



# Risk Management

## ENTERPRISE-WIDE RISK MANAGEMENT

### **WE REMAIN COMMITTED TO SUSTAINABLE ENTERPRISE-WIDE RISK MANAGEMENT PRACTICES**

With our promise of being more than just a bank, our Enterprise Risk Management's (ERM) Policy is hinged on the establishment of a group-wide risk oversight, monitoring and reporting that fosters risk integration. This ensures that the Bank strives for sustainable financial success while strengthening its relationship with a diverse group of stakeholders.

Helping our stakeholders achieve their ambitions lies at the heart of our processes. We apply a bespoke risk management framework in identifying, assessing, monitoring, controlling and reporting the inherent and residual risks associated with the pursuit of these ambitions and ensuring they are achieved the right way.

The Bank's overall risk tolerance is established in the context of our earning power, capital and diversified business model. The organizational structure and business strategy, on the other hand, are aligned with our risk management philosophy.

The Bank uses periodic reviews of risk exposure limits and risk control and self-assessment to position itself against adverse scenarios. This is an invaluable tool with which the Bank predicted and successfully managed both the local and global recessions which continued to impact the macroeconomy. Market volatilities and economic uncertainties are typically contained because the Group regularly subjects its exposures to a range of stress tests across a wide variety of products, currencies, portfolios and customer segments.

Risk strategies and policies are set by the Board of Directors of Access Bank. These policies, which define acceptable levels of risk for day-to-day operations as well as the willingness of Access Bank to assume risk, weighed against the expected rewards, are detailed in the Enterprise-Wide Risk Management (ERM) Policy. The ERM is a structured approach to identifying opportunities, assessing the risk inherent in these opportunities and actively managing these risks in a cost-effective manner. Specific policies are also in place for managing risks in the different core risk areas of credit, compliance, market, operational, liquidity, strategic, reputational risks, Information and Cyber Security amongst others.

The role of the Group Chief Risk Officer in Access Bank remains pivotal as he has the primary responsibility for ensuring the effective implementation of the ERM Policy of both the Bank and its subsidiaries. The Bank's ERM Policy and amendments thereto require

Board approval. The Risk Management Division is responsible for the enforcement of the Bank's risk policy by constantly monitoring risk, to identify and quantify significant risk exposures and acting upon such exposures as necessary.

Access Bank approaches risk, capital and value management robustly and we believe that our initiatives and practices to-date have positioned the Group at the leading edge of risk management.

## **RISK MANAGEMENT PHILOSOPHY, CULTURE, APPETITE AND OBJECTIVES**

Our Risk Culture Statement:

***At Access Bank, we embrace a moderate risk appetite, whilst delivering strategic objectives. We anticipate the risks in our activities and reward behaviour that aligns with our core values, controls and regulations. Challenges are discussed in an open environment of partnership and shared responsibility.***

Access Bank's Risk Management philosophy and culture remain fundamental to the delivery of our strategic objectives and are at the core of the group's operating structure. We seek to limit adverse variations in earnings and capital by managing risk exposures within our moderate risk appetite. Our risk management approach includes minimizing undue concentrations of exposure, limiting potential losses from stress events and the prudent management of liquidity.

The Bank's acclaimed risk management process has continued to achieve desired results as evidenced by improved risk ratios and independent risk ratings. In line with the bank's core value of excellence, its Risk Management group is continuously evolving and improving, given the context that all market developments, those of extreme nature, need to be anticipated at all times. Hence, our moderate risk appetite is our guide. Executive Management has remained closely involved with important risk management initiatives, which have focused particularly on preserving appropriate levels of asset quality, liquidity and capital as well as managing the risk portfolios.

Risk management is fundamental to the Group's decision-making and management process. It is embedded in the role of all employees via the organisational culture, thus enhancing the quality of strategic, capital allocation and day-to-day business decisions.

Access Bank considers risk management philosophy and culture as the set of shared beliefs, values, attitudes and practices that characterise how it considers risk in everything

it does, from strategy development and implementation to its day-to-day activities. In this regard, the Bank's risk management philosophy is that a moderate and guarded risk attitude ensures sustainable growth in shareholder value and reputation.

The Bank believes that enterprise risk management provides superior capabilities to identify and assess the full spectrum of risks and enables staff at all levels to better understand and manage risks. This ensures that:

- Risk acceptance is done in a responsible manner;
- The Executives and the Board of the Bank have adequate risk management support;
- Uncertain outcomes are better anticipated;
- Accountability is strengthened; and
- Stewardship is enhanced.

The Bank identifies the following attributes as guiding principles for its risk culture.

a) Management and staff:

- Consider all forms of risk in decision-making;
- Create and evaluate business-unit and Bank-wide risk profiles to consider what is best for their individual business units/department and what is best for the bank as a whole;
- Adopt a portfolio view of risk in addition to understanding individual risk elements;
- Retain ownership and accountability for risk and risk management at the business unit or other points of influence level;
- Participate in Risk Appreciation Programme to promote risk awareness and serve as a corrective measure for behaviours not aligned with the Bank's moderate risk appetite.
- Accept that enterprise-wide risk management is mandatory and not optional;
- Strive to achieve best practices in enterprise-wide risk management;
- Document and report all significant risks and enterprise-wide risk management deficiencies;
- Adopt a holistic and integrated approach to risk management and bring all risks together under one or a limited number of oversight functions;
- Empower risk officers to perform their duties professionally and independently without undue interference;
- Ensure a clearly defined risk management governance structure;
- Ensure clear segregation of duties between market facing business units and risk management/control functions;
- Strive to maintain a conservative balance between risk and profit considerations; and
- Continue to demonstrate appropriate standards of behaviour in the development of strategy and pursuit of objectives.

- b) Risk officers' partner with other stakeholders within and outside the Bank and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties.
- c) The Bank partners with its customers to improve their attitude to risk management and encourage them to build corporate governance culture into their business management
- d) Risk management is governed by well-defined policies, which are clearly communicated across the Bank.
- e) Equal attention is paid to both quantifiable and non-quantifiable risks.
- f) The Bank avoids products and businesses it does not understand.

## **GROUP RISK OVERSIGHT APPROACH**

Managing risk is a fundamental part of banking. Access Bank manages risk as part of a long-term strategy of resilience. The risk management function is embedded in all levels of Access Bank's organisation and is part of the daily business activities and strategic planning to have a sustainable competitive advantage.

To achieve its risk management objectives, the bank relies on a risk management framework that comprises risk policies and procedures formulated for the assessment, measurement, monitoring and reporting of risks including limits set to manage the exposure to quantifiable risks. The Bank recognises that effective risk management is based on a sound risk culture, which is characterised, amongst others, by a high level of awareness concerning risk and risk management in the organisation.

Our risk governance framework, of which risk appetite framework is a significant element, ensures the appropriate oversight of and accountability for the effective management of risk. Our oversight starts with the strategy setting and business planning process. These plans help us articulate our appetite for risk, which is then set as risk appetite limits for each business unit to work within.

We actively promote a strong risk culture where employees are encouraged to take accountability for identifying and escalating risks.

Expectations on risk culture are regularly communicated by senior management, reinforced through policies and training, and considered in the performance assessment and compensation processes.

The Executive Director for Risk Management coordinates the process of monitoring and

reporting risks across the Bank.

Internal Audit has the responsibility of auditing the risk management and control function to ensure that all units charged with risk management perform their roles effectively on a continuous basis. Audit also tests the adequacy of internal control and makes appropriate recommendations where necessary.

## **STRATEGY AND BUSINESS PLANNING**

Our risk management function is aligned with our strategy of building the gateway to a sustainable Africa. Consistent with the objective of delivering long-term sustainable value for our stakeholders, we continue to pursue a prudent risk policy, bringing balance and focus to our activities.

Underpinning that ambition is the delivery of excellent customer service through all of our business segments. Our business model and strategy are built on capturing the opportunities inherent in our business by developing deep relationships with clients in the markets and communities we serve. Each business function proactively identifies and assesses its operational risks and the controls put in place to manage those risks.

The Bank has multiple initiatives underway to improve infrastructure for risk management, data quality, stress testing and reporting.

Our integrated Governance, Risk and Compliance (GRC) system was launched during the year as a tool for the Credit Risk, Compliance, Operational Risk and Audit functions to sharpen risk management oversight of the Bank's businesses across the markets in which we operate. The integration of key activities and synchronization of information enhances our decision-making process across these functions. This in turn improves our business agility and competitive advantage which allows us to offer differentiated products to our customers across all touchpoints.

We continue to focus on early identification of emerging risks so that we can manage any areas of weakness on a proactive basis.

## **RISK APPETITE**

Taking all relevant risks and stakeholders into consideration, Access Bank's risk appetite, which is approved by the Board of Directors, expresses the aggregate level of risk that we are willing to assume in the context of achieving our strategic objectives.

Risk appetite is derived using both quantitative and qualitative criteria. Risk appetite in

relation to the major risks to which the Bank is exposed is regulated by limits and thresholds. These metrics aid in reaching our financial targets and guiding the Bank's profitability profile. In accordance with the bank's risk appetite, we are strongly committed to maintaining a moderate risk profile. The risk profile is managed based on an integrated risk management framework. In this framework, all types of risks are identified to provide one integrated view on the risk profile for the Bank as a whole.

## **RISK MANAGEMENT OBJECTIVES**

The broad risk management objectives of the Bank are:

- To identify and manage existing and new risks in a planned and coordinated manner with minimal disruption and cost;
- To protect against unforeseen losses and ensure stability of earnings;
- To maximize earnings potential and opportunities;
- To maximize share price and stakeholder protection;
- To enhance credit ratings, depositor, analyst, investor and regulator perception; and
- To develop a risk culture that encourages all staff to identify risks and associated opportunities as well as to respond to them with cost effective actions.

## **SCOPE OF RISKS**

Within its risk management framework, Access Bank identifies the following key risk categories:

- Credit risk
- Risk analytics
- Operational risk
- Market and liquidity risk
- Legal and compliance risk
- Strategic risk
- Information and Cyber Security risk
- Environmental and Social risk
- Reputational risk
- Strategic risk

These risks and the framework for their management are detailed in the enterprise-wide risk management framework.

## **THE BOARD AND MANAGEMENT COMMITTEES**

The Board has ultimate responsibility for the Bank's risk organisation and for ensuring satisfactory internal control. It carries out its oversight function through its standing

committees. Each has a charter that clearly defines its purpose, composition, structure, frequency of meetings, duties, tenure, and reporting lines to the Board.

In line with best practice, the Chairman of the Board does not sit on any of the Committees. The Board has seven standing committees: The Board Risk Management Committee, the Board Audit Committee, the Board Governance, Nomination and Remuneration Committee, the Board Human Resources and Sustainability Committee, the Board Credit and Finance Committee, Board Digital and Information Technology Committee and Board Technical Committee on Retail Expansion.

The management committees which exist in the Bank include: The Executive Committee (EXCO), Enterprise Risk Management Committee (ERMC), Management Credit Committee (MCC), Group Asset & Liability Committee (Group ALCO), Digital Steering Committee (DSC), Information Security Council (ISC) and Operational Risk Management Committee (ORMC).

Without prejudice to the roles of these committees, the full Board retains ultimate responsibility for risk management.

## **COMPLIANCE RISK MANAGEMENT**

The Bank's compliance function organizes and sets priorities for the management of its compliance risk in a way that is consistent with risk management strategy and structures.

The compliance function recently had its Compliance Maturity Assessment done by Messrs. PWC by benchmarking against ISO 19600 principles. The integrated compliance function working closely with Internal Audit, Risk Management and Operational Risk to achieve risk convergence provided backbone for integrated assurance and higher visibility of risk management and control consciousness across the Group.

The compliance function has continued to redefine and fine-tune its approach and continued to improve on its advisory role with intense focus on regulatory intelligence gathering, Compliance monitoring, Compliance testing and closer cooperation with business units within the Bank. The Group on the other hand acts as a contact point for compliance inquiries from staff members and recently introduced the Business Unit Compliance Officers to strengthen and deepen the cooperation with first line of defense and the implantation of Quality Assurance in all applicable Groups within the bank

We enhanced the monitoring to online real time to catch up with the current digital banking environment. We receive alerts of transactions on a risk-based approach by focusing on the high-risk areas thereby spotting non-conformities on time and have also improved our

Compliance management standard.

## **MEASUREMENT, MONITORING AND MANAGEMENT OF COMPLIANCE RISK**

In Access Bank, compliance risk is continually:

- Measured by reference to identified metrics, incident assessments (whether affecting Access Bank or the wider industry), regulatory feedback, Compliance Testing and the judgment of our external assessors as it relates to AML/CFT and other compliance vulnerabilities;
- Monitored against our compliance risk assessments and metrics, the results of the continuous monitoring and reporting activities of the compliance function and the results of internal and external audits and regulatory inspections; and
- Managed by establishing and communicating appropriate policies and procedures, training employees on them, and monitoring activity to assure their observance.

The Bank continues to recognize its accountability to all its stakeholders under the legal and regulatory requirements applicable to its business. The Conduct and Compliance function, including all staff of Access Bank Plc and its subsidiaries are committed to high standards of integrity and fair dealing in the conduct of business. The Bank's compliance risk management philosophy is deepened by the effective convergence of risk management through the 'Three Lines of Defence' model.

Effective Compliance Risk Management in Access Bank and its subsidiaries will continuously be coordinated in the following manner:

- Where a business unit is subject to regulatory requirements, it will comply with those requirements. The business unit will further establish and maintain systems of internal control to monitor and report the extent of compliance with those requirements with the support of the Conduct & Compliance function.

In the absence of regulatory requirements for all or part of a business unit, certain minimum standards of conduct is established and maintained by that business unit to the extent required as determined by the management of that business unit and in line with global best compliance practice.

## **OPERATIONAL RISK MANAGEMENT**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. Our definition of operational risk excludes regulatory risks, strategic risks and potential losses related solely to judgments about taking credit, market, interest rate, liquidity, or insurance risks.

It also includes the reputation and franchise risk associated with business practices or market conduct in which the Bank is involved. Operational risk is inherent in Access Bank's global business activities and, as with other risk types, is managed through an overall framework designed to balance strong corporate oversight with well-defined independent risk management.

This framework includes:

- Recognised ownership of the risk by the businesses;
- Oversight by independent risk management; and
- Independent review by Corporate Audit.

We seek to minimise exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring. Our operational risk strategy seeks to minimise the impact that operational risk can have on shareholders' value. The Bank's strategy is to:

- Reduce the likelihood of occurrence of expected events and related cost by managing the risk factors and implementing loss prevention or reduction techniques to reduce variation to earnings;
- Minimise the impact of unexpected and catastrophic events and related costs through risk financing strategies that would support the Bank's long-term growth, cash flow management and balance sheet protection;
- Eliminate bureaucracy, improve productivity, optimise capital requirements and improve overall performance through the institution of well designed and implemented internal controls.

In order to create and promote a culture that emphasizes effective operational management and adherence to operating controls, there are three distinct levels of operational risk governance structure in Access Bank Plc.

Level 1 refers to the oversight function carried out by the Board of Directors, Board Risk

Management Committee and the Executive Management. Responsibilities at this level include ensuring effective management of operational risk and adherence to the approved operational risk policies.

Level 2 refers to the management function carried out by operational risk management group. It has direct responsibility for formulating and implementing the Bank's operational risk management framework including methodologies, policies and procedures approved by the Board.

Level 3 refers to the operational function carried out by all business units and support functions in the Bank. These units/functions are fully responsible and accountable for the management of operational risk in their units. They work in liaison with operational risk management to define and review controls to mitigate identified risks. Internal Audit provides independent assessment and evaluation of the Bank's operational risk management framework. This periodic confirmation of the existence and utilisation of controls in compliance with approved policies and procedures, provides assurance as to the effectiveness of the Bank's operational risk management framework. Some of the tools being used to assess, measure and monitor operational risks in the Bank include; a loss database of operational risk events; an effective risk and control self-assessment process that helps to analyse business activities and identify operational risks that could affect the achievement of business objectives; and key risk indicators which are used to monitor operational risks on an ongoing basis.

## **ALLOCATING CAPITAL TO BUSINESS UNITS**

An allocation methodology is applied for allocating capital to business units. For each business unit, the allocation takes into consideration not only the size of the business unit, but also measures the business unit's control environment, namely; open audit findings, RCSA results, and loss experience. This translates to a risk-sensitive allocation with the opportunity afforded to business units to identify actions to positively impact on their respective allocated operational risk capital.

## **INSURANCE MITIGATION**

Insurance policies are used to mitigate operational risks. These policies are current and remain applicable in the Group operating environment. Insurance coverage is purchased at Group or cluster level to discharge statutory and regulatory duties, or to meet counterparty commitments and stakeholder expectations. The primary insurance policies managed by the Group are:

- Comprehensive crime and electronic crime;

- Directors' and officers' liability; and
- Professional indemnity.

## **BUSINESS CONTINUITY**

The Bank's Business Continuity Management ('BCM') practices are governed by a robust BCM framework that clearly identifies critical assets and the vulnerabilities that those assets are subject to. At the strategic level, The Incident Management Team provides leadership and strategic direction during crisis, the team had primary responsibility for the command, control, assessment, communication and co-ordination of the stages of crisis response. They are authorized to act in the best interest of the Bank to prevent or minimize the impact of any disruptive event on the Bank.

Following the outbreak of COVID-19 pandemic, the Incident Management Team (IMT) activated the Bank's Business Continuity Plan (BCP) to protect the employees, customers, locations and service Infrastructure while providing critical services.

Some of the business continuity actions taken by the bank in response to the global covid-19 pandemic include: Staff and customer awareness, Adequate provision of hygiene care kits in all locations (Hand sanitizers, face masks, thermometers, gloves ,Daily Incident Management Team meetings, monitoring of critical services availability, travel restrictions, use of split teams arrangement and alternate locations, Occupancy ceiling for on premises occupancy, Staff working from home, practice of social distancing and use of online and virtual collaborations for meetings.

## **CYBERSECURITY RISK MANAGEMENT**

In response to the increased cyber security threat to businesses globally, we have a Cyber Security Framework and adopted an in-depth layered approach to cover Cyber security practices, information security processes and infrastructure which includes: Cyber Security Governance, Operations, and Infrastructure across the enterprise.

The year 2020 has been unusual in many ways due to the Corona Virus Pandemic. IT and Cybersecurity has not been spared and this has left many organizations scampering to safety. Access Bank, like other Global institutions, was forced to embrace new practices such as social distancing and remote working. As expected, cyber criminals worldwide have capitalized on the health crisis and it is no surprise that the main targets are financial institutions, their customers/clients.

Access Bank, coming off the merger with defunct Diamond Bank, while expanding its reach

to more countries on the Continent will no doubt be an easy target for cyber criminals. We are aware of our position as the number one retail Bank in Nigeria with an ever-growing digital platforms portfolio, hence we cannot afford to let our guards down.

We have a holistic view of all the major risks facing the Bank and we remain vigilant regarding both known and emerging global risks. We also ensure that we are strong enough to withstand any exogenous shocks by putting in place a 24/7 monitoring and external intelligence of the Bank's information and technology assets.

The continuous advancement and innovations in technology and the endless need to improve services have made digital banking a direction that the Bank must tap into with adequate mitigating approach to handle the inherent risks involved in the business. In response to the digitization needs, we have a Digital Banking Framework that enables the Bank at maintaining an overall risk appetite of "moderate risk" while adopting digitization processes in meeting the needs of our customers.

## **STRATEGIC RISK MANAGEMENT**

In Access Bank, we define Strategic Risk Management as the process for identifying, assessing and managing risks and uncertainties affected by internal and external events or scenarios that could inhibit the Bank's ability to achieve its strategy and strategic objectives with the ultimate goal of creating and protecting shareholder and stakeholder value. It is a primary component and necessary foundation of our Enterprise Risk Management.

Strategic risk management, therefore, is defined as current or prospective risk to earnings and capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. It can also be defined as the risk associated with future business plans and strategies, including plans for entering new business lines, expanding existing services through mergers and acquisitions, and enhancing infrastructure.

The following principles govern the Bank's strategic risk management:

The Board and Senior Management are responsible for Strategic Risk Management and oversee the effective functioning of the strategic risk management framework.

The functional units (i.e. the units which carry out business or operational functions) assist the Board and Senior management in formulating and implementing strategies, providing input to the strategic planning and management processes; and as well as implementing the strategic risk management framework.

The strategic risk management function supports the Board and senior management in

managing strategic risks and other related processes in the Bank.

The measures and controls it has put in place include the following:

- Strategic plans are approved and monitored by the Board.
- Regular environmental scan, business strategy session and workshops are set up to discuss business decisions and exposure to strategic risk triggers.
- Close monitoring to ensure that strategic plans are properly aligned with the business model,
- Regular performance review by Executive Management and business plans are approved by the Board.

The Bank also maintains a well-defined succession plan, proper monitoring and well-defined structures to align its activities to international best practices.

## REPUTATIONAL RISK MANAGEMENT

Reputational risk arises when the Bank's reputation is damaged by one or more reputational events from negative publicity about the organisation's business practices, conduct or financial condition. The Bank's Strategic and Reputational Risk Management is mandated to protect the Bank from potential threats to its reputation. The team continuously uses proactive means in minimizing the effects of reputational events, thereby averting the likelihood of major reputational crises with the view of ultimately ensuring the survival of the organisation. The Bank has put in place a framework to properly articulate, analyze and manage reputational risk factors.

Access Bank takes the management of reputational risks seriously because of its far-reaching implications, which are buttressed by the fact that the Bank operates under:

- A highly regulated financial services industry with high visibility and vulnerability to regulatory actions that may adversely impact its reputation. (e.g. corporate governance crises);
- Keen competition and largely homogeneous products and services have led customers not to perceive significant differences between financial service providers; and
- Given the financing nature of products and services they provide, banks are not only exposed to their own reputation, but also to the reputation of their clients.

With banks operating and competing in a global environment, risks emerging from a host of

different sources and locations is difficult to keep up with and to know how best to respond if they occur. The effects of the occurrence of a reputational risk event include but are not limited to the following:

- Loss of current or future customers;
- Loss of public confidence;
- Loss of employees leading to an increase in hiring costs, or staff downtime;
- Reduction in current or future business partners;
- Increased costs of capitalization via credit or equity markets;
- Regulatory sanctions;
- Increased costs due to government regulations, fines, or other penalties; and
- Loss of banking license.

The Group policy provides for the protection of the Group’s reputation and should at all times take priority over all other activities, including revenue generation. Reputational risk will arise from the failure to effectively mitigate one or more of country, credit, liquidity, market, regulatory and operational risk. It may also arise from the failure to comply with social, environmental and ethical standards. All employees are responsible for day-to-day identification and management of reputational risk.

**COMPILATION OF TRIGGER EVENTS**

To assist in the identification of key reputational risk events, triggers that would set off the risk drivers are compiled through workshops with participants from relevant business units. The following table illustrates some trigger events for relevant risk drivers.

Risk Drivers	Trigger Events
Corporate governance and leadership	<ul style="list-style-type: none"> <li>• Corporate frauds and scandals;</li> <li>• Association with dishonest and disreputable characters as directors, management</li> <li>• Association with politically exposed persons</li> <li>• Incidence of shareholders conflict and Board Instability.</li> </ul>
Regulatory Compliance	<ul style="list-style-type: none"> <li>• Non - Compliance with laws and regulation;</li> <li>• Non-submission of Regulatory returns</li> </ul>

Delivering customer promise	<ul style="list-style-type: none"> <li>• Security Failure</li> <li>• Shortfall in quality of service/fair treatment;</li> <li>• Bad behavior by employees</li> </ul>
Workplace talent and culture	<ul style="list-style-type: none"> <li>• Unfair employment practices</li> <li>• Not addressing employee grievances</li> <li>• Uncompetitive remuneration</li> </ul>
Corporate social responsibility	<ul style="list-style-type: none"> <li>• Lack of community development initiatives</li> </ul>
Corporate Culture	<ul style="list-style-type: none"> <li>• Lack of appropriate culture to support the achievement of business objective.</li> <li>• Ineffective risk management practices.</li> <li>• Unethical behaviors on the part of staff and management.</li> <li>• Lack of appropriate structure for employees to voice their concerns</li> </ul>
Risk Management and Control Environment	<ul style="list-style-type: none"> <li>• Inadequate Risk Management and Control environment</li> <li>• Continuous violations of existing policies and procedures</li> </ul>
Financial Soundness and Business viability	<ul style="list-style-type: none"> <li>• Consistent poor financial performance</li> <li>• Substantial losses from unsuccessful Investment</li> </ul>
Crisis Management	<ul style="list-style-type: none"> <li>• Inadequate response to a crisis or even a minor incident</li> </ul>

**APPROACH TO MANAGING REPUTATION RISK EVENTS**

The Bank’s approach to managing reputation events, including any relevant strategy and policies, is approved by the Board or its delegated committee and subject to periodic review and update by senior management to ensure that it remains appropriate over time. In addition, the approach is well documented and communicated to all relevant personnel.

**POST REPUTATION EVENT REVIEWS**

After a reputation event, the post-event review is conducted by Internal Audit and Risk Management Division to identify any lessons learnt, or problems and weaknesses revealed,

from the event. Such reviews are useful for providing feedback and recommendations for enhancing the Bank's reputation risk management process and should at least be conducted on any major event affecting Access Bank. The Board and senior management are informed of the results of any such review conducted in order to take appropriate actions to improve their capacity to manage reputational risk.

## **CAPITAL RISK MANAGEMENT**

Capital risk is the risk of an erosion of the Bank's capital as a result of poor capital management.

### **Capital management objectives:**

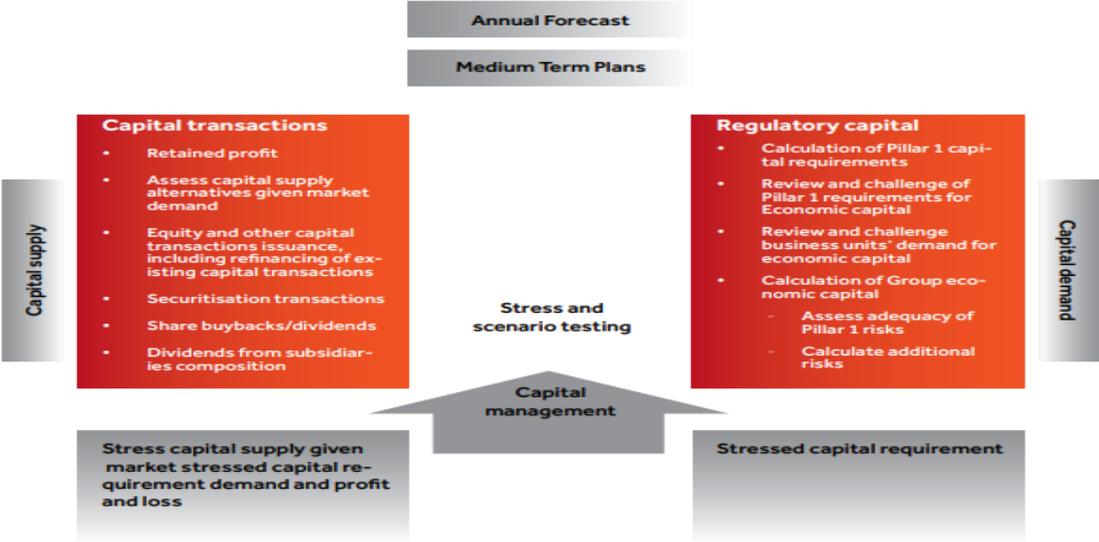
The Group's capital management objectives are:

- To meet the capital ratios required by its regulators and the Group's Board;
- To maintain an adequate level of capital resources to cover the economic capital (EC) requirements;
- To generate enough capital to support asset growth;
- To generate optimal return on capital after adjusting for risk.
- To maintain an investment grade credit rating; and achieve a return above the cost of equity.

### **CAPITAL MANAGEMENT STRATEGY:**

The Group's capital management strategy is focused on maximizing shareholder value by optimizing the level and mix of capital resources. Decisions on the allocation of capital resources are based on several factors including return on economic capital (EC) and on regulatory capital (RC), and are part of the internal capital adequacy assessment process (ICAAP).

# Capital Management Process



## IMPORTANCE OF CAPITAL MANAGEMENT

Capital management is critical to the Bank’s survival. Hence, capital is managed as a Board level priority in the Group. The Board is responsible for assessing and approving the Group’s capital management policy, capital target levels and capital strategy. A capital management framework provides effective capital planning, capital issuance, alignment to Basel accord, Economic Capital utilization and economic profit (EP) performance measurement criteria. In order to better integrate capital management with performance management, the Bank has developed a Risk Adjusted Return on Capital (RAROC) model. The diagram above illustrates the process the Group follows to ensure end-to-end integration of the Group’s strategy, risk management and financial processes into the capital management process. The purpose is to ensure that capital consumption in the business divisions is planned for and reflected in their performance measurement, which in turn translates into management performance assessment, product pricing requirements and achievement of the overall strategy within the Group’s risk appetite.

## ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

The Bank has long recognized the requirement to transition to a more structured and conscientious approach to environmental and social concerns, and the increasing role that shall play in the future direction of the institution. Fundamental changes to the way decisions are made across the bank coupled with Executive Management support to underpin this development has been crucial. Appreciating and recognizing the

requirements of both our regulatory and investment partners has been critical in our decision making.

## **ENVIRONMENTAL AND SOCIAL RISK STRATEGY**

We understand the need to achieve the goals of the Paris Agreement on Co2 emissions reductions coupled with our wider environmental ambitions and appreciate that environmental issues represent a risk for Access Bank. Recognizing such, we have refined our strategy further to accommodate climate change challenges. We have achieved this with a robust governance framework of policies and procedures and the incorporation of environmental concerns into our automated credit review process. The Bank also has a dedicated team of 10 professionals focused solely on delivering both environmental & social risk management for the bank.

The continuous evolution of our Environmental Social and Governance (ESG) systems has ensured that we incessantly push towards attaining a more sophisticated risk management structure.

The issuance of the first climate certified corporate green bond in Sub Saharan Africa last year, which has also been listed as a non-traded instrument on the Luxembourg Stock Exchange in the first quarter of 2020, is evident to the Bank's continuous push in the direction of sustainability.

Access Bank has also attracted increased international and domestic investment partnerships with Development Financial Institutions for ESG targeted lending. Our subsidiaries have also benefited from these partnerships, with the recent being in DR Congo. A USD 10mn senior unsecured loan will facilitate the finance of Access Bank's small and medium-sized enterprises (SME) portfolio in the DRC. The project has a strong emphasis on social and environmental safeguards, particularly on potential human rights impacts. (See <https://www.fmo.nl/project-detail/57263>)

With the increasing awareness around financed fossil fuel emissions and impact of climate change potential within our portfolio, we have made strides towards understanding these potential exposures, their implications and any mitigating measures which can be incorporated by the bank.

Recognizing these challenges has also led the Bank to become core participating members of internationally recognized climate groups. They include:

1. **UNEP FI's Taskforce on Climate related Financial Disclosures (TCFD)** which is globally adopted by Banks, Insurance companies, etc. is aimed at identifying and manage the impact of climate risks in the portfolio of Financial Institutions. Access Bank became a member of the working group in 2019.

2. **Partnership for Carbon Accounting Financials (PCAF)** is a global partnership aimed at harmonizing the approach in accessing and disclosing greenhouse gas (GHG) emissions associated with loans and investment. Access Bank became a member of the steering group in June 2020.

## CREDIT RISK MANAGEMENT

In Access Bank everyone is involved in Risk Management with ultimate responsibility residing with the Board. We operate the 3 line of defense model which enhances the understanding of risk management and control by clarifying roles and duties. The risk management process of the bank is well fortified to mitigate the short- and medium-term threats imposed by impact of covid 19 on the bank's business.

The management of the bank took proactive Risk Management approach to protect its loan book from the impact of Covid 19 on the operating environment by analyzing the extent of the pandemic on different sectors and sub sectors of the economy. This has enabled us to understand our customers challenges and hardships. We have taken steps to lessen the burden of loan repayment on our borrowers and preserve the risk assets quality of the bank. Management anticipated the decline in the value of the local currency and took steps to position the bank to withstand the shock of devaluation of the Naira. This shows the resilience of our risk management process.

The Risk Management Division has continued to take advantage of advancement and innovation in the technology space to automate the management of risk. PowerBI, a credit reporting tool has been deployed to support decision making process in the bank.

## PRINCIPAL CREDIT POLICIES

The following are the principal credit policies of the Bank:

**Credit Risk Management Policy:** The core objective is to enable maximisation of returns on a risk adjusted basis from banking book credit risk exposures that are brought under the ambit of Credit Risk Management Policy. This is done by putting in place robust credit risk management systems consisting of risk identification, risk measurement, setting of exposure and risk limits, risk monitoring and control as well as reporting of credit risk in the banking book.

**Credit Risk Rating Policy:** The objective of this policy is to ensure reliable and consistent Obligor Risk Ratings (ORRs) and Facility Risk Ratings (FRRs) and to provide guidelines for risk rating for retail and non-retail exposures in the banking book covering credit and investment books of the Bank.

## **RESPONSIBILITIES OF BUSINESS UNITS AND INDEPENDENT CREDIT RISK MANAGEMENT**

In Access Bank, Business Units and independent credit risk management have a joint responsibility for the overall accuracy of risk ratings assigned to obligors and facilities. Business Relationship Managers are responsible for deriving the Obligor Risk Rating ('ORR') and Facility Risk Rating ('FRR') using approved methodologies. However, independent credit risk management validate such ratings.

Notwithstanding who derives the risk rating, Credit Risk Management is responsible for reviewing and ensuring the correctness of the ORR and FRR assigned to borrowers and facilities. This review includes ensuring the ongoing consistency of the business' Risk Rating Process with the Bank's Risk Rating Policy; ongoing appropriate application of the risk rating process and tools; review of judgmental and qualitative inputs into the risk rating process; ensuring the timeliness and thoroughness of risk rating reviews; and ensuring that the documentation of the risk rating process is complete and current.

Credit Risk Management has the final authority if there is a question about a specific rating.

## **CREDIT PROCESS**

The Bank's credit process starts with portfolio planning and target market identification. Within identified target markets, credits are initiated by relationship managers. The proposed credits are subjected to review and approvals by applicable credit approval authorities. Further to appropriate approvals, loans are disbursed to beneficiaries.

Ongoing management of loans is undertaken by both relationship management teams and our Credit Risk Management Group. The process is applied at the Head Office and in the subsidiaries.

If a preliminary analysis of a loan request by the account manager indicates that it merits further scrutiny, it is then analysed in greater detail by the account manager, with further detailed review by Credit Risk Management. The concurrence of Credit Risk Management must be obtained for any credit extension. If the loan application passes the detailed analysis, it is submitted to the appropriate approval authority based on the size and risk rating of facilities.

The standard credit evaluation process is based both on quantitative figures from the Financial Statements and on an array of qualitative factors. Information on the borrower is collected as well as pertinent macroeconomic data, such as an outlook for the relevant sector. These subjective factors are assessed by the analyst and all individuals involved in

the credit approval process, relying not only on quantitative factors but also on extensive knowledge of the company in question and its management.

### **Risk Rating Scale and external rating equivalent**

Access Bank operates a 12-grade numeric risk rating scale. The risk rating scale runs from 1 to 8. Rating 1 represents the best obligors and facilities, while rating 8 represents the worst obligors and facilities. The risk rating scale incorporates sub-grades and full grades reflective of realistic credit migration patterns.

The risk rating scale and the external rating equivalent is detailed below:

Access Bank risk Rating	External Rating Equivalent	Grade
1	AAA	Investment Grade
2+	AA	
2	A	
2-	BBB	
3+	BB+	Standard Grade
3	BB	
3-	BB-	
4	B	Non-Investment Grade
5	B-	
6	CCC	
7	C	
8	D	

### **TRAINING / CERTIFICATION**

In line with the CBN's competency framework, members of the Group have consistently upgraded their competency level by passing necessary certification examinations like Certified Risk Manager (Risk Managers Association of Nigeria), ACIB (CIBN), ICAN, ACCA, CFA and other relevant professional certifications.

The Bank has also entered partnerships with renowned international firms like Dun and Bradstreet, KPMG and Moody's Analytics for training in Credit Risk Analysis and Financial Risk Management for the first and second lines of defence. These are outside regular trainings conducted within the Group to enhance staff capacity in handling transactions in the dynamic business environment and ever-evolving banking industry.

## CREDIT OFFICER RISK RATING

To reshape the understanding of risk, the bank developed a Credit Officer Risk Rating model which assigns rating to credit officers based on the quality and performance of risk asset portfolio managed by the individual officer. This puts the bank in a more disciplined position in the credit appraisal and approval processes.

## CREDIT RISK CONTROL AND MITIGATION

### AUTHORITY LIMITS ON CREDIT

The highest credit approval authority is the Board of Directors, supported by the Board Credit and Finance Committee and followed by the Management Credit Committee. Individuals are also assigned credit approval authorities in line with the Bank's criteria for such delegation set out in its Credit Risk and Portfolio Management Plan. The principle of central management of risk and decision authority is maintained by the Bank. The maximum amount of credit that may be approved at each subsidiary is limited, with amounts above such limit being approved at the Head Office.

The credit approval limits of the principal officers of the Group are shown in the table below, in addition to this, the bank also has approval limits based on product papers and designated lending officers usually involving smaller amounts when compared to those in the table below.

In addition, approval and exposure limits based on internal Obligor Risk Ratings have been approved by the Board for the relevant credit committees as shown in the second table below:

<b>APPROVING AUTHORITY</b>	<b>APPROVED LIMIT (New Requests) (NgN)</b>	<b>APPROVED LIMIT (Renewals of Existing Credits) (NgN)</b>
Executive Director	150 million	200 million
Group Deputy Managing Director	400 million	500 million
Group Managing Director/CEO	500 million	600 million

Access Bank Risk Rating	Exposure Limit (ORR-based LLL) (NGN)	Management Credit Committee Approval Limit (NGN)	Board Credit & Finance Committee Approval Limit (NGN)	Board of Directors Limit
1	41 billion	20 billion	40 billion	Legal lending limit
2+	33 billion	15 billion	30 billion	
2	25 billion	5 billion	15 billion	
2-	16 billion	2 billion	10 billion	
3+	3 billion	1 billion	10 billion	
3	1.7 billion	0.8 billion	10 billion	
3-	0.8 billion	0.5 billion	2 billion	
4		Above 0.1 billion		

## COLLATERAL POLICIES

It is the Group's policy that all credit exposures are adequately collateralised. Credit risk mitigation is an activity of reducing credit risk in an exposure or transferring it to counterparty, at facility level, by a safety net of tangible and realisable securities including approved third-party guarantees/ insurance.

At portfolio level, asset securitisation, credit derivatives etc., are used to mitigate risks in the portfolio.

However, the primary consideration for approving credits is hinged largely on the obligor's financial strength and debt-servicing capacity. The guidelines relating to risk mitigant as incorporated in the guidance note of Basel Committee on Banking Supervision ('BCBS') on "Principles for the Management of Credit Risk" are to be taken into consideration while using a credit risk mitigant to control credit risk.

The Bank utilizes transaction structure, collateral and guarantees to help mitigate risks (both identified and inherent) in individual credits but transactions should be entered into primarily on the strength of the borrower's repayment capacity. Collateral cannot be a substitute for a comprehensive assessment of the borrower or the counterparty, nor can it compensate for insufficient information. It is recognised that any credit enforcement actions (e.g. foreclosure proceedings) can eliminate the profit margin on the transaction. In addition, we are mindful that the value of collateral may well be impaired by the same factors that have led to the diminished recoverability of the credit.

The range of collaterals acceptable to the Bank include:

- Mortgage on landed property (Legal Mortgage/Mortgage Debenture)
- Debenture/Charge on assets (Fixed and/or Floating)
- Cash/Money Market Investment (Letter of lien and Set-Off over fixed deposits/money market investments)
- Treasury bills and other government securities.
- Chattel/vessel Mortgage.
- Legal ownership of financed Asset.

## **MARKET RISK MANAGEMENT**

The Bank's capital and earnings are exposed to risk due to adverse changes in market prices. As a result a robust market risk management framework is in place to reduce exposure to changes in interest rate, foreign exchange, equity prices and commodity prices. The objective is not to completely avoid these risks but to ensure exposure to these risks through our trading and banking book positions are kept within the Bank's defined risk appetite and tolerance.

### **MARKET RISK POLICY MANAGEMENT AND CONTROL**

Over the years, the Nigerian financial market has witnessed a dramatic expansion in the array of financial services and products. This tremendous growth in scale and scope has also generated new risks with global consequences, especially market risk, necessitating an assessment of exposures to the volatility of the underlying risk drivers. This has prompted the upgrading of the Market Risk Policy; Asset and Liability Management Policy; Liquidity Policy; Stress Testing Policy, and so on, to ensure the risks faced across business activities and on an aggregate basis are within the stipulated risk appetite of the Bank. These policies have been benchmarked with industry and international best practices and CBN regulations.

The Bank runs an integrated and straight through processing treasury system for enabling efficient, monitoring and management of interest rate and foreign exchange risks in the Bank.

Liquidity, Exchange Rate, and Interest Rate risks are managed through various approaches, viz. Liquidity Gap Analysis, Dynamic Cash Flow Analysis, Liquidity Ratios, Value at Risk (VaR), Earnings at Risk (EaR) and Sensitivity Analysis. The primary aim of these processes is risk forecasting and impact mitigation through management action and portfolio rebalancing.

The Bank regularly conducts stress testing to monitor its vulnerability to unfavorable shocks. It monitors and controls its risk, using various internal and regulatory risk limits for trading book and banking book which are set according to several criteria including economic scenario, business strategy, management experience, peer analysis and the Bank's risk appetite.

## **BANKING BOOK**

Market risk management actively manages the Banking book to optimise its income potential. This risk arises from the mismatch between the future yield on assets and their funding cost, due to interest rate changes. The Bank uses a variety of tools to track and manage this risk:

- Re-pricing gap analysis
- Liquidity gap analysis
- Earnings-at-Risk (EAR) using various interest rate forecasts
- Sensitivity Analysis

## **INTEREST RATE RISK**

Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rates, yield curves and credit spreads. The Bank is exposed to interest rate risk through the interest-bearing assets and liabilities in its trading and banking books.

### **i. RE-PRICING AND LIQUIDITY GAP ANALYSIS**

Access Bank's objective for management of interest rate risk in the banking book is to ensure a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle. This is achieved by hedging material exposures with the external market.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rate indices, such as the savings rate and 90-day NIBOR and different types of interest.

Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, as well as from certain structural exposures within the Groups balance sheet, mainly due to re-pricing timing differences

between assets, liabilities and equities. These risks impact both the earnings and the economic value of the Group. Overall, non-trading interest rate risk positions are managed by Treasury, which uses investment securities, advances to banks and deposits from banks to manage the overall position arising from the Group's non-trading activities.

## **ii. EARNINGS-AT-RISK APPROACH**

Earnings at risk is the potential change in net income due to adverse movements in interest rates over a defined period. It guides the Bank to understand the impact that a change in interest rates can make on our position and projected cash flow.

The Bank has limits drawn for this risk measure. They are designed to monitor and control the risk to our projected earnings using various rate scenarios and assumptions. The limit is expressed as a change in projected earnings over a specified time horizon and rate scenario. Scenarios adopted by the Bank include parallel and non-parallel shifts in yield.

## **iii. SENSITIVITY ANALYSIS**

The Banks employs the use of scenario and sensitivity analysis in evaluating its exposures per time. Scenario analysis is the process of predicting the possible balance sheet impact to changes that may occur to existing variables whilst sensitivity analysis is the study of how the outcome of a decision changes due to variations in input.

## **TRADING PORTFOLIO**

The measurement and control techniques used to measure, and control traded market risk (interest rate and foreign exchange risk) include daily valuation of positions, limit monitoring, gap analysis, sensitivity analysis, Value at Risk, stress testing, etc.



## LIMITS

The Bank uses risk limits to restrict the size of investments that their traders can take for proprietary and non-proprietary purposes. Limiting the size of investments is one of the primary ways the Bank control risk and capital consumptions. The following limits currently exist;

**Fixed income and FX Open Position Limits (NOPL):** The Bank, in keeping with the prudence concept, sets its policy limit for Open Position at a level lower than the maximum NOPL approved by the regulatory authority. In setting the internal NOPL, the following considerations are imperative:

- The Regulatory NOPL;
- The Bank's tolerance and appetite for FX risk;
- The size and depth of the FX market in Nigeria;
- The degree of volatility of traded currencies; and
- The Bank's desired positioning in the relevant FX market with requirements for international business support.

**Inter-bank placement and takings Limit:** In line with the Bank's drive to be a top liquidity provider in the financial market, stringent controls have been set to ensure

that any takings from interbank are preceded by proper authorization, to reduce the risks that come with huge interbank borrowing.

**Management Action Trigger (MAT):** This establishes decision points to confirm the Board of Directors' tolerance for accepting trading risk losses on a cumulative basis. MAT therefore, considers actual cumulative profit/loss as well as potential losses and the loss tolerance is defined as a percentage of Gross Earnings.

**Stop Loss Limit:** This limit sets a maximum tolerable unrealised profit/loss to date which will trigger the closing or reduction of a position to avoid any further loss based on existing exposures. Positions are liquidated uniformly when stop loss limits are breached.

**Dealer Limits:** This limit sets a maximum transaction limit by a dealer. It is based on experience and knowledge.

**Value-at-Risk Limit:** The VaR limit is based on 99% confidence level over a 1 day holding period on the trading book. In line with the Bank's risk appetite, treasury losses are not expected to exceed 1% of total portfolio.

#### **Duration Limit**

The Bank utilizes duration to measure the sensitivity of the price of assets in its portfolio to changes in interest rate. The Bank has duration limits for the varying asset class in its investment/trading portfolio.

### **MARK TO MARKET (MTM)**

The marking-to-market technique establishes the potential profit and loss by revaluing money market exposures to prevailing market prices. When no market prices are available for a specific contract period, mark-to-model is used to derive the relevant market prices. It is the Bank's policy to revalue all exposures categorised under the securities trading portfolio daily. As a general guide, marking to market is performed independently of the trading unit i.e. prices/rates are obtained from external sources.

### **STRESS TESTING**

A consistent stress testing methodology is applied to trading and non-trading books. The stress testing methodology assumes that the scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. Market

Risk complements the VaR measurement by regular stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. Stress testing provides an indication of the potential size of losses that could arise in extreme conditions. It helps to identify risk concentrations across business lines and assist senior management in capital planning decisions.

### **Liquidity Risk Management**

Liquidity risk arises when the Bank is unable to meet expected or unexpected current or future cash flows and collateral needs without affecting its daily operations or its financial condition. The Bank is managed to preserve a high degree of liquidity so that it can meet the requirements of its customers always, including periods of financial stress.

The Bank has developed a liquidity management framework based on a statistical model underpinned by conservative assumptions about cash inflows and the liquidity of liabilities. In addition, liquidity stress tests assuming extreme withdrawal scenarios are performed. These stress tests specify additional liquidity requirements to be met by holdings of liquid assets.

The Bank's liquidity has consistently been materially above the minimum liquidity ratio and the requirements of its stress tests. The Group ALCO, in conjunction with the Board and its committees, monitors our liquidity position and reviews the impact of strategic decisions on our liquidity. Liquidity positions are measured by calculating the Bank's net liquidity gap and by comparing selected ratios with targets as specified in the Liquidity Risk Management Manual.

### **CONTINGENCY FUNDING PLAN**

Access Bank has a contingency funding plan which incorporates early warning indicators to monitor market conditions. The Bank monitors its liquidity position and funding strategies on an ongoing basis, but recognises that unexpected events, economic or market conditions, earnings problems or situations beyond its control could cause either a short or long-term liquidity crisis. It reviews its contingency funding plan annually.

The contingency funding plan covers: the available sources of contingent funding to supplement cash flow shortages; the lead times to obtain such funding; the roles and responsibilities of those involved in the contingency plans; and the communication and

escalation requirements when early warning indicators signal deteriorating market conditions. Both short term and long-term funding crises are addressed in the contingency funding plan.

## ECONOMIC INTELLIGENCE

Economic Intelligence (EI) is in the business of positioning economic, business and financial information/intelligence as tools for helping the Bank achieve its long-term strategic objectives. Its value propositions include supporting the Bank in achieving its moderate risk posturing, price competitiveness, improvement to business intelligence and brand enhancement. It also makes high quality contributions to the Bank's strategy evolution process. It conducts policy-relevant research to support the Bank's goals and strategic objectives. It is the key research arm of the Bank and its activities influence the strategic plans of the various market-facing and non-market-facing business units and other stakeholders.

Some of the Unit's Roles and Responsibilities include:

- Monitoring and interpreting current economic developments/trends wherever the Bank have subsidiary office, preparing projections of the economic outlook and developing reports on economic issues for the Bank.
- Proactively providing industry analysis, identifying investment trends and opportunities for the Bank; monitoring, interpreting and conducting policy-relevant research in the areas of utmost importance to our stakeholders especially our body-corporate
- Leading quantitative and qualitative research projects
- Ensuring proactive and effective dissemination of relevant information such as short- and long-term forecasts to relevant functional units within the Group
- Championing contacts with communications media regarding press releases, public statements and news conferences on economic topics/issues
- Developing contact and collaborative economic/business and financial information research institutes/bodies within the country and outside.

The Retail Intelligence and Analytics, the team created following the business combination, continued to provide insights into developments in the economic, financial and business space as it affects retail, small and medium-sized enterprises. Dedicated reports serving the needs of the unique market space have also been crafted and regularly disseminated.

Key objectives of the team continue to include:

- Disseminating retail intelligence focused reports to customers in this business segmentation.
- Provide retail opportunities research in support of the bank's retail strategy. This entails sector-specific research that unravels retail business opportunities the bank should exploit.
- Develop in-depth report on changing consumer behavior and consumption patterns, and how this is shaping retail banking using big data, machine learning and artificial intelligence tools.