ABP.CRM.1113.019

Credit Risk Management Policy Guide

Version No: 8.0

August 2020 *To be the world's most respected African Bank*

Table of Contents

1. Ownership, Approvals of the Policy and Version Control

1.1. Introduction

This document describes the Credit Risk Management Policy Guide of Access Bank Plc. It contains the Bank's strategy relating to its lending activities and articulates the credit risk philosophy, appetite, culture, defined target market, risk acceptance criteria of the Bank as well as the Bank's credit risk management process and infrastructure. The acceptable behaviour and practices required of all personnel involved in credit creation, processing, availment, monitoring, control and recovery activities are also highlighted. It is therefore important for all personnel who have lending responsibilities to acquaint themselves with the Credit Policy of the Bank as well as the Nigerian banking, accounting and tax regulations.

1.2. Ownership of the Policy

The ownership of the Credit Risk Management Policy Guide (CPG) rests with the Chief Risk Officer (CRO). She/he shall be responsible for the implementation of the policy across the bank. She/he has a key role in guiding and assisting businesses and support functions to identify, measure, monitor and control Credit risk in the bank's book.

1.3. Approval of the Policy

The Credit Risk Management Policy Guide has been approved by:

Table 1: Policy Approvals

Name	Representing	Signature & Date
	The Chief Risk Officer/ED, Risk Management.	
	Group Deputy Managing Director	
	Group Managing Director / CEO	
	Management Credit Committee (MCC)	
	Board Credit Committee (BCC)	

1.4. Version Control

Table 1: Revision History

Prepared By	Date	Version	Comments
Inyang Nsikan	October, 2015	4.0	This is the volume 4.0 "Credit Risk Management Policy and Portfolio Plan''
Samuel Oladimeji	June, 2018	5.0	The purpose of this policy documents is to articulate the additions / modifications to all the sections of the policy that were deemed necessary.
Jumoke Akande	February 2019	6.0	Consolidation of Access and Diamond Credit policies.
Jumoke Akande	September 2019	7.0	To articulate the additions / modifications to all the sections of the policy that were deemed necessary
Benjamin Uzoka	August 2020	8.0	To update the policy with recent regulatory provisions, provide clarity and bring it in tune with current practice.

1.5. This document has been reviewed by:

Table 2: Reviewer History

Document Reviewer			
	Name		Signature
Reviewed by	Seyi Kusoro	Unit Head, Credit Administration and Documentations	
Reviewed by	Oluwaseyi Owolabi	GH, Risk Portfolio Mgt. & Risk Projects	
Reviewed by	Omobola Faleye	Group Head, Credit Administration & Documentation	
Reviewed by	Babatunde Aro	Unit Head, Compliance Advisory & Support	
Reviewed by	Tajudeen Adeboye	Head, Compliance & Monitoring -Head Office	

Reviewed by	Fatai Oladipo	GH, Corporate Counsel	
Reviewed by	Pattison Boleigha	Head, Group Conduct & Compliance	
Concurrence	Gregory Jobome	Executive Director, Risk Management	
Approved by	Roosevelt Ogbonna	Group Deputy Managing Director	
Approved by	Herbert Wigwe	Group Managing Director	

2. Policy - Objectives, Scope, Purpose and Review

2.1. Core Objective

The core objective of the Credit Risk Management Policy Guide is to enable maximization of returns on the bank's credit risk portfolio, from a risk adjusted perspective. This is done 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.

2.2. Supporting Objectives

- To provide a clear and consistent direction for the Bank for creating and managing credit exposures;
- To maintain a high-quality risk assets portfolio and minimize credit losses arising from errors of judgment and inefficient risk management practices;
- To achieve the lowest level of non-performing loans in the industry whilst maximizing returns on assets created;
- To maximize stakeholder value;
- To develop a strong credit risk culture where all staff actively participate in the Bank's risk management process and respond to them with cost effective actions.
- To formalize and communicate the bank's commitment to achieve its business goals and objectives pertaining to Credit Risk in the Banking Book.
- To achieve and remain fully compliant with the regulatory requirements of Central Bank of Nigeria, Basel II standards and International best practices in relation to Credit Risk exposures in the Banking Book.

2.3. Scope

This policy brings under its ambit funded, non-funded, on and off-balance sheet exposures in the Banking Book that subject the Bank to Credit Risk including Counterparty Credit Risk

2.4. Coverage

Credit Risk Policy will cover:

- All credit risk exposures in the Banking Book under Corporate & Investment Banking, Commercial Banking, Business Banking and Retail Banking. Definitions of the above SBUs are as practiced by the bank and may be modified from time to time.
- Credit risk arising out of different exposure types such as Retail, Corporate, Specialized Lending, Banks other Financial Institutions, Sovereign and any other structure as approved by the Bank from time to time.

Credit Risk Policy will not cover:

- Exposures in the Trading Book that are subject to market risk capital charge under Market Risk Policy of the Bank

2.5. Purpose of the Policy

- This document sets out a framework for the consistent management of Credit Risk at Access Bank Plc. (“the Bank” or “Access Bank”). It has been developed in keeping with the commitment of the Board of Directors (“the Board”) and the Management of the Bank to establishing and sustaining tested practices in Credit Risk Management at par with leading international banks. It derives from the Bank’s Enterprise Risk Management (ERM) Framework, which represents a structured approach to identifying opportunities, assessing the risk inherent in these opportunities and managing these risks proactively in a cost-effective manner.
- Access Bank’s Credit Risk Management Policy Guide is the primary reference document for creating and managing exposures to credit risk in Access Bank. The manual outlines the general policies and procedures for credit risk management in the bank and incorporates provisions for Risk identification, Risk Measurement, Exposure and Risk Limits, Risk Monitoring, Risk Control and Risk Reporting of credit risk exposures.
- The Credit Risk Management Policy Guide is designed to:
  - Standardize credit risk policies for the bank, giving employees clear and consistent direction for the creation of credit risk exposures across all assets creating business units;
  - Provide a comprehensive guide and framework in creating and managing credit risk assets.
  - Ensure prompt identification of problem credits and prudent management of deterioration in credit quality.
  - Outline the requirements for risk identification, risk measurement, setting exposure and risk limits, risk monitoring & Risk Control and Risk Reporting at both levels of individual exposure and the overall credit risk asset portfolio.
  - Provide a framework for the ongoing maintenance of the bank’s risk management policies and processes.
  - This policy must be read in conjunction with other Access Bank policies including Market Risk Policy, Asset & Liability Management (ALM) Policy Operational Risk Policy, Environmental and Social Risk Policy, Country Risk Management Policy, Policy on Cross Border supervision requirement, Risk Appetite Policy, AML/CFT Policies, Anti Bribery and Corruption Manual etc.

2.6. Establishment of Risk Management Policies

- Risk management policies and procedures are articulated by the Risk and Management Control function of the bank. The Chief Risk Officer has responsibility for compiling and presenting credit risk management policies to the Management Credit Committee for review and endorsement to the Board of Directors for approval through the Board Credit Committee. The Board of Directors shall approve risk management policies and such approval shall be evidenced in writing through a Board Extract and by the signature of the Group Managing Director.
- Credit Risk Management will be fully represented at the Head Office and in the countries. All issues regarding credit risk management emanating from the countries or concerning the countries will be referred to the team responsible for subsidiaries credit risk in the Head Office, which thus serves as the clearing house for credit risk management issues from the subsidiaries
- Credit Risk Management at the Head Office is responsible for setting overall policies on all issues relating to credit risk management. The countries may institute procedures that must be in compliance with these policies. They may also institute local policies adapted to their peculiarities, but which must not be at variance with Head Office policies. Any local policy that is at variance to Head Office policies must be approved at the same level for the Head Office policies.
- Head Office may also delegate the development of certain policies to the subsidiaries. Such policies shall be approved as Head Office policies.
- The countries may also originate independent local policies i.e. policies for issues not specifically addressed in Head Office policies. In addition to approval by the Head of Credit Risk Management at the country level and MD for the relevant country, such policies must be endorsed by Credit Risk Management, Group Office and approved by the GMD.
- Throughout this Guide, any reference to the Head of Credit Risk Management shall be interpreted to mean the Chief Risk Officer at the Head Office except stated otherwise.
- While approved policies and guidelines as articulated in the Credit Risk Management Policy Guide (“The Guide”) are intended to provide guidelines for prudent optimal credit risk management in the bank, it is expected that creativity and good judgment shall be exercised by all bank employees in the process of creating and managing credit risk assets in the bank

2.7. Review of Credit Risk Management Policy Guide

- It is expected that the credit risk management policies will be reviewed on an ongoing basis (at least on an annual basis) to ensure that the overall approach to creating and managing credit risk exposures remains relevant and is responsive to changes in the environment and the bank's corporate and business unit strategies.

- The Credit Risk Management Policy Guide will reflect changes in policy provisions including as may be required additional pages and/or sections to reflect new policy provisions. In the event of a fundamental change in direction and/or revision of the risk management strategy of the bank, complete reproduction of the entire document may be required.

2.8. Guidelines for Changing and Approving Policy Changes

- All Access Bank personnel who are involved in the credit process and apply these guidelines on a continual basis shall be responsible for ensuring that the provisions remain relevant and adequate to address the changing needs of the environment, as well as support the achievement of the bank's business goals and objectives
- As may be required in response to changes in the environment and the changing needs of the market place, the risk management policies shall be reviewed periodically (at least on an annual basis). Proposals for addition to or modification of policy statements and procedures or any section of this guide will be documented in writing by the initiating officer and presented to the Head, Risk Quality Assurance to ensure due process and evaluate the proposed revisions to the provisions of the bank's risk management policies
- Amendments to the approved policy shall be documented in the form of supplemental policies and procedures and presented to the Management Credit Committee (MCC) for review and endorsement to Board Credit Committee (BCC), and the Board of Directors for approval. On approval by the Board of Directors indicated by the Board Extract, the Group Managing Director shall append his signature on the policy as evidence of approval and such amendments shall be inserted as addenda to The Guide.

2.8.1. Others

As used throughout this Guide, wherever an approval may be given by a designee other than the primary authority for such approval, the designation must be in writing and must state the terms of the designation e.g. the period covered, any restrictions on the powers of the designee etc.

3. Bank's Business and Risk

3.1. Access Bank's Strategic Intent and Corporate Objectives

Access Bank's Aspirations and Corporate Objectives in the planning period 2018 - 2022 are as follows:

- To be the No 1 Bank in Nigeria
- To increase in Revenue so as to be strong in Liquidity and Capital Adequacy Ratios.
- To be strong in Risk Management.
- To dominate top 100 Corporate and Increase Market share in High Revenue Commercial Regions.
- To be the Bank for Top SMEs in Business Banking.
- To be a Top Retail Customer Growth Bank.
- To be the Bank of choice for Top Corporates controlling 25% of Market share.
- To build expertise in key sectors - Attract and develop talent with expertise in key growth sectors.
- To Dominate Trade and Transaction Banking.
- To build strong Franchise outside Africa, guided by best Practice and highest professional Standards.

3.2. Risk Management Philosophy of the Bank

As described in Access Bank's Enterprise Risk Management Framework, the Bank considers risk management philosophy and culture as the set of shared beliefs, values, attitudes and practices characterizing 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 moderate and guarded risk attitude will ensure sustainable growth in shareholder value and reputation. The Bank believes that enterprise risk management will provide 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 in a responsible manner;
- The executive and the board of the Bank has adequate risk management support;
- Uncertain outcomes are better anticipated;
- Accountability is strengthened; and
- Stewardship is enhanced.

- The Bank has identified the following attributes as guiding principles for its risk culture.

- Management and staff shall:
  - Consider all forms of risk in decision-making;
  - Create and evaluate business unit and Bank wide risk profile to consider what is best for their individual business units/ department and what is best for the Bank as a whole;
  - Adopt a portfolio view of risk in addition to understanding individual risk elements;
  - Retain ownership and accountability for risk and risk management at the business unit or other point of influence level;
  - Accept that enterprise risk management is mandatory, not optional;
  - Strive to achieve best practices in enterprise risk management;
  - Document and report all significant risks and enterprise risk management deficiencies;
  - Adopt a holistic and integrated approach to risk management and bring all risks together under one or a limited number of oversight functions;
  - Empower risk officers to perform their duties professionally and independently without undue interference;
  - Ensure a clearly defined risk management governance structure;
  - Ensure clear segregation of duties between market facing business units and risk management/control functions;
  - Strive to maintain a conservative balance between risk and profit considerations; and
  - Continue to demonstrate appropriate standards of behaviour in development of strategy and pursuit of objectives.
- Risk officers shall work as allies and thought partners to other stakeholders within and outside the Bank and be guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties;
- Risk management is a shared responsibility. Therefore, the Bank shall aim to build a shared perspective on risks that is based on consensus;
- Risk management shall be governed by well-defined policies, which are clearly communicated across the Bank;
- Equal attention shall be paid to both quantifiable and non-quantifiable risks; and
- The Bank shall avoid products and businesses it does not understand.

These philosophies and culture shall underlie credit risk management in Access Bank.

3.3. 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.

Risk Culture Pledge will be recited by the relationship officer at every credit presentation:

- I have confirmed all financial and behavioural information concerning this borrower
- I have not withheld any information nor misled the Bank regarding this transaction
- I understand the risks and problems that could arise after this facility is disbursed and these risks are within the Bank's risk appetite
- I have not compromised myself with the borrower or related interests
- I will continually monitor the facility and the borrower and report problems immediately
- I take personal responsibility for redressing any adverse developments on the facility

3.4. Credit Officer Risk Rating (CORR)

CORR is a measure of the overall quality of a Credit Officer's consciousness of risks inherent in the portfolio under his / her watch.

It is also a measure of deliberate efforts being made to strengthen quality of the Bank's Risk Assets.

CORR would aid in the assessment of a Lending Officer's overall's attitude to resolution of risk issues.

The measure is derived from the Officers **Credit Administration and Monitoring** efforts as defined below:

Administration	This is a measure of compliance with basic dictates of regulatory guidelines and the bank's Credit Policy Guide (CPG). It captures adherence to limits, provides holistic view on completeness of documentation and serves as a guide for maintaining healthy ratios on key metrics.

	Limit Management This is a sub sector of Administration considerations which focuses on exposures within Sectors that the Bank is working on to come within regulatory limits, or exposures that are watch listed on SOL, or top exposures with low qualifying risk mitigants thereby causing a reduction in Capital Adequacy Ratio
Monitoring	A measure of the deliberate monitoring efforts made to maintain a high quality of risk assets under the watch of the officer. This is assigned a higher weight in order to ensure that performance on facilities assist to reduce impairment charges thereby preserving profitability.

The goal is not to exclude any officer in the creation / monitoring of exposures, but to support Lending Officers to align with the Bank's target asset quality and risk consciousness.

Lending Officers shall be classified using the CORR Grid below:

CREDIT OFFICER RATING	CORR GRADING	
CORR 1	5%	Low Risk
CORR 2	20%	Moderate Risk
CORR 3	45%	Above average Risk
CORR 4	>45%	High Risk

3.4.1 Risk Appreciation Programme

As a Systemically Important Bank (SIB) in Nigeria with growing global profile, the Bank's risk and capital metrics remain critical. It is therefore important that we continue to invest in our risk practices to achieve/sustain our desired Moderate risk outcomes.

The Objective of the Risk Appreciation Programme (RAP) include:

- The standardisation of appropriate risk behaviour, decision-making, exceptions handling and brand consciousness within the Bank's approved governance framework whilst defining acceptable practices.
- Entrenching a uniform risk culture within the organisation as well as preparing the workforce for relevant response and approach to diverse risk issues would remain a strong factor in building a sustainable risk governance in the bank.

It is thus imperative for all staff in the Bank to demonstrate a strong and shared consciousness of risk that is derived from the Bank's risk appetite, strategic direction and values.

The target participants include:

- All Group Heads (both market-facing and non-market-facing),
- All Senior Lending Officers scoring Credit Officer Risk Rating (CORR) of "Above Average" or "High",
- All Senior Officers designated to run products or processes categorised as 'Complex',
- Managing Directors of Subsidiaries and recommended staff in the various subsidiaries.
- Any Staff being prepared for specific responsibilities in Nigeria or abroad for which RAP is indicated as a requirement.

The Faculty for this program shall consist of the ED Risk, Head Group HR, Group Managing Director and External Resource (for example: Senior Regulators, Senior Consultants).

The program shall be held on a need basis

3.5. Types of Risks

3.5.1. Credit Risks

Effective risk management requires proper identification and understanding of the credit risks. Credit risk arises from both lending and trading activities. In lending business, credit risk is the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the Bank. In the case of trading activity, credit risk reflects the possibility that the trading counterparty will not be able to complete the contract at any stage.

Losses due to credit risk could emanate from the Bank's dealings with an individual, corporate, financial institution or a sovereign.

The major credit risks that affect banks include direct lending risk, counterparty risk and contingent lending risk.

3.5.1.1. Direct Lending Risks

Direct lending risk is the risk that actual customer obligations will not be repaid on time. Direct lending risks occur in products ranging from loans and overdrafts to credit cards and residential mortgages. It exists for the entire life of the transaction.

3.5.1.2. Counterparty Risk

Counterparty risk is the risk that a counterparty to a transaction will fail to perform according to the terms and conditions of the contract, thus causing the holder of the claim to suffer a loss in cash flow or market value

3.5.1.3. Cross Default Risk

This is the risk that the default on one debt obligation will trigger the default on another debt obligation. Failure of one set of obligation to perform leads to the automatic declaration of other obligations to be in default.

3.5.1.4 Contingent Lending Risk

Contingent lending risk is the risk that potential customer obligations will become actual obligations and will not be repaid on time. Contingent lending risk occurs in products ranging from letters of credits to guarantees to unused loan commitments. It exists for the entire life of the transaction.

3.5.2. Issuer Risk

Issuer risk is the risk that the market value of a security or other debt instrument may change when the perceived or actual credit standing of the issuer changes, thereby resulting in exposure of financial loss.

In underwriting and distribution activities, in the event of a commitment to purchase a security or other debt instrument from an issuer or seller, there is a risk of inability to sell the instrument within a predetermined distribution period to an investor or purchaser. In this event, direct lending risk and unintended price risk is created. This risk is sometimes also described as issuer risk.

3.5.3. Pre-settlement Risk

Pre-settlement risk (PSR) is the risk of default on a contractual obligation before settlement of the contract by a counter party in a transaction.

3.5.4. Settlement Risk

Settlement risk occurs when there is a simultaneous exchange of value with a counter party for the same value date and verification that payment is received is not made until after the bank has paid/ delivered on the obligation. There is a risk that the counter party does not deliver as such resulting in exposure of the bank to direct lending risk.

3.5.5. Clearing Risk

Clearing risk occurs when funds are transferred on a customer's instructions to transfer or to order the transfer of funds before the bank receives reimbursement or the customer's accounts is funded. Clearing risk is the risk that the bank may not be reimbursed on the same value date for payments made on behalf of customers.

3.5.6. Equity Risk

Equity risk occurs when the bank invests in, holds or receives equity, equity-like securities or other junior securities in non-affiliated entities. These securities include instruments such as common shares, preferred shares and related derivative instruments such as warrants, stock options, calls and stock index futures. Equity risk encompasses potential conflicts with our normal senior creditor role, as well as our exposure to permanent declines in carrying values.

3.5.7. Price Risk

Price risk is the risk that market conditions may change for an individual instrument or for all securities of the same general class. For example, a change in the level of interest rates affects the price of all interest rate sensitive instruments. Price risk is not to be confused with issuer risk, which describes price changes attributable to real and perceives changes in the quality of a particular issuer and instrument.

3.5.8. Liquidity Risk

Liquidity risk is risk that the bank may be unable to meet its financial commitments to customers or markets when due.

3.5.9. Fiduciary Risk

Fiduciary risk occurs when the bank is charged with the responsibility of acting as a trustee for third parties. Fiduciary risk is most significant where the charge is involuntary i.e. in the event that a trust agreement is not in place clearly outlining the duties and responsibilities of the bank and when the bank may be exposed to potential or real conflict of interest.

3.5.10. Disclosure Risk

Disclosure risk occurs when the bank acts as an agent to other investors, as an underwriter, or as an advisor on a transaction. The risk is that there is disclosure of information that the bank either knows or should have known to be incorrect, that the bank does not disclose actual or potential conflicts of interest, or that the bank does not disclose or delay in disclosing material information.

3.5.11. Documentation Risk

Documentary risk is the risk that documentary evidence on which the bank depends to enforce rights under contracts or transactions may not be complete, correct or enforceable.

3.5.12. Legal and Regulatory Risk

Legal and regulatory risk occurs when the bank, a related corporate entity (such as nonbank subsidiary or affiliate), a transaction or a customer is subject to a change in exposure resulting from regulatory, civil or criminal approvals, or litigation.

3.5.13. Country Risk

This is a broad risk category that encompasses political risk, transfer risk and convertibility risk. It is the risk that an event in a country (precipitated by developments within or external to a country) will impair the value of Access Bank assets or will adversely affect the ability of obligors within that country to honour their obligations to Access Bank. Country Risk events may include sovereign defaults, currency convertibility and/or transferability restrictions, or political events.

It is imperative that credit decisions and approvals in Access Bank are made after proper consideration of all credit risks. Due care should be taken to ensure that accurate, complete and up-to-date information in respect of existing and potential obligors are maintained at all times and form the basis for evaluation of credit risks.

3.5.14. Operational Risk

Operational risk refers to the risk of loss to the bank resulting from inadequate or failed procedures, people, systems or policies. It also includes losses from Fraud or other criminal activity and any event that disrupts business processes.

3.5.15. Foreign Exchange Rate Risk

Foreign exchange rate risk refers to the risk of deterioration of the currency within which the borrower generates its earnings against the currency of the Bank's exposure which may adversely affect repayment capacity.

3.6. Credit Risk Products and Service Offerings

Access Bank will position at different points of each business' value chain as determined by the expected strategic importance of each role, expected profitability, and capabilities. As a general rule, Access Bank will play across the entire chain of its customer's business.

To achieve and sustain the desired business performance, an implied objective is to grow the bank's risk assets portfolio, without compromising risk asset quality and yield. A holistic risk management framework for creating and managing risk assets and monitoring the bank's risk asset portfolio is a strategic business imperative for the successful achievement of these articulated goals and business objectives.

Access Bank's risk management policies as documented in this manual are specifically defined to support the achievement of the overall corporate objectives and business goals of the bank.

Existing credit risk products and service offerings that the bank will continue to offer in the market place include:

1. Overdraft
2. Time Loan
3. Term Loans
4. Specialized lending facility (Project finance, Object Finance, Agric Finance and Intervention Loan finance)
5. Leases
6. Contingent Liabilities (Bonds and Guarantees)
7. Bank Placements
8. Import Finance (Letters of Credit (LCs) Usance, etc.)
9. Export Finance
10. Revolving Credits
11. Contingent Liabilities
12. Product Programs (e.g. W-power, Invoice Discounting, Local Purchase Order Financing, Work Order Finance facility, Value Chain etc.)
13. Syndication

In addition, Access Bank will identify and develop offerings to take advantage of opportunities in the following areas:

- Mortgage finance
- Capital Markets
- Private Banking/Asset Management
- Corporate Finance and Advisory Services
- Trade Finance
- E-Business

Lending products and services shall include short and long-term loans according to the definitions outlined below:

3.6.1 Term / Time Loan

Term/Time loans are facilities in respect of which there is a clearly defined tenor and repayment schedule. A time loan is usually for tenors of one year or less, while a term loan is for tenors longer than one year.

Term/Time loans are normally given to finance specific transactions, capital projects, expansion programs etc.

Examples of credit products that shall qualify as Term Loans include:

- Equipment Financing
- New Technology Capital Loan
- Asset Replacement
- Personal Loan
- Mortgage Facilities

And some cases will be the option for disbursing Project Facilities or Object Facilities

3.6.2 Revolving Credits

Revolving Credits will include short term facilities in respect of which repayment (en bloc or in instalments as the case may be) shall be required within a fixed period of time. Revolving credits are short term/tenured facilities with predefined cycles that relate to the customer's business/trading cycle. On repayment, the customer may re-borrow under same conditions provided there is no material change to his financial position. Approval for revolving credit facilities may be granted subject to the provisions of the bank's risk management policies. The tenor of revolving credit must not exceed 3 years.

Qualification for revolving credit facilities shall be limited to customers with established businesses in stable industries and will include product lines such as:

- Contractor Project Finance
- Distributor Finance
- Import Finance / Commercial Paper (CP)
- Custom Duty payment
- Letter of Credit Financing (LCs)
- Suppliers Financing
- Note / Bill discounting
- Credit Card products

or any other as may be approved from time to time.

3.6.3 Overdraft facilities

Overdraft facilities shall be provided to cover the working capital requirements of a business and may also be revolving credits. Maximum tenor of overdraft is 12 months, subject to renewal on application by the customer and appropriate approval in line with the bank's credit risk management policies.

Important considerations in respect of overdraft facilities and approved exposure limit shall include:

- Profitability of business
- Ability of the company to complete its asset conversion cycle
- Exposures to other banks / lenders

Temporary Overdraft accommodation shall be approved for not more than 30 days per request.

3.6.4 Lease Facilities

A lease facility exists where Access Bank acquires or funds the acquisition of capital assets at a client's request and then hires or leases the asset back to the client for an agreed periodic rental. Title to the asset remains with the bank until when fully repaid and the client exercises the option to purchase the asset for a predetermined price.

This facility may be used for a wide range of capital assets including industrial machinery, telecommunications equipment, motor vehicles, etc. Structuring and documentation are very important considerations in a lease transaction and must take account of the following factors:

- flexible pricing
- ability of the bank to take effective and prompt possession of the asset in the event of default by the lessor
- Adequacy of insurance protection etc.
- These must be documented in a lease agreement and approved by legal counsel.

3.6.5 Warehouse Financing

In this form of financing, the bank takes physical control of the goods financed. Access Bank will only undertake warehouse financing where it takes control of the goods financed using an independent acceptable and reputable warehousing agent. Appointment of acceptable warehousing agents for Access Bank shall be approved by MCC based on recommendation from the Chief Risk Officer/ED Risk.

In general, warehouse financing should only be considered under the following conditions:

- The goods financed are fast moving consumer goods.
- Maximum tenor is 12 months.
- Release from stocks should be on a FIFO basis.
- Periodic stock taking is required to verify the quantity and quality of goods financed. The frequency may vary with the type of goods.
- The forced sale value of the goods must be adequate to cover the bank's exposure at all times.

3.6.6 Loans to Staff

Loans to staff will comply with the guidelines stated in the Staff Loan Policy, which shall be subject to periodic review by the Board.

3.6.7 Local Placements and Takings from Banks

Access Bank will only place funds with banks for which there are approved placement lines. In general, placements should be for tenors of less than 1 year. While there are no limits on takings from other banks, care should be taken to avoid any concentration risks.

3.6.8 Other Lending Products

Other lending products shall include structured credits for consumer purchase, which are mostly short to medium term funding, to meet the following needs:

- Vehicle purchases
- Vehicle refurbishment
- House rent
- Hire purchases
- Consumer durables (e.g. electronics, furniture)
- Others (education, travel etc.)
- Longer term funding shall be provided for Mortgage facilities.

3.6.9 Import finance facility (IFF)

This facility is designed as a working capital facility for customers engaged in importation of goods. It is targeted at customers who have shown huge volume in import transactions and have established regular demand for foreign exchange. A customer is expected to contribute a minimum amount of total value of the Letter of Credit as may be approved by the bank from time to time.

3.6.10 Export Finance

The facility is designed to finance the various stages of export trades either prior to shipment which is known as pre-shipment credit (production, purchase, storage, transportation to the port of departure of goods destined for export etc.) or after shipment of goods to the date of realization of export proceeds which is known as post shipment credit finance (discounting of approved invoices/bill of exchange/receivables etc.).

3.6.11 Credit Product Programs

Credit product programs shall be defined and approved to accommodate specialized credits up to a preapproved level to a predefined set of customers with homogenous characteristics, similar product needs or risk profiles under clearly defined standard terms and conditions.

Approved credit product programs shall:

- target specific customers or customer segment
- contain standard risk acceptance criteria for evaluating and further approving individual transactions under the program
- demonstrate that the behaviour of the portfolio will be predictable in terms of yield, delinquencies and write-offs, and specify tracking and reporting mechanisms to identify trends in portfolio behaviour early and allow timely adjustments
- specify maximum program limit and maximum individual limit per customer
- stipulate funding instruments and maximum / minimum tenor
- detail minimum documentation requirement
- state principal terms and conditions

The Bank’s product programs shall include but not limited to:

- Customer instalment loans
- Customer and small business revolving credit lines
- Residential mortgages
- Short term foreign exchange lines
- Routine short-term credit loans.
- Short term payment related lines
- Trade finance

- Oil and Gas contract finance
- Distributor finance
- Commercial papers
- Credit Cards
- Cash Collateralized Product Program
- Receivable Finance (Invoice Discounting) Product Program
- Personal Loan Product Program (Retail Banking);
- Asset Finance Product Program (Retail Banking);
- Auto Loans Product Program (Retail Credit Product); etc.

The list of the Bank's product programs shall be subject to periodic reviews, which shall be approved by MCC. The terms and conditions for each of the product programs are detailed in the Product Program memo

3.6.12 Off-Balance Sheet Credit Facilities

Off-balance sheet credit facilities are facilities granted for short term or long term, which invariably create contingent liabilities, and crystallizes when the underlying event(s) which they represent occur(s).

Examples of Off-Balance sheet credit facilities are detailed as follow:

- **Bonds & Guarantees**

Bonds and Guarantees are undertakings by the bank made at the request of a customer to a beneficiary.

- **Bank Guarantees**

This will include guarantees issued by the bank to third parties on behalf of a customer. These lines are contingent liabilities and shall require 100% cash cover, a counter indemnity from a first-class Bank or adequate acceptable tangible security cover. In the alternative, they will include clauses to make them effective only upon receipt of equivalent cash amount from the beneficiary. Bonds / guarantees may however be issued on a clean basis to better rated obligors (typically multinational companies) that normally borrow clean or against negative pledge and a letter of indemnity.

These instruments must have the following elements:

- Access Bank's obligation must contain a specific expiration date or a defined term. The maturity of the underlying contract must exceed the tenor of the guarantee / bond.
- The Bank's undertaking must be limited to a specific amount.

- The obligation to pay must arise upon the fulfilment of certain specified conditions. These may include the presentation of specific documentation which must be unambiguous as to their legal interpretation.
- In the event that the guarantee / bond is called, the obligor must have an unqualified obligation to reimburse the bank on same terms as the bank is expected to perform under the instrument.
- Issuance of guarantees / bonds must be reviewed by the bank's legal counsel for adequate wording to protect the interests of the bank.
- On expiration, the bond or guarantee must be returned to the Bank for cancellation before underlying security/cash collateral is released. Also the underlying security/cash collateral may be released upon issuance of Letter of discharge or a certificate of work by the Contract Employer, in such cases the documents must be duly confirmed by appropriate officer in Project monitoring unit.

Issuance of guarantees to support offshore facilities is strongly discouraged and must be approved at the next higher level than required under the Credit Facilities Approval grid. Such approval shall only be given after due consideration of requirements of all exchange control regulations and mitigation of associated foreign exchange risk.

- **Advance Payment Guarantee (APG)**

An Advance Payment Guarantee (APG) is contract under which the issuer undertakes to be responsible for the fulfilment of a contractual obligation owed by customer to a Contract Employer if the customer defaults. The issuer's obligation may be primary (as in an on-demand obligation or indemnity) or secondary (as in a guarantee). An advance payment guarantee is typically used to underpin or guarantee the performance of a commercial contract, such as a contract for the sale of goods or services (where the buyer is the beneficiary) or a construction contract (where the employer is the beneficiary).

As much as possible, APG should be adequately secured. However, guided disbursement may be considered as comfort where collateral is not in place or adequate. Disbursement of APG proceed shall be in line with approved product program or the structured credit. For regular credit, the disbursement milestone should be clearly captured in the approval document.

3.6.13 Commercial Papers (CP)

Commercial Papers are unsecured short-term promissory notes issued by corporate bodies directly to the investing public (usually through an issuing house such as a bank etc.). Typically, CP's have tenors between 30 – 180 days. The Bank may also guarantee a CP issuance.

Guaranteed CPs are direct exposures for the bank. Without the bank's guarantee, the bank performs an agency role and earns a fee without taking a direct exposure. However, the bank is exposed to reputation risk on all CPs it intermediates.

3.6.14 Letter of Credit (LC's)

A letter of credit (LC) is a conditional written undertaking issued by a bank to an exporter (beneficiary) at the request of an importer (applicant) to effect payment for a stated amount against a presentation of document that complies with the terms of the LC.

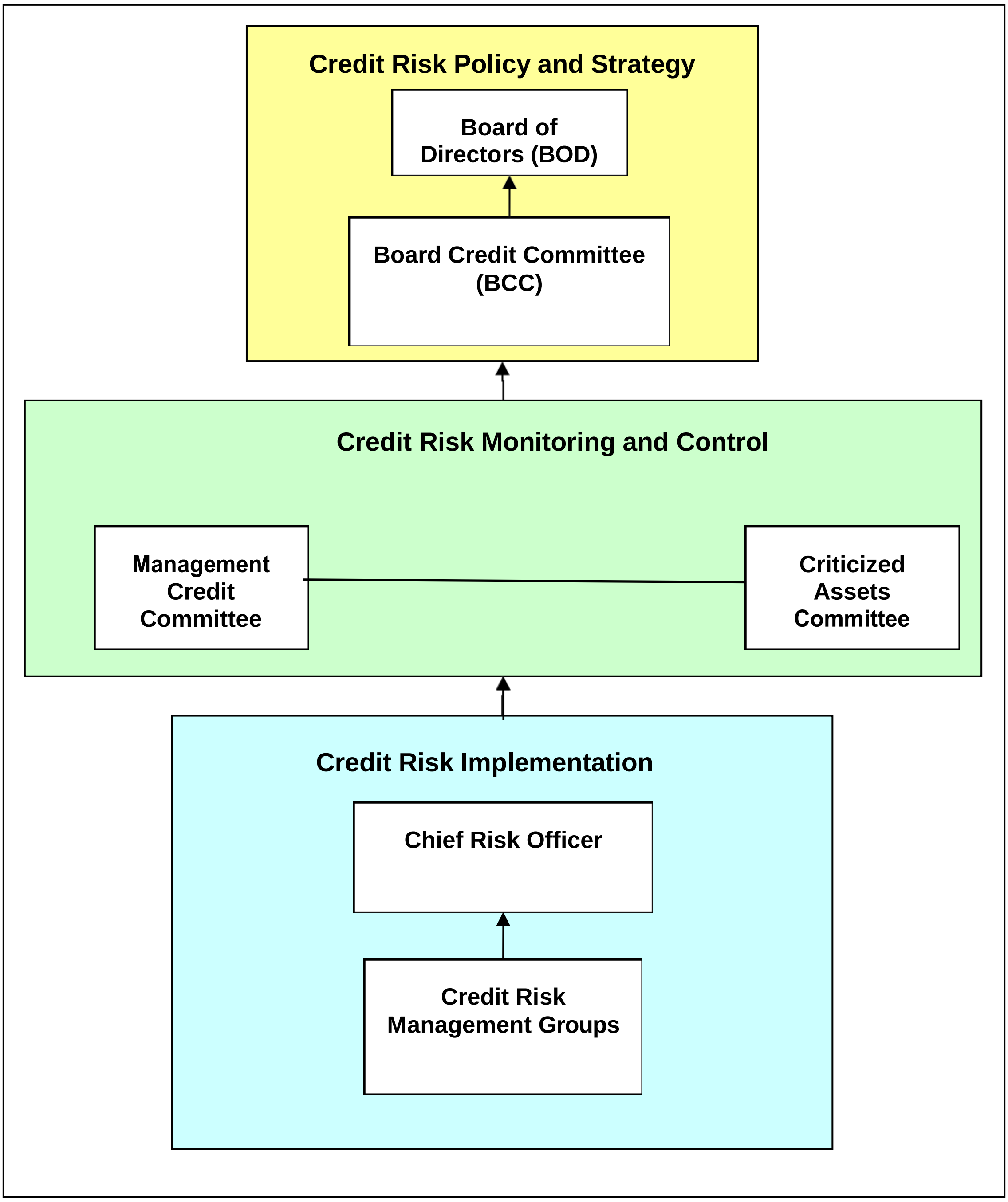
It is also any arrangement, whereby a bank (the issuing bank) acting at the request and on the instructions of a customer (the applicant) or on its own behalf;

- Makes payments to or to the order of a 3rd party (the beneficiary) or is to accept any or pay bills of exchange (draft) drawn by the beneficiary, or
- Authorizes another bank to effect such payment or to accept and pay such bills of exchange (drafts) or
- Authorizes another bank to negotiate against stipulated documents provided that the terms and conditions of the credit are complied with.

A Standby Letter of Credit (SBLC) gives an assurance to the beneficiary that in the event of a commercial dispute, insolvency, failure to perform etc. by the counterparty a claim can be made against the issuing, confirming bank or nominated bank by the presentation of a draft and a simple demand in line with the terms of the SBLC. It supports the obligations of an applicant to pay for goods and services in the event of non-payment by other methods.

4 Credit Risk Organization Structure, Roles and Responsibilities

4.1 Credit Risk Organization Structure



4.2 Roles and Responsibilities

Roles and Responsibilities are at three levels viz, Policy, Monitoring and Operational. Board of Directors (BOD) and Board Credit Committee (BCC) are responsible for approval of policies and its implementation throughout the bank. Management Credit Committee and Criticized assets committee are responsible for assisting the BOD and BCC in monitoring the implementation of risk policies. Credit risk management department is responsible for operational aspects of implementing credit risk policy guidelines. The Chief Risk officer is the head of Credit Risk Management function and is to oversee the implementation of the credit risk policy guidelines throughout all credit risk taking functions in the bank.

4.2.1 Roles and Responsibilities of Organizational Groups

This section of the policy deals with the roles and responsibilities of the Board of Directors, Board Credit Committee and Management Credit Committee.

4.2.1.1 Board of Directors (BOD)

The Board of Directors is the highest approval authority for both credit risk policies and credit facilities in Access Bank and shall be responsible for approval of credits beyond the authorized approval limits of the Board Credit Committee.

The Board of Directors of the bank shall be responsible for articulating and reviewing on an ongoing basis the credit risk strategy and credit risk policy of the bank that outline clearly the risk appetite and return preferences that will govern the creation and management of credit risk assets in the bank. Specifically, the Board shall be responsible for:

- Approval of Credit risk policy to mandate a set of standards for Credit risk management throughout the bank that include risk identification, measurement, setting of exposure and risk limits, monitoring and control and risk reporting
- Ensuring that the Bank implements a sound methodology that facilitates the identification, measurement, monitoring and control of credit risk
- Determining Credit risk management strategies to enable maximization of profitability on a risk adjusted basis
- Ensuring effectiveness, independence and integrity of credit risk management system through internal control & audit
- Periodically (at least annually) reviewing the credit risk strategy and credit risk policy of the bank
- Approving the Bank’s overall risk tolerance in relation to credit risk consistent with the business strategy of the Bank based on the recommendation of the Chief Risk Officer.
- Ensure that the Bank’s overall credit risk exposure is maintained at prudent levels and consistent with the available capital through quarterly review of various types of credit exposure
- Ensure that top management as well as individuals responsible for credit risk management possess the requisite expertise and knowledge to accomplish the risk management function
- Appoint Credit Approval Officers and delegate approval authorities to individuals and committees

4.2.1.2 Board Credit Committee

The Board Credit committee shall under delegated authority be responsible for the following:

- Facilitate the effective management of credit risk by the Bank
- Approve credit risk management policies, underwriting guidelines and standard proposals on the recommendation of the Management Credit Committee (MCC)
- Approve definition of risk and return preferences and target risk portfolio
- Approve the Bank's credit rating methodology and ensure its proper implementation
- Approve credit risk appetite and portfolio strategy
- Approve lending decisions and limit setting
- Approve new credit products and processes
- Approve assignment of credit approval authority on the recommendation of the Management Credit Committee (MCC)
- Approve changes to credit policy guidelines on the recommendation of the Management Credit Committee (MCC)
- The Committee, by virtue of powers delegated to it by the BOD, will approve any changes in credit risk policy guidelines during the currency of the policy approved by the BOD. The necessity for changes to the policy should be due to genuine reasons viz. regulatory changes and unexpected changes in business scenario
- Approve exceptions to the risk policies upon thorough enquiry into circumstances leading to exceptions, nature, size and genuineness of exceptions. Repetition of exceptions of similar nature should lead to changes in the policy of permanent nature. Repeated Instances of similar exceptions should be handled through changes in the policies rather than approved as exceptions
- BCC will review the roles of the management risk committee and criticized assets committee, at least on an annual basis, based on revision in policies and provide suitable recommendations to the BOD
- Approve credit facility requests and proposals within limits defined by Access Bank Plc's credit policy and within the statutory requirements set by the regulatory/ supervisory authorities
- Recommend credit facility requests above stipulated limit to the Board
- Review credit risk reports on a periodic basis
- Approve credit exceptions in line with Board approval

- Approve the Banks Credit rating methodology and ensure its proper implementation
- BCC will regularly monitor adequacy of Credit Risk capital maintained by the Bank based on the capital policy of the Bank.
- Review issues raised by Internal Audit that impact the Credit Risk Management of the Bank and make suitable recommendations to the BOD

4.2.1.2.1 Composition, Quorum and Frequency

- The composition of the Board Credit Committee and the frequency of their meeting shall be governed by the provisions in the Charter for Board Credit and Finance Committee which stipulated these details.
- Meeting Frequency

  (i) The Board Credit Committee shall meet at least once quarterly. However, special Board Credit Committee meetings may be convened at the instance of the Chairman of the Committee.

4.2.1.3 Management Credit Committee

The Management Credit Committee (MCC) is the highest management approval body for credits in Access Bank and performs the dual role of credit policy articulation and credit approval.

The Management Credit Committee shall be responsible for managing credit risks in the Bank. The members of the committee shall include all Group Heads in the Bank, including all Group Heads in Credit Risk Management. The functions of the committee include:

- Recommend the credit risk framework for approval by BOD through BCC and oversee the implementation across the enterprise. All amendments/enhancements to the credit risk framework or policy will be recommended to BCC for approval by BOD.
- Be responsible for the implementation of the credit risk policy and strategy approved by the BOD
- Review the methodologies and tools for identification, measurement, monitoring and control of credit risk.
- Monitor credit risk on a bank wide basis and ensure compliance with exposure and risk limits approved by the BOD
- Review the reports from Credit Risk Management Department, internal audit and business lines and take decisions and reports as necessary to the BCC and/or to BOD

- The Committee will, inter alia, formulate guidance on dimensions to be covered for presentation of credit proposals, covenants, rating standards and benchmarks.
- Provide guidelines for:
  - Formulation of Approval Matrix for credit approving powers
  - Prudential limits on large credit exposures
  - Standards for collateral
  - Credit review mechanism
  - Risk concentrations
  - Portfolio management
  - Risk monitoring and evaluation
  - Pricing of facilities
  - Provisioning
- Select, evaluate, validate and upgrade credit risk rating models based on the inputs given by Credit Risk Management Department
- Setting up guidelines for identifying credit risk in all new products, processes and activities
- Approve individual credit exposure in line with its approval limits
- Agree on portfolio plan/strategy for the Bank
- Review monthly credit risk reports and remedial action plan and coordinate the Bank's response to material events that may have an impact on the credit portfolio

4.2.1.4 Composition, Quorum and Frequency

The Management Credit Committee shall be comprised of:

- Group Managing Director/Chief Executive Officer – Chairman
- Group Deputy Managing Director – Vice Chairman
- Executive Director, Risk Management
- SBU Executive Directors
- All Heads of Risk in Credit Risk Management
- Group Heads / Sector Heads in Market Facing functions
- Head of Legal (or his/her nominee as approved by the GMD/CEO)

The following officers of the bank shall sit in attendance at MCC meetings:

- Head, Group Conduct and Compliance
- Group Head, Internal Audit
- Team leads/ Unit Heads, Credit Risk Management

- One officer from Legal Department, nominated by the Group Head
- The Credit Governance Team shall act as Secretariat
- Other Group Heads, Zonal Heads, Sector Heads
- All other Lending Officers

- For an MCC meeting to be valid, it must be presided over by the Chairman or Vice Chairman. In their absence, the Chairman may delegate any member of the Committee to act as Chairman. The Chairman or Vice Chairman, the Secretary, a representative from Legal Department and at least two other Group Heads/Zonal Heads/Sector Heads not below the level of AGM and a Group Head/ Head of Risk in CRM shall form a quorum
- Meeting Frequency
  - The MCC shall meet for CPG policy review and direction setting purposes, at least once a year; While the Committee shall meet bi-weekly to review and consider facility requests.

    However, as may be required to ensure responsiveness to credit facility requests, MCC meetings may be convened as required at the instance of the Group Managing Director. In addition, in exceptional circumstances MCC approvals may be obtained by telephone/video conference meetings or written comments and formal approval of MCC members properly captured in the MCC minutes.

4.2.1.5 Criticized Assets Committee (CAC)

Credit facilities that do not meet approved terms, covenants or repayment schedules shall be regarded as delinquent loans. Such nonperforming loans that show little or no movement during their tenor or which fails to be liquidated on due date are also regarded as delinquent facilities and are called “Criticized Assets”. Facilities shall be regarded as delinquent where normal repayment of principal and/or interest is in arrears for more than 90 days but less than 360 days. Facilities with little or no movement within 30 days shall also be reviewed for early warning signs. The Criticized Assets Committee shall review all such facilities.

4.2.1.6 Composition

The Criticized Assets Committee shall be comprised of:

- Group Managing Director or his designate - Chairman
- Group Deputy Managing Director
- Executive Director Risk Management
- SBU Executive Directors
- Credit Risk Management Groups– Secretariat

- Group Heads of business/support units with criticized assets

The CAC shall be convened at least once every quarter to review all qualifying assets and take decisions on remedial actions and / or provisioning. The Chairman may also nominate a designee to chair the CAC session.

4.2.2 Roles and Responsibilities of Credit Risk Management Units

4.2.2.1 Roles and Responsibilities of Credit Risk Management Groups

The Credit Risk Management function of the bank has specific and overall responsibility for facilitating risk asset creation and exposure management processes in the bank.

This shall encompass the following as it relates to credit risk:

- Designing and developing risk management framework and structures and ensuring bank wide compliance.
- Coordination of the risk management policy definition process.
- Drafting specific credit risk policies, standards, procedures and guidelines to manage the credit risk cycle (identify, measure, monitor and mitigate/control).
- Updating the policies and procedures as and when mandated.
- Identifying industry best practices, participating in industry conferences, surveys, monitoring trends and emerging practices to be up-to-date on regulations in credit risk and maintaining a repository of all related documents.
- Documenting credit risk management policies, procedures and communicating to the appropriate staff.
- Identifying technology / consulting requirements and accordingly recommend by substantiating / justifying the requirements to enhance the credit risk management practices in the bank.
- Identifying and procuring/developing tools for management of credit risk.
- Undertaking enhancements to the credit risk framework and creating an environment for ongoing adaptation.
- Undertaking necessary groundwork and preparing the bank to move towards Advanced Internal Ratings Based of Basel II.
- Implementing recommendations / suggestions made through specific resolutions by MCC.
- Establishing credit risk limits (exposure limits, risk limits etc.), seeking approval from BOD, monitoring and reporting on an ongoing basis.
- Building, validating and enhancing the credit risk rating models.
- Ensuring compliance with the bank's policies and procedures for risk creation and management.

- Reviewing recommended credit programs and endorsement of such programs and approval.
- Detailed evaluation of risk of individual / business credits and risk rating as a basis for approval decision.
- Recording individual credit exposures including maintaining complete up-to-date and accurate records of all credit related customer interactions including requests approvals, transactions and correspondence.
- Ongoing assessment and monitoring of quality and performance of the bank's risk asset portfolio.
- Periodic review and classification of the quality and performance of individual credit exposures.
- Timely, accurate and complete reporting of risk assets and risk asset portfolio quality and performance to provide informed basis for management actions and decision-making.
- Providing regular credit risk management information reports and ad-hoc reports to members of MCC, BCC and BOD.
- Serving as the Secretariat for the various credit committees.

Specific Responsibilities Include:

4.2.2.2 Credit Risk Review

- Confirm all credit facility requests are accompanied by relevant supporting data to ensure informed decision-making.
- Identify inherent credit, financial and business risks in facility requests.
- Recommend visits to customer to confirm information provided on business state, collateral etc.
- Investigate environmental factors that can influence credit decisions and make recommendation as required.
- Recommend appropriate structure for credit facilities to ensure that the risk of credit loss is properly mitigated including credit terms, security and repayment terms.
- Conduct analysis and appraisals of all credit requests in accordance with approved policies and procedures and ensure that credit exposures are created subject to stipulated guidelines by analysis of individual credit request.
- Conduct risk acceptance evaluation and assign risk rating in line with approved risk classification guidelines.
- Recommend approval / rejection of facility request.

- Conduct anniversary reviews for renewal / assessment of existing facilities performance and other credit related requests.
- Ensure proper documentation of individual exposure by adhering to set documentation standards and procedure.
- Credit Administration and Documentation
- Ensure conformity of the credit operations to the credit risk policy of the bank on the basis of reports received from corporate, retail and treasury functions, corporate and retail credit administration functions and other relevant departments of the Bank. Submission of reports to external agencies on credit risk.
- Report the breaches in the collateral related policies to MCC on a monthly basis and alert the Corporate and Retail Credit Department to take corrective action.
- Ensure completeness of all due diligence documentation and security documents before signing off for availment.
- Liaise with Legal Department to confirm adequacy of documents submitted and facilitate perfection of securities pledged.
- Maintain custody of all security documents related to the extension of credit. At least semi-annually, the Conduct and Compliance function will audit the adequacy of these records.
- Deliberately track and produce credit information for all parties involved in the credit creation process to enable effective credit exposure and credit portfolio performance monitoring.
- Conduct independent inquiries on the borrower e.g. from CBN credit bureau and other sources.

4.2.2.3 Credit Portfolio Management

- Laying down risk assessment systems, monitor quality of loan portfolio, identify problems and correct deficiencies, develop MIS and undertake loan portfolio review.
- Monitor the exposure and risk limits set by the bank under various dimensions on a continuous basis.
- Maintain database on bank-wide credit portfolio and up-to-date accurate record performance of individual credit exposures.
- Provide detailed guidelines for monitoring and managing information on existing exposures as a basis for informed decision-making.
- Deliberately track and produce credit information for all parties involved in the credit creation process to enable effective credit exposure and credit portfolio performance monitoring.

- Ensure asset classification and provisioning as per Credit Risk Policy and provide reports to MCC and BCC.
- Sounding alert to all the business units and other relevant functions for carrying out suitable corrective action in case of breaches / deviations figured out during the risk monitoring process.

4.2.2.4 Loan Monitoring

- To carry out a daily review of all sanctioned transactions.
- Review end use of approved loan proceeds.
- Review of proper utilization of facility in line with approved purpose(s) through periodic credit review/ account performance.
- Review of debit/ credit swings on borrowing OD accounts and review of over line/status of overdrawn accounts every morning.
- Review account turnover (debit & credit) activities to establish compliance with covenants and mirror asset quality.
- Review facility types and repayment structures vis-à-vis the customer’s cash flow/business type/asset conversion cycle.
- Review turnover activity on borrowing accounts to establish level of adherence, ensure and confirm that collections on accounts are transaction/ project specific.
- Review and track early warning signals (EWS) on specific credits and escalate same for appropriate actions.
- Analysis of restructured accounts to expose weaknesses.
- Review financial and non-financial covenants of approved FAM with a view to ascertaining compliance.

4.2.2.5 Remedial Assets Management Unit

Specific responsibilities shall include:

- Work with relationship team to restructure delinquent facilities for possibility of recoveries.
- Put a structure in place to have detailed and documented information on classified accounts.
- Ensure provision of adequate/quality information to solicitors during litigations in respect of recovery matters.
- Exploring out-of-court settlement.

- Realization and sale of perfected collaterals/ securities of recalcitrant borrowers.
- Enforcement of court judgements.
- Effective follow up on repayment of agreed full and final settlement amount.
- Regular review of the activities of recovery agents/lawyers in order to measure performance and take decisive actions.
- Maintain healthy relationship on behalf of the Bank with the various law enforcement agents.

4.2.2.6 Legal Department

The role of the Legal Department in the credit creation and approval process shall be to:

- Assess and confirm adequacy of documents required for the perfection / up-stamping process.
- Assess suitability of title deed and arrange for formal search to be conducted over title deed.
- Prepare relevant documentation for execution by Customer / Surety Company Secretary.
- Initiate and recommend external solicitor involvement to conduct search.
- Liaise with external solicitors and ensure due supervision throughout the perfection / up-stamping of securities.
- Prepare and issue relevant demand notices and call in classified facilities as appropriate.
- Monitor on an ongoing and regular basis, the performance of external solicitors involved in perfection / up-stamping process or recovery-related litigation.
- Provide legal opinion as may be required or necessary.
- Assist in structuring complex transactions (project financings, syndications etc.) and work with external counsel on documentation and agreements for such transactions.

4.2.2.7 Project Monitoring Unit

The Project Monitoring function includes the following:

- Monitoring of all direct facilities granted by the bank that are project-related to ensure that the expected completion timeframes are achieved to minimize the risk of delayed repayment or non-repayment.
- Monitoring of all contingent facilities (Bonds and Guarantees) to ensure performance and progressive reduction in the obligations of the Bank.

- Evaluation of the potential risks that can affect projects in terms of the constraints to the cost, time and scope, and provide guidance in the pre-and-post disbursement processes of all project-related credit facilities.
- Periodic appraisal of all project and object related facilities in the Bank, track milestones and provide controls to ensure performance, and timely loan repayment.
- Pre – qualify, select, and partner with consultants to oversee large and specialized projects; including interpreting/transcribing the consultant's technical reports for decision making.
- Provision of a structured project management approach for challenged object/project financed facilities where the borrower lacks the competence to complete the project (or manage the asset) but the repayment is premised on the cash flows expected from the use of the asset.

4.2.2.8 On-lending Schemes Risk Management

The On-Lending Schemes Risk Management Unit is responsible for the Monitoring of all On-lending facilities availed to customers that were sourced from Central Bank of Nigeria (CBN) and other local and foreign development institutions.

The Unit provides surveillance of the on-lending portfolio of the Bank in line with the Bank's risk appetite and monitors individual loan performance of obligors to facilitate adherence to approved loan covenants.

The unit is also tasked with Regulatory reporting in line with the requirements of the regulators and other stakeholders."

4.2.2.9 Environmental and Social Risk Management

The bank is committed to conducting its business in an environmentally and socially responsible manner. In maintaining international best practice in environmental and social risk management, the Bank shall ensure that our customers are also fulfilling their environmental and social responsibilities. The Bank shall insist on compliance with applicable National laws and regulations, the use of sound environmental, health & safety, and labour practices, as these are important factors in demonstrating effective corporate governance, ensuring sustainable wealth and commitment to loan obligations.

The Bank shall not provide financial services to projects and activities that are on the exclusion list of the Environmental and Social Risks Management (ESRM) Manual. Such projects shall be reviewed and approved in line with credit processes as contained in the Bank's CPG and ESRM Manual

The roles and responsibilities of Environmental and Social Risks Management include;

- Ensure that policies, processes and procedures are developed and integrated as the Environmental Management System with focal aim to assess, review, identify, manage, monitor and report the potential environmental and social

("E&S") risk issues inherent in credit requests thereby putting in place requisite mitigation to the identified risks.

- Preparation and development of environmental and social risk management frameworks and structures in addition to ensuring compliance with requisite regulatory, global standards (i.e. IFC).
- Investigate inherent credit's environmental and social factors and make recommendation as required. Conduct independent audits/due diligence on facilities with high and moderate E&S risks.
- Timely escalation and necessary alert to senior management, committees, to take corrective action whenever a facility breaches prescribed environmental and social action plans.
- Monitoring of facilities with identified high E&S risks, check relevant laws and trends in environmental and social governance architectures for interpretation of potential impacts on the Bank's present and potential assets.
- Assess and confirm suitability and completeness of all E&S due diligence documentation before sign-off for availment

4.2.3 Roles and Responsibilities of Customer-facing Business Units

Customer-facing business units are responsible for generating revenues through product delivery and sales of financial services to bank customers to achieve and sustain the defined goals and business objectives.

In this respect, it is expected that the business units shall:

- Continually grow market share (specific to target market) by effective management of individual customer relationships;
- Market / sell bank product and service offerings to target customers
- Create, manage and own risk assets, through a very thorough customer selection and controlled risk availment process without compromising portfolio profitability, and in compliance with the bank's management policies.

4.2.3.1 Specific Responsibilities

Each customer-facing unit shall:

- Define and articulate target market, risk acceptance criteria and portfolio mix, with concurrence from Credit Risk Management.
- Define market specific strategies.
- Initiate credit request that meet set risk acceptance criteria and target market definition.

- Obtain adequate information in respect of each facility request/prospect to conduct preliminary credit screening.
- Perform preliminary credit screening to confirm that facility requests meet Access Bank's defined target market and risk acceptance criteria.
- Create credit facility proposals for individual/business credits within stipulated limits and guidelines as defined by risk management policies and procedures.
- Approve credit facility requests in accordance with the Bank's preapproved credit programs.
- Manage risk exposures in line with approved risk management policies.
- Develop and implement appropriate response on a case-by-case basis to manage delinquency.
- Proactively identify potential delinquency in existing exposures on a continuous basis and support the risk management function in ensuring efficient administration of all credit recovery activities.

In particular, each relationship manager is responsible for ensuring the coordination, execution and monitoring of an extension of credit, from early consultation through approval to maturity, including:

- Serving as the primary interface with the client
- Ensuring a complete, accurate and balanced assessment of risk in the credit approval presentation
- Coordinating the approval process; managing information flow
- Ensuring that clear communication between Access Bank and the client is maintained, and that the internal approvals are consistent with client expectations
- Bringing in Industry, Product and other specialists (e.g., Legal, Tax) when required
- Ensuring compliance with related policies, as referred to throughout these policies
- Ensuring that the approval documentation is complete
- Ensuring that the legal documentation is complete, consistent with the internal approvals and properly executed and filed.
- Ensuring quality and timely service delivery, within (or exceeding) customer expectations.

5 Credit Risk Management

5.1 Risk Identification

5.1.1 Introduction

This section of the Credit Risk Policy provides a framework for identification of dimensions of Credit Risk in the Bank's Books.

5.1.1.1 Dimensions for Identification of Risks

On and Off balance sheet exposures can expose the bank to Credit risk. The following are the dimensions based on which the risks should be identified to be categorized under Credit risk.

- Credit Risk – Pre-settlement and Settlement Exposures

➢ Exposure is classified into Banking Book and Trading books

➢ Settlement date of the exposure falls on or after the cut-off date (date on which risk identification is carried out)

- Credit Risk – Settled Exposures

Credit Risk – Settled exposures include all normal funded & non – funded lending products of the bank such as Overdraft, Term Loans, Mortgage Loans, Agriculture Loans and Letter of Credit etc. For all such credit risk –settled exposures, risk identification is carried out as follows:

- Exposure is classified into Banking Book and

➢ Exposure creates an obligation on the part of obligor to perform as per the terms and conditions of the agreement with the Bank or

➢ Investments in Equity, where the issuer does not have any obligation to perform but the bank is exposed to credit risk.

5.1.1.2 Risk Identification Matrix

Risk Identification Matrix for the existing products of the Bank is given in Annexure 1.

5.2 Risk Measurement

5.2.1 Acceptance Criteria

Access Bank will operate within a sound and well-defined criterion for fresh credit request from new customer as well as existing customer, with an objective of improving the quality of appraisal, reducing the turnaround time there by optimizing cost.

Acceptance Criteria will be used as an entry level filtering mechanism to decide whether the applicant should be subjected to a detailed appraisal as envisaged in the subsequent section of the policy. Bank will put in place appropriate acceptance criteria based on the following:

- Type of entity
- Industry
- Profitability
- Net worth and Solvency
- Liquidity
- Operational Efficiency
- Promoter Contribution
- Credit History
- Track record

5.2.2 Negative List

Following are the activities / Obligors which are in the “Negative list activities” of the Bank.

The Bank will take special care in considering any potential lending to businesses on the negative list.

For such transactions to be considered for processing, as a result of circumstances surrounding the request, the request must be signed off by the Chief Risk Officer and GMD and any further approving authority subject to applicable limits.

- Defence / Weapons procurements for unauthorized contractors.
- Projects which may have negative socio-economic impact.
- Projects which may lead to occupational/ health concerns.
- Credit to companies for buy-back of its securities.
- Production of Ozone depleting materials.
- Lending for the purpose of supplying equity in a start-up business
- Any activity which is on the Negative List of the Central Bank of Nigeria.
- Any activity considered as unlawful as per the laws of the land.
- Loans to gambling enterprises, gaming companies including casinos, and lottery operations.
- Loans to finance a company acquisition, which is expected to be “hostile”.
- Loans for speculative investments in securities, Inventory or real estate
- Loans that bail out or replace other banks and financial institutions who wish to withdraw (Non-Performing and watch listed loans in other Banks).

- Loans to Companies that have default credit history with Access Bank or their facilities have been previously written-off.
- Finance of used items either as stock or Asset Finance.
- Activities that are listed in the Environmental and Social Risks Management Manual ESRM MANUAL

5.2.3 Restricted List

Undesirable Lines of Business: Financing certain lines of business is undesirable for the reputation of the bank and therefore the bank's policy is to avoid transactions in such lines of business. MCC may identify lines of business that fall under this classification. Approval of the Board of Directors is required for any loans to these sectors.

5.2.4 Policy Loans

These are exceptional or unsecured credit extensions to certain companies and/or individuals having special relationships with the bank, some of which are already subject to certain regulatory restrictions. These include, but are not limited to the following:

- Unsecured credit to bank directors: to companies where bank directors are also directors or companies owned or controlled by close associates or relatives of directors of the bank. Loans in this category must be approved by the Board prior to drawdown and also mentioned at Board Meetings for ratification.
- Politically sensitive credits.
- Unsecured credits to executives of client companies: executives of other banks or highly connected individuals in business or government circles.
- All other loans not expressly provided for in the Credit Policy Guide

Relationship Managers must exercise due care in proposing such facilities and ensure that a viable first way out exists. All loans in these categories must be approved by the GMD irrespective of the amount involved and Tenor (MCC/BCC/Board approval may be required in line with the bank's approval grid)

5.2.5 Exposures to politically exposed entities

All exposures to politically exposed entities must be signed off based on the value of loan request and the profile of the PEP.

Tier 1: 1) All credits request – Executives – President, Vice President, Governor, Senate President, Speaker Federal House of Representatives, Speaker, State House of Assembly (including their wives, close relatives and Personal Assistant)

2) All PEP or Financially Exposed Persons (FEP) Credit request of N1B and above (either as a single transaction or cumulative exposure). Minimum concurrence CRO

Tier 2: 1) Federal – Members of Federal House of Representatives and Senate, Special Advisers, Ministers, Ambassadors, Federal appointees and Heads of Government, Parastatals, Deputy Governors

2) All PEP or Financially Exposed Persons (FEP) Credit request of N100m and above (either as a single transaction or cumulative exposures. N100m to N1B Minimum concurrence DGM in Risk Management Division

Tier 3: 1) State- Members of State House of Assembly, Local Government Chairmen, Commissioners, and State appointed office holders etc.

2) All other PEP or FEP with exposure of N100m and below. Minimum concurrence CRM, Head of Risk

To avoid any potential conflict of interest situation, Access Bank shall not extend credit to its principal independent accounting firm or its partners, nor shall the bank extend credit to any other accounting firm or their partners who are regularly engaged to audit the financial statements and/or affairs of the bank or its branches / subsidiaries / affiliates.

5.2.6 Insider Related Exposures

5.2.6.1 Definition of Insider Related Exposures

Insider Related loans are credit facilities granted by the Bank to its own officers, managers, directors, significant shareholders and other related entities (section 3.5 of the Prudential Guidelines July 2010 and BOFIA no 38 of 1998 as amended).

Insiders include directors, management staff, significant shareholders and all other Employees of the Bank. The term “director” includes director’s wife, husband, father, mother, brother, sister, son, daughter and their spouses (section 3.4 of the Prudential Guidelines July, 2010 and BOFIA as amended).

A significant shareholder is defined as a shareholder who has a shareholding of at least 5% (individually or in aggregate) of the Bank’s shareholders fund (section 3.4 (a) of the Prudential Guidelines July 2010 and BOFIA as amended)

5.2.6.2 Scope of the Policy

BOFIA (No 66, 2004 Amended Act) defines a director as any person by whatever name he may be referred to carrying out or empowered to carry out substantially the same functions of a director in relation to the affairs of a company incorporated under the Companies and Allied Matters Act, 1990. As a corollary, any exposure granted to the directors and other related parties are categorized as Insider Related obligations and such exposures should be treated in line with this policy.

1. This policy governs any extension of credit made by the bank to an executive officer, director, or principal shareholder of the member bank, of any company of which the member bank is a subsidiary, and of any other subsidiary of that company.
2. It also applies to any extension of credit made by a member bank to a company controlled by an insider, or to a political or campaign committee that benefits or is controlled by such an insider.
3. This part also implements the reporting requirements of the Prudential Guidelines concerning extensions of credit by the bank to its executive officers or principal shareholders (or to the related interests of such persons).
4. Extensions of credit made to an executive officer, director, or principal shareholder of the bank (or to a related interest of such person) by a correspondent bank also are subject to restrictions set forth in this policy document.

5.2.6.3 Definition of Related Parties

The term Related Party means any natural person or legal entity that maintains with the Bank at least one of the following relationships:

1. The person is a member of the Board of Directors or Management, or is a senior official of the bank
2. The person has a direct or indirect qualifying holding in the bank.
3. The person is a member of the board of directors or management of an enterprise covered by 2 above, or by 6 or 7 below;
4. Any enterprise in which any of the persons mentioned under 1, 2, or 3 is a member of the board of directors or management;
5. Any enterprise in which any of the persons mentioned under 1, 2, or 3 above holds directly or indirectly, alone or with others, at least 5% of the shares or voting rights as implied by BOFIA in section 18 (6a).
6. Any enterprise that the bank, alone or with others, controls directly or Indirectly;
7. Any enterprise controlled directly or indirectly by an entity that controls the Bank.

5.2.6.4 Regulations on loans to significant shareholders, directors, managers and staff of Access bank

Prudential Guidelines and BOFIA Divergence

1. All Insider Related credit must be approved by the Chief Risk Officer (“CRO”) / Group Managing Director (“GMD”) / Management Credit Committee (“MCC”) /Board Credit Committee (“BCC”) and Board of Directors (“BOD”). By inference, any Insider Related credit must be approved by BOD.
2. Anybody that could be categorized as an insider of Access Bank shall not:

- In any manner whatsoever, whether directly or indirectly have personal interest in any advance, loan or credit facility, and if he has any such personal interest, he shall declare the nature of his interest to the bank (BOFIA Section 18 (1a) as amended).
- Grant any advance, loan or credit facility to any person, unless it is authorized in accordance with the rules and regulations of the bank; and where adequate security is required by such rules and regulations, such security shall, prior to the grant, be obtained for the advance, loan or credit facility and shall be deposited with the bank (BOFIA Section 18 (1b) as amended).
- Benefit as a result of any advance, loan or credit facility granted by the bank (BOFIA Section 18 (1c) as amended).

3. The Bank is not permitted to grant unsecured advances, loans or unsecured credit facilities above N50,000 (Fifty Thousand Naira) to its directors (to any firm, partnership or private company in which it or any one or more of its directors is interested as director, partner, manager or agent or any individual firm, partnership or private company of which any of its director is a guarantor) whether such advances, loans or credit facilities are obtained by its directors jointly or severally without prior approval in writing from the CBN (BOFIA 1991 Section 20 (2a) as amended). Thus, all loans or commitments to insiders must be secured and covered by collateral in line with the Bank's Credit Risk Mitigant Policy.
4. In the case of a proposed advance, loan or credit facility, the required declaration shall be made at the meeting of the Board of Directors of the bank at which the request for the advance, loan or credit facility is first taken into consideration. However, if the director was not present on the date of the meeting at which the matter was discussed, he shall state his interest in the proposed advance, loan or credit facility at the next meeting of the Board of Directors of the bank held after he becomes so interested (BOFIA section 18 (4)).
5. The required general notice given to the Board of Directors which specifies that he is a member of a company or firm seeking an advance, loan or credit facility from the bank shall be regarded as a declaration of his interest in the grant of the advance, loan or credit facility which may after the date of the notice, be granted to that company or firm, and shall be deemed to be a sufficient declaration of interest in relation to any such advance, loan or credit facility so granted. Such notice shall not have effect unless it is given at a meeting of the Board of Directors and he shall be required to do all things reasonably necessary to ensure that the declaration is brought up and read at the next meeting of the Board of Directors after it is so given (BOFIA section 18 (5)).
6. A general notice given to the Board of Directors by the director shall be deemed to be a sufficient declaration of interest in relation to any advance, loan or credit facility, if –

a) The notice specifies the nature and extent of his interest in the company or firm seeking the credit facility;
b) Such interest is not different in nature to or greater in extent than the nature and extent specified in the notice at the time any advance, loan or credit facility is made
c) The notice is given at the meeting of the Board of Directors of the bank or the director takes reasonable steps to ensure that it is brought up and read at the next meeting of the Board of Directors of the bank after it is given.

(BOFIA section 18 (7a, b, c).

7. Every director of the Bank who holds any office or possesses any property whereby, whether directly or indirectly, duties or interests might be created in conflict with his duties or interest as a director of a bank, shall declare at a meeting of the Board of Directors of the bank, the fact and the nature, character and extent of the interest (BOFIA section 18 (8))
8. The Bank shall not grant or promise to grant to an insider (or a group of related parties), an advance, credit or commitment which is more than 20% of its shareholder's fund unimpaired by loses in line with the Prudential Guidelines (Section 3.2 a). Loans to a group of related parties are considered as a single insider obligation because the group of related parties refer to two or more natural persons or legal entities that are regarded as constituting a single interest because they have at least one of the following relationships

5.2.6.5 Key Considerations

1. The principal concern with Insider Related Credit is the conflict of interest in taking risk decisions with the Bank's resources and the bank would find itself taking on an exposure it could otherwise have avoided.
2. In order to mitigate against this, the Bank has come up with an Insider Related Policy to guide its handling of such exposures and to eliminate risks that may come out of potential conflicts.
3. The Bank will ensure compliance with all regulatory requirements on Insider Related Credits.
4. The Bank will ensure specific reporting at management and Board level on all Insider related ongoing events throughout the life cycle of the loan.
5. The bank will ensure that members of Management or Board of Directors with an interest do not participate in the approval of credit decisions on Insider Related Credits.
6. Insiders as described in this Policy shall not act as proxies for the purpose of obtaining loans in their names or in the names of their companies for the benefit of third parties. Such third party shall approach the Bank at arm's length independent of the Insider and the third party's credit request shall be assessed on its merit and decision taken accordingly.
7. All insider-related credits must be signed by the Chief Risk Officer (CRO).

8. Lending to a director or significant shareholder should be at a maximum of 10% of the bank's paid-up capital except with the prior approval of CBN.
9. Total loans to all Insiders should not be more than 60% of the bank's paid-up capital.

5.2.6.6 Marketing Requirement

1. The market facing teams are responsible for obtaining all the adequate information in respect of each facility request/prospect to conduct preliminary credit screening which confirms the insider relationship status of the customer via KYC.
2. The relationship management team shall be responsible for creation, management and own risk assets of insiders, through a very thorough customer selection and controlled risk availment process without compromising portfolio profitability and compliance with the bank's insider exposure policies.

5.2.6.7 Reporting Requirement

1. All regulatory returns required in relation to all insider loans (if any) must be submitted/made available within the assigned timeframe prescribed by the Central Bank of Nigeria or the regulatory body in the country where Access Bank is located.
2. Credit Portfolio Unit of the Credit Risk Management should prepare a schedule which contains the Bank's insider-related exposures should be submitted for Board Credit Committee's review on a quarterly basis.
   The schedule should include following:
   I. The aggregate amount of insider-related outstanding: loans, advances and leases should be listed per customer. Those that are not performing should be further analysed by security, maturity, performance, provision, interest-in suspense and name of borrowers to trigger critical decision from the Committee.
   II. Details of the off-balance sheet exposures arising from insider related-party transactions should be included on the schedule.
   III. All exposures to ex-Directors of the Bank, who have outstanding facilities before the expiration of their tenures on the Board of the Bank or their resignations there from would continue to be treated and reported as Insider-Related Exposures throughout the facility life until the facility is fully discharged or paid down.
   IV. A related Director shall vacate office or cease to be a Director, if the Director directly or indirectly enjoys a facility from the Bank that remains non-performing for a period of more than 12 months.
3. A comprehensive database which contains the names of all the insiders shall be created by the Bank. This database shall be updated monthly for the purpose of easy identification of all insider related exposure.

5.2.6.8 Disclosure Requirement of Insider-related credits

Access Bank is required to ensure strict compliance with the regulatory requirements Concerning the requisite disclosure of Insider related exposure as may be obliged from time to time. Section 3.5 (a) of the Prudential Guidelines (July 2010) requires that all the exposures to: shareholders, employees, directors and their related interests must be disclosed in the financial statement.

The current disclosure requirement on insider loan is as follows:

a) The under listed disclosure with respect to all the insider loans shall be presented in the financial statements:
   - The aggregate amount of insider-related loans, advances and leases Outstanding as at the financial year end should be separately stated in a note to the accounts. The non-performing component shall be further analysed by security, maturity, performance, provision, interest-in suspense and name of borrowers.
   - Notes to the accounts on guarantees, commitments and other contingent liabilities should also give details of those arising from related-party transactions.
   - The external auditors and audit committees should include in their report, their opinion on related-party credits.

b) The requirements of the disclosure above do not apply to credits extended to employees under their employment scheme of service, or to shareholders whose shareholding and related interests are less than 5% of the bank's paid up capital as at the date of the financial report or to public limited liability companies in which a Director has an interest that is less than 5% Section 3.5 (c) of the Prudential Guidelines (July 2010).

5.2.6.9 Monitoring Requirement

1. Credit Risk Management and the Relationship Management teams are required to ensure that no unsecured loans to any of its insiders are granted without the approval of the Board of Directors (and or the Central Bank as may be applicable in the country where the bank is located).
2. The Relationship Managers should ensure that all the loans granted to the directors, insiders and significant shareholders or a group of related insider should be fully disclosed in the Facility Approval Memorandum in order to enable the approving authority not only make an informed credit judgment / decision on the credit but also observe all the regulatory requirements in relation to the credit.
3. For Insider-Related Facility requests to be presented to MCC and BCC/ BOD meetings, the respective Secretariats shall indicate the fact that the affected exposures are Insider-Related while scheduling credit requests for presentation to these Committees beforehand.

4. A borrowing Director shall be required to abstain from taking part in the approval process of credit request(s) sponsored by him / her. Such Director(s) would similarly be required to abstain from discussions / approval of credits in which he/ she has interests.
5. Credit Risk Management shall be required to confirm the status of a director's credit facility before dividend payments to the Director. In line with CBN Circular reference BSD/DO/CIR/VOL.1/01/18, a director who has any non-performing facility is disqualified from receiving dividend payments. The dividend due to such a Director shall then be applied in full towards redeeming outstanding balances on such non-performing obligations. Directors shall be required to sign authorizations to this effect during credit appraisal/ documentation.

5.2.6.10 Procedure for Write-Off of Fully Provided Insider – Related Credit Facilities

According to the Prudential Guidelines (section 3.21), the following must be adhered to;

(a) The facility must have been fully provided for in line with the loan loss provisioning guidelines and must be in bank's book for at least one year after full provision.
(b) There should be evidence of board approval
(c) The approval of CBN is required for all insider or related party credits
(d) The fully provisioned facility must be appropriately disclosed in the audited financial statement.

5.2.6.11 Requirement for Lending to Insider Related Parties

(1) In considering the approval of insider related credit, the following conditions should be put into consideration:
  - The terms of the credit facility are not less favourable to the bank than those normally offered to other persons; and
  - The granting of the credit facility is in the best interests of the bank.

(2) The credit shall be approved by all other directors of the bank at a duly constituted meeting of the directors where not less than three quarters of all the directors of the Bank are present and the approval shall be recorded in the minutes of the meeting.

5.2.6.12 Documentation Requirements

1. A blank shares transfer form shall be duly signed by the director transferring his shareholding interest to the Bank in the event of non-performance of the credit facilities granted to him/ her and/or his/her related interests. Such transfer of

shares should be to the Bank's nominated broker to ensure effective control. (CBN Circular BSD/DO/CIR/VOL.1/01/18)

2. The Bank shall also obtain from the director, a written authorization duly signed by him instructing the bank to apply any dividend due to him to defray any delinquent facility outstanding against him/ her and/or his/ her related interests. (CBN Circular BSD/DO/CIR/VOL.1/01/18)
3. Disbursements in favour of Directors concerned shall be subject to executed Director's Consent that he/she is aware of the proposed facility and pledging its shares of Access Bank in the event of default.
4. Documentation requirements for insider related aside director shall include the following:
   I. Executed security documentation as duly approved
   II. Executed non-security documentation including offer letter, Loan Agreement, Overdraft Agreement and Board Resolution where applicable.
   III. The transaction dynamics shall be in line with this policy in addition to Credit Risk Management Policies.

5.2.7 Guidance Limits

To provide flexibility in managing valued customer relationships, especially for specific Institutional banking customers that satisfy at the minimum, the criteria for the best risk rating, the bank shall approve 'guidance limits'. These shall be preapproved exposure limits not advised to the customer, but available to allow for quick response to temporary emergency needs for accommodation/enhancement of facilities. The purpose and other terms and conditions may not be specified in the original approval of Total Facilities. (Typically, however, these guidance limits should include a tenor limit.) Guidance limits are included in Total Facilities and, unless otherwise specified, are designated as Direct exposure.

Guidance limits may be exercised at the discretion of the relationship management function in conjunction with Credit Risk Management up to a maximum of 10% of the approved credit facility advised to the customer. In all other situations, two credit officers must approve the allocation and one of the credit officers must have a covering limit for the allocation amount. In all situations, careful consideration must be given to the adequacy of collateral for the additional exposure, as well as the certainty / adequacy of the obligor's cash flow as our first way out.

5.2.8 Advised Facility

A credit facility made known to the customer in writing through an Offer Letter is an advised facility. For limited liability companies, Customer's acceptance of an advised facility must be supported by a Board Resolution.

5.2.9 Unadvised Facility

Unadvised facilities are those that are not disclosed to the customer. Amongst other reasons, an unadvised facility may be used:

To keep client's account balance within the scope of cover provided by its collateral.

For relationship reasons, to keep the borrower's account within an approved credit limit and avoid penalty interest rates on excesses over previously approved facilities.

Approval for unadvised lines must comply with the requirements of this Guide **(Section 6.2.10.3)**

5.2.10 Temporary Extensions

All credit facilities must be reviewed once every 12 months. Facilities can be temporarily extended for up to 30 days with the approval of the Business ED and the Head of Risk; Up to 60 days with the approval of the GDMD. Extensions beyond 60 days, up to 180 days must be approved by the GMD.
The bank does not encourage more that 2 consecutive extensions.

The annual review date may then be reset, as one year from the approved extension date.

5.2.11 Guidelines for acceptance of Intra group exposures

Bank will apply the same underwriting standards to intra group exposures as that of any other exposure. Since assets can be shifted from one company to other within a group, bank will not engage in asset backed lending without ensuring end use of funds.

5.2.12 Techno – Economic Viability Study

Long term viability of business of the obligor is critical in determining the overall quality of the Term Loans Portfolio (that includes specialized lending). In evaluating long-term viability, techno-economic viability studies facilitate a great deal of understanding of the technical and economic feasibility of the asset or project financed by the bank

Purpose of Techno - Economic viability studies:

- Technical viability of the project / asset / technology in terms of cost, degree of obsolescence, proven or unproven, input, output, project implementation schedule, alternatives, environmental issues.
- Economic viability of the project in terms of future cash flows.
- Economic life of the underlying asset / project being financed.
- Residual value.

The following are the guidelines for the conduct of TEV study:

- TEV Study will be done by the bank with the use of Internal or external experts depending on the type of asset/ project involved and the availability of in-house expertise.
- A Techno-Economic viability study may be carried out during the approval process of a loan if requested by the credit officer or the Management Credit Committee for a prospective obligor as it is essential to understand whether the financial projections given by the obligor is feasible or not. A positive result from the TEV study is essential for further considerations of the obligor.
- Bank may use external experts to conduct a TEV study, whenever the in-house expertise is not sufficient to conduct the study. The decision to use external experts should be approved by appropriate authority can vary from time to time.
- External experts must be of high repute, well qualified and experienced - chartered engineers / technicians in the respective area of study.
- TEV Study must be carried out in the following cases:
  - Whenever the project / asset involves a new technology which needs to be understood to critically analyse the financial projections and long-term feasibility.
  - Any other credit facility that demands a TEV Study as per the assessment of appropriate authority.

5.3 Exposure and Risk Limits

Exposure limits are needed in all areas of the bank's activities that involve risk taking. These limits help to ensure that the exposures taken by the Bank remain within a predetermined level to manage concentration risk arising out of excessive exposures.

The dimensions to be used for defining such exposure limits are derived from Regulatory prescriptions of the Central Bank of Nigeria and Prudential Limits based on Bank's internal considerations.

5.3.1 Definition of Exposure

Exposures comprise on and off-balance sheet items as under:

Claims on a counterparty including actual claims and potential claims which would arise from drawing down in full of undrawn advised facilities (whether revocable or irrevocable, conditional or unconditional) which the bank has committed itself to provide, and claims which the bank has committed itself to purchase or underwrite

Contingent liabilities arising in the normal course of business and those contingent liabilities which would arise from drawing down in full of undrawn advised facilities (whether revocable or irrevocable, conditional or unconditional) which the bank has committed itself to provide

Assets, and specifically assets which the bank has committed itself to purchase or underwrite, whose value depends wholly or mainly on a counterparty performing his obligations, or whose value otherwise depends on that counterparty's financial soundness but which do not represent a claim on the counterparty.

5.3.2 One Obligor Concept

Section 20 (1a) of the Bank and Other Financial Institutions Act (BOFIA) 1991 as amended states that a Bank shall not grant more than 20% of its shareholders' funds unimpaired by losses to a company, its subsidiaries and associates.

However, at Access Bank, the concept of one obligor is extended to include any company belonging to a group whose management are strongly linked by virtue of their related ownership structure and in particular, where the business fortune of one entity affects the other. Thus credits extended to any member of the group shall be aggregated to determine total facilities to the group, as well as the appropriate level of approval of such facilities.

It shall be the responsibility of the Approving Officers to determine whether related company obligations shall be aggregated, and the basis for their decision shall be documented. As a guide, the term "One Obligor" includes all credit extension to a borrower including:

All subsidiaries owned at least 50%; such interest being an aggregate of both direct and indirect shareholdings

Any less than 50% owned affiliate where the borrower exercises management control and where, in the opinion of the credit approval officers, the commercial fortunes of the affiliate are strongly influenced by the borrower

Any obligor related to the borrower as a result of guarantees, endorsements, or other similar arrangements in favour of the bank

All obligors under common ownership or control of a corporation or individual

5.3.3 Exposure Limits

5.3.3.1 Regulatory Considerations

Access Bank and its staff will ensure compliance with all laws regulating financial institutions in the countries where it operates. Being a Nigerian bank, Access Bank Plc is subject to laws and regulations issued by the Central Bank of Nigeria, or other agencies of the Federal Republic of Nigeria that are established for the regulation of financial institutions. The main laws impacting our core banking activities are:

- Banks & Other Financial Institutions Act, 1991 (BOFIA)
- Failed Banks Act, 1994
- Economic & Financial Crimes Commission Act
- Money Laundering Act 2004
- CBN Act (which empowers it to regulate financial institutions)
- Other miscellaneous economic or financial crime regulations.

Major provisions of these laws and specific regulations that govern the extension of credits at Access Bank include, but are not limited to the following requirements:

The total exposure to one **obligor** i.e. any single borrower or related group of borrowers at any given time shall be limited to 20% of shareholders' funds of the bank (unimpaired by losses).

Direct or indirect interests of directors, managers and officers of the bank in any advance, loan or facility must be declared and shall not conflict with the corporate interests of the bank and where appropriate, authorization must be in accordance with the rules and regulations of the bank. It is an offence under BOFIA for bank staff to fail to declare the nature of their interest in such loan requests and offenders are liable to a fine and up to 3 years' imprisonment on conviction.

Access Bank shall not, without the prior approval in writing of Central Bank, grant any advance, loan or credit facilities against the security of its own shares; or any unsecured advances, loans or credit facilities unless authorized in accordance with Access Bank's rules and regulations, and where any such rules and regulations require adequate security, such security shall be provided or, as the case may be, deposited with the bank.

Under the Failed Banks Act, where the information and details on the security pledged for a loan is impossible to locate or no security is pledged at all or the identity of the debtor is difficult to locate or the debtor is difficult to locate or the debtor is found to be non-existent, fake or fictitious or in any way unidentifiable, the directors, shareholders, partners……managers, officers and other employees of the failed bank who in the pursuance of their duties were found to be connected in any way with the granting of the loan which has become irrecoverable shall be held liable.

5.3.3.2 Prudential Exposure Limits

Apart from the regulatory dimensions given by CBN, Access Bank will have prudential exposure limits set out on following dimensions:

- Single and Group Borrower
- Sector Type (E.g. Manufacturing, Trading, Agriculture, Services, and Real Estate etc.)
- Capital Market Exposure
- Industry Type
- Geographic Regions
- SBUs Type - Corporate and Retail.
- Currency Exposure
- On and Off Balance Sheet
- Rating Grades Single

5.3.4 Risk Limits

In addition to Exposure Limits, Risk Limits are necessary to keep credit risk under predetermined levels. Credit Risk is multifaceted as it is impacted by factors other than exposure, hence the need for Risk Limits.

The Bank will set Risk Limits Based on ratio of Risk Weighted Assets (RWA) to Total Exposure on the following dimensions:

- Overall Credit Risk

- Sector Type (E.g. Manufacturing, Trading, Agriculture, Services, and Real Estate etc.)
- Capital Market
- Industry Type
- Geographic Region
- Currency Exposure
- On and Off Balance Sheet

A Note on Setting Exposure and Risk Limits is provided in Annexure 3.

Exposure and Risk Limits under various dimensions

No.	Dimension / Sub Dimension	Exposure Limit as a % of Capital Base	Risk Limit
1.	Single and Group Borrower		
2.	Large Exposures		
3.	Sector Type Manufacturing Trading Agriculture Services Real Estate Contracting		
4.	Capital Market Exposure		
5.	Industry Type Power Ports & Roads Telecom Hospital & Health Care		

No.	Dimension / Sub Dimension	Exposure Limit as a % of Capital Base	Risk Limit
	Other Infrastructure Petroleum & Petroleum Products All Engineering Chemicals Food Processing Turnkey Projects / Construction contractors Automobiles / Auto parts		
6.	Geographic Regions		
7.	Currency Exposure US Dollars Pound Sterling Euro		
8.	Tenor		

5.3.5 Risk Rating Limits

Access Bank will use Risk Rating Limits as the primary mechanism to control its portfolio of credit exposures. Risk Rating Limits are established by the Chief Risk Officer and approved by Management Credit Committee and are a function of the obligor risk rating and tenor of facilities. Risk Rating Limits shall be specified on approval of the revised Risk Rating Policy for Access Bank. Note that regardless of the Risk Rating Limits, Legal Lending Limits set by the Regulators shall always prevail.

Risk rating limits shall be established for the following classes of borrowers:

- Banks, Corporations
- Government owned or controlled entities

5.3.5.1 Measuring Exposure against Risk Rating Limits

The Risk Rating Limit process outlined below applies to exposure at the overall relationship level. For the purposes of applying Risk Rating Limits, the obligor risk rating that is used must be:

- For corporations, the obligor risk rating of the parent company.
- For banks, the risk rating of the lead bank.
- For other entity types, the risk rating as determined in accordance Access Bank's Risk Rating Policy. Exposure against Risk Rating Limits is measured as the Outstanding's and Unused Commitments ("OSUC") to a given relationship.
- OSUC is the sum of all Outstanding's (including Direct and Contingent Exposure) against Total Facilities, as well as the unused portion of any Committed Facility included in Total Facilities.
- OSUC does not include settlement and clearing exposure, or the Underwritten Position of a credit underwriting transaction unless the position becomes aged beyond the Extension Period.
- For purposes of measuring exposure against Risk Rating Limit tenor buckets, contractual principal repayments may be taken into consideration.
- purposes of measuring exposure against Risk Rating Limits, OSUC may be considered net of:
- Reductions resulting from asset sales
- Risk mitigation efforts restricted only to On & Off Balance sheet netting

5.3.5.2 Risk Rating Limit Exceptions (RRLEs)

Risk Rating Limit Exceptions are discouraged and must be approved in advance at the appropriate level.

5.3.5.3 RRLE Types

The required approvers to an RRLE depend on the RRLE type, as defined below. Unless stated otherwise, an RRLE must be approved in advance.

- Cash Exceptions

- Exceptions that can be attributed to cash collateralized facilities.
- 'Immaterial' Exceptions
- Immaterial overages to already approved Risk Rating
- Limit exceptions, defined as overages up to 10% of Risk Rating Limit.

5.3.5.4 Passive Exceptions

Passive exceptions are those caused by:

- A valuation changes on an existing transaction
- A downgrade in the risk rating of the obligor

Note	Passive exceptions need not be preapproved; Instead, they are flagged as part of the regular reporting process, and must be reviewed and their associated action plan must be approved as soon as possible after they occur, but no later than the next quarterly review of Risk Rating Exceptions.

5.3.5.5 All Other: Long Term and Continuing

All other RRLEs, not captured in the definitions above, are considered to be 'Long Term and Continuing'.

5.3.5.6 Required Approvals

Cash, Immaterial and Passive RRLEs require approval from Line ED and Chief Risk Officer (or their designees)

All other RRLEs require approval by MCC.

5.3.5.7 Administrative Issues

All requests for exception approvals (excluding cash collateralized exceptions) must include an action plan and time frame for bringing the credit exposure back within Risk Rating Limits, and must clearly identify the Relationship Manager or Business Head requesting the exception.

An approved Risk Rating Limit exception does not need to be reapproved (by the above approvers) during the Annual Review process. However, all Risk Rating Limit Exceptions must continue to be noted on the Facility Approval Memo.

5.3.5.8 Reporting

All Risk Rating Limit exceptions will be reported monthly to the Management Credit Committee.

On a quarterly basis, the Chief Risk Officer will review all risk rating limit exceptions including exceptions that have aged past their originally established and approved resolution period.

5.3.6 Establish Total Facilities

Credit facilities are established to express the purposes and terms under which Access Bank is prepared to extend credit. (A proposal or marketing letter does not require credit approval as long as it expressly disclaims any commitment or any undertaking to provide a commitment or other services, and does not obligate Access Bank in any way. Marketing letters will be jointly approved by the business head or ED and the Head of Risk).

In some cases, it may be appropriate to establish Total Facilities that exceed the Risk Rating Limit. It is the responsibility of the Relationship Manager to ensure that actual OSUC stays within the Risk Rating Limit or is covered by an approved Risk Rating Limit exception.

When establishing Total Facilities for a relationship, Total Facilities must include:

All existing and proposed Direct, Contingent, including those offered under approved Credit Programs.

Facilities extended to all related entities including the parent entity and its majority owned or effectively controlled entities. It should also include credit facilities to affiliates (up to 20% but less than 50% owned) where the borrower effectively controls or provides support to the affiliate; or where there is a material economic relationship in either direction, as determined by the credit approvers.

Existing and proposed credit facilities for which the obligor provides credit enhancement (e.g. guarantees), and that credit enhancement is one of the primary sources of repayment or one of the principal considerations in the approval of the facility.

5.3.6.1 Foreign Exchange Limits

Access Bank's foreign exchange limits and position limits shall be guided by the requirements of the Market Risk Policy manual.

6 Credit Risk Management Process

Access Bank's Credit Risk Management Framework is made up of five distinct modules for the proactive creation and deliberate management of credit risk exposures in the bank. Each module represents a critical component of the Bank's credit risk management framework for creating and maintaining an appropriate credit risk environment in the bank to maximize return on credit risk assets with minimal loss. These modules are:

- Risk Portfolio Planning
- Exposure Development and Creation
- Exposure Management
- Delinquency Management / Loan Workout
- Credit Recovery

6.1 Credit Risk Portfolio Planning

Credit portfolio planning is the starting point of the Bank's credit risk management process. It entails an analysis and evaluation of the current portfolio structure and a clear definition and agreement of the following:

- Target risk asset portfolio structure, broken down according to sector, product type, geographic regions, credit risk rating class, etc.;
- The Board-approved risk limits that the Bank is willing to permit relative to the Bank's risk bearing capacity.
- The target markets and criteria for risk acceptance at the overall corporate level and across each risk creating business unit in the Bank.
- The Bank's credit portfolio goals and objectives. These usually cover the following specific areas: Quality, Composition, Growth and Profitability.

In developing the credit portfolio plan, the Bank shall give cognizance to the Bank's strategic/business plan, budget and profit plan, internal resources, competition, macro-economic variables and legal/regulatory requirements.

The credit risk portfolio plan shall be prepared by Credit Portfolio Management and approved by the Board at the start of every financial year. It provides the basis for annual/periodic reporting to Executive Management and the Board on portfolio management strategies and the overall portfolio performance. It also provides the board of directors with an opportunity to anticipate conditions in the Bank's operating environment and to react accordingly with decisive actions.

6.1.1 Target Market Definitions

The target market segment and focus areas for each market-facing business unit is broadly summarized as follows:

Business Unit	Target Market	Market Focus
Corporate and Investment Banking	Cement and Construction, Telecommunications, Manufacturing, Oil and Gas, and Financial Institutions sectors, and selective focus in the Downstream Oil & Gas, Power, Transportation, Agriculture and Real estate sectors	Multinational, well-structured large local and foreign owned companies with minimum annual turnover of ₦20 billion and with risk rating falling within a specified limit, as well as financial institutions in the banking, capital markets, pensions and insurance sub-sectors
Commercial Banking	Corporate and Investment Banking value chain, Federal, State, and Local Governments & MDAs. Asian Companies in key sectors/industries and select states/cities, Manufacturing Companies, Consumer, Hospitality and lifestyle companies and contractors in select sectors (Oil and Gas, Construction and Real Estate).	Incorporated companies with turnover of ₦5 to N20 billion and above (excluding companies that meet Corporate and Investment Banking SBU customer criteria), Federal Government ministries, departments and agencies, as well as state and local governments
Business Banking	Distributors & Dealers, Importers & Exporters, Educational Institutions, Religious Organizations, Healthcare Providers, Professional Associations, Travel Agencies, Hospitality, MSMEs	Companies and small and medium enterprises ("SMEs") with annual turnover of not more than ₦5 billion.

Retail Banking	UHNIs | HNIs, Affluent Professionals, Employees in the Value Chain, Micro Small Medium Enterprises, Religious Leaders, Students, Pensioners.	Affluent professionals, employees in the value chain of the Group's Corporate Clients, as well as students, pensioners, employees of religious organizations and informal traders, while the Private Banking section focuses on High Net-worth Individuals (HNI) and Ultra-High Net-worth Individuals (UHNI)

6.1.2 Steps for carrying out credit portfolio planning

- Analyse internal and external factors: This analysis would enable the identification of risks in the loan portfolio and the opportunities that the Bank may want to consider for enhanced profitability or growth. After the risks are identified, the analysis would determine the impact of those factors on the loan portfolio so that appropriate goals, objectives, and strategies can be established. The use of stress testing or similar means such as scenario analysis is helpful in determining the impact of external factors on the loan portfolio. External factors include macroeconomic variables, global economic conditions, competition, inflation and political factors.

- Determining the portfolio goals and objectives: The goals and objectives shall be set covering the four areas defined above. The Board shall approve the goals and objectives and shall also consider and approve the strategies that are designed to accomplish the loan portfolio goals and objectives. The strategies that can be employed to achieve the goals and objectives include:

  - Modifying loan underwriting standards to allow more or less risks;
  - Establishing credit administration standards, i.e., use of loan servicing plans and loan covenants;
  - Modifying the terms of credit extended, such as loan amortization requirements;
  - Adjusting interest rates based on loan characteristics; and
  - Modifying capital and risk funds positions.

- Determine the current credit portfolio composition (mix) by products, maturity, collateral, industry, rating class and geography

6.1.3 Industry Selection and Prioritization

Our portfolio concentration limits will continue to be based on outlook and growth prospects, strategic importance of the industry and opportunities available to Access Bank. Consequently, Access Bank will lend to companies falling within a defined target market.

Portfolio limits in Access Bank are judgmentally determined based on the attractiveness and importance of various industries to the economy, the quality of obligors and management's appetite for exposures in these industries. Access Bank will continuously employ techniques to optimize the performance of its credit portfolio with the objective of maximizing returns while minimizing risk.

We identify Non-Target Market sectors as those that experience: negative growth trend or trend towards obsolescence, no banking potential, major risk areas, like event risk or Non-Target Market for Access Bank. Exceptions need to be strongly justified and should be limited to leaders in their field. Except otherwise stated We intend to AVOID exposures to Non-Target Market or high risk names such as:

- Armament
- Gambling
- Mining
- Hazardous industries (e.g. health damaging or environmentally unfriendly businesses)
- Religious bodies
- Commodity traders

These are generally highly volatile sectors. Above list is not exhaustive and may be reviewed periodically.

6.1.4 Target Market and Risk Acceptance Criteria (TM/RAC)

Two well established techniques for expressing risk appetite and which shall play critical roles in portfolio management in Access Bank are "Target market definition" and "Risk acceptance criteria".

The target market definition shall articulate clearly acceptable and desirable profile of customers for the various credit product and service offerings in the bank. Risk acceptance criteria specify the terms and conditions for extension of credit and creation of risk exposure.

For credit program-based transactions, articulation of target market and risk acceptance criteria shall form part of the credit program documentation and approval process.

For individual/business credit-based transactions, target market and risk acceptance guidelines must be outlined by the market-facing business unit, and endorsed by Credit Risk Management for approval by the Management Credit Committee.

Guidelines shall specify the dimension for desirable credits as follows:

- Target market guidelines
- Industry or business
- Location / geography
- Size of borrower / customer
- Financial profile
- Risk rating
- Management's background, experience and skills profile
- Years in business
- Reputation
- Risk Acceptance Criteria guidelines:
- Forms of credit extension
- Pricing or returns
- Covenants and documentation
- Tenor
- Security

These guidelines may stand on their own or may be part of annual operating or industry reviews and should be communicated to officers within the bank in addition to the Board Credit Committee and Management Credit Committee.

6.1.5 Risk Acceptance Criteria and Portfolio Guidelines

Within the above defined target market, Access Bank shall deploy a selective approach in determining the specific entities and individuals to lend to. Risk Acceptance Criteria (RAC) shall be defined as carefully planned environmental and competitive benchmarks designed in line with the predetermined risk appetite of the bank.

Below are parameters which shall serve as guidelines for defining RAC at Access Bank. Each SBU shall be required to apply these guidelines in the definition of RAC for their defined target market. These should be reviewed / revised periodically against any environmental changes and other factors that may necessitate their revision.

6.1.5.1 Quantitative Parameters

- Current and potential market position/share of industry
- Strong financial ratios (debt/equity ratio etc.)
- Evidence of Operating Cash Generation/alternative sources of repayment
- Account turnover vis-à-vis existing Facilities
- Expected/earned revenue (Effective yield)
- Related Accounts
- Commitment to other banks etc.

6.1.5.2 Qualitative Parameters

- Favourable indicators based on industry analysis (using Porters Five Forces or other models)
- Demand for product
- Operating cost structure
- Experience and sophistication of management/prime mover
- Fluidity and speed of decision-making process
- Internal efficiency factors
- Type and Availability of security
- Other regulatory environmental factors (macro and micro risks etc.)

To guide preliminary screening of credit requests, the following TM/RAC screens are defined for Access Bank:

- General Corporate Trading/Manufacturing
- Financial Institutions (Banks)

This screen shall guide all extensions of credit to standalone business entities. For extensions of credit under credit programs, distinct TMRAC screens shall be defined within the credit programs.

TM/RACs will customarily be generated for individual entities within a group (i.e. per obligor) with only certain criterion assessed on a group basis (Risk Rating, Account Profitability and Relationship Returns) to capture the conglomerate structure of local companies. Exceptions to this rule are only cases where written irrevocable cross-corporate guarantees are in place for all consolidated obligors, and they are all in the same line of business. In this case only one TM/RAC may be employed.

In the section that follows, we give the rationale for each criterion in the various TMRAC screens we will use in the bank. General Corporate Target Market Screen

The TM screen for borrowers in the Institutional Bank is as shown below. Obligors are separated into Tiers I, II and III reflecting the level of risk with each tier. The tiering shall be a fundamental determinant of pricing and a foundation for loan pricing model in Access Bank:

S/N	**CRITERIA**	**REQUIRED Tier I**	**REQUIRED Tier II**	**REQUIRED Tier III**
1	KYC, Reputation and Integrity	Required		
2	Acceptable Industry	Acceptable Industry		
3	Risk Rating			
4	Minimum Sales	N10bn	N5.0bn	N1bn
5	Financials Audited	Minimum 3 years by approved auditors	Minimum 3 years by approved auditors	Minimum 3 years audited
6	Net margin (min) (Trading/Manufacturing)	2.5% / 4.0%	2.0% / 3.0%	1.5% / 2.0%
7	Current Ratio (min)	1:1	1:1	1:1

8	Leverage (max) (Trading/Manufacturing or cap intensive)	2.5 / 2.0	3.5 / 2.5	4.5 / 3.0
9	Debt service Coverage*	> 1		
10	Account Profitability	N100mm	N50mm	N5mm
11	Key Success factors	At least 75% score	At least 60% score	At least 50% score
12	Industry experience	10 years or more	5 years or more	3 years or more
13	Management Rating	Excellent	Very Good	Good

*** Calculated as (Operating EBITDA / (Interest + Principal Repayment)**

The risk rating criteria shall be defined for each Tier upon approval of a revised Risk Rating Policy under development for Access Bank. Assessment of management rating shall be judgmental but guided by the Management Assessment Form attached in the Appendix.

Risk Acceptance Criteria

S/N	CRITERIA	REQUIRED Tier I	REQUIRED Tier II	REQUIRED Tier III
1	Maximum Tenor	7 years	5 years	3 years
2	Aggregate Exposure Limit (ex. Cash secured)	Lower of Single Obligor Limit or 120 days of sales	Lower of N1.5bn or 120 days of sales	Lower of 500mm or 120 days of sales
	Loans	Max. 50% of Total Facilities	Max. 50% of Total Facilities	Max. 50% of Total Facilities

3	Products	Overdraft Trade Guarantees/Bonds Term Loans (FCY exposure only for exporters/importers)	Overdraft Trade Guarantees/Bonds Term Loans (FCY exposure only for exporters/importers)	Overdraft Trade Guarantees/Bonds Term Loans (FCY exposure only for exporters/importers)
4	Security	Required Pari-Passu All Assets Debenture Negative pledge (where applicable)	Required Pari-Passu All Assets Debenture	Required Pari-Passu All Assets Debenture
5	Return on Risk (Yield) **(obligor must fail on both to return an exception)** **O**R Min. Total AP/Av. Exposure	5%	8%	10%

Any name must pass TM criteria nos. 3 & 4 to qualify for the respective Tier.

More than 3 TM deviations downgrades the obligor to the next lower Tier.

All customers with sales turnover of less than N1bn will automatically default to Tier IV (which is where majority of Commercial Bank obligors will fall into).

6.1.5.3 Ownership Issues – KYC, Reputation & Integrity

This criterion helps us to filter out companies whose sponsors do not have a good reputation, who might pose KYC / AML / Franchise or extraordinary ownership risks to the bank.

6.1.5.4 Approved Industry

Target market names belong to a pre-developed set of industries, defined in Industry Selection & Prioritization above as 'Target Industries'. Selection criteria for approved industries include long term survival and viability, acceptable risk profile, and available banking opportunities. This criterion is also being proposed to filter out obligors operating in high risk industries such as real estate and commodity trading.

6.1.5.5 Risk Rating (Group Risk Rating for Economic Groups)

Risk ratings for corporate borrowers in the Bank shall be primarily determined using the Bank's approved Obligor Risk Rating Model. The Judgmental Scorecard may be used in exceptional cases. Minimum risk ratings for each Tier shall be determined in consultation with the business. Risk acceptance criteria associated with Tier II & III obligors are inevitably tighter and more structured to maintain portfolio quality.

For economic groups, the Risk Rating criterion will be determined using a Weighted Average Probability of Default process in line with CIB Risk Rating policy.

6.1.5.6 Group Sales

The sales criterion provides comfort through scale and dominance, as well as ensuring adequate wallet size. Obligors that meet the benchmarks are expected to have a need for a variety of products that would maximize cross-sell potential.

Note	For obligors that are start-ups where no financial statements exist, this criterion should show as a deviation (i.e. Financial projections should not be used). Start-up companies that are affiliated to an existing group relationship with ACCESS BANK and are being established in a related industry to the group's core business will be considered TM regardless of number of TM deviations.

6.1.5.7 Auditors

This criterion ensures that obligors are audited by competent and reputable firms, which attests to the quality of financial information disclosed, and hence the quality of credit analysis and risk profile generated. The list of acceptable auditors shall be approved by the Chief Risk Officer in conjunction with the business group heads. The Chief Risk Officer may approve the use of any auditor not on the approved list.

6.1.5.8 Financial Criteria

Four different criteria will be used, reflecting the most meaningful ratios; Net Margin, Current Ratio, Financial Leverage, and Debt Service Coverage. The ratios selected are meant to capture the operating, liquidity, solvency and cash flow performance of individual obligors. Different levels have been set for manufacturing and trading businesses, to recognize their different operating characteristics.

Note	All quantitative TM criteria will be based upon most recent full year audited financials available. In case of audited financials being outdated, unaudited or management financials may be used for information purposes only, and this must be clearly stated. For obligors of a start-up nature where no financial statements exist, this criterion should show as a deviation (i.e. Financial projections should not be used). Where a company suffers 3 consecutive financial losses, the company shall not be granted any further lending except on exceptional basis.

6.1.5.9 Account Profitability

Suitable returns must accompany every credit extension.

6.1.5.10 Key Success Factors

Minimum score has been set for KSFs for the different obligor Tiers. This criterion is to ensure that obligors are industry ‘survivors’ and can withstand adverse future developments. KSFs have been set for each industry / segment independently, reflecting the unique risks and market dynamics involved and are listed at the end of this document. Note that determination of obligor scoring on this criterion will be largely judgmental.

6.1.5.11 Industry Experience

The minimum years of experience criterion is meant to test that the organization has in fact survived a varied economic life span. For Tier I names, where we have larger exposure appetite, a minimum of 10 years' industry experience has been set to establish the obligor's economic resilience. For obligors belonging to an economic group, years in business should be measured on a group basis to reflect actual experience.

6.1.5.12 Management Rating

Obligors are not to have a rating of worse than 3.0 (on a scale of 5.0) across all industries / segments. This rating is developed through a Management Assessment Form, reflecting important management attributes such as reputation, experience, competence and depth. The Management Assessment is an integral part of the CA process.

6.1.5.13 Risk Acceptance Criteria

As previously discussed, RACs are driven by the allocated tier of the borrower which in turn is based on final ORR and sales turnover.

6.1.5.14 Product Offering & Tenor

Products to be offered mainly reflect the following factors:

Obligor risk profile as exemplified by Tier

Access Bank's key strengths / competencies.

In general, products offered are working capital, term and guarantees/bonds.

Tenors to be offered reflect Access Bank's credit / business appetite. Obligors have been Tiered based on Risk Rating and sales turnover, to reflect their unique credit profiles. Maximum tenors have therefore been set at 7years, 5years and 3year for Tier I, II & III obligors respectively.

6.1.5.15 Maximum Aggregate Lending Exposure

Security shall be taken for all exposure in line with the requirements of this Manual, and in such a way that ensures that Access Bank is Pari-passu with other lenders. Negative pledge might also be taken, subject to being on equal standing with other lenders. This must be established by a search at the Corporate Affairs Commission or National Collateral registry. Where we are extending term facilities to finance specific assets, we will take a charge over those assets.

Aggregate exposure (direct and contingent) limits have been set to avoid large unmanageable levels of exposure to obligors disproportionate to their risk profile. A lending exposure cap is set as the lower of an absolute level of exposure or 120 days of obligor's sales turnover. Where term loans have been taken, or are proposed, to finance CAPEX, and the CAPEX is yet to start contributing to the obligor's sales turnover, this criterion will usually result in a RAC exception.

Note	Facilities secured by Cash are excluded from the calculation.

6.1.5.16 Currency

To mitigate against any possible foreign exchange risk, FCY exposure shall be made available to obligors who earn foreign currency. Any exception should be in line with extant regulatory requirement.

6.1.5.17 Maximum Loans per Borrower

Not to exceed 50% of aggregate clean exposure for all Tiers. This criterion is to avoid a concentration risk should the credit profile of obligors deteriorate.

Note	Fully cash collateralized facilities, loans to finance specific assets, and facilities for import / trade finance are not included in the definition of loans.

6.1.5.18 Security

Refer to previous discussion on Maximum Aggregate Lending Exposure. We may lend clean or against negative pledge to some Investment Grade names or obligors that have demonstrated capacity to borrow clean or against negative pledge at industry level and have met their obligations without collateral subject to MCC or BCC approval as may be applicable.

Long term facilities to other Investment Grade and Standard Grade names must always be secured by the assets financed, reflecting their riskier profile

6.1.5.19 Return on Risk

This criterion is to ensure that the yield on utilization of the bank's risk capital meets institutional hurdle rates as may be set from time to time.

6.1.6 TM/RAC Deviation Approval Process

We will not deal with a Non – TM name, except with the approval of the supervising ED + Chief Risk Officer + GMD

Maximum number of TM exceptions allowed in any Tier is 3, otherwise the name becomes Non-TM.

6.1.6.1 Oil & Gas Names

Certain Oil & Gas names have unique characteristics, which will result in material exceptions in the General Corporate TMRAC screen. Therefore, we are willing to allow certain TM deviations for the major Oil & Gas names relating to financial ratios. The key differences are in respect to leverage and funding structures of the major oil and gas producers in Nigeria, who are mainly well-established multinational names. These obligors are generally managed with focus on cash flows and profitability with limited attention paid to the balance sheet profile of the local operating entity. As a result, high levels of funding mismatches, evidenced by negative current ratios, 100% dividend pay-outs and high leverages are common. We are comfortable because:

- The high levels of inherent profitability allow these names to sustain higher levels of leverage, compared with what would normally be considered prudent in an emerging market environment.
- High levels of intercompany funding and support also allow a greater level of comfort with both leverage as well as funding mismatches. Refinancing risk in a situation with large levels of intercompany funding from the Parent is considered low.
- Moreover, the largest local banks have major risk appetite for the top tier energy names which allows them to access a large pool of funding and

limited concern by the lenders over higher leverages and funding mismatches. The high leverage levels and funding mismatches are mitigated by the inherently strong cash flows and business fundamentals of the tier I/II names.

- There is also a distinction in the Net Margin criteria between Exploration & Production names and Marketing names due to the difference in their operating and financial model.

6.1.6.2 FI TM RAC screens Banks

The FI landscape in Nigeria experienced dramatic changes since the Dec 2005 deadline set by the Central Bank of Nigeria for banks to recapitalize to N25bn (from previous N2bn). Banks have all since exceeded this minimum level, with several attaining N100bn capitalization. Consequently, these banks are much stronger, safer and important to the financial system. Our exposure thresholds have been set to take account of the new reality of the banking environment to enable us maximize the opportunities from the increased capital bases of banks. We will have three tiers of banks, with the Tier determined by a combination of Management Reputation & Integrity, Agusto Rating, Total Assets & Contingents.

Target Market Criteria

S/N	CRITERIA	REQUIRED Tier I	REQUIRED Tier II	REQUIRED Tier III
1	KYC	Required		
2	Management	At least 2 positive checking, none negative		
3	Agusto Rating			
4	Total Assets & contingents N'bn	500	250	<250
5	Financials Audited by Top Auditors	Minimum 3 years		
6	Capital adequacy ratio % (min)	25%	20%	15%

7	Liquidity ratio % (min)	40%		
8	Weighted average cost funds %	5%	10%	15%
9	Min. Account Profitability (N'mm)			

Risk Acceptance Criteria

S/N	CAPS	REQUIRED Tier I	REQUIRED Tier II	REQUIRED Tier III
1	Exposure cap (Cash collateral & OBB)	100% of Total Net Worth	75% of Total Net Worth	25% of Total Net Worth
	Tenor: Cash Collateral	3 years	2 years	1 year
	Tenor: OBB	14 days	14 days	14 days
2	Exposure CAP for our account and clean placements	10% of Total Net Worth	5% of Total Net Worth	1% of Total Net Worth
	Tenor	90 days	60 days	14 days

Any name must pass TM criteria nos. 3 & 4 to qualify for the respective Tier.

More than 3 TM deviations downgrades the obligor to the next lower Tier.

6.1.6.3 KYC, Management Reputation & Integrity

The recapitalization exercise has generally improved this criterion.

6.1.6.4 Agusto / Fitch / GCR Rating

Agusto / Fitch / GCR ratings are a good indication of the risk quality of Nigerian banks. Therefore, we will use these ratings as a basis for comparing the risks of each of our bank obligors.

6.1.6.5 Total Assets & Contingents

This criterion gives us an indication of the size of the bank.

6.1.6.6 Weighted Average Cost of Funds

This criterion recognizes that the ability of banks to improve profit margins is strongly dependent on their ability to differentiate themselves through lower funding costs.

6.1.6.7 FI TM / RAC Deviation Approval Process

We will not deal with a non-TM name, except with the approval of the business ED + Head CRM + GMD.

Maximum number of TM exceptions allowed in any Tier is 3, otherwise the name becomes non-TM.

6.1.6.8 Non-Bank FI (Stockbrokers)

Exposure to stockbrokers shall be guided by a credit program and shall be subject to aggregate exposure limit set for this category of borrowers.

6.1.7 Key Success Factors for Select Industries

KSFs have been set for some select industries below, where there is significant exposure. Additional industry specific KSFs shall be largely derived from industry studies. The derivation of individual obligor score against each KSF (required in the TM screen) will be largely judgmental. Where possible it shall be aided with some analytical evaluation. Generic KSFs have also been identified for general use.

6.1.7.1 Oil Marketing

- Operating Characteristics
- Market Share
- Cost Structure
- Management Strategy
- Financial Flexibility

6.1.7.2 Oil Exploration and Production

- Reserve Characteristics

- Cost Structure
- Management Strategy
- Financial Flexibility
- Environmental Impact Assessment

6.1.7.3 Oil Service

- Size and scope of operations
- Cost Structure
- Management Strategy
- Financial Flexibility
- Environmental Impact Assessment

6.1.7.4 Telecommunications (Fixed & Mobile)

- Management Strength
- Marketing / Competitive Strength
- Financial Flexibility
- Operations and Cost Controls
- Regulatory Environment

6.1.7.5 Financial Institutions

- Capital Adequacy
- Operating Efficiency
- Credit Culture
- Quality of Management

6.1.7.6 Food, Beverages and Tobacco

- Marketing Expertise / Diversified Portfolio
- Low Cost / Cost Efficiencies / Backward Integration

- Financial Flexibility
- Parent Support / Competent Management

6.1.7.7 Cement

- Access to Raw Materials
- Financial Flexibility
- Management Strength
- Market Dominance
- Low Cost
- Technical Capability / Support
- Environmental Impact Assessment

6.1.7.8 Generic KSFs for Other Industries

- Financial Flexibility – Indicated by ORR
- Marketing Expertise/Market Share/Demand for Products – Indicated by market share
- Access to Raw Materials (for manufacturers) – Indicated by gross margin
- Management/Parent Support – Indicated by pre-tax operating profit/parent ownership
- Operating Efficiency/Technology – Indicated by operating profit margin.

6.1.7.9 Rationale for Generic KSFs for other Industries

Financial Flexibility – This mainly measures access to capital, which is dependent on the financial strength of the company.

Marketing Expertise/Market Share/Demand for Products – This mainly assesses a company's market dominance or lack of it. A proxy for this KSF is the obligor's market share.

Access to Raw Materials – For manufacturers, ready access to competitively priced raw materials is important. A proxy for this is gross margin trend.

Management/Parent Support – This KSF focuses on measuring the performance of management, given the company's assets and the market environments in which it operates. A proxy for this is the pre-tax operating profit trend.

Operating Efficiency/Technology – This focuses on the efficiency of operations of the obligor. A proxy for this is the operating profit margin trend.

6.1.7.10 Concentration Limits / Aggregate Exposure Ceilings

Concentration limits / aggregate exposure ceilings shall be defined in terms of target markets and risk acceptance criteria defined above. Concentration limits / aggregate exposure ceilings shall relate to collection of credits with common risk characteristics, or where macroeconomic or market developments can have similar impact on a group of credits.

Concentration limits / aggregate exposure ceilings may also be defined by aggregating credits sharing other dimensions, such as dependency on particular economic variables (e.g. oil prices, interest rate levels, consumer spending), similarity of credit terms or quality (e.g. tenor, type of security, risk rating, growth rate) or in terms of a dimension which is especially important to a particular business.

A credit risk concentration is more than an aggregation of exposures to one borrower, related parties and/or subsidiaries.

6.1.8 Guidelines for Takeover of Credit Facilities of Obligors from Other Banks and Financial Institutions

Following are the guidelines that should be followed for takeover of credit facilities of Obligors from other Banks and Financial Institutions:

- Bank should apply stringent acceptance criteria than those mentioned in the general acceptance criteria for takeover of credit facilities of obligors with other banks.
- A satisfactory credit history report should be obtained from the existing banker of the obligor.
- In no case should the bank take over accounts that are problem credits.
- Satisfactory credit checks from at least 2 of the independent credit bureau companies and CRMS

- Other supporting documents as will be determined by Credit Review Group must be provided for necessary review

6.2 Exposure Development and Creation

Exposure development and creation incorporates the procedures for preliminary screening of facility requests, detailed credit risk analysis and risk rating, risk triggered review and approval of facilities, and controlled credit availability of approved facilities. This involves the following;

6.2.1 Preliminary Credit Screening

There is a requirement for preliminary screening of all credit facility requests against the bank's target and risk acceptance criteria. Preliminary credit screening shall be the responsibility of the relevant customer-facing market/relationship officer and shall involve a largely high level and peripheral analysis of the acceptability of credit facility against credit criteria and facilitates early identification of unacceptable risk exposures and/or priority credits.

In the event that the outcome of the preliminary credit screening of a request is a conclusion that such facility does not satisfy the target market and risk acceptance criteria, the facility request shall be rejected at this stage and such rejection communicated in writing to the customer. All recommendations for denial of credit facility request shall require endorsement by the group head of the relevant customer-facing business unit.

Only facility requests that meet the articulated acceptance criteria shall be further processed through the exposure development and creation procedures.

However, if in the opinion of the relationship manager, there is sufficient mitigation to warrant further consideration of a facility request that does not meet the requirements of the bank, such exception shall be comprehensively documented and a case presented to the group head of the customer-facing business unit.

Preliminary screening of credit requests shall be completed within 1 working day of receipt of a credit facility request.

6.2.2 Credit Origination Process

Formal request in writing or loan application form shall be required for all applications by customers for the Bank's credit facilities. The minimum data and information requirements for credit facility requests shall include the following:

a. Customer name

b. Company background (for corporate customers)

c. Specific purpose of credit facility

d. Financial statement analysis and cash flow projections versus debt service where appropriate

e. Overview of existing banking relationships, including accounts and relationships with the Bank and other bankers, and analysis of existing exposure to banks;

f. Particulars of directors and key shareholders of the company;

g. Particulars of management including statement of qualification and experience;

h. Description of proposed credit collaterals, including type, estimated value, location and title;

i. Details of expected repayment sources for all loans and proposed repayment plan;

All requests by customers for credit facilities shall be duly signed by approved signatories and the said signatures shall be verified by the account officer.

6.2.3 Credit Analysis

Detailed analysis of credit risk shall be required in respect of credit facility requests as a basis for informed credit approval decision. This role shall be performed by credit analysts within each marketing team. Relationship Managers must always display sufficient understanding of critical issues concerning their clients, including KYC requirements.

6.2.4 Credit Risk Evaluation

Only facility requests that satisfy the articulated target market and risk acceptance criteria shall be further analysed in accordance with the bank's risk management policies. Detailed credit risk evaluation shall entail comprehensive evaluation of up-to-date, accurate and complete data and information as a basis for a decision on the viability, feasibility and overall acceptability of a credit facility request. Credit risk evaluation shall involve detailed consideration of the facility request, the customer's industry / business, financial position, credit history, management capability, proposed credit collateral as a basis for identifying credit risks inherent in the facility request.

Documentation of the detailed credit analysis shall be such as address the following issues: This section may include – as appropriate to the size and nature of the relationship – the following points:

- Purpose of credit facility(ies)
- Summary of terms, including key covenants and other indebtedness permitted
- Assessment of major risks and mitigants
- Assessment of structure and repayment terms
- Expected primary source of repayments.
- Collateral evaluation, including acceptability, adequacy, degree of independence of valuation and consideration of potential value erosion.
- Financial projections appropriate to the tenor and structure of the transaction, including downside sensitivity analysis that, at a minimum, is sufficient to cause the obligor to break covenants.
- Credit Risk rating and discussion of any credit risk migration.
- Industry/market assessment
- Viability of business proposal
- Current financial position/performance
- Credit History
- Banking relationships including account turnover/and non-credit activity.
- Quality of owners' / key stakeholders
- Management capability

Detailed credit analysis shall be conducted by credit analysts and documented on the Facility Approval Memorandum (FAM). The primary outcome of the credit analysis process shall be the credit risk rating and an approval / rejection recommendation of the facility request.

The following components must be included as part of a Full Credit Review:

- Facility Approval Memorandum
- Target Market / Risk Acceptance Criteria screen
- Financial spreads (including projections where term loans are included in total facilities)
- Management Assessment Form (for annual reviews)
- Risk Rating document

Approval recommendations shall clearly outline proposals on appropriate structure and terms for the credit facility including recommended facility amount, credit terms, pricing, collateralization and other conditions. In determining the appropriate structure for a credit facility, the analyst shall take proper care to ensure that repayment terms, collateralization and price are appropriate to the particular circumstances of the customer and the purpose for which the credit is availed.

6.2.4.1 Unaudited Financial Statements

The use of unaudited financial statements for credit approval requests is discouraged.

6.2.5 Guidelines for Structuring of Limits / Assessment of Eligible Loan Amount

The guidelines on structuring of limits are aimed at setting up a system for assessing credit requirements in line with the business needs of obligors considering various industry and macroeconomic parameters (and within the frame work of Bank's credit risk policy). The objective of assessing the loan requirement of the applicant is to avoid far reaching implications like over financing, under financing, frequent drawdown of funds, Excess Over Limits (EOL), approving of Temporary Overdraft (TOD) etc.

6.2.5.1 Assessment of Fund based and Non-Fund Based Facilities

Assessment should reflect Bank's best estimate of requirement of credit facilities based on the following:

- Purpose of loan
- Tenor.
- Promoter's contribution
- Other Debt obligations
- Expected Cash Flows based on Macroeconomic and Industry factors, level of activity, Business specific factors etc.
- Collateral offered
- In addition to the above, lead time, credit period available, source of supply, proximity of supplier, etc. are to be taken as basis in case of Letter of Credits and business requirements in case of Letter of Guarantees

The Bank should put in place appropriate assessment methodologies for term loans and revolving credits.

6.2.5.2 Promoter's Contribution

Promoter's contribution represents the stake of the promoter(s) in the project/ business to be financed.

Bank shall fix the Promoter's contribution based on criteria like rating of the obligor, facility related factors viz., Fund based, Non-Fund based, revolving and non-revolving, tenor, amortization schedule, level of collateralization etc.

Bank shall stipulate minimum Promoter's contribution of 25% for Term Loans approved for risk rating 2- and below obligors. 20% for all kinds of working capital facility and 20% for all non-funded facilities. Any deviation (reduction) to the above mentioned margin level will be approved based on satisfactory level of Debt Equity ratio of the facility.

6.2.5.3 Margin for Structured and Derivative products

Margin in the form of cash and marketable securities to be contributed by the counterparties to structured and derivative deals shall be decided based on Expected Potential Exposure on a case to case basis

6.2.6 Syndications

Syndications are situations where several banks come together to finance a given transaction due to its size or complexity. Access Bank will participate in such syndications that are led by other banks or by Access Bank.

6.2.6.1 Type of requirements addressed under Loan Syndication:

Bank shall cover financial requirements like project finance, object finance, acquisition finance, leasing finance, export finance, corporate loans, working capital finance, real estate finance, underwriting under Loan Syndication

6.2.6.2 Guidelines for participation in Loan Syndication

Depending on the nature of the project, the Bank will participate in Loan Syndication both as a Lead Manager and as a member, subject to the following conditions:

- Bank shall participate in deals syndicated by other institutions only on a full disclosure basis and shall not participate in silent or undisclosed deals. (i.e. the Bank will take part in the deal only when all the details about the borrower is disclosed.) There should be only one participation deal with no other side deals.
- Bank will participate in deals where the Lead Managers or underwriters are of good reputation and standing in the international market with adequate experience and expertise in handling such deals and capacity to retain its share. Bank will not participate if the lead manager has no share in the funding i.e. zero-retention.
- Bank will participate in such deals where the Bank's position is at least on par with other members, since any below par position will affect the Bank's concerns while taking decisions like default recognition, restructuring of the facility. This will especially hold well if the agreement between the members of the syndicate allows majority members to take decisions instead of all members.
- Bank will participate only in such deals where the agreement with the borrower allows the Bank to proceed with future "sell down" or sub participation and same shall be stated in the covenants unambiguously.

- Bank shall follow other guidelines set in this policy with respect to exposure limits, risk limits, negative / restricted lending, purpose and tenor.
- Bank will exercise its regular due diligence process and follow its normal credit risk measurement and administration process while appraising the deal irrespective of the exposure size.
- Access Bank will only assume lead roles in syndications for which it has the expertise and capacity (capital, industry knowledge, technical expertise, credit analysis skills, documentation capability etc.) to manage fully.
- Bank will not participate in such syndicates where other participants do not have the reputation and expertise of handling the deals

6.2.7 Facility Renewals

At the request of an existing customer, a facility may be renewed in accordance with the bank's laid down credit risk creation and management policies and procedures.

Important consideration for renewal of approved facilities shall include the following among others:

- continued viability of business/project
- evidence of future cash flow to meet interest/principal payment obligations
- historical performance of the company over a minimum of three years
- account turnover / revenue to the bank
- extent of utilization of facility(ies) / swing on the current account
- obligor's track record of loan / interest servicing
- status of collateral(s) including completeness of documentation, status of perfection, current valuation
- Micro and macroeconomic considerations

6.2.8 Credit Risk Ratings

Risk ratings shall be assigned to each facility to indicate assessment of credit risk inherent in the facility and the overall acceptability of the credit exposure. Standard risk rating criteria shall be defined to provide a uniform basis for comparing all facility proposals regardless of the nature, type or location of the credit facility.

Guidelines for facility risk rating and approval shall be defined and approved by the Management Credit Committee on the recommendation of the Chief Risk Officer.

Detailed credit analysis of facility requests shall be completed within 2 and 3 working days of receipt of credit facility request and complete up to date information required for detailed analysis.

6.2.8.1 Credit Risk Rating Models –

The bank will put in place a single set of standards for the measurement of credit risk in order to ensure consistency across businesses, stability in methodologies and transparency of risk. Every obligor and facility must be assigned a risk rating, in accordance with an approved Risk Rating Process. The Risk Rating Policy of the bank will deal with Credit Risk Rating Models with respect to Type of models, Model development, Model validation, Model maintenance, data requirement, Current status and interim approach, if any, within the framework of Credit Risk Policy.

6.2.8.2 Credit Risk Parameters

Default Risk: Risk of obligor default on a material obligation to the bank in a defined time horizon, typically 12 months. The term Probability of Default (PD) is used to denote this. While there are a number of ways of reckoning default by an obligor under Basel II, the most widespread usage is to consider an obligor to have defaulted if any material obligation is past due more than 90 days from its due date.

Recovery Risk: Risk of inability of a bank to fully recover the amount of exposure at the time of default by an obligor either directly from obligor or indirectly from collateral and other credit risk mitigants. The metric is referred to as Loss Given Default (LGD).

Exposure Risk: Risk caused by the uncertainty of the size of bank's exposure to an obligor at the time of default in relation to a facility extended to the obligor. The metric Exposure at Default (EAD) is used to denote this dimension.

6.2.8.3 Requirements for Estimation of credit risk parameters for Non – Retail Exposures

Estimation of these credit risk parameters involve use of Bank's own historical data, referred to as Reference Data Set (RDS). RDS consists of data on historical default, recovery and exposure on defaulted obligors/ facilities. The length of RDS must at least be 5 years for PD and 7 years for LGD & EAD while a shorter series of length of 2 years is permissible for PD under transition arrangement to Foundation Internal Ratings Based Approach (FIRB).

Models built on RDS must be thoroughly validated to fulfil the requirements of Basel II. Detailed documentation of the model building, and validation process is required for securing supervisory approval for use of Internal Ratings Based Approach (IRBA).

6.2.8.4 Requirements for Estimation of credit risk parameters for Retail Exposures

Creation of pools for each retail business segment: Retail exposures in each business segment such as credit cards, personal loans, etc. would be assigned to a number of pools to ensure homogeneity of exposures within each pool.

Identification of reference segments for each pool: Historical data are used to create reference segments for each pool. Analysis of the behaviour of reference segments would enable an understanding of characteristics of reference segments driving default, exposure and recovery. These characteristics would be the basis for modelling PD, LGD & EAD in the next step. It is important to note that reference data for PD would contain both defaulted and non-defaulted loans, but for LGD & EAD, the reference data would consist only of defaulted loans. The length of reference data set must be at least 5 years for PD, LGD & EAD as per Basel requirements, while a shorter series of length of 2 years is permissible under transition arrangement to AIRB upon approval by the CBN.

Estimation of credit risk parameters at pool level: Drivers of PD, LGD and EAD for each reference segment would be used for estimating PD, LGD & EAD of respective pools.

Validation: Each one of the above steps has validation challenges. In step 1, the bank must determine whether the assignment of exposures to pools effectively separates exposures by characteristics that remain significant drivers of risk over time. Similarly, identification of reference segments & estimation of credit risk parameters would be subjected to scrutiny to ensure accuracy. A robust and detailed data maintenance system should support implementation of IRB segmentation and quantification process.

6.2.8.5 Stress Testing

Stress Testing is a part of risk measurement process aimed at evaluating the potential effects of a specific event and/or movement in a set of variables on exposure to risk. Stress Testing should be based on exceptional but plausible events both at obligor /

facility and at portfolio level. Stress testing must involve identifying possible events or future changes in economic conditions that could have unfavourable effects on a bank's credit exposures and assessment of the bank's ability to withstand such changes.

Examples of scenarios that could be used are:

(i) Economic or industry downturns

(ii) Market-risk events

(iii) Liquidity conditions

The following dimensions should be covered in Stress Testing:

- Identification of risk factors
- Approaches for creating stress scenarios
- Incorporation of outcome of stress testing into Rating and Pricing

6.2.8.6 Rating of Guarantor

Bank will rate every guarantor with the exception of domestic sovereign entities including Central Bank, Public Sector Enterprises and Multilateral Development Banks. Entity rating standard for the Guarantor will be on par with that of direct exposure to the Guarantor.

Rating of the Guarantor will be done using the appropriate internal model of the bank based on the segment / industry the guarantor belongs. All the required quantitative and qualitative details of the guarantor should be collected to enable the rating of the guarantor.

6.2.8.7 Risk Based Pricing

Risk Based Pricing [1] (RBP) is a critical segment of Risk Measurement that facilitates incorporation of outcome of risk estimation in pricing of facilities with a view to attaining expected returns for the risks taken.

[1] **An excel sheet with the Risk Based Pricing Methodology along with explanations is given in the Annexure 2.**

Pricing in the form of interest rates, fee and other charges for all credit facilities provided by the bank should fully incorporate the cost of various forms of credit risk the bank is exposed to in extending such facilities.

The following are the essential components of Risk Based Pricing (RBP):

- **Funding Rate**

It is the Funding Rate charged by the Funds Transfer Pricing (FTP) System of the bank for the maturity and liquidity characteristics of the credit facility.

- **Direct Cost of Operations**

It reflects the future (expected) operating expenses that can be traced to the facility directly on the basis of such expenses incurred in the past on similar facilities.

- **Indirect Cost of Operations**

It reflects future operating expenses of supporting units / divisions that would be apportioned to the facility on the basis of such expenses incurred in the past on similar facilities.

- **Premium for Expected Loss**

It reflects the spread attributable to normal loss to be covered by provisioning due to unique, obligor specific Expected Loss. It is the product of EAD (in monetary terms) of the facility, LGD (defined as % of EAD) of the facility and PD at obligor level.

- **Premium for Unexpected Loss**

It reflects the spread attributable to possible but abnormal loss arising out of widespread default by connected obligors owing to adverse developments at industry and/or macroeconomic environment. This Unexpected Loss is required to be covered by maintenance of adequate Regulatory Capital.

6.2.8.8 Exceptions to use of Risk Based Pricing

An exception to using or deviation from RBP can be made under the following circumstances with approval from appropriate authority:

- Loan to Staff
- Loan to other functionaries not covered within the definitions of staff but are employed by the bank
- Offset available from other facilities

- Relationship subsidy to existing relationships after ensuring that such concessions would help maintain / improve profitability from such relationships in the foreseeable future.
- Subsidy to any new relationships that have a potential of becoming profitable relationships in the foreseeable future.

6.2.9 Approaches to Risk Creation and Management

6.2.9.1 Credit Product Programs

These are structured credit facilities which are available to specific customers. The objective of the product program is to put an approved structure in place incorporating standard pricing, collateral structure and transaction dynamics.

6.2.9.2 Individual / Business Credit

- In the absence of approved credit programs, transactions for individual customers or customer relationships will be treated as individual/business credits. With this approach, credit is approved using the approval process as defined in the risk management policies to the bank. This shall entail detailed and comprehensive evaluation of the proposed transaction in the context of existing exposures to a particular customer. Credit approval may be for a single, simple product or for a series of large complex transactions.
- Individual/business credits shall only be applicable in respect of facility requests and credit approvals for customers that meet the requirements of the approved target market definition and risk acceptance criteria as defined in the bank's risk management policies.
- Individual / Business Credits are applicable in the event that:

- Customer characteristics are unique
- Facility request is for large, complex transactions that may result insignificant risk such that in-depth and detailed evaluation of the customer is required
- Approval is based on detailed financial analysis and the individual judgment of credit officers
- Transaction will result in multiple facilities, structures and forms of collateral.

- All exposures to a customer or a group approved as individual / business credits must be aggregated and managed by the customer relationship manager.

- Individual / business credits approval would be appropriate for credit facility requests such as:
  - tailored or structured consumer or commercial loans
  - complex corporate finance products and transactions
- It is expected that most facility requests and credit activities in the Corporate & Investment Bank and Commercial Bank business units will be business credits. Also, in exceptional cases, some credit activities in the Personal Banking/Business Banking business unit may be categorized as individual / business credits.

6.2.10 Credit Approval

Credit Approval is the documented acceptance by credit officers of the credit risks in a credit facility. Credit approval is always required for the establishment of a credit facility. Credit facilities shall require approval in writing at the appropriate level in line with credit approval authority defined in this document. Approval of credit facilities shall be documented on the Facility Approval Memorandum (FAM).

6.2.10.1 Guidelines for Framing Approval Matrix

6.2.10.1.1 Credit Approval Authorities

Bank recognizes the need for appropriate approval structure to maintain consistency in credit quality. The revised approval matrix of the bank attempts to balance the twin objectives of supporting the business growth, while maintaining the credit quality.

6.2.10.1.2 Dimensions of Approval Matrix

Bank will put adequate systems in place to adopt approval matrix linked to the following dimensions:

a) Size of Exposure

b) Type of Facility

c) Extension of Ad-hoc Limits

d) Rating Grade

e) Tenor

f) Secured and Unsecured nature of Loans

g) Takeover Loans

h) Normal Review / Renewal of Credit Facilities

i) Renewals with enhancement

j) Modifications to Existing Approvals

k) Relaxation and Waivers

l) Restructuring of facilities

m) Recall of Advances, filing of recovery suit, write off, waiver of legal action

n) Classification and movement of asset based on Exposure level

Deviations to Policy guidelines with reference to the following will be approved by the BCC

o) Acceptance Criteria

p) Techno Economic Viability Study

q) Minimum Acceptable Margin Guidelines

r) Credit Risk Mitigants

s) Breach in Exposure and Risk Limits

6.2.10.3 Assignment of Approval Authorities

The authority to extend or approve credit will be granted to individual credit officers based upon a consistent set of standards of experience, judgment, and ability. At Access Bank, responsibility and accountability will be matched by appropriate authority to perform job duties and achieve desired results and outcomes. Hence individuals and groups with responsibility for credit creation and approval shall be accordingly empowered with the appropriate level of authority to carry out their tasks.

Credit approval officers will be recommended by senior members of risk and business management for approval by the Board.

The level of authority required to approve credit will increase as amounts and transaction risks increase and as risk ratings worsen. The authority to approve credit shall be jointly exercised by the bank's credit risk management function and business managers in line with the provisions of the bank policies in respect of credit approval.

Every extension of credit must be approved in line with approval limits established in this Guide.

Assigned credit approval authority may be withdrawn on incidence of breach of integrity, recklessness or incompetence, inaccuracies, falsification, incomplete or inadequate credit analysis and noncompliance with bank credit risk management policies.

In addition to the withdrawal of such approval authority, appropriate disciplinary action shall be determined and applied by the bank. It is the responsibility of the Relationship Manager/Originating Officer to ensure the integrity of the credit process and the proper documentation of the credit decision.

6.2.10.4 Approval Authorities

Individuals shall be given credit approval limits that establish the maximum amount for which that individual may give final approval.

6.2.10.4.1 Determine the Required Approvals and Approval Levels

The level of authority required for approval can be found on the Credit Facility Approval Grid, and is a function of the Total Facilities amount and the risk rating of the customer

All extensions of credit in the bank must be approved in compliance with the Credit Risk Management Policy Guide.

Approval limits may be assigned to individuals in the countries as appropriate, and in line with policies.

Extensions of credit facilities in the regions must have the concurrence of the Head of Credit Risk in the Regional Office and must be approved by an officer of the bank with a covering credit approval limit.

Credit requests that are above the limit of the Regional MDs will be approved at the next higher appropriate level GMD / MCC / BCC / Board. For regional credits requiring MCC presentation at Head Office, prior review and concurrence of the Regional Head of Credit Risk Management is required and MCC must be notified well in advance of the meeting of the committee to discuss the credit.

6.2.10.4.2 Guidelines for Determining Approval Authority and Level

No credit exposure shall be created on the judgment or at the discretion of a single bank officer acting independently. All extensions of credit or Individual/Business Credit transactions shall require involvement of a minimum of three (3) bank officers whose positions involve responsibility for credit creation.

Signoff for approval of credit shall require the involvement of:

- officer at the appropriate level in the market facing unit originating and sponsoring the credit facility request
- officer at the appropriate level in the Credit Risk Management function
- approval authority in line with the approved credit approval authority guidelines

Involvement of a signoff by at least one officer of the bank from the Credit Risk Management function with exposure endorsement authority equal to or greater than the amount of the credit facility request shall be condition for approval of credit.

The Approval Authority shall be in line with delegated credit approval authority limits at the Board Credit Committee, Management Credit Committee (MCC) or designated bank officers.

For credit acceptance and exposure creation purposes, no single facility shall be considered in isolation, but the wider “one obligor” concept shall be applied in all instances. Each credit exposure to/facility request from a customer and related parties shall be aggregated to determine the total credit exposure of the bank to the particular customer and related parties. An obligor shall therefore represent all related parties that are associated/belong to the same group of companies whose management are strongly linked or share the same ownership. Exposures to any such obligor shall be aggregated to determine the level of Access Bank’s exposure to the company or group of companies.

By definition and for the purpose of credit creation at Access Bank, a group of companies shall exist where one or more of the shareholders of the company have up to 20% holding in another company. In determining the appropriate approval authority level, the aggregate of all exposures to the individual customer or group shall be adopted.

6.2.10.4.3 Credit Approval Authority Limits

The individual levels for credit approval in the bank shall be:

- Group Managing Director/CEO
- Group Deputy Managing Director

- Respective Executive Directors of Market Facing Business units jointly with the Chief Risk Officer (or the Heads of Risk).
- Other designated officers.

Credit approval authority shall be approved by the Group Managing Director/CEO based on delegation by the Board of Directors, on the recommendation of Business EDs and Chief Risk Officer.

6.2.10.5 Group Limits

Group approval shall be required in respect of credit exposures that are in excess of the approved individual credit approval authority. Group approval authority shall be defined at the following levels:

- The Board of Directors
- Board Credit Committee (BCC)
- Management Credit Committee

The Management Credit Committee (MCC) shall consider facility proposals in excess of the highest individual credit authority limit. Facility proposals that exceed the approval authority of the MCC shall be approved by The Board Credit Committee on behalf of the Board of Directors.

6.2.10.6 General Rules for Using Approval Authority

6.2.10.6.1Review and Re-appointment

All appointments and designations for credit risk approval, as well as corresponding credit limits, must be reviewed and reapproved by the Chief Risk Officer at least once a year. Each customer facing business unit shall maintain up to date records of credit approval authority delegated to approving officers

6.2.10.6.2Approval Requirements

A Credit Program Approval

Credit programs shall be primarily defined to accommodate credit offerings where there are business opportunities that such will address for groups or groups of customers with homogenous business fundamentals and/or profiles such that their financial needs are better met through a common approach.

Approvals under credit programs shall be within approved global exposure and maximum individual exposure limits and shall be exercised within the market-facing business units, subject to approval limits as may be set by the bank for each product program.

In the approval of individual transactions under approved credit programs, all exceptions to defined parameters shall require the involvement of Credit Risk Management.

Approval limits for individual job roles shall be set within each Credit Program and approved as appropriate.

B Individual/Business Credit Approvals

The Board Credit Committee (on behalf of the Board of Directors), on the recommendation of the MCC shall periodically review the approval authority assigned to specific individual roles and organizational groups in line with responsibility and accountability.

- Individuals
- Group Managing Director/CEO
- Group Deputy Managing Director
- Executive Directors
- Designated Business Officers
- Designated Credit Risk Management Officers
- Organizational Groups
- Board of Directors
- Board Credit Committee
- Management Credit Committee

Approving Authority	**Limit (N"MM)– New Credits**	**Limit (N"MM) – Renewals of existing credits**
Executive Director	150	200

Group Deputy Managing Directors	400	500
Group Managing Director/CEO	500	600

For facilities above Five Hundred Million Naira (N500, 000,000.00) the approval limit below shall apply:

Risk Rating	Exposure Limit (ORR-based LLL) for New credits	Existing MCC Limit	Existing BCC Limit	Board of Directors Limit
1	N41bn	N20bn	N40bn	Legal Lending Limit
2+	N33bn	N15bn	N30bn	
2	N25bn	N5bn	N15bn	
2-	N16bn	N2bn	N10bn	
3+	N3bn	N1bn	N10bn	
3	N1.7bn	N0.8bn	N10bn	
3-	N.8bn	N0.5bn	N2bn	
4		Above N0.1bn		

6.2.10.7 Total Facilities in Excess of Risk Rating Limits

If Total Facilities exceed the Risk Rating Limit, then approvers must determine that the level and purpose of the facilities are reasonable and there is an effective process to ensure that actual OSUC remains within the Risk Rating Limit.

6.2.10.8 Other Approval Requirements

- New or Increased Facilities

Any increase to Total Facilities, whether caused by new facilities or increases to existing facilities, must be approved, based on the new Total Facilities amount, as per the Credit Facility Approval Grid. However, any additional / increase up to 10% on the existing loan should not require MCC approval, provided the exposure is fully secured and all the facilities can be renewed at the next earliest date.

6.2.11 Credit Offer and Acceptance

On approval, a “credit facility offers” including terms and conditions shall be communicated in writing to the customer by the relationship manager only after appropriate approval in writing in line with the bank's risk management policies within 90 days. A formal acceptance of the "credit facility offer" including credit terms and conditions in writing shall be required

Acceptance of the bank's offer letter shall be required within 60 days of a facility offer date and conditions met within 90 days. Credit offer shall be deemed to have lapsed if an offer letter is not issued, acceptance is not received and conditions are not met within the time limits set above. Any deviation shall require the approval of Heads of Risk to process.

6.2.12 Credit Documentation

An underwriting commitment should follow Commitment Letter standards. The essential steps in documenting approved credit facilities and the resulting exposure shall include:

A credit facility file shall be established and maintained in respect of each approved credit facility. The relationship manager with responsibility for the customer relationship shall liaise with the customer to obtain the required documentation, sign offs and assignments to ensure complete and legally enforceable documentation on a timely basis. In the event that a single bank customer has multiple exposures and facilities, a single credit file shall be maintained to provide a single point of information on all credit dealings with the bank.

The Credit Administration function shall be responsible for establishing the credit file and confirming compliance with all pre-availment conditions including required documentation for perfection of security before availability on the approved facility.

Relationship Managers should maintain backup files for containing documentation for all credit facilities extended to their customers.

Basic considerations in respect of credit documentation include:

- Validity of documentation under appropriate governing law
- Evidence of the authority of signatories to execute documentation
- Guarantees, as may be required, executed on standard forms. Required registration of such guarantees must be completed.
- In respect of secured financings, all necessary steps to create, perfect and protect the validity, priority and enforceability of the security interest, lien or charge, as appropriate, in favour of the bank must be completed on or prior to the date of the initial advance or draw down.
- Default, early termination or material adverse change clauses shall be clearly articulated to protect the bank in the event of actual or possible adverse changes in the condition of the obligor.

6.2.13 Credit Availment

Availability and draw down on approval credit facility shall be subject to confirmation by the Credit Administration function that all pre-availment conditions including requirement for credit documentation are completed.

No advance or draw down shall be permitted until all documentation is completed, executed and delivered. And all requirements for, registration and stamping as may be required and all other conditions precedent in the agreements have been met.

No advance or draw down shall be permitted until all necessary collateral, guarantee or support is held in accordance with the terms outlined in the approval document or in the agreement with the customer.

No advance or draw down shall be permitted until the Global Standing Instruction (GSI) mandate form is reviewed and validated. This is a mandatory requirement before the loan can be maintained.

All deferral request must be evidenced in writing with clear definition of the deferral period and must be approved up to the Management Credit Committee.

The relationship manager is responsible to ensure that such deferred conditions or security documents are met / or submitted within this period, and the Credit

Administration function shall monitor all such deferrals to ensure that they are performed within the approved time period.

Credit Documentation shall on a monthly basis prepare a report on deferrals and the status clearly identifying defaults for circulation to Executive Management of the bank, with specific attention of the GMD for appropriate action.

Waivers of any pre-availment condition included in the credit approval shall require approval of the MCC.

6.2.14 Drawdown of Approved Facilities

Availments under approved credit facilities shall be through drawdown memorandum approved by an officer in Credit Risk Management and an officer in Legal Department, who will verify that all conditions precedent to drawdown have been met. Credit programs and some specialized credit facilities shall be through an officer in Credit Risk management only.

- Classified Facilities

Drawdown on facilities classified “substandard” are approved as described above, while drawdown of facilities classified ‘doubtful’ and worse must be approved by the Chief Risk Officer. At a minimum, classification shall be in accordance with prudential guidelines set by the regulators.

- Material Change

When an established credit facility undergoes a material change in terms, tenor or conditions (with materiality determined by the Head of Risk), Total Facilities must be reapproved, in accordance with the Credit Facility Approval Authority Limits.

- Risk Reductions

When the amount of a credit facility is reduced or cancelled, or the tenor is shortened, the Relationship Manager / Originating Officer must promptly advise the applicable credit administration area, in writing, that the credit systems be updated to reflect the changes.

- Reallocations and Sub-allocations of Approved Facilities

Two officers from the business unit may approve any reallocation or sub-allocation from an approved facility, where the obligor, Exposure Type (Direct, Contingent) and tenor are pre-established in order to establish or increase another facility under the following conditions:

- The facility is for the same obligor.
- The risk rating of the new or increased facility is equal or better.

- The Exposure Type is equal or better.
- The tenor is equal or shorter.

If the reallocation or sub-allocation is for a related obligor of equivalent or better risk rating within the same client relationship, and the last three conditions are met, then two business credit officers may approve reallocations / sub-allocations, one of who must be the responsible business Group Head.

- For all other situations, approval is required from the Chief Risk Officer or designated Head of Risk and the responsible business ED. The Chief Risk Officer or Head of Risk has the responsibility to determine if the reallocation constitutes a ‘material change’ in Total Facilities, and has the discretion to require that Total Facilities be reapproved, in accordance with the Credit Facility Approval Grid

6.2.15 Offer Letters

An Offer Letter is a commitment by the Bank to lend to a customer once the terms and conditions contained in the letter have been satisfied.

Access Bank extends credit facilities on the basis of legal commitments notified in writing through Offer Letters. At a minimum, an offer letter must contain the following details:

I. Type of facility being offered
II. Amount of facility
III. Tenor of facility
IV. Pricing information (including all fees)
V. Conditions precedent to drawdown
VI. Collateral requirements
VII. Covenants for drawdown
VIII. Covenants regulating the use of the facility
IX. The source and timing of repayment of interest and principal

Offer Letters shall be in standard formats produced by the Legal Department. Any Offer Letter that deviates from the standard format must be reviewed by an officer in Legal Department, and such review will be evidenced by the initial of the officer on each page of the offer letter.

6.3 Exposure Management

This consists of all the activities involved in managing existing credit risk exposures to minimize incidence of decline in credit quality and loss to the bank arising from such credit delinquency.

Exposure management shall entail, on an ongoing basis:

- monitoring performance and quality of individual credit exposures
- periodic exposure quality review and exposure quality / performance classification in accordance with the bank's credit quality risk classification criteria
- credit collateral management to ensure that collateralization remains adequate and realizable in case of credit default
- prompt and timely identification of decline in quality / performance of a credit exposure
- manage delinquency in nonperforming credit facilities
- restructuring credit exposures as may be required

In depth understanding of the business environment and deep knowledge of the customer and customer business is necessary for effective credit exposure management.

6.3.14 Facility Performance Monitoring

The relationship manager with responsibility for each customer relationship shall on an ongoing basis monitor the performance of individual credit facilities and confirm adherence to credit terms and conditions.

These shall include:

- reviewing credit facility performance to confirm adherence to credit schedule of interest and principal repayment
- evaluating the impact of industry and market factors including competition, demand for products, availability of supplies, government regulations and legislation, industrial relations climate etc. on the customer and customer's

financial position o confirming status and adequacy of collateral and legal documentation

- evaluating continuity and competence of management and presence of global affiliates

Changes in market position and other factors that affect or have a potential to affect the quality and/or performance of a credit exposure shall be promptly identified and potential impact objectively evaluated.

Exposure Quality review will be triggered by the identification of a decline or potential for decline in the quality of the credit facility.

The Management Credit Committee of the bank shall also institute a periodic review of exposures above a defined threshold to evaluate the quality of the portfolio and identify any trends. At a minimum these portfolio reviews shall be performed quarterly.

6.3.15 Standard Financial and Non-Financial Covenants

Financial and Non-Financial Covenants are mandated in order to monitor the financial and overall performance of the obligors with regard to the credit facilities granted. Mandating financial and non-financial covenants facilitates the monitoring authorities of the bank in critically analysing the performance of the obligors and performing continuous monitoring and control activities in an efficient manner.

In case of both retail and non – retail exposures, a standard list of financial and non-financial covenants will be mandated for the credit facilities availed by the obligors, which shall form part of the approval terms and conditions.

In case of retail products, financial and non-financial covenants will be detailed in the respective product policy at Borrower and Facility level.

Examples:

6.3.15.1 Standard Financial Covenant for Borrowers

Negative variance between the projected and Actual sales should not exceed the range approved in the Facility Approval Memo.

Negative variance between the projected and actual profitability should not exceed the range approved in the Facility Approval Memo.

DSCR of the Borrower should not be less than the range approved in the Facility Approval Memo.

Negative Variance between the projected and Actual Net worth should not exceed the range approved in the Facility Approval Memo.

6.3.15.2 Standard Non – Financial Covenants

Borrowing entity has to submit a note on its financial performance to the bank on a quarterly basis.

Borrowing entity not to use the funds provided by the bank for any other purpose other than the purpose for which the facility was provided.

Any failure on the part of the borrower to make repayments of Principal or Interest or any fees within 10 days of the debit made to the respective account will attract a penalty of_% to_% (exact % of penalty to be decided on a case to case basis).

Restrictive clause on the Limits approved by the bank / Conditional Disbursement Clauses, based on the performance of certain conditions like – Obtaining required licenses in a timely manner, bringing the promoter's contribution in a timely manner as mandated in the Approval etc.

Example for retail loans –

In case of auto loans, borrower is required to renew the insurance for the vehicle purchased with the bank loan and should assign the same in favour of the bank.

In case of mortgage loans, the borrower should mortgage the property bought with bank loan, in favour of the bank after disbursement of loan.

6.3.15.3 Monitoring of Adherence to Financial and Non-Financial Covenants

All Standard Financial and Non-Financial Covenants as approved and communicated to the customer in the Offer Letter will be monitored on a continuous basis by the business units and Credit Monitoring Function.

Credit Risk Management Groups will generate reports on a monthly basis, on the adherence to the financial and non-financial covenants at facility and borrower level. Credit Risk Management Groups will monitor the adherence to covenants and will advise the relationship managers, credit analysts and Credit Administration Department, handling the specific facility or borrower to take necessary corrective action. Financial and non-financial covenants will be detailed in the credit policy at Borrower and Facility level.

6.4 Risk Monitoring

Risk Monitoring and Control are essential to ensure that credit risk assumed by the Bank is in conformity with credit risk policy parameters from time to time.

Credit Risk Management Groups are entrusted with the responsibility of ensuring this requirement on the basis of reports received from Business Units, Credit Administration Unit and other relevant departments/ divisions of the Bank.

The function of risk monitoring will be handled in CRM by all SBUs-based Teams in Credit Risk Management'.

Risk Monitoring involves periodic review by appropriate authority of both individual facilities and portfolio. It involves:

- Monitoring End Use of Funds
- Monitoring of adherence to Financial and Non-financial covenants
- Monitoring of Collaterals and other credit risk mitigants.
- Credit Audit
- Credit Review Mechanism
- Asset Classification
- Provisioning
- Monitoring of Exposure and Risk Limits
- Monitoring the performance of Rating System
- Monitoring the Credit Portfolio Quality
- Monitoring Recovery Performance

6.4.14 Monitoring End Use of Fund

Monitoring End-use of funds ensures that the credit facility is utilized for the purpose for which it has been granted, to eliminate any possible diversion of funds that might lead to credit losses.

End use of funds will be monitored on the following lines:

- Asset verification and regular inspection wherever assets are created out of Bank’s fund.
- Verification of receipts / bills / ownership documents.

- Periodical scrutiny of borrowers' books of accounts.
- Periodical visits to the assisted units / inspection of assets charged in favour of the Bank.
- In case of Working Capital facility (including non-fund based facilities), drawdown of overdraft facility has to be linked to the working capital need of the company.
- Scrutiny of quarterly progress reports / operating statements / balance sheets of the borrowers.
- Information from Central Bank Risk Bureau on the facilities availed by the borrower from other banks.
- In case of Term Loans, the disbursement can be linked to the progress of the project financed.
- End use of funds will be monitored by Credit Risk Management Groups on a monthly basis.

6.4.15 Monitoring of Temporary Overdraft (TOD) and Excess over Limit (EOL)

All accounts for which TOD has been granted or EOL has been allowed will be monitored. Credit Risk Management Groups will monitor on a continuous basis whether the accounts have been brought under advised limit.

6.4.16 Monitoring of Exposure and Risk Limits

Monitoring of exposure and risk limits on a continuous basis ensures that the bank keeps track of their credit concentration and risk concentration levels and corrective actions are taken at the right time. This also aids the bank in avoiding loss of any new opportunities for want of limits. Monitoring of exposure and risk limits also aids the bank in resetting of exposure and risk limits if need arises.

Credit Risk Management Groups will monitor the exposure and risk limits set by the bank under various dimensions on a continuous basis.

Exposure and Risk Limits should be checked on an Ex Ante basis i.e. before approval of any credit facility, the approving authority needs to verify whether the approval of the facility will lead to breach in any of the exposure or risk limits prior to approving of limits.

Whenever the approved limits reach 80% level of each of exposure and risk limits set by the bank under various dimensions, it must be treated as a management warning level and reported.

6.4.17 Monitoring the Performance of Rating System

Credit Risk Management Groups will monitor the performance of the rating system at least on annual basis by validating them based on following:

- **Input into the rating system**: Coverage of risk factors determining default exposure and recovery.
- **Rating Process**: Validity of assumptions and the process of converting expert opinion into credit rating.
- **Output of the rating process**: Efficiency of the rating system by validating actual outcome with expected outcome in terms of default, exposure and recovery.

Upon implementation of rating models based on empirical data of the Bank, the models would be validated using statistical tools.

6.4.18 Monitoring the Credit Portfolio Quality

Bank shall monitor the overall composition and quality of the credit portfolio. Internal risk ratings shall be used as a tool to track the current characteristics of the credit portfolio and help determine necessary changes to the credit strategy of the bank.

6.4.19 Monitoring of Collaterals and other Credit Risk Mitigants

Collateral and other credit risk mitigants are one of the determinants of recovery and hence monitoring the same would help in managing recovery risk. Credit Risk Management Groups will monitor the adherence to collateral related credit risk policy guidelines such as:

- Eligibility of Collateral and other credit risk mitigants.
- Valuation Methodology.
- Valuation frequency.

- Re-margining Frequency.
- Loan to value.
- Legal Enforceability of Security Documents.

All the above aspects as well as details under Risk Measurement Component will be monitored by the Credit Risk Management Groups based on reports submitted on a monthly basis.

Any breaches in the collateral related policies, needs to be reported by Credit Risk Management Groups to the appropriate authority on a periodic basis and Credit Administration Department will be alerted to take corrective action.

6.4.20 Exposure Quality Classifications

The objective of these guidelines is to define management criteria for the review and classification of existing risk exposure to ensure prompt identification and proper management of decline in credit quality.

The overall responsibility of sustaining the quality of individual credit risk exposures is primarily that of the Relationship Management. This shall be achieved by:

- Regular interaction with the customer
- Continuous assessment of the collectability of the credit
- Documentation of observations and recommended action

The Relationship Manager shall be responsible for credit quality review of all outstanding risk exposures on a continuous basis. The review shall be aimed at evaluating existing or potential problems of validity, completeness, accuracy or collectability of these exposures, and prompt identification of potential for decline or actual decline.

Credit Risk Management Groups will periodically (weekly) report all temporary overdrafts and excesses over approved limits for appropriate action.

Credit Risk Management will also be responsible for conducting planned periodic reviews of the quality of the Bank’s credit risk asset portfolio.

The bank wide credit portfolio will be reviewed on a quarterly basis in compliance with Prudential Guidelines.

Detailed reviews of each credit exposure will be prepared by the Relationship Manager on a quarterly basis based on an objective evaluation of current up to date information and classified to indicate performance based on the following criteria:

- Demand for products or services
- Evaluation of customer's financial position
- Adherence to credit schedule of interest and principal repayment
- Status and adequacy of collateral and legal documentation
- Continuity of management and presence of global affiliates
- Impact of government regulations and legislation
- Industry relations climate
- Perceived industry risk/market position
- Performance against previously established early warning triggers.

Every credit review will be documented using the bank's Credit Call Memorandum and should include as assessment of the stability of the customer's risk rating outlook as either stable, improving or declining.

Importantly, it must indicate the performance of the company against previously established early warning triggers.

Decline in the quality of the Risk exposure shall be brought to the attention of the business ED and the Chief Risk Officer, who will jointly decide if the situation should be escalated to the Chairman of Criticized Assets Committee (or his designee). Where this is the case, it shall be done within one week of such development.

6.4.21 Definition of Default

Credit facilities (which include loans, advances, overdrafts, commercial papers, banker's acceptances, bills discounted, leases, guarantees, and other loss contingencies connected with a bank's credit risks) will be classified as either "performing" or "non-performing" as defined below:

- a credit facility is deemed to be performing if payments of both principal and interest are up-to-date in accordance with the agreed terms
- a credit facility will be deemed as non-performing when any of the following conditions exists:

- interest or principal is due and unpaid for 90 days or more
- interest payments equal to 90 days' interest or more have been capitalized, rescheduled or rolled over into a new loan (except where facilities have been reclassified)

In exceptional instances where it is determined that the probability of turnaround of the facility performing is remote, such facilities shall immediately be classified as lost and transferred to Remedial Assets Management Unit.

6.4.21.1 Past due treatment of Overdraft

Authorized overdrafts are subject to a credit limit set by the bank, and must be brought to the knowledge of the client. Any break of this limit must be monitored, if the account were not brought under the limit within 90 days, it would be considered as defaulted.

In addition to the condition above, an obligor should be considered as defaulted, if there are no credits continuously for 90 days in its Overdraft Account or if the credits are not enough to cover the interest debited during the same period.

Enhancement in Overdraft Limits should not be approved just to avoid the facility getting classified as default. Bank shall not increase the approved limit only in order to show that the outstanding have come within the limits after they have been increased. However, limits can be increased based on merits, by appropriate approval authority.

A temporary overdraft that remains outstanding for longer than 30 days shall be classified as a Past Due Loan.

Days past due commence once any credit is granted to an unauthorized customer, if such credit were not repaid within 90 days, the exposure would be considered in default.

Other exceptional instances that will trigger transfer to Remedial Assets Management Unit:

- death or disappearance of an obligor
- bankruptcy or going concern problems
- unforeseen circumstances that have significant implication on the business

6.4.21.2 Cross Default

- For non-retail exposures, default should be applied at obligor level. Whenever a credit facility to an Obligor is classified as default as per the default definition mentioned above, all the credit facilities of the same obligor should be classified as defaulted.
- For retail exposures, default should be applied at facility level and not at obligor level and hence, Cross Default is not applicable for Retail Exposures

6.4.21.3 Treatment of interest on non-performing credit facilities:

- All categories of non-performing credit facilities should automatically be placed on non-accrual status that is, interest due thereon should not be recognized as income.
- All interest previously accrued and uncollected but taken into revenue should be reversed and credited into suspense account specifically created for this purpose which should be called "interest in suspense account" unless paid in cash by the borrower. Future interest charges should also be credited into same account until such facilities begin to perform.
- Once the facilities begin to perform, interest previously suspended and provisions previously made against principal debts should be recognized on cash basis only.
- Before a "non-performing facility", can be re-classified as "performing", unpaid interest outstanding should not exceed 90 days.

6.4.22 Credit Collateral Management

Acceptance of collateral will be governed by the provisions of the Bank's credit policy on collateral management

6.5 Risk Control

Risk controlling is part of the overall risk management process and follows the quantification and planning of risks, aiming to reduce the risks to a level, which according to the stipulations from the risk strategy is manageable for the bank.

The impulses for risk controlling are generated from the comparison of planned and actual risk situation and risk strategy. Actual Risk Situation is assessed by risk monitoring process, which is the responsibility of the Credit Risk Management Groups

Risk controlling will be carried out at the individual borrower level as well as the portfolio level. There are numerous instruments that can be used in risk controlling. Depending on the situation, appropriate instruments should be used to reach the state intended by the bank in the most efficient manner.

6.5.1 Risk Controlling at Individual Level

Credit Risk Management Groups should carry out the process of alerting the Credit Administration and Portfolio Management, and any other department for carrying out suitable corrective action in case of findings of the risk monitoring process such as:

- Breaches in end use of funds.
- Instances of non-adherence to Financial and non-Financial covenants.
- Decrease in the credit quality or identification of warning signals during the credit review process.
- Instances of wrong asset classification.
- Shortfalls in Provisioning.
- Weaknesses identified in the recovery process.

6.5.2 Guidelines for following up Watch List Accounts

When an account exhibits early warning signals of potential credit risk, the Bank will begin proactive management of problem loans. These signals will include transaction related signals like persistent irregularity, defaults in repayment obligations, devolvement of LC liabilities / invocation of guarantees, operating losses, etc., and activity related physical signals like rejection of products, some of the machines lying idle, number of shifts / workers decreasing, etc. The warning indicators generally emanate from the unit’s financial problems, operational problems, market related problems and problems arising out of regulatory changes.

6.5.3 Recovery Process

Once the problem loans are identified, following steps will be taken to analyse problems based on facts and circumstances by the Credit Administration and Portfolio Management & Credit Monitoring.

- Diagnosis of reasons for the deterioration in asset quality and putting the unit under close monitoring.
- Verification of adequacy of cash accruals.
- Revalidation of assumptions made at the time of credit approval, particularly in regard to assessment of credit risk.
- Intimating the obligor/ guarantor(s) the deterioration in the asset quality and meeting them to insist on regularizing the account.
- Verification of documentation in terms of completeness, correctness, revival position, creation/ registration of charges, insurance cover and rectify deficiencies, if any.
- Evaluating the collateral for liquidity, marketability and value, attempt to improve the Bank's collateral position.
- Identification and study of primary and secondary sources of repayment and evaluating their adequacy, the opportunity will be used to detect any assets of the promoter(s)/ guarantor(s) which have not been taken in to account while compiling opinion reports in the initial stages.
- Obtaining realistic and time bound commitment from the obligor/ guarantor(s) to initiate suitable steps to arrest the deterioration in the loan quality.
- Determining the corrective course of action required to upgrade/ recover the loan, after a dialogue with the obligor.

6.5.4 Restructuring of Credit Facilities

Definition of Restructured Facility

We have defined Restructured Facilities as follows;

1. **Strategic Amendments – Macro related**: This involves where the Bank anticipates market changes before it becomes an issue i.e. the borrower is meeting all obligations and nothing is due and unpaid. Examples of the market changes could be drop in crude oil price, devaluation of the currency, loan currency conversion, change in government

legislation etc. Such action has no classification implication as performance is not affected in any way.

2. **Strategic Amendments – Market related**: This involves amendments to some of the terms in an existing facility e.g. to win or retain customer's business, match competitor's terms, among other strategic considerations. Such action has no classification implication as performance is not affected in any way.

3. **Proactive Restructuring:** When it is apparent that the cashflows of a customer have changed and these are predicted to impinge on ability to meet obligations falling due; proactive realignment may be done, to minimise risk of missed payments.

4. **Normal Restructuring:** This will arise when the obligor has challenges in meeting maturing obligations. In this situation, a restructure will be done to align the customers' obligation to the new cashflows based on the market realities at the time. This may have downgrade implications

Apart from the above, any deviations in the account performance owing to genuine business conditions of the borrowers can be managed by restructuring of the credit facility. Following are the guidelines to be followed for restructuring:

- Determination of Viability for restructuring.
- Conduct of Cost Benefit Analysis weighing cost of rescheduling to the bank with benefits by comparing the Present Value of cost of restructuring with returns from restructuring. This involves discounting of costs and benefits of restructuring by an appropriate discount factor to derive Net Present Value (NPV) associated with restructuring.
- Definition of binding and transparent results to be achieved along with other terms and conditions.
- Maximum time period within which the restructuring will be completed from the date of receipt of request for restructuring from the borrower shall be 15 Days.
- Approval authorities and reporting requirements (will be covered under Approval Matrix in Risk Measurement).
- A restructured facility cannot be further restructured unless definite improvement has been recorded. Definite improvement includes the following:

- Payment of at least one (1) principal and interest obligation in line with approved terms.
- Improved outlook of the obligor via ability to generate more cash flow and / or improved business strategy.
- Enhanced collateral with higher value than the restructured exposure and in a perfectible state. Cases of wilful default and fraud are ineligible for restructuring.

6.5.5 Risk Controlling at Portfolio Level

Credit Risk Management Groups will carry out the process of alerting the respective business unit and senior management committees (Credit Risk Committees) to take corrective action to bring existing position under the prescribed limits:

- Breaches in Exposure and Risk Limits.
- Breaches of Loss Limits.
- Breaches in NPL Levels.
- Unexpected deterioration in rating grades.

6.5.6 Strategies for Risk Control

The Business units may follow some of the strategies as mentioned below in order to take corrective action:

- Sell Off / Sell Down of credit facilities.
- Asset Securitization.
- Risk Participation & Selling of Credit Protection.
- Hedging.
- Credit Insurance.
- Risk Based Pricing.
- Reshuffling of Portfolio.

6.6 Administration of Existing Exposures

6.6.1 Customer Meetings and Call Reports

To provide relevant, up-to-date and reliable informed ongoing management of exposure quality and overall business condition of the obligor and relationship with Access Bank, it is critical that marketing/relationship management officers maintain direct contact with customers through periodic visits to business locations as well as at the Bank premises. The frequency of these visits shall be risk differentiated, such that riskier obligors or large exposures are more frequent than for less risky obligors of smaller exposures.

The Chief Risk Officer shall establish a calling policy to guide this process, as well as define minimum information that must be contained in a credit call report. All pertinent information derived from such credit calls shall be properly documented and circulated to the business head and Credit Risk Management and shall be included in the customer credit file. The documentation of the credit call shall follow a predefined format.

Credit calls are an important part of ongoing monitoring of performance of facilities after they are disbursed and help the bank to quickly identify problem credits and initiate appropriate corrective actions. It is the responsibility of the relationship manager to ensure that these calls are carried out at the specified frequency. This activity shall be auditable.

6.6.2 Credit Checking

The gathering of bank and trade checking shall be an important component of the continuing assessment of obligors and confirmation that the business remains a ‘going concern’. Rules and procedures for requesting and supplying credit information shall be articulated by Credit Risk Management.

6.6.3 Financial Information

In the ongoing administration of the quality and performance of loans and other types of credit exposure, periodic analysis of up-to-date financial information shall be a fundamental requirement.

While the availability of reliable, complete and up-to-date financial information on the customer on a timely basis could be a limitation, the objective shall be, and every effort made to obtain as much as possible, such information that will enable informed evaluation and conclude on the quality of the exposure and identify risk of decline in performance and quality.

6.6.4 Documentation Lodging, Review and Follow-up

All legal documentation in respect of approved credit exposures shall be held in an appropriately secured bank vault or a location of equivalent security and safety. Existence and location of such legal documentation shall be indicated in the credit file by an initialled receipt by the bank officer with responsibility for custody of such documentation.

Documentation and collateral must agree with that specified in the approval document as well as the agreement executed with the customer.

An annual physical verification of all credit documentation to confirm existence and continuing enforceability shall be conducted by the Credit Administration function in conjunction with Legal Department.

6.6.5 Covenant Check-Off List

The Risk Management function and the relevant approval authority must review all outstanding credit transactions and commitments at least annually. The review shall be accompanied by a covenant check-off list, which must be signed off by the officer responsible for carrying out the review.

6.7 Maintenance of Credit Information

6.7.1 File Management

Credit files are the official records, correspondence and interaction between the bank and customers in respect of credit relationships and exposures. Appropriate care must be taken to ensure that credit files are maintained up-to-date on an ongoing basis and contain accurate and reliable information to establish a trail in respect of the establishment, change and current status of a credit relationship. The credit file serves as the primary information source for decision-making on credits and customer relationships.

Credit files must contain at a minimum:

- Credit Creation Documents
- Preliminary Credit Screening form
- Credit Application form
- Credit Appraisal Analysis form
- Credit Approval Documents
- Credit Appraisal form
- Credit Offer Letter / Acceptance
- Classified Credit Memoranda
- Financial Statement

Most recent audited and/or management statement of accounts

A note as to where statements that may be relevant, but are too bulky are located.

- **Memoranda and Correspondence**

  Memoranda and correspondence detailing the history of the relationship with the customer, present status, and substantive contact with the borrower. These shall include all customer correspondence, call memos and reports, collateral documentation, internal memoranda.

- **Exposure quality and performance classification.**

  The latest Classified Assets Management report in which the action place and loan loss recovery program are summarized (if applicable).

- Revolving Credit and Term Loan Summaries
- Summary of basic covenants

  A note as to the location of the term loan summary, covenant check-off list and non-default certificates (if applicable), together with any memoranda or correspondence regarding compliance with covenants, if they are relevant but too bulky to be included in the file with other materials. All files must be reviewed periodically and culled as may be required of outdated or irrelevant information and only essential material retained. Information of an unfavourable nature, such as a significant problem in the relationship should be permanently retained and marked on the memoranda or documents.

The marketing / customer relationship officer shall be responsible for creating a credit file at the beginning of a credit relationship. All documentation / correspondence generated during the credit cycle will be filed in the appropriate section of the credit file by the originating department.

Separate files will be kept for security documents (debenture deeds, certificate of titles) as may be required.

Each customer credit file shall be made up of two (2) components. All credit documents originating from the bank shall be (domiciled on a Customer Credit Information Database on the bank's intranet), which shall be accessible to both credit risk management and relationship management function. All paper-based credit documents such as customer correspondences shall be maintained in hard copy in the customer's credit file.

Credit Risk Management shall be responsible for safe custody of credit files and maintaining records of file movement and use in and out of the file room.

Credit files are highly confidential in nature, and should be kept secure at all times. Access to credit files shall be properly restricted to authorized officers of the bank. It is expected that credit files shall never be removed from the official bank premises, except with the express permission of Credit Risk Management.

6.7.2 Background Information

The maintenance and annual updating of certain background information on customers and prospective customers are essential. All background information should be recorded in a readily retrievable format and should include pertinent facts such as:

- Full legal name of customer
- Legal address (and mailing address, if different)
- Legal status e.g. public limited company, partnership etc.
- Details of Management
- Ownership
- Brief historical facts e.g. registration number, date of incorporation etc.
- Nature of customer's principal business(s)
- Other basic information as deemed appropriate
- All other information to satisfy KYC requirements for the customer.

Responsibility for supplying the above information shall lie with the respective relationship managers in the market-facing business units.

Responsibility for maintaining the above information in credit reporting systems shall lie with Credit Risk Management.

6.8 Credit Audit

Credit Audit is required with a view to ensuring adherence to all appraisal standards that has been put in place by the bank prior to approving a credit facility at various levels as per approval authority.

a) Guidelines on Credit Audit

- Coverage

All standard borrowers accounts with a limit of N 10million and above and having a rating of 5 or better are to be covered under Credit Audit.

b) Factors to be considered for scheduling of accounts for Credit Audit

- Obligor Accounts with exposure more than N10million
- Obligors with Risk Rating below 5 or better
- At least 50% of the fresh approvals made during the last financial year
- Obligors falling under Industries with an Outlook of High Risk

6.8.1 Credit Review Mechanism

Credit Review Mechanism (CRM) will function as a system of identification of risk and as a monitoring tool for the accounts reviewed. Credit Review Mechanism is an important tool for evaluating credit risk profile of the loan accounts vis-à-vis projections and indicates the direction of credit risk migration.

Objectives:

- To promptly identify the loans those, develop credit weaknesses and initiate timely corrective action.
- To evaluate portfolio quality and isolate potential problem credits.
- To provide information for determining adequacy of loan loss provision.

- To assess the adequacy of adherence to loan policies and procedures and to monitor compliance with relevant laws and regulations.
- Review of Credit Risk independently.
- Picking up warning signals and suggest remedial measures.

All credit facilities should be reviewed on an annual basis in order to evaluate default, recovery and exposure risks, and to re-price the loans (if applicable) for any changes in the risk profile.

Annual review of accounts will be carried out by the Credit Monitoring Team and the authority for approval is as mentioned in the Approval matrix under risk measurement. Credit Monitoring will submit reports to Credit Risk Management Groups on a monthly basis, covering the details of the accounts reviewed, along with any specific credit weaknesses identified and warning signals. Credit Risk Management Groups will conduct the credit review mechanism through the reports submitted by the Credit Monitoring.

All credit relationships are subject to reviews on at least an annual basis in the form of either an 'Abbreviated' or a 'Full' Credit Review.

Notwithstanding the criteria below, at any time a credit approval authority or the Chief Risk Officer may determine that a more frequent review cycle is more appropriate for a particular relationship, geography, industry or business.

6.8.1.1 'Abbreviated Only' Criteria

An Abbreviated Annual Review is allowable each year for the following:

- Relationships with Total Facilities of N5MM or less; within the business unit's defined target market, adheres to the approved Risk
- Acceptance Criteria, and facilities extended are part of an approved Credit Program; and there are no classified facilities.
- Relationships where all facilities are cash collateralized shall also undergo an Abbreviated Annual Review.

Facilities below N5MM will only be approved under a Credit Program. Countries may establish local limits, which must be endorsed by the Regional Head of Credit Risk Management and approved by the Chief Risk Officer in Head Office.

At a minimum, an Abbreviated Credit Review must include:

- A brief 'Summary of Risk Trends', which focuses on the main changes in the risk profile since the last Abbreviated or Full Credit Review.
- A review/verification of credit facilities to ensure they are appropriate to the obligor's needs and are correctly reflected on the FAM and in the credit reporting systems.
- An explanation for changes in credit facilities and terms, if any.
- Reaffirmation that collateral, documentation and related security arrangements are in full effect.
- Updated risk rating information, and a review of all Obligor Risk Ratings and Facility Risk Ratings in the credit reporting systems to ensure they are current and accurate.
- As applicable, any Risk Rating Limit Exceptions, and the related action plan.

- **Approvals**

The Abbreviated Relationship Credit Review must also be approved in line with the Credit Facilities Approval Grid.

6.8.1.2 'Full Only' Criteria

A Full Credit Review is required every year for all other relationships not meeting the standards above, as well as for:

- Any industry, region, country or business where it is determined in a Portfolio Review that abbreviated Annual Reviews will not be permitted
- Any relationships with classified ("substandard" and worse) facilities; or has been adversely noted at a CAC review in the review period.
- Facilities approved with concessional pricing in relation to Risk Based Pricing.
- Facilities approved with manual override of output of credit rating.
- Review of accounts rated 4 and below as per the Bank's internal model.
- Any Asset that had fallen into past due status for more than 60 days within 6 months from the last review.

Components

At the minimum a Full Credit Review shall include the Credit Analysis standards as stated in Section 6.2.3

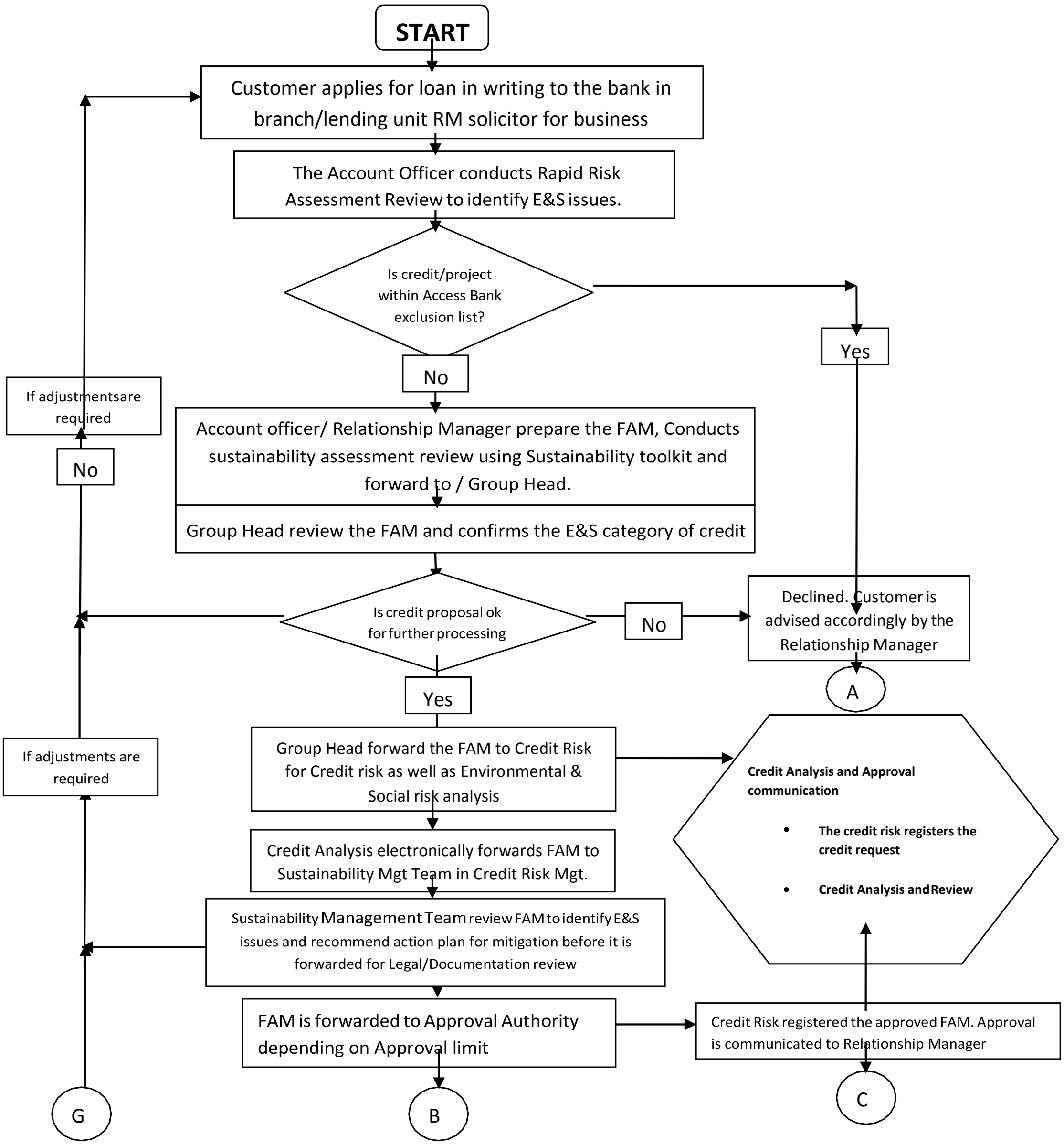
Approvals

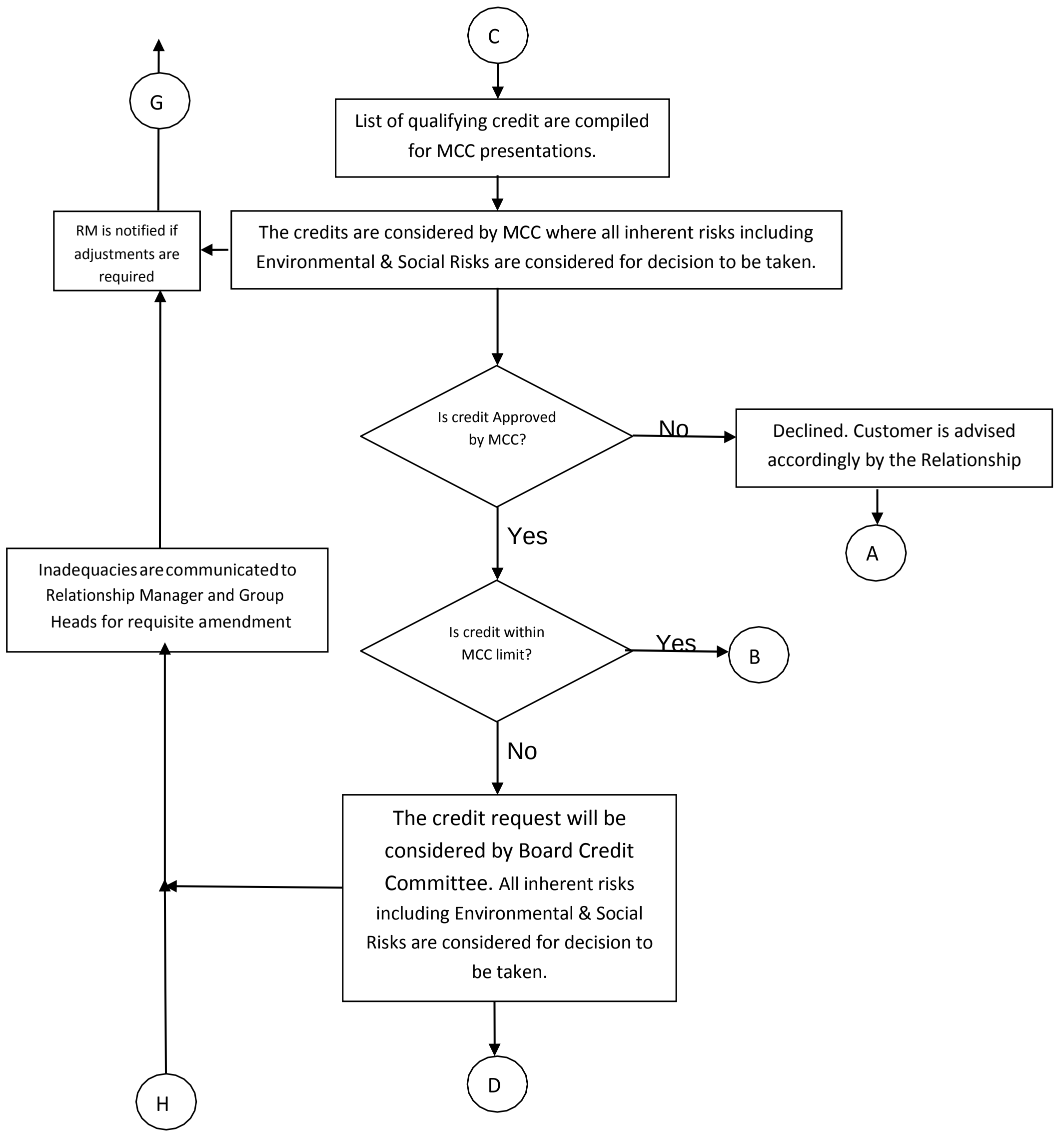
The Approval requirement for a Full Credit Review is the same as that required by the Credit Facility Approval Grid. However, where there are no increases to Total Facilities and no overall material changes in tenor, credit terms, security/support, or the credit risk profile of the obligor, this fact should be clearly stated in the Facility Approval Memorandum for consideration by the Approval authority in deciding whether to fast track approval or not.

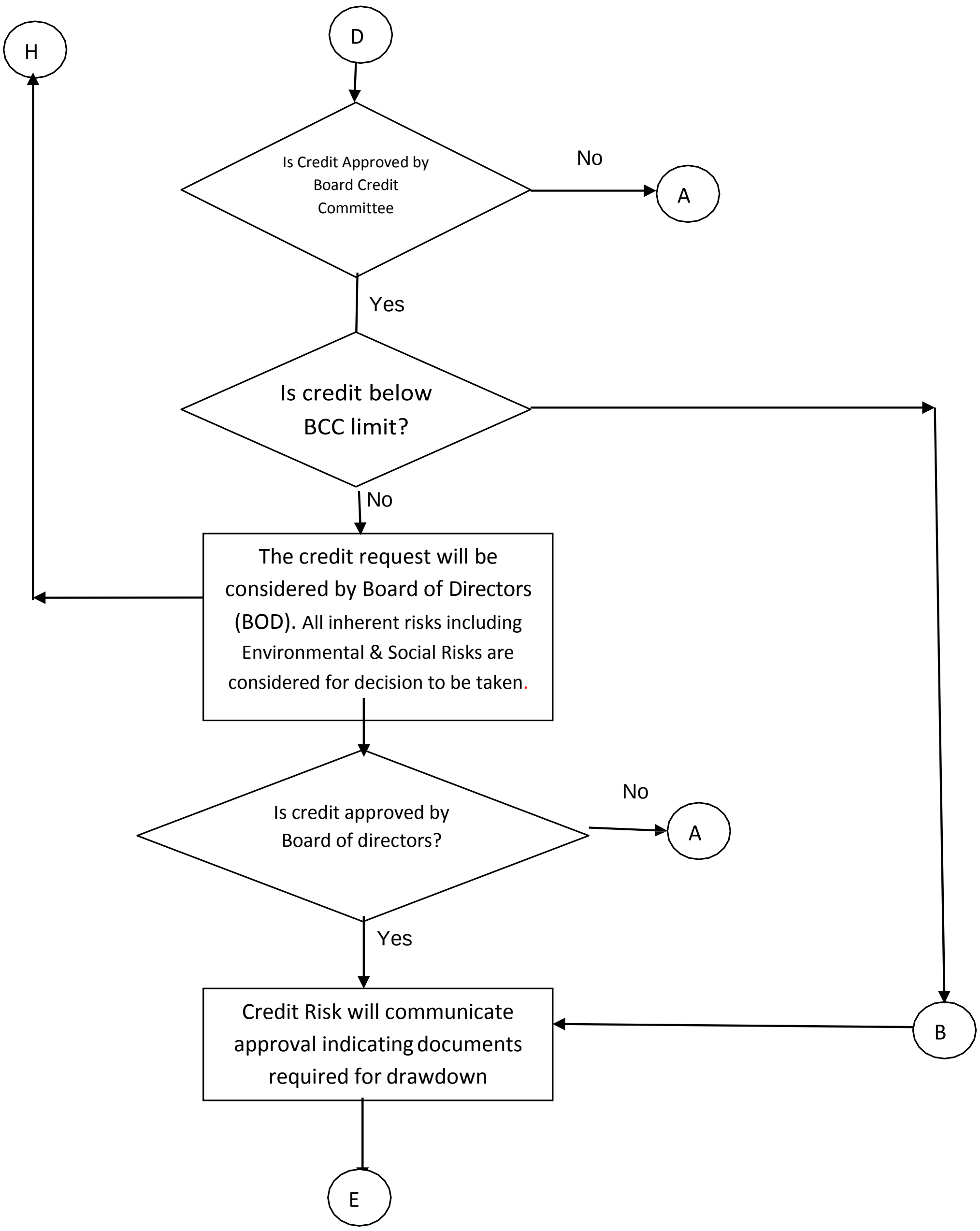
Additional approvals may be required for relationships with adversely classified facilities.

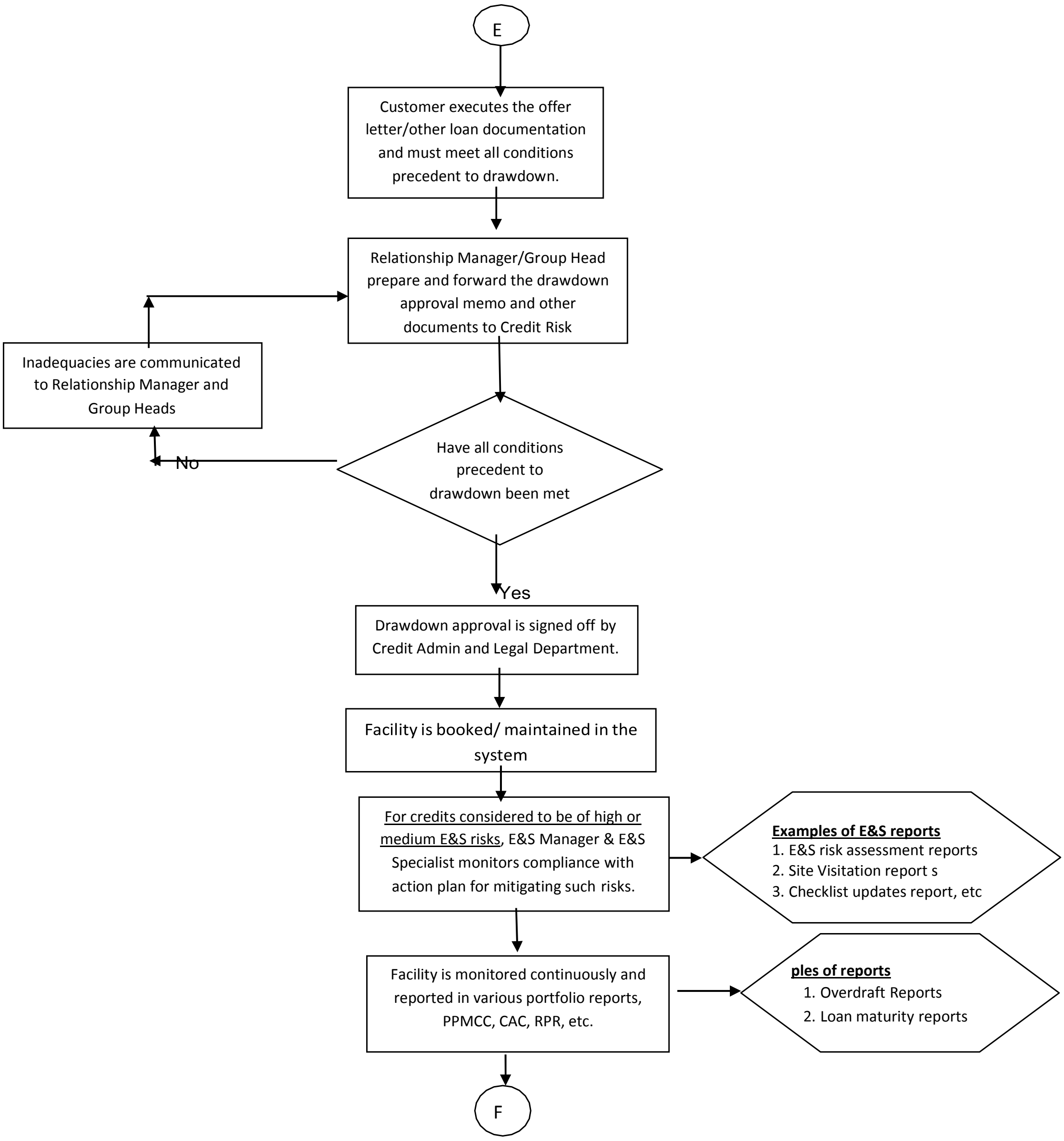
6.9 Flow Chart of the Credit Process

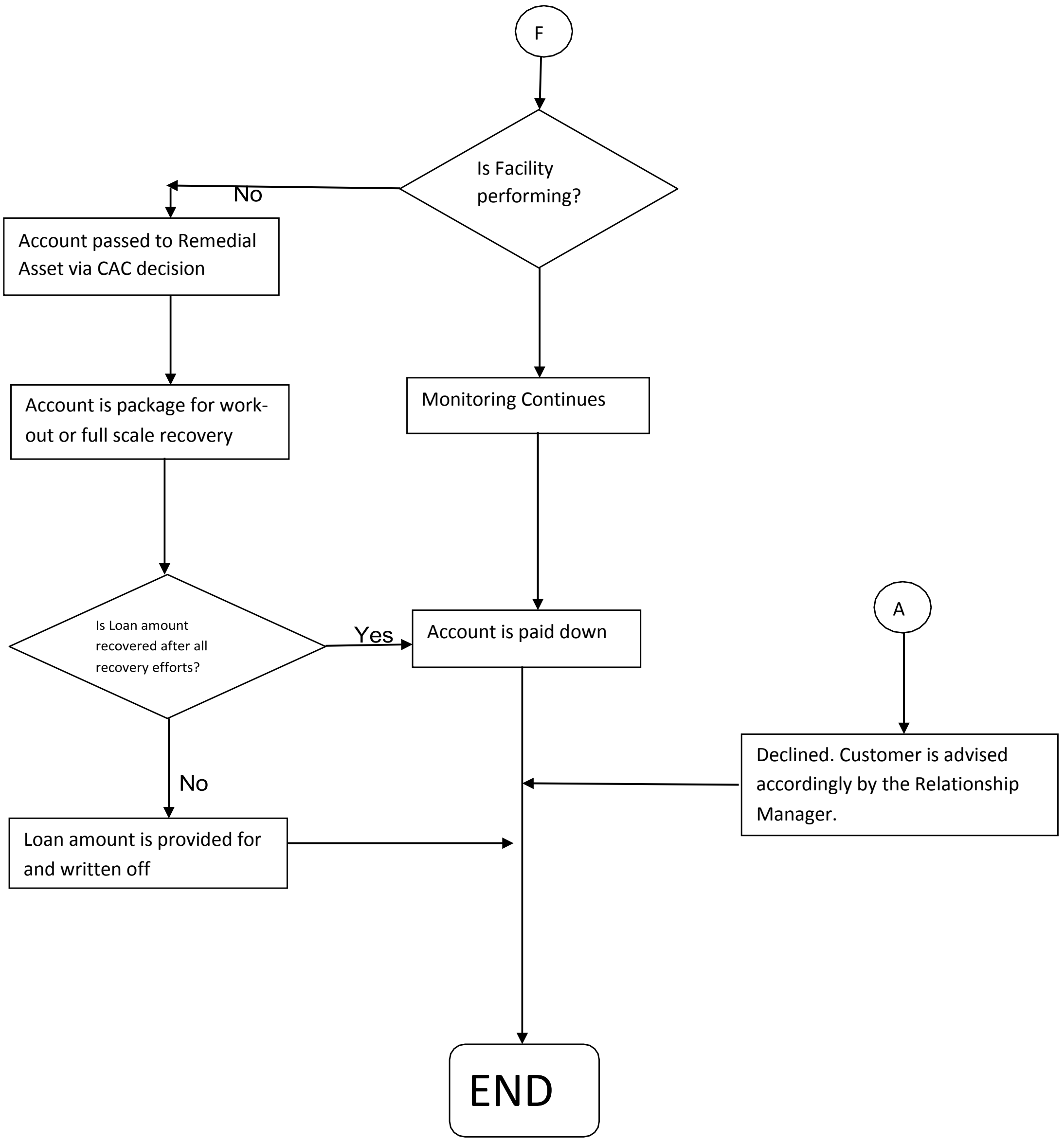
The following flow chart summarizes the credit process in Access Bank:


START
Customer applies for loan in writing to the bank in branch/lending unit RM solicitor for business
The Account Officer conducts Rapid Risk Assessment Review to identify E&S issues.
Is credit/project within Access Bank exclusion list?
Yes
No
Account officer/ Relationship Manager prepare the FAM, Conducts sustainability assessment review using Sustainability toolkit and forward to / Group Head.
Group Head review the FAM and confirms the E&S category of credit
If adjustmentsare required
No
Is credit proposal ok for further processing
No
Declined. Customer is advised accordingly by the Relationship Manager
A
Yes
If adjustments are required
Group Head forward the FAM to Credit Risk for Credit risk as well as Environmental & Social risk analysis
Credit Analysis and Approval communication
The credit risk registers the credit request
Credit Analysis and Review
Credit Analysis electronically forwards FAM to Sustainability Mgt Team in Credit Risk Mgt.
Sustainability Management Team review FAM to identify E&S issues and recommend action plan for mitigation before it is forwarded for Legal/Documentation review
FAM is forwarded to Approval Authority depending on Approval limit
Credit Risk registered the approved FAM. Approval is communicated to Relationship Manager
G
B
C


C
List of qualifying credit are compiled for MCC presentations.
The credits are considered by MCC where all inherent risks including Environmental & Social Risks are considered for decision to be taken.
RM is notified if adjustments are required
G
Is credit Approved by MCC?
No
Declined. Customer is advised accordingly by the Relationship
A
Yes
Inadequacies are communicated to Relationship Manager and Group Heads for requisite amendment
Is credit within MCC limit?
Yes
B
No
The credit request will be considered by Board Credit Committee. All inherent risks including Environmental & Social Risks are considered for decision to be taken.
D
H


H
D
Is Credit Approved by Board Credit Committee
No
A
Yes
Is credit below BCC limit?
No
The credit request will be considered by Board of Directors (BOD). All inherent risks including Environmental & Social Risks are considered for decision to be taken.
Is credit approved by Board of directors?
No
A
Yes
Credit Risk will communicate approval indicating documents required for drawdown
B
E


E
Customer executes the offer letter/other loan documentation and must meet all conditions precedent to drawdown.
Relationship Manager/Group Head prepare and forward the drawdown approval memo and other documents to Credit Risk
Inadequacies are communicated to Relationship Manager and Group Heads
No
Have all conditions precedent to drawdown been met
Yes
Drawdown approval is signed off by Credit Admin and Legal Department.
Facility is booked/ maintained in the system
For credits considered to be of high or medium E&S risks, E&S Manager & E&S Specialist monitors compliance with action plan for mitigating such risks.
Examples of E&S reports
1. E&S risk assessment reports
2. Site Visitation report s
3. Checklist updates report, etc
Facility is monitored continuously and reported in various portfolio reports, PPMCC, CAC, RPR, etc.
ples of reports
1. Overdraft Reports
2. Loan maturity reports
F


F
Is Facility performing?
No
Account passed to Remedial Asset via CAC decision
Monitoring Continues
Account is package for work-out or full scale recovery
Is Loan amount recovered after all recovery efforts?
Yes
Account is paid down
A
No
Declined. Customer is advised accordingly by the Relationship Manager.
Loan amount is provided for and written off
END

7 Credit Risk Mitigation and Collateral Management Policy

7.1 Background

Credit risk mitigation is a method of reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees / insurance. However primary consideration when approving credits should always be the obligor's financial strength and debt-servicing capacity.

7.2 Objective

The Credit Risk Mitigation Management addresses the following basic objective of Credit Risk Management:

- Effective Credit Portfolio Management through mitigation of credit risks by using Credit Risk Mitigation Techniques.

7.3 Scope

Credit Risk Mitigation Management process covers the entire gamut of activities comprising inter-alia the following aspects:

- Defining the criteria on acceptability of various types of Credit Risk Mitigants
- Level / extent of Coverage
- Guidelines for valuation & periodical inspection of collateral
- Measures for security and protection of collateral value

7.4 Implementation of policy

The policy guidelines will be followed by all business units that deal with assets i.e. credit exposure creation and development, exposure management, delinquency management and loan recovery. The policy will be implemented by Credit Risk Management Department. The Management Credit Committee will ensure that the policy is adopted in letter and spirit by all relevant stake holders across the bank.

7.5 Credit Risk Mitigants

Credit Risk Mitigation (CRM) is an activity of reducing credit risk in an exposure or transferring it to counterparties, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance.

Credit Risk Mitigant (CRM) techniques consist of the use of relevant financial collateral, guarantees, derivatives, estate mortgages and lease transactions or other instruments in relation to all banking book exposures and asset classes, that would reduce the risk recognized in calculating the bank's capital requirement.

Where a rating has already taken into account a particular guarantee which has been pledged by a borrower, then such guarantee cannot be considered any longer for the purpose of credit risk mitigation

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. Other techniques include buying a credit derivative to offset credit risk at transaction level. At portfolio level, asset securitization, credit derivatives etc. are used to mitigate risks in the portfolio.

However primary consideration when approving credits should always be the obligor's financial strength and debt-servicing capacity. The following guidelines relating to risk mitigant as incorporated in the guidance note of BCBS (Basel Committee on Banking Supervision) on "Principles for the Management of Credit Risk" (September 2000, Paragraph 34) should be taken in to consideration while using a credit risk mitigant to control credit risk.

"Bank 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 insufficient information. It should be recognized that any credit enforcement action (e.g. foreclosure proceedings) can eliminate the profit margin on the transaction. In addition, the Bank 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."

7.6 Legal Enforceability of Credit Risk Mitigants

All documentation used in collateralized transactions and for documenting on and off-balance-sheet netting, guarantees, credit derivatives and collateral must be binding on all parties and must be legally enforceable in all relevant jurisdictions. Bank should ensure that all the documents are reviewed by appropriate authority and should have appropriate legal opinions to verify and ensure its enforceability.

It should inter alia, be ensured that: -

- ✓ The documents are executed in the prescribed form of the bank or else, the draft of documents should have been approved by competent authority as per bank's guidelines.
- ✓ The documents are properly stamped, if so required under law.
- ✓ The person(s) executing the documents have the legal capacity/authority to do so.
- ✓ The documents are properly witnessed, if required, under law.
- ✓ The documents are registered, if required, under law.

7.7 Type of Credit Risk Mitigation (CRM) acceptable to the Bank

- Netting
- Collateral
- Guarantees
- Credit derivatives

7.7.1 Netting

i. On- balance sheet netting

Loans and deposits in the name of the same counterparty, customer or group or of related parties may be netted subject to certain conditions. This is known as 'On-balance sheet netting'. Legally enforceable netting arrangements for loans in the form of deposits are treated as valid Credit Risk Mitigants and the bank may calculate capital requirements on the basis of net credit exposures. The guidelines for accepting on-balance-sheet-netting as valid credit risk mitigants are as stated below:

- ✓ Well-founded legal basis for concluding that the netting or offsetting agreement is enforceable in each relevant jurisdiction regardless of whether the counterparty is insolvent or bankrupt;
- ✓ Ability at any time to determine those assets and liabilities with the same counterparty that is subject to the netting agreement;
- ✓ The maturity of the deposit is at least as long as the corresponding loan
- ✓ Monitoring and control of its roll-off risks (i.e. the potential for sudden increases in exposure when short-dated obligations, which have been netted against longer-dated claims, mature); and
- ✓ Monitoring and control of the relevant exposures on a net basis,

Assets (loans) are treated as exposure and liabilities (deposits) as eligible netting arrangement, if the above conditions are satisfied.

Cash deposits domiciled in properly restricted accounts with the bank shall be acceptable as collateral in respect of all credit products and services. In respect of cash collateral, there shall be a requirement that such cash deposited be properly segregated and placed in escrow, and not subject to any other charge to any other lender. However, in exceptional cases where otherwise agreed by the bank, this requirement may be waived in instances where the account balance can conveniently accommodate such lien by another bank.

ii. Off- balance sheet netting

Netting of claims with the same counterparties arising out of the full range of forwards, swaps, options and similar derivative contracts is ‘Off-balance sheet netting’.

As per BCBS paper ‘Treatment of Potential Exposure for Off-Balance-Sheet Items’ (April 1995) the eligibility conditions for netting off-balance sheet transactions are as under:

1. “The bank may net transactions subject to novation under which any obligation between a bank and its counterparty to deliver a given currency on a given value date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations.

2. The bank may also net transactions subject to any legally valid form of bilateral netting not covered in (1), including other forms of novation.
3. In both cases (1) and (2), the bank will need to satisfy its national supervisor that it has:

- A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the bank would have either a claim to receive or obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation or similar circumstances;
- Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the bank's exposure to be such a net amount under:
  - The law of the jurisdiction in which the counterparty is chartered and, if the foreign branch of a counterparty is involved, then also under the law of the jurisdiction in which the branch is located;
  - The law that governs the individual transactions; and
  - The law that governs any contract or agreement necessary to effect the netting.
- Procedures in place to ensure that the legal characteristics of netting arrangements are kept under review in the light of possible changes in relevant law."
- Apart from the above conditions, the other guidelines for accepting off-balance-sheet-netting as a valid credit risk mitigants are as stated below:
  - Ability at any time to determine those assets and liabilities with the same counterparty that is subject to the netting agreement;
  - The bank monitors and controls its roll-off risks; and
  - The bank monitors and controls the relevant exposures on a net basis,

iii. Eligible Instruments for netting

The Following transactions/instruments are eligible for off and on balance sheet netting provided the above eligibility conditions have been met:

- Mutual claims between the bank and its Counterparty

- Reciprocal cash balances between the bank and the counterparty
- Repurchase transactions
- Securities or commodities lending or borrowing transactions,
- Other capital market-driven transactions with a counterparty
- Forwards, swaps, options and other derivative instruments.

7.7.2 Collateral

The collateralized transaction is one in which the bank has a credit exposure and that credit exposure is hedged in whole or in part by collateral posted by a counterparty or by a third party on behalf of the counterparty. The counterparty is used to denote a party to whom the bank has an on or off balance sheet credit exposure. Collateral provided by the counterparty or by a third-party on behalf of the counterparty is an essential element in the credit approval process and has an impact on the overall assessment of the credit risk involved in an exposure.

To minimize the risk of credit loss to the bank in the event of decline in quality or delinquency, there shall be requirement for appropriate collateralization of all credit exposures. Guidelines for acceptability of credit collateral shall be approved by the Management Credit Committee and shall include clear unambiguous articulation of:

- Acceptable collateral in respect of each credit product including description, location restrictions in respect of landed property, guidelines in respect of minimum realizable value of such collateral
- Required documentation /perfection of collateral
- Conditions for waivers of collateral requirement and guidelines for approval of collateral waiver
- Acceptability of cash and other forms of collateral denominated in foreign currency

Perfected legal mortgage in the name of Access Bank Plc shall be a minimum requirement for all items pledged as security for credit facilities. Additional criteria including insurance cover as may be defined in the bank’s credit risk management policy provisions shall be met. It is Access Bank policy that all credit extensions to corporate obligors shall be secured by all assets debenture.

Exceptions to this rule shall include customers in Risk Rating 1 to 2- of the bank's Risk Rating grade, who have not had any history of Credit default in the last five years as confirmed from a Credit Bureau or a Rating Agency acceptable to the bank. Exception in all other cases must be clearly documented and approved by staff with the right credit approval limit for the proposed facility.

7.7.2.1 Selection of Collateral / Eligibility Criteria

The Bank will follow the criteria mentioned below to assess the eligibility of collateral:

- ✓ Legal certainty: Right to repossess the asset is legally enforceable and without impediment.
- ✓ Ability to objectively price or mark-to-market the value: Market value of the asset is readily determinable or can be reasonably established and verified.
- ✓ Liquidity: Collateral should be easily liquidated without resulting in any material reduction in its realizable value.
- ✓ Marketability: Asset offered as collateral is marketable and there exists a readily available secondary market for disposing of the asset.
- ✓ Low correlation with the underlying exposure - the credit quality of the counterparty or any related group entity and the value of the collateral must not have a material positive correlation. For e.g. If the facility is secured by bonds issued by the counterparty, then the value of the collateral will have strong material positive correlation with the performance of the counterparty.
- ✓ Ability to secure control over the asset if necessary: In the case of a movable asset, the Bank should either have physical custody of the asset (e.g. gold, precious metal) or know its whereabouts (e.g. vehicle, machinery or equipment).
- ✓ Expertise: Bank should have the expertise and systems to manage the asset concerned. Bank should be able to determine the valuation methodology, frequency of valuation appropriate to the collateral.

7.7.2.2 Maturity Mismatch

Bank should align the term of validity of the collateral with that of the obligation it secures in the following instances:

- ✓ Collateral being the asset created out of the Bank loan.
- ✓ Collateral Based Lending.

7.7.2.3 Collateral Acceptability

The guiding principles behind collateral acceptability are adequacy and realizability. Collateral acceptable as security in respect of approved credit exposures shall include:

1. Mortgage on landed property (Legal Mortgage/Mortgage Debenture)
2. Debenture/Charge on assets (Fixed and/or Floating)
3. Cash/Money Market Investment (Letter of lien and Set-Off over fixed deposits/money market investments);
4. Treasury bills and other government securities.
5. Debt securities issued by sovereigns and public-sector enterprises.
6. Debt securities issued by banks and corporates
7. Collective investment schemes/ Mutual funds.
8. Stocks/Share Certificates of quoted blue-chip companies.
9. Chattel/vessel Mortgage.
10. Charge on assets (Fixed and/or Floating premises/ inventory/ receivables/ merchandise/ plant/ machinery);
11. Legal ownership of financed Asset.
12. Shop mortgage (Transfer of Ownership of shop) for predefined markets.

The following may be acceptable as support/comfort.

1. Corporate guarantees backed by 3-year financials;
2. Warehouse Warrants/Trust Receipts, shipping documents (for imports)
3. Life Assurance Policies/ Insurance Bond (restricted to the Bank's list of approved insurance companies)

4. Tripartite Field Warehousing Agreement
5. Stock Hypothecation
6. Bank guarantees (by other banks acceptable to Access Bank Plc)
7. Domiciliation/Receivables of blue-chip companies
8. Domiciliation of Salary (Retail Credit)
9. Irrevocable Standing Payment Order (ISPO) for Ministries Departments and Agencies, State, L.G.A with statutory allocation.
10. Tripartite/Multipartite Collateral/Asset Management under the control of an Access Bank approved agent
11. Post-dated cheques

7.7.2.3.1 Mortgage on Landed Property

Acceptability of mortgage on landed property as collateral for credit exposures shall be limited to property situation in:

Highly industrialized and/or commercialized areas or

High value residential areas

The Expected Forced Sale Value (EFSV) of such landed property must be adequate to cover not less than 120% of loan amount and a minimum of 12 months' interest at the bank's approved lending rate.

The following landed property shall not be acceptable as collateral:

- property with less than 15 years remaining ground lease
- uncompleted building (except in mortgage facilities)
- country home in rural areas
- churches, mosques or places for religious assembly or worship
- cultural/community owned property, houses or palaces owned by traditional rulers or local chiefs
- Burial grounds

Undeveloped land in prime locations like Abuja, Victoria Island and Lekki can also be considered.

For facilities over N50 million, EFSV must be determined by a professional estate valuer retained by the bank but paid for by the customer.

Third party legal mortgages are discouraged by the bank, except where the third party is a director or has shareholding in the company.

7.7.2.3.2 Cash Deposit

Cash deposits domiciled in properly restricted accounts with the bank shall be acceptable as collateral in respect of all credit products and services. In respect of cash collateral, there shall be a requirement that such cash deposited be properly segregated and placed in escrow, and not subject to any other charge to any other lender. However, in exceptional cases where otherwise agreed by the bank, this requirement may be waived in instances where the account balance can conveniently accommodate such lien by another bank.

7.7.2.3.3 Shares

Acceptability of stocks and shares of companies as collateral shall be limited to selected blue chip companies quoted on the Nigerian Stock Exchange. The assessed market value of such shares shall be based on average value of such shares over a 12month period as indicated on the Stock Exchange Daily Official List ("SEDOL") and shall also reflect the most current market perception of expected future performance of such shares on the Stock Exchange.

As a guideline, the value of the collateral shall be determined by applying a minimum of between 30% and 50% discount on the market value. At a minimum, such collateral value shall be adequate to ensure full recovery of the bank's principal credit exposure and also provide minimum of 12 months' interest cover at the bank's approved lending rate.

7.7.2.3.4 Guarantee

Personal Guarantees will be supported with 3 clean credit checks (including the CRMS) and a Notarized statement of net worth

Corporate guarantees will be supported with 3 clean credit checks (including CRMS) and will be acceptable as follows:

a. Cross-corporate guarantee of a subsidiary company for an approved credit line for a group of companies or where the credit line is primarily approved for the parent company but available to subsidiaries all supported with the respective board resolutions

b. Corporate guarantee of a third-party company provided there is commercial justification and must be supported by a Board resolution of each company. Articles of Association of the company must provide that such directors have powers to issue such guarantee on behalf of a third party;

d. Corporate guarantee for employee credit under the employees' loan scheme.

7.7.2.3.5 Life Assurance Policies

Acceptability of life assurance policies as credit collateral shall be limited to personal credits such as mortgages, personal loans etc. Just as for personal guarantees, life assurance policies cannot stand alone as security for facilities, but must be additional to some other forms of tangible collateral.

Access Bank shall on an annual basis conduct a due diligence assessment of registered insurance companies and maintain a list of insurance companies that shall be acceptable for the purpose of underwriting policies that shall be acceptable as collateral for credit exposures.

Conditions for Life Insurance Policy as security shall include:

The issuing company must be properly registered under the Insurance Act and shall be included in the list of insurance companies preapproved by the bank as acceptable for underwriting policies acceptable as credit collateral.

The surrender value of such policy must be easily ascertained and should be adequate to ensure full recovery of 12 months' interest cover at the bank's approved lending rate.

The credit obligor shall provide an undertaking to ensure that the policy is in force (i.e. premium payments should be up to date through the tenure of the credit)

There shall be no restrictions on assignability of the policy and such benefits shall be duly assigned to Access Bank.

Age of the assured must be admitted.

The beneficiary clause must clearly indicate that only the assured, his administrators, executors or assigns are beneficiaries to the policy.

7.7.2.3.6 Negative Pledges

Confirmation of Negative Pledge by the bank's external solicitor shall be accepted as security upon receipt of clean search report from Corporate Affairs Commission only for Investment Grade obligors or for other categories of Obligors as approved by the Board or MCC

Obligors that demonstrate capacity at the industry level as being capable of meeting their obligations without collateral shall be accepted as clean lending

7.7.2.3.7 Charge on Assets (Fixed or Floating)

Fixed or floating charge on assets of the borrower will be deemed acceptable for non-specialized equipment in respect of which a realizable market value can be established.

Acceptability of a charge on assets as collateral shall be subject to confirmation that such assets are not subject to an already existing charge to another lender.

7.7.2.3.8 Lien on Assets

Lien on assets financed by the bank shall be acceptable as credit collateral for such exposure as is created by the asset finance lending. The terms of the lien shall be general and ensure that the bank shall be entitled to take possession of and hold the debtor's goods pending payment of an obligation in connection to a credit availed to a customer.

7.7.2.3.9 Shipping Documents

Domiciliation of Bill of Lading and other such transaction documents with the bank shall be acceptable as credit collateral in respect of import finance facilities and other international trade transactions involving the movement of goods.

7.7.2.4 Collateral Documentation / Perfection Requirement

To ensure ease of realization of collateral in the event of non-performance of credit, all collateral documentation requirements shall be met before availment of approved credit facilities except where there is approval to defer some documents which are unavailable due to reasons beyond the control of the customer.

Minimum documentation requirements in respect of each collateral type that must be fulfilled before availability of approved credit facilities are outlined below. Note that this list is not exhaustive and is subject to change as advised by Legal Department.

All collateral documentation requirements shall be met before availment of approved credit facilities except where there is approval to defer some documents which are unavailable due to reasons beyond the control of the customer.

Collateral	Documentation	Perfection
Mortgage on landed property (Fresh perfection / up-stamping)	✓ Certificate of Occupancy ✓ Valuation report from bank recognized professional property valuer ✓ Certificate of good title from search report ✓ Current Tax Clearance Certificate (TCC) of the company ✓ Annual Returns Receipts of surety ✓ Annual Returns Receipts of company ✓ Property Rate receipts ✓ Ground Rent receipts ✓ Any other documents as required by Legal Services, depending on location ✓ Signed blank deed of assignment ✓ Signed sale agreement	✓ Deed of mortgage / debenture Access Bank ✓ Governor's consent ✓ Stamp ✓ Registration at Land Registry / Corporate Commission ✓ Legal Mortgage or Tripartite Legal Mortgage Charge on Assets (Fixed of Floating) (Fresh perfection or up-stamping)

Charge on Assets (Fixed of Floating) (Fresh perfection or up stamping)	✓ Certificate of good title ✓ Current TCC of company ✓ Copy of ground rent receipt ✓ Copy of Tenement rate receipt ✓ Copy of current Annual Returns receipt of the company ✓ Other documents as may be required from Legal Services, depending on location	✓ Mortgage Debenture or All Assets Debenture Stocks and Shares Certificates
Stocks and Share	✓ CSCS form ✓ Letter of consent from the shareholder ✓ Form CSCS 1(JML1)	✓ Execution of the assignment by the shareholder ✓ Execution of Joint Memorandum Lien (JML1)
Life Assurance Policy	✓ Original Life Policy	✓ Notice to the insurance company of the bank's interest as an assignee confirmation of the sum assured, status of premium payment and surrender maturity date and any encumbrance

7.7.2.5 General Restrictions on Collateral Acceptability

7.7.2.5.1 Insurance

All assets and items pledged to the bank as credit collateral must be appropriately covered by a valid insurance policy throughout the duration of the credit.

A comprehensive insurance program shall be in place and maintained throughout the life of the credit exposure. Risks covered by the policy should include:

- Property/Real Estate Fire Earthquake, tornado, flood etc.
- Equipment theft, fire, burglary etc.
- Furniture and fixtures theft, fire, burglary etc.
- Inventory theft, fire, burglary etc.

Such insurance cover shall be provided by an insurance company properly registered under the Insurance Act and shall be limited to policies issued by insurance companies preapproved by the bank as acceptable for underwriting policies acceptable as credit collateral.

Sum insured must cover the insurable value of the collateral and the Bank must be noted as first loss payee

Exceptions to the requirement for insurance cover shall include:

- Cash Collateral
- Guarantees
- Negative Pledges

7.7.2.5.2 Realizable Value

Ease of sale of collateral shall be a major consideration in respect of collateral acceptability. As such, specialized equipment with limited alternative utility shall not be acceptable as credit collateral. Also, landed property in non-commercial or industrial areas shall not be acceptable as credit collateral for bank lending (also see section 7.7.2.3 for7.7.2.3 Collateral Acceptability.)

Collateral value must be appreciating or at least stable. Estimate of forced sale value of the collateral item(s) should be adequate to ensure full recovery of the bank's principal credit exposure and also provide a minimum of 12 months' interest at the bank's approved lending rate after deduction of all incidental charges and fees.

7.7.2.6 Guidelines on Collateral from third party

In certain circumstances, it may be necessary to obtain collaterals from a third party for approving a credit proposal. In these situations, guarantee from the individual or entity offering the security should be obtained. In its absence such collateral should not be considered for Credit Risk Mitigation, though it can be obtained to get additional comfort.

7.7.2.7 Guidelines for Apportionment of Collateral across Multiple Exposures

Unless collateral is charged to a specific facility, the following guideline should be followed:

- ✓ Wherever single or multiple collateral is / are charged to multiple exposures (for the same obligor or across obligors), the bank will apportion the collateral in the proportion of the limits at facility level. This guideline is for the purpose of capital computation and estimation of LGD.

7.7.2.8 Guidelines on collateral from a different country

Whenever collaterals offered are located in a foreign country for exposures in domestic or foreign countries, apart from fulfilling the eligibility criteria for collateral, the following aspects should be looked into:

- ✓ The country should not be enlisted in any published negative list acceptable to the Bank.
- ✓ Law of the country with respect to legal requirement about enforceability. It should be favourable to the Bank for accepting the collateral.
- ✓ Procedures for creation of charges should be meticulously adhered to.
- ✓ Local solicitor must certify the process of charge creation

7.7.2.9 Collateral for syndicated loans

The bank shall not take an inferior security position in any lending transaction.

Where the customer's general assets have been charged to other lenders prior to initiation of banking relationship with the bank and the existing lenders are unwilling to admit the bank into the security arrangement:

I. The bank shall insist that specific assets be carved out of the general assets and charged in favour of the Bank.

II. Legal Group shall liaise with the Trustee Managers to ensure that the bank's interest is promptly noted in the Trust deed and a copy shall also be obtained.

7.7.2.10 Consent to share in security held by Access Bank PLC

Request for consent to allow another bank a pari-passu share in security being held by the bank shall be approved by;

- Corporate Counsel
- GDMD/GMD

7.7.2.11 Minimum Collateral Coverage

The Collateral cover shall not fall below the percentage indicated below.

COLLATERAL	MINIMUM COVERAGE REQUIRED (AS % OF FACILITY LIMIT)
Cash Deposit	110% of facility amount
Lien on quoted and highly liquid shares/stock	200% of Market Value However, the facility shall not exceed average trading turnover of the stock on the floor of the NSE in the last one month, after discounting all unusual turnover. Where trading in a stock has been technically suspended, there must be a clear indication when the suspension will be lifted before such a stock will be acceptable as security.
All assets debenture	150% of the facility amount including 12 months' interest.
Mortgage on landed properties.	120% of loan amount and minimum of 12 months' interest

7.7.2.12 Other Requirements

i. The bank must monitor on an ongoing basis the extent of any permissible prior claims (e.g. tax) on the property.

ii. The bank must appropriately monitor the risk of environmental liability arising in respect of the collateral, such as the presence of toxic material on a property.

iii. Where the collateral is held by a custodian, banks must take reasonable steps to ensure that the custodian segregates the collateral from its own assets.

iv. The Bank has to ensure that it is not exposed to major risk concentrations of collaterals

v. Safe custody and access controls:

(a) Authority and responsibility shall be clearly delegated to relevant individuals and departments for approving the acceptance, monitoring or safe custody of collateral (in this context, the term “collateral” refers to both physical collateral (e.g. marketable shares) and any forms of document representing the legal title to the collateral e.g. title deeds) and guarantees.

(b) Collateral and guarantees received shall be kept in a fire-proof safe or vault.

(c) The location of collateral and guarantees placed in the custody the bank shall be properly recorded and controlled to facilitate easy retrieval in future.

(d) There shall be dual control over the access to collateral and guarantees, in particular, where the collateral is in bearer form or can easily be sold in the market.

(e) Movements of collateral and guarantees should be duly authorized, acknowledged by the persons taking possession of them and properly recorded.

(f) Collateral and guarantees withdrawn for processing should be promptly returned to the officer in charge of their safe custody. The officer should follow up with the owner of collateral and the guarantors for the collateral and guarantees withdrawn for an unusually long period.

7.7.2.13 Release of Collateral, Guarantees and Support

The charge on the collateral shall be cancelled and the collateral shall be released by the Bank only after all the claims (direct and indirect) against the collateral are settled and with permission of the competent authority. The collateral should be released to the authorized person only, to avoid future complications and must be recorded in the prescribed register.

Upon confirmation of full repayment of the credit facility and liquidation of the bank's exposure, all collateral, guarantee or support for any type of credit transaction shall be released to the customer in accordance with agreed terms and conditions. Release of collateral, guarantee or support shall be upon completion of Security Release process on Access Document Manager (ADM) with the appropriate approval by relevant approving authority.

In case of substitution, the collateral shall be released only after charges are created on the substituting collateral. It should be as per the sanction of the competent authority and the proper process as prescribed in the sanction for substitution of the property must be followed.

Release of collateral, guarantee or support shall require approval by the Head of Risk on confirmation of full payment of the credit facility.

Before the corresponding commitment is cancelled or repaid, the respective Head of Risks must determine if the release of the collateral, guarantee or support constitutes a material change in the risk of the transaction. If so, then the transaction must be reapproved, based on the Credit Facility Approval Grid.

After the corresponding commitment or exposure is cancelled or repaid, approval must be obtained from a credit officer and the line /affected Head of Risk and Head of Legal after verification of cancellation or repayment.

This does not apply to adjustments in collateral amounts related to changes in asset values, such as margining, repurchase or reverse repurchase agreements, to the release of the underlying security in a repurchase agreement, margin lending or securities lending activities, or asset based finance arrangements.

For bonds and guarantees, where Letter of Discharge or Certificate of Work Done is issued release of underlying security must be approved by the Head of Risk, Legal and Line ED of the business unit.

7.7.2.14 Waivers or Amendments to Existing Legal Documentation

Requests to waive or amend the provisions contained in existing credit agreements must be considered carefully, as they may be a critical component of problem identification and remedial management activities. Such requests must be approved by the responsible business ED and in accordance with the Credit Approval Grid, but not to exceed the Group MD/CEO limit for credits. Any waiver or amendments for facilities above that must be approved by the GMD.

Other types of amendments to credit agreements, such as the lengthening of tenor, increasing facility amount, or material relaxation of collateral structure, require full credit approval of Total Facilities, in accordance with the Credit Approval Grid.

7.7.2.15 Collateral Substitution

Substitution of collateral occurs when the Bank permits to take security interest in one item or type of collateral while releasing its interest in another item or type of collateral previously taken. Substitution of collateral can be full or partial. Collateral substitution could be initiated either by the Bank or by the obligor. Wherever substitution is sought by the Bank, the process should be completed within an acceptable time frame as prescribed by the Bank.

Collateral substitution is a provision, which allows the borrower to obtain a release of the original collateral title by replacing it with another form of collateral satisfactory to the bank.

The following are the cases where the bank should seek substitution of Collateral:

i. Collateral has become obsolete due to the introduction of new substitutes or more superior models.
ii. Collateral liquidity has deteriorated significantly.
iii. Legal issues, which may affect the bank's ability to legally enforce the collateral.

Criteria for accepting substitution of collateral:

i. Substituting collateral should fulfil all the eligibility criteria stipulated for acceptance of collateral.
ii. Substituting collateral should provide at least equal or greater collateral coverage and similar location supported by professional valuation
iii. Substitution of collateral should not materially interfere with the operation of the enterprise/ obligor, repayment of the credit facilities or decrease the value of the other collateral securing the credit facilities.
iv. Documentations for new collateral must be in perfectible state without recourse to the customer

Requests for collateral substitution shall be approved in accordance with the existing approval grid with MCC as the highest approving authority.

7.7.2.16 Collateral Inspection / Site Visits

At the minimum, annual physical verification shall be conducted to confirm the existence and adequacy of all collateral held as security in respect of credit exposures by the relationship manager and Credit Risk Management (probably at the time of annual review of facilities). Such inspections shall include the physical inspection, examination of security agreements to determine enforceability of liens, verification of appropriate and adequate insurance protection, proper legal registration (and renewal of registration), and the adequacy of overall safeguards.

Prior to disbursement of funds under a term loan, there must be a documented site visit by the relationship manager.

7.7.2.16.1 Frequency of Inspection/Visitation

No.	Type of Collateral	Frequency of Inspection
1.	Land, Properties, Aircraft, Vessels	Annual
2.	Equipment, Plant & Machinery	Annual
3.	Asset-backed securities	Once in three months

The Bank will use external valuers to value collaterals except for retail type transactions, i.e. trading stocks.

Bank should maintain a list of approved external valuers and surveyors. They must be professionally qualified, reputable, experienced and competent. Their performance should be monitored and evaluated on a regular basis.

Bank should ensure that the staff responsible for internal valuation possesses sufficient knowledge and expertise to perform their duties. Procedures should be established to ensure that internal valuations are not out of line with prevailing market values. For example, internal valuations can be cross-checked from time to time with professional valuations on a sampling basis. Accuracy and effectiveness of the methodology for conducting internal valuations should also be back-tested by comparing the valuation with actual sale proceeds received on subsequent disposal of the assets.

7.7.2.17 Collateral Valuation

7.7.2.17.1 Basis of Valuation

Valuation of collateral should be based on the current market value of the collateral and should be objective and scientific to ensure that the Bank does not grant a higher credit limit to the obligor or improve its internal credit rating, make a lesser amount of provision or continue interest accrual for a problem credit.

Bank should ensure that the valuation method used, whether internal or external, is based on assumptions that are both reasonable and prudent and all assumptions should be clearly documented.

Collateral should be valued at forced sale value. The forced sale value is usually less than the net realizable value, which is the current market value less any potential realization costs (e.g. carrying costs of the repossessed collateral, legal fees or other charges associated with disposing of the collateral).

Market value is the price at which an asset might be sold on the valuation date assuming:

1. A willing buyer and seller.
2. The transaction is at arm's length.
3. A reasonable period has been allowed for the sale.
4. The asset is freely exposed to the market.

This is because, in practice, the forced-sale value, rather than the open market value, is likely to be closer to what eventually may be realized from an asset sale when the market conditions are unfavourable. In assessing the value of an asset, temporary aberrations should be disregarded (e.g. a sudden rebound in the market price).

7.7.2.17.2 Collateral Valuation

Depending on the nature of such collateral, any collateral held as security in respect of credit exposures shall be revalued on predetermined periodic basis using appropriate systems, using the following criteria:

i. **Revaluation Period:** Revaluation Period: All collaterals are to be revalued every three (3) years. However, the relationship team shall conduct annual review of the underlying collaterals and submit a report of such review to Credit Risk Management Group. Collaterals for impaired facilities shall be valued as required

ii. **Impairment Trigger / Significant Increase in Facility Amount:** Once there is an impairment trigger or significant increase in the facility amount, immediate revaluation of the underlying collateral should be done even if the last revaluation is not up to three (3) years old.

iii. **Where All Assets Debenture is the only available collateral used:** The minimum collateral coverage shall be 150% of the facility amount including 12 months' interest.

Such revaluation shall confirm the continuing appropriateness of and adequacy of the forced sale value of collateral on the open market to cover the bank's exposure. Collateral valuation shall be conducted by outside professional appraisers where necessary and/or dictated by industry practice or legal requirements, as in the case of property / real estate.

Where obligations are secured by marketable securities, which are critical to the repayment of the obligation, a predetermined "stop loss" or "sell point" shall be established (under clear advice to the obligor) and the securities should be liquidated if the value falls to the "stop loss" (unless additional and satisfactory security is provided).

7.7.2.17.3 Minimum Requirements to be included in report on Collateral Valuation

Collateral valuation reports record the instruction for the assignment, the basis and purpose of the valuation and the results of the analysis that led to the opinion of value. A Valuation Report may also explain the analytical processes undertaken in carrying out the valuation, and present meaningful information used in the analysis. Valuation Reports should be in written form. The type, content, and length of a report vary according to the intended user, legal requirements, the property type, and the nature and complexity of the assignment. It includes

- Valuation date
- Description of Assignment
- Purpose and Scope of the Report
- Valuation Approach Summary
- Description of the Obligor
- Description of the asset (collateral) including date of purchase, technical specifications etc.

- Capitalization and Ownership of the collateral
- Fair Market Value of the collateral
- Forced Sale Value
- Insurable Value
- Other Value as and when required:
  - Liquidation Value: The estimated amount of money that an asset or company could quickly be sold for, such as if it were to go out of business.
  - Book Value: The value of an asset as it appears on a balance sheet, equal to cost minus accumulated depreciation.
  - Enterprise Value: Enterprise value is an economic measure reflecting the market value of the whole business. It is a sum of claims of all the security-holders – debt holders, preferred shareholders, minority shareholders, common equity holders, and others.
  - Going-Concern Value: The value of a company as an operating venture. The difference between the liquidation value and the going-concern value is the value of intangibles associated with the running of the business, such as goodwill and intellectual property.
  - Economic or Investment Value: Economic Value is the value of an asset deriving from its ability to generate income. Investment Value, the estimated value of an investment to a particular individual or institutional investor.
- Valuation principles and methods used in arriving at the value of the collateral
- Assumption upon which the valuation is based
- Sources of Information/ Contingent and Limiting Conditions
- Statement of Independence
- Name, address, and qualification of the valuer.
- Appraisers/ Valuer Certification
- Date of Certification

Certification of value is used as a statement in which the valuer affirms that the facts presented are correct, the analyses are limited only by the reported assumptions. The Valuer's fee is not contingent upon any aspect of the report, and the Valuer should have performed the valuation in compliance with ethical and professional standards.

7.7.2.17.4 Haircut

To account for volatility in the market value of the collateral, Bank should apply a conservative haircut when valuing it for the purpose of determining the extent to which an exposure is secured. The quantum of that haircut will depend on the price volatility of the collateral, maturity and currency mismatch between collateral and exposure.

As an intermediate approach, the bank shall use the following table for volatility haircut:

7.7.2.17.5 Volatility Hair Cut for Collateral

Collateral Type	Haircut
Cash	Nil
Marketable instruments	Mark to Market discounted at the effective interest rate of the availed facility
Legal Mortgage	Residual Maturity of the facility discounted at the effective interest rate of the availed facility

Currency Haircut: A currency haircut should be applied for all collaterals where exposure and collateral are denominated in different currencies.

7.7.2.17.6 Maturity Mismatch Haircut

When there is a maturity mismatch (in the residual maturity) between recognized collateral and the exposure, the following adjustment will be applied.

$Pa = P \times (t – 0.25) / (T – 0.25)$

Where:

Pa = value of the collateral adjusted for maturity mismatch

P = collateral value adjusted for volatility and currency haircuts

T = 5 years or residual maturity of the exposure expressed in years, whichever is lower

t = T (as defined above) or residual maturity of the collateral expressed in years, whichever is lower

7.7.2.17.7 Frequency of Valuation

Valuation shall be done by the bank's external valuers. Frequency of valuation depends on type and nature of collateral and asset classification of the underlying credit facility.

No.	Type of Collateral	Minimum required Frequency of Valuation	Valuation by
1.	Land, Properties, Equipment, Plant and Machinery	Every 3 years	Bank's empaneled independent valuers
2.	Specialised Assets like Aircraft and Vessels	Every 5 years	Bank's empaneled independent valuers

7.7.2.17.8 Top-up of collateral

For all obligors, the conditions warranting additional collateral should be clearly documented in the relevant agreement with the obligor.

Cases where additional collateral shall be warranted include:

- Value of the collateral has fallen below the level prescribed by the Bank due to fluctuations in market price (e.g. of commodities).
- Deterioration in the debt-servicing ability of the obligor.
- Wherever top-up is required as per conditions stipulated above, the same has to be done within an acceptable time frame as prescribed by the Bank.

7.7.2.18 Liquidation of Collateral

All collateral possessed by the Bank in the course of the satisfaction of dues, should be disposed at the earliest suitable opportunity and not later than 18 months after its acquisition or within such period as may be approved by CBN.

Otherwise, the Bank will be required to include the assets acquired and held for more than 18 months or such further period approved by CBN in the computation of its exposure deeming the assets as owned by the bank. This is required as the bank will be exposed to price risk of collateral possessed.

In the event of credit default, prompt action as per the bank's policy on recovery management should be taken. Steps should be taken for taking possession of the collateral and sale thereof in all eligible cases, as per the procedure laid down in the Bank's recovery management policy, after obtaining the permission of competent authority and the timeframe given in the policy for different steps should be strictly adhered to.

At the time of filing suit/ application, all steps to safeguard the collateral should be taken so that the same are not frittered away during pendency of the suit. For this purpose, interim reliefs should be obtained from the Court by way of injunction / restraint order, attachment before judgment, appointment of receiver etc.

Disposal of collateral shall be at arm's length and through a transparent process (for e.g. public auction) and should be in compliance with relevant laws and regulations.

7.7.3 Guarantees

7.7.3.1 Guideline on Acceptance of the Guarantee

A guarantee given on behalf of obligor must represent a direct claim on protection provider and must be explicitly referenced to specific exposures. In the case of default on part of obligor, the guarantor should be bound to pay the amount guaranteed.

To be acceptable, the

- ✓ Guarantee should represent a direct claim on the guarantor.
- ✓ Guarantee should be unconditional and irrevocable.
- ✓ Guarantee should be properly documented and legally enforceable.
- ✓ The risk rating of the guarantor should be higher than that of the counterparty whose exposure is guaranteed
- ✓ Guarantee should remain continuously effective until the facility covered by the guarantee is fully repaid or settled.
- ✓ Creditworthiness of the guarantor should not be linked to or affected by the financial position of the obligor.
- ✓ The bank must have the right to receive payment from guarantor without taking legal action against the obligor

Guarantees not fulfilling the above criteria will be accepted by the Bank as additional comfort but the exposure will still be treated as unsecured.

7.7.3.2 Indicative List of entities whose Guarantee is recognized

- ✓ Sovereign entities, public-sector enterprises, banks, corporate and securities firms.
- ✓ Other entities like parent, subsidiary or affiliated companies.
- ✓ Personal Guarantees from Partners, Sole Proprietors, Directors.
- ✓ Third party Personal Guarantees.

All guarantors should be rated. Guarantor’s rating should be reviewed annually. In case of all standard advances, guarantees covering on-going relationships with or without any outstanding should be revalidated every 3 years or whenever there is an increase in the exposure of the obligor or whenever there is any change in the terms and conditions of the facility.

Explicit documentation should define the obligation assumed by the guarantor. In the event of default/ non-payment by the obligor, the bank should in a timely manner pursue the guarantor for the amount guaranteed.

7.7.3.2.1 Personal Guarantee, Joint and Several Guarantees of Directors

Personal / Joint and Several Guarantees of Directors shall only be acceptable as additional security to some other forms of tangible collateral. Persons from whom personal guarantees may be accepted must be high net-worth individuals with first rate credit history and excellent track record as upstanding members of the society. The bank shall conduct credit checks to assess credit worthiness and obtain notarized statement of net worth.

7.7.3.2.2 Corporate Guarantee

Corporate Guarantees shall only be acceptable under the following circumstances:

- ✓ Cross-corporate guarantee of a subsidiary company for a credit line approved for the company.
- ✓ Corporate guarantee of a third-party company though not necessarily a subsidiary or sister company, provided there is commercial justification.
- ✓ Corporate guarantee for employee credit under the employees' loan scheme.

7.7.3.2.3 Bank Guarantee

For the purposes of the law, prime bank guarantees shall be considered acceptable security. A bank is considered as a prime bank if it has a high risk rating based on Access Bank's risk rating system.

7.7.3.3 Guideline on Guarantee provided by entity from a different Country

Whenever the guarantor is located in a foreign country for exposures in domestic or foreign countries, apart from fulfilling the eligibility criteria mentioned in section above the following aspects should be looked into.

- The country should not be enlisted in any published negative list acceptable to the Bank.
- Law of the country with respect to legal requirement about enforceability should be favourable to the Bank for accepting the guarantee.

7.7.3.4 Guideline for apportionment on Guarantee Amount across Multiple Exposures

Unless Guarantee amount secures a specific facility, the following guideline shall be followed:

- Wherever single or multiple guarantees secure(s) multiple exposures (for the same obligor or across obligors), the bank should apportion the guarantee amount in the proportion of the limits at facility level.

7.7.3.5 Substitution of Guarantee

A substitution of Guarantee occurs when the Bank accepts a Guarantee given as a credit risk mitigant for a facility while revoking its interest in another Guarantee previously taken. Substitution of Guarantee can be complete or partial. Guarantee substitution could be initiated either by the Bank or by the obligor or guarantor. Wherever substitution is sought by the Bank, the process should be completed within an acceptable time frame as prescribed by the Bank.

Following are the cases where the bank shall seek substitution of Guarantee:

- Legal issues, which may affect the bank's ability to legally enforce the Guarantee.
- Guarantor's risk rating has deteriorated significantly.

Bank should look in to the following aspects before deciding on substitution of guarantee:

- Substituting guarantee's rating should at least be equal to the rating of substituted guarantee.
- Reason for the revocation of the guarantee/ release of guarantor should be genuine.
- There should not be any adverse impact on the level of credit risk mitigation in the credit facility due to revocation of the guarantee (for instance if the guarantor

has given any other collateral as security and due to the revocation of guarantee bank may lose the security interest in the collateral too).

7.7.3.6 Maturity Mismatch Haircut

When there is a maturity mismatch (in the residual maturity) between recognized guarantee and the exposure, the following adjustment will be applied.

Pa = P x (t – 0.25) / (T – 0.25)

Where:

Pa = guarantee amount adjusted for maturity mismatch

P = original guarantee amount

T = 5 years or residual maturity of the exposure expressed in years, whichever is lower

t = T (as defined above) or residual maturity of the guarantee expressed in years, whichever is lower

7.7.3.7 Comfort Letter

At times, credit facilities to a subsidiary of a multinational, corporate company may be granted with the support of a comfort letter, rather than an explicit guarantee from the parent company. Such comfort letters do not bind the parent in a legal obligation but create only a morally binding obligation, on the premise that such companies usually tend to stand behind their public image of reputation and compliance with commitments.

However, anything less than an unconditional guarantee of the parent may expose the Bank to undue risks, in a volatile financial world with business failures. Hence, extension of facilities against parent comfort letters must be based on adequate financial structure of the borrowing subsidiary. In other words, the overall financial condition of the obligor should warrant the facilities and comfort letters as such should have no direct bearing on the merits of the credit.

Additionally, comfort letters are to be taken only when:

- ✓ It is clearly established that the parent cannot issue a normal “debt guarantee” because of certain extenuating circumstances.

- ✓ The parent company issuing the comfort letter is of impeccable standing and internationally well known, enjoying solid financial condition.
- ✓ The subsidiary is at least majority (over 50%), if not fully, owned by the parent entity.

7.7.4 Credit Derivatives

7.7.4.1 Guideline on the acceptance of Credit Derivative

This section covers policy on credit derivatives for mitigation of credit risk. Credit Derivatives positions for purposes other than Credit Risk Mitigation are beyond the scope of this section.

Credit derivatives are financial contracts designed to transfer credit risk on loans and advances, investments and other assets/ exposures from one party (*protection buyer*) to another party (*protection seller*). Transfer of credit risk may be for the whole life of the *underlying asset* or for a shorter period. The transfer may be for the entire amount of the *underlying asset* or for a part of it.

A credit derivative may be referenced to a single entity or to a basket of several entities. Credit derivatives may also include cash instruments (e.g. credit linked notes) where repayment of principal is linked to the credit standing of a *reference asset/ entity*.

7.7.4.2 Eligible types of Credit Derivative

The credit derivatives can be broadly classified under the following four types and may range from plain vanilla to complex structures that may involve any combination of two or more of the following structures:

1. Credit default swaps
2. Total return swaps
3. Credit linked notes
4. Credit options

7.7.4.3 Criteria for recognition of Credit Protection

This section sets out the criteria to be fulfilled by credit derivatives in order to be recognized as a credit risk mitigant:

1. A credit derivative should represent a direct claim on the protection seller.
2. The credit protection should be linked to specific exposures, so that the extent of the cover is clearly defined and incontrovertible.
3. The credit protection should be legally enforceable in all relevant jurisdictions.
4. There should be no clause in the contract that would allow the protection seller unilaterally to cancel the credit cover other than a protection buyer's non-payment of money due in respect of the credit derivative contract.
5. There should be no clause in the credit derivative contract that could prevent the protection seller from being obliged to pay out in a timely manner in the event that the original obligor fails to make the payment(s) due.
6. The protection seller should have no formal recourse to the protection buyer for losses.
7. The credit events specified in a credit default swap or a credit linked note should adequately cover the credit risk of the reference entity itself.
8. Contracts allowing for cash settlement are recognized for credit risk mitigation purposes so far as a robust valuation process is in place in order to estimate loss reliably. There should be a clearly specified period for obtaining post-credit-event valuations of the reference obligation, typically no more than 30 days.
9. The protection buyer should have the right/ ability to transfer the underlying exposure to the protection seller, if required for settlement.
10. The identity of the parties responsible for determining whether a credit event has occurred should be clearly defined. This determination should not be the sole responsibility of the protection seller. The protection buyer must have the right/ ability to inform the protection seller of the occurrence of a credit event.
11. Risk Rating (Internal/External): Substitution approach to be applied, which implies that the risk rating (internal/external) of the credit derivative (protection provided) should be better than the risk rating of the counterparty.
12. Creditworthiness of the protection provider should not be correlated or linked by the financial position of the obligor.

13. Minimum coverage: The credit events (events defining default) specified by the contracting parties must at a minimum cover:
    I. Failure to pay the amounts due under terms of the underlying obligation that are in effect at the time of such failure;
    II. Bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and similar events; and
    III. Restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event (i.e. charge-off, specific provision or other similar debit to the profit and loss account). When the restructuring of the underlying obligation is not covered by the credit derivative, but the other requirements for acceptable credit derivative are met, partial recognition of the credit derivative will be allowed.
14. Period: The credit derivative shall not terminate prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay.
15. If the credit derivative covers obligations that do not include the underlying obligation, mismatch is allowed subject to following requirements:
    I. Underlying asset and the reference obligation should have the same obligor
    II. Underlying asset should have equal seniority with, or greater seniority to, the reference obligation, and legally effective cross-default clauses should apply.

7.7.4.4 Basket Credit Derivative

Apart from single-name credit derivatives dealt with in the previous section, Bank can obtain credit protection through credit derivatives on basket of reference names. To the extent possible, basket should be comprised of homogeneous exposures in terms of amount of Exposure at Default.

7.7.4.4.1 First-to-default:

In cases where the bank obtains credit protection for a basket of reference names and where the first default among the reference names triggers the credit protection and the credit event also terminates the contract. In this case, the bank should recognize the credit risk mitigation for the asset within the basket with the lowest EAD, but only if the EAD is less than or equal to the notional amount of the credit derivative.

7.7.4.4.2 Second-to-default:

In the case where the second default among the assets within the basket triggers the credit protection, the bank should recognize any credit risk mitigation, only if first-default-protection has also been obtained or when one of the assets within the basket has already defaulted. In this case, the bank should recognize the credit risk mitigation for the asset within the basket with the second lowest EAD, but only if the second lowest EAD is less than or equal to the notional amount of the credit derivative.

7.7.4.4.3 Nth-to-default:

In the case where the N^{th} default among the assets within the basket triggers the credit protection, the bank should recognize any credit risk mitigation, only if $(N\text{-}1)^{th}$ -default-protection has also been obtained or when one of the assets within the basket has already defaulted. In this case, the bank should recognize the credit risk mitigation for the asset within the basket with the N^{th} lowest EAD, but only if the N^{th} lowest EAD is less than or equal to the notional amount of the credit derivative.

7.7.4.4.4 Proportionate protection:

If the contract allocates protection proportionately among entities in the basket, protection is recognized against all the reference entities in the basket according to their share of protection under the contract.

7.7.4.5 Maturity Mismatch Hair cut

When there is a maturity mismatch (in residual maturity) between with recognized credit derivatives and exposure, the following adjustment will be applied.

Pa = P x (t – 0.25) / (T – 0.25)

Where:

Pa = value of the credit protection adjusted for maturity mismatch

P = credit protection adjusted for any haircuts

T = 5 years or residual maturity of the exposure expressed in years, whichever is lower

t = T (as defined above) or residual maturity of the credit protection expressed in years, whichever is lower

8	Delinquency Management and Loan Workout

In the undesired event of decline in quality of assets, prompt identification and management of such delinquency may significantly reduce credit loss to the bank. The delinquency management / loan workout module of the integrated risk management framework outlines the approach for identification and management of declining credit quality. This also covers loan workout where all activities are geared towards resuscitating nonperforming loans, and the first stage in the process of recognizing possible credit loss i.e. loan loss provisioning (general and specific).

8.1 Asset Classification

Asset Classification should be done on a continuous basis and reported in monthly intervals. The Bank will use the following methodology for classification of its assets portfolio:

8.1.1 Performing Assets

Performing assets are those assets which are normal assets which have not been classified as defaulted assets based on the default definition of the bank. Performing assets will further be classified into two categories namely:

Standard Assets

Standard assets are those performing assets which are not identified as falling under Watch List

Watch List Accounts

These are assets where mark-up/interest or principal is past due by more than 60 days but less than 91 days from the due date. Due to this overdue status, they are potentially weak assets where, if left uncorrected, may result in deterioration of the repayment prospects for the assets or bank's credit position at some future date.

Potential weakness symptoms include:

- Early signs of cash flow / liquidity problems such as delay in servicing of trade creditors / loans.
- Devolvement of LC / DPG instalment and non-payment of the same beyond 15 days.
- Continuous overdue in Bills facility beyond 10% of the outstanding balance.

- BP returned unpaid outstanding beyond 15 days.
- Default in payment of interest / instalment due beyond 30 days.
- Persisting irregularities due to excess withdrawal beyond 30 days in Over Draft account.
- No operations in the account during the reporting month.
- Inadequate or unreliable financial and other information such as audited financial statements not obtained or are not available.
- The condition of and control over collateral is unsatisfactory.
- Borrower is the subject of litigation by third parties that may have a significant impact on his financial position.
- Frequent changes in senior levels of management.
- Decline in production activity below 60% of the accepted level.
- Slowdown in business or adverse trend in the operations that signals a potential weakness in the financial strength of the borrower, which has not reached a point where servicing of the loan is jeopardized.
- Intra-group transfer of funds without underlying transactions.
- Exposures to related parties on favourable terms.
- Volatility in the economic or market conditions which may, in future, affect the borrower adversely.
- Poor performance in the industry in which the borrower operates.
- Technical Default:
- Non-creation of charges affecting the ultimate recovery prospects in the account.
- Failure to obtain proper documentation within stipulated time due to non-cooperation by the borrower.
- Delayed / Non-submission of stock statements, other monthly information data for 2 months continuously.
- Noncompliance to approval terms and conditions.
- Accounts remaining without review / renewal beyond 90 days from the due date due to non-cooperation by the borrower.

8.1.2 Non-performing Loans

Non-performing loans are loans that are classified as defaulted as per the default definition of the bank. They should be classified into three categories namely, sub-standard, doubtful or lost on the basis of criteria below:

8.1.2.1 Sub-Standard

The following objective and subjective criteria should be used to identify sub-standard credit facilities:

1. **Objective Criteria**: facilities (which include loans, advances, overdrafts, commercial papers, bankers' acceptances, bills discounted, leases, guarantees, and other loss contingencies connected with a bank's credit risks) on which unpaid principal and/or interest remain outstanding for more than 90 days but less than 180 days.
2. **Subjective Criteria**: credit facilities which display well defined weaknesses which could affect the ability of borrowers to repay such as inadequate cash flow to service debt, under-capitalization or insufficient working capital, absence of adequate financial information or collateral documentation, irregular payment of principal and/or interest, and inactive accounts where withdrawals exceed repayments or where repayments can hardly cover interest charges.

8.1.2.2 Doubtful

The following objective and subjective criteria should be used to identify doubtful credit facilities:

1. **Objective Criteria**: facilities on which unpaid principal and/or interest remain outstanding for at least 180 days but less than 360 days and are not secured by legal title to leased assets or perfected realizable collateral in the process of collection or realization.
2. **Subjective Criteria**: facilities which, in addition to the weaknesses associated with sub-standard credit facilities reflect that full repayment of the debt is not certain or that realizable collateral values will be insufficient to cover bank's exposure.

8.1.2.3 Lost

The following objective and subjective criteria should be used to identify lost credit facilities:

1. **Objective Criteria**: facilities on which unpaid principal and/or interest remain outstanding for 360 days or more and are not secured by legal title to leased assets or perfected realizable collateral in the course of collection or realization.
2. **Subjective Criteria:** facilities which in addition to the weaknesses associated with doubtful credit facilities, are considered uncollectible and are of such little value that continuation as a bankable asset is unrealistic such as facilities that have been abandoned, facilities secured with unmarketable and unrealizable securities and facilities extended to judgment debtors with no means or foreclosable collateral to settle debts.

8.2 Provisioning

As per the guidelines of Central Bank of Nigeria two types of provisions (specific and general) are to be made for anticipated loss on nonperforming credit facilities. Specific provisions are made on the basis of perceived risk of default on specific credit facilities while general provisions are made in recognition of the fact that even performing credit facility harbours some risk of loss no matter how small.

8.2.1 CBN Prudential Guideline

As soon as credit facility is identified as delinquent, adequate loan loss provisioning shall be made in accordance with the requirements of the prudential guidelines and the bank's credit policy as follows:

For facilities classified as Sub-Standard, Doubtful, or Lost:

Interest overdue by more than 90 days should be suspended and recognized on cash basis only.

Principal repayments that are overdue by more than 90 days should be fully provided for and recognized on cash basis only.

For principal repayments not yet due on non-performing credit facilities, provision should be made as follows:

Sub-Standard Credit Facilities: 10% of the outstanding balance

Doubtful Credit Facilities: 50% of the outstanding balance

Lost Credit Facilities: 100% of the outstanding balance

For prudential purpose, provisioning should only take cognizance of realizable tangible security (with perfected legal title) in the course of collection or realization. Consequently, collateral values should be recognized on the following basis:

For credit exposure where the principal repayment is in arrears by more than six months, the outstanding unprovided principal should not exceed 50% of the estimated net realizable value of the collateral security.

For credit exposure where the principal repayment is in arrears by more than one year, there should be no outstanding unprovided portion of the credit facility irrespective of the estimated net realizable value of the security held.

For a credit exposure secured by a floating charge or by an unperfected or equitable charge over tangible security, it should be treated as an unsecured credit and no account should be taken of such security held in determining the provision for loss to be made.

General Provisions

Facility shall not be granted to a customer to trade speculatively as a means of repaying existing challenged facility.

The bank will also make a general provision of at least 2% of outstanding credit facility balances not specifically provided for. This shall be adjusted for the general Portfolio or specific Asset in line with the Guide to Provision.

8.2.2 IFRS Loan Loss Impairment Policy

The Bank shall assess on a forward-looking basis, the expected credit losses ("ECL") associated with its debt instruments carried at amortized cost, FVOCI, exposure arising from loan commitments and financial guarantee contracts.

Under the general approach, at each reporting date, the Bank shall recognize a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. The changes in the loss allowance balance shall be recognized in profit or loss as an impairment gain or loss.

The amount of ECLs recognized as a loss allowance or provision shall depend on the extent of credit deterioration since initial recognition.

Under the general approach, there are two measurement bases:

- 12-month ECLs (Stage 1), which applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality;
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred

Stage 1

Financial instruments that have not had a significant increase in credit risk since initial recognition or that (at the option of the entity) have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12 months.

The Bank shall determine the 12 months ECL on origination of all its loans and debt portfolios. In addition, 12-month ECL are determined for its loans and debt instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at each reporting date. 12-month PDs shall be derived by observing the first 12 months of the lifetime PD curves.

Stage 2

This includes financial instruments that had significant increase in credit risk since initial recognition on an individual or collective basis (unless they have low credit risk at the reporting date and this option is taken) but do not have objective evidence of impairment. For these assets, lifetime ECLs are recognised, i.e. ECLs that result from all possible default events over the expected life of a financial instrument; however, interest revenue is calculated on the gross carrying amount of the asset.

To determining whether the credit risk on a financial instrument has increased significantly, the Bank shall consider reasonable and supportable (both historical and forward-looking) information available, to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument.

Lifetime ECL shall be recognised on loan and debt portfolios that had a significant increase in credit risk since initial recognition with no objective evidence of impairment. To do this, the Bank shall develop lifetime PDs, EADs and LGDs.

To enable assessment of significant increases in credit risk, the Bank shall apply the operational simplification provided by IFRS 9 of 30 days past due rebuttable presumption for movement from stage 1 to stage 2 for selected portfolios.

Reliance shall not be placed on 30 days past due as the only metric to identify increased credit risk but incorporate alternate metrics and flags along with the 30 days past due criteria as a backstop. However, for certain portfolios the 30 days past due criteria will be rebutted where analysis shows that being 30 days past due does not impact the default rates.

In subsequent reporting periods, if the credit quality of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Bank shall revert to recognizing a loss allowance based on 12-month ECLs (i.e., the approach is symmetrical).

Stage 3

This includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECLs are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance). This is done by applying the EIR in subsequent reporting periods to the amortized cost of the financial asset.

Financial assets shall be assessed as credit-impaired when:

- there is significant financial difficulty of a customer/issuer/obligor (potential bad debt indicator);
- there is a material breach of contract, such as a default or delinquency in interest or principal payments;
- for economic or legal reasons relating to the borrower’s financial difficulty, the Bank grants the borrower a concession that the lender would not otherwise consider.
- it becomes probable that a counterparty/borrower may enter bankruptcy or other financial reorganization;
- there is the disappearance of an active market for a financial asset because of financial difficulties; or
- observable data indicates that there is a measurable decrease in the estimated future cash flows from a group of financial assets.

- the financial asset is 90 days past due except for specialized loans for which the presumption is rebutted.

The Bank shall also assess if there has been a reversal in the significant increase in credit risk since initial recognition based on all reasonable and supportable information that is available without undue cost or effort. Evidence that the criteria for the recognition of lifetime ECL are no longer met may include a history of up-to-date and timely payment performance against the modified contractual terms.

A customer needs to consistently demonstrate good payment behaviour over a period before the credit risk is considered to have decreased. The period over which the customer demonstrates good behaviour determines if the loan is moved from stage 3 to stage 2 or stage 1.

8.2.3 Modified Financial Assets

There are situations during the life cycle of a loan or receivable where the contractual terms and/or cash flows of the facilities are either renegotiated or modified.

The renegotiation or modification of the contractual cash flows of a loan or receivable can lead to the de-recognition of the existing contract and subsequently, the recognition of a **'new'** facility. This means that the entity is starting afresh and the date of the modification will also be the date of initial recognition of the new transaction. In such situation the entity will recognize a loss allowance based on 12-month ECLs at each reporting date until the requirements for the recognition of lifetime ECLs are emerges. However, in situations where the modification was for a **significantly distressed asset** then the assets needs to be re-originated as a credit-impaired financial asset.

In Access Bank the following are indicators that will be considered in determining the measurement basis for a modified/renegotiated financial asset.

a) Amendment to initial repayment pattern following a change in customer's expected cash flow streams

b) Extension of repayment obligation

c) Extension of loan repayment period

d) Interest rate renegotiation lower than the Bank's approved lending rate guide for investment grade obligors

e) Interest and/or Principal waiver

The current stage or status of a financial asset in the books of the Bank will play a vital role in the subsequent classification of the modified/renegotiated financial asset.

In compliance with the guidance of the CBN and IFRS 9 requirement, each case of modification/renegotiation will be assessed individually to identify whether it is

appropriate to move to Stage 1, hold in Stage 2 or treat as an originated credit-impaired financial asset in Stage 3

In the event that there is evidence that there is significant reduction in credit risk, the minimum probation period of 90days will be observed before the assets is reclassified to an earlier stage. However, where the is need for management override to upgrade from Stage 2 and/or Stage 3, contrary to the probationary period above and supportable evidence exists, such override must be approved by **Executive Director, Risk. Management.**

8.2.4 Loan Loss Provisioning

Interest due on nonperforming credits will be suspended, credited to "Interest in Suspense Account" and recognized only on cash basis

8.3 Credit Recovery

This is the final phase of the Access Bank credit risk management framework.

The phase consists of all the activities after a facility has been deemed lost and involves managing such facilities to ensure that the loss to the bank is minimized. This includes:

- Activate the GSI trigger for the principal and interest only
- Credit write-off and / or interest waivers on non-performing exposures
- Re-instatement of previously written-off credit amounts on recovery of cash from the customers.

Deliberate action shall be taken on a proactive basis to minimize the bank's loss on non-performing exposures. Guidelines for winding down the bank's exposure, interest and charge waivers as well as the next stages in the process for recognizing credit loss such as bad debt write-off etc. are outlined here. In the event of recovery, process for recognizing income and previously written off amounts is also defined in this phase.

8.3.1 Activate the GSI Trigger for the Principal and Interest Only

The global standing instruction serves as a last resort for recovery of debt owed by a customer without recourse to the customer.
This allows a creditor bank to recover past due obligations (Principal and Accrued Interest only, excluding any Penal Charges) from a defaulting Borrower through a direct set-off from deposits/investments held in the Borrower's qualifying bank accounts with participating financial institutions.

QUALIFYING ACCOUNTS

The following types of accounts qualify for GSI:

a) Individual Savings Accounts;
b) Individual Current Accounts;
c) Individual Domiciliary Accounts;
d) Investment/Deposit Accounts (N & Foreign Currency); and
e) Electronic Wallets.
f) Joint account(s)
g) And any other account as may be defined by the CBN guidelines from time to time.

8.3.2 Interest and Charge Waivers

On application by the obligor and after due consideration of the options available to the bank in respect of nonperforming exposures, it may be determined that it is in the best interest of the bank to accept less than the full value of the outstanding amount in settlement of a debt or some other noncash asset as repayment. In this respect, waivers of interest and/or credit charge shall be considered by the bank. Proposal for waivers will be considered only after complete evaluation of all options for the Bank and full discussion with Legal Counsel. Consideration of waivers of interest and/or credit charge shall be limited to credit exposures classified as lost (i.e. after prospect of full recovery are dim and there is no realizable security). Discussions and negotiation in respect of repayment / waiver terms shall be the responsibility of Remedial Asset Unit of Credit Risk Management.

Waiver arrangement will represent final settlement terms. New facility will only be granted to borrowers who have enjoyed prior waivers on full settlement of previously granted waivers.

All waivers of interest and charges shall require approval of the GMD. Approval of interest and charges waivers shall be documented in writing and properly initialed by the approving authority.

8.3.3 Bad Debt Write-off

After full evaluation of a nonperforming exposure, in the event that either one or all of the following conditions apply, such exposure shall be recommended for write-off:

- Continued contact with customer is impossible.
- Recovery cost is expected to be higher than the outstanding debt.
- Amount realized from realization of credit collateral security leaves a balance of the debt.
- It is reasonably determined that no further recovery on the facility is possible.

All credit facility write-offs shall require written endorsement at the appropriate level as defined by the bank. Write-offs require approval by the Board of Directors and the Central Bank, where relevant.

8.3.4 Erroneous Charges or Interest

In cases of erroneous interest or charges debited to a customer's account, the management of the bank is authorized to approve reversals of such erroneous charges or interest. Reversals of interest and charges shall be approved by the GMD.

8.3.5 Recoveries and Credit Write-Back

Whenever amounts are recovered on previously written-off credit exposures, such credit facility shall be reclassified as performing and the amount recovered recognized on a cash basis only.

8.3.6 Declassification

a. Declassification of facilities (i.e. Time/Term Loan, Leases etc.) may be considered if the obligor effects payment where past due interest on non-accrual principal does not exceed 90 days.
b. The rating of every classified loan account shall be subject to changes from time to time as circumstances demand
c. Such declassification shall be supported by a Memo which must include:

    - A copy of the most recent Classified Loan Report.
    - Special details of what has changed since classification to warrant declassification

- Most recent audited accounts of the borrower.

d. Any declassification or upgrading of a borrower shall require the recommendation of the Relationship Managers and supported by the Group Head. All declassifications shall be approved by the CRO.

e. When a restructure on a classified loan is agreed with a customer, the rescheduling shall be treated as a new facility, but provisioning shall continue until it is clear that rescheduling is working at a minimum, for a period of 90 days. Reversal of interest previously suspended and provision against principal previously made should be recognized on a cash basis.

8.3.7 Full and Final Settlement

On application by the obligor and after due consideration of the options available to the bank in respect of non-performing exposures, it may be determined that it is in the best interest of the bank to accept less than the full value of the outstanding amount in settlement of a debt or some other non-cash asset as repayment. In this respect, waivers of interest and/or credit charge shall be considered by the bank. Proposal for waivers will be considered only after complete evaluation of all options for the Bank and full discussion with Legal Counsel. Consideration of waivers of interest and/or credit charge shall be limited to credit exposures classified as, substandard, doubtful and lost (i.e. after prospect of full recovery are dim and there is no realizable security). Discussions and negotiation in respect of repayment/waiver terms shall be the responsibility of Remedial Assets Group.

Waiver arrangement will represent final settlement terms. New facility shall not be granted to borrowers who have enjoyed prior waivers except where exceptionally approved by GMD. On discretionary basis, the bank shall decide to close such account, where it is observed that the continued relationship will not be beneficial to the bank. Recommendation for closure of account shall be considered alongside the full and final payment proposal from Remedial Assets Group.

8.4 Guidelines for Recovery, Commencement and Methods

8.4.1 Managing Recovery Process

One of the most important aspects in maintaining the credit quality of the asset portfolio is the need to curb incidence of Non-Performing Loans (NPLs) amongst new loans approved. Constant credit supervision ensures maintaining the quality of the Credit Portfolio. The Bank, through its monitoring system will assess the status of the assets and deduce early warning signals that will activate corrective mechanism to retain the account in standard category. In spite of the best efforts made by the Bank, there could be deterioration in the credit quality and some assets may become NPL.

Guidelines for recovery is framed with the objective to steer the recovery efforts of the bank, for accounts that are showing warning signals and accounts that have been classified as Non Performing, that will ultimately result in reducing the Loss Given Default of the facility. These guidelines also augment the Bank's efforts in achieving targeted standard assets ratio by containing fresh accretion of NPLs, targeted reduction in NPLs, targeted recovery amount.

8.4.2 Commencement of Recovery for Classified Assets

Once the account is classified as NPL then it should be managed under a dedicated remedial process. Responsibility for such accounts should be assigned to the "Remedial Assets Management Unit". Workout function should be segregated from the credit origination function. The additional resources, expertise and more concentrated focus of a specialized recovery department normally improve collection results. The decision to transfer nonperforming facilities to the Remedial Assets Management Unit shall be taken at the Criticized Assets Committee (CAC) meeting under the Chairmanship of the Group Deputy Managing Director (or Chief Risk Officer).

8.4.2.1 Methods of Recovery

- Frequent contact / follow up with the obligors through letters and personal contact for normal recovery, contacting the guarantor if the advance is secured by a guarantee and pressurizing through common friends and steps mentioned under recovery process for standard assets also to be followed.
- **Rehabilitation**: The Banks policy on Rehabilitation has been dealt under "Risk Monitoring and Control" component of the policy. However, assets classified as "loss" are not eligible for rescheduling or restructuring.
- **Compromise/ Negotiated Settlement**: Reduction of NPLs can be achieved through a compromise strategy where the objective of the genuine obligor is to optimize his gain/ loss, having suffered a loss in the unit's working and that of the bank to minimize its loss. The broad objectives of a Compromise/ Negotiated settlement are to:
    - Reduce the level of NPLs by accelerated recovery of the same.
    - Improve the profitability by reducing NPLs.
    - Recycle the funds so recovered in good performing assets.

  The approach of the Bank would be to recover as much as possible by negotiation and clearing the problem loan in order to cleanse the portfolio. The basic determinants of compromise settlements will be causes for default, need for a compromise, process of compromise, modes of repayment and realizable value of collateral / security.

- **Mergers and Takeovers**: Corporate restructuring may provide a healthy financial, managerial, technological and marketing support to a company that may become sick because of controllable or non-controllable reasons. While mergers and takeovers play a major role to achieve the competitive edge in the global market, Bank will play a pivotal role in seeing that the sick companies/ units are utilizing this opportunity to see that this non-legal remedial route is also exploited and the asset become performing. Mergers/ Takeovers are a process under which a sick unit is merged with a healthy unit or, sometimes, a healthy unit acquires a sick unit. A part of the consideration paid to the sick unit by the healthy unit is used to liquidate the NPL, wholly or partly. The process will give quick relief to the Bank, if it holds any sick unit.
- **Lien and Set Off**: Lien can be exercised by the Bank in case of all those securities which comes to the possession of the Bank in the course of dealing as a banker with the customer. If the Bank has any deposits in the same name as that of the obligor, it shall exercise its right of set off in respect of obligor's indebtedness.
- **Assignment**: Assignment is the transfer of an actionable claim. When the Bank finances against Life Insurance policies, book-debts and Supply bills to Government Department and if the obligor defaults, the Bank shall recover the debt by claiming to the party who is liable to pay the actionable claim through this non-legal remedy. Appropriate notice should be given by the assignor to the debtor.
- **Suit Filing**: Once it is observed that the obligor is making wilful default, the Bank will resort to appropriate legal recovery proceedings. Bank will put in place appropriate systems and procedures in place to ensure that Bank dues are recognized through legal recourse.
- **Sale of Collaterals**: Wherever collateral is available, in case of default by the obligor, the bank shall dispose of the collaterals charged in its favour. But before sale, the Bank will give reasonable notice to the obligors to repay the loan failing which collaterals held by the Bank will be sold. The process of sale should be by public auction or through any procedures prescribed by law of the land.

8.4.2.2 Monitoring Recovery Performance

Monitoring of recovery performance by Credit Risk Management Groups as per the Recovery section under Risk Measurement component of the policy is essential in order to improve recovery from defaulted accounts. Such monitoring includes:

- Ensuring adherence to achievement of major milestones in recovery.
- Tracking of credit losses at portfolio level.

- Against Expected loss of the portfolio under normal economic environment.
- Against sum of Expected and Unexpected loss of the portfolio in case of abnormal macro-economic environment leading to connected default.

8.4.2.3 Write off

In order to weed out the non-remunerative NPL accounts and to pave the way for the Bank to devote more time for Business development, the exercise of write off is undertaken after critically analysing the chances of recovery in all the NPL accounts. The accounts can be written off only after exhausting all avenues of recovery through normal course/ by legal means/ through compromise etc. The exercise of write off has to be undertaken on merits of each case after considering various factors like low/ nil income generation, capacity of the obligor/ guarantor to pay the dues, availability/ state of the securities etc.

In the event of delinquency, where principal and/or interest are unpaid for more than 360 days, the bank shall commence deliberate action to recover on such exposures and minimize total loss to the bank. It is expected that the required approach to resolve lost credits shall be unique in each instance and will depend on the specific details including documentation status, collateral situation etc.

Recovery action may without prejudice to the above provision be instigated when there is evidence that an account cannot be salvaged by other means.

However, the following general guidelines shall apply:

- Strict compliance with management decisions on nonperforming accounts.
- Recovery action may include legal proceedings
- The bank’s entitlement shall be limited to the full amount of principal and interest unpaid to date of recovery and all associated costs incurred in the recovery.
- Where sale proceeds fall short of the bank’s full entitlement, demand shall be made for the balance from the customer.
- Where sale proceeds are in excess of bank’s entitlement, the surplus shall be credited to the customer’s account.
- Advising Legal Department to call in specific facilities as approved at the appropriate levels of authority in the bank.

- Overseeing the realization of securities on lost facilities.
- Liaising with Legal Department and/or external debt recovery agents for collection of called-in facilities.
- Appointment of recovery agents.
- Preparing periodic reports on all recovery activities
- Recommending concessions / waivers in deserving cases.
- Recommending debt write-off and/or process write-back to income as appropriate.

9 Portfolio Management Guidelines and Risk Reporting

9.1 Portfolio Management Policies

9.1.1 Objectives

- To ensure optimal earnings through high quality risk portfolio, deliberate portfolio strategy, planning, performance assessment and reporting will be emphasized. Concentrations of exposures to industry/market sectors and by exposure type will be limited in line with the bank's risk and return preferences.

- Portfolio management is an integral part of the credit process and shall apply to all businesses of the bank and include all risk assets' exposures. The Executive Committee (Credit) shall articulate risk and return preferences that will influence risk asset behaviour in the bank. On the recommendation of the Chief Risk Officer (Risk and Management Control), the Executive Committee (Credit) shall approve at the corporate level and for each business unit target risk portfolio and risk acceptance criteria. Annually and subject to quarterly reviews, Credit Risk Management shall articulate a desired credit portfolio mix for Board Credit Committee approval.

- Portfolio Management is an integral part of the credit process that enables Access Bank to limit concentrations, reduce volatility, increase liquidity and achieve optimum earnings. It does so by incorporating portfolio strategy and planning, performance assessment and reporting functions into one comprehensive management process.

- Responsibility for Portfolio Management lies primarily with Credit Risk Management on behalf of the Business.

- It is the objective that substantially all of Access Bank's credit exposure is covered by one or more of the following Portfolio Management Processes, which may include Industry Reviews, Country or Region Reviews, Product Reviews, Risk Rating Limit Exception Reviews, High Risk Reviews, etc.

- Each Portfolio Management Process should incorporate the following components, as applicable.
  - Setting portfolio targets and concentrations.
  - Establishing target market, risk acceptance criteria and/or Key Success Factors (or equivalent).
  - Monitoring the portfolio risk profile, risk-adjusted returns, risk concentrations, and economic/market/competitive data.

- Identifying and analysing trends and concentrations that could affect the risk and performance of the portfolio.
- Performing stress testing, as appropriate to the Business or the portfolio.
- Coordinating and communicating with the business and senior risk management on portfolio issues.

9.1.2 Minimum Review Standards

All Portfolio Management Processes should include an annual review by Credit Risk Management. The review must be documented, and must include, at a minimum:

Portfolio composition vis-à-vis targets or limits;

Noteworthy trends or risk concentrations;

Risk-adjusted returns.

In addition, at the determination of the Board Credit Committee or Management Credit Committee, certain Portfolios will be subject to periodic review by the Chief Risk Officer.

9.1.3 Migration Analysis

The Bank shall put in place a system of undertaking migration analysis on credit rating annually on all standard accounts.

The impact of migration in rating and any slippage in the rating grade (i.e., from low risk to high risk) shall be studied and necessary steps shall be taken to upgrade the asset quality.

While conducting study on rating migration, more emphasis shall be given in respect of accounts rated under 4 and below category to prune down the exposures.

The following measures shall be put in place to maintain the portfolio quality:

- Quantitative ceiling on specified rating categories
- Rating wise distribution of borrowers in various industries, business segments etc. shall be evaluated

9.1.4 Portfolio Review

Performance review of various industries under the portfolio review would help the bank to identify the problems in the portfolio so that corrective step could be taken at the right time.

The following measures shall be put in place for effective portfolio management:

- Review of performance of various credit portfolios
- Individual and Group borrower concentration are to be reviewed on monthly basis.
- Reviews will be done for all accounts above the cut-off limit of N10million and above (aggregate of fund and non-fund based limits) on an ongoing basis so that high value assets and their portfolio correlation are reviewed periodically.
- Monitoring of loan accounts is an important phase in the process of credit risk management. The Bank shall have well laid out system of monitoring of loan accounts at different levels. Further the system of monitoring shall be attuned in terms of size of the exposure and the rating grade of the loan account.

The process of risk identification starts at the time of accepting the credit proposal by way of fixing benchmark for various financial ratios for consideration of approval of credit limits to borrowers. In case of existing loan accounts, the following indicative tools are utilized for identification of credit risk. The operations in the account need to be put on critical scrutiny in the following aspects:

- Unusual debit/credit entry
- Return of Bills Receivables / Cheques unpaid
- Repeated requests for additional funds which may indicate decline in sales, low realization of debtors or payment to pressing creditors, diversion of funds, cash loss etc.
- Decline in level of operations in the account.
- Large return of inward bills
- Default in payment of Term Loan instalments / interest
- Devolvement of LCs, invocation of guarantees or excessive extension.
- Notice of demand from PF / Tax assessment, law suits or other legal action against the borrowers.

- Credit Risk Management Groups will monitor the following indicators of portfolio quality on a quarterly basis:
- Entity and Facility Rating migrations in the credit portfolio of the bank across dimensions such as:
- Industry
- Exposure Size
- Geographic Regions
- Sector
- Product
- Exposure Type
- Tracking of Watch List Accounts (WLA) under various dimensions as mentioned above.
- Tracking of number of NPL against Probability of Default.
- Percentage increase in incremental NPL in comparison to incremental exposures.

9.2 Management Reporting

It is critical to the successful implementation of these credit policies that the comprehensive set of credit risk data generated by the businesses is identified and communicated throughout the applicable businesses, Credit Risk Management and senior management.

It is the responsibility of Credit Risk Management to define, construct and maintain an independent credit risk reporting framework that effectively, consistently and meaningfully communicates portfolio exposures.

The credit risk data and other data used to populate the independent credit risk reports should be from independent systems, or should be subject to a reconciliation process to ensure integrity.

It is the responsibility of the risk-taking business units to ensure that all credit risk data is reported into the independent credit risk systems, and that it is timely, accurate and complete; the business shall further review reports to assist in the quality control process.

9.2.1 Risk Reporting

Risk Reporting is essential to facilitate communication of risk information to relevant recipients to enable effective oversight on various components of Credit Risk Management. In this sense, risk reports shall be concise, accurate, comprehensible and timely. Reporting must cover current position, dynamics of risk exposure through time and exceptions from policy prescriptions. The following sections cover the proposed risk reports, structure of these risk reports and coverage. Credit Risk Management will generate business related reports as may be required.

9.2.2 Structure of Risk Reports

Structure of Risk Reports shall include the following:

- Description of reports
- Contents and coverage of reports
- Function/ Division responsible for production of reports
- Recipients of reports
- Periodicity of reporting

9.2.3 Coverage of Risk Reporting

Risk Reporting shall cover the tasks/ functions performed in the following segments of Credit Risk Policy:

- Categorization of exposures into Banking Book
- Risk Measurement
- Exposure and Risk Limits
- Risk Monitoring and Control

Table 1: Categorization Exposures into Banking Book

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
1.	Banking Book Positions	All exposures by major exposure types, classified into Banking book exposure based on conditions laid down by Central bank of Nigeria	All Banking Book positions / Exposures as on the Reporting Date	Risk Analytics/ Portfolio Management	CRO	Half Yearly
2.	Trading Book Exposures transferred to the Banking Book	All positions which were initially in the Trading Book and have been transferred to the Banking Book.	This report will cover only those trading book positions that are transferred to Banking during the reporting quarter.	Market Risk	CRO	Quarterly

- Table 2: Risk Measurement

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
1.	Approvals with Breaches in Acceptance Criteria	Details of all credit facilities approved with deviations in the acceptance criteria	This report will cover the Credit facilities freshly approved or reviewed with breaches in acceptance criteria during the reporting month.	SBU- based CRM reporting	MCC	Quarterly
2.	Existing Borrowers that fall into Negative List as per latest Credit risk Policy	Details of all Credit Facilities Approved to the Existing Borrowers , who fall into Negative List of the Bank as per the latest Credit Risk Policy	This report will include the credit facilities already approved to existing borrowers of the bank that falls into negative list of the bank as per the latest credit risk policy. This report will include only those accounts that fall into negative list as identified during the credit review done during the month. This should include the exit strategy of the business unit on such accounts.	Credit Governance	EXCO CEO CRO	Quarterly
3.	Credit Facilities Approved for Borrowers falling in	Details of Credit facilities approved to the borrowers falling in the restricted list of the	This report will cover the Credit facilities freshly approved or reviewed during the reported month, which	Credit Governance	EXCO	Quarterly

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
	Restricted list of the Bank	Bank along with the reasons for approval	falls into restricted list of the Bank.		CEO CRO	
4.	Take Over Loans approved	Details of Credit Facilities Approved to Borrowers taken over from other banks or financial institutions. This report will contain any deviations from the takeover loan guidelines in the credit risk policy	This report will include all the takeover loans approved during the current financial year along with the status as to whether it is a fresh approval during the month or otherwise.	SBU- based CRM reporting	MCC	Quarterly
5.	Credit Facilities for which TEV (Techno – Economic Viability) Study was conducted	Details of Credit Facilities where Techno – Economic Viability) TEV Study was done. This report will include the key points from the	This report will include credit facilities for which TEV Techno – Economic Viability) Study has been done and was approved during the month of reporting.	Project Monitoring Unit	CRO	Yearly

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
		TEV Study along with the details of Credit facility and the borrower.				
6.	Risk Based Pricing	Details of Credit Facilities along with the Risk Based Pricing and Actual Pricing approved to customer along with the reasons for approving deviation rates	This report will contain only the credit facilities that are Approved/ Reviewed during the period under review.	Risk Analytics	MCC	Monthly
7.	Syndicated Loans	Syndication Loans approved by the Bank including the Role Played by the Bank, the Bank's share in the loan approved, compliance status for Key Financial and Non- financial Covenants of the loan etc.	This report will include all the existing Syndication Loans along with the fresh syndication loans approved during the month of reporting (with an identifier for the fresh approvals during the month).	SBU- based CRM reporting	EXCO CRO CEO	Half Yearly

- Table 3: Risk Rating

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
1.	Risk Migration report (Credit Portfolio Management in CRM))	Entity and Facility Rating migrations in the credit portfolio of the bank across dimensions such as: Industry Exposure Size Geographic Regions Sector Product Exposure Type Other dimensions	This report will include the migrations in the entity and facility rating grades in the credit portfolio of the bank during the reported quarter	Portfolio Management	CRO	Half Yearly
2.	Historical Default	Report on the historical default, sorted by risk grade at the time of default and one year prior to default	This report will include only the defaults that happened during the reporting quarter.	Portfolio Management	CRO	Half Yearly

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
3.	Credit facilities approved for Obligors below acceptable rating grades of the Bank (Credit Portfolio Management in CRM))	Details of the Credit facilities freshly approved/ reviewed to the borrowers with rating grades below the acceptable level of the Bank. This report should include the rating grade of the borrower along with reasons for the approval and mitigation available if any.	This report will include only the credit facilities approved during the quarter that are below the acceptable rating grades of the bank.	Portfolio Management	CRO	Half Yearly
4.	Manual override of model output (Applicable only for Non-Retail Credit Facilities)	Details of borrowers and credit facilities for which the ratings given using the entity and facility rating models were overridden. This report should cover the original rating given for the borrower and the rating given	This report will cover all the borrowers and credit facilities for which the rating model results were overridden during the reporting quarter.	Portfolio Management	CRO	Half Yearly

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
		after model was overridden along with the reasons for override.				

- Table 4: Exposure and Risk Limits

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
1.	Large Exposures	Details of Credit Risk Exposures classified as Large Exposures as per the Exposure limits set by the Bank.	This report will include all the credit risk exposures as on the reporting date	Portfolio Management	ERMC	Monthly

- Table 5: Risk Monitoring

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
1.	End Use of Funds	Details of Credit Facilities along with the compliance to end use of funds. This report shall reveal those credit facilities where diversion of funds is identified by the bank and reasons for the same.	This report will include report on end use of funds on all credit facilities where diversion from the policy guidelines on end use of funds is identified during the reporting month.	Report to be generated by CRM SBUs with inputs from the relationship teams as well as hired consultants (where their services have been employed)	Head of Risk	Monthly
2.	Compliance to Key Financial and Non-Financial Covenants	Details of Credit facilities, the financial and non-financial covenants and the status of compliance of the same	This report will include the status of compliance in the key financial and non-financial covenants in all the credit facilities during the reporting month.	Report to be generated by CRM SBUs	Head of Risk	Monthly
3.	Collaterals and other Credit Risk Mitigants	Report on Credit Facilities with Credit Risk Mitigants covering details regarding credit risk mitigants such as Eligibility, Valuation, Loan to	This report will include all credit facilities freshly approved during the month as well as existing facilities.	Credit Administration Department	Head of Credit Administration CRO	Monthly/Quarterly

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
		Value and Legal Enforceability.			BCC	
4.	Delinquent Credit Facilities	Details of Credit Facilities with number of days of delinquency (Past due days).	This report will include all credit facilities that were in delinquent status during the reporting month	Portfolio Management	CAC	Quarterly
5.	Asset Classification Status of all Credit Facilities	Asset Classification Status of all Credit Facilities This report shall also cover movement of assets from one category to another.	This report will include all the credit exposures as on the date of reporting	Portfolio Management	CRO Policy MCC	Quarterly
6.	Recovery performance	Details of credit facilities under recovery and the recovery performance against the targets	This report will include all the recoveries during the reporting month	Remedial Assets Management Unit	CRO CFO	Monthly
7.	Restructured	Details of Credit facilities restructured along with reasons, terms and conditions.	This report will include only the credit facilities restructured during the reporting period	Risk Analytics	CRO/ BCC	Quarterly

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
8.	Credit issues on On-lending Exposures	This report will contain details of the on-lending facilities the Bank has in its book, issues that may arise from time to time as well as recommendations on how those issues can be resolved.	The Bank's on-lending Schemes portfolio.	On-lending Schemes Risk management	CRO/GMD.	Monthly.
9	Global Standing Instruction reporting	This report will contain information on the GSI process as it relates to frequency of use and amounts recovered or released.	This report will include all the recoveries during the reporting month	Credit Portfolio Management	Management/Board of Directors /CBN	Monthly/Quarterly.

- **Table 6: Stress Testing**

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports
1.	Plausible Scenarios for stress testing.	1. Plausible Scenarios chosen. 2. Impact of scenarios on Risk measures at Portfolio level.	Risk Analytics	CRO/ ED Risk BRMC	Quarterly.

- Table 7: Validation

No.	Report Description	Contents of the Report	Coverage of the Report	Function/ Division Responsible for Generating the Reports	Recipient of Reports	Periodicity of Reports
1.	Validation of credit risk models	This report will include the data used for building the rating models The approach adopted and the output	-	Risk Analytics.	CRO/ ED Risk	Annual

9.2.4 Operational Level Reports

Access Bank Credit Risk Management shall provide accurate, timely and complete credit reporting on obligor and portfolio basis for informed management decision-making. The following categories of reports will be produced in the indicated frequencies:

Credit Compliance Reporting		
Name of Report	Recipients	Frequency
Unauthorized overdraft report	Business units	Daily
Excess over approved limit	Business units	Daily
Expiring Facilities	Business units	Monthly
Expired Facilities	Business units	Weekly
Risk Asset report	Risk Management	Daily
Maturing obligations report	Business units	Monthly
Collateral Report	Policy MCC	Annual

Performance and Portfolio Reporting		
Name of Report	Recipients	Frequency
Portfolio Review Report	Policy MCC CRO	Quarterly
Collateral Review	MCC	Annual (or as specified in the credit approval)
Recovery Status Report	GCRO, GMD	Monthly
Reserve & Write-offs	BCC	Annual

Note	Additional reports may be introduced as required.

10 Specialized Lending Policy.

10.1 Objective of the Policy

The objective of the document is to consolidate all existing specialized lending policies into one document, to provide operational guidelines for extending specialized credits such as Agricultural loans, Project finance, etc.

The policy is designed to measure the risks inherent in specialized lending. It consequently provides a blueprint which mitigates all the intricacies that are related to the identified specialized lending risks.

The specific objectives of this Policy are as follows:

To provide the framework upon which a credit product under specialized lending request should be structured within the Bank ("Access Bank Plc.) with consistent procedures for the evaluation and acceptance of such proposals from the client(s).

It provides the Bank's credit risk function with consistent criteria for evaluating and making recommendations on specialized lending proposals.

It seeks to provide directors and management as well as other stakeholders with clear standards to evaluate and approve specialized lending requests.

The document seeks to assist in providing both Internal and External audit functions with clear and consistent metrics for evaluation of the Bank's ("Access Bank Plc") specialized lending system.

10.2 Scope of the Policy

This policy is designed to provide the Bank with consistent procedures for evaluating and accepting specialized financing proposals.

The document is set to provide Management and directors as well as other stakeholders with clear standards to evaluate specialized lending requests.

It must be read in conjunction with other Access Bank Policies including Credit Risk Management Policy Guide, Market Risk Management Policy, Environmental and Social Risk Manual, Risk Rating Policy etc.

The document will cover the following types of specialized lending:

1. Agricultural Finance Policy
2. Project Finance

3. Reserved Based Lending (RBL)
4. Object Finance
5. Real Estate Finance

10.3 Agricultural Finance Policy

Agricultural loans are complex and high risk, given the vulnerability to weather, pests, disease and other uncontrollable factors. Specialist skills are required for appraisal of such loan extensions, which must take account of the following factors:

I. Any government incentive scheme
II. Any tax benefits for Agricultural lending
III. Any regulatory requirements

An Agricultural loan shall be defined as any credit facility extended to finance any activity within the Agricultural value chain. Agricultural loans are complex and high risk, specialist skills and special measures are therefore required to ensure that the facilities to this sector are appropriately initiated, reviewed and monitored.

Due to the long maturity period of certain Agricultural products, long moratorium periods that may be imposed by regulatory authorities, and environmental risks, tenors of 8 years or more may be allowed for tree crops.

Evaluation of requirements for collateral on Agricultural loans will follow the norm for credit extensions. However special efforts should be made to obtain acceptable guarantees from public or private sources external to the project and independent of the project cash flows.

The approval of Agricultural facilities shall follow the Bank's credit approval grid as contained in the Credit Policy Guide.

To provide operational guidelines for financing to the Agricultural sector, the following guideline will be followed:

10.3.1 Loan Administration and Disbursement

Agricultural financing shall be available to existing customers who should have operated an account with the bank for at least 6 months. Concessions can however be made for reputable prospects after a positive assessment of their previous and current banking relationships and subject to Head of Risk approval.

1. Facilities disbursed to Agro-allied companies for financing of non-Agricultural value chain activities such as acquisition of property shall not be considered as Agricultural loans.
2. For financing involving the acquisition of machinery and equipment, a minimum equity contribution of 30% of the total cost shall be required. This shall be a condition precedent to drawdown/ disbursement.
3. All requests for Agricultural financing must be submitted alongside a detailed pre-approval site/farm visitation reports from the Agricultural Business group to guide the credit review officer.
4. When the bank is financing the acquisition of heavy equipment and machineries, disbursement shall be made directly to the vendors upon presentation of relevant invoices.
5. Disbursements must be structured in line with the project/business cycle to enable proper monitoring. Disbursement can either be in tranches or bullet, however the relationship officers will work with the Agricultural Business Group to understand the business cycle and propose appropriate disbursement process. The repayment structure proposed for Agricultural loans must consider the applicable product lifecycle or gestation period to determine the appropriate moratorium period and frequency of repayment.
6. The Agricultural Business Group must carry out a post-disbursement site/farm visitation to ascertain that utilization of disbursed funds is in line with the purpose of the facility. This should occur semi-annually, and a report should be prepared for the attention of the Head of Risk.
7. The Agricultural Business Group should also carry out routine monitoring visitation to financed projects and must prepare a monitoring report for the attention of the Head of Risk. This monitoring reports must be in place for subsequent tranche disbursements where applicable and should occur not later than six months after the initial post-disbursement site visitation.
8. Moratoriums should be limited to principal repayments alone. Exceptions can however be made for moratorium on interest payments if backed by sufficient justifications and the concurrence of Head of Risk is obtained.
9. In addition to meeting Access Bank's general collateral requirements, a comprehensive Agricultural insurance policy stating the Bank as first loss payee must be obtained.

10.3.2 Target Market

The table below shows the target market required.

S/N	VALUE CHAIN	ACTIVITIES
1	Primary producers	Crop Farmers, Livestock Farmers, fish producers, manufacturers etc.
2	Agro Processors	Feed Millers, Fruit Processors, meat processors etc.
3	Aggregators	Off-takers, Distributors etc.
4	Exporters	Agro processors and producers with capacities for foreign exchange earnings.
5	Agro input dealers	Agro chemical dealers, seed producers, dealers in veterinary drugs, fertilizer manufacturers and blenders, dealers of equipment and machinery etc.

10.3.3 Excluded Projects

The following and more are projects that the bank will not support under this policy:

1. Projects where it has been determined that specialized skills are required to execute key tasks necessary for the success of the enterprise and that such key human capital is unavailable/ lacking will not be considered for financing.
2. Start-ups and projects that are in the first stages of their operations or businesses in the first cycle of their operations shall not be considered for funding.
3. Projects lacking the necessary technical support that is critical to the success of the venture.
4. Projects proposed by loss making, or unprofitable companies.
5. Any other project that falls within the Bank's E& S exclusion list

10.3.4 Risk Acceptance Criteria for Agricultural Financing

1. Customers must meet Access Bank's general Risk acceptance criteria.

2. Customers must be duly incorporated companies in the identified Agricultural value chains.
3. Customers must have a satisfactory credit report from the CBN CRMS and two other Credit Bureaus.
4. Customers must have verified off-taker agreement(s), contracts or at least a sales record not lower than 200% of the requested loan amount.
5. Customers should provide evidence of membership of relevant professional and trade organizations. They must also obtain relevant permits and regulatory approvals for their products where required (e.g. NAFDAC, SON).
6. Customers must possess qualified management team and qualified technical personnel specific to their line of business.
7. Customers must provide a clear business plan and a detailed projected cash flow analysis for the entire tenor of the facility.

10.3.5 Agricultural Financing Products

10.3.5.1 Commercial Agricultural Credit Scheme (CACS)

The scheme was introduced by the Central Bank of Nigeria (CBN) in collaboration with the Federal Ministry of Agricultural and Rural Development (FMARD) with a view to fast track the development of the Agricultural sector in Nigeria. The focus is on five Agricultural value chains; production, processing, storage, farm input supplies and marketing. The SOL is set at N2bn for each project and a maximum applicable interest rate of 9%.

10.3.5.2 Accessing Real Sector Support Fund (RSSF) via Differentiated Cash Reserve Ratio (DCRR)

The scheme was introduced by the CBN to emphasize the need to increase the flow of long term credit to the real sector of the economy to sustain her economic recovery drive. The focus is on manufacturing and Agricultural sectors. Refinancing is prohibited under this scheme and the maximum facility limit is set at N10bn, minimum tenor of seven years, moratorium period of 2 years and an all-in interest rate/charges of 9% p.a.

10.3.5.3. Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)

NIRSAL is an arm of CBN that focuses on de-risking Agricultural financing to incentivize banks that extends loans to the sector. The flagship product is the Credit

Risk Guarantee (CRG) which provides between 30-75% guarantee on bank loans to the Agricultural sector. The CRG is obtained at a cost of 1% of the total loan amount to be guaranteed.

10.3.5.4. Non-Oil Export Stimulation Facility (NESF)

NESF was introduced to advance the strategy of the CBN to diversify the revenue base of the economy and promote growth of the non-oil export sector. Eligible obligors must have verifiable export contracts. Term loans under this scheme shall not exceed 70% of the total cost of the project to be financed. The SOL is set at N5bn and maximum applicable interest rate is 9%.

10.3.5.5. Micro, Small and Medium Enterprises Development Fund (MSMEDF)

The CBN launched the scheme with a seed capital of N220bn enhance access of MSMEs to low interest finance thereby increasing their productivity and creating more jobs. Activities in the Manufacturing, Agricultural value chain, Renewable energy, energy efficient product and Technologies and services are covered by the scheme. The maximum loan amount is N50 million and an applicable all-in interest rate of 9%.

10.3.5.6. Accelerated Agricultural Development Scheme (AADS)

The AADS is a special scheme under the Anchor Borrowers' Programme with the state government acting as anchors. Loans will be disbursed at an all-in interest rate of 9% and repayment shall be from monthly deductions through an Irrevocable Standing Payment Order (ISPO) on the state account.

10.3.5.7. Anchor Borrowers' Programme (ABP)

The scheme was designed by CBN to create economic linkage between smallholder farmers and reputable large-scale processors who will act as off-takers for the harvested produce of the farmers.

10.3.5.8. Paddy Aggregation Scheme (PAS)

The scheme is for Integrated Rice Millers and large-scale aggregators to enable them to purchase home-grown paddy at a single digit interest rate to promote the Federal Government of Nigeria's National Food Security Programme. Facilities shall be for a maximum tenor of 24 months, all-in interest rate of 5% p.a.

10.3.5.9. Rice Distributors' Facility (RDF)

The facility is for medium to large scale rice distributors to enable them to purchase locally milled rice from Integrated Rice Millers at a single digit interest rate to promote national food security. The SOL is N1 billion with a maximum tenor of 12 months and all-in interest rate of 5% p.a.

10.3.5.10. Export Facilitation Initiative (EFI)

The Export Facilitation Initiative (EFI) was created by CBN to compliment efforts to engender growth in the non-oil sector of the economy. The target market include: Cocoa, Oil Palm, Cashew, Shea, Sesame seeds. · SOL: N10billion · Interest: 9% all-inclusive· Tenor: Depends on the gestation period of the project being financed, with maximum being 10 years.

10.3.5.11. Maize Aggregation Scheme (MAS)

The Scheme is for feed millers, poultry farmers, silos and warehouse operators and confectionery companies to enable them have access to affordable credit for the purchase of home-grown maize to promote the Federal Government of Nigeria's National Food Security Program. · SOL: N2billion · Interest: 9% all-inclusive · Tenor: 12 months maximum.

10.3.6. Collateral/ Security/ Support

The bank shall have legal ownership of assets pledged or financed, in addition to the following support instruments (where applicable):

1. Irrevocable Domiciliation of supply/export/contract proceeds
2. Warehousing receipt
3. Tripartite warehousing under bank's control (where applicable)
4. Comprehensive Agricultural insurance cover noting Access Bank as first-loss payee
5. Cross, joint and several guarantees (for co-operatives)
6. Third party individual or portfolio guarantees (NIRSAL, other Development partners).

10.4 Project Finance Facility

10.4.1. Background

Project finance is a method of funding in which the lender looks primarily to the revenues

generated by a single project, both as the source of repayment and as security for the exposure. This type of financing is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure. Project finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements.
Project finance could also be with recourse to the parent company's cash flow.
In a typical project finance transaction, the lender is usually paid solely or almost exclusively out of the money generated by the contracts for the facility's output, such as the electricity sold by a power plant. The borrower is usually an SPV (Special Purpose Vehicle) that is not permitted to perform any function other than developing, owning, and operating the installation. The consequence is that repayment depends primarily on the project's cash flow and on the collateral value of the project's assets. In contrast, if repayment of the exposure depends primarily on a well-established, diversified, credit-worthy, contractually obligated end user for repayment, it is considered a secured exposure to that end-user.

10.4.2. Project Appraisal

Request should be presented using FAM detailing the following:

a) Assessment of Project Risk

The bank shall conduct a thorough credit appraisal of any project finance transaction to identify the project risks, and to ensure that the project will be implemented as planned. The Assessment will be in line with the bank's credit policy on exposure development and selection to ascertain the financial and economic viability of the project.

Access Bank shall obtain project feasibility report from the Project owner to evaluate the risk inherent in funding the project which shall guide our lending decision. The Credit analyst should pay particular attention to all the project-specific inherent risks. Typical project finance risks may include;

I. Technology Risk
II. Environmental and social (subjected to the IFC project approval guidelines)
III. Completion (Construction or Cost overrun risk)
IV. Supply (This may be known as Traffic risk for infrastructure projects, Reserve risk in resources financing and Fuel Supply Risk in a power station)
V. Market (Sales/Revenue risk)
VI. Operating (Technical, Cost and Management)
VII. Force Majeure
VIII. Performance

IX. Political

X. Legal/Regulatory

XI. Engineering (design risk)

XII. Foreign Exchange Participant (Credit or Sponsor Risk)

XIII. Interest rate risk

The analysis of a project finance request should be subjected to the bank Risk Acceptance Criteria and Risk Mitigants and triggers must be put in place to safeguard the bank. The trigger structure shall depend on the risk inherent and sector-specific risk profiles and structuring protocols must be observed. The project owner must also provide Environmental Impact Assessment approved by the relevant authorities.

Credit Analysis with the assistance of outside consultants as necessary, will perform a comprehensive analysis of each complete financing proposal. This process will include an in-depth review of project risks and the financial structure of the project. Through this analysis, Access Bank shall ensure that projects are technically, environmentally, financially and economically sound, that project sponsors have the institutional, managerial and structural capacity to carry out their projects.

Projects usually go through development, construction, start-up, operation stages. The credit Analyst should, therefore, assess these stages separately for risk mitigation and put in place additional safeguards appropriate to their risk assessment. Refer to Project Risk Mitigating tools in the table below:

Project Risk Mitigating Tools.

Project development Stage	**Risks**	**Mitigating tools**
Construction	Cost overruns	The General Constructor Agreement (preferably based on the International Federation of Construction Engineers (FIDIC) principles) that provides a fixed price and a fixed delivery term. In case of complex industrial projects (e.g. infrastructure, energy), a special form of Contract – called Engineering, Procurement and Construction (EPC) agreements - has to be concluded.
	Delays	
	Finish failure	

		Guarantees/performance bonds/ insurance policies – guarantees should cover Liquidated Damages (LDs) clauses in the EPC contract for delay and performance shortfalls. EPC Delay LDs should be sufficient to cover debt service and fixed costs until the Long Stop Date. Experienced Constructors that have a demonstrated track record in the sector and region. If the EPC contractor is financially weak, LD's should be guaranteed by reputable bank LC Construction program / insurances to be reviewed by technical and insurance specialist advisors Regular project monitoring by specialized consultants, with Event of Default clauses for non-observance of consultant recommendations. Reputable lead sponsor with a demonstrated track record in the sector and region Limited recourse on Sponsors – sometimes a construction/ completion guarantee will be required depending on circumstance. Equity contribution from sponsors in line with industry standard and no less than XX% of the project cost. Early generation revenues ("EGR"s) should not be counted as equity. If the sponsors are financially weak, equity contributions into the project should be guaranteed by reputable bank LC or injected upfront before any debt is drawdown

Operation	Market risk: lower revenues than estimated Lack of raw material suppliers Budgeted operational costs overrun Management failures	Pre-sale/pre-lease agreements for the life of the projects where possible at fixed prices for pre-agreed volumes and acceptable LDs. Offtake counterparty should be a reliable financial risk with demonstrated track record in the sector and region. If the offtaker is financially weak, payments under the offtake agreement should be guaranteed by the parent company or government. Pre-contracts concluded with suppliers for the life of the projects, where possible at fixed prices for pre-agreed volumes and including acceptable LDs. Market price risk should be mitigated wherever appropriate. Examples include pass-through of variable costs or structure where variable costs are linked to the offtake price. If market price risks exist, this will be in line with realistic price assumptions reviewed by the lenders' market advisor. Management/Administration/Operation contracts Financial requisites Management / Ownership retention clauses within the financial documentation.
Entire project duration	Technical Risk Non performance	Experienced suppliers specialized in the field Tested/proven technology with equipment warranties in line with industry standard. Equipment maintenance contracts. Reputable Operations and Maintenance contractor with a demonstrated track record in the sector and region. DSRA of at least 6 months and

		appropriately sized Maintenance Reserve Account. Government support/undertaking for political events under the key project contracts. Interest rate, currency and commodity price risks should be hedged. Where appropriate, multilateral development banks (i.e. IFC, AfDB etc) "Preferred Creditor Status" protection which mitigates transfer and convertibility risk for B Loan participants should be sought.
Entire project duration	Non-observance of environmental / safety rules	Preceding condition: the receipt of all necessary permits from local authorities. Projects should meet Equator principles (environmental and social risk) standards. Breaking of environmental standards should be an Event of Default within the financial documentation.
Entire project lifespan	Legal risks: Changing legal environment	Security package and documentation should be reviewed by the lenders' legal advisor, who will be an experienced legal body that has a track record in issuing comparable documentation. The legal advisor's international and local opinions need to specifically cover Access Bank by reference or clear implication

Sensitivity analysis test to check the impact of changes in project variables on the base-case (Most probable outcome scenario) must be conducted by the credit analyst.

Typically, only adverse changes are considered in sensitivity analysis. The purpose of sensitivity analysis is to:

I. Identify the key variables that influence the project cost and benefit streams;

II. Investigate the consequences of possible adverse changes in these key variables;

III. Assess whether project decisions are likely to be affected by such changes; and

IV. Identify actions that could mitigate possible adverse effects on the project.

The bank shall review the project cost estimates table for comprehensiveness, adequacy of structure/descriptions of base cost line items and annual/periodic expenditures including construction where applicable.

Where applicable, the bank shall engage the services of a project consultant to provide guidance on the technical aspects of the project and a project feasibility/viability assessment during the credit appraisal the cost of which should be borne by the obligor.

10.4.3. Main Criteria of Project Selection Include:

a) ***Objective criteria***:

I. Financial ratios (liquidity, asset management, profitability, financial efficiency, leverage) – EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) and EBITDA margin are at the forefront of project analysis;

II. Cash Flow forecasts (including NPV).

b) ***Subjective criteria***:

I. Experience of the project Sponsors;

II. Project location;

III. Quality of the business plan;

IV. Project type;

V. Project budget and the financing structure (Bank loan/Own contribution ratio);

VI. Quality of the General Contractor;

VII. Quality of the project manager.

In case of real estate development projects, the Bank shall propose a financing structure based on several guidelines, listed below.

I. The customer may be an SPV which does not undertake any other activity except the investment project itself, except otherwise approved by Management.

II. The Sponsors (or project developers) should have experience in similar investment projects and display a sound financial standing.

III. Their contribution to the project should translate into the provision of initial capital and the issue of corporate guarantees acceptable to the Bank.

The Bank shall not finance any project to 100% in an attempt to avoid moral hazard. The Sponsor has to ensure a minimum contribution of 20% to the project.

c) Credit Rating process

A consistent rating process shall be employed for project finance differentiated by the type of counterparty. Access Bank Master rating for project finance shall be used to assess the obligor risk rating using already defined parameters for overall project finance risk assessment.

10.4.4. Security for Project Finance Loans

The project loan typically will be secured by multiple forms of collateral, including the following forms of collateral;

1. Mortgage on the project facilities, moveable assets and real property
2. Assignment of operating revenues.
3. Pledge of bank deposits/accounts.
4. Assignment of any letters of credit or performance or completion bonds relating to the project under which borrower is the beneficiary.
5. Liens on the borrower's personal property (where applicable).
6. Assignment of insurance proceeds.
7. Assignment of all project agreements.

8. Pledge of stock in Project Company or assignment of partnership interests.
9. Assignment of any patents, trademarks or other intellectual property owned by the borrower.

In order to ensure an effective charge in the fixed assets of the company, the bank shall register its charge with CAC or the Trustees, so that the security is not mortgaged with any other lending institution for further financing.

10.4.5. Insurance

Insurance is one of the major trigger structures for Project finance credits. All insurance documents must be in place.

Typical Insurance for Project finance shall include;

1. Technology Insurance
2. Property Damage
3. Business interruption insurance
4. Professional indemnity insurance
5. Building in the course of construction insurance
6. Terrorism

10.4.6. Syndication

In addition to fulfilling the terms of reference under direct project financing, the bank may enter into syndication arrangement with other lenders.

The bank's interest shall be protected under syndication with respect to project cash flow and security. Its interest under cash flow and security shall be pari-passu with its quantum of debt towards the syndication.

In situations where the bank is the major lender, the Principal collection account/Project Escrow account shall be domiciled with the bank.

In situations when the bank is not the major lender, the bank shall open a revenue account and receive part of the project receivables before transferring to the bank with the Collection Account.

The bank may participate in syndications as a Senior Lender. The decision to enter into syndication and provide a subordinated loan shall be subject to MCC approval.

10.4.7. Maximum Duration of Loan:

The Bank may extend loans for infrastructure project up to a duration decided after taking into cognizance the gestation period and peculiarities of each project. The Bank may either enter into a sell-down financing arrangement with other banks or arrange consortium/syndicate to effectively match their assets and liabilities.

10.4.8. Conditions Precedent to the Availability of the Loan

Before drawing down the loan, the borrower must satisfy the conditions precedent to the availability of the loan specified in the loan agreement. Among such conditions, the borrower is usually required to provide Access Bank with such documents a legal opinion, a list of the items to be financed and a copy of the necessary authorizations, permits from the authorities. When the borrower has complied with all these conditions, Access Bank shall make the loan available to the borrower, in accordance with the disbursement schedule in the loan agreement.

10.4.9. Loan Disbursements

Once the conditions precedent to the availability of the loan have been satisfied, the borrower may request a disbursement. The borrower may have to satisfy additional conditions precedent to the first disbursement of the loan, and subsequent disbursements.

Disbursements should be done in milestone and subsequent disbursement should be based on the completion of previous milestone.

In general, Access Bank disburses loan funds for eligible costs against project construction invoices. A request for disbursement is accompanied by copies of invoices and by a report by the project consultant supporting the request.

10.4.10. Reporting

For each project financed by Access Bank, the following financial and technical reports, as well as others specified in the loan agreement, will be required until the loan is repaid:

I. audited annual financial statements with unaudited monthly or quarterly financial statements, as appropriate;

II. annual budgets;

III. timely reports on any financial problems of a project;

IV. monthly status reports on the project's development during construction;

V. annual operation and maintenance reports;

VI. timely reports on any significant technical problems encountered by the project; and interim and final reports on environmental and human health impacts of the project.

10.4.11. Monitoring Mechanism

The Bank shall establish a mechanism for continuous monitoring of project implementation to ensure proper utilization of the credit disbursed. For this purpose, proper scrutiny/audit shall be undertaken of the Project Account(s), Project Collection Account, Project Debt Reserve Account, Project Escrow Account and any other accounts deemed necessary for the operation of the Project. Both Project monitoring Unit of Access Bank and appointed consultant shall monitor both project construction and completion, and project operation and maintenance, throughout the term of a loan.

I. Monitoring for Assignment of Project Receivables and Payments for Damages:

As the primary source of repayment is through project cash flows, Access Bank shall secure the loan by obtaining an assignment of project receivables. The bank may institute necessary monitoring measure so as to ensure that the assignment of project receivables and payments on account of damages are made in its favour.

II. Project Escrow Accounts for Monitoring Repayment of Debt:

In 'Limited Recourse Financing', the importance of Escrow Account increases due to the fact that the primary security is the project receivables/cash-flows.

The bank shall institute a mechanism for repayment of project debts through an Escrow Account, which shall be pledged in favour of the lenders.

10.4.12. Legal

Documentation Requirements

Minimum acceptable documentation that will enable the project commence operation and continue in operations for the period of the loan shall be executed and in place. All legal agreement, undertaking and Guarantees shall be vetted by Legal Unit to ensure the bank is protected at all times.

Project Closeout: Once a project is completed, it requires financial closure. The project closure process consists of documenting results to formalize acceptance of a project by the project sponsor

10.5 Reserved Based Lending (RBL)

10.5.1. Background

RBLs typically take the form of a borrowing base revolving credit facility whereby the bank extend credit that is secured by liens on oil and gas mineral interests through a share pledge which gives the bank control of the company and its rights/interest over the oil and gas assets and related assets and rely, primarily, on the cash flow produced by the sale of hydrocarbons and, secondarily, on the cash flow from borrowers other business interest, sale of the underlying mineral interests for repayment taking account of factors such as the level of reserves which are categorized into proven reserves (1P), Possible +Proven (2P) and Probable+Possible+Proven (3P) reserves, expected oil price; a discount rate; assumptions for operational expenditure; capital expenditure; tax and any price hedging employed.

Typical Risk shall include;

I. Reserve Risk
II. Market Risk
III. Exploration risk (the bank shall however focus on funding projects that have been totally de-risked of exploration risks i.e. proven reserve and near production assets. Typically, exploration should be funded with sponsors equity)
IV. Operating risk

V. Community Risk

VI. Production Risk

10.5.2. RBL Policies

The obligor shall have both primary and secondary repayment capacity and other reliable means of repayment.

The bank shall only finance existing producing oil field or an aggregate basket of oil fields, which shall include OPLs and OML/Marginal fields on near term production with verifiable flow test.

The lending shall be restricted to Proven, Developed, and Producing (PDP) reserves.

The bank shall limit lending against undeveloped reserve, proven undeveloped (PUD) reserves. Lending against PUD must be supported by a sponsor corporate guarantee until the field had passed a technical 'completion' test by Department of Petroleum Resources at which point the loan becomes limited in recourse to the project field, which by that time would be producing. Lending to customers who do not have proven reserves but have alternative sources of cash flow can be considered.

The bank shall demand from the sponsor additional covenants attached on additional indebtedness, restrictions on disposals, and potentially negative pledges so as to maximize the benefit of such guarantee. The bank shall demand for the field development plan, Licenses, evacuation plan and off-take agreements as a basis for availment.

The bank shall regularly evaluate, and update as necessary, its pricing assumptions for RBL, commonly referred to as the bank's price deck. The price deck shall reflect both base-case and sensitivity-case pricing scenarios.

10.5.3. Credit Appraisal

The bank shall conduct Sensitivity analysis in the Credit Appraisal process which should estimate the impact that sustained changes in market conditions would have the obligor's repayment ability. As part of the credit appraisal process, the bank shall prepare base case and sensitivity case analyses on the ability of the conversion of the underlying reserve collateral into cash to repay the loan upon completion and production. Using standard assumption scenarios, a conservative base case approach is to discount current prices against the forward contracts. The credit analyst shall ascertain the cost per barrel and the break-even point at based on the forecasted production profile.

Where the cash flow analysis indicates that the loan will not amortize over four to five years, the obligor shall be required to provide support collateral.

10.5.4. Establishing the Borrowing Base

The borrowing base for E&P loans represents the lending commitment established from the Technical valuation of the borrower’s proved Oil & Gas reserves, subject to limitations and adjustments. The borrowing base shall be determined by analysing previous production reports and independent engineering evaluations.

The borrowing base, as established in the loan agreement, shall govern the maximum amount of availability under the RBL at any one time. The commodity prices, risk adjustment factors, and cash flow discount rate used to determine reserve values and the borrowing base.

The bank shall adjust the reserve valuation for significant price fluctuations or changes in interest rates to reflect current conditions.

10.5.5. Collateral for RBL

Oil reserves in Nigeria are owned by the state. The oil companies essentially lease the right to extract the reserves in return for paying the government taxes or sharing the production with them. These rights cannot typically be assigned or transferred without prior governmental approval, which, in most cases, is extremely difficult to obtain. Security shall focus on shares pledges over the borrower or asset owning operating companies, and negative pledges, together with security in cash proceeds and accounts. The borrower shall provide the bank with a notice of assignment of proceeds from the off-takers.

RBL collateral value consists of a point-in-time estimate of the present value (PV) of future net revenue (FNR) derived from the production and sale of existing Oil & Gas reserves, net of operating expenses, production taxes, royalties, and CAPEX, discounted at an appropriate rate. The Competent Persons report (CPR) shall contain sufficient information and documentation to support the assumptions and the analysis used to derive the forecasted cash flows and discounted PV.

10.5.6. Reserve - Based Loan Documentation

Documentation typically shall include standard provisions such as financial covenants (leverage/liquidity); restrictions or prohibitions on additional indebtedness and distributions; and a borrowing base deficiency provision.

The borrowing base deficiency shall be cured by the borrower adding additional oil and gas properties to the collateral base or the bank shall establish monthly commitment reductions to reduce debt to a level that will bring the loan back into compliance with energy lending policy or covenant compliance. Additional equity injection may be considered for companies that have other sources of income.

10.5.7. Hedging The Risk

The bank shall employ hedging strategies to manage commodity price volatility, ensure stable and predictable cash flow, maintain liquidity, and manage credit risk. Hedge instruments include forwards, futures, swaps, options, or combinations, such as collars. Access Bank may act as a direct party to the hedge or as a collateral agent only (that is, not as a party to the hedge).

Borrower hedge positions shall be incorporated in cash flow forecasts and reserve valuations, which may provide increased borrowing base capacity.

Other considerations when evaluating hedges shall include;

- the bank's right to approve the creditworthiness of any hedge counterparties.
- whether the engineered loan value reflects the impact of hedges with strike prices below the bank's price deck.
- limits in the credit agreement for commodity hedging to reasonably anticipate projected production from PDP or total proved reserves.
- limits or prohibition in the credit agreement for the cancellation and prepayment of any hedges to which value was attributed in the engineered loan value.
- prohibition in the credit agreement for hedging subject to margin, or the bank may enter into standard inter-creditor agreements that eliminate the requirement to maintain a margin account with the counterparty.

a) **Reservoir Risk**

As the portfolio changes, the reserve report and other engineering reports which the bank initially analysed in making their credit assessment must be updated and re-evaluated at periodic intervals. These periodic re-evaluations called "redeterminations" shall be done within a reasonable time frame of first availment. The borrowing base is normally reset every six months. The bank reviews the most recent Production reserve report and determines the revised borrowing base commitment by applying the bank's borrowing base methodology to the reserve report valuation.

Per the credit agreement, borrowers should be required to cure any over-advance within 60 days with either cash payment or pledge of additional collateral.

The revaluation of the reserves shall require an independent AB approved reserve Audit company/Project consultant to prepare or audit the reserve reports and shall be conducted every 4 years from the date of first availment.

The obligor shall be required to submit Monthly Crude production certificate which shall indicate the quantity of crude lifted per oil well.

b) **Market Risk**

The bank shall periodically stress test the loan by subjecting the Oil & Gas reserves to adverse external factors such as lower market prices or higher operating expenses to ascertain the effect on loan repayment. To minimize the impact of price risk, the bank shall insist on funding transactions with proper price hedging mechanism.

The bank shall generally reset our oil and gas price forecast every quarter which shall be below the Brent prices (70% - 95%).

10.6 Object Finance Policy

10.6.1. Introduction

Section 7.1 of CBN prudential guideline requires all DMBs to develop comprehensive policy on object financing. The policy must be approved by the Board and could be part of the credit policy of the Bank or a separate document.

This section set out the guidelines for undertaking object financing such as vessels, Barges and Rigs.

Object finance is an aspect of Project Finance whereby the expected cash flow from the use of the object shall repay the loan availed for its purchase.

There are many types of objects that may require funding. These include but not limited to:

- Crude Oil Tankers
- Crew Vessels
- Supply Vessels
- Lift Boats
- Diving Support Vessels
- Product Tankers
- Chemical Tankers
- LNG & LPG Tankers
- Jack Up Accommodation Barges
- Tugboats
- Specialized dredgers
- Aircraft
- Satellites
- Railcars
- Fleets, etc.

10.6.2. OBJECT FINANCING IMPLEMENTATION TERMS

Only vessels that are in class shall be financed.

The bank shall ensure that the expiration of the certificate of class is at least 24 months and shall ensure that a concrete plan is put in place for re-classification.

Marine surveyor report from Access Bank approved Marine Surveyor shall be obtained as condition precedent to review/analysis for vessels that are not brand new. Only well-maintained vessels with satisfactory survey reports shall be financed. Analyst shall take survey reports into consideration in the credit review and structuring. The marine Survey report must state the market value of the vessel and the date for the next special survey and next dry docking.

Vessels to be acquired must fall under any of the top reputable classification societies listed above for both new built and used tonnage.

Financing of vessel is strictly against executed contracts from acceptable principals (mainly Oil Majors and established indigenous oil companies). The use of Letter of Intent (LOI) and Letter of Commitment (LOC) is strongly discouraged. However, the bank shall consider funding on a case by case basis, where there is strong assurance of a firm contract within 6 months of issuance of the LOI/LOC.

Contract must be a multi-year time charter agreement – Not Spot Market/Call off.

Contract tenor must sufficiently cover the loan tenor.

It must be established that vessels to be financed meets the specification of the contract employer.

Contract proceeds must be domiciled with the bank

Customer shall make an equity contribution of 10% to 30% depending on the risk profile of the obligor and the transaction.

Disbursement should be through Letters of Credit ("LC") or Agreed Escrow Account. Where direct transfers are desirable by the supplier, this shall be in milestones in line with the ship building contract.

Vessels acquired will be in line with the vessel maritime law in the country where we operate, e.g. Cabotage Act.

Customer must have minimum of 5 years of proven experience in the type of contract to be undertaken. If customer intends to engage technical partner, profile of technical partners to be employed and technical agreement detailing terms and payment consideration must be provided.

Second hand vessel must be free from encumbrance and fit for purpose.

The customer should make provision for routine maintenance of the vessels. A dedicated collection/reserve account should be made for this purpose to set aside funds from the customer's cashflow.

i. The Loan Agreement for Offer Letter shall include a brief description of the Object being financed.
ii. Where required and as directed by Management, ***Techno Economic Viability (TEV)*** analysis as well as factory acceptance test shall be carried out with all relevant quality inspection tests with issuance of necessary certificates; and the cost shall be borne by the borrower where the services of an external expert is engaged
iii. Objects once approved may not be varied or altered without the prior approval of ***the Bank (Access Bank Plc.)*** Appropriate clause shall be included in Loan Agreements for Offer Letter to give Access Bank option to withdraw from co-financing any object where unauthorized variations in scope or specifications could ***compromise*** object feasibility and viability;

iv. Procurement of goods and services shall be through competitive tendering procedures duly approved by Access Bank.

v. The borrower shall be fully responsible, directly or indirectly, for the realization of the object, and shall furnish Access Bank with regular reports on the financial, technical and marketing progress of the object (where applicable)

vi. The financed object shall be properly insured and borne by the customer using an Insurance Company acceptable to the Bank throughout the tenor of the facility. In addition, the Bank ("Access Bank Plc.") shall be noted as the First Loss Payee (FLP) for the period the facility remains unpaid;

vii. Access Bank may appoint an Independent Consultant to monitor and provide report on the performance of the financed object. The cost of these services shall be borne by the borrower.

10.6.3. Major Risks and Mitigants

Risks	**Mitigants**
Performance Risk	Performance Bond (PB) to be obtained from the ship builder (for new vessels). Longstanding history of performance both locally and internationally. Seasoned crew to man the vessel.
	Evidence of foreign technical support. This can be waived for local companies with solid track record. The vessels should be built according to contract specifications (for new vessels) Up- to date class records Registration of the vessel by any of the top classification societies Pre- purchase inspection of the vessel by the marine surveyor (for used vessels) Minimum of 2 years of cognate industry knowledge and experience

Repayment Risk	Detail cash flow projection analysis and sensitivity Domiciliation of contract receivables High vessel occupation rate due to good working condition. Good repayment history. Integrity and credibility of the operator in the industry. Integrity and credibility of counterparties/employer Monitoring of contract receivables.
Over invoicing (used vessels)	Pre- purchase inspection by appointed Consultant Pre-qualification of the vessel by the selected consultant
Diversion risk:	Funds should only be released from the Escrow account/via LC upon receipt of the necessary documents for the vessel. Funds may also be released in milestones by direct transfers. Customer's undertaking to domicile the contract proceeds to Access Bank should be in place
Tenor Mismatch	Review history of Obligor's on-going contract(s) for track record of renewals on expiry.
	There should be additional on-going contracts domiciled to the bank to mitigate the risk of truncated contracts. Or a secondary source of repayment.

10.6.4. Product Lines and Areas of Intervention

Access Bank considers applications from both public and private sector agents for financial assistance in object financing for the acquisition of assets.

The applications may be for the following forms of assistance:

I. Direct loans for acquisition of assets e.g. ***vessels, tugboats, specialized dredges, aircraft, satellites, railcars, fleets, etc.;***

II. Guarantees to small and medium-sized organisations to enable them source funds from offshore / local financial institutions or meet contractual obligations. Such a guarantee shall be issued directly by the bank as a contingent liability.

10.6.5. Object Financing Proposals and Applications

- Borrowers seeking the **Bank's** services and loans shall submit formal applications to the Bank as may be prescribed from time to time by management;

- The application request must be accompanied by comprehensive documentation on the object being financed in accordance with the Bank's guidelines for preparing object finance proposals, including but not limited to information on the Background, Sector, Business and Marketing Plans showing the cash flow analysis (with based assumptions), realistic financial projections, as well as a detailed technical information**.** TEV report shall only be required in line with the Section 5.2.12 of the CPG;

- Access Bank encourages good corporate governance in the companies it does business with and would seek at all times to promote this through proper constitution of management and board of directors of borrower companies and accurate and transparent financial accounting.

10.6.6. Environmental and Social Policies

i. All objects financed by the Bank shall meet all statutory requirements of local and national authorities where they are located. The objects must therefore be approved by the relevant authorities and comply fully with local environmental laws.

ii. Object financed shall offer services that promote sound environmental sustainability.

iii. Manufacturers and their contractors and other service providers must ensure the safety of workers involved in the construction of objects funded by the bank through sound safety practices on and off the construction sites, including but not limited to provision of protective clothing, safety equipment and gadgets, sanitation facilities, appropriate insurance and so on.

iv. Objects must meet all standards and requirements of health and safety during construction and when in use. They must be duly certified to be so by licensed where necessary, appropriate insurance to protect home buyers

v. and users of the facility against any loss during and after construction.

vi. Contractors and developers must comply with local ***labour*** laws and shall ensure that workers employed on their sites receive fair wages and that child ***labour*** is not employed in the implementation of objects funded by the bank.

vii. Access Bank shall promote equal opportunities for all irrespective of gender or any other considerations in terms or availability of credit, employment of workers in companies for which objects have been financed.

10.6.7. Co – Financing

i. Access Bank will therefore seek to share financing with third parties (other than object/project sponsors) on an object or transaction-specific basis with or without formal coordination agreement among the financing partners.

ii. Co-financing could be either joint or parallel financing or any other form that will bring in additional financing and allow risks to be shared. The need for such co- financing should however not compromise Access Bank's policies or lead to delayed acquisition of objects.

iii. Co-financing sources and availability, whenever possible, should be confirmed before completion of the appraisal process. Where delays are anticipated on the part of the co-financier, the object should be structured to allow for parallel financing and to ensure that progress on Access Bank's loan is not dependent on the co-financier's actions or ***inactions.***

10.6.8. Appraisal Procedure and Lending Process

i. All requests for loan from Access Bank must be fully documented and approved by the management of Access Bank in line with board approved limits.

ii. Access Bank officers (or appointed consultants where applicable) are fully responsible to the Bank and to no other institution or agency in carrying out their duties. They must therefore apply themselves with all sense of seriousness, professionalism and integrity and should clearly communicate to Access Bank's numerous clients the bank's requirements, expectations and processes in object selection and appraisal processes

iii. Access Bank's object selection and appraisal procedures and processes are designed to ensure that only ***technically*** feasible and financially viable objects are recommended for funding and that borrowers and manufacturers have the necessary capacity and resources to implement the object and would be credible to honour their obligations under the loan agreement;

iv. Object proposals received ***shall go*** through evaluation, appraisal and approval processes including the following:

- Internal evaluation and review;
- Proposal on and discussions of the indicative terms and conditions
- Pre-appraisal and appraisal
- Preparation and review of the appraisal report
- Approval by management
- Loan offer and acceptance
- Final negotiations and signing of the loan agreement

10.6.9. Acceptable Security

As stated in the Banks Credit policy, Where the purpose of the specialized lending exposure is to finance the acquisition of physical assets, including ships, aircraft, so that the income generated by the assets is lease or rental payments obtained from one or several third parties ('object financing exposures'), institutions shall apply the assessment criteria referred to.

The bank shall secure its object finance facilities for loan in the aviation field with the following elements as well as other collateral under the bank's list of acceptable collateral;

I. A mortgage of the asset (aircraft);

II. An assignment of earnings, rights, time charter and receivables;

III. A pledge on the shares of the company, or of other receivables;

IV. Special privileges on the aircraft as applicable

V. All data, manuals and technical records, and

VI. The airframe, all equipment, machinery and other appurtenances as accessories belonging to the aircraft, which are on board or which have been temporarily removed therefrom, and

VII. Any engines owned by the owner of the aircraft whether attached to the aircraft or not, as well as any replacement engines *(designated for use on the aircraft and owned by the owner of the aircraft)* but temporarily not attached to the aircraft

VIII. Irrevocable powers of attorney.

For Aircraft finance the borrowers shall be required to deposit with the bank copies of Log books, Manufacturers Airworthiness Directives and Service bulletins bi-annually.

All object finance loans shall be adequately secured and the security shall be executed in a form and manner acceptable to Access Bank.

I. In most cases, the object being financed is both the security and the repayment ***cash flow*** generator;
II. The purpose of the security is to protect Access Bank in the event of default by the borrower.
III. Bank loans, shall have senior or at least equal status vis-à-vis other loans so as to make Access Bank the dominant or equal creditor in the event of default by the borrower and to protect Access Bank from other subordinated or junior and non-lien debts or creditors. This applies in the case of syndicated object financing.

10.6.10. Loan Documents

The loan and security agreements shall be fully documented in accordance with existing local laws. The legal and credit risks management departments shall be responsible for ensuring that all transactions are properly documented, and that Access Bank is protected at all times. The borrower shall bear all legal and other costs associated with documenting the security.

10.6.11. Applicable Limits On Loans and Lines of Credit

i. Financing of objects from one obligor (or a group of related obligors) shall not be more than 20% of the Bank's total shareholders' funds or 70% of the total object cost, whichever is less.

ii. The borrower must have minimum of 10% equity in the object's cost. Exception in all other cases must be clearly documented and approved by staff with the right credit approval limit for the proposed facility

iii. Access Bank will normally disburse its loan or equity based on agreed disbursement schedule and progress of the object being financed.

iv. Any foreign exchange risks, where funds are lent in foreign currencies, shall be borne by the borrower.

v. The Bank shall engage Access Bank's financing may not be committed until sources of co-financing and end financing have been confirmed.

10.6.12. Interest Charges

i. The interest chargeable on this facility shall be based on the Risk Based Pricing structure which is subject to change in line with money market variables.

ii. Interest payment dates shall be monthly, quarterly, semi-annually or after expiration of approved moratorium period.

iii. Management may however approve annual payment of interest provided it is computed on a quarterly or semi-annual basis but paid annually. Interests not paid shall attract penal interest rate at the default interest rate or any other interest rate that may be set by the management.

Other Charges and expenses

The borrower shall pay to Access Bank additional charges which are set from time to time by Management and Board of Directors and are subject to conformity with the Guide to Bank Charges. These fees may include: - Appraisal fee, Management fee, Advisory fee Legal fees and other applicable fees.

10.6.13. Disbursement Conditions

i. Disbursement will be made directly to the manufacturer or seller based on procurement or contract agreement; or outright payment for readymade object (s) to be procured. This is subject to payment recommendation duly signed and authorized by relevant professionals supervising the acquisition of the object (where applicable)
ii. Advance payment may be made where it is provided for in the contract and/or supported by a Performance Guarantee or ***Letter of Credit*** (offshore procurement) with Access Bank noted as first loss payee;
iii. An application for disbursement (the form prescribed by the Bank) must be received from and duly signed by the borrower or its authorized agents before any disbursement can be processed. It should be accompanied by detailed technical and financial report on the progress if the object is under construction.
iv. Access Bank may cancel any part of the loan outstanding once the closing dates have elapsed or may call for renegotiation of the terms and conditions of the loan to compensate it for additional costs incurred as a result of the delays.
v. Access Bank shall be under no obligation to effect any disbursement unless it is satisfied that all conditions have been met and that the money requested shall be applied solely to the procurement of the object.
vi. The proceeds of Access Bank loan shall be used exclusively for the acquisition of the object as provided in the loan agreement and any other documents related to the object. In this regard, the borrower shall be required to open a separate dedicated account into which funds for the object shall be warehoused. Access Bank agents shall be allowed unfettered access to the account for the purpose of monitoring and audit (where applicable).
vii. The borrower shall provide satisfactory evidence that it could meet any cost overruns and that it has judiciously used disbursed funds for the stated purpose.

viii. An indicative disbursement schedule should be agreed with and provided by the borrower at the commencement of the loan disbursement (Where applicable).

10.6.14. Loan Tenor and Repayments Terms

i. Tenor of the facility shall depend on the cash flow to be generated from the object being financed.
ii. Repayment will normally be made in the currency of the loan except otherwise stated and shall be received free of any charges in the designated account on the date it is due.
iii. All Payment shall be made not later than the repayment dates set out in the Loan Agreement. Principal repayment dates could be monthly, quarterly or semi-annually. Bullet or annual principal repayments may be allowed if the nature of the object and its cash flows justify them.
iv. Pre-payment of the balance of the loan will attract no penalty.
v. A moratorium period on principal amount not exceeding the manufacturing and implementation period of the object may be granted at the discretion of the Bank.

10.6.15. Reporting Process

i. During the approval of Object Finance Facility, Access Bank shall require evidence that the obligor’s management is capable and can prepare and issue regular financial and technical progress reports to the financiers, or engage the services of an expert (approved by the bank) in this regard.
ii. The borrower shall maintain records and institute procedures adequate for object implementation and for monitoring the progress on the object in conformity with established professional practices.
iii. The bank shall ensure that a report is obtained on the object financed prepared by the officers or appointed Consultant which provides detailed information as it relates to the specific object financed and the industry.
iv. A progress report shall be provided periodically or as may be required by the Bank. Where necessary, the advice of a professional shall be sought to interpret the survey and confirm if the bank shall deal, with appropriate justification and mitigants.
v. The obligation to report to Access Bank shall be independent of any accounting responsibility contained in the legislation of the country.

vi. Access Bank may, if so requested by other financiers, monitor progress on their behalf. A fee will normally be charged for this service.

vii. The borrower shall submit to Access Bank its own audited accounts for each fiscal year until and including the last fiscal year in which the object repayment is complete. The accounts shall make reference to the object financed by Access Bank as required by local laws. The auditors shall be acceptable to Access Bank.

10.6.16. Inspections and Monitoring

i. Access Bank reserves the right for its officers or appointed agents to review, audit and inspect the object at ***any given time*** during implementation. The borrower and manufacturer shall be given reasonable notice of such an inspection;

ii. Monitoring will ensure that:
   - The credit quality of outstanding loans is maintained
   - Any existing Agreement with Access Bank remains adequate to protect Access Bank in the event of violations. Any amendments, waivers and new conditions are negotiated and documented during the life of the Agreement. Object implementation is as per the Loan Agreement and in accordance with acceptable financial and technical standards and practices.
   - Funds disbursed are being adequately utilized. Works are of required standards and that they are adequately insured and protected.
   - Progress is in line with programme. Proactive actions that need to be taken to ensure completion and loan repayment as planned.

iii. Risk Management Group and the sponsoring business unit shall be responsible for putting in place an effective loan monitoring mechanism for all object finance facilities.

iv. A periodic visitation report regarding the state of the object must be submitted by a representative of the bank from the relevant business unit. A half yearly report prepared by an independent consultant may be necessary for very expensive, heavy duty objects such as aircrafts, vessels, etc.

10.6.17. Object Audit

Access Bank reserves the right for its officers or appointed agents to audit any activity related to its funding at any given time during the object implementation period.

The audit will ensure that:

I. The loan agreement is being enforced;

I. The funds disbursed are being utilized according to the Loan Agreement;

II. The escrow account is in place and being used according to the Loan Agreement;

III. Periodic reports sent to Access Bank are in conformity with the work completed on the ground

IV. Financial situation of the Client is still in good standing.

10.6.18. Agreements and Loan Documentation

- The terms and conditions of each loan facility shall be clearly stated in a loan agreement (or Offer Letter) to be signed between Access Bank and the borrower. The borrower shall be represented by officers duly authorized to act on its behalf. Loan agreements wherever required shall be duly registered,
- The object being financed shall be the primary collateral on the facility. Security shall be duly documented in accordance with laws in which the security or company is located. Where the security involves a fixed asset, Access Bank or its authorized agents shall keep custody of the title and the charge documents.
- Access Bank's external legal advocates and notaries shall be charged with the responsibility of preparing and registering the mortgage in accordance with the relevant laws;
- Search shall be conducted by Access Bank's advocates to establish the status of the assets charged to Access Bank; or at such period interval considered appropriate by the Head of Risk Management.
- Access Bank shall sign an escrow account agreement with the borrower and the escrow agent for the purpose of hosting and managing the escrow account, where applicable and this shall be in advance.
- Access Bank's Corporate Counsel Group shall review that the agreements have been duly and validly contracted and binding.

10.6.19. Loan Agreement

i. Access Bank object and loan management procedures are designed to ensure that objects are realized as planned and that loan repayments proceed as scheduled.

ii. Disbursements and repayments shall as much as possible progress as provided in the loan agreement. In the event that the targets could not be met, Access Bank could consider rescheduling or varying or waiving the relevant clauses of the loan agreement. Such waivers or variations shall attract appropriate fees as indicated in the loan agreement.

iii. The purpose of considering and granting waiver requests is to improve the overall performance of the loan and to bring the object to a stage where potential default is significantly reduced.

iv. The management of Access Bank shall be responsible for considering and approving waivers or any variations to the loan agreement especially concerning grace period, and/or extension of repayment periods.

v. Any rescheduling that could result in loss of income, variation or dilution of security or additional funding shall require approval by the management of the bank.

All variations or waivers shall be expressly reflected as an addendum to the loan agreement duly executed by the borrower and Access Bank.

10.6.20. Lending Process

i. To establish reliable trends and make a realistic lending decision, the Bank, with regard to object financing, will consider credit requests of corporate organizations with audited accounts of between 3 and 5 years. In addition, all applications must be supported by applicant’s cash flow covering the tenor of the facility.

i. The total funding need of the business must be accurately estimated. To ascertain this, the supplier’s pro forma invoice detailing the cost and description of the object must be submitted.

i. Depending on the complexity of the object being financed, the

iv. bank may commission a professional to conduct a feasibility study on the object. Such report shall contain information such as the useful life span of the object, the state of the object, the year of manufacture and other relevant information.

v. For specialized objects (e.g. Aircraft, Vessel, etc.), at some point in the tenor of the facility and in line with the Bank's CPG an independent valuation report, prepared by the bank's appointed consultant, will be necessary. The said valuation cost will be fully borne by the borrower

vi. All ancillary costs associated with the acquisition and subsequent use of the asset must be ascertained and included in the total cost.

vii. In order to achieve and maintain high quality risk assets, the bank has in place, a robust loan administration mechanism and loan disbursement methodology. Credit Risk Management shall ensure that all object finance facilities are adequately and effectively administered at all times. The Credit Administration Unit must ensure the following in the administration and disbursement of object finance loans.

viii. The minimum Equity Contribution ratio shall be 30% of the cost of the object being financed.

ix. To mitigate the risks of possible funds diversion, non-delivery and the financed object not meeting up with required specification, the Bank will only disburse by way of LC establishment. However, where it is impracticable to establish a Letter of Credit, the bank will disburse required funds into an account pending the receipt of a satisfactory feasibility and valuation reports from the commissioned Professional Valuer.

x. The asset is comprehensively insured with the bank's interest noted as the first loss payee.

xi. The Bank shall initiate registration of a debenture legal charge over the object being financed. The bank may also take a charge over the borrower's existing fixed and floating assets alongside the joint guarantees of the directors.

10.6.21. Classification and Provision Requirements

The classifications and provisioning for specialized loans such as Object finance, takes into considerations the cash flows and gestation periods of the loan.

The banks shall classify and make provisioning for object finance, income producing real estate and commercial real estate financings as per provision requirements in Prudential Guideline.

10.7 Real Estate Finance Policy

10.7.1. Background

Real Estate Loan also known as “Income producing real estate” is a loan provided for funding of real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the asset. The primary source of these cash flows would generally be lease or rental payments or the sale of the asset. (According to Prudential Guidelines July 2010)

Real Estate financing is an arm of Project Finance which is one of the services offered by Access Bank. Section 7 of the Prudential Guidelines requires that Banks should develop comprehensive written policy that establishes appropriate limits and standards for all extensions of credit to the real estate construction or made for the purpose of financing the construction of a building.

This policy document is intended to assist in the formulation and maintenance of a real estate lending policy that engenders safe and sound lending practices in Access Bank Group.

10.7.2. Objective of the Policy

This policy document is designed to achieve the objectives listed below:

I. Provide the framework upon which a credit product on real estate financing should be structured in the Bank with consistent procedures for evaluating and accepting project proposals.
II. Provide the Bank’s credit risk function with consistent criteria for evaluating and making recommendations on project proposal;
III. Provide management and directors with clear standards to evaluate and approve real estate lending requests.
IV. Provide both Internal and External audit functions with clear and consistent metrics for the evaluation of Access Bank’s real estate financing system.
V. Ensure that relevant risks that are inherent in real estate financing are promptly identified, appropriately priced (Risk Based Pricing) and such projects are closely monitored in order to limit both the frequency and severity of loan losses.
VI. Provide a monitoring framework that ensure the bank’s real estate lending policy is relevant in current and future market conditions

10.7.3. Scope of the Policy

This policy proffers best practice aspect of real estate financing. It specifically covers administration, disbursement and monitoring of real estate credit facilities.

10.7.4. An Overview of Real Estate Market in Nigeria

Real estate is in a cyclical industry that is affected by both local and national economic conditions which, includes: growth in population and employment, consumer spending, interest rates and inflation. While macro-economic conditions are important factors affecting the overall state of the real estate industry, local supply and demand conditions are by far the more important factors affecting real estate market

Housing is one of the basic necessities of life but Nigeria is yet to develop a vibrant mortgage market. Current housing deficits in Nigeria is very high and this provides tremendous investment opportunities in the industry through real estate financing. Access Bank is aware of the immense potentials in terms of the risk – returns potentially available in this industry and is willing to take advantage of these emerging opportunities by creating financial products and services that meet this funding requirement based on its Risk Acceptance Criteria.

10.7.5. Risk Associated with Real Estate Project Finance

The generic applicable risks associated with real estate and construction lending are already stated in section 3.5 above, other specific risk include:

10.7.5.1. Construction Risk

This is the risk that the project will fail on the triple constraints of time, quality and cost.

10.7.5.2. Compliance Risk

Compliance risk is the risk arising from violations of, or non- conformance with laws, rules, regulations, prescribed practices, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the bank's clients may be ambiguous or untested. This risk exposes the institution to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to a diminished reputation, reduced franchise value, limited business opportunities, lessened expansion potential, and lack of contract enforceability.

10.7.5.3. Environmental Risk

This is the risk that the bank may be held financially responsible for the clean- up of hazardous waste on property that it has taken as collateral. Policies or procedures should be in place to protect the bank from liability for any environmental hazards associated with real estate that it holds as collateral. Asbestos in commercial buildings, contaminated soil and underground water supplies, or use of the property to produce or store toxic materials are only a few examples of environmental risk that may subject a bank to potential liability. Ideally, the bank should attempt to identify environmental risks before funding a loan or offering any type of commitment to lend. The bank should seek the advice of environmental risk experts if it believes the environmental problems are serious.

Summary of Risk Associated with Real Estate Financing

S/N	Stages of	Risk Associated	Real Estate Finance
1	Scheme Design Development	1. Unclear government policy or planning approval for construction. 2. Inadequate data.	Sponsors to fund this phase as the bank shall not fund project development phase
2	Construction	1. Technical design flaws.	1. Submission of Professional Indemnity Insurance by Project Sponsor's Consultants.
		2. Omission in scope leading to cost overruns	1. Submission of project Bills of Quantities (BOQs), drawings, work plans, etc. 2. Provision of Adequate Contingency Sum in the BOQs
		3. Arbitrary increase in scope and/or quality specifications leading to cost overrun	1. Sponsor to increase equity contribution as a way of tackling resultant cost overrun
		4.Unauthorized structural deviation from approved design that could lead to Regulatory and Government sanction	1. The Bank would immediately call-in the facility. 2. The Bank would publish a disclaimer.
			1. Avoid too optimistic Programme of Work.

		5. Time overrun.	2. Allow for adequate Moratorium. 3. Submission of Performance Bond / Advanced Payment Guarantee by Contractors.
		6. Progress payment diversion by developer.	Irrevocable Domiciliation Agreement to be executed.
		7. General contractor files for bankruptcy before completing the project.	Contractor's All Risk Insurance policy provision
		8. Uninsured destruction of completed work or work in progress.	Contractor's All Risk Insurance Policy provision.
		9. Major disputes or the failure of a major supplier or subcontractor to deliver goods and services.	1. Insertion of Penalty clause in Contract Agreement 2. Submission of Performance Bond / Advance Payment Guarantee by Suppliers / Sub-contractors.
		10. Delay in procurement/Importation.	10. Insertion of Penalty clause in Contract Agreement.
		11. Change in government policy.	11. Project viability analysis with sensitized cash flows
3	Operation	1. Usage of inferior materials for the construction leading to collapse of the building. 2. Incomplete/ Improper	1. Samples of materials to be approved by Project sponsor's Consultants prior to usage. 2. Legal to advise prior to

10.7.6. Product Lines

Access Bank considers applications from both public and private sector agents for financial assistance in real estate, both residential and commercial, and related infrastructure projects in pursuance of its objectives.

The applications many be for the following forms of assistance:

1. Direct loans for financing projects relating to development of new housing estates

   I. Infrastructure provision through site and services schemes

II. Neighbourhood and housing improvements;
III. Commercial projects (office buildings, rental housing, shopping centres and soon

2. Lines of credit to housing financial and other institutions for on-lending to individuals and developers for:

I. New mortgages
II. Construction finance
III. Small and medium-scale building materials production
IV. Procurement of building material and equipment.

3. Guarantees to small and medium-sized developers` to enable them source funds from offshore /local financial institutions or meet contractual obligations. Such a guarantee shall be issued directly by the bank as a contingent liability.

10.7.7. Project Proposals and Application

I. Developers/borrowers interested in the bank’s services and loans shall submit formal applications to the Bank which will be processed in line with the bank’s Credit Policy Guide “CPG”.

II. Applicants must hold a title to the land which has already been perfected in his name for the proposed development at the time of application and the land must be free of any encumbrances throughout project implementation. Access Bank shall not fund land procurement.

III. Applications must be accompanied by comprehensive documentation on the project, in accordance with the bank’s Guidelines for Preparing Project Proposals, including but not limited to background, sector information, and business and marketing plans showing cash flow analyses and financial projections. Detailed technical information (such as site layouts and architectural plans) should also be provided where applicable.

IV. Access Bank encourages good corporate governance in the companies and developers it does business with and would seek at all times to promote this through proper constitution of management and board of directors of borrower companies and accurate and transparent financial accounting.

10.7.8. Environmental and Social Policies

Access Bank is committed to conducting business in an environmentally and socially responsible manner, and will operate in accordance with the Equator Principle, which are voluntary set of guidelines for managing environmental and social risk issues related to the financing of development projects based on guidelines of the World Bank and International Finance Corporation (IFC).

Also, projects funded by the Bank shall comply with the Environmental and Social Risks Policy of the Bank e.g.

I. Real estate projects shall provide basic and acceptable infrastructure services such as water, sanitation and storm water drainage and access roads, amongst others. They should promote sound environmental sustainability, harmonious development within existing neighbourhoods and efficient use of land and other natural resources.

II. Developers and their contractors and other service providers must ensure the safety of workers involved in the construction of projects funded by the bank through sound safety practices on and off the construction sites, including but not limited to provision of protective clothing, safety equipment and gadgets, sanitation facilities, appropriate insurance and so on.

III. Buildings must meet all standards and requirements of health and safety during construction and after when in use. They must be duly certified to be so by licensed professionals and municipal agencies. Developers shall procure, where necessary, appropriate insurance to protect homebuyers and users of the facility against any losses during and after construction.

IV. Contractors and developers must comply with local labour laws and shall ensure that workers employed on their sites receive fair wages and that child labour is not employed in the implementation of projects funded by the bank.

V. Access Bank shall promote equal opportunities for all irrespective of gender or any other considerations in terms or availability of credit, employment of workers in funded projects during and after construction and in sale of houses and serviced plots.

VI. Access Bank shall not participate in the funding of any projects on lands that have been expropriated without compensation or where there has been forceful eviction.

VII. Noncompliance with Access bank Environmental and Social Risks Policy may attract sanction depending on the severity of the non-compliance

10.7.9. Co - Financing

I. Access Bank's main mandate is to mobilize resources for housing development in its country of operation. It recognizes that this mandate could best be achieved through working together with developers and other financial institutions with a view to pooling resources to increase real estate investments and services.

II. Access Bank will therefore seek to share financing with third parties (other than project sponsors) on a project or transaction-specific basis with or without formal coordination agreement among the financing partners.

III. Co-financing could be either joint or parallel financing or any other form that will bring in additional financing and allow risks to be shared. The need for such co- financing should however not compromise Access Bank's policies or lead to delayed implementation of projects.

IV. Co-financing sources and availability, whenever possible, should be confirmed before completion of the appraisal process. Where delays are anticipated on the part of the co-financier, the project should be structured to allow for parallel financing and to ensure that progress on Access Bank's loan is not dependent on the co-financier's actions or non-action.

10.7.10. Appraisal Procedures and Lending Process

I. All requests for a loan from Access Bank must be fully documented and approved by the management of Access Bank in line with Credit Approval limits as stated in Credit Policy Guide (section 5.2.16.6.4)

II. Access Bank officers (or appointed project monitoring consultants or professional valuer acceptable to the Bank) shall be appointed by the bank and shall be fully responsible to the Bank while the consultation cost shall be borne by the customer. They must therefore apply themselves with all sense of seriousness, professionalism and integrity and should clearly communicate to Access Bank's numerous clients the company's requirements, expectations and processes in project selection and appraisal processes.

III. Access Bank's project selection and appraisal procedures and processes are designed to ensure that only technically feasible and financially viable projects are recommended for funding and that the real estate developers must possess necessary capacity and resources to implement the project. He must be credible enough to honour due obligations under the loan agreement.

IV. Project proposals received go through evaluation, appraisal and approval processes including the following:

- Internal evaluation and review
- Proposal on and discussions of the indicative terms and conditions
- Pre-appraisal and appraisal
- Preparation and review of the appraisal report
- Approval by management
- Loan offer and acceptance
- Final negotiations and signing of the loan agreement.

V. Components of the analysis include:

- Sponsors and other counter party risks.
- Cash flow projections
- Funding and repayment mechanisms (rental or sales)
- Legal and security documentation
- Equity contribution- not less than 30%
- Project stakeholders e.g. consultants, contractors and suppliers.

10.7.11. Security

I. All project loans shall be adequately secured, and the security shall be executed in a form and manner acceptable to Access Bank. The collateral adequacy ratio must be in line with the Bank's Credit Mitigant Policy.

II. The purpose of the security is to protect Access Bank in the event of default by the borrower.

III. Access Bank loans shall have senior status or at least equal status vis-à-vis other loans so as to make Access Bank the dominant or equal creditor in the event of default by the borrower and to protect Access Bank from other subordinated or junior and non-lien debts or creditors.

IV. Access Bank accepts both collateral and guarantees as security and may consider the following as credit support or enhancement:

- Prime Property
- Financial instruments such as treasury bills, bonds, share certificates, debentures and commercial papers
- Insurance policies from acceptable institutions
- Guarantee from a prime bank or institution
- Letters of credit from acceptable banks
- Government guarantee
- Any other acceptable security

V. Collateral

- Collateral should have unencumbered recourse to specific assets.
- It must cover the loan with no loss to the Bank.
- It must comply fully with all the collateral requirements in the Bank's Credit Mitigant Policy.

10.7.12. Loan Documents

The loan and security agreements shall be fully documented in accordance with existing local laws and as stated in Credit Policy Guide of the Bank. The legal and credit risks management departments shall be responsible for ensuring that all transactions are properly documented and that Access Bank is protected at all times. The borrower shall bear all legal and other costs associated with perfecting the security.

10.7.13. Applicable Limits on Loans and Lines of Credit

I. Lending to any single project (or a group of related obligor treated as {one obligor}) shall not be more than 20% of shareholders' funds as stated in the bank's Credit Policy Guide or 70% of the total project cost, whichever is less.

II. Access Bank will not finance the cost of land, professional and other fees. Lending shall be used entirely to finance construction cost component, or any other component as may be approved by the management.

III. The borrower must have equity in the project of not less than 30% of the total cost, including land, which must be free of any encumbrances.

- Access Bank guarantee will normally indemnify the repayment of not more than 70% of the approved project cost.

- Access Bank will normally disburse its loan or equity based on agreed disbursement schedule and progress of the project.

- Exception in all other cases must be clearly documented and approved by staff with the right credit approval limit for the proposed facility

IV. Any foreign exchange risks, where funds are lent in foreign currencies, shall be borne by the borrower.

V. Access Bank financing may not be committed until sources of co-financing and end financing have been confirmed. Developers may be required to commit their funds upfront or to set them aside in an acceptable dedicated account before the Bank loan could be disbursed.

VI. The bank shall not fund projects where the borrower is also the contractor except where the borrower is an established real estate developer (exception to this shall require one up approval);

VII. There shall be a clear separation of roles in the appointment of consultants and contractors in all real estate financing to be granted by the bank.

10.7.14. Interest Charges

I. The interest chargeable on this facility shall anchor MPR, reflecting the risk- based pricing model which is subject to change in line with money market variables.

II. Interest payment dates shall be monthly, quarterly, semi-annually or after expiration of approved moratorium period. Interests not paid shall attract penal interest rate at the default interest rate or any other interest rate that may be set by the management.

Other Charges and expenses

The borrower shall pay to Access Bank the following charges which are set from time to time by; management, board of directors and subject to banker's tariff: the applicable fees are: appraisal fee, management fee, project management fee, Legal fees and other applicable fees.

10.7.15. Disbursement Conditions

I. Disbursement will be made based on work progress or agreed milestones and payment certificates duly signed and authorized by appointed professionals supervising the project.

II. Advance payment may be made where it is provided for in the contract and/or supported by an Advance Payment Guarantee (APG) or Performance Bond with Access Bank noted as first loss payee.

III. An application for disbursement must be received from and duly signed by the borrower or its authorized agents before any disbursement can be processed. The application shall be in the form prescribed by Access Bank from time to time and accompanied by detailed technical and financial report on the progress of the project. Access Bank shall be under no obligation to disburse if progress is not satisfactory or where other conditions have not been met.

IV. Access Bank may cancel any part of the loan outstanding once the closing dates have elapsed or may call for renegotiation of the terms and conditions of the loan to compensate it for additional costs incurred as a result of the delays.

V. Access Bank shall be under no obligation to effect any disbursement unless it is satisfied that all conditions have been met and that the money requested shall be applied solely to the project.

VI. The proceeds of Access Bank loan shall be used exclusively for the development of the project as provided in the loan agreement and any other documents related to the project. In this regard, the borrower shall be required to open a separate project account into which funds for the project shall be deposited. Access Bank agents shall be allowed unfettered access to the account for purposes of monitoring and audit.

VII. The borrower shall provide satisfactory evidence that it could meet any cost overruns and that it has judiciously used disbursed funds for the stated purpose.

VIII. An indicative disbursement schedule should be agreed with and provided by the borrower at the commencement of the project.

10.7.16. Loan Tenor and Repayment

I. Well-established housing developers that offer tenant purchase or limited mortgage schemes or developers with a large portfolio of real estate assets could also be considered for loans as stated in credit policy guide, if they are considered to have strong balance sheet and management Ordinarily, direct loans to developers for financing housing estates will be for a period or tenor not exceeding five years (including any moratorium period).

II. Short-term facilities shall be for periods not exceeding 2 years.

III. Repayment will be made in the currency of the loan and shall be received in the designated account on the date it is due in line with agreed terms of the loan.

IV. All repayments shall be made not later than the repayment dates set out in the Loan Agreement. Principal repayment dates could be monthly, quarterly or semi-annually. Bullet or annual repayments may be allowed if the nature of the project and its cash flows justify them.

V. Unless otherwise specified, pre-payment of the balance of the loan will attract 3 months' interest payment on the outstanding balance.

VI. A grace period, not exceeding the implementation period of the project up to a maximum of two years, may be granted at the discretion of Access Bank. It shall apply only to the principal amount.

VII. Interest shall continue to accrue on any disbursed amounts and will be paid during the grace period on or before the interest payment dates.

10.7.17. Project Implementation

I. The Loan Agreement shall include a brief description of the project and the purpose of the loan.

II. Projects, once approved may not be varied or altered without the prior approval of Access Bank. Appropriate clauses shall be included in Loan

Agreements to give Access Bank option to withdraw from co-financing any project where unauthorized variations in scope could compromise project feasibility and viability.

III. Procurement of goods and services shall be through competitive tendering procedures duly approved by Access Bank

IV. The borrower or implementing agency shall be fully responsible, directly or indirectly, for the realization of the project, where required and as stated in the approval document, the customer shall furnish Access Bank with regular reports on the financial, technical and marketing progress of the project.

V. All works shall be properly insured by the borrower throughout the Tenor of the loan. Such insurances shall be procured from approved insurance companies while the cost shall be borne by the customer.

VI. The contractor for the project shall procure and submit an Advance Payment Guarantee/ Performance bond in an approved format to the bank covering an appropriate value of the project.

VII. The interest of Access Bank shall be duly endorsed on each insurance cover/policy.

VIII. Access Bank may appoint an independent project manager to monitor and report on the performance of the project. The cost of these services shall be borne by the borrower.

10.7.18. Reporting Procedures

I. During project appraisal, Access Bank shall require evidence that the borrower's management is capable and can prepare and issue regular financial and technical progress reports to the financiers.

II. The borrower shall maintain records and institute procedures adequate for project implementation and for monitoring the progress of the project in conformity with established professional practices.

III. A project progress report shall be required not later than 30 days after the end of each quarter. Amongst others, this report will detail the technical, financial, legal and implementation aspects of the project and any changes effected and value of collateral.

IV. The obligation to report to Access Bank shall be independent of any accounting responsibility contained in the legislation of the country.

V. Access Bank may, if so requested by other financiers, monitor progress on their behalf. A fee to be paid by the obligor will normally be charged for this service.

VI. The borrower shall submit to Access Bank its own audited accounts for each fiscal year until and including the last fiscal year in which the project repayment is complete. The accounts shall make reference to the project financed by Access Bank as required by local laws. The auditors shall be acceptable to Access Bank

10.7.19. Inspection and Monitoring

I. Access Bank reserves the right for its officers or appointed agents to review, audit and inspect the project at any time during implementation. The developers/borrower may be given reasonable notice of such an inspection. This is subject to the Bank's discretion and the peculiarities of the project.

II. Monitoring will ensure that:

- The credit quality of outstanding loans is maintained
- Any existing Agreement with Access Bank remains adequate to protect Access Bank in the event of violations
- Any amendments, waivers and new conditions are negotiated and documented during the life of the Agreement
- Project implementation is as per the Loan Agreement and in accordance with acceptable financial and technical standards and practices.
- Funds disbursed are being adequately utilized.
- Works are of required standards and that they are adequately insured and protected.
- Progress is in line with programme.
- Proactive actions that need to be taken to ensure completion and loan repayment as planned.

10.7.20. Project Audit

Access Bank reserves the right for its officers or appointed agents to audit any activity related to its funding at any given time during the project implementation period.

The audit will ensure that:

- The loan agreement is being enforced;
- Financial situation of the Client is still in good standing
- The funds disbursed are being utilized according to the Loan Agreement;
- Periodical reports sent to Access Bank are in conformity with the work completed on ground.

10.7.21. Agreement and Loan Documentation

I. The terms and conditions of each loan facility shall be clearly stated in a loan agreement to be signed between Access Bank and the borrower. The borrower shall be represented by officers duly authorized to act on its behalf. Loan agreements wherever required shall be duly registered.

II. The security shall be duly documented in accordance with the laws of the country in which the security or company is located. Where the security involves a fixed asset Access Bank or its authorized agents shall keep custody of the title and the charge documents.

III. Access Bank's external legal advocates and notaries shall be charged with the responsibility of preparing and registering the mortgage in accordance with the relevant laws.

IV. An annual search shall be conducted by Access Bank advocates to establish the status of the properties/fixed assets charged to Access Bank.

V. Access Bank legal unit shall issue a clean legal opinion that the agreements have been duly and validly contracted and binding.

10.7.22. Loan Management

I. Access Bank project and loan management procedures are designed to ensure that projects are realized as planned and that loan repayments proceed as scheduled. The Bank shall therefore work closely with developers/borrowers as partners with a view to optimizing returns for all involved.

II. Disbursements and repayments shall as much as possible progress as provided in the loan agreement. In the event that the targets could not be met Access Bank could consider rescheduling or varying or waiving the relevant clauses of the loan agreement. Such waivers or variations shall attract appropriate fees as indicated in the loan agreement.

III. The purpose of considering and granting waiver requests is to improve the overall performance of the loan and to bring the project to a stage where potential default is significantly reduced.

IV. The management of Access Bank shall be responsible for considering and approving waivers or any variations to the loan agreement especially concerning grace period, and/or extension of repayment periods.

V. Any rescheduling that could result in loss of income, variation or dilution of security or additional funding shall be subject to approval by the management of the bank.

VI. All variations or waivers shall be expressly reflected as an addendum to the loan agreement duly executed by the borrower and Access Bank

10.7.23. Monitoring of Real Estate Market

The Project Monitoring Unit shall ensure monitoring the real estate markets' industry outlook in order to engender proactive measures to changes in the real market conditions. Pertinent market supply and demand factors in this market include:

- Demographicindicators, including population and employment trends.
- Zoning requirements
- Current and projected vacancy and absorption rates
- The volume of available space, including completed, and sales prices, including new projects approved by local building authorities but not yet under construction.
- Current and projected lease terms, rental rates, sales prices including

concessions and amenities.

- Current and projected operating expenses for different types of projects.
- Economic indicators, including trends and diversification of the market

Where required or feasible, this function shall be outsourced by the bank to any reputable real estate valuer who shall provide semi-annual report to the bank. It shall also be supported by the work and analyses provided by the Bank's Economic Intelligence Unit.

10.7.24. Classification and Provision Requirements

The classifications and provisioning for specialized loans such as Project finance, takes into considerations the cash flows and gestation periods of the loan.

The banks shall classify and make provisioning for object finance, income producing real estate and commercial real estate financings as per provision requirements in Prudential Guideline

11. Environmental and Social Risk Management (ESRM)

11.1 Introduction

The bank is committed to conducting its business in an environmentally and socially responsible manner. In maintaining international best practice in environmental and social risk management, the Bank shall ensure that our customers are also fulfilling their environmental and social responsibilities in line with the Bank's expectations.

The Bank shall insist on compliance with applicable National laws and regulations, the use of sound environmental, health & safety, and labour practices, as these are important factors in demonstrating effective corporate governance, ensuring commitment to loan obligations where E&S issues are applicable and addressed in the contract documentation.

The Bank shall not provide financial services to clients and projects / activities that are on the exclusion list of the Environmental and Social Risks Management (ESRM) Manual.

All applicable projects shall be reviewed and approved in line with credit processes as contained in the Bank's CPG and ESRM Manual

The roles and responsibilities of Environmental and Social Risks Management include;

- Ensure that policies, processes and procedures are developed and integrated as the Environmental Management System with focal aim to assess, review, identify, manage, monitor and report the potential environmental and social ("E&S") risk issues inherent in credit requests thereby putting in place requisite mitigation to the identified risks.
- Preparation and development of environmental and social risk management frameworks and structures in addition to ensuring compliance with requisite regulatory, global standards and contract specific requirements and obligations (i.e. IFC).
- Investigate inherent credit's environmental and social factors and make recommendation as required to the RM and Management teams.
- Conduct independent audits/due diligence on facilities with high and moderate E&S risks.
- Timely escalation and necessary alert to senior management, committees, to take corrective action whenever a facility breaches prescribed environmental and social action plans and ESRM-CRM policy constraints. present and potential assets.
- Assess and confirm suitability and completeness of all E&S due diligence documentation before sign-off for availment / disbursement of funds.

Refer to the ESRM MANUAL for more details

12. DIGITAL LENDING

12.1 Introduction

Digital lending is the process of offering loans that are applied for, disbursed, and managed through digital channels, in which lenders use digitized data to inform credit decisions and build intelligent customer engagement. The central objective is to achieve the following:

- Increased operational efficiency
- Driving scale with existing customers,
- Reaching new customers, or
- Improving the customer experience
- Address the operational risk issues
- Ensure cyber security/safety

Refer to the Bank's digital Digital Lending Framework and the Digital Risk Management Framework for more details

11.6. Appendices

Appendix 1: Financial Product Type List

Access Bank's Financial Product Types

Existing credit risk products and service offerings that the bank will continue to offer in the market place include:

- Overdraft
- Time Loan
- Term Loans
- Retail Credit
- Project Finance
- Leasing
- Bonds and Guarantees
- Import Finance (LCs Usance, etc.) and other facilities that the Bank consider fit to satisfy customer's Business need
- Green Debts [a]

[a] Green Debts, including Green Bonds, Green Funds and such other categories as may be determined by the Bank from time to time, would be governed in conjunction with the Bank's Green Bond Framework.

Risk Identification Matrix

Risk Identification Matrix for Credit Products								
No.	Products		Exchange Traded (ET)/Over The Counter (OTC)	Credit Risk(CR)/Counterparty	Settlement Risk	Pre-Settlement Risk	Market Risk	Interest Rate Risk in the Banking Book
	Assets							
I	**Funded Products**							
1.	Overdraft							
	a	Against Term Deposit	NA	Yes	No	No	No	Yes
	b	Against Real Estate	NA	Yes	No	No	No	Yes
	c	Margin Trading	NA	Yes	No	No	No	Yes
	d	Custom Duty Payment	NA	Yes	No	No	No	Yes
	e	Suppliers Financing	NA	Yes	No	No	No	Yes
2.	Term Loans							
	a	Real Estate Loan	NA	Yes	No	No	No	Yes
	b	Equipment Financing	NA	Yes	No	No	No	Yes
	c	Short Term Loans	NA	Yes	No	No	No	Yes
	d	New Technology Capital Loan	NA	Yes	No	No	No	Yes
	e	Asset Replacement	NA	Yes	No	No	No	Yes
	f.	Hire Purchase Loans	NA	Yes	No	No	No	Yes

Risk Identification Matrix for Credit Products								
No.	Products		Exchange Traded (ET)/Over The Counter (OTC)	Credit Risk(CR)/Counterparty	Settlement Risk	Pre-Settlement Risk	Market Risk	Interest Rate Risk in the Banking Book
	g	Loans for Purchase of Consumer durables (e.g. electronics, furniture)	NA	Yes	No	No	No	Yes
	h	Loan for Shares acquisition	NA	Yes	No	No	No	Yes
	i.	Education Loans	NA	Yes	No	No	No	Yes
3.	Loans/Facilities-Revolving/Non-revolving							
	a	Project Finance	NA	Yes	No	No	No	Yes
	b	Distributor Finance	NA	Yes	No	No	No	Yes
	c	Importer Finance	NA	Yes	No	No	No	Yes
	d	Working Capital Loan	NA	Yes	No	No	No	Yes
	e	Lease Financing	NA	Yes	No	No	No	Yes
	f	Warehouse Financing	NA	Yes	No	No	No	Yes
	g	Agricultural Loans	NA	Yes	No	No	No	Yes
	h	Mortgage finance against Real Estate	NA	Yes	No	No	No	Yes
	i	Loan against Shares	NA	Yes	No	No	No	Yes

Risk Identification Matrix for Credit Products

No.	Products		Exchange Traded (ET)/Over The Counter (OTC)	Credit Risk(CR)/Counterparty	Settlement Risk	Pre-Settlement Risk	Market Risk	Interest Rate Risk in the Banking Book
	j	Loan against House rent	NA	Yes	No	No	No	Yes
	k	Foreign Exchange Loans	NA	Yes	No	No	No	Yes
	l	Oil and Gas contract finance	NA	Yes	No	No	No	Yes
	m	General Commercial Loan	NA	Yes	No	No	No	Yes
4.	Discounting-Revolving/Non-Revolving							
	a	PDC discounting	NA	Yes	No	No	No	Yes
	b	Invoice discounting	NA	Yes	No	No	No	Yes
	c	Import LC Acceptance discounting	NA	Yes	No	No	No	Yes
	d	Export LC Acceptance discounting	NA	Yes	No	No	No	Yes
	e	Avalized Bill discounting	NA	Yes	No	No	No	Yes
5.	Advance Against documents		NA	Yes	No	No	No	Yes
6.	Risk Participation-Loans/Discounting		NA	Yes	No	No	No	Yes

Risk Identification Matrix for Credit Products								
No.	Products		Exchange Traded (ET)/Over The Counter (OTC)	Credit Risk(CR)/Counterparty	Settlement Risk	Pre-Settlement Risk	Market Risk	Interest Rate Risk in the Banking Book
7	Factoring-Loans against Receivables		NA	Yes	No	No	No	Yes
8	Placements With Banks-Demand/Term		NA	Yes	No	No	No	Yes
9	Structured Notes		NA	Yes	No	No	No	Yes
10	Investments							
	a	Quoted Equities-Local/International	ET	Yes	No	No	No	Yes
			OTC	Yes	Yes	Yes	No	Yes
	b	Private Equities	ET	Yes	No	No	No	Yes
			OTC	Yes	Yes	Yes	No	Yes
	c	Hedge Funds	OTC	Yes	Yes	Yes	No	Yes
	d	Bonds	ET	Yes	No	No	No	Yes
			OTC	Yes	Yes	Yes	No	Yes
	e	Fixed Rate Notes	ET	Yes	No	No	No	Yes
			OTC	Yes	Yes	Yes	No	Yes
11	Leveraged Finance		NA	Yes	No	No	No	Yes
12	Syndicated lending		NA	Yes	No	No	No	Yes
II	**Non-Funded Products**							
1.	Import letters of credit-Unsecured/Foreign Revolving/Non-revolving							

Risk Identification Matrix for Credit Products								
No.	Products		Exchange Traded (ET)/Over The Counter (OTC)	Credit Risk(CR)/Counterparty	Settlement Risk	Pre-Settlement Risk	Market Risk	Interest Rate Risk in the Banking Book
	a	Sight LC's-First Port, Third Port, Standby ,Back-to-Back	NA	Yes	No	No	No	No
	b	Usance /Deferred Payment LC's-First Port, Third Port, Back-to-Back	NA	Yes	No	No	No	No
	c	Mixed Payment LC's-First Port, Third Port, Back-to-Back	NA	Yes	No	No	No	No
2.	Import LC Acceptances		NA	Yes	No	No	No	No
3.	Confirmed Export LC Acceptances		NA	Yes	No	No	No	No
4.	Avalized Inward Bills for Collection		NA	Yes	No	No	No	No
5.	Letters of Guarantee's							
	a	Bid Guarantee’s	NA	Yes	No	No	No	No
	b	Performance Guarantee’s	NA	Yes	No	No	No	No
	c	Advance Payment Guarantee's	NA	Yes	No	No	No	No
	d	Retention Guarantee’s	NA	Yes	No	No	No	No

Risk Identification Matrix for Credit Products								
No.	Products		Exchange Traded (ET)/Over The Counter (OTC)	Credit Risk(CR)/Counterparty	Settlement Risk	Pre-Settlement Risk	Market Risk	Interest Rate Risk in the Banking Book
	e	Maintenance Guarantee's	NA	Yes	No	No	No	No
	f.	Financial Guarantee's	NA	Yes	No	No	No	No
	g	Bonds & Guarantees	NA	Yes	No	No	No	No
	h	Shipping Guarantee's	NA	Yes	No	No	No	No
6.	Export LC Confirmations		NA	Yes	No	No	No	No
7.	FX Contracts-Spot/Forward/Swaps		ET	No	No	No	No	Yes
			OTC	Yes	Yes	Yes	No	Yes
8.	Interest Rates WAPS/ Structures &FRA's		OTC					
	a	Range Accrual Swaps		Yes	Yes	Yes	No	Yes
	b	Plain Vanilla Swaps		Yes	Yes	Yes	No	Yes
	c	Inverse Floaters		Yes	Yes	Yes	No	Yes
	d	Asset Swaps		Yes	Yes	Yes	No	Yes
	e	Step-ups		Yes	Yes	Yes	No	Yes
9.	Options & Futures-Index/Equities/Commodities							

Risk Identification Matrix for Credit Products								
No.	Products		Exchange Traded (ET)/Over The Counter (OTC)	Credit Risk(CR)/Counterparty	Settlement Risk	Pre-Settlement Risk	Market Risk	Interest Rate Risk in the Banking Book
	a	Call/Put	ET	No	No	No	No	Yes
			OTC	Yes	Yes	Yes	No	Yes
	b	Exotic	ET	No	No	No	No	Yes
			OTC	Yes	Yes	Yes	No	Yes
	c	Barrier/Path dependent	ET	No	No	No	No	Yes
			OTC	Yes	Yes	Yes	No	Yes

Note	Foreign Exchange Risk (including gold) - All assets and liabilities of the bank (on and off balance sheet) that are denominated in currencies other than reporting currency are exposed to foreign exchange risk in addition to the risks identified above. Country Risk - Exposures falling under the definition of country risk as given in section 3.3.13are exposed to Country Risk in addition to the risks identified above.

Risk Based Pricing

Risk Based Pricing

Risk Based Pricing Loans.xls

Setting of Exposure and Risk Limits

Setting Exposure and Risk Limits is an important segment of Credit and Market Risk policies. This note aims at explaining the process of setting Exposure and Risk Limits through defining Risk Appetite at bank level both across risks and for each stream of risk by the Board of Directors (BOD) and senior management.

Exposure Limit

Exposure Limit (EL) reflects ceiling on a bank's exposure across banking and trading books on any dimension such as industry, geography, sector, counterparty etc. to avoid risk of concentration. Excessive concentration has been identified as the single most important reason for failure of a number of banks worldwide. Defining, setting and managing EL is one of the important tasks of risk management function in any bank.

Risk Limit

With the development of tools for risk measurement for various streams of risk, Risk Limits (RL) gained prominence in the recent past. While EL is helpful in managing concentration risk in a traditional sense, they do not address explicitly risk of accepting an exposure. Two exposures of the same size might have totally different risk in terms of potential losses on a bank. This is because RL considers sensitivity and volatility of risk factors that are important for risk measurement apart from merely considering exposures. This necessitates use of EL & RL for limit management.

Basis for setting Exposure & Risk Limits

EL & RL could be set either on an absolute basis, in monetary terms, (say millions of dollars) or relative basis (as a percentage of capital or total assets or on any other base). Typically, they are set for one year, though they could be changed depending on the requirements of a bank.

Risk Appetite

Risk Appetite of the bank is the single most important factor in setting EL & RL for various dimensions and levels across streams of risk. Once Risk Appetite is set at the bank level, it can be translated into EL & RL at lower levels for various risks. In this sense, an important aspect of Enterprise wide Risk Management (ERM) is the process of defining risk appetite to keep risk and potential losses within the tolerances set in advance by banks. The robustness and integrity of ERM practices hinge to a great extent on articulation of Exposure & Risk Limits by carrying out the process of defining risk appetite both in quantitative and qualitative terms.

Defining Risk Appetite

The Risk Appetite process aims at balancing positive (sizeable improvement in returns) and negative (large losses) aspects of risk-taking by a bank. Risk Appetite involves definition by a bank, the extent to which risks should be acceptable to it in pursuance of its business strategies. As there cannot be any business that does not involve risk-taking by the bank, it is essential that risk appetite is defined in as clear terms as possible to avoid ambiguities. Risk appetite defined must be consistent with business strategy and risk culture of the bank. Important processes in setting risk appetite are:

5.2.18 **Identification of adverse outcomes & events beyond the tolerance of the BOD**: This would involve identification & definition of adverse outcomes that the bank intends to avoid at any cost by managing risk. For example, loss of reputation due to unethical business practices that is likely to cause significant losses. If the existing business practices of a bank expose it to such loss of reputation, then the bank must act to correct the practices.

5.2.19 **Defining the amount of money, the bank is prepared to lose in a given period due to risk taking**: This involves defining the limit on the amount of money (either in absolute terms or relative terms) the bank is prepared to lose in a given period as a result of risk taking. Losses beyond the defined limit should not be acceptable under any circumstances.

5.2.20 **Setting of risk preferences such as minimum targets that are key to defining the risks the bank is unwilling to take:** This involves definition of risk tolerances in terms of targets such as Solvency, Ratings, Earnings volatility, Ability to pay dividend to stockholders, Minimum capital requirements etc. For example, a solvency based theme could be not risking more than 25% of regulatory capital. A rating based theme could be not allowing external rating to fall by more than 2 notches. Depending on the bank's choice, one of the targets can be considered to be the top priority and others can be made supplementary to it.

Factors influencing Risk Appetite

5.2.21 **Type of Risk**: Some types of risks are avoided at any cost such as reputation risk, risk of non-compliance with regulatory requirements etc.

5.2.22 **Maturity of risk management system**: Higher the level of maturity of risk management system, higher would be the risk tolerance and appetite to more risks.

5.2.23 **Complexity of products**: Higher the complexity of products, lower would be the ability to measure risks arising out of them due to model risks. This has an implication for limiting risk tolerance.

5.2.24 **Liquidity / Tradability of Risks**: Higher the liquidity of instruments used for risk transfer in the markets, better would be the ability of a bank to tolerate more risks. In the absence of such markets, risk transfer would be affected, forcing banks to reduce their risk appetite.

5.2.25 **Correlation among risks**: Higher the possibility of concurrent losses from various types of risks, viz. credit, market & operational, lower would be the risk tolerance. The same applies to intra risk correlation within a risk type. For example, lower the correlation between corporate and retail credit risks, higher would be the risk appetite for credit risk.

Acceptable Standards in Setting Risk Appetite

5.2.26 Risk Appetite should be established through a dialogue between risk taking and business functions after a careful consideration of risk-return trade-off. Unilaterally set risk appetite is unlikely to be useful as it is likely to be biased either in favour of business (more risk taking) or risk (less risk taking).

5.2.27 Risk Appetite defined at bank level is the basis for exposure and risk limits for various risk streams viz. credit, market, operational, business etc.

5.2.28 Expression of Risk Appetite in the form of clearly understandable metrics such as earnings volatility, loss of capital etc.

Risk Appetite to Exposure & Risk Limits

As indicated elsewhere, once Risk Appetite is set at the bank level, Exposure and Risk Limits for various risks involve allocation of risk appetite to various risks viz. credit, market, operational, business etc. based on existing exposure and risk limits, profitability, growth in revenue, market share etc. In the same manner, Exposure and Risk Limits for dimensions of risk such as industry, geography, sector, etc. are defined.

List of Abbreviations

S. No	Abbreviation	Expansion
1	AIRB	Advanced Internal Rating Based
2	ALM	Asset & Liability Management
3	BBD	Business Banking Division
4	BCC	Board Credit Committee
5	BOD	Board of Directors
6	BOFIA	Banks & Other Financial Institutions Act, 1991
7	CAC	Criticized Assets Committee
8	CBN	Central Bank of Nigeria
9	CBD	Commercial Banking Division
10	CCR	Counterparty Credit Risk
11	CEO	Chief Executive Officer
12	CIBD	Corporate and Investment Banking Division
13	CP	Commercial Paper
14	CRA	Client Risk Assessment
15	CRM	Credit Risk Mitigation
16	CSR	Corporate Social Responsibility
17	DAUD	Drawings Against Uncleared Drafts
18	DAUE	Drawings Against Uncleared Effects
19	DFI	Development Finance Institution

S. No	Abbreviation	Expansion
20	DPG	Deferred Payment Guarantee
21	EAD	Exposure at Default
22	ED	Executive Director
23	EFSV	Expected Forced Sale Value
24	EOL	Excess Over Limit
25	ERM	Enterprise Risk Management
26	E&S	Environmental &Social
27	ESIA	Environmental and Social Impact Assessment
28	ESRM	Environmental and Social Risk Management.
29	FAM	Facility Approval Memo
30	FIRB	Foundation Internal Rating Based
31	FTP	Funds Transfer Pricing
32	GDMD	Group Deputy Managing Director
33	GMD	Group Managing Director
34	HNI	High Net worth Individual
35	IFC	International Finance Corporation
36	IRB	Internal Rating Based
37	IT	Information Technology
38	KYC	Know Your Customer
39	LC	Letter of Credit

S. No	Abbreviation	Expansion
40	LGD	Loss Given Default
41	MCC	Management Credit Committee
42	MIS	Management Information System
43	NGO	Non-Governmental Organisation
44	NPL	Non-Performing Loan
45	NPV	Net Present Value
46	OSUC	Outstanding and Unused Commitments
47	PD	Probability of Default
48	PF	Provident Fund
49	PSR	Pre-settlement Risk
50	RBP	Risk Based Pricing
51	RDS	Reference Data Set
52	RRLE	Risk Rating Limit Exceptions
53	RRS	Rapid Risk Screen
54	RWA	Risk Weighted Assets
55	S&P	Standard and Poor
56	SA	Sustainability Assessment
57	SBU	Strategic Business Unit
58	SEDOL	Stock Exchange Daily Official List
59	SME	Small and Medium Enterprises

S. No	Abbreviation	Expansion
60	TCC	Tax Clearance Certificate
61	TEV Study	Techno - Economic Viability Study
62	TOD	Temporary Overdrafts
63	WLA	Watch List Accounts

Acronyms

CBD	Commercial Banking Division
CRA	Client Risk Assessment
CSR	Corporate Social Responsibility
DFI	Development Finance Institution
E&S	Environmental and Social
ESIA	Environmental and Social Impact Assessment
ESRM	Environmental and Social Risk Management
CIBD	Corporate and Investment Banking Division
BBD	Business Banking Division
MCC	Management Credit Committee
NGO	Non-Governmental Organisation
RRS	Rapid Risk Screen
SA	Sustainability Assessment
SBU	Strategic Business Unit