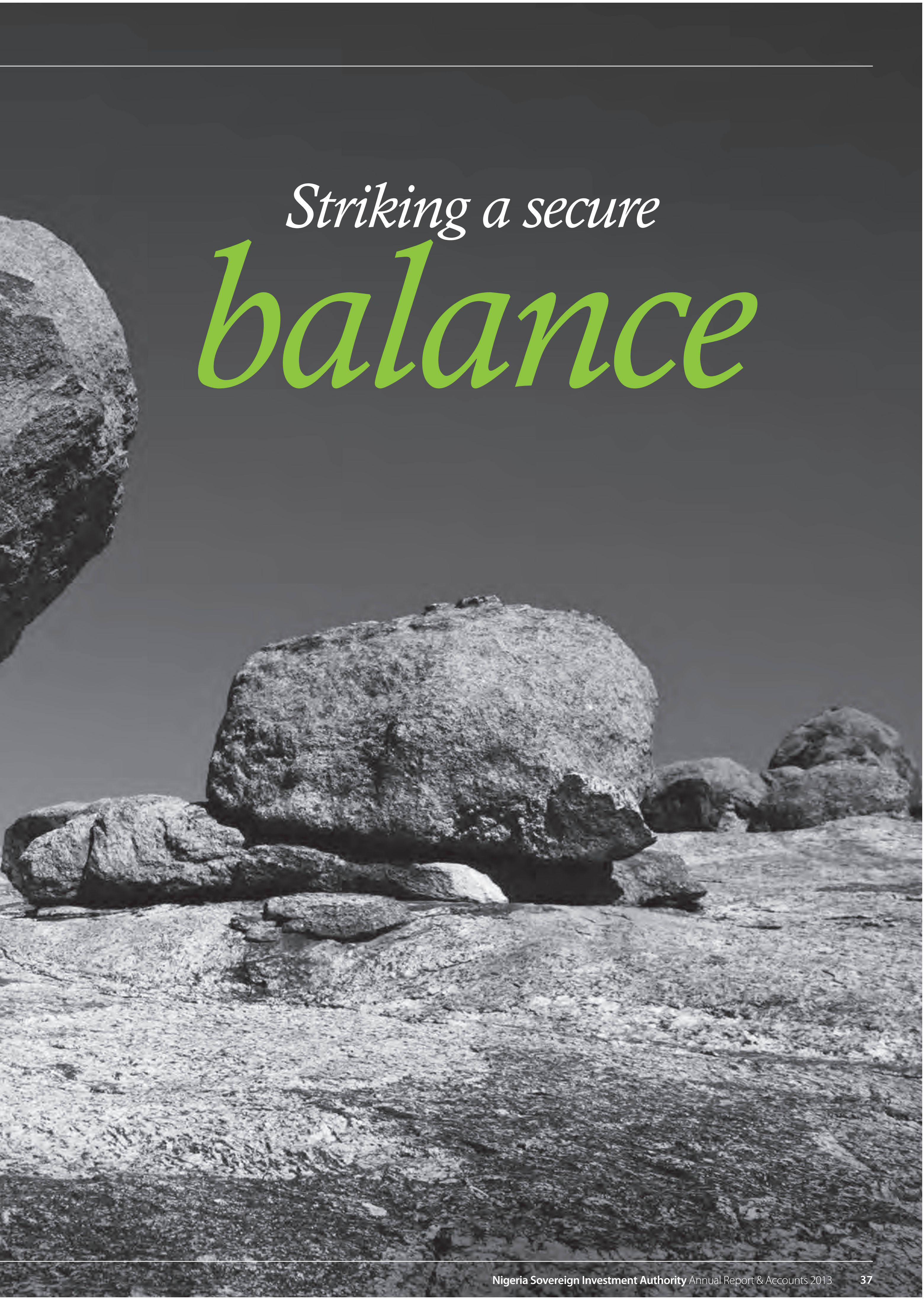
Operational Risk Categories



Financial Statements



Striking a secure *balance*



Directors, Officers and Professional Advisors

Directors

Chairman	Alhaji Mahey Rasheed (OFR)
Directors	Mr. Uche Orji (Managing Director) Mr. Hanspeter Ackermann (Executive Director) Mrs. Stella Ojekwe-Onyejeli (Executive Director) Mrs. Ibukun Awosika (Non- Executive Director) Mr. Arnold Ekpe (Non- Executive Director) Mrs. Olabisi Soyebo (SAN) (Non- Executive Director) Mr. Hassan Usman (Non- Executive Director) Mr. Jide Zeitlin (Non- Executive Director)
Acting Company Secretary	Oga Obeya
Registered office	The Clan Place, 4th floor Plot 1386A, Tigris Crescent Maitama Abuja
Auditors	PricewaterhouseCoopers 252E Muri Okunola Street Victoria Island Lagos
Bankers	Access Bank Plc United Bank of Africa Plc
Fund custodians	JP Morgan (Global Custodian) Stanbic IBTC Bank Limited (Local Custodian)

Directors' Report

For the 15 months ended 31 December 2013

1. Financial statements

The Directors present their annual report on the affairs of Nigeria Sovereign Investment Authority ('the Authority' or 'NSIA'), together with the financial statements and independent auditor's report for the 15 months ended 31 December 2013.

2. Principal activities

The Authority was established by the Nigeria Sovereign Investment Authority (Establishment etc.) Act, 2011 to manage excess funds from the country's sale of crude oil. This will be performed through three (3) funds; Stabilisation Fund (SF), Nigeria Infrastructure Fund (NIF) and the Future Generations Fund (FGF). The Authority commenced operations in October 2012.

3. Operating results

The following is a summary of the Authority's operating results:

	15 months period ended 31 December 2013 ₦'000
Operating Income	1,466,185
Non-operating Income	495,017
Profit for the period	525,158
Total comprehensive income for the period	505,694
Retained earnings, for the period	525,158

4. Objective

NSIA is an autonomous entity established by the Law of the Federal Republic of Nigeria as enacted by the Act of the National Assembly with a broad mandate to:

a) build a savings base for the Nigerian people;
b) enhance the development of Nigerian infrastructure;
c) provide stabilisation support in times of economic stress, and
d) carry out such other matters as may be related to the above objects

5. Governance and management

The Act establishes a Governing Council (the Council) for the Authority.
The Council comprises the following:

a) The President of Nigeria (who may be represented by the Vice-President),
b) Governors of Nigeria's 36 States, and
c) Eighteen other appointees, including
    I. Attorney-General of the Federation,
    II. Minister of Finance,
    III. Minister in charge of the National Planning Commission

Statement of Directors' Responsibilities

In relation to the financial statements for the 15 months period ended 31 December 2013

The Directors accept responsibility for the preparation of the annual financial statements set out on pages 42 to 69 that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) applicable in Nigeria and in the manner required by the Financial Reporting Council of Nigeria Act, 2011

The Directors further accept responsibility for maintaining adequate accounting records and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The Directors have made an assessment of the Authority's ability to continue as a going concern and have no reason to believe the Authority will not remain a going concern in the year ahead.

Signed on behalf of the board of Directors by:

Alhaji Mahey Rasheed, OFR
FRC/2013/IODN/00000002090
Chairman, Board of Directors

13 March 2014

Mr. Uche Orji
FRC/2014/IODN/00000007036
Managing Director

13 March 2014

pwc

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF THE NIGERIA SOVEREIGN INVESTMENT AUTHORITY

Report on the financial statements

We have audited the accompanying financial statements of the Nigeria Sovereign Investment Authority ("the Authority"). These financial statements comprise the statement of financial position as at 31 December 2013 and the statements of comprehensive income, changes in equity and cash flow for the 15-month period then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Nigeria Sovereign Investment Authority Act and for such internal control, as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the Authority's financial affairs at 31 December 2013 and of its financial performance and its cash flows for the 15-month period then ended in accordance with International Financial Reporting Standards and the requirements of the Nigeria Sovereign Investment Authority Act and the Financial Reporting Council of Nigeria Act.

PricewaterhouseCoopers
Chartered Accountants
Engagement partner: Gabriel Ukpeh
FRC/2013/ICAN/00000001882
Lagos, Nigeria

A 610157

28 March 2014

PricewaterhouseCoopers Chartered Accountants, 252E Muri Okunola Street, Victoria Island, Lagos, Nigeria

Statement of comprehensive income

For the 15 months ended 31 December 2013

	Note	15 months to 31 December 2013 ₦'000
Investment income	8	1,395,718
Interest income	9	70,467
Total operating income		**1,466,185**
Investment management fees		9,575
Local custodian fees		8,131
Global custodian fees		4,199
Total investment management & custodian fees		**21,905**
Total operating profit		**1,444,280**
Other non- operating income	10	495,017
Total non- operating income		**495,017**
Operating and administrative expenses	11	1,414,139
Total operating and administrative expenses		**1,414,139**
Profit for the period		**525,158**
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Fair value reserve (available-for-sale investments)		
Net change in fair value		(19,464)
Total other comprehensive loss for the period		**(19,464)**
Total comprehensive income for the period		**505,694**

Statement of financial position

For the 15 months ended 31 December 2013

	Note	15 months to 31 December 2013 ₦'000
Assets		
Cash and cash equivalents	15	111,895,419
Advances		28,768
Investment securities	16	45,114,706
Other assets	17	290,512
Property and equipment	18	246,189
Intangible assets	19	19,777
Total assets		**157,595,371**
Liabilities		
Liabilities	20	439,677
Borrowing	21	1,400,000
Total Liabilities		**1,839,677**
Equity & Reserves		
Contribution by Government		155,250,000
Retained earnings	22.1	525,158
Fair value Reserves	22.2	(19,464)
Total equity & amount attributable to equity contributors (Government)		155,755,694
Total liabilities and equity		**157,595,371**

The financial statements as set out on pages 42 to 69 were authorised for issue by the Board of Directors on 13 March 2014 and signed on behalf of the Board of Directors by:

Alhaji Mahey Rasheed, OFR (Chairman)
FRC/2013/IODN/00000002090

Mr. Uche Orji (Managing Director)
FRC/2014/IODN/00000007036

Additionally certified by:

Mrs. Olubisi Makoju (Financial Controller)
FRC/2014/ICAN/00000005765

The accompanying notes on page 46 to 69 form an integral part of this financial statement

Statement of changes in equity

For the 15 months ended 31 December 2013
In thousands of Naira

	Contributed equity ₦'000	Retained earnings ₦'000	Fair value reserves ₦'000	Total equity ₦'000
Balance at 1 October 2012	-	-	-	-
Total comprehensive income				
Profit or loss for the period	-	525,158	-	525,158
		525,158	-	525,158
Other comprehensive income				
Net change in fair value reserve of financial assets (available for sale)	-	-	(19,464)	(19,464)
Total other comprehensive income for the period	-	-	(19,464)	(19,464)
Total comprehensive income for the period	**-**	**525,158**	**(19,464)**	**505,694**
Contributions made by Government	155,250,000	-	-	155,250,000
Total contribution and distributions to owners	**155,250,000**	**-**	**-**	**155,250,000**
Balance at 31 December 2013	**155,250,000**	**525,158**	**(19,464)**	**155,755,694**

The accompanying notes on page 46 to 69 form an integral part of this financial statement

Statement of cash flows

For the 15 months ended 31 December 2013

	15 months to 31 December 2013 ₦'000
Cash flows from operating activities	
Profit for the period	525,158
Adjustments for:	
Depreciation	42,787
Amortisation of intangible assets	3,051
Fair value changes in AFS instruments	(19,464)
Net exchange gains	(104,694)
(Increase)/decrease in operating assets/ liabilities:	
Other assets	(290,512)
Advances	(28,768)
Other liabilities	439,677
Net cash used in operating activities	**567,235**
Cash flows from investing activities	
Purchase of property & equipment	(288,976)
Purchase of intangible assets	(22,828)
Purchase of investment securities	(45,114,706)
Net cash used in investing activities	**(45,426,510)**
Cash flows from financing activities	
Contribution by Government	155,250,000
Loan by Federal Government of Nigeria (FGN)	2,900,000
Repayment made on FGN Loan	(1,500,000)
Net cash from financing activities	**156,650,000**
Net increase in cash and cash equivalents	**111,790,725**
Cash and cash equivalents, beginning of the period	-
Net exchange gains	104,694
Cash and cash equivalents, end of the period	**111,895,419**

The accompanying notes on page 46 to 69 form an integral part of this financial statement

Notes to the Financial Statements

1. Reporting entity

Nigeria Sovereign Investment Authority ('NSIA' or 'the Authority') is domiciled in Nigeria. The Authority's office address is the Clan Place, 4th floor, Plot 1386A, Tigris Crescent, Maitama, Abuja.

NSIA was established to receive, manage and invest the excess funds from the country's sale of crude oil in a diversified portfolio of medium and long-term investments. The Authority was set up by the Nigeria Sovereign Investment Authority Act, which was signed in May 2011 and was allocated an initial $1 billion US Dollars in seed capital. The Authority commenced operations in October 2012.

In order to actualize its mandate, the Authority has established three separate "ring-fenced' funds. They include Stabilisation Fund (SF), Future Generations Fund (FGF) and Nigeria Infrastructure Fund (NIF).

The investment activities of the funds are managed as follows:

Fund	Investment Managers
Stabilisation Fund (SF)	Credit Suisse, Goldman Sachs and UBS
Nigeria Infrastructure Fund (NIF)	In-house Management Team
Future Generations Fund (FGF)	Cevian Capital, Laurion Capital, Blue Mountain Capital, JHL Capital Group, Credit Suisse

JP Morgan has been appointed as the Funds' Global Custodian and Stanbic IBTC as the Local Custodian.

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) which collective term includes all International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board ("IASB"). These are the first financial statements of the Authority and are prepared in accordance with IFRS.

The financial statements were authorised for issue by the Board of Directors on 13 March 2014.

2.2 Basis of measurement

These financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- Trade and receivables, held to maturity financial assets and financial liabilities are measured at amortized cost

2.3 Functional and presentation currency

These financial statements are presented in Naira. All financial information presented in Naira has been rounded to the nearest thousand, except where otherwise indicated.

The currency of the primary economic environment of the Authority (that is, functional currency) is US Dollars.

2.4 Structure and content

The financial statement comprises:

a) A statement of financial position at the end of the period;
b) A statement of comprehensive income;
c) A statement of changes of equity for the period;
d) A statement of cash flows for the period;
e) Notes, comprising a summary of significant accounting policies and other explanatory information.

2.5 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, incomes and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, and in any future periods affected.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in **Notes 4.4 and 4.5.**

2.6 Changes in accounting policy

There were no changes in the accounting policies of the Authority during the period.

3. Significant accounting policies

The accounting policies set out below were adopted by the Authority in the presentation of these financial statements.

3.1 Foreign currency transactions

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the financial position date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, as well as unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in the income statement.

Unrealised exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For a non-monetary financial asset held for trading and for non-monetary financial assets designated at fair value through profit or loss, unrealised exchange differences are recognised in the income statement. For non-monetary

Notes to the Financial Statements continued

financial investments available-for-sale, unrealised exchange differences are recorded directly in equity until the asset is sold or becomes impaired.

3.2 Interest income and interest expense

Interest income and expense, including interest income from non-derivative financial assets at fair value through profit or loss, are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Authority estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

3.3 Dividend income and dividend expenses

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividend income from equity securities designated at fair value through profit or loss is recognised in the "dividend income" line in the statement of comprehensive income.

3.4 Transaction costs

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, custodians and advisers. Transaction costs when incurred are immediately recognised in statement of comprehensive income as an expense.

3.5 Net gain from financial instruments at fair value through profit or loss

Net gain from financial instruments at fair value through profit or loss includes all realised and unrealised fair value changes and foreign exchange differences, but excludes interest and dividend income, and dividend expense on short positions.

3.6 Fees and Commissions

Fees, commissions and other expenses are recognised in profit or loss on an accrual basis as the related services are performed.

3.7 Income tax expense

The NSIA Act exempts the Authority from the provisions of any and all taxes, fees, imports or similar fiscal laws or regulations of the Federal Government, State Government, Federal Capital Territory, Local Government and Area councils of the Federal Republic of Nigeria. The Authority is however mandated to pay tax on behalf of its employees.

Dividend and interest income received by the Authority may be subject to withholding tax imposed in the country of origin. Investment income is recorded gross of such taxes and the corresponding withholding tax is recognised as tax expense.

3.8 Financial assets and financial liabilities

3.8.1 Recognition and initial measurement

All financial instruments are initially recognised at fair value at the trade date, which includes transaction costs for financial instruments not classified as fair value through profit or loss. Financial instruments are derecognised when the rights to receive cash flows from the financial instruments have expired or where the Authority has transferred substantially all risks and rewards of ownership.

3.8.2 Classification

The authority has adopted the following classifications for financial assets and financial liabilities:

Financial assets:

- loans and receivables;
- held to maturity;
- available-for-sale; or
- fair value through profit or loss and within the category as:
  - held for trading; or
  - designated at fair value through profit or loss.

Financial liabilities:

The Authority classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

3.8.3 Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classification:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Authority as fair value through profit or loss or available-for-sale. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Transaction costs that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. All of the Authority's advances are included in the loans and receivables category.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity, and which are not designated as fair value through profit or loss or as available for sale. Where the Authority is to sell more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale assets and the difference between amortised cost and fair value will be accounted for in other comprehensive income. Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any provisions for impairment.

Available-for-sale
Financial assets classified by the Authority as available-for-sale financial assets are generally those that are not designated as another category of financial assets, or strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in fair value reserve in other comprehensive income until the financial asset is derecognised or impaired. When available-for-sale financial assets are disposed of, the fair value adjustments accumulated in other comprehensive income are recognised in profit or loss. Interest income, calculated using the effective interest method, is recognised in profit or loss. Dividends received on available-for-sale financial instruments are recognised in profit or loss when the Authority's right to receive payment has been established.

Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held-for-trading unless they are designated as hedges.

Financial assets may be designated at fair value through profit or loss when:

— The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on different basis; or
— A group of financial assets is managed and its performance evaluated on a fair value basis.
— Subsequent to initial recognition, the fair values are remeasured at each reporting date. All gains and losses arising from changes therein are recognised in profit or loss in 'trading income' for trading assets. Interest earned and dividends received while holding trading assets at fair value through profit or loss are included in net trading income. Trading assets are not reclassified subsequent to their initial recognition.

Financial liabilities
The Authority classifies its financial liabilities as measured at amortised cost or fair value through profit or loss.

3.8.4 Derecognition
The Authority derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the authority neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the authority is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised), and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Authority derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3.8.5 Offsetting
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the authority has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.8.6 Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

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

When available, the authority measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the authority establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the authority, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The authority calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different from its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in

Notes to the Financial Statements continued

the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Subsequent to initial recognition, the fair values of financial instruments are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is unlisted, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date from a financial asset with similar terms and conditions. Where pricing models are used, inputs are based on observable market indicators at the reporting date and profits or losses are only recognised to the extent that they relate to changes in factors that market participants will consider in setting a price.

3.8.8 Identification and measurement of impairment

At each reporting date the Authority assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3.9 Cash and cash equivalents

Cash and cash equivalents comprise fixed deposits with banks, and highly liquid financial instruments with original maturities of less than three months from the acquisition date, which are subject to insignificant risk of changes in their fair value, and are used by the Authority in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.10 Property and equipment

3.10.1 Initial Recognition

All items of property and equipment are initially recognised at cost. Cost includes the value of consideration exchanged, or fair value in the case of donated or subsidised assets, and those costs directly attributable to bringing the item to working condition for its intended use.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

3.10.2 Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Authority and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3.10.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.*

The estimated useful lives for the current and comparative period are as follows:

Assets	Annual depreciation rate
Leasehold improvements	Over the shorter of the useful life of item or lease period
Leasehold land	Over the lease period
Buildings	2.5%
Computer hardware	33.3%
Furniture and fittings	20%
Office equipment	25%
Motor vehicles	25%

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

3.10.4 De-recognition

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

3.11 Intangible assets – Software

Software acquired by the Authority is stated at cost less accumulated amortisation and accumulated impairment losses. Software is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and the cost of the software can be measured reliably. Expenditure that forms part of the cost of software that meets the recognition criteria are capitalised as part of the software. Software is accounted for using the cost model. After initial recognition, the software is carried at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of 3 years, from the date that it is available for use. The amortisation method and useful life of software are reassessed at each financial year end and adjusted if appropriate.

3.12 Trade receivables

Trade receivable are amounts due from the sale of securities in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.13 Leased assets – lessee

Leases in terms of which the Authority assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised on the Authority's statement of financial position.

3.14 Impairment of non-financial assets

The carrying amounts of the Authority's non-financial assets other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows, which are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are recognised in profit or loss.

3.15 Provisions

A provision is recognised if, as a result of a past event, the Authority has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.15.1 Restructuring

A provision for restructuring is recognised when the Authority has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

3.16 Trade payables

Trade payables are obligations to pay for securities that have been acquired in the ordinary course of business from the secondary market.

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Notes to the Financial Statements continued

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.17 Contingencies

3.17.1 Contingent assets

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent asset is disclosed when an inflow of economic benefit is probable. When the realisation of income is virtually certain, then the related asset is not a contingent and its recognition is appropriate.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

3.17.2 Contingent liabilities

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefit is remote. A provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable is recognised, except in the extremely rare circumstances where no reliable estimate can be made. Contingent liabilities are assessed continually to determine whether an outflow of economic benefit has become probable.

3.18 Employee benefits

3.18.1 Post-employment benefits

Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in profit or loss when they are due.

Pension Scheme

The Authority operates a funded defined contribution retirement benefit scheme for its employees under the provisions of the Pension Reform Act 2004. The employer and the employee contributions are 7.5% each of the qualifying employee's salary.

Obligations for contributions to defined contribution plans shall be recognised as an employee benefit expense in profit or loss in the period when the employees have rendered service entitling them to the contributions

Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service shall be discounted to their present value at the reporting date.

3.18.2 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Authority has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.19 Segment reporting

Segment results that are reported to the Managing Director / CEO (being the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Authority's headquarters) and head office expenses.

3.20 Capital commitments

The term 'commitments' is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the agency of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

An agency may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the agency has contracted for expenditure but work has not commenced and no payments have been made.

3.21 Financial guarantees

Financial guarantee contracts are contracts that require the Authority (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor (wholly-owned subsidiaries) fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, which is the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium. Financial guarantees are included within Other Liabilities.

3.22 New standards and amendments to existing standards effective 1 January 2013

New standards and amendments effective for annual periods beginning on or after 1 January 2013 which are relevant to the Authority include:

— Amendment to IAS 1, 'Financial statement presentation'
— IAS 19 Employee benefits
— Amendments to IFRS 7 and IAS 32, 'Disclosures – Offsetting financial assets and financial liabilities'
— IFRS 9, 'Financial instruments'
— IFRS 13, 'Fair value measurement'

Amendment to IAS 1, 'Financial statement presentation'
This refers to disclosures on financial statement presentation regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

IAS 19, 'Employee benefits'
IAS 19 (June 2011) changes the definition of short term and other long term employee benefits to clarify the distinction between the two. For defined benefits plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Authority. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

Amendments to IFRS 7 and IAS 32, 'Disclosures – Offsetting financial assets and financial liabilities'
Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position.

The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Authority will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.

The amendments did not have any impact on the Authority's financial position or performance.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.

The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods with those annual periods. Earlier application is permitted.

Based on our initial assessment, the Authority is not expecting a significant impact from the adoption of the amendments to IAS 32. However, the adoption of the amendments to IFRS 7 requires more disclosures about right of set-off.

IFRS 9, 'Financial instruments'
IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Authority has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Authority's operations, this standard is expected to have a pervasive impact on the Authority's financial statements.

IFRS 13, 'Fair value measurement'
The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within

Notes to the Financial Statements continued

the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread.

4. Determination of fair values

A number of the Authority's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

4.1 Investments in equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

4.2 Receivables

The fair value of short term receivables is measured at its carrying amount. Where the receivables are material; it is estimated at the present value of future cash flows, discounted at the market rate of return at the reporting date.

4.3 Impairment of assets

4.3.1 Financial assets carried at amortised cost

At each end of the reporting date, the Authority assesses whether there is objective evidence that a financial asset or portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or portfolio of financial assets that can be reliably estimated. Some objective evidence that a financial asset or portfolio of assets is impaired includes observable data that comes to the attention of the Authority on the following events:

- Significant financial difficulty of the issuer or debtor; are expected to be useful for more than one period;
- A breach of contract, such as a default or delinquency in payments;
- It becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a portfolio/group 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/group.

The Authority first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Authority determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a portfolio of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment

If there is objective evidence that an impairment loss has been incurred on loans and receivables the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. As a practical expedient, the Authority may measure impairment on the basis of an instrument's fair value using an observable market price.

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 improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

4.3.2 Impairment of other non-financial assets

The carrying amounts of the Authority's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are recognised in profit or loss.

4.4 Critical accounting estimates and judgements

Management discusses with the Board of Directors the development, selection and disclosure of the Authority's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see note 5).

4.5 Critical accounting judgements in applying the Authority's accounting policies

Critical accounting judgements made in applying the Authority's accounting policies include:

4.5.1 Valuation of financial instruments

The Authority's accounting policy on fair value measurements is discussed under **Note 3.8.7**. The Authority measures fair values using the following fair value hierarchy that reflects the nature and process used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using inputs that are not based on observable market data, i.e., unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value into the fair value hierarchy at the end of the reporting period:

31 December 2013 *In thousands of Naira*	Level 1 ₦'000	Level 2 ₦'000	Level 3 ₦'000	Total ₦'000
Available for sale investment securities	7,753,765	-	-	7,753,765
Investment securities held at fair value through profit or loss	-	-	-	-
	7,753,765			**7,753,765**

4.5.2 Financial assets and liabilities classification

The Authority's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances. Details of the Authority's classification of financial assets and liabilities are given in **Note 3.8.**

4.5.3 Depreciation and carrying value of property and equipment

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of property and equipment will have an impact on the carrying value of these items.

4.5.4 Determination of impairment of property and equipment, and intangible assets.

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The Authority applies the impairment assessment to its separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

5. Financial risk management

The Authority is exposed to the following risks:
— Credit risk
— Liquidity risk
— Market risk

5.1 Our approach to risk management

With a global outlook, the Authority's strategy for managing risks is to understand risk within the invested universe and the externalities that can affect this, with the aim of monitoring, controlling and mitigating against undesired events.

NSIA has adopted, wherever possible, recommended best practice in the identification, evaluation and cost effective control of risks to ensure, as far as possible, that they are eliminated or reduced to a level that is acceptable to the Authority. NSIA's Risk Framework seeks to explain the Authority's underlying approach to risk management, documents the roles and responsibilities of the Board of Directors, Risk Management department and other key parties. It also outlines key aspects of the risk management process, and identifies the main reporting procedures.

5.2 Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Authority, resulting in a financial loss to the Authority. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents.

The carrying amounts of financial assets represent the maximum credit exposure.

Notes to the Financial Statements continued

5.2.1 Management of credit risk
The Authority's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards.

5.2.2 Loan loss assessment
In accordance with IAS 39, the Authority first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

With respect to impairment analysis, all loans and advances are classified as follows:

Neither past due nor impaired
These are loans and advances where contractual interest or principal payments are not past due.

Past due but not impaired
These are loans and advances where contractual interest or principal payments are past due but individually assessed as not being impaired. The Authority believes that impairment is not appropriate on the basis of the level of receivables or collateral available as well as the stage of collection of amounts owed by Counterparty. The Authority currently has no loan in this category.

Specific impairment
Specific impairment assessment is carried out on significant assets for which objective evidence of impairment has been identified. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate.

Collective impairment
Collectively impaired loans and advances are those that are grouped into classes of loans with similar characteristics and are therefore collectively assessed for impairment. Where no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of assets with similar characteristics and collectively assessed for impairment.

5.2.3 Credit risk measurement
The Authority uses incurred loss model to determine impairment losses in a group of financial assets. The operational measurement can be contrasted with impairment allowances required under IAS 39 by introducing Emergence Period (EP) to arrive at losses that have been incurred at the reporting date (the 'incurred loss model') rather than expected losses (IFRS 9 expected losses model is to take effect in 2015 with early adoption permitted).

Impairment on collectively impaired loan is therefore measured using the following components:

Probability of default (PD)
This is the probability of the status of an account regressing to the point where it can be classified as a defaulted account. The Authority has estimated PD using the proportion of non-performing loans to the total loan portfolio.

Loss given default (LGD)
LGD is defined as the portion of the loan determined to be irrecoverable should default occur.

Exposure at default (EAD)
This is the amount owed at the time of default or reporting date.

The measurement of exposure at default and loss given default is based on standard risk parameters.

Loan identification period (LIP)
Loan Identification Period is defined as the period of time between when an impairment trigger occurs and the date the Authority first becomes aware of its occurrence. Expert judgement has been used in estimating LIP. This exercise is performed for each homogeneous portfolio.

5.2.4 *Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Carrying Amount				
In thousands of Naira	SF	FGF	NIF	Unallocated	Total
Advances				**28,768**	**28,768**
Staff advances				28,768	28,768
Investment securities	**30,414,776**	**-**	**14,699,930**	**-**	**45,114,706**
US treasury bills	7,354,746	-	-	-	7,354,746
US treasury bonds	399,019	-	-	-	399,019
Corporate bonds	22,661,011	-	-	-	22,661,011
Nigeria marketable securities	-	-	14,699,930	-	14,699,930
Receivables	**238,655**	**-**	**-**		**238,655**
Trade receivables	238,655	-	-	-	238,655
Cash and cash equivalent	**690,206**	**62,119,054**	**47,995,104**	**1,091,055**	**111,895,419**
Balances with bank	690,206	34,155,054	10,946,722	1,091,055	46,883,037
Money market placements	-	27,964,000	37,048,382	-	65,012,382
Total exposure to credit risk	**31,343,637**	**62,119,054**	**62,695,034**	**1,119,823**	**157,277,548**

Advances exposure to total exposure	-	-	-	3%
Debt securities exposure to total exposure	97%	-	23%	-
Other exposures to total exposure	3%	100%	77%	97%
	100%	**100%**	**100%**	**100%**

Impairment analysis

In thousands of Naira	Advances	Investment securities	Receivables	Cash and cash equivalent
Carrying amount	28,768	45,114,706	239,222	111,895,419
Neither past due nor impaired	28,768	37,360,941	239,222	111,895,419
Carrying amount – amortised cost	**28,768**	**37,360,941**	**239,222**	**111,895,419**
Debt assets at fair value through profit or loss	-	7,753,765	-	-
Carrying amount – Fair value	**-**	**7,753,765**	**-**	**-**
Total carrying amount	**28,768**	**45,114,706**	**239,222**	**111,895,419**

Notes to the Financial Statements continued

Credit quality of money market placements and financial assets held for trading
The credit quality of money market placement is assessed by reference to external credit ratings information about counterparty default rates.

Money market placements

In thousands of Nigerian Naira	Credit Quality 15 months to 31 December 2013
Counterparties with external credit ratings (S&P)	
AA-	6,212,484
B	20,729,651
BB-	15,539,939
	42,482,074
Counterparties without external credit ratings (S&P)	
Local Banks	22,530,308
	22,530,308
Total money market placements	**65,012,382**

Investment securities
The credit quality of investment securities are assessed by reference to external credit ratings information about counterparty default rates.

In thousands of Nigerian Naira	Credit Quality 15 months to 31 December 2013
Counterparties with external credit ratings (S&P)	
A	30,414,776
	30,414,776
Counterparties without external credit ratings (S&P)	
Local Bank	14,699,930
	14,699,930
Total investment securities	**45,114,706**

5.3 Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Authority.

5.3.1 Management of liquidity risk

The Authority's approach to managing liquidity is to have sufficient funds to meet its liabilities, as and when due, without incurring undue losses or risking damage to the Authority's reputation.

5.3.2 Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted.

Maturity analysis of financial liabilities by earliest possible contractual maturity
The table below shows gross undiscounted cash flow on the basis of the earliest possible contractual maturity of financial liabilities:

In thousands of Naira	Carrying amount	Gross nominal outflow	Up to 3 months	4 – 6 months	7 - 12 months	1 - 5 years	> 5 years
Non-derivative financial liabilities							
Liabilities	439,677	439,677	439,677	-	-	-	-
Borrowing	1,400,000	1,400,000	-	1,400,000	-	-	-
Total liabilities	**1,839,677**	**1,839,677**	**439,677**	**1,400,000**	**-**	**-**	**-**

5.4 Market risk

Market risk is the risk of loss from unfavourable changes in the fair values of financial instruments caused by adverse moves in market variables, such as foreign exchange rates, interest rates, equity prices, commodity prices, credit spreads and implied volatilities of the market rates. Market risk losses could result in a loss of earning and/or capital to NSIA.

NSIA is exposed to market risk through its proprietary investments and can experience capital erosion from its own direct investments in the market.

The Authority may also be exposed to market risk through the trading positions taken by its proprietary desk and through its different strategic investments in various asset classes such as real estate, hospitality, private equity and infrastructure sectors.

With regards to investments in certain asset classes, the Authority's potential exposure can be categorised into two: namely, traditional investments and alternative investments. Traditional investments include cash, listed equity and fixed income instruments. Alternative investments include non-listed assets, and are generally less liquid than traditional investments. Currently, the asset classes being referred to as alternative investments are the real estate assets, private equity, hospitality and infrastructure projects.

The Authority's Market risk Framework includes:
- Market risk – comprising equity, interest rate, interest basis and currency risks;
- Valuation risk – which derives from the valuation methodology chosen for unlisted assets. A critical associated risk is that which relates to the valuation model. NSIA has exposure to valuation risk through its investments in Real Estate assets, Private Equity investments as well as other alternative instruments and Project development.

We manage market risk by actively controlling positions taken by investment managers in accordance with the investment strategy for each fund. The investment strategy outlines permissible asset classes, asset allocation limits and other position limits according to the portfolio risk appetite and risk profile. Exceptions are escalated and Investment Managers are expected to provide a plan of action that would bring portfolios within limits.

The identification, measurement and management of market risk is categorised as follows:

5.4.1 Trading assets/ Financial assets

Trading assets are carried at fair value using publicly available market rates for traded securities. Positions are monitored regularly and performance measured to relevant benchmarks.

5.4.2 Non-trading / Non-financial assets

Key performance measures are set and a robust monitoring and reporting framework is put in place to monitor performance of the Authority's investment in alternative and unlisted securities.

5.4.3 Foreign exchange risk

Foreign exchange risk arises from transactions and recognised assets and liabilities which are denominated in a currency other than the Group's functional currency, USD.

The Authority does not currently carry significant foreign exchange risk exposure.

5.4.4 Interest risk management

Interest rate risk is the risk of loss to Net Interest Income (NII) arising from changes in market interest rates on rate sensitive assets and liabilities. The Authority carries some interest rate sensitive assets and liabilities which are priced with fixed rates that reprice at varying frequencies.

Net interest income sensitivity

Scenario analysis – Change in NII as a result of change in interest rate

The Authority is exposed to a considerable level of interest rate risk i.e. the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Authority measures its exposure to changes in net interest income resulting from changes in prevailing interest rates using the anticipated impact of at least three (3) different hypothetical interest rate scenarios for periods up to 15 months. A forward-looking net interest income forecast is used in quantifying the Authority's anticipated interest rate exposure, using static balance sheet assumption as well as plausible interest rate changes under both normal and stressed market conditions. These scenarios reflect best estimate of the most likely and worst-case conditions.

The table below shows the sensitivity of the Authority's net interest income to instantaneous parallel rate changes.

	15 months to 31 December 2013
Risk sensitive assets:	
Placement with financial institutions	111,895,419
Investment security – HTM	37,360,941
	149,256,360

Cash flow sensitivity analysis for variable rate instruments

A change of 25 to 200 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Notes to the Financial Statements continued

In thousands of Naira	Profit or loss			
15 months to 31 December 2013	25BP Increase	25BP Decrease	50BP Increase	50BP Decrease
Financial assets	(94,102)	94,102	(188,203)	188,203
Cash flow sensitivity (net)	**(94,102)**	**94,102**	**(188,203)**	**188,203**

In thousands of Naira	Profit or Loss			
15 months to 31 December 2013	100BP Increase	100BP Decrease	200BP Increase	200BP Decrease
Financial assets	(376,407)	376,407	(752,814)	752,814
Cash flow sensitivity (net)	**(376,407)**	**376,407**	**(752,814)**	**752,814**

6 Operating segments

The Authority has three reportable segments being the Stabilisation Fund (SF), Future Generations Fund (FGF) and Nigeria Infrastructure Fund (NIF). Each of the Funds is managed separately as they entail different investment objectives and strategies and contain investments in different products.

For each of the Funds, the Board of Directors review the internal management report on a quarterly basis. The objective and principal investment products of the respective reportable segments are as follows:

Segment	Investment objectives and principal investment products
Stabilisation Fund (SF)	To provide stabilisation support to the Federation revenue in times of economic stress. It is intended to help increase the credibility of the Federal Republic of Nigeria's macro-economic framework and to act as a buffer against short term macro-economic instability. As such, the Fund's assets should be invested conservatively, with investments in a diversified portfolio of liquid, low risk products such as Treasury bills and liquid short term investment grade bonds defined as debts whose ratings are considered by investors to have a high probability to pay the scheduled interest and principal amount at maturity.
Future Generations Fund (FGF)	To invest in a diversified portfolio of appropriate growth investments in order to provide future generation of Nigerians a solid savings base for such a time as the hydrocarbon reserves in Nigeria are exhausted. Investment options include listed stocks, hedge funds, private equity and real estate.
Nigeria Infrastructure Fund (NIF)	To invest in infrastructure projects in Nigeria that meet our targeted financial returns and contribute to the development of essential infrastructure in Nigeria. Potential areas for investment include transportation, energy and power, water resources, agriculture, among others, in order to stimulate growth and diversification of the Nigerian economy, attract foreign investment, and create jobs for Nigerians.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit as included in the internal management reports that are reviewed by the board of directors. Segment profit is used to measure performance as management believes that such information is most relevant in evaluating the profitability of each segment.

Information about reportable segments	Stabilisation Fund ₦'000	Future Generations Fund ₦'000	Nigeria Infrastructure Fund ₦'000	Total ₦'000
Investment Income	63,074	32,771	1,119,600	1,215,445
Total operating segment income	**63,074**	**32,771**	**1,119,600**	**1,215,445**
Investment management expenses	9,575	-	-	9,575
Local custodian fees	-	-	8,131	8,131
Global custodian fees	839	1,680	1,680	4,199
Total segment investment management & custodian fees	**10,414**	**1,680**	**9,811**	**21,905**
Total operating segment profit	**52,660**	**31,091**	**1,109,789**	**1,193,540**
Professional expenses	18,912	33,077	81,209	133,198
Other operating expenses	825	26,210	20,545	47,580
Total segment operating & administrative expenses	**19,737**	**59,287**	**101,754**	**180,778**
Segmented profit/ (loss) for the period	**32,923**	**(28,196)**	**1,008,035**	**1,012,762**
Reportable segment assets	**31,343,637**	**62,119,054**	**62,695,034**	**156,157,725**
Reportable segment liabilities	**239,868**	**-**	**-**	**239,868**

Reconciliation of reportable segment revenues, profit or loss and assets and liabilities

In thousands of Naira	15 months ended 31 December 2013
Revenues	
Total revenue for reportable segments	1,215,445
Unallocated amounts	250,740
Total revenue for the period	1,466,185
Profit or loss	
Total profit or loss for reportable segments	1,012,762
Unallocated amounts	(487,604)
Total profit for the period	525,158
Assets	
Total assets for reportable segments	156,157,725
Other unallocated amounts	1,437,646
Total assets for the period	157,595,371
Liabilities	
Total liabilities for reportable segments	239,868
Other unallocated amounts	1,599,809
Total liabilities for the period	1,839,677

Notes to the Financial Statements continued

7 Financial assets and liabilities

The table below sets out the Authority's classification of each class of financial assets and liabilities, and their fair values.

31 December 2013 *In thousands of Naira*	Note	Held for trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total carrying amount	Fair value
Cash and cash equivalents	14	-	-	111,895,419	-	-	111,895,419	111,895,419
Advances		-	-	28,768	-	-	28,768	28,768
Investment securities:								
Measured at fair value	15	-	-	-	7,753,765	-	7,753,765	7,753,765
Measured at amortised cost	15	-	37,360,941	-	-	-	37,360,941	37,561,274
Other assets	16	-		290,512	-	-	290,512	290,512
		-	**37,360,941**	**112,214,699**	**7,753,765**	**-**	**157,329,405**	**157,529,738**
Liabilities	19	-	-	-	-	439,677	439,677	439,677
Borrowings	20	-	-	-	-	1,400,000	1,400,000	1,400,000
		-	-	-	-	**1,839,677**	**1,839,677**	**1,839,677**

8 Investment income

Investment income represents income earned on investment of the Authority's $1billion USD seed capital and operational funds during the period.

	31 December 2013 ₦'000
Investment in Treasury Bills	707,821
Investment in Fixed Deposits	588,852
Deposit from MMDA and DDA*	27,604
Investment in Other Financial Instruments	71,441
	1,395,718

* MMDA – Money market deposit account
DDA – Demand deposit account

9 Interest income

	31 December 2013 ₦'000
Bank Balances	70,467
	70,467

Interest income represents income earned on balances with Banks.

10 Other non-operating income

	31 December 2013 ₦'000
Other non-operating income	390,323
Net exchange gain	104,694
	495,017

Other non-operating income represents income earned on the initial seed capital of $1billion USD prior to the commencement of operating and investing activities for the funding of the Authority's operational expenses.

11 Operating and administrative expenses

		31 December 2013 ₦'000
Personnel expenses	12	671,459
Depreciation and amortisation		45,838
Professional expenses	13	294,711
Directors' remuneration and expenses		188,441
Other operating expenses	14	213,690
Total operating and administrative expenses		**1,414,139**

12 Personnel expenses

	31 December 2013 ₦'000
Salaries	521,304
Contributions to defined contribution plans	29,041
Other allowances	121,114
	671,459

(i) The average number of persons employed by the Authority during the period including Executive directors was as follows:

	31 December 2013 ₦'000
	Number
Executive Management Staff & Senior staff	8
Non- management staff	14
	22

13 Professional expenses

	31 December 2013 ₦'000
Professional expenses	294,711
	294,711

This represents professional fees and expenses for general consulting services and other specific activities such as investment advisory services, legal advisory and consulting, recruitment and risk advisory services.

Notes to the Financial Statements continued

14 Other operating expenses

	31 December 2013 ₦'000
General and administrative expenses	74,551
Office rent and other expenses	51,637
Travel expenses	87,502
	213,690

15 Cash and cash equivalents

	31 December 2013 ₦'000
Cash balance	163
Bank balances	46,882,874
Cash and balances with banks	**46,883,037**
Money market placements	65,012,382
	111,895,419

16 Investment securities

		31 December 2013 ₦'000
Held to maturity investments	16.1	37,360,941
Available for sale investments	16.2	7,753,765
		45,114,706

16.1 Analysis of HTM investment securities

	31 December 2013 ₦'000
Investment grade bonds	22,661,011
Nigerian marketable securities	14,699,930
	37,360,941

16.2 Analysis of AFS investment securities

	31 December 2013 ₦'000
US Treasury Bills	7,354,746
US Treasury Bonds	399,019
	7,753,765

Available for sale investment securities comprise:

Reconciliation of Available for Sale financial assets

	2013
At 1 October 2012	**-**
Additions:	
US Treasury Bills	7,354,746
US Treasury Bonds	399,019
Disposal	-
At 31 December 2013	**7,753,765**

17 Other assets

	31 December 2013 ₦'000
Trade Receivable	238,655
Prepayments	51,857
	290,512

18 Property and equipment

	Motor vehicles ₦'000	Computer equipment ₦'000	Office equipment ₦'000	Furniture & fittings ₦'000	Total ₦'000
Cost					
Beginning of the period	-	-	-	-	-
Additions	127,208	87,704	957	73,107	288,976
Balance at 31 December 2013	**127,208**	**87,704**	**957**	**73,107**	**288,976**
Depreciation					
Beginning of the period	-	-	-	-	-
Charge for the period	19,070	14,051	174	9,492	42,787
Balance at 31 December 2013	**19,070**	**14,051**	**174**	**9,492**	**42,787**
Carrying amounts					
Balance at 31 December 2013	**108,138**	**73,653**	**783**	**63,615**	**246,189**

19 Intangible assets

Cost *In thousands of Naira*	Software ₦'000	Total ₦'000
Beginning of the period	-	-
Additions	22,828	22,828
Balance at 31 December 2013	**22,828**	**22,828**

Amortisation and impairment losses	Software ₦'000	Total ₦'000
Beginning of the period	-	-
Charge for the period	3,051	3,051
Balance at 31 December 2013	**3,051**	**3,051**
Carrying amounts		
Balance at 31 December 2013	**19,777**	**19,777**

The following useful lives are used in the calculation of amortisation:

Software 3 years

Notes to the Financial Statements continued

20 Liabilities

	31 December 2013 ₦'000
Trade Payables	239,868
Other Payables	178,565
Accruals	21,244
	439,677

21 Borrowings

	31 December 2013 ₦'000
Loan by FGN	2,900,000
Repaid during the period	(1,500,000)
Balance as at 31 December 2013	**1,400,000**

This represents the outstanding balance on the sum of ₦2,900,000,000 (Two billion, Nine hundred Million Naira only) given as a bridge finance loan to Nigeria Sovereign Investment Authority. The agreement for the Zero Interest loan was executed on 23 November 2012. The balance is repayable by June 2014.

The loan repayment during the period was made as follows:

Payment Date	Amount (₦)
5 December 2013	1,000,000,000
13 December 2013	500,000,000

22 Equity and reserves

		31 December 2013 ₦'000
Contribution by Government		155,250,000
Retained earnings	22.1	525,158
Fair value reserves	22.2	(19,464)
		155,755,694

22.1 Retained earnings

	31 December 2013 ₦'000
Opening balance at the beginning of the period	-
Profit for the year	525,158
	525,158

Retained earnings are the carried forward recognised income net of expenses plus current period profit attributable to equity contributors (Government).

22.2 Fair value reserves

The fair value reserve includes the net cumulative change in the fair value of available-for-sale investments until the investment is derecognised or impaired. This is stated at gross of tax.

31 December, 2013	Fair value reserves	Retained earnings	Total OCI
Items that may be subsequently reclassified to profit or loss			
Change in value of available- for- sale financial assets	(19,464)	-	(19,464)
Total	**(19,464)**	**-**	**(19,464)**

23 Capital management

The Authority is to maintain a strong capital base in order to retain the confidence of the Nigerian people and the market with a bid to sustain future developments for the business. Management monitors the return on capital.

The Board of Directors seek to maintain a balance between the higher return that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Authority monitors capital using a ratio of adjusted net debt to adjusted equity. For this purpose, adjusted net debt is defined as total liabilities, comprising borrowings from the Federal Government and other obligations, less cash and cash equivalent. Adjusted equity comprises all components of equity other than amounts accumulated in the hedging reserve.

The Authority's adjusted net debt to equity ratio at 31 December 2013 was as follows:

In thousands of Naira	31 December 2013
Total liabilities	1,839,677
Less cash and cash equivalent	(111,895,419)
Net debt	(110,055,742)
Total Equity	155,755,694
Less: hedging reserve	-
Adjusted equity	155,755,694
Net debt to adjusted equity ratio	**(0.71):1**

24 Related parties and other key contracts

24.1 Investment managers

The Authority appointed three investment managers through their global custodian JP Morgan for the management of the Stabilisation Fund.

Investment Manager	Amount
UBS	USD $50 million
Credit Suisse	USD $150 million
Goldman Sachs	

UBS Global Asset Management (UK) LTD

Appointment and Service

The Authority appointed UBS Global Asset Management Company as its agent and delegate to manage the investment and reinvestment of certain monies and assets, deposited from time to time by the Authority and held by JP Morgan.

Reports on Investments

UBS Global Asset Management Company provides the Authority with reports containing the transactions, valuations and portfolio performance of the account on a monthly, quarterly and annual basis.

Goldman Sachs Asset Management

Appointment and Service

The Authority appointed Goldman Sachs Asset Management Company incorporated in America as an investment manager and discretionary manager for the purpose of selecting and executing transactions which are in compliance with the Authority's investment strategy stated in the investment agreement.

Reports on Investments

Goldman Sachs provides the Authority with reports containing the holdings, valuations and performance of the account on a monthly basis.

Notes to the Financial Statements continued

Credit Suisse AG, Zurich

Appointment and Service

The Authority appointed Credit Suisse AG, Zurich as an investment manager to manage the portfolio assigned in accordance with the asset management agreement.

Reports on Investments

Credit Suisse AG provides quarterly performance statements and monthly valuation reports to the global custodian.

24.2 Hedge Fund Managers

A portion of the Future Generations Fund was invested in three hedge fund managers in the proportion shown below:

Hedge Fund Manager	Amount
Laurion Capital Management	USD $25 million
JHL Capital Group Fund	USD $25 million
Blue Mountain Capital Management	USD $25 million

24.3 Long Only Equity Managers

A portion of the Future Generations Fund was also invested with long only equity managers as follows:

Long Only Equity Manager	Amount
Cevian Capital II Limited	USD $10 million
Credit Suisse (Passive Equity)	USD $33 million

24.4 Custodians

Custodians	JP Morgan Chase
	Stanbic IBTC

Appointment and Service

The Authority appointed these firms to provide custody services, as well as accounting, performance and compliance services to capital managed by the Authority.

Reports on Investments

The custodians provide reports to the Authority on the performance of the capital custodied by said firms on a monthly basis.

24.5 Compensation of key management personnel

The Authority's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. The definition of key management includes close members of family of key personnel and any entity over which key management exercise control.

The key management personnel have been identified as the executive and non-executive directors of the Authority.

The Directors did not hold any shares in the Authority during or as at the end of the financial year.

Key management personnel compensation for the period comprises:

Directors' remuneration and expenses

	₦'000
Short term directors benefits	432,883
Total Short term directors benefit	**432,883**

Fees as directors	62,500
Other allowances	125,941
Defined contribution plan	23,403
	211,844

25 Subsequent events

NSIA had a pipeline of projects at various stages of development at 31 December 2013. Following the balance sheet cut-off date, further significant activity has occurred which has impacted the progress of projects in the pipeline.

Second Niger Bridge

NSIA through the NIF had been in negotiations with the consortium of preferred bidders for the development of the Second Niger Bridge tolling concession. These negotiations covered the areas of construction cost, level of government support and transaction structure. In February 2014, NSIA through its corporate subsidiary, NSIA Motorways Investment Company Ltd. which was registered in February 2014, entered into a Cooperation Agreement to join the consortium of preferred bidders for this project.

Fund for Agricultural Finance in Nigeria (FAFIN)

In January 2014, NSIA signed and executed the share subscription and shareholder agreements in regards to the FAFIN investment.

Receipt of New Funds

The Authority is due to receive the sum of $550 million as additional funding from the Federal Government of Nigeria. This is subsequent to the initial seed capital of $1 billion received in 2013. It is to be noted however that this particular funding is not from the Federation Account but derived from the $1 billion Eurobond which was successfully floated last year. A specially managed account for the Federal Government has been created as a vehicle to manage it. Of the $550 million, $200 million will be warehoused under the Infrastructure Fund to finance gas to power investments in a co-investment partnership with private players, domestic and foreign. The objective is to generate catalytic funding for gas to power infrastructure, which will leverage on available funds to boost the development of the power sector and improve power supply.

The balance of $350 million will form part of a liquidity facility for the Nigerian Bulk Electricity Trading Company (NBET) which the Authority will manage on behalf of the Federal Government to boost investors' confidence in the power sector reforms.

26 Comparatives

This is the first set of financial statements prepared by the Authority. Accordingly, comparative financial information is not applicable.

Appendices

NIGERIA SOVEREIGN INVESTMENT AUTHORITY
INFRASRUCTURE FUND
Investment Policy Statement

1. Introduction

This Investment Policy Statement ("IPS") is issued by the Board of Directors (the "Board") of the Nigeria Sovereign Investment Authority ("NSIA"). It provides a framework for the management of the Nigeria Infrastructure Fund. The IPS sets out to identify the Infrastructure Fund's investment objectives, risk tolerance and constraints. It establishes a structure of guidelines and policies within which the executive management can exercise its delegated authority and against which recommendations to the Investment Committee and Board can be judged. The IPS is designed to be a strategic document and remains in effect unless it is revised by the Board. Specific investment policies pertaining to diversification, benchmarks and allowable ranges are set out in Section 9 below. The Fund will invest in infrastructure projects in sectors which have the potential to contribute to the growth and diversification of the Nigerian economy, create jobs within Nigeria and where possible attract foreign investment.

2. Purpose and Background of the Fund

The NSIA is established by the Nigeria Sovereign Investment Authority Act (the "Act"), which also specifies its powers, legal characteristics and policy objectives. One of NSIA's objectives is to enhance the development of Nigeria's infrastructure sector. Nigeria faces a significant infrastructure gap, which has potential to inhibit Nigeria's ability to fulfill its economic growth prospects. The Act provides for the establishment and management of an infrastructure fund by NSIA.

The Nigeria Infrastructure Fund ("Fund") is one of the three funds of NSIA. The Fund seeks to make a positive financial return on its investments in the infrastructure sector in Nigeria. It also aims to attract and support foreign investment and enable growth.

3. Investment Objectives

3.1. Time Horizon

The Fund shall be invested for the long term, which is understood to mean an investment horizon of more than 20 years through multiple economic and market cycles, and in recognition of the long-term nature of infrastructure investments. It shall be understood that during the 'founding phase' of the NSIA, and for the first five years of the Fund, it may be required to incur significant capital and operating expenditures before realising a return of capital or income returns from the projects in which it invests. Greenfield projects in particular, may not generate revenue from commercial operations for many years after initial investment, and in situations where NSIA is investing equity only, return on equity may be deferred until after debt has been fully or partially serviced.

3.2. Base Currency

Fund accounts and fund reports shall be produced in both Naira and U.S. dollars.

3.3. Return Target

3.3.1. Given NSIA's overall objective of preserving and growing purchasing power in U.S. dollar terms over the longer term, the Fund shall, subject to the other provisions of this policy, aim to deliver a return in excess of US inflation. To further allow for growth in the Nigerian population and its wealth, together with the natural obligation to maximise the returns on behalf of the Nigerian people, the Fund shall target for each project it invests in, an excess return over inflation consistent with reasonable expectations from a diversified portfolio of risk assets. This is presently defined as U.S. inflation CPI as measured by the U.S. Bureau of Labor Statistics plus 5.0%. This return target will exclude Development Projects (as defined below), uncommitted funds, unfunded commitments, and returns generated from investments made pending investment in infrastructure projects in accordance with Section 5 below.

3.3.2. The long-term real return target described above cannot be achieved over the short-term given the long-term nature of infrastructure investments, the length of development and construction periods, deferral of return on equity under project financing terms, and the relatively small number of investments to be made by the Fund and their relatively illiquid nature. The Fund shall be judged taking into account the Policy Objectives set out in Section 4 below.

3.4. Investment Principles

The NSIA maintains a flexible investment approach informed by the following general principles:

3.4.1. Diversification is an important tool of risk management and can mitigate the volatility and uncertainty inherent in substantial exposure to risk assets and as such, the Fund will seek to be diversified.

3.4.2. Careful analysis of valuation will be undertaken for each project on a consistent basis, such that the investment strategy may seek to reduce downside risk and enhance return. NSIA will develop a standard project model for use in the evaluation and development of each project and will base investment decisions on valuations reached on discounted cash flows. The maintenance of project models will be the responsibility of individual investment officers under the oversight of the Chief Investment Officer, and the valuation of material assets will be reviewed periodically by the Investment Committee.

3.4.3. NSIA may use leverage as appropriate either by borrowing or otherwise incurring indebtedness itself, or through its subsidiaries including project finance debt at the project companies in which it ultimately invests, as approved on a project-by-project basis by the Investment Committee.

3.4.4. NSIA is established as a body corporate, and as a separate legal person independent from, but owned by the Federal Republic of Nigeria. The Act also provides for the independence of the NSIA in the discharge of its functions and specifies that it is not subject to the direction or control of any other person or authority.

3.4.5. The returns of a long-term portfolio can be undermined if the Fund becomes a forced seller of risk assets at an inopportune time in order to meet cash obligations, and policy will be designed to avoid this.

3.4.6. Markets are not always efficiently priced, which gives rise to investment opportunities. The Fund may pursue opportunities directly by itself, or through a manager selected by it. Given its long-term investment horizon, the Fund can maintain the dual objective of realising a commercial return and investing in infrastructure which might otherwise not be financed and developed.

3.4.7. The Fund aspires to best practice environmental, social and governance standards in its investments on the basis of generally accepted international principles and standards.

3.5. Asset Allocation

The asset allocation policy should reflect a proper balance between the Fund's financial and investment objectives, risk tolerance and need for liquidity. The Fund will avoid concentration risk but ensure that resources are efficiently deployed and that NSIA can deploy a meaningful investment amount per project to maintain influence and in some cases a controlling interest. The Fund's investments shall be diversified by infrastructure sector. The purpose of diversification is to provide reasonable assurance that no project or manager, regional, political or economic events or circumstances, or infrastructure sector will have a disproportionate impact on the Fund's aggregate result and to ensure a more even spread of the benefit of the investment capital available to the Fund. The Fund will not commit more than 25% of the Fund's total assets to any one project or manager. The Fund shall also not commit more than 50% of its total assets to any one infrastructure sector in Nigeria. The management team shall be prudent in risk management to ensure reasonable diversification within sectors.

3.6. Recycling

NSIA may, subject to the provisions of this policy and the Act, reinvest all realised proceeds and dividends from and interest on portfolio investments of the Fund in new or existing assets of the Fund.

3.7. Project Sponsor

If NSIA considers it appropriate to fulfill the objectives and other provisions set out in this policy and has the necessary resource available, it may take on the role of project sponsor and developer as well as investor.

4. Policy Objectives

4.1. Sectors

The Fund will invest infrastructure projects in sectors which have the potential to contribute to the growth and diversification of the Nigerian economy, create jobs within Nigeria and where possible attract foreign investment including but not limited to power generation, distribution and transmission, healthcare, residential, commercial and industrial real estate assets, technology and communications infrastructure, aviation assets, agriculture, dams, water and sewage treatment and delivery, roads, ports, and rail as well as other sectors that will enable the development of private investments in infrastructure in Nigeria.

4.2. Tenor

The development and financing of the infrastructure sector has suffered from a lack of sufficiently long tenors in bank lending. Infrastructure financing in the Nigerian banking sector does not generally exceed 7 years, with rare exceptions of 12-15 years. Pension funds, which would normally seek long-term yielding instruments are constrained by prudent norms and tend to focus on alternative investments with lower associated risk such as sovereign debt. These constraints do not inhibit the Fund, which is willing to finance on tenors more appropriate to the needs of infrastructure.

4.3. Market Liquidity

Through the development and financing of infrastructure projects, NSIA seeks to help build the asset class and market liquidity and attract other investors to Nigeria's infrastructure sector. In order to facilitate further investment in and divestment of interests in projects in which it invests, NSIA will establish intermediate holding vehicles with a view to attracting other forms of international and domestic capital.

4.4. Federal Ministries and Agencies and State Governments

The Fund seeks to invest in a manner which is coordinated to the extent feasible with, and is technically consistent with, the infrastructure priorities and plans developed by the appropriate ministries and agencies. The Act requires NSIA to review and analyse against the criteria of financial return (specified elsewhere in this policy), all written proposals of the Federal Government, and any State or Local Government submitted to NSIA. As required by the Act, NSIA will issue appropriately detailed parameters and procedures for the submission of proposals and establish effective relationships with key line ministries and other government bodies including PPP units within line ministries.

Appendices continued

4.5. National Economic Interest

Due Process – All proposals for investment in infrastructure will be evaluated by the Fund on a consistent, objective, fair and transparent basis. No potential partner, sponsor or proposer will be shown undue favor or preference in evaluation of proposals. In accordance with the Act, potential investments shall be evaluated at least as strictly as international investments, and the broad, risk-weighted potential benefits to Nigeria as a whole, shall prevail over more focused local or regional priorities.

4.6 Capacity Building

The NSIA is a body corporate wholly owned by the Federal Republic of Nigeria and is staffed by investment professionals drawn predominantly from the international private financial services sector. In combination, NSIA aims to help enable the government realise its vision of infrastructure development and PPP projects in the following ways:

4.6.1. Use these characteristics to attract broader participation in Nigerian Infrastructure projects.

4.6.2. Catalyse further international investment and world class development and financing skills.

4.6.3. Develop its own resources and skills in this area including technical transaction support capacity.

4.6.4. Participate in and help improve technical pre-qualification processes and concessioning.

4.6.5. Improve capacity and project structuring skills and experience among local sponsors and other key participants.

4.7. Demonstration Effect

NSIA recognises the powerful and positive effect the successful development of infrastructure projects in Nigeria will have in encouraging other parties to participate in the infrastructure sector. NSIA will take this into account when evaluating project opportunities and making investment decisions for the Fund.

4.8 Restriction on Guarantees

In accordance with the Act, NSIA shall not provide any guarantee or surety, whether of payment or of performance, to or on behalf of the interest, rights or obligations of any person, company or entity involved or participating in or related to an infrastructure project, other than a wholly-owned subsidiary or affiliate of NSIA.

5. Funds Pending Investment

Pending investment in infrastructure projects in accordance with this policy, the Fund may make short-term or medium term investments with unspent funds as approved by the Investment Committee on the recommendation of the executive management.

6. Five-Year Plan

In accordance with the Act, NSIA shall each year develop a rolling five-year investment plan for the Fund pursuant to such strategies, regulations, policies and guidelines as it may determine from time-to-time to be most effective to achieve the objective of supporting, through investment predicated upon financial returns to NSIA, the development in Nigeria of basic, essential and efficient infrastructure such as power generation, distribution and transmission, healthcare, tourism and leisure infrastructure, real estate, technology and communications infrastructure, aviation assets, agriculture, dams, water and sewage treatment and delivery, roads, port, and rail in order to stimulate the growth and diversification of the Nigerian economy, attract enhanced foreign investment and create jobs for Nigerians.

7. Intermediaries and Resourcing

7.1. Joint Ventures and Co-investments

NSIA is empowered under the Act to enter into transactions either independently or in conjunction with other entities. Where the Board considers it desirable to do so in order to fulfill the mandate set out in this policy, and to enhance or preserve the effectiveness of NSIA, it shall be able to make strategic co-investments with other developers, constructors, operators and investors in the infrastructure sector, to make investments in such companies or organisations or to enter into joint ventures on terms which it considers appropriate. The performance of any such co-investments, investments or joint ventures shall be subject to the benchmarks set out below.

7.2. Third Party Managers

NSIA has discretion to select intermediaries and independent managers to evaluate investment decisions on its behalf and to invest NSIA's funds under documented arrangements provided that no more than 50% of the Fund's assets shall be committed to intermediaries or investment managers. Where a commitment is made to a manager:

7.2.1. Manager Guidelines. The guidelines for infrastructure assets (equity and debt) in the Fund will be set by each manager within the scope of the investment guidelines agreed with the Fund on which an investment commitment is based. These guidelines are to be approved by the Investment Committee prior to commitment being made and will be consistent with the provisions of this Policy and the Act.

7.2.2. Project Selection. Decisions as to individual project selection and the number of investments are left to broad manager discretion, subject to the manager's specific investment guidelines and the usual standards of fiduciary prudence.

7.2.3. Performance Benchmarks. Each manager is measured, and relative success determined, against the specific and appropriate benchmark suitable for the investment policy agreed with each particular manager.

7.2.4. Manager Concentration. The purpose of diversification by manager is to provide reasonable assurance that no manager could have a disproportionate negative impact on the Fund's aggregate result. Therefore, exposure to a single fund will be limited to 10% of Fund assets, and exposure to a single investment manager will be limited to 20% of Fund assets.

7.3. Advisors and Consultants

While NSIA will aim to develop appropriate in-house capabilities over time, it shall in the interim be able to utilise any sector and engineering advisors or professionals as it may deem advisable to ensure the viability of each potential infrastructure investment.

7.4. Project Evaluation and Development Budget

NSIA may incur expenditure on:

7.4.1. Preparatory due diligence and evaluation up to an amount of $30,000 per transaction or such higher amount approved by the Executive Committee.

7.4.2. The evaluation and development of investments and projects in the Nigerian infrastructure sector in aggregate up to an amount which is 1.5% of the total funds allocated for investment in the Nigerian infrastructure sector from time to time.

8. Social Infrastructure

8.1. Development Projects

8.1.1. In accordance with the Act and subject to Section 8.2 below, NSIA may invest up to a maximum of ten per cent of the Fund available for investment in any fiscal year in social infrastructure projects which promote economic development in underserved sectors or regions in Nigeria that may present less favourable economic return potential ("Development Projects"). Funds deployed in accordance with this provision may be exempted from the performance benchmarks set out in Section 9 below. NSIA shall accordingly a) make such rules, procedures and regulations as it deems necessary in respect of the submission and evaluation parameters for Development Projects; and b) evaluate the economic returns and summarise the non-financial social welfare enhancing attributes of each Development Project. The Fund will, however, seek a return of capital for all invested funds.

8.1.2. The Act allows for the fact that such investments may present less favourable economic return potential. When assessing Development Projects therefore, NSIA will adjust financial return criteria to the extent indicated by the provisions of the NSIA Act but will apply return criteria taking into account the social nature of the Development Project and the provisions of the NSIA Act. The hurdle return applied will be based on a project specific return target adjusted for return characteristics, project uncertainty and leverage.

8.1.3. When considering such proposals NSIA will in addition, consider metrics and criteria reflecting the potential of the social infrastructure project being proposed to promote economic development in underserved sectors or regions in Nigeria, and will draw on indicators developed by the Global Impact Investing Network and recorded in its framework Impact Reporting and Investment Standards (IRIS) (www.thegiin.org/cgi-bin/iowa/reporting) which are considered appropriate by NSIA in light of the nature of the project.

8.2. Committee of the National Economic Council

All potential Development Projects identified by and supported by NSIA shall be submitted to a committee set up for this purpose by the National Economic Council who shall decide whether NSIA may invest in such Development Projects.

9. Key Performance Indicators and Monitoring

One of the purposes of maintaining key performance indicators ("KPIs") is to enable monitoring and evaluation of the success of investment strategies or managers in meeting both the return objectives and risk guidelines of the Fund. They are set out in the table below.

Appendices continued

KPI	What?	Why?	Forum	Horizon?
Long-term return Benchmark[1]	The Fund's long-term return target on a project basis, as defined in Section 3.3.1, for example US CPI +5% excluding Development Projects, uncommitted funds, and returns generated from investments made pending investment in infrastructure projects	This is the ultimate gauge of the Fund's long term success in growing real purchasing power.	Board	Periods of at least ten years and preferably 15 or more years, reflecting the long-term nature of infrastructure, periods of development and construction.
Allocation	The Fund's chosen allocation between different infrastructure sectors.	Diversification of risk and contribution towards the development of a number of different infrastructure sectors.	Investment Committee	Rolling five-year periods to reflect the objectives set out in NSIA's Five-Year Plan.
Project Development	The successful development and operation of projects in which NSIA is invested.	This will determine NSIA's success in achieving both its Investment Objectives and its Policy Objectives.	Investment Committee	Periods of at least 5 years, given the long development lead time in infrastructure.
Project Development Milestones	Realistic milestones will be set by NSIA for the development of projects by the Fund.	Approximately one-third of NSIA's assets have been allocated for initial capital investment by the Fund. Subsequent contribution to the Fund will be reviewed by the Board from time-to-time and may be increased or decreased with reference to the pipeline of projects which exists and their potential deployment timetable. By spreading development activity over time, the Fund might mitigate risk, and more efficiently use the resources at its disposal.	Board	Aim to achieve full investment of Funds within ten years, provided appropriate investment opportunities exist.
Additionality	The successful financing of projects which otherwise may not have happened without NSIA's involvement.	The track record of infrastructure projects through private or PPP solutions has been poor. The Fund has been established in part to address this and additionality underpins the Investment Objectives.	Board	Rolling periods
Development/ Social Investment	Investment of up to 10% of the Fund's capital in social infrastructure projects.	As provided for in Article 41(5) of the Act.	Investment Committee	Ten years or the date upon which the Fund has been at least 80% invested, whichever is earlier.
Liquidity	Return of capital investment within a reasonable timeframe, with a guideline target of ten years where possible.	This is good investment practice and requires particular focus in the infrastructure sector.	Board	Ten years is aspirational. Given the nature of infrastructure investment, the long-term nature of concessions, NSIA's other policy mandates and contractual transfer restrictions, this may have to be extended on a case-by-case basis.

1 To be read subject to Section 4.4.2.

10. Review and Revision of this Investment Policy Statement

The Investment Committee shall propose to the Board periodic changes to the Investment Policy Statement and associated annexes if necessary. In any event, the Investment Policy Statement shall be re-confirmed annually by the Board.

Appendices continued

FUTURE GENERATIONS FUND
Investment Policy Statement

1. Introduction

This Investment Policy Statement ("IPS") is issued by the Board of Directors (the "Board") of the Nigeria Sovereign Investment Authority ("NSIA"). It provides a framework for management of the Future Generations Fund ("Fund"). The IPS sets out to identify the Fund's investment objectives, risk tolerance and constraints. It establishes a structure of guidelines and policies within which the Fund's Executive Management can exercise its delegated authority and against which recommendations to the Investment Committee and Board can be judged. The IPS is designed to be a strategic document and remains in effect unless revisions are agreed by the Board. Specific investment policies pertaining to asset allocation, benchmarks and allowable ranges are documented in Annex A to the IPS.

2. Purpose and Background Of The Fund

The purpose of the Future Generations Fund is to preserve and grow the value of assets transferred into it, thereby enabling future generations of Nigerians to benefit from the country's finite oil reserves.

3. Investment Objectives

3.1. Time Horizon

The Fund shall be invested for the long term, it being understood that this should mean an investment horizon of more than 20 years and multiple economic and market cycles.

3.2. Base Currency

The base currency against which the Fund shall be judged is the US dollar.

3.3. Return Target

3.3.1. Given its objective of preserving and growing purchasing power in US dollar terms over the longer term, the Fund shall aim to deliver a return in excess of US inflation. To further allow for growth in the Nigerian population and its wealth, together with the natural obligation to maximise the returns on behalf of the Nigerian people, the Fund shall target an excess return over inflation consistent with reasonable expectations from a diversified portfolio of risk assets. This is presently defined as *US inflation plus 4.0%.*

3.3.2. The long term real return target described above cannot be achieved consistently over shorter periods given the inherent uncertainty in capital markets. The Fund shall be judged against this target over periods no shorter than ten years. Additional benchmarks for assessing the Fund's performance over shorter periods are shown in section 6 'Benchmarking and Monitoring'.

3.3.3. To facilitate shorter term monitoring, the Fund's performance shall be judged against a Policy Benchmark and a Strategic Benchmark. The former being a high level simple benchmark representing exposure to the main asset classes in such proportions as are expected to approximate the risk/return trade-off chosen for the Fund. The Strategic Benchmark shall be a more detailed composite of asset classes chosen to implement the portfolio given the medium term market environment.

3.4. Risk Tolerance

3.4.1. Given the time horizon and return target already described, the principle risk to the Fund's objectives is that of failing to earn sufficient return over the longer term. This can be specified in terms of a probability of earning at least the target return. The chosen Policy Benchmark and Strategy Benchmark laid out in *Annex A* shall be accompanied by an estimate of this probability of success.

3.4.2. The Board acknowledges that investing for long term real returns means investing predominantly in relatively risky assets as opposed to safe assets. There is an inevitable trade-off between long term return and short term volatility, as a consequence of which the Fund may experience material fluctuations, including mark-to-market losses over, for example, a twelve month horizon.

3.4.3. In order to express the Fund's risk tolerance, *Annex A* to this IPS shall document, alongside the agreed investment policies, expected ranges for various risk measures including but not limited to: annualised standard deviation of returns, probability of loss over twelve months, equity market sensitivity or 'Beta'.

3.5. Shorter Term Initial Conditions

Notwithstanding points 3.1-3.4 above, it shall be understood that during its first three years, the Fund shall have a heightened sensitivity to short term capital loss beyond that natural for a long term return-seeking portfolio. This may be reflected in the use of derivatives to hedge the market exposure of the portfolio (see *Annex B*). These hedges shall be in place until the Fund's risk tolerance shall be judged to have increased towards its natural long-term level.

4. Investment Policies

4.1. Beliefs & Principles

The NSIA is essentially flexible rather than dogmatic regarding investment beliefs but does adhere to the following general principles:

4.1.1. Diversification is an important tool of risk management and can mitigate the volatility and uncertainty inherent in substantial exposure to risk assets. The Fund should seek to be diversified to the degree compatible with the investment return objectives.

4.1.2. Valuation is an important determinant of future return across all asset classes. Since there can be wide swings in the basis of valuation across most asset classes, prospective returns and the relative attractiveness of different asset classes will similarly vary with time and the economic environment. Careful analysis of valuation should be undertaken, such that investment strategy may seek to take advantage of this to reduce downside risk and enhance return.

4.1.3. The returns of a long term portfolio can be undermined if the fund becomes a forced seller of risk assets at an inopportune time in order to meet cash obligations. Policy should be designed to avoid this.

4.2. Asset Allocation

4.2.1. The asset allocation policy should reflect a proper balance between the Fund's financial and investment objectives, risk tolerance and need for liquidity. The Fund's investments shall be diversified by manager, by geography and by economic sector. The purpose of diversification is to provide reasonable assurance that no manager, class of securities, or individual holding will have a disproportionate impact on the Fund's aggregate results.

4.2.2. To achieve its long-term investment objectives, the Fund shall be invested primarily in asset groupings according to specific roles in the portfolio, namely 'Growth Assets', 'Deflation Hedges' and 'Inflation Hedges'. The most high-level expression of the Fund's risk tolerance and its position on the spectrum between return seeking and safety is seen in the split between Growth Assets and Hedging Assets. The goal is that investment returns for each individual asset class exceed the rate of return of the specified index. The current target asset mix, constituting the Policy Allocation and relevant indices, as well as allowable ranges are detailed in *Annex A*.

4.2.3. Growth Assets: The portfolio's growth assets comprise all equity assets (both public and private) as well as the fixed and floating obligations of corporations and individuals, including through securitised pools. Hedge funds of all types are also included. The purpose of the Growth Assets is to provide a stream of current income and appreciation of principal that provides real growth in excess of inflation. It is recognised that pursuit of this objective could entail the assumption of significant variability in price and returns. The allocation to asset classes within the Growth Assets component shall be defined in the Strategic Allocation documented in *Annex A*.

4.2.4. Deflation Hedge: The deflation hedge should consist of high quality, nominal fixed income issued by investment grade sovereigns (global government bonds) or cash. Its role is to provide a hedge against severe deflationary recession and diversification relative to the Growth Assets component. Most importantly it can be a place from which cash needs can be funded (e.g. Private Equity cash calls or rebalancing), avoiding the need to be a forced seller of risky assets at inopportune times. The allocation to asset classes within the Deflation Hedge shall be defined in the Strategy Allocation documented in *Annex A*.

4.2.5. Inflation Hedges: The purpose of the real asset allocation (e.g. investments in hard assets such as real estate, commodities, natural resource equities and inflation-linked bonds) is to provide potential protection against the risk of unanticipated severe inflation and, as for the Deflation Hedge to be a source of cash when the rest of the portfolio is depressed. The allocation to asset classes within the Inflation Hedge shall be defined in the Strategic Allocation documented in *Annex A*.

4.2.6. The Investment Committee shall review the Policy Allocation at most annually and may make changes from time to time, recorded in changes to *Annex A*. The bias would be not to change, and it is anticipated that changes will be infrequent. Long term strategic changes may result in modifications to this IPS.

4.3. Liquidity Restrictions

4.3.1. As a long term investment pool with no outflows anticipated for the foreseeable future, the fund is in a position to seek to earn a premium by accepting illiquidity.

4.3.2. It is nevertheless acknowledged that illiquid assets bring additional risks, specifically the need to meet cash calls from those illiquid allocations at a time when liquid risk assets are depressed. Accordingly the Fund will limit investments that are not available for redemption within one year (see 5.5) to no more than 50% of the Fund by market value.

5. Restrictions

5.1. Manager Guidelines for Conventional Assets

5.1.1. The guidelines for conventional assets (equities and bonds) in the Fund should be set manager by manager, based on the envisaged role for that manager in the manager structure (e.g. core or satellite, growth or value, etc). These guidelines are to be approved by the Investment Committee.

5.1.2. Decisions as to individual security selection, position size and quality, number of industries or holdings, current income levels, turnover, and the use of options, financial futures, or derivatives are left to broad manager discretion, subject to the manager's specific investment guidelines and the usual standards of fiduciary prudence.

5.1.3. Each manager is measured, and relative success determined, against the specific and appropriate benchmark suitable for the manager's style and risk exposure.

5.1.4. When the Fund is investing in commingled accounts, prior to making an investment, the Fund's staff shall inquire if a manager (with the exception of alternative assets managers) engages in any of the following practices:

— purchases securities on margin
— uses leverage
— uses uncovered options
— makes margin purchases
— purchases commodities
— uses letter stock, private placements or direct placements
— employs short sales unless specifically authorised by the Fund
— uses derivatives except to replicate investment positions at a lower cost than would otherwise be created in the cash markets
— undertakes securities lending

Appendices continued

By checking the terms and conditions applicable for each of the funds in accordance with the list above, the Fund will gain a clear understanding of where incremental risk may be being taken beyond that expected in the investment in question. Should segregated accounts be used, prudent limits should be specified in the Investment Management Agreement ("IMA") for the use of any such investment instruments.

5.2. Manager Guidelines for Alternative Assets

5.2.1. The Fund may employ investment managers, funds, or "funds of funds", to pursue investments in "alternative assets" for the purpose of diversifying the market exposure of the portfolio and/or to enhance potential returns. These might include, without limitation, managers or partnerships investing in marketable alternative strategies (e.g. arbitrage, long/short equity, and distressed securities), private equity, venture capital, natural resources, commodities, real estate or other asset classes with a low correlation to traditional equity and fixed income securities.

5.2.2. These investments may not fall within the guidelines for the more traditional asset classes, but should be consistent with the specific objectives and guidelines established for the relevant asset class/manager.

5.3. Manager Concentration

The purpose of diversification by manager is to provide reasonable assurance that no manager could have a disproportionate negative impact on the Fund's aggregate results. Therefore, exposure to a single fund will be limited to 10% of Fund assets, and exposure to a single investment management organisation will be limited to 20% of Fund assets without explicit Board approval.

5.4. Securities Lending

5.4.1. The Fund is permitted to engage in securities lending with the intention of generating income primarily from fees derived from lending the Fund's positions in equity or debt securities to permitted borrowers (i.e. those organisations permitted to borrow securities by their relevant financial authority).

5.4.2. Any such activities should be conducted in a manner which is consistent with the lowest possible investment risk. This shall be taken to mean that collateral is invested in the highest quality assets, such as Treasury Bills, and shall not take meaningful credit risk or 'gating risk' in the case of money market funds. The Fund's securities shall be held in the Fund's own name, not in the 'street name'.

5.4.3. When investing in third party pooled funds the Fund should if possible avoid those where securities lending takes place, or where this is impossible shall ensure that collateral is managed conservatively.

5.5. Liquidity

At any point in time, 50% or more of the Fund should be available to redeem within one year. If the amount is less than 50%, then the Fund will only be allowed to make subsequent investments with an initial lock-up period of 18 months or less. Once the amount available to redeem within one year returns to 50% or more, then the Fund may resume making investments with a lock-up of greater than 18 months.

5.6. Derivatives

It is not permitted to use derivatives at the overall portfolio level without specific reference to the Investment Committee. Only existing currency exposures may be hedged; naked currency hedging is not permissible. At the individual manager level, Investment Staff will analyse the terms of investment for commingled funds to ensure that prudent limits are in place on the use of derivatives. For segregated mandates, the Investment Staff will specify the terms under which derivatives can be used – this will vary on a fund by fund basis.

6. Benchmarking and Monitoring

6.1. The purpose of benchmarking is to enable monitoring of the success of investment strategies or managers in meeting both the return objectives and risk guidelines of the Fund.

6.2. By defining ranges around a benchmark it is possible to allow a degree of flexibility while controlling the overall deviation of the portfolio from agreed characteristics.

6.3. There shall be four levels of benchmarking, each with a different purpose, time horizon and intended audience. These are defined in the table below:

Benchmark	What?	Why?	Audience?	Horizon?
Long term return objective	The Fund's long term return target as defined in section 3.3.1, for example US CPI +4%	This is the ultimate gauge of the Fund's long term success in growing real purchasing power.	The Board	Periods of at least ten years, encompassing multiple economic and market cycles.
		It is also the yardstick for long term appropriateness of the Policy and Strategic benchmarks		
Policy benchmark	The Fund's chosen high-level split between growth assets and hedging assets	This defines the Fund's long term investment policy	The Investment Committee	Rolling periods of 5 years or longer
	Represented by a composite of simple passive indices of major asset classes	It consists of a simple portfolio that is closest to the desired risk/return parameters of the Fund		
Strategic benchmark	The Fund's detailed asset allocation implemented with regard to the medium term market environment	To represent the strategy actually implemented for the Fund and to be a basis for rebalancing	CIO/Investment Committee	Periods of up to five years
	Represented by a composite of indices representing each asset class making up the strategic (medium term) target	To be a yardstick for assessing the short/medium term performance of the Fund		
Manager benchmarks	Indices representing the opportunity set and strategy for individual managers	To judge the effectiveness of active management	CIO/executive officers	Dependent on strategy

6.4. The Policy Benchmark and Strategic Benchmark, along with associated ranges shall be documented in Annex A to this IPS.

6.5. The Policy Benchmark and associated ranges shall be decided by the Investment Committee and subsequently ratified by the Board.

6.6. The ranges around the Strategic Benchmark shall be decided by the Investment Committee. However the Strategic Benchmark itself and the actual implementation of the Portfolio within the ranges shall be within the authority of the executive officers.

6.7. Comparison between different benchmarks can have a range of purposes, for example:

6.7.1. Strategic vs Policy: Comparing the Strategic with the Policy benchmark will reveal the extent to which the strategy adopted by the CIO/executive officers has added value compared with the simple high level policy.

6.7.2. Actual returns vs Strategic: Comparing the Fund's actual returns with the Strategic benchmark will show whether the combination of tactical allocation within the ranges plus active management within the asset classes has added value.

6.7.3. Long-term Objective vs Policy: Comparing the returns of the Policy benchmark with the long term objective, over periods of at least ten years, will indicate whether the high level asset split chosen by the board was capable of earning the long term objective given the outcome for capital markets.

7. Review and Revision of this Investment Policy Statement

The Investment Committee shall propose to the Board periodic changes to the Investment Policy Statement and associated annexes if necessary. In any event, the Investment Policy Statement shall be re-confirmed annually by the board.

Recommended by

The Board of the Nigeria Sovereign Investment Authority

Appendices continued

ANNEX A

Background

- The **Policy Target** allocations described in this annex and the ranges around it reflect the long term risk and return objectives of the Future Generations Fund.
- They reflect a long term required return of US CPI +4% alongside a desire to minimise (probability <10%) the possibility of an annual loss in excess of 20%.
- The **Policy Target** describes desired exposure to the three key portfolio-role components: Growth, Inflation Hedging and Deflation Hedging.
- The **Policy Target** is accompanied by ranges around the three key components as well as around a series of individual allowable asset classes classified under the three key roles.
- The **Policy Target**, the ranges and the allowable asset classes are decided by the Investment Committee and ratified by the Board.
- This **Strategic Target** should represent the NSIA executive investment team's view of how best to meet the Fund's long term investment goals, as expressed in the **Policy Target**, while having regard for market circumstances, valuations and opportunities relevant over the medium term horizon (3-5 years).
- The Strategic Allocation shall be contained within the allowable assets and ranges specified for the **Policy Target**. Subject to these constraints it shall be within the discretion of the MD/CIO.
- A series of return and risk measures accompany both the **Policy Target** and the **Strategic Target**. These are not themselves targets but are taken as acknowledged when the targets are agreed. They shall be used to monitor the performance of the fund and assess whether it's positioning remains within acceptable bounds.

Allocation Guidelines					
	Policy Target	Strategic Target	Range		Benchmark
			High	Low	
Growth Assets	80%	80%	85%	70%	MSCI All Country World Index
Developed Equities		10%	55%	10%	MSCI World Index
Emerging & Frontier Equities		15%	45%	10%	MSCI Emerging Markets Index
Private Equity, VC and value-added Real Estate		25%	35%	0%	Cambridge Associates U.S. Private Equity Index
Long Short Equity			25%	0%	HFR Equity Hedge (Total) Index
Absolute Return		25%	40%	10%	HFR Event-Driven (Total) Index
Other Diversifiers		5%	10%	0%	TBD
High Yield Bonds			15%	0%	Bank of America Merrill Lynch Global High Yield Bond Index
Emerging Market Debt			15%	0%	J.P. Morgan Emerging Markets Bond Index Plus
Investment Grade Credit			15%	0%	Barclays Global Credit Index (Hedged)-$
Hedging Assets: Inflation	10%	15%	20%	5%	Weighted Composite[1]
Commodities		5%	5%	0%	S&P GSCI (Equal Weighted)
Hard Assets		10%	15%	0%	50% FTSE® EPRA/NAREIT Developed Real Estate Index / 50% CA Private Natural Resources Benchmark
Inflation Linked Bonds			15%	0%	Barclays World Government Inflation-Linked Bond Index (Hedged)-$
Hedging Assets: Deflation	10%	5%	20%	5%	Citigroup World Government Bond Index (Hedged)-$
Global Sovereign Bonds			20%	0%	Citigroup World Government Bond Index (Hedged)-$

	Policy		Strategy
	Central Expectation	Likely Range	Central Expectation
Expected long-term nominal return	7.9%	6.5 – 11.7%	9.0%
Expected volatility	12.5%	10.7 – 18.7%	13.3%
Probability of 20% loss over 1 year	10%	5% – 26%	11%
Probability of Failing to Achieve 7% Nominal AACR over 25-years	36%	15% – 45%	23%
Equity 'Beta'	0.7	0.5 – 1.0	0.69

[1] 50% Barclays World Government Inflation-Linked Bond Index (Hedged)-$, 25% S&P GSCI (Equal Weighted), 12.5% FTSE EPRA/NAREIT Developed Real Estate Index, 12.5% CA Private Natural Resources Benchmark

Appendices continued

STABILISATION FUND
Investment Policy Statement

1. Introduction

This Investment Policy Statement ("IPS") is issued by the Board of Directors (the "Board") of the Nigeria Sovereign Investment Authority ("NSIA"). It provides a framework for management of the Stabilisation Fund ("Fund"). The IPS sets out to identify the Fund's investment objectives and constraints. It establishes a structure of guidelines and policies within which the Fund's Executive Management can exercise their delegated authority and against which recommendations to the Investment Committee can be judged. The IPS is designed to be a strategic document and remains in effect unless revisions are agreed by the Investment Committee and subsequently ratified by the Board. Specific investment policies pertaining to asset allocation are documented in *Annex A* to the IPS.

2. Purpose and Background Of The Fund

The Stabilisation Fund is intended to help increase the credibility of the Federal Republic of Nigeria's macro-economic framework and to act as a buffer against short term macro-economic instability. As such, the Fund's assets should be invested conservatively, striking a balance between generating a modest positive return and preserving capital in nominal terms. Additionally, given the unpredictable and short-term nature of the Fund's potential liabilities, immediate liquidity is required.

3. Investment Objectives

3.1. Time Horizon

For the reasons explained in Paragraph 2, the time horizon of the Fund is short. Consequently, the Fund is restricted to investing in investment grade sovereign and corporate fixed income assets with a maturity of up to three years.

3.2. Base Currency

The base currency in which the Fund shall be denominated is the US dollar.

3.3. Risk Tolerance

Given the time horizon and return target already described, the principal risk to the Fund's objectives is losing money in nominal terms at a given point in time and consequently being forced to sell assets at depressed prices.

3.4. Return Target

3.4.1. The Fund's primary objective is to generate income while preserving capital in nominal terms. However, the Fund should also seek to earn an incremental nominal return, provided that earning such return does not materially jeopardise the Fund's ability to achieve its primary objective of preserving capital.

3.4.2. To facilitate performance monitoring, the Fund's performance shall be judged against a Strategic Benchmark. This Strategic Benchmark shall be a composite of fixed income components chosen to implement the portfolio.

3.5. Asset Allocation

3.5.1. To achieve its investment objectives, the Fund shall be invested in a combination of *Hedge Assets*, defined as short term US government debt (T-Bills and 1-3 year US Treasuries) and *Growth Assets*, defined as short term, high quality investment grade corporate bonds.

3.5.2. The portfolio shall be diversified in order to reduce concentration risk among government money market funds, ETFs and managed accounts. The purpose of diversification is to provide reasonable assurance that no one fund can have a disproportionate exposure to the Fund's assets that may adversely impact the aggregate results of the Fund or impede its liquidity.

3.5.3. The Investment Committee shall review the investment policy periodically and may make changes from time to time, recorded in changes to *Annex A*. These changes must subsequently be ratified by the Board. It is anticipated that changes will be infrequent. Long term strategic changes may result in modifications to this IPS.

4. Restrictions

4.1. Acceptable Investments

The following are considered acceptable investments for the Fund:

- US Treasury Bills
- US Treasury bonds with a maturity of less than three years
- Investment grade debt from corporate issuers with a maturity of less than three years. If a 'buy and hold' strategy is implemented, the maturity of such securities can be extended to five years.

Investments may be made through money market funds, ETFs, and managed accounts, provided that such vehicles are invested in the above. Additionally, NSIA may invest directly in the above securities.

4.2. Manager Concentration

In order to minimise concentration risk, the Fund shall not invest more than 50% of the portfolio in any one fund or manager. Also, investment by the Fund in any particular fund shall not constitute more than 2.5% of a particular fund's assets.

4.3. Corporate Issuer Restrictions

The Investment Committee acknowledges that liquidity in the investment grade corporate bond market can be significantly reduced in periods of market stress. To safeguard against this, the Fund shall (at time of purchase):

— Invest in no security with a rating below 'BBB'
— Invest in no more than 5% of a single issue
— Invest a maximum of 3% in a single issue rated AA- or above (excluding US Treasuries)
— Invest a maximum of 2% in a single issue rated A-, A and A+ rated securities
— Invest a maximum of 1% in a single issue rate BBB+ and below

5. Benchmarking and Monitoring

5.1. The purpose of benchmarking is to enable monitoring of the success of investment strategies or managers in meeting both the return objectives and risk guidelines of the Fund.

5.2. The Strategic Benchmark shall be documented in Annex A to this IPS.

6. Review and Revision of this Investment Policy Statement

The Investment Committee shall propose to the Board periodic changes to the Investment Policy Statement and associated annexes if necessary. In any event, the Investment Policy Statement shall be re-confirmed annually by the Board.

Recommended by

The Board of the Nigeria Sovereign Investment Authority

Appendices continued

ANNEX A

Allocation Guidelines

	Policy Target	Range		Benchmark
		High	Low	
Growth Assets	75%	85%	0%	Barclays 1-3 Year Corporate Bond
IG Corporate Bonds 1-3 years		85%	0%	Barclays 1-3 Year Corporate Bond
Hedge Assets	25%	100%	15%	Barclays 1-3 Year Treasury Bond
US T-Bills		25%	0%	91-Day Treasury Bill Index
US Treasuries 1-3 years		100%	15%	Barclays 1-3 Year Treasury Bond

Glossary of Terms

Alpha: The excess return of an investment over its benchmark. Frequently this term is used as a measure of a manager's skill.

Alternative assets: Includes investment types such as Private Equity, Hedge Funds and Real Estate.

Arbitrage: A trading strategy which requires no capital commitment or risk bearing on the part of the trader. The strategy is designed to generate profit from a price inconsistency in more than one market of a commodity, currency, or security.

Arithmetic average: An arithmetic average is the sum of a series of numbers divided by the count of that series of numbers.

Asset allocation policy: The target weights assigned to a broad range of asset classes, this largely defines the expected risk/return characteristics of an investment portfolio.

Beta: A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta can be thought of as the tendency of a portfolio's returns to respond to swings in the market. A beta of 1 indicates that the security's price will move with the market. A beta of less than 1 means that the security will be less volatile than the market. The 'market' is normally the equity market, broadly defined (as represented by the MSCI All Country World index (ACWI)), but can also be defined as other measures, e.g. inflation, interest rates. In these cases beta is purely a measure of sensitivity to these measures, as determined through a regression analysis on the returns.

Capitalisation: The capitalisation of a company is equal to the total number of shares outstanding times the current share price. A portfolio should include exposure to small, mid and large capitalisation stocks to ensure adequate diversification. Different size companies tend to perform differently at different points in the market cycle.

Cash equivalent investments: Highly liquid debt instruments with maturities of less than one year (e.g. Treasury bills, commercial paper, certificates of deposit, and nonconvertible bonds).

Composite benchmark: This is calculated by weighting a group of indices and calculating the composite return over time. The benchmark is typically weighted using asset class policy targets or actual portfolio weights. Composite benchmark can be used to evaluate actual historic portfolio performance.

Commingled fund: A pool of money made up of contributions from a number of different investors.

Core manager: A manager whose tracking error does not deviate significantly from that of the benchmark. The level of deviation will vary by asset class.

Derivatives: Derivatives are financial instruments whose value changes in response to an underlying variable. Often these instruments require little or no net initial investment and are settled at a future date.

Disclosure forms: Forms in which conflicts of interest should be disclosed.

Distressed securities: Securities of companies that are currently in default, bankruptcy, financial distress, or a turnaround situation.

Dollar cost averaging: The process of buying or selling securities according to a regular schedule, over a period of time. The aim is to mitigate market risk by avoiding buying or selling at one specific point in the market cycle (e.g. buying at the peak of the market).

Frontier markets: Equity markets of smaller and less accessible countries in the emerging world. The precise definition of 'frontier markets' depends on which benchmark is used.

Funds of funds: A "fund of funds" (FoF) is an investment strategy which invests in a portfolio of investment funds rather than investing directly in shares, bonds or other securities.

Hedging: A hedge is a position established in an attempt to offset exposure to price fluctuations in an opposing position with the goal of minimising one's exposure to unwanted risk.

Inflation sensitive: An unexpected spike in inflation negatively impacts equity and bond investments. Inflation sensitive assets are included in a diversified portfolio to protect portfolio performance during this economic scenario. Real assets (such as commodities and property) and inflation linked bonds may be included in a diversified basket of inflation sensitive assets.

Investment Management Agreement: A bespoke mandate agreed between an investor and a fund manager setting out the terms of reference for an investment in a segregated mandate.

Investment Policy Statement (IPS): A document detailing the policy which controls how an institution invests.

Investment style: The investment philosophy and approach of a manager.

Letter stock: A Letter Stock or Letter Security is not tradable in public markets because it has not been registered with the SEC (Securities Exchange Commission). The name comes from the SEC requirement for an investment letter from the purchaser, stating that the purchase is for investment purposes and not intended for resale.

Long/Short Hedge Funds: A fund which maintains both long and short positions in investments in an attempt to create value.

Glossary of Terms continued

Manager structure: This defines the target number and type of managers by asset class. A successful manager structure diversifies across manager styles and approaches.

Mandate: The terms of an investment, setting out its objectives and restrictions/constraints.

Normal distribution: This is the most used statistical distribution. It assumes returns are evenly distributed in a bell curve. The distribution is characterised by two parameters, the mean and the standard deviation.

Opportunistic strategies: An approach that seeks to produce the greatest possible returns by making investments in the most attractive strategies at any given time.

Private equity: Equity investments which are not quoted on public markets.

Proxy voting: Proxy voting and delegated voting are procedures for the delegation to another member of a voting body of that member's power to vote on shareholder resolutions in his absence.

Real return: The return adjusted for changes in the purchasing power of money.

Real terms: Figures in real terms have been adjusted for changes in the purchasing power of money (inflation).

Recession hedges: High quality, non-callable sovereign bonds are held in the portfolio to protect value when there is a prolonged economic contraction. Equities tend to fare very badly during this type of environment. The amount of protection a bond allocation provides is a function of quality and duration.

Return drivers: Includes equity-related asset classes; global listed equities, equity hedge funds (directional) and private market investments. Equities have historically outperformed other asset classes and can be thought of as the "growth engine" of a diversified portfolio.

Satellite manager: A manager whose tracking error is likely to deviate meaningfully from that of the benchmark. The level of deviation will vary by asset class.

Sharpe ratio: The Sharpe ratio is a measure of the 'efficiency' of an investment or a portfolio, i.e. the amount of returns being generated per unit of risk. It is calculated by subtracting the risk-free rate – such as that of the 10-year U.S. Treasury bond – from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns.

Standard deviation: This is a measure of volatility. It quantifies the variability of a returns stream by measuring the extent to which returns vary from their historical average. The larger the standard deviation, the wider the range of likely returns and the greater the level of risk. Standard deviation is commonly used to describe the probability of a return occurring within a certain range. For normally distributed data, there is a 68% probability that returns will fall within +/- 1 standard deviation of the mean and a 95% probability that returns will fall within +/- 2 standard deviations.

Strategic investing: Investments that serve a core defined role in the portfolio and for which there should be a permanent allocation. The strategic targets are defined in the SIP.

Tactical investing: Opportunistic investing based on shorter term market factors, for example adding an allocation to high yield bonds when credit spreads are uncommonly wide.

Tracking error: A divergence between the price behaviour of a position or a portfolio and the price behaviour of a benchmark. Tracking error is reported as a "standard deviation percentage" difference. This measure reports the difference between the return an investor receives and that of the benchmark the investor was attempting to imitate.

Traditional asset classes: These are typically thought of as Equities, Fixed Income and Cash. Commodities are increasingly included in this category.

Venture Capital: Investments in non-marketable securities of new companies or companies considered to be in the early stages of growth; these investments are high risk and have the potential for high return.

Volatility reducers: These investments have a low level of variability in returns, for example non-directional hedge fund strategies and cash. An allocation to "volatility reducers" tempers the level of volatility in the portfolio, which is largely driven by equity related assets.

List of Abbreviations

BOD	Board of Directors
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CIO	Chief Investment Officer
CRO	Chief Risk Officer
DDA	Demand Deposit Account
DfID	Department for International Development
EAD	Exposure at Default
ECA	Excess Crude Account
EM	Emerging Markets
EP	Emergence Period
EPRA	European Public Real Estate Association
FAFIN	Fund for Agricultural Finance in Nigeria
FGF	Future Generations Fund
FGN	Federal Government of Nigeria
FMARD	Federal Ministry of Agriculture and Rural Development
GSCI	Goldman Sachs Commodity Index
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFSWF	International Forum of Sovereign Wealth Funds
IG	Investment Grade
IMF	International Monetary Fund
IPS	Investment Policy Statements
KfW	Kreditanstalt fur Wiederaufbau
LGD	Loss Given Default
LIP	Loan Identification Period
MDA	Ministries, Departments & Agencies
MMDA	Money Market Deposit Account
MOU	Memorandum of Understanding
MSCI	Morgan Stanley Capital International
NAREIT	National Association of Real Estate Investment Trusts
NBET	Nigerian Bulk Electricity Trading Plc
NBS	The National Bureau of Statistics
NERC	Nigerian Energy Regulatory Commission
NHIC	NSIA Healthcare Investment Company
NIAF	Nigeria Infrastructure Advisory Facility
NIF	Nigeria Infrastructure Fund
NIPP	National Integrated Power Projects
NMIC	NSIA Motorways Investment Company
NMRC	Nigeria Mortgage Refinance Company
NPIC	NSIA Power Investment Company
NPIC	NSIA Property Investment Company
NSIA	Nigeria Sovereign Investment Authority
OCI	Other Comprehensive Income
PD	Probability of Default
REITs	Real-Estate Investment Trusts
S&P	Standard & Poors
SEC	Securities and Exchange Commission
SF	Stabilisation Fund
SWF	Sovereign Wealth Fund
USD	United States Dollar
WAMA	West African Monetary Association

Corporate Information

Registered office	The Clan Place 4th Floor Plot 1386A Tigris Crescent Maitama Abuja
Auditors	**PricewaterhouseCoopers** 252E Muri Okunola Street Victoria Island Lagos
Bankers	**Access Bank Plc** **United Bank of Africa Plc**
Fund custodians	**JP Morgan** (Global Custodian) **Stanbic IBTC Bank Limited** (Local Custodian)

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