Environmental & Social Risk Analysis

The Access Bank Experience

September 8, 2011
Outline

- Sustainability at Access Bank
- Our ESG Initiatives
- Our ESG Initiatives: Cost Benefit Analysis
- ESRM Policy
- ESRM Procedures
- Awards & Recognitions
- Action Plans
- Industry Collaboration
Sustainability at Access Bank

What is Sustainability

- Delivering value through sustainable business practices.
- Balancing economic growth, social development and environmental protection to ensure future generations are not compromised by actions taken today.

Our Strategy

- To mainstream sustainability into our operations for the long term success of our business

Our E&S Commitment

- Financing projects that are developed using sound environmental and social management practices. They ensure:
  - the long-term success of an organization,
  - the long-term success of projects, and
  - the sustainability of the world in which we live.
Sustainability at Access Bank

- Environmental & social issues pose serious concerns for a project and its debt financing:
- An environmental issue may jeopardise a project's economics
- Financing a project that is not environmentally sound may also expose lenders to liabilities.
- More broadly, no business will survive in the long-term unless it:
  - Maintains the highest standards of governance and ethics
  - Considers its operating community
  - Delivers consistent value to customers, and
  - Mitigates its overall impact on the environment
### Our ESG Initiatives

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Actions already taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainstream Environmental, Social and Governance (ESG) considerations into our business operations</td>
<td>Establishment of a CSR department in 2008 with responsibility for our sustainability initiatives. Signed on to conventions and principles in line with ESG best practices. including</td>
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<tr>
<td></td>
<td>• The Equator Principles</td>
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<tr>
<td></td>
<td>• The United Nations Principles for Responsible Investment (UNPRI).</td>
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<td></td>
<td>• The Global Reporting Initiative (GRI)</td>
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<td></td>
<td>• The United Nations Environment Programme Finance Initiative (UNEPFI).</td>
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</tbody>
</table>

1. **The Equator Principles**: A voluntary set of environmental and social benchmarks for managing environmental and social issues in developing project finance globally.

2. **The United Nations Principles for Responsible Investment**: A network of international investors working together to put certain principles for Responsible Investment into practice.

3. **The Global Reporting Initiative**: Sets global standards for reporting on economic, environmental and social dimension of an organization's activities, products and services.

4. **The United Nations Environment Programme Finance Initiative**: A global partnership between UNEP and the financial sector working to understand the impacts of environmental and social considerations on financial performance.
## Our ESG Initiatives

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Actions already taken</th>
<th>Actions currently being taken</th>
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</thead>
</table>
| Mainstream Environmental, Social and Governance (ESG) considerations into our business operations | Establishment of ESG Integration Committee to drive the sustainability journey of the bank. ESG Integration committee comprising of representatives from CSR/Sustainability unit, Credit Risk Management, Financial Markets, Information Technology, legal, Internal Control among others | • Working with strategic partners in strengthening our E&S processes and capacity building.  
• **Key Areas**  
  • Cost Benefit Analysis of advancing environmental risk management.  
  • Development of ESRM Manual, Policy and Procedures to align with global best practice.  
  • Capacity building for employees in E&S risk management.  
  • Test-running and upgrading of the customized sustainable toolkit to align with the peculiarities of the Nigerian environment.  
  • Providing necessary support to the bank’s clients in the implementation of Environmental & Social Risk Management.  
  • Industry wide training to create awareness to the Nigeria Financial Institutions on the concept of Sustainable Finance |
Our ESG Initiatives

E&S Capacity Building: Working with strategic partners to strengthen processes and build capacity

<table>
<thead>
<tr>
<th>E &amp;S Policy and Procedures</th>
<th>Reviewed and aligned with international best practice standards</th>
</tr>
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<tbody>
<tr>
<td>E &amp;S Sector Policies</td>
<td>Specific E&amp;S policies for sectors with the greatest impacts for E&amp;S risks (Oil &amp; Gas, Cement, Flour etc) developed</td>
</tr>
</tbody>
</table>
| E &S Risk Management Toolkit | Deployment of a risk management toolkit that will assist us in:  
  >>>Screening projects to identify potential E&S risks;  
  >>>Determining appropriate level of E&S due diligence required for projects;  
  >>>Integrating E&S policy into our existing credit processes. |
| Training & Capacity Building | Skills development across a number of functions within the organization |
### Our ESG Initiatives: Cost Benefit Analysis

<table>
<thead>
<tr>
<th>Focus areas</th>
<th>Definition</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negative impacts on business</td>
<td>If and how an advanced environmental risk management could lead to decline in or loss of current and potential business</td>
<td>• Client business lost to competitors with lower E &amp; S standards.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Longer transaction times</td>
</tr>
<tr>
<td>Damage to client relationships</td>
<td>Potential negative impacts on client relationships from the application of an advanced environmental risk management approach</td>
<td>• Existing client relationships due to non compliance with E &amp; S standards</td>
</tr>
<tr>
<td>Time &amp; Resources</td>
<td>Financial &amp; resource costs required to design and implement advanced environmental risk management model</td>
<td>• Implementing appropriate governance structure</td>
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<tr>
<td></td>
<td></td>
<td>• Training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Conducting E &amp; S due diligence</td>
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</table>
## Our ESG Initiatives: Cost Benefit Analysis

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<th>Focus areas</th>
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<tbody>
<tr>
<td>Benefits</td>
<td></td>
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<tr>
<td>Access to DFI finance</td>
<td>Gaining enhanced access to capital from DFI’s</td>
<td>• Participation in new DFI programs</td>
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<td></td>
<td></td>
<td>• Discount on DFI loans</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Secure access to further DFI capital</td>
</tr>
<tr>
<td>Effective risk management</td>
<td>Better decision making on clients and transactions, enabling stronger</td>
<td>• Lower credit risk</td>
</tr>
<tr>
<td></td>
<td>profitability and achievement of the Bank’s strategic ambitions</td>
<td>• Higher quality portfolio</td>
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<tr>
<td></td>
<td></td>
<td>• Well managed clients in sensitive sectors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Lower financial losses from E &amp; S issues</td>
</tr>
<tr>
<td>Increase in business and enhanced client</td>
<td>Enabling growth in business potential and deepening client relationships</td>
<td>• Growth in existing client business</td>
</tr>
<tr>
<td>relationships</td>
<td>through engagement and better understanding of their business</td>
<td>• Increase in client satisfaction and retention</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Increase in new business from referrals</td>
</tr>
<tr>
<td>Reputation, trust &amp; brand value</td>
<td>Potential to protect reputation and brand value</td>
<td>Gain credibility as a well managed, leading emerging markets bank</td>
</tr>
<tr>
<td>Employee engagement and talent attraction</td>
<td>Supports talents attraction and staff retention</td>
<td>Increase in employee engagement from involvement in wider sustainability initiatives</td>
</tr>
</tbody>
</table>
ESRM Policy

The ESRM policy outlines Access Bank’s approach and parameters for responsible client engagement and the provision of responsible financing.

Specific objectives of the ESRM policy are to:

- Integrate ESRM considerations into the Bank’s credit/investment process
- Provide clear guidance on Access Bank’s position on ESRM in our business activities
- Fully implement and comply with Equator Principles for all Project Finance facilities
- Fully apply the E&S requirements of Development Finance Institutions (DFI) where facilities include DFI financing
- Establish an effective reporting framework to track and report E&S issues in relevant products and services offered by Access Bank.
### ESRM Procedures

Access Bank’s ESRM procedures are made up of five distinct phases for the management of E&S risks that emerge in our credit/investment cycle.

<table>
<thead>
<tr>
<th>E &amp;S Screening</th>
<th>Involves identification of initial risk alerts and ensures that transactions does not fall within the banks exclusion list</th>
</tr>
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</table>
| E &S Risk Assessment | •Evaluation of the level of risk associated with the transaction.  
•Categorization stage |
| Decision and Documentation | •Forming a decision on proceeding with the transaction  
•Identifies potential mitigation measures to include in loan documentation |
| Monitoring | •Monitor and measure client compliance with, and progress in meeting the Bank’s E&S standards. |
| Reporting | •In accordance with Equator Principles obligations, GRI sustainability reporting guidelines and the requirements of DFI’s and other investors. |
ESRM Procedures

Potential New Client / Transaction to Access Bank

- New Client Application (No accompanying transaction)
  - New Client Application
    - Follow the New Client application process
      (Refer to Appendix 7)

- New Transaction Request (New or existing client)
  - Other
    - Follow Project Finance process flow
      (Refer to Appendix 10)
  - Project Finance
    - Follow Project Finance process flow
      (Refer to Appendix 10)

- Low Risk Financial Products
  - Follow the Low Risk Financial Product Type process flow
    (Refer to Appendix 6)

- Transactions with Unknown Use of Funds
  - Follow Unknown Use of Funds process flow
    (Refer to Appendix 8)

- Transactions with Known Use of Funds
  - Follow Known Use of Funds process flow
    (Refer to Appendix 9)
ESRM Procedures

**Conduct Initial E&S Screening**
Perform an initial screen using the Rapid Risk Screen to identify potential risk alert triggers: activities in the Access Bank Exclusion List, potential E&S risks and/or application of ESRM sector policies.

- **No risk alerts**
  - Transactors/Account Officers
- **ESRM sector policy applies**
  - Risk alerts triggered or additional information required
- **Excluded activity: Decline**

**Complete an E&S Risk Assessment**
Assess client risk and determine further due diligence requirements using the Client Risk Assessment.

- **Low risk:** Confirm with E&S Business Partner and proceed with client acceptance
- **Low client risk rating identified**
  - Conduct further due diligence to determine client commitment to improving E&S performance.
    - E&S Risk Manager
  - Decision and documentation
    - Advice on E&S risks and mitigation recommendations. Incorporate E&S conditions into contractual agreements if deemed necessary and appropriate. Record the decision taken.
    - E&S Risk Manager
- **Medium or High client risk rating identified**
  - Conduct further due diligence to determine client commitment to improving E&S performance.
  - E&S Risk Manager
  - Decision and documentation
    - Advice on E&S risks and mitigation recommendations. Incorporate E&S conditions into contractual agreements if deemed necessary and appropriate. Record the decision taken.
    - E&S Risk Manager

**Monitoring**
Annual review of client risk rating to determine policy compliance and evaluate progress on any commitments made.

- Transactors/Account Officers, E&S Business Partner

**Reporting**
Use Analytics tool in the Sustainable Finance Toolkit to report on policy compliance to management and investors as appropriate and required.

- CSR/Sustainability Unit
## ESRM Procedures: Roles and Responsibilities

<table>
<thead>
<tr>
<th>Entity</th>
<th>Roles &amp; Responsibilities</th>
</tr>
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<tbody>
<tr>
<td>Customer-facing staff</td>
<td>Create, manage and own risk assets, through a very thorough customer selection and controlled risk management process without compromising portfolio profitability, and in compliance with the bank’s management policies including the ESRM policies:</td>
</tr>
<tr>
<td>(Transactors / Account Officers) within SBUs</td>
<td></td>
</tr>
<tr>
<td>E&amp;S Business Partners</td>
<td>Access Bank has two E&amp;S Business Partners based in Credit Risk Management. One is focused on the IBD and the other on the CBD. Both E&amp;S Business Partners will liaise with the FMD as needed.</td>
</tr>
<tr>
<td>E&amp;S Risk Manager</td>
<td>Access Bank has one E&amp;S Risk Manager for the bank. The E&amp;S Risk Manager is based in the Credit Risk Management.</td>
</tr>
<tr>
<td>CSR/Sustainability Unit</td>
<td>The CSR/Sustainability Unit has oversight over ESRM policy development and implementation. Specifically, the CSR/Sustainability Unit has the responsibility to:</td>
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</table>

- Ensure all credit facility requests are accompanied by the relevant outputs of the ESRM Procedure to ensure informed decision-making;
- Review and confirm initial screening and risk assessment outcomes for clients and transactions identified as lower risk;
- Review and confirm E&S categorisation for Category C projects with Low risk client assessments;
- Review E&S risk issues of clients and transactions escalated for further due diligence by Transactors / Account Officers and make recommendations and decisions as appropriate;
- Conduct customer and project site visits where additional E&S due diligence is beneficial or required to confirm or gather information on E&S risks;
- Escalate clients and transactions to the E&S Risk Manager where material E&S issues are unresolved and further review is necessary.

- Review E&S risks of clients and transactions escalated for approval from SBUs and make recommendations and decisions as appropriate;
- Refer clients and transactions to the MCC where material E&S issues exist;
- Regularly assess and monitor quality and performance of the Bank’s E&S risk portfolio;
- Create timely, accurate and complete ESRM reports to the CSR Committee for management actions and decision-making;
- Conduct at least annual reviews of the ESRM Policy and update as required.
## ESRM Procedures – Roles and Responsibilities

<table>
<thead>
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<th>Committee</th>
<th>Roles and Responsibilities</th>
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<tbody>
<tr>
<td><strong>CSR Committee</strong></td>
<td>By delegation from the Board of Directors of Access Bank, the CSR Committee seeks to satisfy itself, by means of suitable steps and appropriate information, that proper and satisfactory internal systems and controls are in place to identify and contain E&amp;S risks, and furthermore that the Bank’s business and that of its subsidiaries is conducted in a responsible manner.</td>
</tr>
<tr>
<td><strong>Management Credit Committee (MCC)</strong></td>
<td>The MCC is the highest management approval body for credits in Access Bank and performs the dual role of credit policy articulation and credit approval.</td>
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<td></td>
<td>The MCC has the responsibility to:</td>
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<td></td>
<td>Review and recommend to the Board Credit Committee for approval, credit policy direction including articulation of risk and return preferences at corporate level and for individual asset-creating business units in the bank;</td>
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<tr>
<td></td>
<td>Ensure compliance of the credit environment in the bank with approved policies and framework;</td>
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<tr>
<td></td>
<td>Review and approve credits in compliance with the Bank’s ESRM policy, which will involve a comprehensive analysis / appraisal of E&amp;S issues inherent in the projects which must be in line with global best standards and practices.</td>
</tr>
<tr>
<td><strong>Board Credit Committee (BCC)</strong></td>
<td>The BCC acts on behalf of the Board of Directors on sustainability matters as regards the credit policies and procedures. It is responsible for the approval of all credit policies and procedures including product programs that have E&amp;S considerations in line with the Bank’s ESRM Policy.</td>
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</tbody>
</table>
Access Bank has received numerous awards for its commitment to innovation and sustainability.

**2011 FT/IFC Sustainable Bank of the Year Award**
(Middle East and Africa) category

**2008 Most Innovative Bank Award**

**Business Community AWARDS 2011**
Action Plans

Roll out of the customised sustainable finance toolkit in the screening of all new transactions in the bank

Organising capacity building workshops for the bank’s customers especially in the high sectors areas (Oil & Gas, Cement). This is to develop skills and provide necessary education in Environmental & Social Risk Management

Formulation of a common lending principle for Nigeria Financial Institutions in the area of Environmental & Social Risk Management.
Industry Collaboration

The banking industry has commenced collaboration in financing real sector projects following the initiatives of the Bankers’ Committee.

In the spirit of the ongoing collaboration, it is desirable that more banks subscribe to the Equator Principles and other sustainability initiatives.

We thank our DFIs Partners for their proactive engagement of Nigerian Banks towards upgrading our E&S Standards.
Thank You