



ACCESS BANK PLC

PILLAR 3 DISCLOSURES

FOR THE PERIOD ENDED 30 JUNE 2023



more than banking

OUR RISK APPETITE 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.

Table of Contents

Access Bank Disclosure Glossary	8
1. Executive Summary.....	11
1.1. Company Overview	11
1.2. Purpose of Disclosure.....	11
1.3. Legal Structure and Entities.....	13
1.4. Scope of Application.....	15
2. Risk Management Governance and Strategy	17
2.1. Risks Governance	17
2.2. Risk Appetite	17
2.3. Access Bank Risk Strategy.....	18
2.4. Enterprise Risk Management.....	19
2.4.1. Risk Analytics and Reporting	20
2.4.2. Stress Testing Framework	22
2.4.3. Stress and Scenario Tests.....	23
3. Internal Capital Adequacy Assessment Process.....	25
3.1. ICAAP Governance Structure	25
3.2. Regulatory Capital Composition.....	26
3.3. Capital Management.....	27
3.3.1. Capital Management Objectives	27
3.3.2. Capital Management Process	28
3.4. Summary of Capital Adequacy	28
3.5. Internal Liquidity Adequacy Assessment Process (ILAAP).....	29
3.5.1. Purpose of ILAAP	29
3.5.2. ILAAP Structure	30
3.5.3. Qualitative Assessment	30
3.5.4. Quantitative Assessment	30
3.5.5. ILAAP Metrics	31
3.6. Liquidity Coverage Ratio.....	31
3.7. Net Stable Funding Ratio (NSFR).....	32
3.8. Contractual Maturity Mismatch	32
4. Recovery and Resolution Plan (RRP).....	33
4.1. Recovery Plan	33
4.2. Resolution Planning.....	34
5. Credit Risk.....	36
5.1. Introduction.....	36

5.2. General Disclosure	37
5.2.1. Credit Concentration by Geography	37
5.2.2. Credit Exposures by Counterparty	37
5.2.3. Credit Exposures by Sectors	38
5.2.4. Expected Credit Losses (Impairment)	38
5.3. Principal Credit Policies	40
5.4. Credit Risk Measurement Risk Rating	40
5.4.1. Risk Rating Process	41
5.5. Collateral Policies	44
6. Market Risk	46
6.1. Introduction	46
6.2. Access Bank HY 2023 Market Risk Capital Charge Computation	47
6.3. Non-Trading Portfolio	47
6.3.1. Trading portfolio	48
6.3.2. Limits	48
6.3.3. Mark-to-Market (MTM)	48
6.4. Derivatives	48
6.4.1. Rationale for Derivative Activities	48
6.4.2. Over the Counter Derivative Transactions	49
6.5. Market Risk Models	50
6.5.1. Mark-to-Market (MTM)	50
7. Operational Risk	51
7.1. Introduction	51
7.2. Measuring and Managing Operational Risk	51
7.3. Operational Risk Capital Charge	52
7.3.1. Access Bank HY 2023 Operational Risk Capital Charge Computation	52
8. Pillar 2 Risks	53
8.1. Interest Rate Risk (Banking Book)	53
8.1.1. Capitalization	53
8.1.2. Mitigation	54
8.2. Liquidity Risk	54
8.2.1. Quantification of Liquidity Risk	55
8.2.2. Limit Management and Monitoring	55
8.2.3. Contingency Funding Plan	55
8.3. Concentration Risk	55
8.4. Fraud Risk	56
8.4.1. Sources and Manifestation of Risk	56

8.4.2. Mitigation	56
8.4.3. Capitalization	56
8.5. Money Laundering Risk	57
8.5.1. Sources of Risk and Manifestation	57
8.5.2. Mitigation	57
8.5.3. Capitalization	57
8.6. Cyber/Digital Risk	58
8.6.1. Source of Risk	58
8.6.2. Mitigation	58
8.6.3. Capitalization	58
8.7. Strategic Risk	58
8.7.1. Sources and Manifestation.....	59
8.7.2. Mitigation	59
8.7.3. Capitalisation	59
8.8. Reputational Risk	59
8.8.1. Sources and Manifestation of Risk.....	59
8.8.2. Mitigation	60
8.8.3. Capitalisation.	60
8.9. Country / Group Risk	60
8.9.1. Sources and Manifestation of Risk.....	60
8.9.2. Mitigation	61
8.9.3. Capitalisation	61
8.10. Model Risk.....	61
8.10.1. Sources and Manifestation of Risk.....	61
8.10.2. Mitigation	61
8.10.3. Capitalisation	62
8.11. Regulatory Risk	62
8.11.1. Sources and Manifestation of Risk.....	62
8.11.2. Mitigation	62
8.11.3. Capitalisation	62
8.12. Downgrade Risk	63
8.12.1. Sources and Manifestation of Downgrade Risk.....	63
8.12.2. Mitigation	63
8.12.3. Capitalization	63
8.13. Legal Risk.....	63
8.13.1. Sources and Manifestation of Legal Risk	64
8.13.2. Mitigation	64
8.13.3. Capitalization	64

8.14. Environmental and Social Risk	64
8.14.1. Sources and Manifestation of E&S Risk.....	64
8.14.2. Mitigation	64
8.14.3. Capitalization	65
8.15. Contagion Risk	65
8.15.1. Sources and Manifestation of Contagion Risk.....	65
8.15.2. Mitigation	65
8.15.3. Capitalization	65
9. Equity Exposures: Disclosures for Banking Book positions.....	66
9.1. Financial Instruments in Level 1.....	66
9.2. Financial Instruments in Level 2.....	67
9.3. Financial Instruments in Level 3.....	67

List of Tables

Table 1: Access Bank's Subsidiaries as at June 2023	14
Table 2: Idiosyncratic and Market wide scenario Framework.....	23
Table 3: Access Bank's Capital Position as at June 2023.....	27
Table 4: Access Bank's Capital Adequacy Ratio as at June 2023	29
Table 5: Access Bank's Credit Concentration by Geography	37
Table 6: Access Bank's Credit Concentration by Counterparty	37
Table 7: Access Bank's Gross Credit Concentration by Sector.....	38
Table 8: Access Bank's Non-Performing Loan Position	40
Table 9: Access Bank's Loans by Risk Rating Class	43
Table 10: Access Bank's Market Risk Capital Charge as at June, 2023	47
Table 11: Access Bank's Derivatives Valuation as at June 2023	49
Table 12: Access Bank's Operational Risk Capital Charge as at June 2023.....	52
Table 13: Unrealised Gains (Losses) On Other Comprehensive Income.....	67
Table 14: Assets classified as Fair Value Through Profit and Loss.....	67

List of Figures

Figure 1: HY 2023 Group Fundamental Statistics.....	13
Figure 2: Access Bank's Global Positioning as at June 2023.....	15
Figure 3: Access Bank's Risk Management Governance Structure	17
Figure 4: Access Bank's Risk Management Process	19
Figure 5: Access Bank's Stress Testing Framework	22
Figure 6: Access Bank's ICAAP Building Blocks.....	25
Figure 7: Access Bank's Capital Management Process.....	28

Access Bank Disclosure Glossary

ACRONYMS	MEANING
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
AMCON	Asset Management Corporation of Nigeria
AML	Anti-Money Laundering
BASEL	Banking laws and regulations issued by the Basel Committee on Banking Supervision
BCBS	Basel Committee of Banking Supervision
CAC	Critical Asset Committee
CAR	Capital Adequacy Requirement
CBN	Central Bank of Nigeria
CFO	Chief Financial Officer
CPB	Capital Planning Buffer
CRM	Credit Risk Management
CRO	Chief Risk Officer
CRR	Cash Reserve Ratio
DNB	De Nederland Che Bank
EAR	Earnings at Risk
EBA	European Banking Authority
EIU	Economic Intelligence Unit
ERMC	Enterprise Risk Management Committee
EVE	Economic Value of Equity
EXCO	Executive Committee
FVOCI	Fair Value through Other Comprehensive Income

ACRONYMS	MEANING
FCY	Foreign Currency
FGN	Federal Government of Nigeria
FPI	Foreign Portfolio Investment
FIRB	Foundation Internal Ratings Based Approach (Basel II Credit Risk Measurement Approach)
GCR	Global Credit Rating
HNI	High Net-worth Individual
ICA	Internal Capital Adequacy
ICAAP	Internal Capital Adequacy Assessment Process - the process followed to arrive at a Bank's self-assessment of capital requirements
IFC	Investment and Funding Committee
IRR	Interest Rate Risk
KYC	"Know your Customer" (AML Requirements)
KYCB	"Know your Customer's Business" (AML Requirements)
MRIA	Material Risk Identification and Assessment
MRM	Market Risk Management
NFIU	Nigerian Financial Intelligence Unit
NII	Net Interest Income
NSE	Nigerian Stock Exchange
NSFR	Net Stable Funding Ratio
OECD	Organization of Economic Co-operation and Development
ORMU	Operational Risk Management Unit
Pillar 1	Minimum capital requirements, addressing risk.
Pillar 2	Supervisory review process under the Basel Accord
POS	Point of Sale

ACRONYMS	MEANING
RAROC	Risk-Adjusted Return on Capital
RCSA	Risk Control Self-Assessment
S&P	Standards & Poor's
SBU	Strategic Business Unit
SFT	Securities financing transactions
SME	Small and Medium Enterprises
SPE	Special Purpose Entity
TRS	Total Return Swap
VaR	Value at Risk

1. Executive Summary

1.1. Company Overview

Access Bank Plc. was incorporated as a private limited liability company on 8 February 1989 and commenced business on 11 May 1989. Access Bank was converted to a public limited liability company on 24 March 1998 and its shares were listed on the Nigerian Stock Exchange (NSE) on 18 November 1998. The Bank was issued a universal banking license by the CBN on 5 February 2001.

The shares of Access Bank Plc were delisted from the Nigerian Stock Exchange on 28 March 2022, as the Bank became a wholly owned subsidiary of the newly listed Access Holdings Company (Access Corporation).

Access Bank's principal activities include the provision of money market products and services, retail banking, granting loans and advances, equipment leasing, corporate finance and foreign exchange operations.

The Bank has subsequently grown to become one of the top three largest banks in Nigeria with total assets of N16.87 trillion (HY-2023) and a network of branches across major commercial cities in Nigeria, operates 13 banking subsidiaries in sub-Saharan Africa and the United Kingdom, a branch in Dubai, UAE and representative offices in China, Lebanon, India and France. The Group is well positioned to support trade flows from the Far East and in line with our compliance and risk management framework.

We have an established and unique banking brand recognized for distinctive strengths that include:

- Experienced and stable management team
- Strong corporate governance philosophy and practices - rigorous governance culture that guides and facilitates effective coordination and control of its business operations
- Strong execution engine with a proven track record
- Value chain model approach
- National branch footprint in key commercial locations
- Strong market share in large corporate customers' wallets across different industries/sectors; and
- Robust enterprise risk management framework.

1.2. Purpose of Disclosure

The objective of this disclosure is to encourage market discipline and allow stakeholders to assess accurate information on the Bank's risk exposures and risk assessment processes. This report provides an overview of the risk profile and risk management practices of Access Bank ("the Bank") It also contains information on the Bank's capital structure and capital adequacy in line with the requirements of the Central Bank of Nigeria.

Access Bank's Pillar III Disclosure report complies with the requirement of the following Regulatory guidelines:

- *The Central Bank of Nigeria's (CBN) framework on Regulatory Capital Measurement and Management for the Nigerian Banking System for the implementation of Basel II in Nigeria;*
- *The Basel Committee on Banking Supervision's (BCBS) Revised Pillar 3 Disclosure Requirements;*
- *The Central Bank of Nigeria's (CBN) Revised guidance on Pillar 3 Disclosure Requirement; and*
- *The Central Bank of Nigeria's (CBN) Circular on Basel III Implementation.*

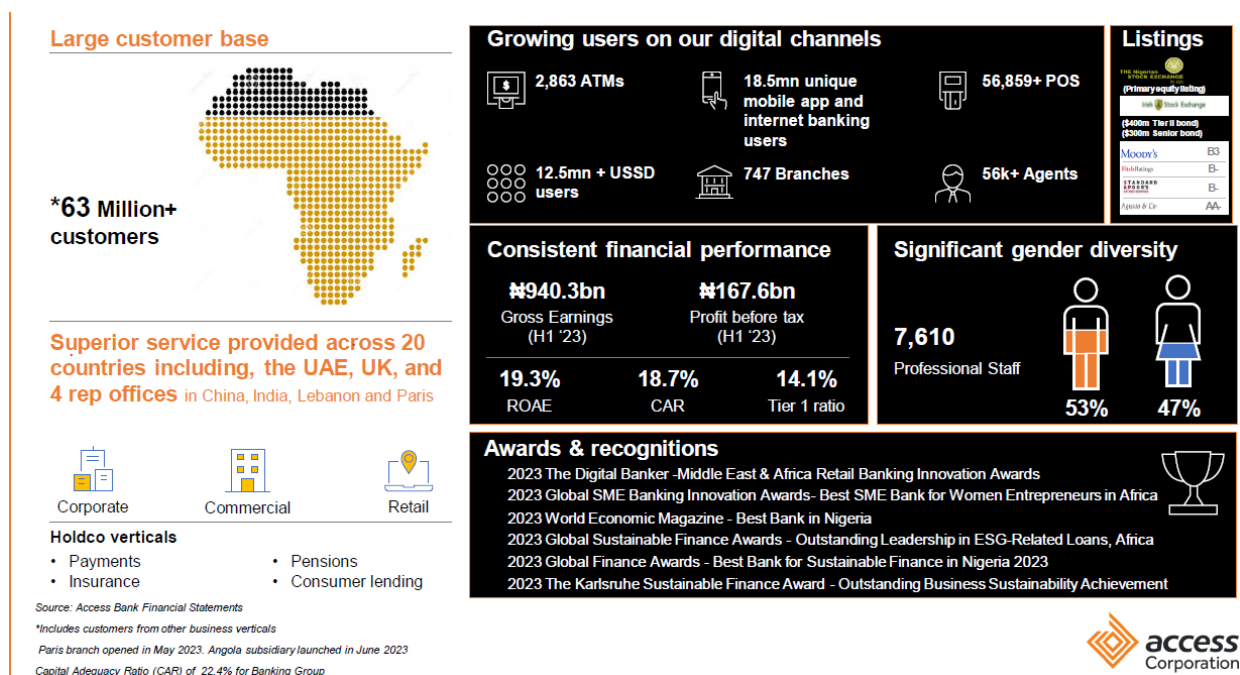
This report has been internally verified by those charged with governance in line with the Pillar 3 Disclosure policy, which describes the responsibilities and duties of senior management and the Board in the preparation and review of the Pillar 3 disclosure. It aims to ensure that:

- Minimum disclosure requirements of the regulations, standards and directives are met;
- The disclosure provides a true reflection of the Bank's financial condition and risk profile;
- Disclosed information is consistent with the manner in which the Board assesses the Bank's risk portfolio; and
- The quantitative and qualitative disclosures are appropriately reviewed.

Access Bank remains well positioned to maximize opportunities, given its significant traction in Nigeria and more recently, Africa. This is in addition to the Bank's existing commitment to sustainable business practices and demonstration of its ability to re-engineer the face of Africa by engaging in transactions, processes and partnerships that enable future generations to meet their needs. Our digital vision is - To be the clear-cut digital leader in Africa even as we move closer to becoming Africa's Payment Gateway to the World

In the months ahead, we will continue to build on our achievements, alongside competences developed; through the continued investment in people, processes and most importantly, a renewed focus on our customers; ensuring we understand their unique needs, thereby catering and delivering an unrivaled unique value proposition.

Figure 1: HY 2023 Group Fundamental Statistics



1.3. Legal Structure and Entities

The Bank has the following subsidiaries: Access Bank (Gambia) Limited, Access Bank (Sierra Leone) Limited, Access Bank (Zambia) Limited, The Access Bank (UK) Limited, Access Bank (Ghana) Plc, Access Bank (Rwanda), Access Bank (D.R. Congo), Access Bank (Guinea), Access Bank (Mozambique), Access Bank (South Africa), Access Bank (Kenya), Access Bank (Botswana) and Access Bank (Cameroon). The Bank also operates a Representative office in China, Lebanon and India. The Access Bank (UK) Limited operates a branch in United Arab Emirates (UAE) and also operates a branch in Paris, France which was commissioned on the 11th of May, 2023.

Access Bank's subsidiaries have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group. The subsidiaries' countries of incorporation are also the principal places of business.

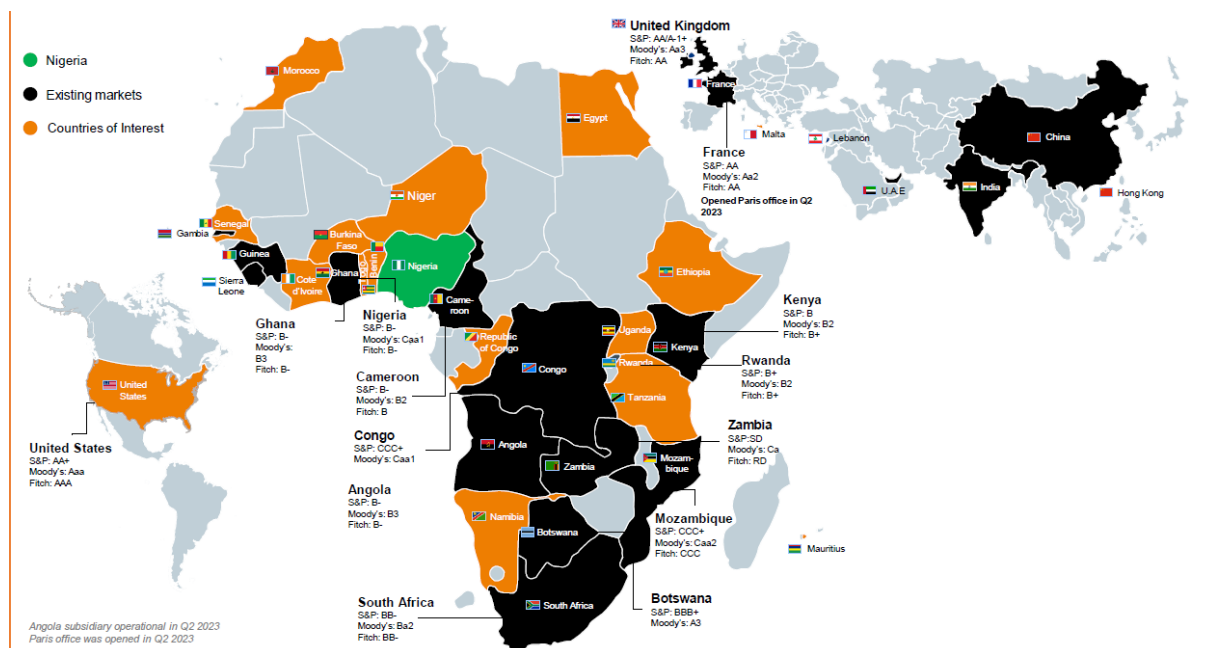
Access Bank RSPP is a share rewards scheme designed solely for Access Bank staff irrespective of where they work within the Group. The shares are awarded to employees based on their performance, at no cost to them. The shares vest over a three-year period from the date of the award. The Group acts as a fund manager for the RSPP funds.

The table below provides a summary on the sizes of the Bank's various entities as at June 2023:

Table 1: Access Bank's Subsidiaries as at June 2023

Entity	Country of Incorporation	Company Number	Ownership Interest	Number of Branches	Number of Accounts	Total Staff
Access Bank UK	United Kingdom	06365062	100%	1	10,969	153
Access Bank Ghana	Ghana	CA-47,865	93.40%	53	467,017	772
Access Bank Rwanda Limited	Rwanda	100053886	91.22%	7	62,179	89
Access Bank R.D. Congo	Congo	CD/KIN/RCCM/14-B-01529	99.98%	12	160,251	142
Access Bank Zambia	Zambia	69264	80.98%	22	97,084	331
Access Bank Gambia Limited	Gambia	452/2007	88%	7	41,303	164
Access Bank Sierra Leone Limited	Sierra Leone	452	99.19%	6	43,328	56
Access Bank Kenya	Kenya	CBK68/PR10A68001	99.98%	25	99,472	290
Access Bank Mozambique	Mozambique	101068919	99.98%	11	107,648	511
Access Bank Guinea	Guinea	RCCM TCC.2019	GN- 100%	2	4,477	53
Access Bank Botswana	Botswana		78.15%	19	105,431	476
Access Bank Cameroon	Cameroon		100%	1	7,813	129
Access Bank South Africa	South Africa	1947/025414/06	97.89%	6	35,638	297
Access Investors	Nigeria (Asset Management)	RC 1792434	100%	1		

Figure 2: Access Bank's Global Positioning as at June 2023



Access Bank's subsidiaries consist of companies across the globe which contribute to Access Bank Group's profit. All subsidiaries operate in the financial services industry.

1.4. Scope of Application

Access Bank consolidated, and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). Additional information required by national regulations is included where appropriate.

All information presented in this document are considered material in line with the Central Bank of Nigeria's Guidance Notes on Pillar III Disclosures.

Subsidiaries are all entities (including structured entities) over which the group exercises control. Control is achieved when the Group can demonstrate it has:

- I. Power over the investee.
- II. Exposure, or rights, to variable returns from its involvement with the investee
- III. The ability to use its power over the investee to affect the amount of the investor's returns.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and

operating policies of an entity to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights.

However, for the purpose of this disclosure, the information in this document is reported at the individual parent entity level and not at a consolidated level. As a result, investments in the subsidiaries discussed above are deducted from regulatory capital for capital adequacy purposes as per the CBN's Guidelines for Regulatory Capital.

2. Risk Management Governance and Strategy

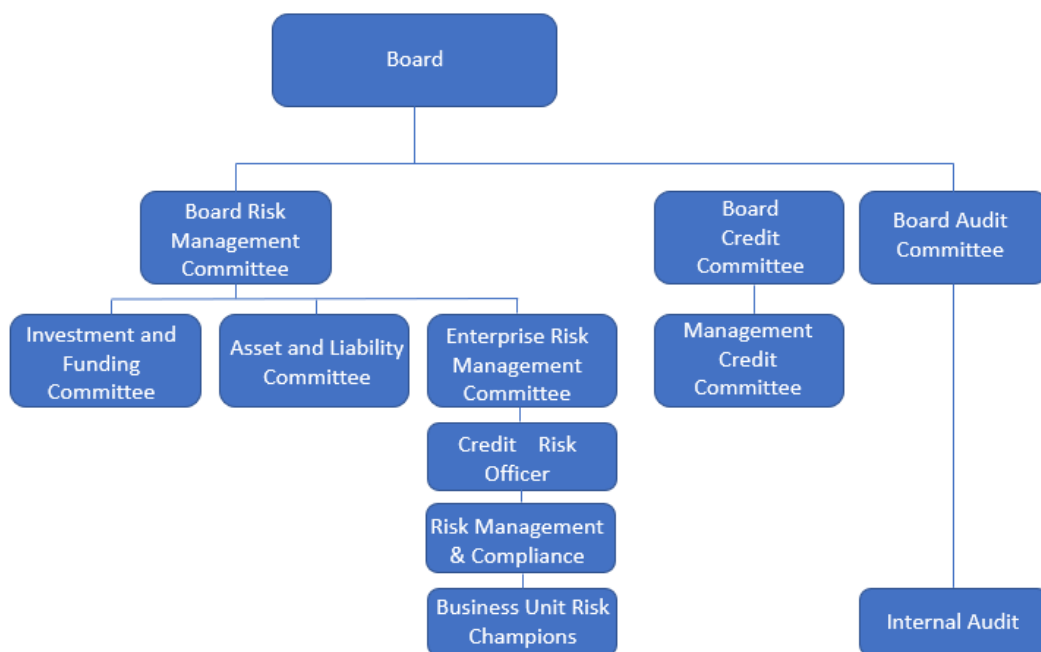
2.1. Risks Governance

The Bank has a well-structured risk management framework and governance structure in identifying, assessing, monitoring, controlling and reporting the inherent risks in its business activities. The Bank's organizational structure and business strategy is well aligned with its risk management philosophy.

The Bank views and treats risks as an intrinsic part of business and maintains a disciplined approach to risk management. The Group's risk functions are quite dynamic and responsive to the needs of stakeholders while improving the focus on the inter-relationships between risk types. The Bank uses periodic review of risk exposure limits and risk control to position itself against adverse scenarios. Risk management functions are defined along three categories – lines of business, governance and control and corporate audit. The Bank believes it has processes in place to identify and mitigate exposure to high levels of risk which may cause distress to the business.

Access Bank's Risk Management Governance Structure is depicted below.

Figure 3: Access Bank's Risk Management Governance Structure



2.2. Risk Appetite

Risk appetite is an articulation and allocation of the risk capacity or quantum of risk Access Bank is willing to accept in pursuit of its strategy, duly set and approved by the executive management and the Board, and integrated into our strategy, business, risk and capital plans. Risk appetite reflects the Bank's capacity

to sustain potential losses arising from a range of potential outcomes under different stress scenarios. The Bank defines its risk appetite in terms of both volatility of earnings and the maintenance of minimum regulatory capital requirements under stress scenarios. Our risk appetite can be expressed in terms of how much variability of return the Bank is prepared to accept in order to achieve a desired level of result. It is determined by considering the relationship between risk and return. We measure and express risk appetite qualitatively and in terms of quantitative risk metrics. The quantitative metrics include earnings at risk (or earnings volatility), liquidity and economic capital adequacy. In addition, a large variety of risk limits, triggers, ratios, mandates, targets and guidelines are in place for all the financial risks (e.g., credit, market and asset and liability management risks). The Bank's risk profile is assessed through a 'bottom-up' analytical approach covering all of the Bank's major businesses and products. The risk appetite is approved by the Board and forms the basis for establishing the risk parameters within which the businesses must operate, including policies, concentration limits and business mix.

In 2023 the risk appetite metrics were tracked against approved triggers and exceptions were reported to management for prompt corrective actions. Key issues were also escalated to the Enterprise Risk Management Committee (ERMC) and the Board Risk Management Committee (BRMC).

2.3. Access Bank Risk Strategy

Access Bank's Risk Culture Statement:

“At Access Bank, we embrace a moderate risk appetite, whilst delivering strategic objectives. We anticipate the risks in our activities. We 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. Risk management is at the core of the operating structure of the bank. 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, the Bank's risk management is continuously evolving and improving, given that there can be no assurance that all market developments, in particular those of extreme nature, can be fully anticipated at all times. Hence, executive management has remained closely involved with important risk management initiatives, which have focused particularly on preserving appropriate levels of liquidity and capital, as well as managing the risk portfolios.

Risk management is fundamental to the Bank's decision-making and management process. It is embedded in the role of all employees via the organizational 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 characterize how the Bank 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 ensure sustainable growth in shareholder value and reputation.

Figure 4: Access Bank’s Risk Management Process



2.4. Enterprise Risk Management

The Bank believes that ERM provides the superior capabilities to identify and assess the full spectrum of risks and to enable staff at all levels to better understand and manage risks. This will ensure that:

- Risk acceptance is done responsibly.
- The executive and the Board of the Bank have adequate risk management support.
- Uncertain outcomes are better anticipated.
- Accountability is strengthened.
- Stewardship is enhanced.

The Bank’s overall risk tolerance is established in the context of our earning power, capital and diversified business model. The Bank’s organizational structure and business strategy is aligned with its risk

management philosophy. As the Bank navigates through new frontiers in a growth market in the ever-changing risk universe, a proactive ERM Framework becomes even more critical in a bid to push the frontiers of our overall risk profile whilst remaining responsive to the ever-changing risk universe.

Access Bank views and treats risk as an intrinsic part of business and maintains a disciplined approach to its management of risk. Its Risk functions remain dynamic and responsive to the needs of stakeholders as it improves its focus on the inter-relationships between risk types. It uses periodic reviews of risk exposure limits and risk control to position itself against adverse scenarios. This is an invaluable tool with which the Bank predicted and successfully managed the headwinds – local and global – which impacted the macro economy from 2020 to date. The Bank’s risk management architecture, as designed, continued to balance corporate oversight with well-defined risk management functions which fall into one of three categories where risk must be managed: lines of business, governance and control, and corporate audit. The Board of Directors and management of the Bank are committed to constantly establishing, implementing and sustaining tested practices in risk management to match those of leading international banks. We are convinced that the long-term sustainability of the Bank depends critically on the proper governance and effective management of our business.

As such, risk management occupies a significant position of relevance and importance in the Bank. 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 (ERM) Framework, which 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, market, and operational risks as well as for other key risks such as liquidity, strategic and reputational risks.

The role of the Chief Risk Officer in Access Bank remains pivotal as he has the primary responsibility for the overall risk management and effective ERM Framework of both the Bank and its subsidiaries. He provides robust challenge to the management teams based on quantitative and qualitative metrics. Though amendments to the Bank’s ERM Framework require Board approval, the risk management division is responsible for the enforcement of the Bank’s risk policy by constantly monitoring risk, with the aim of identifying and quantifying significant risk exposures and acting upon such exposures as necessary. Risk Management in Access Bank has become a culture and everyone, from the most junior officer to the Executive Management has cultivated the risk culture. The Bank officers approach every banking transaction with care, taking into consideration the Bank’s acceptable risk appetite.

2.4.1. Risk Analytics and Reporting

The Bank’s Risk Analytics and Reporting Unit continues to drive the development and entrenchment of integrated data architecture to enhance risk analytics and reporting within the ERM space in Access Bank. The Group has aligned its governance and risk functions to that of leading global financial institutions and also considered all contents as seen in most jurisdictions where risk management is best practiced.

The Group gives Risk management space a critical depth and dimension in its risk management activities as it relates to data management and integration. The Group is responsible for enhancing all core risk analytical and reporting functions that previously resided in the respective risk areas within our Enterprise Risk Management (ERM), while the Bank's pre-defined governance structures in respect of the above-mentioned functions is retained by the respective risk groups.

The Group remains the key driver in ensuring that Access Bank fully implements Basel to the most advanced levels in alignment with the CBN prudential guidelines. The team is also responsible for the Internal Capital Adequacy Assessment Process (ICAAP), stress testing, Liquidity Risk measurement and other risk measurement activities. The Group aligns its reporting with the Bank's predefined governance structure such as BRMC, BCC and ERMC.

The functional set up of the Risk Analytics and Reporting group is as follows:

- Data management and integration
- Risk modelling & Measurement
- Integrated Risk Reporting

Data Management and Integration

This Unit is responsible for the development and maintenance of the enterprise risk data architecture with a roadmap geared towards ensuring data integrity, data quality and ensuring integration with risk analytics and reporting. The Unit has a data governance structure which enforces risk data governance and discipline across the Bank as well as data quality measurement metrics to reduce the Bank's risk exposure due to data quality issues.

An efficient structure has been put in place to ensure auto-reconciliation of data across risk and finance silos to improve timeliness and consistency of risk reporting.

Risk Modelling & Measurement

The Unit guides the analytical input into the implementation of various risk software and their on-going implementation in Credit risk, Market risk, Operational risk and other risk areas. The unit also drives the development as well as implementation of the internal and regulatory risk measurement methodology and models for the core risk elements; examples of the model are Rating models, scoring models, Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), etc.

The unit designs stress test models and implements the same on the Bank's portfolios and risk profile as well as comprehensive risk analyses to provide insight into all current Strategic Business Unit (SBU) risk profiles. The Group also drives the full implementation of Basel and manages the ICAAP process.

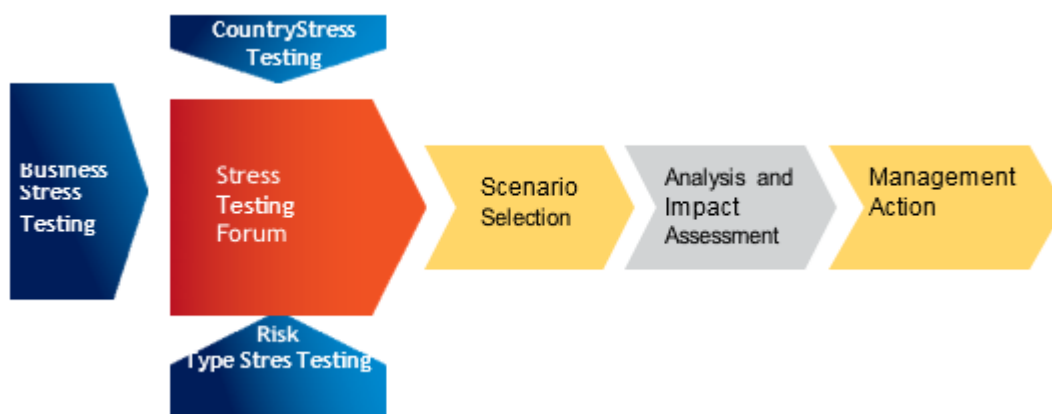
The Group deepened the Risk Embedded Performance Management Framework as part of the process of maintaining and aligning behaviours with the Bank's moderate risk appetite. Business performance will subsequently be monitored with a focus on financial performance and risk exposures being aligned with the Bank's risk appetite. The Bank's yearly Budget is built with risk appetite as an integral part of the financial target determination. Varieties of triggers were employed, and an automated process was created to efficiently track compliance and apply a risk charge to the various SBUs where there are.

Integrated Risk Reporting

The Unit strives to improve all in-house analytical reporting of risk management in the Bank and stimulate a culture of data-driven analytical insights for every decision impacting all risk touch points in the risk management process. The quality of risk reporting has been greatly enhanced as a result of the implementation of an automated risk reporting system. This has led to easy and timely access to risk reports, provided early warning signals, better limit monitoring and better decision making for all units across risk management.

Figure 5: Access Bank's Stress Testing Framework

Stress testing framework



2.4.2. Stress Testing Framework

The Board periodically reviews the **Scenario Planning document** which forms the basis of the assumptions used in the ICAAP stress test. The following processes were carried out:

- Proper assessment of current global and macroeconomic/social/political events which may give rise to shock and development of different scenarios for possible future shocks. Each SBU participated actively in this process.
- Establish industry outlook scenarios and demonstrate how these would impact our obligors, portfolio plan and concentration limits.
- Rate obligors based on the expected impact of these scenarios on their ability to meet their obligations as at when due. Relationship Managers (RM) were involved and confirmed obligors' ratings as they have first-hand knowledge of their business due to their one-on-one contact with the obligors. Also, RMs shared their knowledge based on their experience & expert judgement on customers behaviour over time especially during stress scenario.
- Establish corrective management actions to protect the Bank from any negative impact but position it to take full advantage of opportunities arising therefrom.

Table 2: Idiosyncratic and Market wide scenario Framework

Idiosyncratic		(1) Business Downturn (2) Existing business growth but lower margins (3) Increased Cost
System wide	(5) Macroeconomic downturn (6) Exchange Rate Devaluation	(4) Deterioration in Asset Quality
	Rapid	Slow

2.4.3. Stress and Scenario Tests

These stress and scenario tests focus on the effect of various conditions on the Bank’s earnings and capital requirement. Note that all are described as stresses for convenience, although Stress 6 is a multiple event scenario

- Stress 1: Business Downturn
- Stress 2: Existing Business Growth but Lower Margins
- Stress 3: Existing Asset Growth but Higher Operational Cost
- Stress 4: Deterioration in Asset Quality
- Stress 5: Depreciation of the Naira
- Stress 6: Macroeconomic Downturn

These are based on the financial projections set out in the base case based on the five-year strategic plan with a focus on the first three years. In each case we have assumed that the stress takes place in 2023 - 2025, to give maximum impact on the Bank’s capital position, and continues into the two following years, either at the same, increased or a reduced level. For each stress, and scenario, we have calculated the impact of the stress occurring in Year 1 with the effect on subsequent years being modelled. This approach has been chosen as it provides the greatest impact on the capital of the Bank, while ensuring that future growth is incorporated and considered. These scenarios have been aligned to the Bank’s financial forecast with a reduction in each percentage growth in earnings, increase in provisions and expenses.

Our stress testing framework is designed to:

- Contribute to the setting and monitoring of risk appetite.
- Identify key risks to our strategy, financial position, and reputation.

- Examine the nature and dynamics of the risk profile and assess the impact of stresses on our profitability and business plans.
- Ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing.
- Inform senior management.
- Ensure adherence to regulatory requirements.

3. Internal Capital Adequacy Assessment Process

The ICAAP process as stipulated in Pillar II of Basel 2 requires banks to identify and assess risks, maintain sufficient capital required to be held against identified material risks and apply appropriate risk-management techniques to maintain adequate capitalization. The Internal Capital Adequacy Assessment Process document is produced annually and sets out the results of Access Bank's own assessment of its internal capital requirements in accordance with Pillar II framework.

In preparing the document, the Bank leveraged the following guidelines:

- *CBN Guidance note on Supervisory Review Process*
- *Statement of Policy: The Prudential Regulations Authority (PRA) methodologies for setting Pillar 2 capital (February 2020)*
- *European Banking Authority (EBA):*
 - I. Regulatory Technical Standards (EBA/RTS/2014/11)*
 - II. Guidelines (GL/2015/02)*

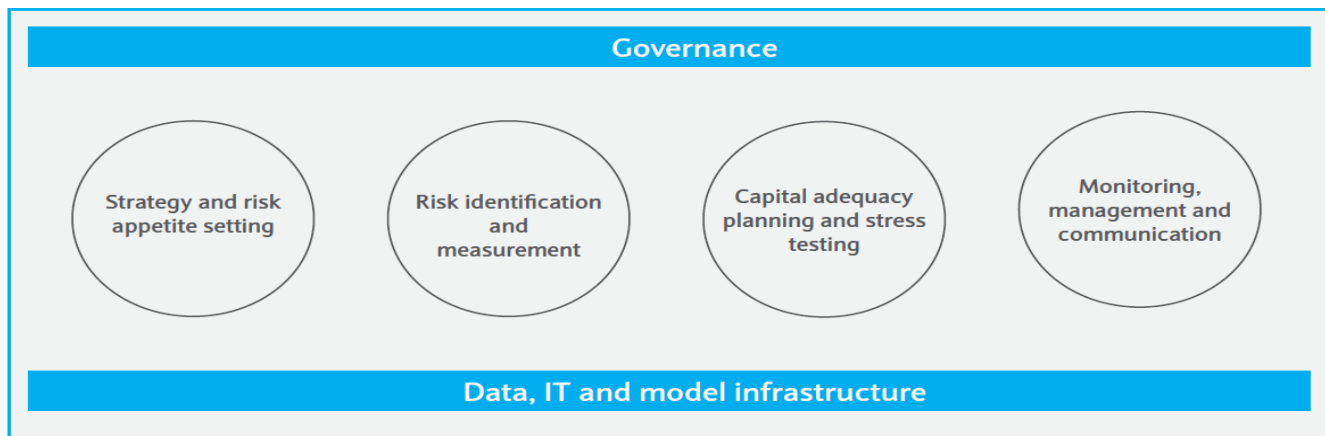
The Board formally approves the ICAAP document and subsequently reviews it annually or whenever it is considered necessary in the light of changes in market situations or specific circumstances.

3.1. ICAAP Governance Structure

The efficient use of capital is fundamental to enhance shareholders' value through careful deployment of capital resources. The ICAAP framework ensures that internal systems, controls, and management information are in place to enable the Board and senior management to track changes in the economic environment, which may require adjustments to the business strategy in order to remain within the risk appetite. Furthermore, ICAAP reflects the level of capital required to be held against identified material risks the Group is, or may become exposed to, as a result of its strategy. From a Group consolidated perspective, capital adequacy is considered for each regulated entity as well as the Group. Capital management is an integral part of decision-making within the Group. Progress is measured against pre-determined targets in the balanced scorecard which incorporates capital metrics. Decisions on the allocation of capital resources, which are an integral part of the ICAAP and capital management process, are based on several factors including return on regulatory capital. The Board of Directors and its committees, the ERM, the Asset/Liability Committee (ALCO) and the ICAAP Steering Committee form the core governance bodies related to ICAAP.

Figure 6: Access Bank's ICAAP Building Blocks

The building blocks of the Bank's ICAAP are as follows:



3.2. Regulatory Capital Composition

Access Bank's regulatory capital comprises of the two distinct elements which are classified as Tier 1 and Tier 2 capital; The CBN Guidance notes on Regulatory Capital provides the content for Tier 1 and Tier 2 capital. According to the CBN guidance note, the following qualify as Tier 1 capital:

- Paid-up share capital.
- Irredeemable preference shares.
- Share premium.
- General reserve (retained profit).
- SMEEIS reserves.
- Statutory reserve.
- Other reserves as may be determined by the CBN.

While Tier 2 Capital comprises of:

- Hybrid Instruments.
- Subordinated Debt.
- Other Comprehensive Income.

The following are deductions made from capital:

- Intangible assets.
- Investment in the capital of financial subsidiaries.
- Deferred Tax Assets.
- Treasury Shares.

Table 3: Access Bank's Capital Position as at June 2023

	June 2023 ('N' m)	December 2022 ('N' m)
Ordinary share capital	17,773	17,773
Additional Tier 1 Capital	345,030	206,355
Share Premium	234,038	234,038
Retained earnings	319,770	321,181
Other reserves	346,566	289,319
Fair value reserve for fair value through other comprehensive income instruments	(95,119)	(70,053)
Other reserves	0	(2,674)
Tier 1 Capital Before Regulatory Deduction	1,168,057	995,938
Regulatory Deductions		
Deferred Tax Assets	1,237	7,707
Regulatory Risk Reserve	95,906	76,336
Intangible Assets	60,538	59,365
Total Regulatory Deduction	157,681	143,408
Other Deductions		
50% Investment in the Capital of Financial Subsidiaries	176,697	136,484
Receivable from Parent Company	63,185	0
Eligible Tier 1 Capital	770,493	716,046
Subordinated debt	347,995	252,834
Fair value reserve for fair value through other comprehensive income instruments	95,119	70,053
Other Reserves	0	2,674
Tier 2 Capital Before Deductions	443,114	325,561
Deductions		
50% Investment in the Capital of Financial Subsidiaries	176,697	136,484
Eligible Tier 2 Capital	160,061	147,664
TOTAL ELIGIBLE CAPITAL	930,555	863,711

3.3. Capital Management

Capital risk is the risk that the Bank's total capital base is not properly managed in a prudent manner. 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 a number of factors including return on economic capital (EC) and on regulatory capital (RC) and are part of the internal capital adequacy assessment process (ICAAP).

3.3.1. Capital Management Objectives

The Bank has several capital management objectives:

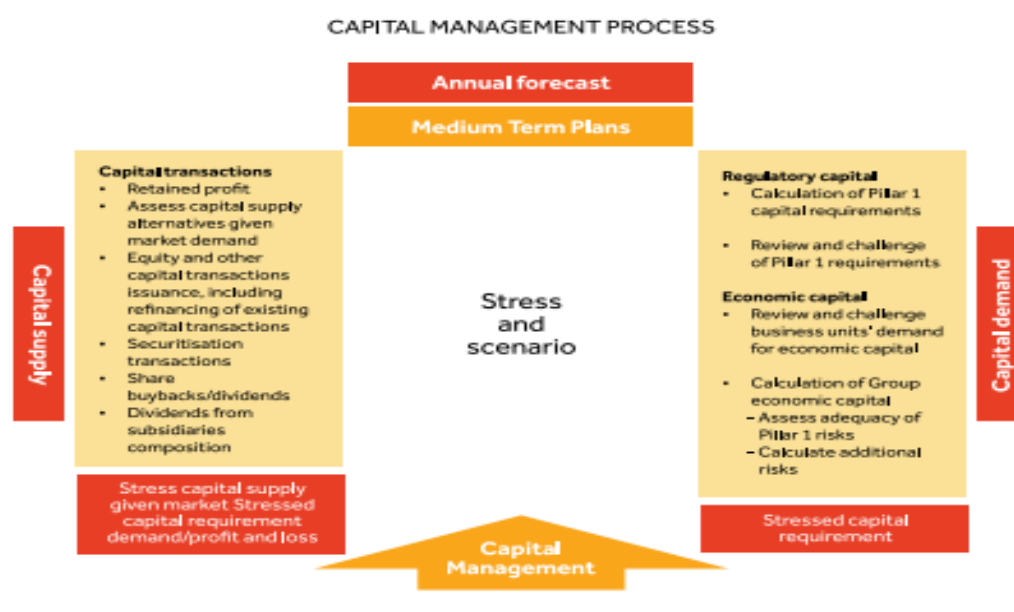
- To meet the capital ratios required by its regulators and the Group's Board.

- To generate sufficient capital to support asset growth.
- To maintain an investment-grade credit rating; and
- To achieve a return above the cost of equity.

3.3.2. Capital Management Process

Capital is managed as a Board level priority in the Bank which reflects the importance of capital planning. The Board is responsible for assessing and approving the Group’s Capital Management Framework, capital target levels and capital strategy. The Capital Management Framework provides effective capital planning, capital issuance, Basel II & III, Economic Capital (EC) utilisation and economic profit (EP) performance measurement criteria.

Figure 7: Access Bank's Capital Management Process



The above diagram illustrates the process the Bank follows to ensure end-to-end integration of the Bank’s strategy, risk management and financial processes into the capital management process. The purpose is to ensure that capital consumption in the business divisions has an impact on performance measurement, which in turn translates into management performance assessment and product pricing requirements and achievement of the overall strategy within risk appetite.

3.4. Summary of Capital Adequacy

The Capital Adequacy Ratio set standards for banks by looking at a bank’s ability to pay liabilities and respond to credit risks and operational risks. A bank that has a good CAR has enough capital to absorb potential losses. Thus, it has less risk of becoming insolvent and losing depositors’ money. After the financial crisis in 2008, the Bank of International Settlements (BIS) began setting stricter CAR requirements to protect depositors. The Bank’s Capital Adequacy Ratio as at June 2023 stood at 17.56%,

recognising the full impact of the IFRS 9 adjustment. The Table below highlights the Bank's Capital Adequacy Ratio.

Table 4: Access Bank's Capital Adequacy Ratio as at June 2023

	Risk Weighted Asset ('m)
Market Risk	61,040
Operational Risk	833,238
Credit Risk	4,403,734
Total Risk Weighted Asset	5,298,013
Total Qualifying Capital	930,555
Capital Adequacy Ratio	17.56%
Tier I Capital Adequacy ratio	14.54%

3.5. Internal Liquidity Adequacy Assessment Process (ILAAP)

ILAAP is the process for identifying, measuring, managing and monitoring liquidity and funding risks by a Bank. It contains all qualitative and quantitative information necessary to underpin the Bank's liquidity risk appetite, including the description of the systems, processes and methodology for measuring and managing liquidity and funding risks.

The Board of Directors (hereafter "Board") is responsible for the ILAAP and has established the design and structure of the ILAAP in accordance with the liquidity risk profile of the Bank and its moderate liquidity risk appetite.

The ILAAP process is completed and reviewed bi-annually or more frequently when there are significant changes to the business, strategy or external operating environment of the Bank.

3.5.1. Purpose of ILAAP

The objectives of ILAAP are as follows:

- To ensure that the Bank has adequate liquidity to support its operations;
- To demonstrate to key stakeholders (i.e., regulators, investors, customers) the adequacy of the Bank's liquidity risk management (LRM) process, thereby gaining market confidence;
- ILAAP provides a holistic view of LRM in the Bank; and
- ILAAP can also be used as a strategic decision-making tool to ensure that growth strategy is in alignment with sound LRM practices.

3.5.2. *ILAAP Structure*

The Bank's ILAAP document is structured in line with CBN's guideline on Liquidity Risk Management and Internal Liquidity Adequacy Assessment Process as well as De Nederlandsche Bank (DNB) supervision manual on the "Principles of the ILAAP". It essentially contains two elements i.e., qualitative and quantitative elements.

The qualitative elements describe among other things, the expectations on risk governance with a focus on liquidity risk. These elaborate on aspects relating to the Bank's liquidity risk strategies, procedures, measures, and the liquidity cushions to be maintained by the Bank. The quantitative aspects of the ILAAP are directly linked to the qualitative elements and they include limits, maturity calendars, liquidity risk metrics and stress testing.

3.5.3. *Qualitative Assessment*

The Board has put in place policies, processes and systems that enable it to identify, measure, manage and monitor liquidity risk and is responsible for approving these overall systems and controls. In setting the Bank's liquidity risk management (LRM) framework, the Board adopted the "Three Lines of Defense Approach". This is outlined in the following documents:

- Market Risk Appetite Statement;
- Contingency Funding Plan (which has been incorporated into the Bank's Resolution Plan);
- Market Risk Management Limits;
- Framework for Managing Foreign Currency Lending and Funding;
- Asset and Liability Management Policy; and
- Procedures for Liquidity Risk Gap Analysis.

3.5.4. *Quantitative Assessment*

The liquidity adequacy rule states that;

“a firm must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due”

This rule has the following requirements:

- Hold sufficient liquidity resources which contain an adequate buffer of high quality, unencumbered assets that are marketable, or otherwise realizable;
- Be able to generate funds from those assets in a timely manner; and
- Maintain a prudent funding profile in which its assets are of appropriate maturities, given the maturity profile of the Bank's liabilities.

To ensure compliance to the liquidity adequacy rule, the Bank has assessed the overall character of the resources available to it, which enables it to meet its liabilities as they fall due.

The objective of the Bank's quantitative liquidity adequacy assessment is to determine the minimum amount and type of liquidity resources that must be maintained by the Bank to withstand the impact of a

range of stress scenarios and ensure compliance with its Risk Appetite limits under both normal and stressed conditions. The key elements in the Bank's liquidity risk quantitative assessment are summed up in the following:

- Materiality assessment of liquidity risk drivers - Identification of material liquidity risks that the Bank is exposed to, including an assessment of the sources of liquidity risk:
 - ✓ This is based on an analysis of the Bank's balance sheet, off balance sheet exposures and the structure of its funding profile.
 - ✓ Liquidity risks are identified and defined based on the ten internationally recognised liquidity risk drivers, together with any additional risks that are considered material to the Bank, with each on-balance sheet and off-balance sheet activity mapped to a relevant liquidity risk driver.
 - ✓ Where the liquidity risk drivers are considered immaterial to the Bank, the qualitative assessment supporting this view has been provided.
- Limits and liquidity risk tolerance (risk appetite)
- Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
- Stress testing and scenario analysis
- Early warning indicators
- Risk Based Fund Transfer Pricing

3.5.5. *ILAAP Metrics*

The assessment of the Bank's liquidity and funding profile was carried out based on the 2023 HY results, and 2023 projections using the following methodology:

- Materiality Assessment of Liquidity Risk Drivers;
- Liquidity Coverage Ratio;
- Net Stable Funding Ratio;
- Liquidity Ratio; and
- Stress Test (Static and Dynamic).

3.6. *Liquidity Coverage Ratio*

This ratio identifies the Bank's available sufficient short-term liquidity (high quality liquid assets of HQLA) to cover short-term liquidity requirements. These requirements are defined as the net outflows over the 30-day time horizon under an acute liquidity stress scenario for the Bank and the market. As in similar metrics, the available liquidity must exceed the required liquidity, meaning LCR must be at least 100%.

The formula below explains that the Stock of HQLA contains assets of only the highest credit and liquidity quality such as Federal government bonds and treasury bills, etc. For the denominator, the net cash outflows are considered with a factor of prudence applied to each individual item. This conservative definition ensures that the Bank never has to rely exclusively on expected inflows.

$$LCR = \frac{\text{Stock of HQLA}}{\text{Total Net Cash Outflows}} \geq 100\%$$

Access Bank LCR = 143.91%

The Bank's LCR on its consolidated currencies as at 30th June 2023 was 143.91%. The major contributors to this ratio were the Bank's holdings of Federal Government debt securities which qualify as HQLA under the CBN LCR guidelines.

3.7. Net Stable Funding Ratio (NSFR)

The NSFR guides the Bank in adopting more stable sources of funding over a longer-time horizon. It defines the amount of available stable funding relative (ASF) to the required stable funding (RSF) over a 1-year time scale. The ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The RSF calculation is a function of the liquidity characteristics and residual maturities of the various on-and off-balance sheet assets specific to the Bank.

The NSFR provides for different ASF and RSF weightings (or 'factors') depending on the type of counterparty and the residual maturity of the transaction. These are summarized below:

$$\text{NSFR} = \frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100\%$$

Access Bank NSFR = 129.5%

For the period ended 30th June 2023, the Bank's NSFR was 129.5%. This value was due to the high volume of the Bank's retail deposit base and long tenured on-lending liabilities and interest-bearing borrowings.

3.8. Contractual Maturity Mismatch

The contractual maturity mismatch identifies the gaps between the contractual inflows and outflows of liquidity for defined time bands. These maturity gaps indicate how much liquidity the Bank would potentially need to raise in each of these time bands if all outflows occurred at the earliest possible date. This metric provides insight into the extent to which the Bank relies on maturity transformation under its current contracts.

4. Recovery and Resolution Plan (RRP)

The 2008/2010 global financial crisis exposed Nigerian banks and the economy in general to unprecedented stress. Poor risk management in Nigerian banks led to the concentration of assets in certain risky areas. The concerns stemmed from the huge deterioration in the quality of banks' assets, liquidity concerns and low capital adequacy ratios. Consequently, the CBN had to intervene to prevent a total collapse of the industry and create stability in the Nigerian financial sector.

The Asset Management Corporation (AMCON) was set up in 2010 to relieve banking sector balance sheets of Non-Performing Loans thereby stimulating lending to the real sector. AMCON has over the period intervened by acquiring Eligible Bank Assets ("EBAs"), issuing financial accommodation securities and employing the bridging option to establish bridge banks as a form of resolution. The various regulatory interventions have been at the expense of taxpayers, as these funds could have been channeled toward infrastructural and human capital development.

Over the years, the failure of some of the hitherto biggest financial institutions sometimes without sufficient early warning signals had huge implications for the financial system and national economies. This became a learning point for regulators worldwide as they devised measures to reduce the impact of these bank failures on the financial system. Part of these measures included drawing up criteria to determine Systematically Important Financial Institutions (SIFIs).

The Financial Stability Board describes Systematically Important Financial Institutions (SIFIs) as "financial institutions whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity".

The CBN designated eight banks as Domestic Systemically Important Banks (D-SIBs) in November 2013, which was later reviewed to five banks and issued requirements for Recovery and Resolution Plans to be submitted by 1st January of every year. Access Bank was designated as a D-SIB, accordingly we have updated the Bank's 2022 recovery plan ('Recovery Plan') and made submissions to the relevant regulators. The Recovery Plan is updated at least once a year to reflect changes in the business and regulatory environments.

The Recovery Plan equips the Bank to re-establish its financial strength and viability during an extreme stress situation. The Recovery and Resolution Plan (RRP) document outlines how we can respond to a financial stress situation that would significantly impact our capital or liquidity position. The plan outlines a set of defined actions, aimed to protect us, our customers and the markets and prevent a potentially more costly resolution event.

4.1. Recovery Plan

The Access Bank Recovery Plan conforms to the following guidelines:

- CBN Minimum Contents for Recovery Plans and Requirements for Resolution Planning. November 2016.

- European Banking Authority (EBA):
- Regulatory Technical Standards (EBA/RTS/2014/11).
- Guidelines (GL/2015/02).
- Prudential Regulations Authority (PRA) Policy and Supervisory Statements (PS1/15 and SS18/13).
- Financial Stability Board (FSB) Guidance on Recovery Triggers and Stress Scenarios dated 16 July 2013.

Recovery Indicators are metrics that can be used by the Bank to define the points at which to take action under the recovery plan. Indicators are qualitative and quantitative in nature and draw on our existing risk management frameworks. The Bank currently has several risk related frameworks in place for both financial and non-financial risk, such as the ERM Framework, Contingency Funding Plan (CFP) and Business Continuity Plan (BCP). The Bank's qualitative and quantitative indicators are drawn from our existing risk management frameworks.

Quantitative indicators include Capital, Liquidity, Asset Quality and Earnings indicators. In addition to these, macroeconomic and market-based indicators are used by us to proactively signal negative trends which may harm the Bank. These triggers provide input and support for the continuous monitoring of possible adverse situations and may indicate potential changes in the four key indicators. The trigger levels and thresholds for the indicators were determined based on regulatory requirements (CBN), the Bank's Risk Appetite, as well as global best practices. These indicators have different monitoring frequencies, and a threshold breach will trigger a series of actions as specified in the plan.

In line with best practice, we have identified a wide range of recovery options that will mitigate different types of stress scenarios and steer the Bank back to a "Business-as-Usual" condition. The Bank's ICAAP and ILAAP form the bedrock on which the Scenario Planning and Stress testing are shaped. These scenarios cover both idiosyncratic and market-wide events, which could lead to severe capital and liquidity impacts as well as impacts on our performance and balance sheet. For each recovery option, the impact on capital and liquidity is quantified. The timing to realization of benefits, franchise impact as well as likely effectiveness are evaluated. The implementation plan and timeline are delineated, risks and regulatory considerations are also assessed.

The Board of Directors ("Board") owns and is responsible for the Recovery Plan. The CRO is charged with the responsibility of maintaining the RRP and making submission to the regulatory authorities.

The Recovery Management framework is built upon and closely integrated within existing risk, capital and liquidity management governance frameworks, and policies.

4.2. Resolution Planning

Globally, regulators of financial institutions are seeking to mitigate the risk of market-wide disruption from a bank failure as occurred in the previous financial crisis. To facilitate this, information is required from banks to facilitate the ease of resolution by the regulators with minimal distortions and impediments thereby ensuring that the impact of failure is minimised, access to deposits is maintained, payment services continue and the risk of a fire sale of assets, which may cause financial instability, is minimised.

The CBN Minimum Contents for recovery Plans and Requirements for Resolution Planning outlines minimum information which should be included in a resolution pack which would assist the resolution authorities in carrying out their statutory responsibilities. This information has been provided in line with the regulatory guidance.

5. Credit Risk

5.1. Introduction

Credit risk arises from the failure of an obligor of the Bank to repay principal or interest at the stipulated time or failure otherwise to perform as agreed. This risk is compounded if the assigned collateral only partly covers the claims made to the borrower, or if its valuation is exposed to frequent changes due to changing market conditions (i.e., market risk). The Bank's Risk Management philosophy is that moderate and guarded risk attitude will ensure sustainable growth in shareholder value and reputation. Extension of credit in Access Bank is guided by its Credit Risk and Portfolio Management Plan, which sets out specific rules for risk origination and management of the loan portfolio. The Plan also sets out the roles and responsibilities of different individuals and committees involved in the credit process. The Bank recognises the fact that its main asset is its loan portfolio. Therefore, the Bank actively safeguards and strives to continually improve the health of its loan portfolio.

An exposure where any amount due under the contract (interest, principal, fee or other amount) has not been paid in full at the date when it was due is deemed to be **past due**. An exposure should be considered past due even when the amount of the exposure or the past due amount, as applicable, is not considered material. The goal of the Bank is to apply sophisticated but realistic credit models and systems to monitor and manage credit risk. The pricing of each credit granted reflects the level of risks inherent in the credit. Subject to competitive forces, Access Bank implements a consistent pricing model for loans to its different target markets. The client's interest is always guarded, and collateral quality is never the sole reason for a positive credit decision. Provisions for credit losses meet IFRS and prudential guidelines set forth by the Central Bank of Nigeria, both for loans for which specific provisions exist as well as for the portfolio of performing loans. Access Bank's credit process requires rigorous proactive and periodic review of the quality of the loan portfolio. This helps us to identify and remediate credit issues proactively.

The Criticized Assets Committee performs a quarterly review of loans with emerging signs of weakness; the Management Credit Committee and the Board Credit Committee also perform reviews of the quality of our loan portfolio on a quarterly basis. These are in addition to daily reviews performed by the various Head of Risk within the Credit Risk Management Groups.

5.2. General Disclosure

5.2.1. Credit Concentration by Geography

Table 5: Access Bank's Credit Concentration by Geography

LOCATION	NET LOANS JUN 2023	NET LOANS DEC 2022
Lagos	4,212,465,629,395.99	3,483,784,820,022.60
South South	499,858,041,038.90	462,619,451,997.11
West	157,750,405,984.81	161,081,417,718.26
South East	75,455,736,339.82	74,467,533,573.95
North West	128,834,535,520.56	126,602,698,538.76
Abuja	35,112,420,895.33	36,329,653,362.30
North East	45,332,549,636.41	26,683,430,589.72
North Central	33,916,600,977.74	35,392,436,869.04
Grand Total	5,188,725,919,789.56	4,406,961,442,671.75

5.2.2. Credit Exposures by Counterparty

Table 6: Access Bank's Credit Concentration by Counterparty

EXPOSURE CLASS	EXPOSURE AMOUNT	CREDIT RISK MITIGATION	NET EXPOSURE	RISK WEIGHTED ASSETS
Sovereigns and Central Banks	8,693,435,811,617	-	8,693,435,811,617.38	-
State Govt and Local Authorities	522,279,979,003	356,082,683,973	166,197,295,030.04	117,662,120,950
Public Sector Entities (PSEs)	-	-	-	-
Multilateral Development Banks (MDB)	235,151,284,991	-	235,151,284,991.08	117,575,642,496
Supervised Institutions	917,043,995,297	54,346,005,888	902,327,218,371.64	212,795,512,061
Corporate and Other Persons	4,884,140,453,639	1,446,855,246,256	3,437,285,207,382.49	3,142,252,183,582
Regulatory Retail Portfolio	196,991,983,702	8,955,940,273	188,036,043,428.90	141,027,032,572
Secured by Mortgages on Residential Properties	75,305,896,164	4,520,246,127	70,785,650,036.77	53,089,237,528
Exposures Secured by Mortgages on Commercial Real Estates	136,808,935,239	4,079,671,305	132,729,263,933.74	132,729,263,934
Past Due Exposures	57,551,622,354	3,520,605	57,548,101,749.62	64,566,503,302
High Risk Exposures	5,345,569,844	-	5,345,569,843.76	8,018,354,766
Unsettled and Failed Transactions	-	-	-	-
Other Assets	1,237,140,522,400	5,610,419,468	1,231,530,102,932.01	490,354,572,976

5.2.3. Credit Exposures by Sectors

The table below shows the Bank's total Loan exposure to different sectors.

Table 7: Access Bank's Gross Credit Concentration by Sector

SECTOR	JUNE 2023 ('m)	DECEMBER 2022 ('m)
Agriculture	39,252	42,900
Construction	415,471	336,573
Education	901	1,217
Finance and insurance	100,172	119,512
General	453,134	325,038
General commerce	488,484	421,501
Government	465,171	447,289
Information And communication	351,470	225,405
Other manufacturing (Industries)	239,828	193,371
Basic metal Products	552	2,705
Cement	99,319	140,605
Conglomerate	209,240	97,363
Flourmills And bakeries	20,186	11,446
Food manufacturing	270,768	153,276
Steel rolling mills	107,741	99,932
Oil And Gas - downstream	279,443	242,012
Oil And Gas - services	572,814	540,730
Oil And Gas - upstream	386,691	253,236
Crude oil refining	43,572	44,771
Real estate activities	161,363	226,454
Transportation and storage	163,798	160,182
Power and energy	29,309	42,469
Professional, scientific and technical activities	4,117	4,193
Others	19,120	17,236
Grand Total	4,921,917	4,149,413

5.2.4. Expected Credit Losses (Impairment)

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and Fair Value through Other Comprehensive Income (FVOCI) and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows: The PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur. Loss Given Default represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan. The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The Statement of prudential adjustments Provisions under prudential guidelines are determined using the time-based provisioning regime prescribed by the Revised CBN Prudential Guidelines. As a result of the differences in the methodology/provision regime, there will be variances in the impairments allowances required under the two methodologies. Paragraph 12.4 of the revised Prudential Guidelines for Deposit Money Banks in Nigeria stipulates that Banks would be required to make provisions for loans as prescribed in the relevant IFRS Standards when IFRS is adopted. However, Banks would be required to comply with the following:

a) Provisions for loans recognised in the profit and loss account should be determined based on the requirements of IFRS. However, the IFRS provision should be compared with provisions determined under prudential guidelines and the expected impact/changes in general reserves should be treated as follows:

- Prudential Provisions is greater than IFRS provisions; the excess provision resulting should be transferred from the general reserve account to a "regulatory risk reserve".
- Prudential Provisions is less than IFRS provisions; IFRS-determined provision is charged to the statement of comprehensive income.

The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account.

Table 8: Access Bank's Non-Performing Loan Position

Non-Performing Loans (NPL)	Volume Total (N' B)	Percentage Change	NPL Ratio
December, 2019	172.5	287.64%	6.10%
December, 2020	115.8	-32.87%	3.65%
December, 2021	73.4	-36.61%	2.0%
December, 2022	85.19	16.06%	1.90%
June, 2023	82.23	3.47%	1.56%

The table above shows the Bank's Non –Performing Loans (NPL) over a five-year period. The Bank's NPL at HY 2023 was N82.23Bn while the NPL ratio stood at 1.56%

5.3. Principal Credit Policies

The following are the principal credit policies of the Bank:

- **Credit Risk Management Policy:** The core objective is to enable maximization of returns on a risk adjusted basis from banking book credit risk exposures that are brought under the ambit of Credit Risk Management Policy by putting in place robust credit risk management systems consisting of risk identification, risk measurement, setting of exposure & risk limits, risk monitoring & control and reporting of credit risk in the banking book.
- **Credit Risk Mitigant Management Policy:** The objective is to aid in effective credit portfolio management through mitigation of credit risks by using credit risk mitigation techniques.
- **Credit Risk Rating Policy:** The objective of this policy is to ensure reliable and consistent Obligor Risk Ratings (ORRs) and Facility Risk Ratings (FRRs) throughout Access Bank 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.
- **Country and Cross Border Risk Management Policy:** The objective of this policy is to establish a consistent framework for the identification, measurement and management of country risk across Access Bank.
- **Credit Policy Guide:** The objective of this policy is to establish a consistent framework for creating and managing risk assets in order to prevent the loss of depositor's funds.

5.4. Credit Risk Measurement Risk Rating

The credit rating of the counterparty plays a fundamental role in final credit decisions as well as in the terms offered for successful loan applications. Access Bank employs a robust credit rating system based on international best practices in the determination of the Obligor and Facility risks and thus allows the Bank to maintain its asset quality at a desired level. In Access Bank, the objective of the Risk Rating Policy

is to ensure reliable and consistent Obligor Risk Ratings ('ORRs') and Facility Risk Ratings ('FRRs') throughout the Bank and to provide guidelines for risk rating for retail and non-retail exposures in the bank. The Risk rating policy incorporates credit risk rating models which estimate risk of obligor default and facility risks (covering both recovery as well as exposure risk). These models are based on historical loss experience modeled from the Bank's data.

The following are the credit risk rating models deployed by Access Bank.

Retail Exposures

Obligor Risk Rating (ORR) Models have been developed for:

- 1 Personal Loans
- 2 Credit Cards
- 3 Auto Loans
- 4 Mortgage Loans

Non – Retail Exposures

Obligor Risk Rating (ORR) Models have been developed for:

- 1 Financial Institutions
- 2 Corporate - Manufacturing Sector - Trading Sector - Services Sector - Real Estate Sector

Facility Risk Rating (FRR) Models have been developed for

- 1 Loss Given Default (LGD)
- 2 Exposure at Default (EAD)

5.4.1. Risk Rating Process

In Access Bank, all businesses must have a documented and approved Risk Rating Process for deriving risk ratings for all obligors and facilities (including those covered under Credit Programs). The Risk Rating Process is the end-to-end process for deriving ORRs and FRRs and includes models, guidelines, support adjustments, collateral adjustments, process controls, as well as any other defined processes that a business undertakes in order to arrive at ORRs and FRRs. Risk rating process of each business must comply with the Bank's Risk rating Policy and deviations must be explicitly approved. Establishing the Risk Rating Process is the joint responsibility of the Business Manager and the Credit Risk Manager associated with each business. The process must be documented and must be approved by the Management Credit Committee. The Risk Rating Process for each business must be reviewed and approved annually, unless more frequent review is specified as a condition of the approval. A more frequent review may be necessary when there is any new information that impacts on a borrower's rating e.g., release of interim audited financial statements or changes in business profile. Interim material changes to the Risk Rating Process, as determined by the Credit Risk Manager for the business, must be re-approved. 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 and rating 8 represents the worst obligors and facilities. The risk rating scale incorporates sub-grades and full grades reflective of realistic credit migration patterns.

Table 9: Access Bank's Loans by Risk Rating Class

Access Bank Total Loans by Risk Rating Class

Credit Quality by Risk Rating Class			Loans and Advances to Individuals		Loans and Advances to corporates		Loans and Advances to Banks	
<i>In millions of Naira</i>								
Neither Past Due nor Impaired								
External Rating Equivalent	Grade	Risk Rating	Jun-23	Dec-22	Jun-23	Dec-22	Jun-23	Dec-22
AAA	Investment	1	0	0	282,894	206,038	345,808	319,192
AA	Investment	2+	0	0	961,968	579,429	0	0
A	Investment	2	0	0	447,561	297,399	0	0
BBB	Investment	2-	0	0	579,412	167,063	0	0
BB+	Standard	3+	833	467	168,761	414,765	0	0
BB	Standard	3	138,798	133,076	1,997,293	1,715,765	257	3,640
BB-	Standard	3-	5,934	6,662	232,011	544,837	0	0
B	Non-Investment	4	0	0	0	0	0	0
B-	Non-Investment	5	0	0	24,370	0	0	0
CCC	Non-Investment	6	9,444	5,921	72,637	73,854	132	119
C	Non-Investment	7	0	0	0	0	0	0
D	Non-Investment	8	2	3,146	0	994	0	0
GROSS AMOUNT			155,011	149,271	4,766,906	4,000,142	346,197	322,951
Impairment			(10,856)	(8,155)	(67,978)	(56,910)	(555)	(341)
CARRYING AMOUNT			144,155	141,116	4,698,929	3,943,232	345,641	322,610

5.5. Collateral Policies

It is the Bank'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 realizable securities including approved third-party guarantees/ insurance. In Access Bank, strategies for risk reduction at the transaction level differ from that at the portfolio level. At transaction level, the most common technique used by the bank is the collateralization of the exposures, by first priority claims or obtaining a third-party guarantee. For all credit risk mitigants that meet the policy criteria, a clear set of procedures are applied to ensure that the value of the underlying collateral is appropriately recorded and updated regularly. Collateral types that are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit. Other techniques include buying a credit derivative to offset credit risk at transaction level. 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 mitigants as incorporated in the guidance note of BCBS on "Principles for the Management of Credit Risk" (September 2000, Paragraph 34) are to be taken into consideration while using a credit risk mitigant to control credit risk. "Banks can utilize 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 the insufficient information. It should be recognized that any credit enforcement actions (e.g. foreclosure proceedings) can eliminate the profit margin on the transaction. In addition, Banks need to be 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 includes:

- Cash / Deposit (domestic and foreign currency) with bank including certificates of deposit or comparable instruments issued by the bank.
- Certificates of Deposit from other banks.
- Commodities.
- Debt securities issued by sovereigns and public-sector enterprises.
- Debt securities issued by banks and corporations.
- Equities - Stocks / Share Certificates of quoted blue-chip companies
- Mortgage on Landed Property
- Asset-backed securities.
- Charge on assets (Fixed and/or Floating) - premises/ inventory/ receivables/ merchandise/ plant/ machinery etc.
- Negative Pledges.
- Lien on Asset being financed.

- Stock Hypothecation.
- Shipping Documents (for imports).
- Bankers' Acceptance.
- Life Assurance Policies.

6. Market Risk

6.1. Introduction

Access Bank is faced with the risk of decline in its earnings and capital arising from adverse changes in market variables; such as interest rate and foreign exchange rate. Market Risk is the risk that the value of on/off-balance sheet positions will be adversely affected by movements in equity prices, interest rates, currency exchange rates and commodity prices. Access Bank is exposed to market risk through the positions created in its trading and banking books.

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. These developments have prompted a comprehensive and dynamic Market Risk Policy, ALM Policy, Liquidity Policy, and Stress Testing Policy, etc. to ensure that risks faced across business activities and on Access Bank's Consolidated financial statements.

The Board approves the risk appetite for trading and non-trading activities and risk limits are set within the context of the approved market risk appetite. Limits are set based on the approved risk appetite, underlying liquidity as well as legal limitations on individual positions imposed by the regulatory authorities in Nigeria. The specific limits are proposed by the Group Head, market risk management and the Bank's Chief Risk Officer and approved by the Bank's Executive Management, relevant management committees, and ultimately by the Board. The Bank runs a state-of-the-art integrated and straight through processing treasury system for enabling better measuring, monitoring and managing interest rate and foreign exchange risks in the bank. Liquidity, Exchange Rate, and Interest Rate risks are managed through various metrics viz. Liquidity Gap Analysis, Dynamic Cash Flow Analysis, Liquidity Ratios, 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 risk reporting mechanism in the Bank comprises disclosures and reporting to the various management committees viz. ERM Committee, Asset Liability Committee and the Board Risk Management Committee. The Risk Committees receive daily/weekly risk dashboard and monthly/quarterly reports which are presented at the committee meetings. Depending on the market conditions and risk outlook, recommendations are made to the risk management committees in respect of the market risk profile, risk appetite appraisal; as well as review of limits against actual position. The Bank regularly conducts stress testing to monitor its vulnerability to unfavourable 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 a number of criteria including economic scenario, business strategy, management experience, peer analysis and the Bank's risk appetite. In line with the CBN circular on new capital adequacy framework, Access Bank has adopted the standardised duration approach for market risk and has obtained the board approval for the policy on ICAAP. This policy defines and sets processes to review and improve the techniques used for the identification, measurement and assessment of all material risks

and resultant capital requirements. Also, the bank has put in place a detailed plan for the full implementation for the Basel III frameworks and has also put in place a road map for the migration to more advanced capital computation method which factors in the actual loss experience of the bank.

The Bank manages exposure to market risk in both trading and non-trading portfolios

6.2. Access Bank HY 2023 Market Risk Capital Charge Computation

Table 10: Access Bank's Market Risk Capital Charge as at June, 2023

Summary information (capital required)	Trading	Banking	Total (NGN)
Interest rate risk	1,221,284,531		1,221,284,531
Specific risk	0		0
General market risk	1,221,284,531		1,221,284,531
Interest rate option	0		0
Equity Position risk	0		0
Specific risk	0		0
General risk	0		0
Equity option	0		0
Foreign Exchange Risk			3,661,930,630
FX and Gold			3,661,930,630
FX & Gold Option			0
Commodity risk			0
Simplified Approach			0
Maturity ladder approach			0
Commodity - option			0
Total Capital Requirement			4,883,215,161

6.3. Non-Trading Portfolio

The principal objective of market risk management of non-trading portfolios is to optimize net interest income (NII). Due to the size of the Bank's holdings in rate-sensitive assets and liabilities, a major area of market risk exposures in the bank is the interest rate on the banking book. This risk arises from the mismatch between the future yield on assets and their funding cost, as a result of interest rate changes.

The Bank uses a variety of tools to track and manage this risk. Some of the tools include:

- Repricing gap analysis;
- Liquidity gap analysis;
- Earnings-at-Risk (EAR) model using various interest rate forecasts; and
- Sensitivity Analysis.

The repricing gap analysis shows a positive or negative gap depending on the forecast of interest rate movement. The size of the gap is then adjusted to either hedge the NII against changing interest rates or to speculatively increase the NII.

6.3.1. *Trading portfolio*

The measurement/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, tail risk, stress testing, etc.

6.3.2. *Limits*

Specific limits and triggers (regulatory and in-house) have been set across the various market risk areas to prevent undue exposure and the market risk management group ensure that these limits and triggers are adhered to by the bank. The following limits currently exist; Fixed income and FX Open Position Limits (OPL): The Bank, in keeping with the prudence concept, sets its policy limit for Open Position for FX at a level lower than the maximum OPL approved by the regulatory authority.

6.3.3. *Mark-to-Market (MTM)*

The marking-to-market technique establishes historical profit/loss by revaluing money market exposures to prevailing market prices. When no market prices are available for a specific contract period, mark-to-Market is adopted.

6.4. *Derivatives*

The Bank plays a pivotal role in the development of the derivatives market in Nigeria. The FMDQ OTC Markets dealing member (banks') turnover ranking shows that Access Bank was number 2 by market share in the OTC market affirming itself as a leader in the Derivatives market.

Our framework for managing derivatives guides all derivatives activities. The policy has been approved by the Board of Directors and ownership of the document rests with the Chief Risk Officer. He is responsible for ensuring the implementation of the policy across the Bank, as well as guiding and assisting business and support functions to identify, monitor, access and manage risks related to derivatives activities.

The Board has overall responsibility for managing derivatives hedging risks in the Bank.

6.4.1. *Rationale for Derivative Activities*

The Bank may engage in derivative transactions based on one or more of the following objectives:

1. Hedging

The Bank might enter a derivative transaction to hedge a risk. In hedging, the derivative position is employed to offset or reduce the risk associated with an existing balance sheet position or future planned transaction. To hedge, the conditions below must exist:

- Prior to the transaction, the Bank does have a risk exposure;
- After the transaction, the Bank reduces its risk exposure;
- At the time of entering hedging transactions, the hedger knows the benefit- reduced risk; and
- Cost, revenue and risk implication are fully stated vis a vis the objectives of transaction within set limits.

2. Trading

The Bank may enter derivative transactions in the course of trading and to meet customers' needs.

3. Liquidity

The Bank may engage in derivative transaction for liquidity purposes. For instance, If the Bank intends to diversify its funding mix on the FCY balance sheet, it could execute a total return swap to receive FCY at the spot date and transfer Nigerian Treasury Bills (NTBs) of face value equivalent to 100% plus a haircut of the USD notional amount to the counterparty and upon maturity in a future date the NTBs will be transferred back to the Bank while the Bank transfers back the FCY received on the spot date.

In summary, the Bank may use derivatives to:

- Limit downside earnings exposure;
- Preserve upside earnings potential; and
- Increase return.

Table 11: Access Bank's Derivatives Valuation as at June 2023

Grade		Risk Rating		Derivative Financial Instruments			
				Gross Nominal		Fair Value	
				June 2023	December 2022	June 2023	December 2022
Investment	1	3,941,527	1,605,574	1,268,161	324,669		
Investment	2+	29,423	112,201	-12,512	-4,458		
Investment	2	76,227	93,018	25,118	-1,242		
Investment	2-	130,783	11,329	-51,950	-1,026		
Standard	3+	7,205	256,363	-2,956	50,150		
Standard	3	191,652	1,032	-66,505	-76		
Standard	3-	109,062	497	20,503	-32		
		4,485,880	2,080,014	1,179,859	367,985		
		4,485,880	2,080,014	1,179,859	367,985		

6.4.2. Over the Counter Derivative Transactions

Over the counter Derivatives are contracts that are privately negotiated or traded between two parties without going through an exchange or intermediary. The CBN guideline on Credit Risk states that a Bank

is only exposed to the potential cost of replacing the cash flow (On contracts showing a positive value) if the counterparty defaults. The Bank includes all the OTC derivatives in its Banking and trading book when calculating its credit exposures arising from interest rate and foreign exchange rates related OTC derivative transactions for capital adequacy purposes.

Access Bank computes its credit exposure for OTC derivative transactions using the **Current Exposure Method**. The exposure is computed by adding.

- the replacement cost (obtained by marking-to-market) of the OTC derivative transaction or in the case of a transaction with negative replacement cost, a value of zero; and
- the amount for potential future exposure obtained by applying the appropriate add-on factor set out in the table below to the notional amount of the OTC derivative transaction.

$$E = \text{Max}(RC \text{ or } 0) + NA * \text{Add on Factor}$$

Where E = exposure,

RC = replacement cost and

NA = notional amount

6.5. Market Risk Models

The Bank employs the use of some techniques in managing its exposure to market risk. Some of these techniques are discussed below

6.5.1. Mark-to-Market (MTM)

The marking-to-market technique establishes historical profit/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 categorized under the securities trading portfolio on a daily basis. As a general guide, marking to market is performed independently of the trading unit i.e., prices/rates are obtained from external sources.

7. Operational Risk

7.1. Introduction

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 with regard to 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:

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

7.2. Measuring and Managing Operational Risk

The Bank recognizes the significance of operational risk and is committed to enhancing the measurement and management thereof. Within the Bank's operational risk framework, qualitative and quantitative methodologies and tools are applied (Bank-wide) to identify and assess operational risks and to provide management information for determining appropriate mitigating measures. Risk Event Data Collection and Reporting a standard process is used Bank-wide for the recognition, capture, assessment, analysis and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events. Risk events are loaded onto a central database and reported monthly to the ERMC. The Bank also uses a database of external public risk events and is part of a consortium of international banks that share loss data information anonymously to assist in risk identification, assessment, modelling and benchmarking. Risk and Control Self-Assessments (RCSA) In order to pro-actively identify and actively mitigate risks, the Operational Risk Management Framework utilizes RCSAs. RCSA is used at a granular level to identify relevant material risks and key controls mitigating these risks. The risks and controls are assessed on a bi-annually basis and relevant action plans are put in place to treat, tolerate, terminate or transfer the risks, taking into account the relevant business risk appetites. The RCSA program is extensive and covers the entire Group. The Internal Audit further tests the effectiveness of the RCSAs within the normal course of auditing and relevant metrics are monitored and actioned.

7.3. Operational Risk Capital Charge

In computing Operational Risk capital charge for Access Bank, the basic indicator approach was used. The Basic Indicator Approach allocates operational risk capital using a single indicator, gross income, as a proxy for the institution's overall operational risk exposure. Banks using this approach must hold capital for operational risk equal to the average of a fixed percentage of annual gross income over the previous three years (this percentage has been set at 15% by the Basel Committee). Gross income is defined as NII plus net non-interest income.

There are no qualifying criteria for the Basic Indicator approach, as it is meant to be applicable by any Bank, regardless of its sophistication or complexity.

The charge may be expressed as follows:

$$(KBIA) = \frac{\sum(GI_{1-n} \times a)}{n}$$

Where:

KBIA	The capital charge under the Basic Indicator Approach
GI	Annual Gross Income, where positive, over the previous three years
N	Number of the previous three years for which gross income is positive
a	15%, which is set by the Basel Committee, relating the industry-wide level of required capital to the industry-wide level of the indicator

7.3.1. Access Bank HY 2023 Operational Risk Capital Charge Computation

Table 12: Access Bank's Operational Risk Capital Charge as at June 2023

Line no.	Nature of item	Capital Charge Factor	First Year	Second Year	Third Year	Aggregate Gross Income (years 1 to 3)	Capital Charges
			SUM	SUM	SUM		
1	Basic Indicator Approach (BIA)						
2	Gross Income [see Note 1]	15%	414,477,981,000	447,597,403,900	471,106,088,653	1,333,181,473,552	199,977,221,033
3	Number of years with positive annual gross income						3
4	Mean Average of Aggregate Capital Charge						66,659,073,678
5	Calibrated Risk-weighted Amount (BIA)						833,238,420,970

*Gross income should be gross of any provisions (e.g., for unpaid interest), gross of operating expenses, including fees paid to outsourcing service providers, excludes realised or unrealised profits/losses from sale of securities in banking book and excludes extraordinary or irregular items as well as income derived from insurance.

8. Pillar 2 Risks

8.1. Interest Rate Risk (Banking Book)

In computing the Interest rate Risk in the Banking Book (IRRBB) capital charge for Pillar II, the Economic value of equity (EVE model) was used. The EVE represents the present value of the expected cash flows on assets minus the present value of liabilities of the expected cash flows on the liabilities, plus or minus the present value of the expected cash flows on off balance sheet instruments. This captures repricing risk, basis risk, yield curve risk and option risk as opposed to the Gap measurement method which captures only repricing risk.

EVE is used to measure IRRBB by comparing the base case EVE value with different EVE measures under different interest rate shocks (including shocks relating to increase and reduction in interest rate shocks). The maximum of the worst aggregated reductions to EVE is taken as the minimum capital requirement for IRRBB. It reflects the worst aggregated reductions in EVE across Basel prescribed interest rate shocks.

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is the open position limits using the Earnings at Risk approach. Specified limits have been set for open positions limits, which are the expected maximum exposure the Bank is to be exposed to. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Interest-rate risk is monitored regularly with a Gap report. A limits framework is in place to ensure that retained risk remains within approved appetite.

The Bank presently has a modelled Earning at Risk Model (EaR). Earnings-at-Risk (EAR) is computed in order to evaluate the impact of interest rate changes on earnings. The approach used is a VaR based approach that takes into account non-parallel shifts in the term structure and its impact on the earnings portfolio of the Bank.

8.1.1. Capitalization

In the computation of IRRBB, the Bank uses Economic value of Equity (EVE) Model as recommended by CBN in its ICAAP 2015 and 2016 response. Here, the EVE represents the present value of the expected cash flows on assets minus the present value of liabilities of the expected cash flows on the liabilities, plus or minus the present value of the expected cash flows on off balance sheet instruments.

This captures repricing risk, basis risk, yield curve risk and option risk as opposed to the Gap measurement method which captures only repricing risk. EVE is used to measure IRRBB by comparing the base case EVE value with different EVE measures under different interest rate shocks (including shocks relating to increase and reduction in interest rate shocks). The maximum of the worst aggregated reductions to EVE is taken as the minimum capital requirement for interest rate risk in the banking book.

Basel has some prescribed interest rate scenarios that banks should apply to capture parallel and non-parallel gap risks for EVE. The scenarios are as follows:

- Parallel Shock Up;
- Parallel Shock Down;
- Steepened Shock (short rates down and long rates up);
- Flattener shock (short rates up and long rates down);
- Short rates shock up; and
- Short rates shock down.

8.1.2. Mitigation

The Treasury function, Market Risk and the Asset Liability Committee (ALCO) are responsible for the identification, measuring, monitoring, control and reporting of IRR in the Bank. The ALM policy sets out further details on the Bank's IRR management practices including the interest rate re-pricing gap schedule to measure IRR. The re-pricing gap schedule measures the effect of movement in interest rates on net interest income (NII). The Economic Intelligence unit is also responsible for forecasting the direction of interest rate movements and reporting their results to all other functions as required. The Bank also has re-pricing gap limits in place.

8.2. Liquidity Risk

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 at all times including periods of financial stress.

The Bank has developed a liquidity management framework based on a statistical model underpinned by conservative assumptions with regard to 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 above the regulatory minimum liquidity ratio and the requirements of its stress tests. Global funding and liquidity risk management activities are centralized within Corporate Treasury. We believe that a centralized approach to funding and liquidity risk management enhances our ability to monitor liquidity requirements, maximize access to funding sources, minimize borrowing costs and facilitate timely responses to liquidity events. The Bank analyses and monitor our liquidity risk, maintain excess liquidity and access diverse funding sources including our stable deposit base.

The Board approves the Bank's liquidity policy and contingency funding plan, including establishing liquidity risk tolerance levels. 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.

8.2.1. *Quantification of Liquidity Risk*

Access Bank has adopted both qualitative and quantitative approaches to measuring liquidity risk. Specifically, the Bank adopted the following approaches:

- a) Funding and Liquidity plan;
- b) Gap Analysis; and
- c) Ratio Analysis.

The Funding and Liquidity plan defines the Bank's sources and channels of utilization of funds. The funding liquidity risk limit is quantified by calculating liquidity ratios and measuring/monitoring the cumulative gap between our assets and liabilities. The Liquidity Gap Analysis quantifies the daily and cumulative gap in a business-as-usual environment. The gap for any given tenor bucket represents the borrowings from, or placements to, the market required to replace maturing liabilities or assets. The Bank monitors the cumulative gap as a + or – 20% of the total risk assets and the gap as a + or – 20% of total deposit liabilities.

8.2.2. *Limit Management and Monitoring*

Active management of liquidity through the framework of limits and control presented above is possible only with proper monitoring capabilities. The monitoring process focuses on funding portfolios, the forward balance sheet and general indicators; where relevant information and data are compared against limits that have been established. The Bank's Treasury is responsible for maintaining sufficient liquidity by maintaining sufficient high ratio of liquid assets and available funding for near-term liabilities. The secured liquidity measure is calculated and monitored by risk management. Increased withdrawals of short-term funds are monitored through measurements of the deposit base in the Bank. Liquidity risk is reported to the Board of Directors on a quarterly basis.

8.2.3. *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 recognizes 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 in the light of evolving market conditions and stress test results.

8.3. *Concentration Risk*

The Herfindahl-Hirschman Index (HHI) was employed to measure the credit concentration risk in sectorial distribution as well as the geographical distribution of the Bank's deposits and loan portfolio. The HHI is defined as the sum of the squares of the relative portfolio shares of all borrowers (these portfolio shares are calculated using risk-weighted assets (RWAs)). Well-diversified portfolios have an HHI close to 0, whilst the most concentrated portfolios have a number close to 1. The Bank of England Prudential

Regulation Authority’s mapping model was used to translate the Bank’s HHI into a capital charge from a prescribed capital add-on range on ranges to HHI as seen below:

Fig 19: PRA guidelines on HHI computation of Concentration Risk

Single name concentration risk (granularity):									
HHI _{RWA}	0%	0.29%	0.29%	0.59%	0.59%	1.15%	1.15%	1.85%	> 1.85%
Capital Add-on (% portfolio RWA)	0%	0.5%	0.5%	1%	1%	2%	2%	3%	3%
Sector concentration risk:									
HHI _{RWA}	11.1%	20.3%	20.3%	25.8%	25.8%	41.7%	41.7%	67.4%	> 67.4%
Capital Add-on (% portfolio RWA)	0%	0.25%	0.25%	0.5%	0.5%	1%	1%	1.5%	1.5%
Geographic (international) concentration risk:									
HHI _{RWA}	11.1%	24.9%	24.9%	34.5%	34.5%	47.8%	47.8%	77.9%	> 77.9%
Capital Add-on (% portfolio RWA)	0%	0.2%	0.2%	0.5%	0.5%	0.8%	0.8%	1.25%	1.25%

8.4. Fraud Risk

Fraud risk is the risk to earnings or capital arising from an intentional act committed to secure an unfair or unlawful gain. Fraud comprises internal fraud and external fraud.

8.4.1. Sources and Manifestation of Risk

The Bank is exposed to both internal and external fraud that can materialize as a result of fraudulent financial reporting, misappropriation of assets (e.g. embezzlement, payroll fraud, etc.), revenue or assets gained by fraudulent or illegal acts (e.g. over-billing customers), expenses or liabilities avoided by fraudulent or illegal acts (e.g. tax fraud, falsifying compliance data provided to regulators) and expenses or liabilities incurred for fraudulent/illegal acts (e.g. public bribery, kickbacks).

8.4.2. Mitigation

The Bank has policies in place to ensure employee training on the code of conduct and ethics, anti-fraud policy, and carries out employee background screening for new hires. The Bank continues to strengthen its internal control system, elements of which include management oversight and control culture, segregation of duties, as well as authorization and approval. In addition, the Operational Risk Department investigates and reports all incidences of fraud within the organization.

8.4.3. Capitalization

Access bank calculates its capital charge for fraud risk by using the following assessment metrics;

- Number of successful fraud attempts over 3 years
- Number of fraud attempts under investigation
- Number & amount of un-reconciled GL accounts

The inherent risk as well as residual risk is determined by using the Impact and probability scale.

8.5. Money Laundering Risk

This is the risk that the Bank can be used as a conduit through which corrupt politicians or criminal organizations launder the proceeds of crime or transfer money to fund terrorist or illegal activities. Access Bank could suffer loss of earnings or capital arising from non-compliance with the anti-money laundering and anti-terrorism financing regulations and policy.

8.5.1. Sources of Risk and Manifestation

The Bank is exposed to money laundering risk primarily in its deposit-taking and transaction processing activities. The Bank maintains a large number of politically exposed person (PEP) accounts, which increases the likelihood of money laundering risk. The Bank's account opening and transaction related activities are subjected to scrutiny by various regulatory agencies in respect to money laundering as well as suspicious and fraudulent activities. The manifestation of this risk could occur as a result of failure to adhere to anti- money laundering rules and regulation including customer due diligence at account opening, monitoring of PEP accounts, and reporting of suspicious activities to the relevant AML authorities.

8.5.2. Mitigation

The business unit risk owners whose activities and transactions are affected by AML regulatory requirements are responsible for mitigating and reporting suspected money laundering activities that occur in their respective areas. The Bank conducts AML training for all staff annually and has implemented "Know Your Customer" procedures during the account opening process to verify the identity of customers and determine the legitimacy of their funds. The Bank reviews funds in excess of \$30,000 or N5million credited to PEP accounts and renders ad-hoc suspicious activity reports to Nigerian Financial Intelligent Unit.

8.5.3. Capitalization

Access bank calculates its capital charge for Money Laundering risk by using the following assessment metrics;

- Number of customers account opened without complete documentation in HY 2023
- Number of Politically Exposed Persons (PEP) accounts opened in HY 2023
- Number of suspicious transactions reported in HY 2023
- Number of unusual lodgments waived by management but unreported in HY 2023

The inherent risk as well as residual risk is determined by using the Impact and probability scale.

8.6. Cyber/Digital Risk

Digital risk is a term encompassing all digital enablement that improve risk effectiveness and efficiency—especially process automation, decision automation, and digitized monitoring and early warning. The approach uses work-flow automation, optical-character recognition, advanced analytics (including machine learning and artificial intelligence), and new data sources, as well as the application of robotics to processes and interfaces. Essentially, digital risk implies a concerted adjustment of processes, data, analytics and IT, and the overall organizational setup, including talent and culture.

8.6.1. Source of Risk

Digitization has become deeply embedded in banking strategy, as nearly all businesses and activities have been slated for digital transformations. The significant advantages of digitization, with respect to customer experience, revenue, and cost, have become increasingly compelling. The momentum to adopt the new technologies and operating models needed to capture these benefits continues to build. Risk of loss from failure of information technology systems (service downtime) and cyber resilience, susceptibility to fraud, vendor host change control, breach of transaction limit in absence of required monitoring process and lack of compliance to regulatory requirements.

8.6.2. Mitigation

The Mitigation of Digital/Cyber Risk is the primary responsibility of the digital/cyber risk unit under the Risk management division. This includes regular monitoring as well as regular customer awareness, anti -fraud and anti-phishing services, Proactive system monitoring (application, database, uptime utilisation, using threshold and alert) back up providers, implementation of anti-fraud and anti-phishing threshold monitoring, Interoperability rules and practices Adoption of Application Standard (e.g. ISO8583)POC, Properly scoped capacity planning strong authentication and due diligence before contracting vendors relating to all digital products of the Bank.

8.6.3. Capitalization

Access bank calculates its capital charge for cyber/digital risk by using the following assessment metrics;

- Number of successful digital fraud attempts over 3 years

The inherent risk as well as residual risk is determined by using the Impact and probability scale.

8.7. Strategic Risk

Strategic risk is the risk that the Bank will fail to meet its performance target or produce sufficient cash flow to maintain its operations resulting in a negative impact on the Bank's operating results and financial conditions. The Bank's methodology for assessing this risk is based on a best practice approach that considers the Maximum negative deviation from profit projections observed over a period of three years.

8.7.1. Sources and Manifestation

The Bank is exposed to business risk in all of its operations. The risk could manifest as a result of, competition, adverse macro-economic conditions (not limited to systemic crashes), adverse regulatory directives, wars, and natural disasters that could affect the Bank's ability to meet its financial target.

8.7.2. Mitigation

The mitigation of business risk is the primary responsibility of executive and senior management. The Financial Control Unit measures the impact of strategic risk on the Bank's earnings through the use of budgetary control as well as the proactive review and monitoring of target vs. actual performance. The Economic Intelligence Unit (EIU) is responsible for conducting environmental scans to identify macroeconomic issues and trends, and report them to appropriate parties, so the Bank can take timely decisions to mitigate its exposure. The Bank utilises its management information system to track progress towards achieving performance target and to take timely decisions if actual performance falls behind target. Others include:

- Close monitoring of all reputational risk event drivers
- Adherence to the principle of zero tolerance for regulatory breaches by the Compliance Unit
- Active engagement with all stakeholders – customers, investors, regulators, staff, etc.

All significant strategic actions developed by the Strategy team are approved by the Board.

8.7.3. Capitalisation

Access Bank holds additional capital for strategic risk. The capital charge is based on the assumed loss of 7.5% of estimated gross earnings for HY 2023 to cover business risk exposure in line with the Bank's tolerance level.

8.8. Reputational Risk

Reputational or franchise risk is the risk of an adverse reaction from the Bank's stakeholders to its action or inactions thereby affecting its reputation or brand and making it more difficult for the Bank to achieve its objectives.

8.8.1. Sources and Manifestation of Risk

Reputational risks to the Bank could materialise as a result of operating in a highly regulated environment with significant vulnerability to regulatory actions that may adversely impact the Bank's reputation. Reputational risk also materialises as a result of adverse opinions of stakeholders as a result of operating losses, litigation, sanctions or fines imposed by regulators, failure of directors, management and staff to adhere to ethical code of conduct, failure to deliver quality service to customers, failure to address issues of public concern, labour unrest and failure to adhere to good employment practices. Should these risks materialise, the Bank could suffer loss due to decline in customer base and loss of market share as well as erosion of brand value.

8.8.2. Mitigation

The Bank has formal policies and procedures for managing reputation events, including pre-planning how certain situations may be handled. The policies and procedures cover roles and responsibilities, process for managing pre- and post-reputational risk events, review of reputational risk process by internal audit. Other procedures are timely report and escalation of any reputation events to senior management with a view to formulating an action plan to deal with the situation as well as notification to stakeholders that may be affected by the event. The Head of operational risk management unit liaises with the Head of corporate communication to obtain an analysis of the frequency of positive or negative publicity in the news media and to manage the Bank's corporate image effectively. The Bank also monitors online, all published information whether true or untrue on blogs, opinion forums or article and to react in a proactive manner its reputation, brand and revenue stream.

In addition, the Compliance and Internal Control unit carries out compliance testing to ensure strict adherence to the Bank's code of conduct and documented practices and post event review to derive the lessons learnt which will be used to enhance the reputational risk management.

8.8.3. Capitalisation.

The Reputational Risk Capital Charge is based on an assumption that should the Bank have a reputational risk incidence, there may be a run off of the top 100 depositors with non-contractual deposits in the 0-3months bucket and 15% of the total retail deposits. Customer's short term loans were netted off deposits as would happen in the case of a "run". The run will lead to an increased cost in funding which will be used in calculating the capital charge.

8.9. Country / Group Risk

Country risk encompasses all the uncertainties arising from the economic, social and political conditions of a country that may cause borrowers in that country to be unable or unwilling to fulfill their external obligations. Group risk is the risk that the activities or the operating performance of a foreign subsidiary company may impact negatively on the capital of Access Bank.

8.9.1. Sources and Manifestation of Risk

Access Bank has operations outside of Nigeria comprising twelve African countries and the UK. Consequently, it is exposed to losses in the event of adverse performance of the foreign subsidiary entities. The Board of Directors and Management have established minimum performance targets for all subsidiaries to ensure that each subsidiary is profitable. Access Bank is also exposed to country risk in its cross border and international lending activities. Specifically, the sources of this risk are changes in regulatory or political environment of its subsidiary banks and counterparties in those countries, deteriorating economic conditions, political and social upheavals, expropriation of assets, and government repudiation of external indebtedness, foreign exchange controls and currency devaluation.

8.9.2. Mitigation

The Bank's risk management policies outline the controls for managing group risk. These controls include the centralizing at the Head Office all credit approval requests from subsidiary banks, conducting detailed country risk analysis and selection before entering any country to open foreign offices, performing country risk rating reviews, and establishing and monitoring country exposure/concentration limits. The Bank's Compliance and Internal control unit is responsible for monitoring and reporting issues related to country/group risk. The Financial Control unit and Compliance and Internal Control are responsible for monitoring the country exposure limits and reporting on the financial performance of the various subsidiaries and making allowances for provisions as necessary. The Economic Intelligence unit carries out an environmental scan and produces the economic intelligence reports on a monthly basis.

8.9.3. Capitalisation

Two methodologies are employed in the computation of group/country risk;

Evaluation of country risk rating which determines the inherent risk of the entity. Here, the risk grade of the subsidiaries as seen above determines the inherent risk in line with the ERM framework of the Bank. Secondly, minimum performance targets for all subsidiaries to ensure that each subsidiary is profitable as established by the Board based on the investment exposure. This could improve or drop the rating down further depending on the profit or loss making status we consider the profitability of the subsidiaries which determines the movement by a notch increase or decrease depending on the profit levels in comparison to past 3 years.

8.10. Model Risk

Model Risk is the risk of errors in estimates caused by inadequacies in the model or its implementation. It arises from the use of a plethora of mathematical formulas to categorise and classify risks. It could also arise as any valuation which has to be benchmarked, extrapolated or calculated from market input. It is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.

8.10.1. Sources and Manifestation of Risk.

The major sources of Model Risk can arise from Data error, Lack of Critical Variables, Insufficient historical depth, incorrectly entered variables, insufficient samples. Computational difficulties, Valuation errors of Derivative instruments and errors in the estimation of certain variables such as collective and specific impairments. It could be noted that some assumptions could however be subjective.

8.10.2. Mitigation

The Bank's designated personnel (FINCON, Treasury, Market Risk and Credit Portfolio Management) are all responsible for developing and implementing Models. The risk management, Internal and External Audit

validates the models. This would be driven by the key estimator (exchange rates) volatility period. Also including other estimation errors. (Valuation adjustment in line with Basel BCBS 699).

8.10.3. Capitalisation

The outputs have a material impact on business decisions, including decisions related to risk management and capital and liquidity planning and the model failure could have a particularly harmful impact on the bank's financial condition.

8.11. Regulatory Risk

Regulatory risk is the risk of regulatory sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with the letter and spirit of laws, regulations, rules, and codes of conduct applying to its business activities.

8.11.1. Sources and Manifestation of Risk

A large number of the Bank's activities are governed by various regulatory agencies, and as Access Bank is heavily exposed to regulatory risk in its Banking operations. The manifestation of this risk could occur as a result of failure to obtain certain regulatory approvals as at when due, inaccurate rendition of regulatory returns, failure to meet regulatory deadlines, failure to observe proper standards of market conduct resulting in legal or regulatory sanctions, reputational loss and the associated financial and business impacts.

8.11.2. Mitigation

Proactive engagement strategy with CBN and other regulators, driven by a well-developed Regulatory Risk framework and lead by the Chief Risk Officer and Group Chief Compliance Officer. New regulations and compliance plans are discussed in management and board committee meetings. The Bank has implemented an automated Entity Regulatory Rules Book. The Bank has established procedures to ensure regulatory compliance. These include the automation of returns to regulatory agencies, periodic testing of internal controls over financial reporting, monitoring of compliance with policies and procedures, segregation of duties (maker/checker), adhering to internal deadlines, tracking of deliverables, sanction grids, tracking of request from regulators and timely response to request/regulatory enquiries, strong corporate governance and compliance culture.

8.11.3. Capitalisation

Access Bank calculates the capital charge for regulatory compliance risk by using the assessment metrics which include:

- i. Number of regulatory investigations and inquiries in the current year
- ii. Number of noted errors in regulatory reporting in the current year
- iii. Amount of fines paid over the last 3 years

iv. Amount of fines under investigations with regulatory bodies in the current year

8.12. Downgrade Risk

Downgrade risk is the risk of financial loss triggered by a downgrade to the Bank's credit rating or its debt securities' ratings, thereby resulting in increased cost of funding.

On balance, the near-term impact from the oil price shock and rapidly depleting foreign reserves on funding and liquidity is likely to be tolerable. The primary risk is that lower oil revenues (and Nigeria's falling FX reserves) could limit banks' access to foreign currency (FCY) liquidity. Furthermore, adverse global conditions could impede some banks in raising external financing. Local-currency liquidity remains strong with banks funded mainly by low-cost customer deposits.

The bank may suffer from a simultaneous and persistent decline in access to non-core sources of deposits and to wholesale funding

8.12.1. Sources and Manifestation of Downgrade Risk

The primary source of downgrade risk is a fall in the bank's credit ratings or its debt securities' ratings, thereby resulting in increased cost of funding necessitated by a decline in the ratings of Nigeria.

8.12.2. Mitigation

Efficient Deposit Rate Guide, Rate reasonability check on tenured deposit, Interest rate control limits, regular testing of sensitivity of net interest income, duration gap analysis to test the impact of interest rate movement on the Bank's earnings and net worth

8.12.3. Capitalization

We have modelled the impact of increased cost of funds on the Bank's FCY source of deposit within the 90 days maturity bucket. A possible rollover of these funds may result in the demand of a higher premium upon crystallization of this risk. We examined the impact of downgrade risk culminating in a 10% increase in cost of funds on the FCY borrowings.

8.13. Legal Risk

Basel II classified legal risk as a subset of operational risk in 2003. This conception is based on a business perspective, recognizing that there are threats entailed in the business operating environment. The idea is that businesses do not operate in a vacuum and that, in the exploitation of opportunities and their engagement with other businesses, their activities tend to become subjects of legal liabilities and obligations. Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law and regulation apply to your business, its relationships, processes, products and services.

8.13.1. Sources and Manifestation of Legal Risk

Legal risk is the risk of loss to an institution which is primarily caused by:

- (a) A defective transaction; or
- (b) A claim (including a defense to a claim or a counterclaim) being made or some other event occurring that results in a liability for the institution or other loss (for example, as a result of the termination of a contract) or;
- (c) Failing to take appropriate measures to protect assets (for example, intellectual property) owned by the institution; or
- (d) Change in law.

8.13.2. Mitigation

The Bank maintains a legal Unit responsible with the responsibility to reduce the risk of disputes and litigation by ensuring compliance and maintaining accurate records.

8.13.3. Capitalization

The Bank is a party to numerous legal actions arising out of its normal business operations. The outcomes that result from such proceedings may have a material adverse effect on the financial position of the Bank, either individually or in the aggregate. The Legal risk capital charge is based on a percentage of the total litigation exposure.

8.14. Environmental and Social Risk

Environmental and Social risks are the potential negative consequences to the Bank that result from impacts (or perceived impacts) associated with customers' business activities on the natural environment (i.e., air, water, soil) or communities (e.g., employees, customers, residents). Access Bank is committed to conducting business in an environmentally and socially responsible manner and will operate in accordance with the Equator Principles.

8.14.1. Sources and Manifestation of E&S Risk

Customers' Environmental & Social performance is likely to have financial, legal, and reputational implications for its business, as well as for the Bank. It is important that these implications are understood, considered, and addressed during credit review and in monitoring activities, to minimise and manage the risk to the Bank.

8.14.2. Mitigation

Access Bank has implemented its Environmental & Social Risk Management Policy, hinged on global best practices, including the IFC Performance Standards, Equator Principles and the Nigerian Sustainable Banking Principles (NSBP), into its credit architecture to identify, assess, manage and monitor E&S risks

in its business activities, as well its own operations. The Bank's ESMS utilizes a risk appraisal process to make informed decision on whether the E&S risks associated with the transaction is acceptable.

Control E&S risks associated with the transaction; and realise any potential E&S benefit associated with the transaction.

The Bank's E&S Management System (ESMS) has evolved to identifying E&S opportunities for the Bank including providing financial services to support customers in putting energy efficiency measures in place or accessing markets for sustainable products.

8.14.3. Capitalization

This was estimated by taking additional provision for high and medium E&S risk obligors and assuming loss of business from E&S conscious customers in the event of a reputational damage resulting from E&S related issues.

8.15. Contagion Risk

This refers to the risk that financial difficulty or failure in one of the members of the banking group will spread rapidly and negatively impact the other members of the group. Contagion risk highlights the vulnerability of the group to shocks and emphasizes the importance of robust risk management and regulatory measures to mitigate its potential impact.

8.15.1. Sources and Manifestation of Contagion Risk

Contagion Risk arises from the interdependencies and linkages among group members, such as through counterparty exposures, funding relationships, or common asset holdings.

8.15.2. Mitigation

Mitigating contagion risks within the Bank's group involves implementing various measures to minimize the spread of risks across different entities within the group through the diversification of risks across different business lines, geographic regions, and counterparties. The Bank has also ensured that it or any of the entities within the group does not rely heavily on a single source of risk, such as a particular sector or market, the impact of a contagion event can be mitigated. This can be achieved through careful portfolio management, risk assessment, and allocation of resources.

8.15.3. Capitalization

Access Bank has a robust contingency plans in place to manage the impact of potential contagion events. This includes stress testing scenarios to assess the potential impact of various risk events, as well as developing response plans to address any issues that arise.

9. Equity Exposures: Disclosures for Banking Book positions

The Bank uses widely recognised valuation models for determining the fair value of its financial assets. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain Investment securities for which there is no active market.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

For level 2 assets, fair value was obtained using a recent market transaction during the year under review. Fair values of unquoted debt securities were derived by interpolating prices of quoted debt securities with similar maturity profile and characteristics. There was no transfer between levels 1 and 2 during the year.

9.1. Financial Instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily government bonds, corporate bonds, treasury bills and equity investments classified as trading securities or fair value through other comprehensive income investments

9.2. Financial Instruments in Level 2

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques used to value financial instruments include:

- i. Quoted market prices or dealer quotes for similar instruments;
- ii. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value; and
- iii. Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

9.3. Financial Instruments in Level 3

Valuation techniques used to derive Level 3 fair values Level 3 fair values of investments have been generally derived using the adjusted fair value comparison approach. Quoted price per earning or price per book value, enterprise value to EBITDA ratios of comparable entities in a similar industry were obtained and adjusted for key factors to reflect estimated ratios of the investment being valued. Adjusting factors used are the Illiquidity discount which assumes a reduced earning on a private entity in comparison to a publicly quoted entity and the haircut adjustment which assumes a reduced earning for an entity located in Nigeria contributed by lower transaction levels in comparison to an entity in a developed or emerging market.

Table 13: Unrealised Gains (Losses) On Other Comprehensive Income

UNREALISED GAINS (LOSSES) ON OTHER COMPREHENSIVE INCOME		
Unrealised Revaluation Gain (Losses) in reporting period recognised in Other Comprehensive Income		
FVOCI Instruments (N'm)	Jun 2023	Dec 2022
Fair Value changes of FVOCI instruments during the year	26,188	76,641
Net Changes in allowance for FVOCI Financial Instrument	-1,120	3,472
Total Realised Gain (Losses) from Financial Instrument	25,068	80,113

**Forms part of Other Comprehensive Income included in Tier 2 Capital*

Table 14: Assets classified as Fair Value Through Profit and Loss

Assets classified as Fair Value Through Profit and Loss (N'm)		
	Jun 2023	Dec 2022
Opening Balance	42,039	42,737
Additions	19,444	7,876
Disposals	-	-8,384

Impairment	-	-
Transfers	-	-190-
Balance, Year End	61,483	42,039

VALUATION TECHNIQUE FOR UNQUOTED EQUITY

In accordance with IFRS 13 fair value measurement, which outlines three approaches for valuing unquoted equity instruments; market approach, the income approach and the cost approach. The Group estimated the fair value of its investment in each of the unquoted equity securities at the end of the financial year using the market approach.

The adjusted fair value comparison approach of EV/EBITDA, P/E ratios and P/B ratios was adopted in valuing each of these equity investments taken into cognizance the suitability of the model to each equity investment and the availability of financial information while minimizing the use of unobservable data.

Description of valuation methodology and inputs:

The fair value of the other unquoted equity securities was derived using the Adjusted fair value comparison technique. Adjusted fair value comparison approach of EV/EBITDA, P/E ratios and P/B ratios are used as input data.

The steps involved in estimating the fair value of the Group's investment in each of the investees (i.e. unquoted equity securities) are as follows:

Step 1: Identify quoted companies with a similar line of business, structure and size;

Step 2: Obtain the EV/EBITDA or the P/B or P/E ratios of these quoted companies identified from Bloomberg, Reuters or Nigeria Stock Exchange;

Step 3: Derive the average or median of EV/EBITDA or the P/B or P/E ratios of these identified quoted companies;

Step 4: Apply the lower of average (mean) or median of the identified quoted companies' ratios on the EV/EBITDA or Book Value or Earnings of the investment company to get the value of the investment company;

Step 5: Discount the derived value of the investment company by applying an Illiquidity discount and EPS Haircut Adjustment to obtain the Adjusted Equity Value;

Step 6: Multiply the adjusted equity value by the present exchange rate for foreign currency investment; and

Step 7: Compare the Adjusted Equity value with the carrying value of the investment company to arrive at a net gain or loss.

a. Enterprise Value (EV):

Enterprise value measures the value of the ongoing operations of a company. It is calculated as the market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents of the company.

b. Earnings Before Interest, Tax Depreciation and Tax (EBITDA):

EBITDA is earnings before interest, taxes, depreciation and amortization. EBITDA is one of the indicators of a company's financial performance and is used as a proxy for the earning potential of a business.

$EBITDA = \text{Operating Profit} + \text{Depreciation Expense} + \text{Amortization Expense}$

c. Price to Book (P/B Ratio):

The price-to-book ratio (P/B Ratio) is used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest company book value per share or by dividing the company's market capitalization by the company's total book value from its balance sheet.

d. Price to Earning (P/E Ratio):

The price-earnings ratio (P/E Ratio) values a company using the current share price relative to its per-share earnings. The sources of the observable inputs used for comparable technique were gotten from Reuters, Bloomberg and the Nigeria Stock Exchange.

METHOD OF VALUATION

The comparative method of valuation is used in the valuation of the asset. This method involves the analysis of recent transaction in such asset within the same asset type and the size of the subject asset after due allowance have been made for peculiar attributes of the various asset concerned.

The key elements of the control framework for the valuation of financial instruments include model validation and independent price verification. These functions are carried out by an appropriately skilled Finance team, independent of the business area responsible for the products. The results of the valuation are reviewed quarterly by senior management.

Assessment of Impairment of Goodwill on Acquired Subsidiaries

Goodwill on acquired subsidiaries were tested for impairment by comparing the value-in-use for the cash generating unit to the carrying amount of the goodwill based on cash flow projections. Projected cash flows for Kenya were discounted to present value using a discount rate of 23.77% and a cash flow terminal growth rate of 5.47%. Projected cash flows for Rwanda was discounted using a discount rate of 22.63% and terminal growth rate of 6.21%. Projected cash flows for former Diamond Bank was discounted using a discount rate of 31.78% and terminal growth rate of 3.19%. Projected cash flows for Access Botswana was discounted using a discount rate of 8.8% and terminal growth rate of 4.16%. The Group determined the appropriate discount rate at the end of the year using the Capital Asset Pricing Model.

Defined Benefit Plan

The present value of the long-term incentive plan depends on a number of factors that are determined in an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of obligations. The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of the year. In determining the appropriate discount rate, reference is made to the yield on Nigerian Government Bonds

that have maturity dates approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.