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# **Integrity Report**

**2011 – 2012**



## **Message from the President**

Protecting the Bank's reputation is vital for the Bank to maintain its position as a reliable partner among its member countries, customers, investors, staff and other stakeholders. Therefore, the Bank is determined to maintain high integrity in all its activities and stay true to its mandate, strategy and core values.

Moreover, NIB is committed to fight corruption in all of its activities. By having established its policy and procedures on fighting corruption and also by having endorsed the uniform framework on preventing and combatting fraud and corruption agreed upon by the major international financial institutions, the Bank is well equipped for this task.

As part of the Bank's ordinary lending activities, integrity due diligence checks of all our borrowers and partners are undertaken before entering into financial commitments. Prevention is always better than being caught up in allegations, disputes and investigations that could slow down the day to day business.

It is important for the Bank to show what it is doing and how it is doing it. That is why the Bank is continuously exploring new ways of reporting on its financial performance and corporate social responsibility.

The success of the Bank depends ultimately on its staff. Therefore it is important that integrity is integrated into the Bank's core values and principles described in our Code of Conduct and becomes part of our habits in our day to day work.

Henrik Normann  
President & CEO

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## Abbreviations

CCO	Chief Compliance Officer
Committee	Committee on Fighting Corruption
CSR	Corporate Social Responsibility
FI	Financial Intermediary
GRI	Global Reporting Initiative
IDD	Integrity Due Diligence
IFI	International Financial Institution
KYC	Know Your Customer
NDF	Nordic Development Fund
NEFCO	Nordic Environment Finance Corporation
NIB	Nordic Investment Bank
OCCO	Office of the Chief Compliance Officer
PEP	Politically Exposed Person
Uniform Framework	IFI Uniform Framework for Preventing and Combating Fraud and Corruption

## 1. Introduction

This report summarizes the activities of the Office of the Chief Compliance Officer (OCCO) and the Committee on Fighting Corruption during 2011 and 2012 to ensure integrity in the Nordic Investment Bank's (NIB) operations.

Integrity means adherence to the Bank's mandate, strategy, rules and values, which are publicly available on the Bank's website [www.nib.int](http://www.nib.int). NIB is determined to follow best business practices and established market standards in its operations.

The Bank's integrity activities include fighting fraud and corruption according to the Bank's anti-corruption strategy, which covers preventing, detecting, investigating and sanctioning corrupt practices. This report also covers activities related to transparency and accountability, code of conduct, corporate social responsibility, cooperation with other institutions and planned activities for 2013.

For more information about OCCO, see NIB's [Compliance Policy](#) available in PDF.

For more information on the Bank and its financial results, please visit NIB's [website](#) and [Annual Report 2012](#).

## 2. The Office of the Chief Compliance Officer

OCCO's main responsibility is to protect the Bank's business from any reputational risk and against corrupt and fraudulent practices both internally and in relation to the projects financed by the Bank.

In this regard OCCO advises the Board of Directors, Control Committee, President and staff on integrity matters to ensure that the highest standards of integrity and business ethics are applied throughout the Bank.

In concrete terms, OCCO takes part in developing corporate governance and sustainability standards, reporting on corporate social responsibility, analysing Integrity Due Diligence (IDD) reports for lending transactions, recommending and commenting on policies, providing staff with training and monitoring compliance with internal policies and rules. OCCO plays a central role in outlining the rules on insider information, conflicts of interest and the handling of confidential information, as well as interpreting the codes of conduct and possible breaches, and administering the financial and business interest declarations submitted by staff and members of governing bodies in accordance with their respective Codes of Conduct.

In collaboration with the Head of Internal Audit, the Chief Compliance Officer (CCO) is responsible for assessing allegations of corruption before being referred to the Committee on Fighting Corruption (see section 3) for investigation. OCCO is also responding to all other complaints related to integrity and non-compliance.

The CCO reports to the Bank's President and he has direct access to the chairpersons of the Board of Directors and the Control Committee. Mr Per Eldar Søvik took up the position of Chief Compliance Officer in February 2012 when Mrs Siv Hellén retired as Chief Compliance Officer.

### **3. Fighting fraud and corruption**

NIB fights corruption in its external and internal activities and operations and the Bank has a zero tolerance of corruption. NIB's Resolution on Fighting Corruption sets out the principles and guidelines for combating corruption. The Bank has demonstrated its commitment to fight corruption by aligning its policies and rules with the International Financial Institutions Uniform Framework for Preventing and Combating Fraud and Corruption that NIB formally endorsed in 2008.

In the Resolution on Fighting Corruption, NIB defines corruption as “any improper or illegal behaviour where persons enrich themselves or those close to them, or encourage others to do so, by misusing their position in any way”. The term corruption refers to any form of abuse or misuse for personal gain, such as fraud, bribery, coercion, or blackmail. Fighting corruption also includes efforts to combat money laundering and financing of international terrorism.

#### **3.1. The Committee on Fighting Corruption**

To prevent corruption in the Bank's activities, a Committee on Fighting Corruption has been established within the Bank. The Committee has five members and is governed by the Resolution on Fighting Corruption as well as by its Rules of Procedure.

The CCO acts as the Chairperson of the Committee, and is involved in the preliminary assessment and the investigation of allegations of fraudulent and corrupt practices, both with regard to the Bank's staff and other officials of the Bank, as well as in relation to Bank financed projects and counterparties.

The tasks of the Committee are divided into two distinct fields. On the one hand, the Committee suggests measures in order to prevent corruption and works proactively to raise awareness of anti-corruption issues and reduce the risks of corruption. On the other hand, the Committee investigates cases of alleged fraud, corruption and misconduct referred to it. These include both external cases, involving third parties in relation to NIB, and internal cases, involving staff members or other officials of NIB.

#### **3.2. Proactive and preventive work**

Preventive measures are the most effective way of combating corruption. Through an Integrity Due Diligence (IDD) screening potential corruption can be eliminated already at its root and the Bank can communicate its intolerance towards such practices. The IDD screenings raise awareness of possible integrity concerns both among counterparties and the Bank's own management and staff. The IDD is conducted by operational staff and with assistance from OCCO when integrity risks are identified. Comprehensive IDD training is arranged for staff on a continuous basis.

NIB has, in line with the IFI Uniform Framework, adopted the following general principles for its IDD:

- “Know your customer” (KYC) procedures to ensure identification of beneficial ownership;

- Checks on parties convicted of or under investigation for serious crimes and sanctioned by a regulatory body or appearing on a recognised sanctions list;
- Checks on parties subject to civil litigation concerning allegations of financial misconduct;
- Checks on politically exposed persons;
- Identification of mitigants and enforcement of covenants that address integrity risks;
- On-going monitoring of integrity risks through portfolio management.

The main principle of the IDD-Process is that all projects that the Bank contemplates financing for are screened from an integrity due diligence point of view. The Bank applies a risk-based approach to its IDD-Process, which means that the scope and depth of the IDD varies depending on the transaction, clients and other partners involved. OCCO decides on the risks associated with a transaction, clients and other partners. Integrity checks are also part of the follow-ups of the existing loan portfolio, particularly when changes occur in a loan transaction.

The IDD is carried out as early as possible in the credit process. A preliminary assessment of integrity risks is made at concept clearance. A number of sources are available for carrying out the IDD and the Bank has, for instance, signed framework agreements with external investigation firms, available as and when required for more in-depth reviews. When the transaction is presented to the Credit Committee for decision-making, the final IDD has under normal circumstances already been made. OCCO will be involved when any integrity concerns are identified in the transaction and the CCO is given the opportunity to provide comments on any such concerns to the Credit Committee. OCCO is also available for staff for advice at any time during this process and it regularly reviews the loan proposals that are made to the Credit Committee.

The Bank's IDD Guidelines also include examples of situations and integrity concerns when the Bank would normally refrain from engaging in a transaction, or so-called "project blockers". Project blockers include *inter alia* unclear ownership, appearance on black-lists and criminal activities, and on-going investigations of such activities.

An enhanced due diligence review is called for, for example, in a transaction involving Politically Exposed Persons (PEP), extractive industries or real estate, when abuse of generally accepted corporate governance standards is present or if the company structure is unnecessarily complicated, involving off-shore vehicles, overseas jurisdictions or tax havens. In these types of transactions the IDD will be extended from the client, to also comprise the main beneficiaries, licensors and agents as the case may be. If the client is a Financial Intermediary (FI), the Bank additionally has to make sure that the FI applies prudent KYC principles and procedures to detect any fraudulent or corrupt behaviour among its clients and, in particular, that it has relevant and sufficient controls to prevent money laundering and to suppress terrorist financing.

The IDD-Process alone will not secure the elimination of fraudulent behaviour and corrupt practices or integrity risks in the Bank's operations, nor will it safeguard the reputation of the Bank under all circumstances. However, the IDD-Process consistently applied will raise awareness among staff and, of equal importance, among the Bank's customers about the importance of these issues and contribute to the Bank's commitment and accountability to its owners and other stakeholders.

IDD- training is the best way of raising awareness, thus keeping the staff alert to all the different ways in which corruption may take form in daily business activities. A range of courses and training in IDD-matters have been arranged on a continuous basis during 2011 and 2012. Together with the Human Resources Unit, OCCO organized in November 2012 an enhanced

IDD workshop for operational staff. The training provided Bank staff insights to the use of different search tools and techniques to identify integrity risks, how to interpret integrity findings and how to use the acquired knowledge in decision making.

In December 2012, NIB, in collaboration with Nordic Development Fund (NDF) and Nordic Environment Finance Corporation (NEFCO), co-organized a seminar on integrity and anti-corruption for their respective board members and alternates, senior management and members of the respective institutions' anti-corruption committees. Invited speakers to the seminar included Mr Jannik Lindbæk, former President of NIB and former Executive President of IFC, Mr Leonard McCarthy, Vice President of Integrity of the World Bank Group and Mr Duncan Smith, Deputy Head of the European Investment Bank's Fraud Investigation Division.

During 2011 and 2012 OCCO advised NIB management and staff on twelve cases involving high integrity and reputational risks, of which two projects underwent an enhanced integrity due diligence performed by external consultants.

### **3.3. Investigations of alleged corruption**

All staff members are, according to both the Resolution on Fighting Corruption and the Code of Conduct for the Staff, obligated to report both internal and external allegations of corruption to NIB. All information relating to a reported case is treated with the strictest confidentiality. Staff members reporting in good faith are protected as a whistle-blower. NIB encourages third parties, not belonging to the Bank's staff, to disclose any allegations they might have, or heard about, related to projects financed by NIB, the Bank's staff members or any third parties involved. It is also possible to report anonymously any allegations.

The Chairperson of the Committee on Fighting Corruption and the Head of Internal Audit will, according to the present Rules of Procedure of the Committee, consider whether an alleged case of corruption reported to the Bank is of such a nature that an investigation should be initiated by the Committee. The purpose of the Committee is to investigate allegations of internal and external corruption and make recommendations in accordance with its findings. The Committee can receive assistance with investigations from internal experts or hired external specialists. After investigations the Committee shall either dismiss the case or make a recommendation to the President for action.

#### **3.3.1. Alleged cases of internal corruption**

The Committee was not notified of any case of internal corruption in 2011. In 2012 one case of internal fraud was investigated and resulted in certain disciplinary actions being recommended. An allegation of fraud and misconduct related to a project financed by the Bank was reported to OCCO at the end of 2011 and is under investigation.

#### **3.3.2. Alleged cases of external corruption**

During 2012 the Committee of Fighting Corruption has been investigating one case of alleged external fraud and corruption in a project financed by NIB. For this case the Committee has been assisted by external consultants and the case is expected to be concluded in 2013. During 2012 three cases related to NIB financed projects have been under investigation by either national authorities or other international financial institutions with whom the Committee is collaborating on follow-up actions based on the findings of the national investigations.

During 2011 OCCO followed up on six cases of alleged prohibited practices in relation to the Bank's lending operations investigated by national authorities. Three of the cases came to the Bank's attention through the media, one was reported internally and the other two came from external reports. In three cases, the preliminary assessment was sufficient to conclude that no further investigations were needed. Three cases were investigated by national authorities of which one had been concluded by the end of 2012 without requiring any actions from NIB's side. The two other cases are still under investigation.

Most of the allegations of the external cases under investigation by national authorities refer to bribe payments in the procurement processes involving smaller local companies and individuals and companies with international operations.

#### **4. Transparency and accountability**

According to the Compliance policy, OCCO shall report to the Board of Directors once a year. The CCO has direct access to the Chairperson of the Board when there is need to discuss any particular matter. As Chairperson of the Committee on Fighting Corruption, the CCO together with the Head of Internal Audit shall also inform the Board when an allegation of corruption of a serious nature is referred to the Committee. When sufficient evidence of external corruption has been identified by the Committee, the CCO and the President shall report findings and recommendations to the Board of Directors before a final decision is taken by the President and any judicial and other actions are initiated. All cases shall be reported to the Board after the President has taken a final decision.

In accordance with its Statutes, the Control Committee is responsible for the audit of the Bank's accounts and according to the Rules of Procedure for the Control Committee, the Control Committee shall also monitor the anti-corruption practices of NIB on a regular basis. This monitoring generally takes place through the regular meetings of the Control Committee based on reporting by the CCO. The Control Committee shall also be informed of alleged corruption cases of a serious nature when the case is referred to the Committee on Fighting Corruption and after investigation when the President has made a final decision on the case.

In 2012 it was decided that during the regular meetings of the Control Committee, the CCO shall meet with the Committee without the presence of the Bank's Management.

NIB promotes good governance and best practices and strives to be transparent in its own operations. The Bank is guided by the principles of transparency, predictability, accountability, responsibility and disclosure. These principles strengthen the commitment to prevent corruption, which is also enshrined in both the Communication Policy and the Disclosure Policy.

As a main rule, NIB discloses all information that is of interest to its stakeholders, unless a specific confidentiality commitment applies. Such exceptions must be legitimate and may, for example, refer to bank secrecy rules or specific client privileges.

NIB aims to be accountable for its actions by having all policies on business ethics and integrity, fraud and corruption publicly available. NIB publishes information about loans when a loan agreement is signed. Before the Board's approval NIB publicly discloses information about all loans classified as a category A loan in accordance with the Sustainability Policy and Guidelines. Project descriptions are available at [www.nib.int](http://www.nib.int) according to NIB's Disclosure Policy and include the following: the name of the project; the project promoter or financial

intermediary; the location of the project; a short project description; and the environmental impact assessment and/or a summary thereof.

OCCO also continued its support to the Communication Unit on reporting on sustainability in the Annual Reports of 2011 and 2012 using the Global Reporting Initiative (GRI) standard. Further work with sustainability reporting was carried out by commissioning a benchmark review of similar institutions and by commenting on several sustainability ratings carried out on the Bank by international firms specialised in CSR ratings. The benchmark study identified the following areas of possible improvement: providing a summary of key actions and results during the reporting period, more performance indicators could be reported for material CSR issues, and, performance indicators could be reported with a longer time frame.

#### **4.1. Complaints related to alleged non-compliance**

In 2012, OCCO has reviewed two complaints related to non-compliance with internal administrative procedures. In one case it was concluded that there was no breach of rules. In the other case it was found that the internal rules were not clear enough to determine any breach of the respective rule, and OCCO accordingly recommended that the Bank should review the relevant rules.

### **5. Code of Conduct**

NIB has its own set of rules for its staff on proper business conduct and ethical behaviour. As an international organisation entrusted with public monies, NIB puts high value on upholding the highest ethical standards and professional objectivity and thus retaining public trust in the institution. The Codes of Conduct for the Staff, Board of Directors, President and members of the Control Committee provide guidance on the type of behaviour the Bank encourages, and breaches will be subject to disciplinary measures. The Bank requires all staff to annually disclose financial and business interests, and safeguards the objectivity of the Bank's operations through comprehensive rules on conflicts of interest and insider information.

The Code of Conduct for the staff was reviewed in 2012 and approved by the Board of Directors in December 2012. The new Code of Conduct entered into force in March 2013. The main changes to the Code of Conduct concerned limitations to the right of staff to trade in short term financial instruments. For more information see the updated Code of Conduct available on NIB's website [www.nib.int](http://www.nib.int).

The Code of Conduct for the Board of Directors and the President was reviewed in 2011 and approved by the Board of Governors in March 2012. The purpose of the revision was to update the Code of Conduct to meet changes in market practices. Concrete changes were *inter alia* the President's voluntary adherence also to the Code of Conduct for the staff, the new role and responsibilities of the CCO, new definitions of close relative, confidential information and insider information, clarifications on perquisite positions, introduction of an advisory and investigative mechanism for members of the Board of Directors and the President, limiting the possibility to retain or acquire financial interest in entities receiving financing from the Bank, abolishing the prohibition to acquire securities of the Bank, retaining prohibition of short term trading in such instruments, clarifications on public statements concerning the Bank and information given to outside parties, and, aligning the principles of giving and receiving gifts and remunerations.

The Code of Conduct for the Control Committee was reviewed and approved by the Control Committee in October 2011. The changes reflected some of the changes made to the Code of Conduct for the Board of Directors and the President and described previously.

Training for all staff on business ethics and practical case studies have been carried out with the help of an outside facilitator in 2011 and 2012. Inductions courses in integrity and ethics are arranged for all new staff by OCCO.

## **6. Cooperation**

NIB cooperates with IFIs, national authorities and different stakeholders on a continuous basis on integrity and CSR related matters. In cooperation with other IFIs, OCCO is investigating and following up on a number of suspected corruption cases. NIB may inform national law enforcement and judicial authorities of any suspected criminal conduct that has not been investigated by national authorities.

Collaboration with other IFIs is an important part of the work of OCCO. In its integrity work NIB strives continuously to harmonise its policies with those of other IFIs. NIB collaborates with its peers in certain cases to increase information sharing and improve the effectiveness and speed of criminal investigations nationally and cross-border, where IFI financing is involved.

NIB collaborates with the anti-corruption functions of the NDF and NEFCO with regard to training, information sharing, reviews of each other's anti-corruption policies and procedures and participation in anti-corruption and sanction committees.

The CCO has participated in a number of IFI gatherings during the year, discussing in particular IDD processes, investigations and sanction mechanisms and issues relating to money laundering, terrorist financing and tax evasion. During 2012 the CCO participated in the annual International Investigators Conference, the meeting of the European Compliance Officers and the annual meeting of the IFI Independent Accountability Mechanisms.

As part of the Bank's cooperation activities, OCCO has advised some borrowers on how to establish appropriate procedures to prevent fraud and corruption. This will help NIB in reducing its reputational risks as well as in opening possibilities for the Bank to offer new loans to the clients in question

## **7. Planned activities for 2013**

The following activities have been planned for 2013:

OCCO and the Committee on Fighting Corruption will review the Bank's anti-corruption strategy and the composition and working modalities of the Committee on Fighting Corruption. The review will *inter alia* explore ways to guarantee the independence of investigations of alleged fraud and corruption, the establishment of a sanctioning mechanism and speeding up the process of handling fraud and corruption cases.

OCCO will participate in the development of an IT-application for the electronic submission of declarations of interest for Board members and their alternates. This will facilitate speedier submission of and follow-up on declaration of interests.

OCCO will monitor the implementation of the Non-Compliant Jurisdictions Policy that will be finalized in 2013 by the legal department. The policy shall be implemented in all of the Bank's activities and will require detailed instructions issued by OCCO.

A more formal engagement with the GRI Nordic Network will be considered by the Executive Committee during 2013.

OCCO will explore new engaging ways to inform staff and other stakeholders about integrity matters to increase vigilance against corruption.

OCCO will continue to organise ethics training, especially to all new staff, and courses on integrity matters. Additional training will be arranged would a need arise.

## **8. Contact information**

More Information regarding this report is provided by:

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