Enterprise-wide Risk Management (ERM) Policy

April 2022

FCMB PENSIONS

Enterprise-wide Risk Management Policy

APPROVAL PAGE

Title of Document:	Enterprise-Wide Risk Management	
Prepared by:	Head, Risk Management Date: 28/4/2022	Sign: ....
	Approved by:	
Managing Director/Chief Executive	Date: 28/4/2022	Sign: ....
Chairman Board Risk Management Committee	Date: 28/04/2022	Sign: ....
Board Chairman	Date: 28/04/2022	Sign: ....

Approval	Revised July 29, 2020	New Edition April 29, 2022	Renewal Every Two Years

FCMB Pensions ©2022

Page 2

PRELUDE

The importance of Risk Management is underscored by the provision of section 78(2a to 2e) of the Pension Reform Act 2014 (PRA2014). Also, FCMB Pensions Limited believes that sound risk management is the foundation of a sustainable and enduring institution, hence the need for an Enterprise-wide Risk Management Policy.

The Enterprise-wide Risk Management Policy

Enterprise-wide Risk Management (ERM) is an integral part of the overall governance structure of FCMB Pensions Limited (here-in-after referred to as "FCMB Pensions") which is aimed at the achievement of its strategic, operational, compliance and reporting goals and objectives.

The objectives of the ERM are two-fold, and they are to:

1. Put in place clear Company-wide risk management structure (people, processes & procedures, resources and technology) to identify, analyze, evaluate, respond, monitor, control, track and report risk events for effective decision making; as well as review of the adequacy of the structures.

2. Maintain a sound and prudent risk management framework that states how the ERM policy is broken down into specific procedures required of every business unit in the consideration of inherent risks while taking decisions.

Frameworks, Regulations, Guidelines and Applicable Laws

FCMB Pensions is guided by the following in developing the ERM policy and framework:

1. Pension Reform Act 2014 (PRA 2014).
2. National Pension Commission (PenCom) Guidelines, Regulations and Frameworks.
3. Guidelines for Risk Management Framework for Licensed Pension Operators
4. Code of Corporate governance and Code of ethics and business practices for Licensed Pension Operators.
5. Relevant sections of Companies and Allied Matters Act 2004, Central Bank of Nigeria Regulations and Guidelines.
6. The Company's Operating Strategy.
7. ISACA-COBIT- Framework.
8. ISO 31000-Risk Management.
9. COSO ERM Framework.
10. ISO 27001-Information Security Management
11. BASEL Committee.
12. Federal Government of Nigeria Fiscal /Monetary Policies issued from time to time.
13. Investments and Securities Act 2007.
14. Relevant Rules & Regulations made by the SEC.
15. Tax Laws by the Federal Inland Revenue Services and other relevant tax authorities.
16. Nigeria Data Protection Regulation 2019.
17. PenCom Data Protection Policy.
18. Internal and external environmental considerations.

Table of Contents

1.0. INTRODUCTION, DEFINITIONS, APPROACH, MISSION, VISION AND OBJECTIVES.

1.1 Introduction

Until recently, the traditional approach to risk management was to focus on the downside of business activities, i.e. what could go wrong, the losses from currency or interest rates, financial losses as a result of unethical practices, fraud that may arise as a result of ineffective internal control or greed of an employee etc. Today, the upside is as important as the downside, and Management now considers competitive opportunities and strategic advantages that are inherent in somewhat 'risky' business opportunities or decisions.

1.2 Risk

FCMB Pensions' definition of risk is the exploitation of opportunities prevalent in our risk profile and management of internal and external threats that may impact the realization of the Company's strategic, operational, compliance and reporting goals and objectives. FCMB Pensions recognizes that we are exposed to risks both in terms of threats to strategy, quality service delivery, human and material resources and potential loss of business opportunities. Therefore, we view risk as any event that could prevent, hinder or fail to further the achievement of the Company's objectives; cause a loss to financial, physical and human assets of the Company or result in loss of opportunities that could enhance the value and growth of the Company.

1.3 Enterprise-wide Risk Management

FCMB Pensions' Enterprise-wide Risk Management (ERM) involves the systematic identification, ranking, treatment and reporting of real and potential threats; and exploitation of opportunities that are likely to lead to the realization of its strategic operational, compliance and reporting goals and objectives.

Our understanding of ERM within the context of our business as a Pension Fund Administrator (PFA) is a methodical identification of what could go wrong, the likelihood of its occurrence and the severity or otherwise of its impact, if the event crystallizes.

It involves assigning responsibility of risk management to risk owners, analysis /evaluation of the various risks, adopting appropriate response(s) of either or all of avoidance, acceptance, control and transfer, as well as financing of the risks in exceptional cases. It also involves reporting and reviewing the ERM and effective management of crystallized events.

1.4 Approach to Enterprise-wide Risk Management

FCMB Pensions' Risk Management Process shall also adopt both bottoms up and top down approaches. These approaches will ensure that the Company has staff that possesses the skills for identification of risks inherent in their functions and operations in the Company as a whole.

Our approach to ERM is as stated below:

1. Clear statement of the relevance of Risk Management Department (RMD) in the value chain and governance structure of FCMB Pensions.
2. Identification of ERM objectives which align with the Company's objectives.
3. Preparation of schematic Risk Management (RM) process in line with the Committee of Sponsoring Company (COSO) framework.
4. Compilation of Company Enterprise-wide Risk Register.
5. Designing of RM Framework.
6. Clear statement of RMD deliverables and Key Performance Indicators (KPI).
7. Training of staff of Risk Management Department (RMD) and Risk Management Representatives.

1.4.1 Committee of Sponsoring Organization (COSO) Framework

As regards our statement above, the preparation of schematic Risk Management (RM) process is in line with COSO framework as enunciated below: These are the five components and the related set of principles.

(a) Governance and Culture

1. Exercise Board Risk Oversight
   The board of directors provides oversight of the strategy and carries out governance responsibilities to support management in achieving strategy and business objectives.

2. Establishes Operating Structure
   FCMB Pensions establishes operating structures in the pursuit of strategy and business objectives

3. Define Desired Culture
   FCBM Pensions defines the desired behaviours that characterizes the entity's desired culture

4. Demonstrates Commitment to Core Values
   FCMB Pensions demonstrates a commitment to the entity core values

5. Attracts, Develops and Returns Capable Individuals
   FCMB Pensions is committed to building human capital in alignment with the strategy and business objectives.

(b) Strategy and Objectives Settings

1. Analyze Business Content
   FCMB Pensions considers potential effects of business context in risk profile.

2. Defile Risk Appetite
   FCBM Pensions defines risk appetite in the context of creating, preserving and realizing value

3. Evaluates Alternative strategies
   FCBM Pensions evaluates alternative strategies and potential impact on risk profile.

4. Formulates Business Objectives
   FCBM Pensions considers risk while establishing the business objectives at various levels that align and support strategy.

(c) Performance

1. Identifies Risk
   FCMB Pensions identifies risk that impacts the performance of strategy and business objectives

2. Assesses Severity of Risk
   FCMB Pensions prioritizes risk as a basis for selecting responses to risk.

3. Priorities Risks
   FCMB Pensions prioritizes risk as a basis for selecting responses to risk.

4. Implement Risk Response
   FCMB Pensions identifies and selects risks responses.

5. Develops Portfolio view
   FCMB Pensions develops and evaluates portfolio view of risks

(d) Review and Revision

1. Assesses substantial change
   FCMB Pensions identifies and assesses changes that may substantially affect strategy and business objectives.

2. Reviews Risk and Performance
   FCMB Pensions reviews entity performance and considers risk

3. Pursues Improvement in Enterprise Risk Management
   FCMB Pensions pursues improvement in ERM.

(e) Information Communication and Reporting

1. Leverages Information and Technology
   FCBM Pensions leverages the entity's information and technology systems to support ERM

2. Communicates Risk Information
   FCBM Pensions uses communication channels to support ERM

3. Reports on Risk culture and performance

FCBM Pensions Ltd reports on risk, culture and performance at multiple levels and across the entity.

1.5 Risk Management Mission and Vision

In alignment with FCMB Pensions' vision and mission statements, the mission of Risk Management Department of the Company is as stated: "to provide pension services that support individuals in building financial security for their retirement". Whilst the vision is as stated: "to be the preferred Pension Fund Administrator and industry leader delivering superior value to customers.

1.6 Risk Management Objectives

The following are the risk management objectives of FCMB Pensions:

1. Adopt best practice in risk management processes, driven by technology and managed by highly trained personnel with a focus on risk reward optimization.
2. Have zero tolerance for violation of regulations, guidelines, policy and failure in service delivery.
3. Facilitate a performance driven appraisal system that rewards excellent performance and sanctions failure of service delivery to stake holders.
4. Protect Company's resources from incidence of financial and non-financial losses.
5. Facilitate an environment which promotes highest standard of Corporate Governance.
6. Give reasonable assurance of the confidentiality, integrity and availability of financial and non-financial information assets.
7. Maintain feedback process that facilitates continuous review of risk responses for determination of adequacy, effectiveness and relevance.
8. Ensure optimal balance between risk management and excellent service delivery.
9. Recognize that the long-term survival of the Company depends on its ability to abide by sound risk management practices and corporate governance

principles. Where there is a conflict between risk and revenue considerations; risk considerations take precedence.

10. Ensure effective liaison between Board Risk Management Committee and Senior Management of the Company in respect of risk management issues.
11. Facilitate training for staff of RMD and Risk Management Representatives (RMR).
12. Anticipate and respond to changing technological, financial and regulatory requirements within the ambit of the Company's risk appetite.
13. Document risk events in data base for collection of Key Risk Indicators and prediction of risk events.
14. Put in place risk management framework for incorporation of risk consideration in all operations of FCMB Pensions.
15. Design, regularly monitor and review internal risk scoring/ rating system for FCMB Pensions and its business partners.

2.0. RISK MANAGEMENT PRINCIPLES, PHILOSOPHY, GOVERNANCE, CULTURE, APPETITE STATEMENT AND STRATEGY.

2.1 Risk Management Principles

FCMB Pensions' risk management principles are aim towards the following:

1. **Protection of the Company, its Board and employees against exposure to undue liabilities:**

   In the ordinary course of FCMB Pensions' business activities, the Company and its principal officers, employees and representatives are exposed to varieties of risks. A clearly defined philosophy and culture would limit the exposure of FCMB Pensions to liabilities by its Board and Employees.

2. **Lower insurance premium:**

   Proactive and consistent application of best practice in risk management provides a basis for reduced insurance premium through negotiation where there is favorable premium/claim ratio.

3. **Good perception of the Company**

   Effective implementation of risk management would portray the Company as a professionally run Company and this will attract good rating from Rating Agencies and other stakeholders especially Regulators.

4. **Qualitative information for informed decision-making**

   The process of identifying, assessing, evaluating, controlling, reporting and continuous review of risk management process enhances the capacity of Board as well as its Committees and Management in taking informed strategic and operational decisions.

5. **Better resource allocation and management**

   Risk Management process facilitates effective and efficient utilization of limited Company resources.

2.2 Risk Management Philosophy

FCMB Pensions' risk management philosophy is underscored by its desire **to provide pension services that support individuals in building financial security for their retirement**. This philosophy would assist the Company in the creation of sustainable value for its stakeholders which should enable the Company become the preferred destination for pension assets.

In specific terms, FCMB Pensions' values and ethics are:

1. The Company considers sound risk management to be the foundation of a sustainable and enduring institution
2. All risk management activities will be aligned to corporate goals and objectives of the Company.
3. The Company adopts a holistic and integrated company-wide approach to risk management as against reactive and silos based method.
4. Risk management is shared responsibility among all business groups and risk owners.
5. FCMB Pensions shall not engage in business outside the provision of the applicable laws of the land.
6. The risk management functions shall be separated from business units activities, to facilitate objectivity and independence.
7. Risk Manager and Officers are empowered and regularly trained to perform their duties professionally and independently without interference.
8. Inherent risk related issues are taken into consideration in all business decisions.
9. The Company shall continue to strive to maintain a balance in trade off; between risk and revenue/returns considerations.
10. Risks are reported based on their severity to the appropriate levels and institutions, once they are identified.

2.3 Risk Governance

Our risk governance approach sets out the structure within which risk management operates in FCMB Pensions. The approach aligns with the "three lines of defense" model issued by the Institute of Internal Auditors (IIA).

(a) First Line of Defense

The first line of defense in risk management functions in FCBM Pensions is the risk function undertaken by operational management. They are the risk owners and imbibe risk culture. They help to design and implement appropriate mitigating controls over their operations.

Other roles of the first line of defense with regard to operational risk management (ORM) include:

i. Complete and accurate collection of relevant risk events
ii. Regular self-assessment of risk and controls linked to the activity
iii. Reporting on issues, key risk indicators and other risk metrics
iv. Definition of appropriate actions, based on the limits of risk appetite and on the information reported.
iii. Corresponding follow-up on action plans and further mitigations initiatives.

(b) Second Line of defense:

The second line of defense in FCMB Pensions is the risk function carried out by the risk management and compliance to monitor the effectiveness of the first line of defense controls

Risk management functions are designed to facilitate and monitor the implementation of effective risk management practices by management throughout FCMB Pensions, assisting risk owners in defining target risk exposure and providing adequate risk reporting.

Other roles of the second line of defense include:

i. To help define the risk appetite for the business and the board

ii. To monitor the risk exposure within risk appetite and to own the risk management framework

iii. To challenge and to advise on strategic business decisions with regard to risk-taking.

(c) Third Line of defense:

The principal function of the third line of defense in FCMB Pensions is to provide risk assurance. Internal audit provides assurance on the effectiveness of governance, risk management and internal controls, including first and second lines of defense. Internal audit is independent of management with a direct reporting line to the Governing body/Audit Committee.

The external auditors and PenCom are also involved in the third line of defense function to provide assurance.

2.4 Risk Culture

The Company's risk culture is based on the following:

1. Adoption of best practice.
2. Compliance with regulatory and legal requirements is our minimum standard.
3. Ownership of Risk Management is vested in the Board of Directors, which in turn delegates to Board Risk Committee (BRC), Executive Management and Process Owners.
4. Risk owners are skilled to be able to identify and manage risks, associated with their business decision(s) and they take ownership of the inherent risks in their functions.
5. Pays attention to both quantifiable and unquantifiable risks.
6. Promotes awareness of risk and risk management across the Company through regular training, education and communication.
7. Avoidance of services, markets and businesses where the Company cannot objectively assess and manage the associated risks.
8. Risk Management is a shared responsibility of all officers of the Company. It is the duty of Head, Risk Management to formulate a proactive Risk Management

Policy for approval of the Board, on recommendation of Board Risk Management Committee and Management.

2.5 Risk Appetite Statement

2.5.1 Risk Appetite Descriptions

FCMB Pensions' approach to risk is to minimise its exposure to reputational, compliance and financial risks whilst accepting some level of risk in pursuit of its mission and objectives. The risk appetite statement characterises the company's tolerance for each risk as low, moderate, or high according to the following definitions.

1. **Low:** The level of risk will not substantially impede the ability to achieve FCMB Pensions' mission, goals or strategic objectives. Controls are prudently designed and effective.
2. **Moderate/Medium:** The level of risk may delay or disrupt achievement of the company's mission, goals, or strategic objectives. Controls maybe inadequately designed but generally effective.
3. **High:** The level of risk will significantly impede the ability to achieve the company's mission, goals, or strategic objectives. Controls are weak and ineffective.

2.5.2 Overall Enterprise Risk Appetite Statement

FCMB Pensions shall adopt an overall conservative risk appetite. The Company's risk management practices shall be in accordance with the risk appetite statement in order to achieve strategic objectives.

The Company recognizes that its appetite for risk varies according to the activity undertaken, and that its acceptance of risk is subject always to ensuring that potential benefits and risks are fully understood and measures are put in place to mitigate risk. The Company's appetite for risk across its approved risk categories are provided in the following table below:

Table 1: Qualitative Risk Appetite Statements

Table 2: Risk Categories and Tolerance Levels

See also Appendix A for the Quantitative Risk Appetite

Table 1: Qualitative Risk Appetite Statements

S/N	Risk Categories	Risk Appetite Statements
1	Strategy Risk Appetite.	The Company is committed to good business decision execution and communication and has low appetite for ineffective strategic business responses to changes in the internal operating environment.
2	Corporate Governance Risk.	The Company is committed to adding value to its Shareholders, Contributors, Retirees, Fund Owners, and other Stakeholders. It has high appetite for good corporate governance in achieving its mission.
3	Business Risk.	The Company is committed to taking low to moderate risks in line with its appetite in order to achieve its business strategic goals and objectives.
4	Operational Risk Appetite.	The Company is committed to maintaining high standard of operations and has a low appetite for any adverse risk incidents or event which could impact upon the Company's brand or upon the normal operation of the business. People, process and systems must support achievement of the Company's mission.
5	Information Technology Risk Appetite.	Information Technology system must support the PFA's business in line with the regulatory requirement. FCMB Pensions has no appetite for unauthorized access to systems and confidential data and will maintain strong controls to mitigate external threats against its technology infrastructure. FCMB Pensions has a low appetite for losing continuity of business operations stemming from unreliable disaster recovery programs. The Company will embrace new technology and has low appetite for laggard innovative technology. The Company will exercise appropriate governance when considering and adopting new technology.

6	Cyber Security Risk.	The Company has no appetite for cyber security risk and is committed to effectively deploy cyber defense strategies to keep its network safe. The cyber security program shall be proactive in order to forestall network hacking, denial of services (DOS) attack, distributed denial of services (DDOS), malware, structured query language (SQL) injections, unauthorized access to a computer system and sites. Training and awareness campaign shall be used to inform stakeholders on the effect of social engineering. Staffs and other stakeholders shall be trained and how to secure themselves on the internet whether working in the office, off location or at home. For example how to recognize phishing attacks.
7.	Investment Risk Appetite.	The Company's investment activities will be in line with the regulatory requirements that is, PenCom Regulation on Investment of Pension Fund Assets. The company has low appetite for any loss arising from investment risk as it seeks a balance between risk taking and investment returns.
8.	Market Risk.	The Company has low appetite for market risk volatility in interest rates, equity prices etc. The weighted average duration, VaR and other acceptable models shall be used to minimize the impact of mark to market on financial instruments.
9.	Liquidity Risk.	The Company has low appetite for liquidity risk. Assets under our management will be structured in line with the appetite of the contributors' age brackets as contained in the PenCom Investment Regulations.
10.	Concentration Risk.	The Company has no appetite in concentration risk that will negatively impact earnings. Investments shall be carried out in line PenCom Investment Regulations.
11.	Legal Risk Appetite.	FCMB Pensions has no risk appetite for non-compliance with applicable laws. The Company will exercise responsible discretion where policy allows or where legally permissible in the conduct of her business.
12.	Regulatory Risk Appetite.	The Company is committed to maintaining the highest standards of integrity and regulatory compliance. As such the Company has no appetite for any breaches in regulations, circulars and guidelines.

13.	Reputational Risk Appetite.	The Company is a reputational brand across the industry and as such there is a low appetite for any risks which would impact negatively upon its reputation, brand ethical standing which could lead to undue adverse publicity.
14.	Compliance Risk.	The Company has no appetite for any breaches in the pursuit of strategic, operational, compliance and reporting goals and objectives. All regulations, professional standards, policies, systems, processes and procedures shall be adhere to.
15.	Counterparty Risk Appetite.	FCMB Pensions' counterparties will regularly be reviewed to ensure low counterparty risk.
16.	Exchange rate/ Currency Risk.	The Company has low appetite in foreign exchange fluctuations. We shall continue to monitor Central Bank of Nigeria (CBN) policies on foreign exchange as one of the macroeconomic guides to our investment activities.
17.	Environment, Health and Safety Risk.	The Company is committed to high standards of environmental health and safety. The work place shall be free from harm and danger.
18.	Data Privacy Risk.	The Company has no appetite for data privacy breaches hence, a high standard of data protection and privacy shall be put in place to ensure data confidentiality, integrity and privacy.

Table 2: Risk Categories and Tolerance Levels

S/n	Risk categories	Tolerance level
1	Strategy Risk	To achieve 78% of the 1T25 plan
2	Corporate Governance Risk	To be within an acceptable level of a Chatter/policy in terms of meetings and numbers of members.
3	Business Risk	To achieve organizational target using budget as our tool for benchmark.
4	Operational Risk	To ensure effective operational activities setting a threshold within the budget.
5	Information Technology Risk	To ensure all IT related requests are attended to within the set threshold in Table 1 below
6	Cyber Security Risk	To ensure proper system maintenance and effective cyber security working with the set threshold in Table 1 below
7	Investment Risk	Ensuring investments with counter parties across all funds does not exceed regulatory limit.
8	Market Risk	To ensure value of AFS bond and equities losses does not exceed 10%
9	Liquidity Risk	To ensure our liquid assets tolerance level is within 60%
10	Concentration Risk	To ensure our funds placement are within regulatory limit
11	Legal Risk	To ensure compliance with statutory or regulatory obligations and proper management of litigation.
12	Regulatory Risk	To ensure we are within the regulatory limit
13	Reputational Risk	To ensure Customers' complaints/requests are resolved within the timeframe stipulated on the policy documents.
14	Compliance Risk	To ensure our compliance level is within the regulatory requirement.
15	Counterparty Risk	To ensure Investment maturities are paid by Counter parties within 24 hours and also ensure we do not exceed our internal policy limit.
16	Exchange rate/Currency Risk	To ensure our exposure to Eurobond Investment is within the regulatory limit.
17	Environment, Health and Safety Risk	To ensure that no staff is exposed to any environmental hazard. i.e the workplace should be free from harm.
18	Data Privacy Risk	To ensure there are no breaches in the data privacy policy

2.6. Risk Management Strategy

To give effect to the execution of FCMB Pensions' Risk Management Policy and provide a structured and coherent approach to managing our risk management process; the following strategies are adopted:

1. Identification and profiling of risks.
2. Categorisation of risks in order of severity and likelihood of impact.
3. Treatment of all categories of risk based on the Company's risk appetite.
4. Effective control and monitoring.
5. Escalation of infractions of High and Very High risks to Management and Board RMC.
6. Facilitate development and use of Standard Operating Manuals.
7. Facilitate development of performance appraisal system which is based on interdependence of departments and reward/sanction system.
8. Regular analysis of portfolio reports to aid Management in decision making.
9. Strong sanction policy for serious infractions.
10. Particular focus on corporate governance, portfolio and service delivery.
11. Facilitate development of performance appraisal system which is based on interdependence of department and reward/sanction system.

3.0. RISK CATEGORIES AND SOURCES.

The following are the major categories of risks identified and their sources in FCMB Pensions' operations:

1. Strategy Risk.
2. Corporate Governance Risk.
3. Business Risk.
4. Operational Risk.
5. Information Technology Risk.
6. Cyber Security Risk.
7. Investment Risk.

8. Market Risk.
9. Liquidity Risk.
10. Concentration Risk.
11. Legal Risk.
12. Regulatory Risk.
13. Reputational Risk.
14. Compliance Risk.
15. Counter-party Risk.
16. Exchange rate/ Currency Risk.
17. Environment, Health and Safety Risk.
18. Data Privacy Risk.

1. Strategy Risk

Our strategy is the chess-board that defines how FCMB Pensions is run, its risk profile and appetite. It refers to the risk of loss in earnings, revenue, profit, cost overrun, market share etc. due to absence of strategy, ambiguous or poor strategy and/or poorly implemented business model and strategy.

Sources of strategy Risk

Strategic risk could come from the following sources:

1. Difficulty in meeting the needs of different stakeholders may make the Company to have ambiguous strategy
2. Short term results are usually demanded from management by the Board of directors as against long term
3. Unpredictability of the future accurately
4. Strategy drawn from incomplete analysis
5. Inflexibility in the implementation of strategic plans
6. Management techniques (operations research models) used in strategic planning maybe cumbersome hence leading to implementation failures

7. Strategy chosen may not be in line with stated missions visions and core values.
8. Wasted capital from failed strategic initiatives.
9. Poor investment portfolio strategies.
10. Poor leadership and strategic direction provided by the board of directors and senior management.
11. Weaknesses in the administration of acquisitions, mergers and alliances.
12. Failure to adopt and implement the Company's strategic planning processes.
13. Failure to provide adequate financial, technological and human resources to the Company's business lines and control function.
14. Lack of ability to analyze external factors that affect strategic direction of the Company.
15. Lack of resources to carry out and deliver the Company's tangible and intangible strategies such as communication channels, operating systems, delivery network and managerial capacity and capabilities.

2. Corporate Governance Risk

Corporate governance is a system by which companies are directed and controlled in the interest of shareholders or owners and other stakeholders.

Sources of corporate governance risk

1. One individual dominates the board and exerts uncontrolled influence on other board members.
2. When members of the board lack requisite experience to appreciate the risk being faced by the Company.
3. When board of directors lack leadership and purpose.
4. Inadequate internal control system and risk management practices.
5. When there is no clear separation of responsibilities between the board and management role.

6. Undue influence on the board of directors by management and other stakeholders.

3. Business Risk

This is the risk inherent in strategic decision making. It is the risk involved in decisions to introduce a new product or service into the market, technical partnership as well as business merger and acquisition. We also see business risks with respect to competition that relates to value in Assets Under Management (AUM) in the industry market share, enrolment growth in the industry and Funding of contributors' Retirement Savings Accounts (RSAs).

It also relates to fluctuations in the number of account holders as well as the value of account as result of recessions in the economy which could trigger lay-offs, redundancy or early retirement. It is also the risk of loss in accounts due to poor service, competition, government policy, transfer window (Movement of RSAs from One PFA to another) etc.

Sources of business risk

Business risk could come from the following sources:

1. Merger/acquisition that go wrong can lead to this type of risk category.
2. Failure of new product launched in the market.
3. Sudden rise in product and services of the Company.
4. Failure of business strategies.
5. Unidentified risk associated with the nature of the business.
6. Risk assessment failure carried out due to the nature of business.
7. Inability to offer innovative services.
8. Wrong timing of service launching and rollout.
9. Poor relationship management of contributors/RSA holders.

4. Operational Risk

Is the risk of loss due to inadequate monitoring system management failure, defective controls, fraud and human errors. Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and system, or external event.

Sources of operational Risk

Operational risk could come from the following sources:

1. This could be a result of weak management or errors in judgment.
2. Inadequate internal control systems.
3. It could include administrative problems or errors.
4. Fraud both internal and external.
5. Theft both internal and external.
6. Liability for damages or restitution because of litigation.
7. Deficiencies in the integration of sales-oriented business with the responsibilities associated with fiduciary relationships.
8. Inadequate training of staff.
9. Inadequate internal control.
10. Low quality and/or integrity of personnel employed.
11. Deficient information processing, accounting, reconcilement and reporting systems in relation to transaction volume and complexity.
12. Loss either through direct expense charges or from loss of client as a result of failure to fulfill fiduciary and contractual responsibilities to customer, shareholders, regulatory authority.
13. Failure to effectively manage third-party vendors.
14. Deficient review processes.
15. Weak internal compliance systems and training programs.
16. Improper legal documentation.
17. Deficient operating processes and internal control over information systems and accounting records, particularly during systems conversions.
18. Deficient information processing, accounting, reconciliation, and reporting systems in relation to transaction volume and complexity.
19. Inadequate disaster contingency planning for information systems.

5. **Information Technology Risk**

Information technology risk is the risk that technological changes will create rewards i.e. new opportunities or loss as a result of obsolesces for the business. This refers to the risk of availability, security, confidentiality, integrity, data recovery capability and value delivery. Business continuity/Disaster Recovery, web hacking and fraud are also part of information technology risk in FCMB Pensions business.

Sources of information technology risk

Information Technology Risk could come from the following sources:

1. Failure to respond to technological Risk changes e.g. Hardware and software upgrade.
2. Inadequate disaster contingency planning for information systems
3. Deficient operating processes and internal control over information systems and accounting records, particularly during systems conversions
4. Adoption of the wrong technology in the business
5. Lack of back up and testing procedures
6. Skills shortage availability on new technology

6. **Cyber security risk**

Cyber security risk is the risk of financial loss, data integrity and confidentiality loss or network damages and disruption due to issues in the Company information technology systems.

Sources of cyber security risk

1. Inability of the system to respond to services as a result of a denial of services (DOS) attack.
2. A Distributed –denial – of services (DDOS) attack whereby an attacker uses malicious software in host machines to attack system resources.

3. Malware that may come in the form of viruses, spyware, mal-vesting, Trojans, botnets and ransom-ware which results in the stealing of credentials, information, money and causing havoc to the system.
4. Structured Query language (SQL) injections that can either be cross –site scripting attacks (XSS attacks) or buffer overflow attack resulting in malicious codes being sent to the database.
5. Unauthorized access to a computer system and sites. This is referred to as hacking
6. Social engineering in the form of phishing or spear phishing in order to gain access to an individuals or Company system or network. It usually involves fraudulent communication in form messages (SMS E-mails), telephone calls fake websites in order to steal secret or sensitive information like passwords, debit or credit card numbers and Pins.

7. Investment Risk

Investment risks are two-fold. They include:

Portfolio Performance Risk: This is the risk associated with deviation in performance outcome of portfolio of investments. This could be adverse or favorable. The driver of the variance in performance outcome could be either or a combination of other risk elements such as fluctuations in fixed income rates, volatility in prices of equities, exchange rate fluctuations (for foreign currency denominated assets or liabilities), CBN regulations as well as inflation.

Capital Commitment Risk: This refers to the risk of success or failure of a big ticket project such as change in software application, opening of branches in other areas, relocation or building of new Branch or Head Office.

Sources of investment risk

1. Adverse movement in market prices (e.g. interest rates, foreign exchange, stock prices and option prices)
2. Unfavorable prices in factor inputs of raw materials or products

3. Credit risk or counterparty risk whereby a debtor cannot meet all obligation as at when due
4. Inability to meet liquidity needs of investors
5. Infractions that may arise due to non-compliance of regulatory limits in investment transactions
6. Macroeconomic decisions of government
7. Uncertainty of other macroeconomic variables not listed in (1) above e.g. inflation rate.
8. The rise of wrong model in measuring, monitoring, and managing risks.

8. Market risk

Market risk is the risk of market volatility in interest rates, foreign exchange rates, equity prices option prices and other commodity.

This is the risk of market volatility and it also refers to as "systematic **risk**." Market risk is the possibility for an investor to experience losses due to factors that affect the overall performance of the markets. An example is an unfavorable Monetary Policy Rate (MPR).

Sources of market risk

1. Changes in interest rate resulting in losses in investment position
2. Equity prices volatility
3. Adverse relationship that may exist between interest rate, bond yields and maturities
4. Re-investment risk whereby asset is reinvested to an unfavorable interest rates
5. Foreign exchange risk resulting in volatility of currency exchange rates
6. Commodity prices risk resulting in price fluctuation of a commodity prices
7. Weak economic variables
8. Unfavorable fiscal and monetary policy direction

9. Liquidity risk

Liquidity risk is the inability of a Company not to meet its debt obligation as at when due. Put differently, it is the risk of not being able to meet financial obligations which could be as a result of mismatch of assets against liabilities. It also involves the risk that the demand for cash payments from the Company exceeds the cash, or near cash, resources of the Company. This could result in the Company being forced to sell assets at less than the true market value to generate the cash needed to meet its' commitments.

Sources of liquidity Risk

1. Large bid-offer spread ratio
2. Mismanagement of funds
3. Increasing non-performing loan ratio
4. When the Company lacks liquidity and contingency forecast
5. Poor asset quality occasioned by the type of asset classes in the portfolio
6. Continuous extension of credit period

10. Concentration Risk

The risk of loss of assets and earnings due to large exposure to one market, instrument, sector, industry or counter-party. Investment risks could also arise as a result of concentration risk - the risk of investment in too narrow range of available investment instruments, industry, geographic distribution, etc.

Sources of concentration risk

1. When the Company invest large funds in one outlet e.g. a particular bank
2. Continuous investment in one asset class
3. Loan book contains loans to one sector of the economy
4. Exposure to the same geographical location
5. Lack of diversification

11. Legal risk

The legal or litigation risk is the risk that legal action will be brought against the Company and its business. This is the risk of litigation against the Company due to unenforceable contracts with consultants or technical partners. It may also arise from defective or unexecuted Service Level Agreement (SLA) with vendors, counterparties, as well as law suit from any stakeholder such as customer.

Sources of legal risk

1. Defective client agreements
2. Court rulings leading to payment of huge penalties and fines
3. Breaches of fiduciary and contractual responsibilities thereby resulting in litigations
4. Negligence of statutory and other stakeholders
5. Non satisfaction of customers and other stakeholders
6. Unexecuted services level agreement (SLA) with vendor and counter parties
7. Lack of legal personnel or team in the Company
8. Non-conformity with business ethical requirement
9. Lack of adequate consideration of what can go wrong in service level agreement

12. Regulatory Risk

Regulatory risk is the risk of possible changes in regulation that affects the business and its operations adversely. This refers to the risk inherent in changes in Legislations and or Regulations that may have adverse or favourable impact on the business of the Company.

Sources of regulatory risk

1. Government new policy that does not support business operating environment

2. Too much regulatory requirement and changes
3. Compilation laws from government that are adhere to
4. Unfavorable tax laws
5. Lack of congruence between fiscal and monetary policy of the government

13. Reputational Risk

Reputational risk is defined as the potential that negative publicity regarding an institution business practices whether true or not will cause a decline in the customer base costly litigation or revenue reductions.

This is the risk of loss of customers due to poor quality of service delivery. It is also the risk of possible loss of respect from other stakeholders, especially the regulator and competitors as a result of negative public opinion, unethical or inappropriate practices, poor quality of management and incessant law suits.

Sources of reputational risk

Reputational risk could come from the following sources:

1. Negative public opinion
2. Inability to offer innovative products and services
3. Low quality customer service
4. Uncompetitive products and services
5. Lack of understanding to identify and manage risk inherent in the products and services.
6. Lack of strong and enforced ethical culture and risk control environment
7. Lack of clearly defined and consistently applied investment management philosophy
8. Deficiencies in the ethical culture and expertise of management and supporting personnel
9. Marginal or poor customer services and product performance
10. Adverse regulatory enforcement actions
11. Liability for damages or restitution as a result of litigation.

12. When customers and stakeholders are not satisfied with product or services of the Company
13. Negative public perception of the Company
14. Uncompetitive product or services quality and prices
15. When the Company lack integrity in doing business

14. Compliance Risk

Compliance risk of possible losses and fines resulting from non-compliance with laws and regulations. This refers to the risk of fines, reprimands, reputational damage, naming and shaming, suspension or withdrawal of operating license as a result of infractions in operating laws and regulations guiding the business. Compliance risk also involves non-adherence to management policies and guidelines which are best practice in the industry, non-compliance of which, can lead to risk of poor quality of service delivery, damage, injuries, loss in earnings, revenue and or profitability.

Sources of compliance risk

Compliance Risk could come from the following sources:

1. Breaches of laws and regulations
2. Weak internal compliance systems
3. Lack of training programs
4. Loss either through direct expense charges
5. Loss of client as a result of failure to fulfill fiduciary and contractual responsibilities to customer, shareholders, regulatory authority.
6. When the Company internal control system does not have compliance with rules and regulations as an important aspect of its control functions
7. If the Company has no individual responsibility for compliance functions
8. Timeline for report rendition are not adhere to
9. Unethical business practice.

15. Counterparty Risk

This is the risk that counterparty will fail to honour its contractual obligation(s) in a contract. FCMB Pensions is exposed to counterparty risk through financial commitments in the form of investment deals and technical partners that support the Company in one form or the other. Counterparties include banks, non-bank financial institutions, stockbrokers, governments and corporate issuers of securities and technical partners in a project.

The Risk Management Department shall institute a process to continuously monitor Counter-party risk. The process will involve:

1. Analytical review of Counter-Party audited financial statements in conjunction with the external credit rating of the Counter-party approved by the Securities and Exchange Commission (SEC) and recognized by PenCom.
2. Review of current market information/intelligence.
3. Escalate to Management Investment Committee (MIC) Counter-party without published financial statements at the end of the first quarter for financial institutions and at the end of the second quarter for non-financial institutions after the reporting date.

Sources of counterparty risk

1. Policies of the Company that exposes deals to a particular counterparty.
2. Company's terms of contract that went wrong or not properly executed.
3. When any of the six C's (Capacity, Capital, Collateral, Character, Condition, and Confidence) of credit is not meet and credit is given to the counterparty.
4. Inadequate controls, process and procedures in dealing with counterparties.

16. Foreign exchange Rate/ Currency Risk

Foreign exchange rate risk or currency risk occurs due to the fluctuation in the value of one currency in relation to another. For example, the Nigeria Naira rate fluctuations with United States dollar exchange rates.

Sources of foreign exchange rate risk

1. When a country is over dependent on importation of goods and services from foreign countries.
2. Rates of demand of the foreign currency to settle transactions
3. Mono- cultural economy can give rise to frequent changes in foreign currency rates
4. Lack of foreign exchange earnings or revenue
5. Government monetary and fiscal policies.

17. Environment, Health and Safety (EHS) Risk.

Environmental health and safety is a process of ensuring that the work undertaken by the Company does not lead to undue environmental damage, put the workers' health and safety at high risk, complies with applicable legislation, and follows best practices. EHS risks in the workplace can lead to physical, chemical, biological and cultural hazards.

Physical hazards are physical processes that occur naturally in the environment. These include natural disaster events such as earthquakes, tornadoes, volcanoes, storms, landslides, and droughts.

Chemical hazards can be both natural and human-made chemicals in the environment. Human-made chemical hazards include many of the synthetic chemicals we produce, like disinfectants and pesticides.

Biological hazards come from ecological interactions between organisms. For example. Viruses, bacterial infections, malaria, and tuberculosis etc.

Cultural hazards, also known as social hazards, result from socioeconomic status, occupation, and behavioral choices. For example, smoking cigarettes.

Sources of EHS Risk

Some of the notable sources of EHS risks are as follows:

1. Inadequate safety practices that could lead to electric shocks due to exposed conductors and frayed cables.
2. Height falls.
3. Inhaling of chemical substances.
4. Presence of flammable substances.
5. Slipping on wet, grease or oily surfaces.
6. Walking on an uneven walkways leading to a fall
7. Eye injury due to excessive exposure to computer systems rays.

18. Data Privacy Risk

Data privacy is the right of our employee, customers, vendors, etc (Data Subject) to trust that the Company (Data Controller) will appropriately and respectfully collect, use, store, share and dispose of personal and sensitive information within the context, and according to the purpose, for which it was collected or derived. Data privacy risk arises when the collection, use, store, share and dispose of personal identifiable sensitive information are not done in accordance with the Data Protection Regulations. This may lead to potentially devastating public press, irreversible damage to reputation, fines and lawsuits.

The National Pension Commission Data Protection Policy and Privacy Notice, Nigeria Data Protection Regulation, General Data Protection Regulation, the Company's Data Privacy Impact Assessments shall guide our Data Privacy Management Program.

Sources of Data Privacy Risk

Data privacy risk could arise from the following:

1. When there is no control in the use of personal information within the business context in-terms of collection, storing, use, transmission and sharing.
2. The details of the employee, customers, vendors, etc are revealed in a manner that they were negatively impacted.
3. Noncompliance with the Nigeria Data Protection Regulation and the General Data Protection Regulation.
4. Lack of staff training on Data Protection and Privacy.

4.0. RISK MANAGEMENT PROCESS

FCMB Pensions considers sound risk management to be the foundation of a sustainable and enduring institution that benefits all its stakeholders. In order to achieve the objective of its mission, the following sequential process is adopted in managing the risks which FCMB Pensions is exposed to:

1. Internal and External Environmental Scanning
2. Setting of Risk Objectives
3. Event Analysis/Risk Identification
4. Risk Assessment and Measurement
5. Risk Treatment/Response
6. Risk Mitigation and Controls
7. Communication and Training
8. Risk Monitoring
9. Risk Reporting
10. ERM Evaluation & Review

4.1 Internal and External Environmental Scanning

FCMB Pensions uses SWOT analysis technique to assess its internal resources and competences, as well as the competitive environment within which it operates in setting objectives and identifying the various risks that may impact the achievement of its objectives.

4.2 Setting Risk Management Objectives

Risk Management objectives stated in 1.6 above are derived from the vision and mission statements of the Company as well as the Company's strategic goals and objectives.

4.3 Event Analysis & Risk Identification

The following techniques, among others are applied to continuously identify risks which FCMB Pensions is exposed to:

1. **Brainstorming:** This will be among staff of Risk Management Department (RMD) in the first instance and discussion with risk representatives and risk owners in the second instance.

2. **Risk events and loss log:** This involves examination of near loss events and actual loss data.

3. **Questionnaires, Interviews and Self-assessment:** Questionnaires and discussions are also used to obtain data from risk owners in all areas of their business, especially the high and very high risk areas.

4. **Scenario analysis:** Scenario analysis is used to identify strategic risks, in a 'what-if' situation and especially where the risk event is high impact and the probability is low.

5. **Regulatory, Compliance, Internal and External audit reports:** The reports of these collaborative resource persons and institutions will also be used to identify real and potential risks that FCMB Pensions is exposed to

6. **Facilitate workshops:** Identified risk representatives are given adequate training and are rotated in successive workshops and trainings to build a collection of skilled risk owners.

4.4 Risk Assessment and Measurement

4.4.1 Risk Assessment

FCMB Pensions shall consistently assess its risk and group it in order of severity of the risk score or outcome in terms of very low, low, medium, high and very high. This assessment will enable the Company maximize its opportunities in low risk areas and minimize its exposure to potential loss in high and very high risk areas. The risk scores determine in part, the swing of FCMB Pensions' risk appetite and tolerance.

4.4.2 Risk Measurement

FCMB Pensions quantifies its inherent risk by taking a look at its operations Company-wide. The probability and impact of a given event as well as the frequency with which such an event may occur, is discussed with risk owners and representatives. Experience and risk data of the past and most importantly, our target service delivery standard will inform the risk scores and hence the response or treatment to adopt. In certain instances, risk tools such as VaR (Value at Risk), Scenario Analysis, Expected Loss, Unexpected Loss, Simulation, Historical Earnings Volatility etc will be applied in risk measurement.

4.5 Risk Treatment and Response

The result of risk assessment (likelihood and impact) shown below is also mapped out in a Risk Quadrant that follows the assessment. These are what determine FCMB Pensions' risk response approach. Either or a combination of avoidance, transfer, retention and exploitation are used in treatment of the identified risks on a case by case basis. Our interpretations of Likelihood and Impact Risk Scores and Risk Quadrant are illustrated below:

Likelihood and Impact Risk Scores

Likelihood			Impact	
Likelihood Score	**Description of Likelihood**	**Frequency**	**Description of Impact**	**Impact Score**
1	Very Unlikely/Remote	0-5% in a year	No loss of reputation, no regulatory consequences, no disruption in service.	**1**
2	Unlikely /Probable	>5-20% in a year	Mild disruption in business, minor loss in earnings, no impact on capital/fund.	**2**
3	Likely/Good Chance	>20-50% in a year	Regulatory attention/warning, business disruption for less than 3 days.	**3**
4	Fairly Certain	>50 - 80% in a year	Regulatory intervention, business disruption for more than 3 days but < 7 days, high impact on capital and fund under management.	**4**
5	Definitely Certain	>80% - 100% in a year	Loss of reputation, sanction from regulator, service disruption for more than 7 days, threat to License.	**5**

Interpretation of Risk Score

S/N	Score Bracket	Risk Interpretation
1	From 1 to less than 2	Very Low Risk
2	Greater than 2 to less than 3	Low Risk
3	Greater than 3 to less than 4	Medium Risk
4	Greater than 4 to less than 5	High Risk
5	5	Very High Risk

Risk Quadrant

Impact		
	High Impact Low Probability **(Transfer, control the risk)** (score 3-<4)	High Impact High Probability (Avoid/Board intervention) (score >4≤5)
	Low Impact Low Probability (score 1- <2) **(Accept, put controls in place & review)**	Low Impact High Probability (score 2-<3) **(Accept, control and regularly monitor)**

Probability

4.6 Risk Mitigation and Controls

The Board of Directors through its delegated organs – Board Risk Management Committee and Management, regularly monitor and evaluate the types and severity of risks, as well as adequacy and effectiveness of risk management process. Compliance and Internal Audit are collaborative departments in control activities for achievement of the overall objectives of FCMB Pensions. Reports of adherence and non-compliance with controls are rendered to Management and Board Risk Committee on monthly and quarterly basis respectively, and as may be expedient.

4.6.1 Risk Mitigation

FCMB Pensions risk mitigation is consistent with the risk appetite and tolerance established by the Board of Directors. Risk exposures are tracked and monitored to ascertain whether the Company is in compliance with risk tolerance standards and whether its businesses are meeting financial and operational goals and objectives.

Our risk mitigation strategy involves the process of developing options and actions to enhance opportunities and minimize threats to the goals and objectives of FCMB Pensions.

Risk mitigation process includes efficient utilization of technology for service delivery, cost savings without compromise to quality, tracking identified risks, identifying new risks, and evaluating risk process effectiveness throughout the Company.

Board and Management approvals, Limits, Operating Manuals, Regulator and in-house guidelines, reviews, appraisals, external and peer ratings as well as employees training are some of the tools that we use to mitigate risks.

4.6.2 Risk Control

FCMB Pensions has internal policies as risk preventive control tools. The Company is also bound by Regulatory induced controls that are placed on it by legislation, regulations and guidelines. Result of our risk assessment will also inform the nature of controls to put in place, whether physical, technological, new policy, process or procedural amendment or outright changes to procedure and processes.

4.6.3 Information Systems and Technology Application.

Effective risk control is to a large extent, dependent on accurate, timely, reliable, and secure information processing and reporting systems.

Rapid advancements in information technology create new risks and control issues that affect Company's activities. Also, risk management will focus on technology availability, integrity, security, data storage and retrieval of Company information in order to provide excellent service delivery to its stakeholders. Contingency and business continuity plan is equally essential in managing risk of service disruption and down-times.

4.6.4 Risk Control Self-Assessments (RCSAs).

Each division/department/unit assumes primary responsibility for identifying key operational risks that may impact achievement of its objectives. Risk Management Department will regularly facilitate this self-assessment and review for improved service delivery.

4.7 Communication and Training

4.7.1 Communication

Communication is both top-down and bottom-top. Board and Management from time to time, communicate policies, framework, expectations and risk performance reports to risk owners, while risk owners report risks identified in their operations and mitigants for those risks to Management, through Risk Management Department. They also report crystalized risks to RMD and Management.

4.7.2 Training

Corporate Resources Department (CRD) facilitates training of Risk Representatives, Risk Officers and Risk Manager. In conjunction with CRD, RMD may facilitate in-house training for risk officers and risk representatives who in-turn, train other staff in their business or operational units.

4.8 Risk Monitoring

Risk treatment and responses are monitored routinely, to ensure that they are working as designed and are effective for the achievement of the Company's goals and objectives. Other objectives of monitoring are to ensure risk plans are being implemented, new risks identified and determine if risk exposure or severity has changed for better or for worse.

4.8.1 Key Risk Indicators (KRIs)

Key Risk Indicators are predictive indices which provide early signals of increasing risk exposures in various areas of our business. They represent actions, events etc. that show indications of evolving risks or potential opportunities in our operations and Management of FCMB Pensions. KRIs are collated on a regular basis and discussed with risk owners and Management with a view to providing proactive measures to manage the indicators. KRIs shall be monitored using the RCSAs in line with the Company's strategic, operational, compliance and reporting goals and objectives.

4.8.2 Key Performance Indicators (KPIs)

The performance of RMD will be measured in terms of the number of new risk identified and managed, effectiveness of risk treatment and plan, reduction in the number of crystallized risk events, reports on compliance/non-compliance with risk treatment initiatives, and improvement in risk rating by Regulators.

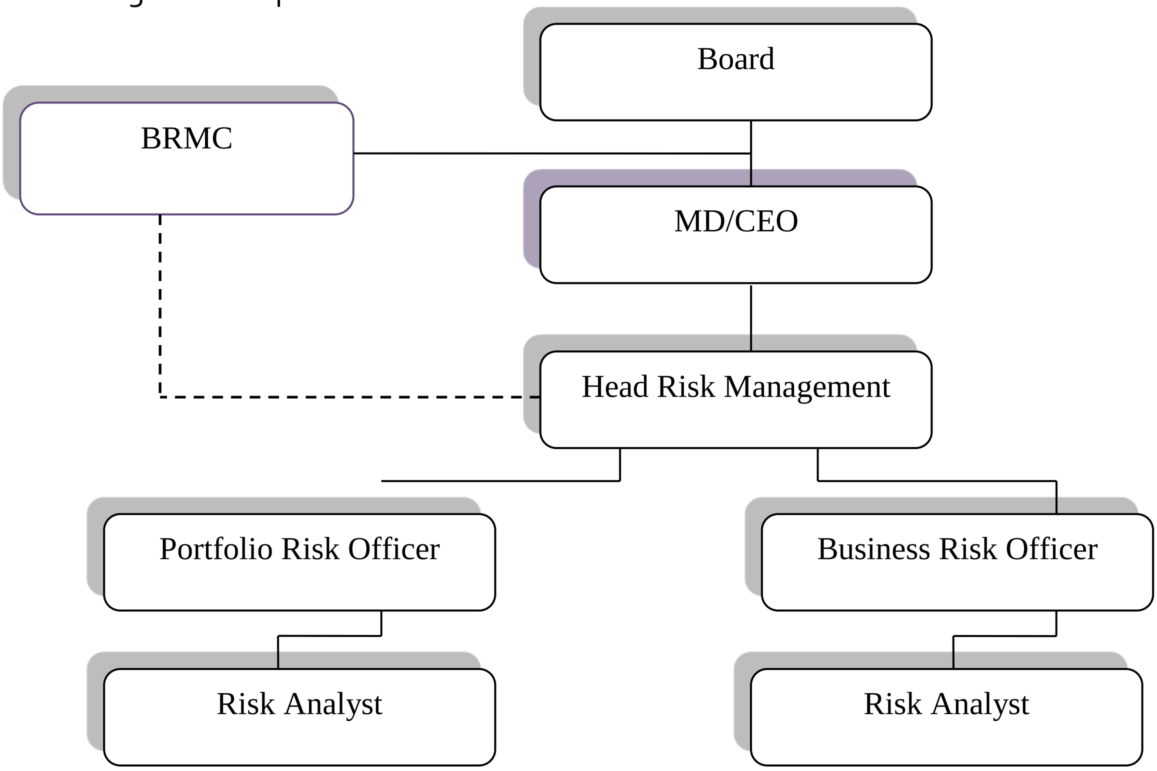
4.9 Reporting

4.9.1 Reporting and Risk Management Department Structure

Risk reports are routine-based on specific and target department, monthly for selected risk profile and department and comprehensively on a quarterly basis. Risk report encompasses risk identified, risk issues involved, response of risk owners and recommendation(s) of RMD. The reports are forwarded to the MD&CEO.

4.9.2 Structure

Risk Management Department structure is as shown below:



Risk Management Organogram

ROLE	FOCUS AREA
Head Risk Management	Total Risk i.e. Portfolio and Business Risk
Portfolio Risk Officer	• Credit Risk • Investment Risk • Market Risk • Liquidity Risk • Concentration Risk • Counter-party Risk
Business Risk Officer	• Strategic Risk • Reputational Risk • Operational Risk • Legal Risk • Corporate governance Risk • Cyber security Risk • Data privacy Risk • Regulatory Risk • Environment Health and Safety Risk • Compliance Risk

5.0. ROLES AND RESPONSIBILITIES

5.1 The Board

The Board is primarily responsible for providing leadership for efficient management of the Company, in pursuit of realization of the Company's goals and objectives and for ethical corporate governance. The main responsibilities of the Board in relation to risk management are as follows:

1. Considers and approves Risk Management Policy.
2. Determines the Company's risk appetite and tolerance.
3. Approves and reviews Risk Management resources, structures and processes put in place by Management.
4. Constitutes members of Board Risk Management Committee to assist the Board in risk assessment, review and monitoring of risk management process.
5. Considers Board Risk Management Committee's report at its meetings to ensure compliance with established policies.
6. Evaluates risk management policy and processes for its relevance in achieving the goals and objectives of the Company.

5.2 Board Risk Management Committee (BRMC)

In pursuance of Section 78 of the Pension Reform Act 2014 each PFA is required to establish a Board Risk Management Committee (BRMC). The Committee shall have at least one non-Executive Director as member and chaired by the Independent Director as required by section 1.8 of the PenCom regulation on investment of pension fund assets. The BRMC is accountable to the Board and shall report directly to the Board.

The main responsibilities of Board Risk Management Committee are as follows:

1. Review and recommend to the Board of Directors for approval, risk management policy.
2. Provide leadership and direction for Risk Management in the Company.

3. Determine acceptable risk profile of FCMB Pensions

4. Monitor investment portfolio, draw up risk assessment and measurement systems and assess investment portfolios against risk tolerance limits

5. Draw up programs of adjustment in case of deviation.

6. Determine level of reserves required to cover the risks of the Company's investment portfolios.

7. Ensure that the Company structure and defined roles and responsibilities support the overall risk governance framework.

8. Ensure optimal portfolio returns through diversification and risk transfer strategies, in accordance with the Company's risk/reward profile.

9. Ensure that the Company has risk management resources and fit and proper personnel to support overall business goals and strategy.

10. Reviews the effectiveness of risk management, financial and internal control processes and procedures.

11. Carryout other functions relating to Risk Management as the Board may from time to time assign to the committee.

5.3 Management

The Managing Director & Chief Executive Officer as well as Executive Directors serve as members of the BRMC and are involved in approving risk limits. The main responsibilities are listed below:

1 Ensure adequate and functional internal controls for managing risks are in place.

2 Review and authorizes Risk Management Policy for approval of both the BRMC and the Board.

3 Facilitate implementation of risk management policy and strategies approved by the Board Committee and the Board.

4 Prepare Company-wide risk management report for review and decision making of the relevant Committee of the Board and the Board of Directors.

5 Recommend for consideration of BRMC and subsequent approval of the Board, risk management resources, structures and processes desirable for the Company.

6 Transform strategic directions and policies approved by the Board into functional processes and procedures for effective, efficient and ethical running of FCMB Pensions.

7 Demonstrate and promote top level risk culture which is driven down the line to Management, risk owners and risk representatives.

5.4 Risk Manager (RM)

The Risk Manager reports to the MD&CEO, and has dotted reporting line to the Board Risk Management Committee. The responsibilities of the Risk Manager are:

1. Prepare for management approval, Risk Management Policy which enables identification, management and reporting of FCMB Pensions' risk profile.
2. Identify and prepares comprehensive risk register and risk rating.
3. Prepare Risk Activity Framework which lists out key risks in all business units and activities required to treat/manage the risks.
4. Communicate Risk Activity Framework to all risk owners.
5. Measure FCMB Pension's risk exposures using appropriate risk measurement tools and techniques (VaR, Scenarios and/Stress testing, Risk rating models etc).
6. Carry out risk assessment of departments, assign risk ratings and report to Management.
7. Provide periodic risk reports for Management and Board Risk Management Committee.
8. Participate in Management Investment Committee's (MIC) activities.
9. Carry out regular review of Risk Management Policy and Frame work.
10. Facilitate in-house and other learning initiatives as may be required by the Company.

11. Set up and monitor investment risk limits in the systems in line with PenCom Investment regulations and Fund Owners' executed agreement.
12. Review and monitor the accuracy of investment transactions entered in the system.
13. Any other job as may be assigned from time to time by MD&CEO and Board Risk Management Committee.

5.5 Risk Management Representatives (RMRs)

Risk Management Representatives are staff selected from various departments to represent their department/branch liaison with RMD in the process of managing FCMB Pensions' risks. The selected staff are rotated on a regular basis to ensure a collection of skilled risk owners across the Company.

The following are the responsibilities of RMRs.

1. Coordinating risk management activities in alliance with Heads of Department/Business Managers.
2. Ensuring that risks inherent in their daily activities are managed on a day to day basis.
3. Identifying risks inherent in their operations and proffering controls to the risks.
4. Ensuring compliance with risk management procedures and thresholds.
5. Providing on-the job training on risk management in their respective Departments/Business to other staff.
6. Acting as interface between RMD and respective Departments.
7. Gathering risk management information for recording of risk data.
8. Assisting business units and departments in risk monitoring and reporting.

5.5.1 Reporting Lines for Risk Representatives

1. Risk Control Self-Assessment (RCSA) sent to Heads of Departments with Risk Representatives in copy.
2. Feedback from Risk Representatives and Heads of Department if any for update.
3. Risk is identified in the Quarter through our risk assessment using Key Risk Indicators (KRI).

3. REPORTS SUBMITTED TO THE NATIONAL PENSION COMMISSION

Section 4 and 5 of the Guidelines for Risk Management framework for licensed Pension Operators stipulated the reports to be submitted to the National Pension Commission. The reports are as follows:

1 Monthly Risk Management report evaluated as high/very high.

2 Quarterly report on the investment performance analysis.

3 Additional Information on Risk Management Report. See Appendix A for the format.

Also in line with section 6.9 of the PenCom Regulation on Investment of Pension Fund Assets, Risk Management Department shall report on Quarterly basis, Conflict of Interest issues.

4. REVIEW OF RISK MANAGEMENT POLICY

In the course of our business, operating procedures will be modified and new ones developed; changes may be initiated internally or induced by stakeholders, new laws or guidelines may be released; risk owners may have come up with new ideas with risk implications.

There may have also been risk event averted near misses or crystallized risks. Some risk profiles would have assumed more risk exposures while others may show improvement in risk ratings.

All these are factors among others, which will necessitate regular review of Risk Management Policy. The policy will be reviewed every two years.

Appendix A: Quantitative Risk Appetite

Risk category, Key Risk Indicators and Tolerance Levels		**Tolerance Levels**	**GREEN**	**YELLOW**	**ORANGE**	**RED**
Risk category	**Key Risk Indicator**					
Strategy Risk	Annual strategic target achievement	78%	≥ 78%	-	-	< 78%
Corporate Governance Risk	Board Committee Membership (3 members for each committee)	3 members each	≥ 3	2	-	-
	Board Committee Meetings	4 meetings a year (quarterly)	≥ 4 times	3 times	2 times	once
	Management Investment Committee Meetings	12 meetings a year (monthly)	12 times yearly	Between 12 to 8 times a yearly	Between 8 to 4 times a yearly	4 times yearly

	ICT Steering Committee Meetings	4 meetings a year (quarterly)	≥ 4 times yearly	3 times	2 times	once
	Board Investment Committee Meetings	4 meetings a year (quarterly)	≥ 4 times yearly	3 times	2 times	once
Business Risk	Market Share AUM-Annual Growth	10%	≥ 10%	-	-	<10%
	Membership Annual Growth	7%	≥ 7%	-	-	<7%
	Transfer Window-Net Position	N1Billion	Net Positive Position≥ 1Billion	Net Positive Position > 500Million but ≤1Billion	Net Positive Position < 500Million to zero	Negative Position
	Investment Return (Inflation Rate as at March 2022)	15.92%	≥ 15.92%	-	-	<15.92%
Operational Risk	Monthly Uncredited Contributions	2 Billion	>N500Million to ≤ N1Billion	>N1 Billion to ≤N1.5Billion	>N1.5 Billion to ≤N2 Billion	>N2 Billion
	Monthly Invalid Contributions	500 Million	>N100M to ≤ N250M	>N250M to ≤N400M	>N400M to ≤N500M	>N500 Million
	Staff Turnover	5%	≤2%	≥2% to 3%	≥3% to 4%	>5%
	Number of payments made by Employers without schedule within a month	10%	≤5%	Between 5% & 8%	Between 8% & 10%	>10%

	Value of payments made by Employers without schedule within a month	10%	≤5%	Between 5% & 8%	Between 8% & 10%	>10%
Information Technology Risk	Systems/Application Downtime	24 hours	Within 24 hours	-	-	Exceed 24 hours
	Systems Availability	99%	≥ 99%	-	-	<99%
	Response Time to Staff Complaints	20 minutes	Within 10 minutes	Between 10 & 15 minutes	Between 15 & 20 minutes	>20 minutes
	Vendor Performance Assessment Default	3 times default	None	1 time default	2 times default	3 times default
Cyber Security Risk	Systems Security Updates	24 hours	Within 24 hours	-	-	Exceed 24 hours
	Outdated/Expired Antivirus	24 hours	Within 24 hours	-	-	Exceed 24 hours
	Outdated Computer Software	24 hours	Within 24 hours	-	-	Exceed 24 hours
	Vulnerability Assessment Result Update	Yearly	Within a quarter	-	-	Exceed a quarter

Investment Risk	Regulatory Limits	Above Regulatory Limits	Within Regulatory Limits	-	-	Exceed regulatory limits
	Counter Party Credit Defaults	4 times default	None	1 time default	2 to 3 times default	> 4 times default
Market Risk	AFS Bond Losses	10%	≤3% of AFS Bond Value	>3% to ≤5% of AFS Bond Value	>5% to ≤10% of AFS Bond Value	>10% of AFS Bond Value
	Equities Losses	10%	≤3% of Equity Value	>3% to ≤5% of Equity Value	>5% to ≤10% of Equity Value	>10% of Equity Value
Liquidity Risk	Liquid Assets Limit	60%	≥ 60%	-	-	<60%
Concentration Risk	Over exposure of investment to a single counter party or an asset class	Within Regulatory Limit	Within Regulatory Limit	-	-	Above Regulatory Limit
Legal Risk	Litigation	Filing lawsuit	Complaints	-	-	Filing Lawsuit
Regulatory Risk	Regulatory requirements/request compliant	Within Regulatory Limit	Within Regulatory Limit	-	-	Breaching Regulatory Limit

Reputational Risk	Response to Customers' complaint	24 hours	Within 1 to 6 hours	Within 6 to 12 hours	Within 6 to 24 hours	>24 hours
	Benefit Application Approval Request Process	48 hours	Within 1 to 16 hours	Within 16 to 32 hours	Within 32 to 48 hours	>48 hours
	Benefit Payment to Custodian upon receipt of PenCom Approval	48 hours	Within 1 to 16 hours	Within 16 to 32 hours	Within 32 to 48 hours	>48 hours
	Contribution Processing	48 hours	Within 1 to 16 hours	Within 16 to 32 hours	Within 32 to 48 hours	>48 hours
Compliance Risk	Regulatory Requirement Compliant	Within Regulatory Limit	Within Regulatory Limit	-	-	Breaching Regulatory Limit
Counterparty Risk	Investment Maturities	1 Day	1 Day	2 Days	3 Days	> 3 Days
	Internal Limits	Above policy limits	Within policy limits	-	-	Above policy limits
Exchange rate/Currency Risk	Eurobond Exposure	Within Regulatory Limit	Within Regulatory Limit	-	-	Above Regulatory Limit

Environment, Health and Safety Risk	Exposure to Environmental Hazards	Zero	Zero	-	-	One
Data Privacy Risk	Breach in Data Privacy Policy	None	None	-	-	One

Appendix B: Additional Information - Risk Management Report

i. Pension Administration

a) Retirement Savings Accounts Record Keeping:

- Total Number/% of RSAs on Database:
- Total Number/% of RSAs without Complete Mandate File:
  - Total Number/% of RSAs Recaptured:

➢ **Explanation (if any):**

➢ **Management/Board Remedial Response(s)**

b) Funding of Retirement Savings Accounts:

- Number of Funded RSAs by Sector:
  1. Federal Government of Nigeria: State Governments:
  2. Local Governments:
  3. Private Sector:

  Total:
- Number of Unfunded RSAs by Sector:
  1. Federal Government of Nigeria:
  2. State Governments:
  3. Local Governments:
  4. Private Sector:

  Total:

➢ **Explanation (if any):**

➢ **Management/Board Remedial Response(s):**

c) Contribution Management:

Uncredited Contributions				
	Number of Employees	**N'Million**		
Contribution Account				
Contribution Reconcilition Account				
Allocation Account				
Transitional Contibutory Fund				
Total				

- **Age Analysis of Un-credited Contributions:**

		N' Million	%	
Contribution Account	< 30 Days			
	< 60 Days			
	< 90 Days			
	< 365 Days			
	> 365 Days			
	Sub Total			
Contribution Reconciliation Account	< 30 Days			
	< 60 Days			
	< 90 Days			
	< 365 Days			
	> 365 Days			
	Sub Total			
Allocation Account	< 30 Days			
	< 60 Days			
	< 90 Days			
	< 365 Days			
	> 365 Days			
	Sub Total			
Transitional Contributory Fund	< 30 Days			
	< 60 Days			
	< 90 Days			
	< 365 Days			
	> 365 Days			
	SubTotal			
Grand Total				

- **Trend:**
- **Contribution Account:**

	Current Montl	Previous Month	Variance	% Change
	N' Million	N' Million	N' Million	
< 30 Days				
< 60 Days				
< 90 Days				
< 365 Days				
> 365 Days				

- **Contribution Reconciliation Account:**

	Current Montl	Previous Month	Variance	% Change
	N' Million	N' Million	N' Million	
< 30 Days				
< 60 Days				
< 90 Days				
< 365 Days				
> 365 Days				

- **Allocation Account: N' Million**

	Current Mont	Previous Month	Variance	% Change
	N' Million	N' Million	N' Million	
< 30 Days				
< 60 Days				
< 90 Days				
< 365 Days				
> 365 Days				

- **Transitional Contributory Fund:**

d) Opening of RSAs:

- Total Number of RSA Opening Request Received Within the Month:
- Total Number of RSAs Opened Within the Month:

➢ **Explanation (if any):**

➢ **Management/Board Remedial Response(s):**

e) Records Update:

- Total Number of Records Update Requests Received Within the Month:

- Total Number of Records Update Requests Approved by the Commission Within the Month:
- Total Number of Approved Records Update Requests Not Processed Within the Month:

➢ **Explanation (if any): The outstanding requests did not meet the required validations at PenCom.**

➢ **Management/Board Remedial Response(s): The RSA holders were duly notified and will represent their applications.**

a) Accrued Rights: As at May 31, 2020.

Number of Accrued Rights Received	Number of Accrued Rights Paid	Number of Unpaid Accrued Rights	Value of Accrued Rights Received	Value of Accrued Rights Paid	Value of Unpaid Accrued Rights

- **Age Analysis of Unpaid Accrued Rights:**

< 30 Days				
< 60 Days				
< 90 Days				
< 365 Days				
Total				

ii. Information & Communication Technology

a) Data Storage Capacity:

- **Storage Area Network or Server Storage:**
- **Total Usable Capacity:**
- **Total Used Space:**
- **Total Available Space:**
- **Date of Manufacture of Storage:**
- **Storage End of Life:**

- **Explanation (if any):**
- **Management/Board Remedial Response(s):**

b) Disaster Recovery and Business Continuity Arrangements:

- Number of Monthly Backups Conducted:
- Number of Test Conducted on the Backups:
- Number of Disaster Recovery Continuity Plan Test Conducted:
- **Explanation (if any):**
- **Management/Board Remedial Response(s):**

iii. Fund Management

- **Returns:**

S/N	Funds Under Management	Monthly Return Annualized %	Monthly Target Return Annualized %	Variance %	Inflation Rate (%)	Inflation Adjusted Return %

- **Reason(s) for Underperformance Relative to Target/Benchmark:**
- **Reason(s) for Underperformance Relative to Inflation:**
- **Management/Board Remedial Response:**