



NORDIC
INVESTMENT
BANK

FINANCING
THE
FUTURE



Integrity Report 2013

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Message from the President

The Nordic Investment Bank has adopted a zero tolerance policy towards fraud and corruption in all its lending, financing and administrative activities, including procurement. This strategy is manifested in the Bank's Resolution on Fighting Corruption which is based on the principles of the Uniform Framework on Preventing and Combating Fraud and Corruption. The Uniform Framework was adopted by the major multilateral development banks in 2006 and endorsed by NIB in 2008.

As the Bank is operating in environments where fraud and corruption occurs it has adopted a risk based approach to integrity issues. For this reason the Bank emphasises the importance of thorough integrity due diligence in order to identify and mitigate such possible risks before entering into loan agreements as well as during the implementation of projects financed by the Bank.

Moreover, when suspicions of fraud and corruption are identified in the Bank's operations, appropriate reviews and actions have to be undertaken immediately. Unfortunately, NIB has had to take a few such actions during 2013. The courage of our staff and other parties involved in NIB financed projects to report any allegation or suspicion of possible prohibited practices in our operations has been of great importance in these cases. I trust that our actions will have a positive impact on the Bank, its clients and societies in the long term.

At NIB we have integrated integrity and ethical values at all levels and throughout all our activities. These values are described in the Bank's codes of conduct for staff and governing bodies and in various policies. We regularly provide training to enhance the understanding of these core values and how we best can live up to our established values and standards, which we constantly try to improve in line with what is considered best practice in international financing.

Henrik Normann
President & CEO

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Abbreviations

CCO	Chief Compliance Officer
CoFC	Committee on Fighting Corruption
Committee	Committee on Fighting Corruption
CSR	Corporate Social Responsibility
ESG	Environment, Social, Governance
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
NCJ	Non-compliant jurisdiction
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 summarises the main activities and developments relating to the Bank's integrity in 2013. The report focuses on the activities of the Office of the Chief Compliance Officer (OCCO) and the Committee on Fighting Corruption (Committee or CoFC).

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

This report covers developments within OCCO and CoFC, fighting fraud and corruption, transparency and accountability, code of conduct, cooperation and planned activities for 2014. More information regarding this report can be obtained from the Chief Compliance Officer (CCO) (see section 8).

This is the third integrity report of the Bank. The first report covered 2010 and the second integrity report covered the years 2011 and 2012.

For more information on the Bank and its financial results, see http://www.nib.int/about_nib and NIB's Annual Report available at <http://annual.nib.int/2013/>.

2. The Office of the Chief Compliance Officer

During the year a large part of OCCO's time has been taken up by unplanned activities. Especially two larger investigations and a policy and procedural review relating to projects in non-member countries of the Bank have taken most of OCCO's resources.

OCCO has grown over the course of the past years. From constituting one part time Chief Compliance Officer in 2011, OCCO has gradually grown to two fully employed staff members, the Chief Compliance Officer and one Compliance Officer.

OCCO works with all matters that relate to integrity matters and reputational risks.

During 2013 OCCO has further developed its working procedures and cooperation with the Bank's operative units and departments. This covers the lending and treasury activities but also the administrative functions within the Bank. Much effort has been put on streamlining OCCO's processes. OCCO aims at increasing its agility and vigilance while at the same time administering more robust oversight and control mechanisms that are of consistent quality.

The Chief Compliance Officer reports to the Bank's President and he has direct and unlimited access to the chairpersons of the Board of Directors and the Control Committee.

For more information about OCCO, see NIB's [Compliance Policy](http://www.nib.int/about_nib/corporate_responsibility/compliance) available at http://www.nib.int/about_nib/corporate_responsibility/compliance

3. Fighting fraud and corruption

NIB has a zero tolerance towards fraud and corruption in all its activities. NIB's Resolution on Fighting Corruption sets out the principles and guidelines for combating corruption. The Bank procedures are aligned 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.

The Chief Compliance Officer in collaboration with the Head of Internal Audit is responsible for assessing allegations of corruption before being referred to the Committee on Fighting Corruption for investigation.

3.1. The Committee on Fighting Corruption

The constellation of the CoFC remained the same during 2013. The members of the Committee and OCCO staff participated in a retreat in the autumn of 2013 to initiate a review of the Bank's strategy and framework for fighting corruption, including the mandate and function of CoFC. The review is coordinated by OCCO and is scheduled to be completed before the end of 2014.

The objective of CoFC is to prevent corruption in the Bank's activities. It has five members and is governed by the Resolution on Fighting Corruption and by its Rules of Procedure. The Chief Compliance Officer acts as the Chairperson of the Committee. The Committee can receive assistance with investigations from internal experts or hired external specialists.

The tasks of the Committee are divided into two areas. On the one hand, the Committee suggests measures in order to prevent corruption and works proactively to raise awareness of anti-corruption issues to 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 the Bank.

After concluding an investigation the Committee shall either dismiss the case or make a recommendation to the President for action. All external cases which require an action shall be reported to the Board of Directors before the President decides on an action. For internal cases the Board of Directors shall be informed after the President has taken a final decision.

3.2. Proactive and preventive work

Preventive measures constitute the most effective way of combating fraud and corruption. Therefore the Bank's main focus in fighting fraud and corruption relates to preventive work. OCCO strives to identify and react to possible fraud and corruption risks on a proactive basis. The

main tool in this regard is the Bank's Integrity Due Diligence (IDD) screening.¹ The IDD is conducted by operational staff and with assistance from OCCO when integrity risks are identified.

OCCO introduced a new case archiving process to enhance consistency in its IDD-recommendations in relation to IDD risks. The new process strives to treat information in a consistent manner and to apply the Bank's rules in a predictable way to ensure that staff and stakeholders understand NIB's viewpoint towards integrity issues.

Besides advising the operational department and NIB's management on general integrity and reputational risks matters, OCCO provided, during 2013, ten recommendations relating to specific projects.

The IDD-process is based around the general principles in the IFI Uniform Framework as well as around the principle that an IDD-screening is done as soon as possible in the project identification and appraisal process. Enhanced due diligence reviews are called for in transactions 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.

If the client is a Financial Intermediary (FI), the Bank additionally has to make sure that the FI applies prudent Know Your Client (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 terrorist financing.

The proactive and preventive work approach stresses the importance of training the Bank's staff in these issues and to contribute to the Bank's commitment and accountability towards its owners and other stakeholders.

3.3. Investigations of alleged fraud and 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 OCCO. All information relating to alleged fraud and corruption is treated with the strictest confidentiality. Staff members reporting in good faith are protected as whistle-blowers.

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 any allegations of fraud and corruption anonymously to OCCO by using ordinary mail, emails or telephone.

¹ IDD Guidelines can be found at http://www.nib.int/about_nib/legal_framework_policy_documents

Table 1 Cases registered for CoFC processing 2010-2013

By year end	Registered during the year	Handled ² during the year	Concluded during the year	Pending by end of year
2013	6	12	5	7
2012	3	7	1	6
2011	1	4	0	4
2010	4	4	1	3

Figure 1 Types of allegations 2010 – 2013³

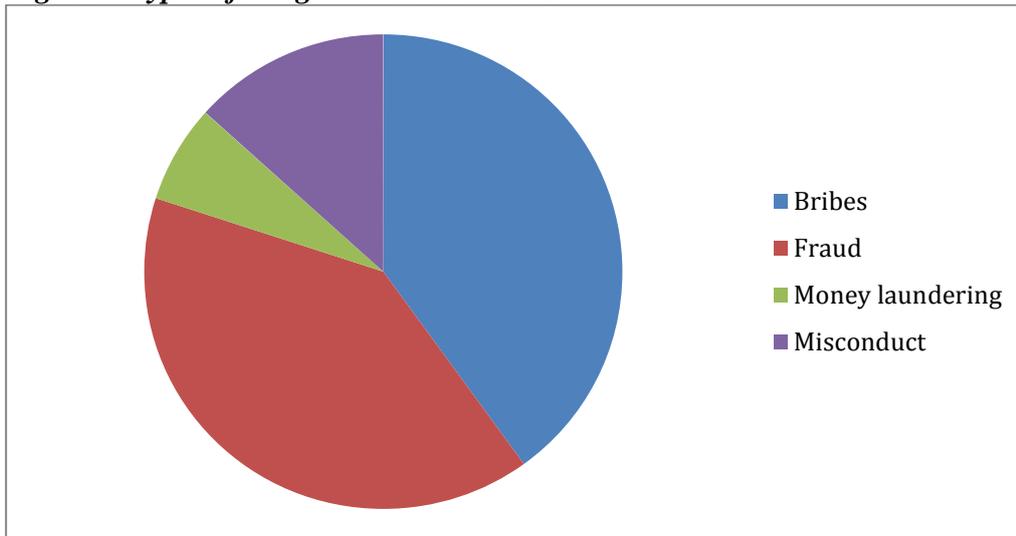
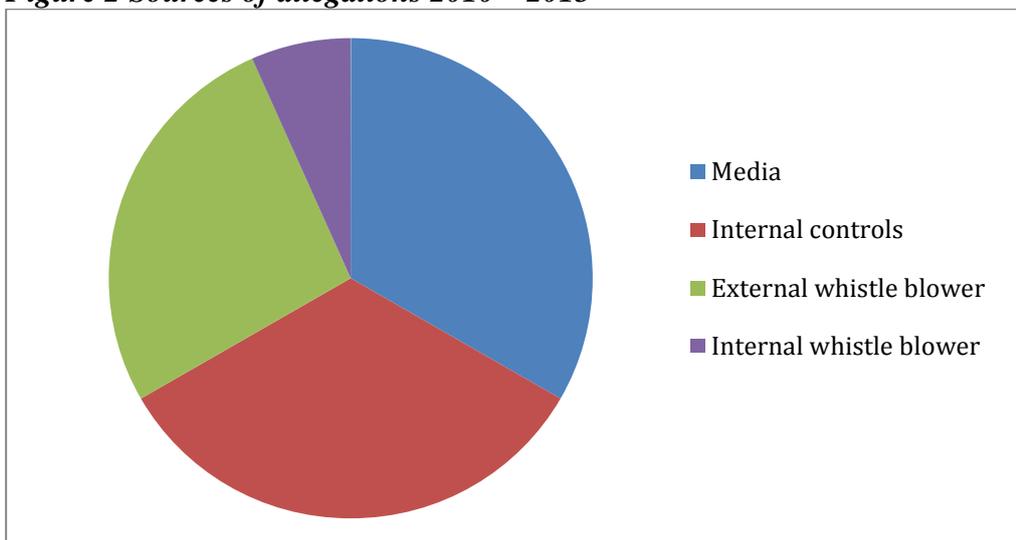


Figure 2 Sources of allegations 2010 – 2013⁴



²Cases under investigation by CoFC and cases under investigation by other IFIs or national authorities and monitored by CoFC

³ More than one type of allegation may be attributed to an individual case.

⁴ More than one source of allegation may be attributed to an individual case.

3.3.1. Alleged cases of internal fraud and corruption

OCCO was notified of two cases of internal corruption/misconduct in 2013. The conclusions of one of the investigations were reported to the President and the other case is still under investigation.

3.3.2. Alleged cases of external fraud and corruption

The Committee was in 2013 directly involved with five investigations of alleged fraud and corruption in relation to projects financed by the Bank and was following up on seven other cases.

Five cases were concluded in 2013, whereof one case was referred to national authorities for further investigation.

One larger case was initiated in the beginning of 2013. Crucial for this investigation was the initiative and efforts of whistle blowers. The investigations will continue during 2014.

In cooperation with other International Finance Institutions (IFIs) the Bank participated in the follow up of a previous case relating to fraud and corruption which is under investigation by national authorities for court trials.

4. Transparency and accountability

In accordance with the Bank's 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 Chief Compliance Officer. The Control Committee shall 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.

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 Bank's commitment to prevent corruption.

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 publishes information about loans when a loan agreement is signed. Before the Board of Directors' approval of a loan classified as a category A loan in accordance with the Sustainability Policy and Guidelines, NIB shall disclose information about the project on its website www.nib.int. Project descriptions shall, according to NIB's Disclosure Policy, 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 continued its support to the Communication Unit on reporting on sustainability using the Global Reporting Initiative (GRI) standard. Representatives from the Communication Unit and OCCO participated in a conference of GRI to follow up on the latest developments in GRI-standardized reporting. Furthermore, OCCO coordinated NIB's responses provided to environmental, social and governance (ESG)/corporate social responsibility (CSR) rating agencies.

4.1. Complaints related to alleged non-compliance

OCCO investigated one case of alleged non-compliance with regard to environmental concerns in relation to a NIB-financed project. OCCO came to the conclusion that no action was required from the Bank as appropriate measures were taken by national authorities, but decided to follow up on the issue regularly to ensure compliance with the Bank's policy.

5. Code of Conduct

NIB has its own set of rules for its staff on sound 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 to retain public trust in the institution. The Codes of Conduct for the Staff, the Board of Directors and the President and the members of the Control Committee provide guidance on the type of behaviour the Bank encourages. The Bank requires all staff, the President and members of the Board to annually disclose financial and business interests. Comprehensive rules on conflicts of interest and insider information are in place.

The Code of Conduct for the staff was reviewed in 2012, approved by the Board of Directors in December 2012 and entered into force in March 2013.

Training for all staff on business ethics and practical case studies have been carried out with the help of an outside facilitator in 2013. Inductions courses on integrity and ethics are arranged regularly by OCCO for all new staff.

OCCO provided recommendations on a continuous basis to questions relating to the application of the Code of Conduct, especially in relation to the newly introduced stricter rules on short term trading in financial instruments.

6. Cooperation

NIB cooperates with IFIs, national authorities and different stakeholders on a continuous basis to ensure that the Bank is up to speed with current developments.

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 to increase information sharing and improve the effectiveness and speed of criminal investigations nationally and internationally where IFI financing is involved.

NIB collaborates with the anti-corruption functions of NDF and NEFCO with regard to training, information sharing, reviews of each other's anti-corruption policies and procedures and participation in these institutions' anti-corruption and sanction committees. NDF, NEFCO and NIB arranged jointly an anti-corruption lecture on the United Nations anti-corruption day, 9 December 2013.

During 2013 OCCO participated in a number of IFI gatherings, including the annual International Investigators Conference, the annual meetings of the European Compliance Officers and the Independent Accountability Mechanisms of IFIs.

OCCO has advised borrowers on how to develop appropriate procedures to prevent fraud and corruption. This will also help NIB in reducing its integrity and reputational risks as well as in opening possibilities for the Bank to offer new loans to the clients in question.

7. Planned activities for 2014

OCCO and the Committee aim at concluding an on-going investigation related to one of the Bank's loan programmes. This work is foreseen to engage both OCCO and CoFC during the first half of 2014. OCCO and CoFC will also follow up on cases that have been referred to national authorities.

Furthermore, OCCO will finalize the guidelines for the implementation of the Bank's NCJ-policy in cooperation with the legal department and to regularly update the lists of non-compliant countries and advising the Lending and Treasury departments on NCJ matters. OCCO will provide comments on the review of the Bank's Disclosure Policy, Communication Policy and Procurement Policy, all three of which have been scheduled for 2014.

OCCO will continue assisting and advising the Lending department and management on IDD issues as well as to further improve the internal case management process that OCCO has put in place in 2013.

OCCO and CoFC will continue the review of the Bank's anti-corruption strategy and framework with the intention to present a proposal to the Board of Directors by the end of the year.

In cooperation with the Communication Unit, OCCO will continue to improving the Bank's sustainability reporting and responding to requests from ESG/CSR rating agencies.

Through different training activities, OCCO aims at sensitizing Bank staff and managers on Ethics/Code of Conduct and anti-corruption matters. OCCO will review its training material in 2014.

Finally OCCO will continue liaising with counterparts of other IFIs and attend meetings and conferences that are of relevance for improving OCCO's abilities to advise on all integrity and reputational risk matters.

8. Contact information

More Information regarding this report is provided by:

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