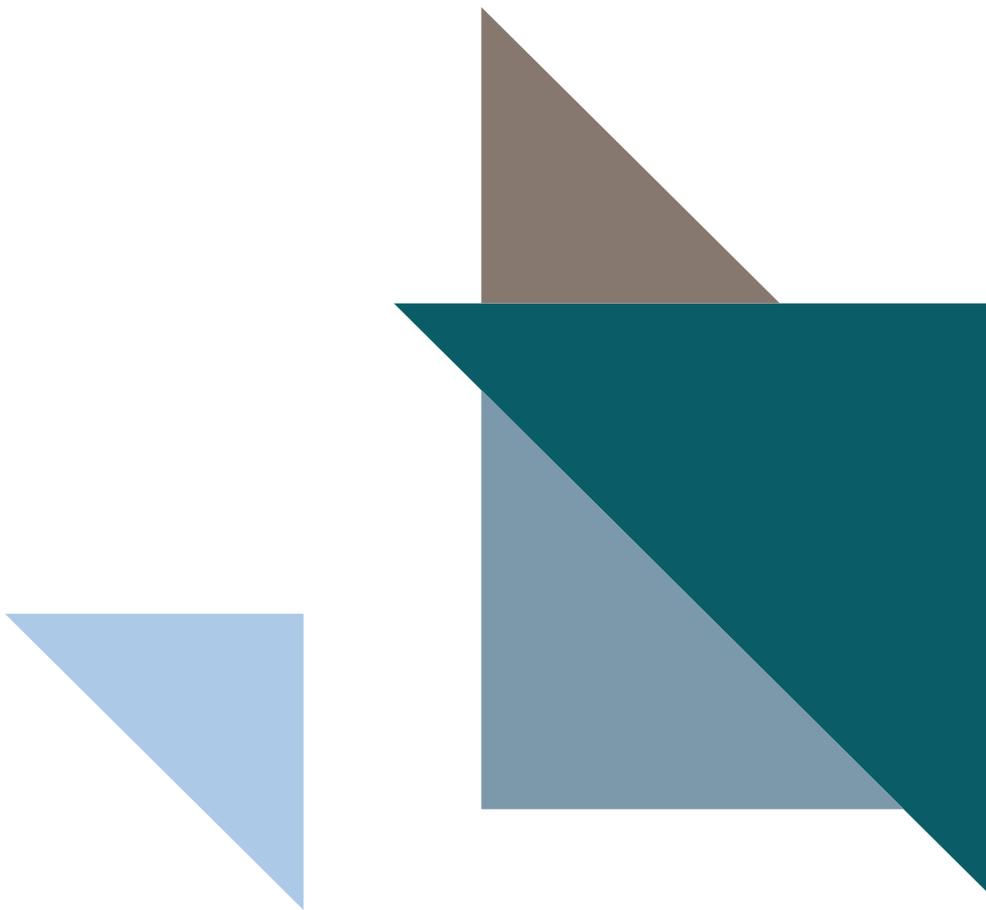




NORDIC
INVESTMENT
BANK

FINANCING
THE
FUTURE



Integrity Report **2014**

Published by the Office of the Chief Compliance Officer

Message from the President

In 2014 the Nordic Investment Bank continued to contribute to the fight against corruption. The Bank has adopted a zero tolerance policy towards fraud and corruption in all of its activities and is resolute to live up to this promise.

The Bank's anti-corruption framework is built around 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 some major international financial institutions in 2006 and endorsed by NIB in 2008.

In 2014 the Bank has continued to investigate and remedy certain integrity concerns that were identified in 2013. As a result of this work the Bank has strengthened its control mechanisms and developed a more risk-based approach to address integrity concerns in a more efficient way.

In order to stay up to speed with the developments in the fight against corruption NIB has, in the course of 2014, reviewed its anti-corruption framework with the aim of creating a more robust, efficient and responsive framework. The aim is to have an updated framework in place in 2015.

In the day to day business NIB has integrated integrity and ethical values at all levels and throughout all of its activities. These values are described in the Bank's codes of conduct for staff and governing bodies and in various policies. Training will be intensified in coming years to enhance the understanding of these core values and how staff can best live up to the values and standards established by the Bank.

Henrik Normann
President & CEO

Contents

Message from the President

Contents

Abbreviations

1 Introduction	5
2 The Office of the Chief Compliance Officer	5
3 Fighting Fraud and Corruption	6
3.1 The Committee on Fighting Corruption	6
3.2 Proactive and preventive work	6
3.2.1 The IDD-Process	7
3.2.2 The Non-Compliant Jurisdictions Policy	7
3.3 Investigations of alleged fraud and corruption	7
3.3.1 Alleged cases of internal fraud and corruption	9
3.3.2 Alleged cases of external fraud and corruption	9
4 Transparency and accountability	9
5 Code of Conduct	9
6 Cooperation	10
7 Planned activities for 2015	10
8 Contact information	11

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
NCJ	Non-compliant jurisdiction
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 covers the main activities and development relating to the Bank's integrity in 2014. The main focus of the report is on the activities of the Office of the Chief Compliance Officer (OCCO) and the Committee on Fighting Corruption (Committee or CoFC) and the Bank's commitment to reducing integrity and compliance risks in general.

For NIB integrity means adherence to the Bank's ethical values, forming an integral part of NIB's mandate, strategy and various policies and rules 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.

The Bank's commitment to integrity is manifested in the Bank's Resolution on Fighting Corruption, Integrity Due Diligence (IDD) Guidelines, Non-Compliant Jurisdictions (NCJ) Policy and in other policies committing the Bank to transparency and accountability. The Bank's expectation to staff and members of governing bodies in terms of ethical behaviour is described in the codes of conduct for the staff, the Board of Directors and President and the Control Committee.

This is the fourth Integrity Report of the Bank. Previous Integrity Reports can be found on NIB's website, see http://www.nib.int/about_nib/corporate_responsibility/compliance. 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/2014/>.

2 The Office of the Chief Compliance Officer

OCCO works with all matters that relate to integrity and reputational risks of the Bank. In 2014 OCCO has continued to provide support to CoFC in a major investigation of alleged fraud and corruption in projects financed by the Bank in a non-member country. These allegations were reported to OCCO in 2013 and CoFC began its investigations the same year. Based on findings relating to the same projects, OCCO, in close collaboration with the Bank's Internal Audit, undertook a procedural review, including how the Bank has processed appraisals and approved new loans, monitored the procurement and made disbursements. The findings and recommendations were presented to the Board of Directors in 2014 and the Bank is now in the process of improving its procedures.

Taking into consideration the experience gained in the Bank's investigations of fraud and corruption, OCCO together with the members of CoFC and Internal Audit continued its work with reviewing the anti-corruption framework of the Bank. A proposal of a revised strategy and revised anti-corruption framework will be presented to the Board of Directors in 2015.

During 2014 OCCO has further developed its working procedures and cooperation with the Bank's operative units and departments, particularly with respect to integrity due diligence (IDD) for new lending operations and project portfolio monitoring of integrity issues. In 2014 OCCO has ensured that the Non-Compliant Jurisdiction (NCJ) Policy has become operational. This has involved training of all staff in the Lending department in the application of the NCJ policy as well as keeping up to date NCJ-country classifications.

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 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 fighting corruption. The Bank procedures are aligned with the International Financial Institutions (IFI) 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, collusion, coercion, or blackmail. Fighting corruption also includes efforts to combat money laundering and financing of terrorism.

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

3.1 The Committee on Fighting Corruption

No changes to the CoFC's constellation took place in 2014. The Committee's mandate is to prevent corruption in all the Bank's activities and operations, including conducting investigations of allegations of corruption and misconduct referred to it. This include both external cases relating to projects financed by the Bank and involving third parties and internal cases involving staff members of the Bank. The Committee can receive assistance from internal experts or hired external specialists. The proceedings of the Committee are governed by the Resolution on Fighting Corruption and the Rules of Procedures of the Committee on Fighting Corruption. CoFC has five members from different departments of the Bank and is chaired by the Chief Compliance Officer.

After concluding an investigation the Committee shall either dismiss the case if the allegations are not found substantive or make a recommendation to the President for action, which may include sanctions against the person or entity found guilty of corruption based on NIB's own policies or referral to national investigation authorities for criminal investigation bases on national laws. All external cases which require an action shall be reported to the Board of Directors before the President's decision is executed. For internal cases the Board of Directors shall be informed after the President's decision has been implemented.

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 in a proactive basis of which the main tool is the Bank's Integrity Due Diligence (IDD) screening¹. The IDD is conducted by operational staff and with assistance from OCCO when integrity and compliance concerns are identified. OCCO also provides recommendations in the Bank's credit process with the purpose of reducing or eliminating such risks related to specific projects.

To enhance consistency in its IDD recommendations OCCO has, during 2014, developed its case archiving process further. 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.

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

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

3.2.1 The IDD-Process

The IDD-process is based around the general principles in the IFI Uniform Framework on Preventing and Combating Fraud and Corruption as well as the principle that an IDD-screening shall be done as early 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 or 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.

3.2.2 The Non-Compliant Jurisdictions Policy

OCCO is coordinating the implementation of the Non-compliant Jurisdiction (NCJ) Policy which came into operations in 2014. NCJ-implementation guidelines were put in place and the IDD-questionnaire for screening borrowers was updated to include relevant questions of the NCJ-Policy into the screening process.

In the NCJ-Policy NCJs are generally defined as jurisdictions which are not aligned to international standards, in which tax fraud, tax evasion, money laundering, financing of terrorism or other harmful activities are possible due to a lack of will or measures to combat these activities. Based on the recommendation of certain specialist organisations² NIB classifies jurisdictions and takes a risk-based approach to mitigate NCJ-concern when on-boarding new borrowers and investors.

OCCO arranged several training events for the Lending department in NCJ-matters during the autumn of 2014.

The NCJ-Policy is available on NIB's website, see http://www.nib.int/about_nib/legal_framework_policy_documents.

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 the Chief Compliance Officer or the Head of Internal Audit. 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, relating 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.

Table 1 shows the number of cases of alleged fraud, corruption and misconduct that has been handled by the CoFC since 2010 to 2014. Figure 1 and 2 respectively shows graphically the types of allegations handled and the types of information sources that has brought the allegations to the Bank's attention.

² Mainly the Financial Action Task Force (FATF) and Global Forum of OECD

Table 1 Cases registered for CoFC processing 2010-2014

By year end	Registered during the year	Handled ³ during the year	Concluded during the year	Pending by end of year
2014	4	10	6	4
2013	6	12	6	6
2012	3	7	1	6
2011	1	4	0	4
2010	4	4	1	3

Figure 1 Types of allegations 2010 – 2014⁴

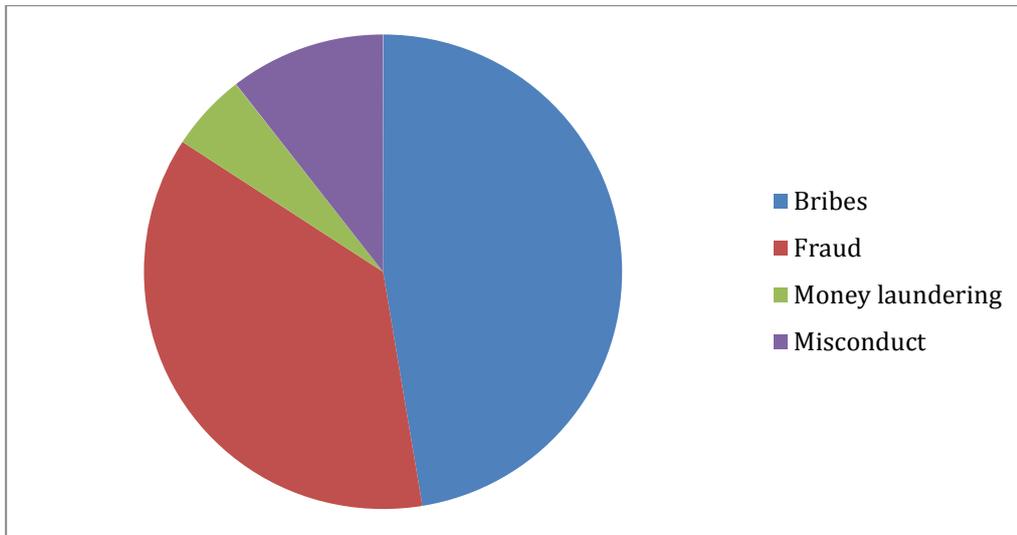
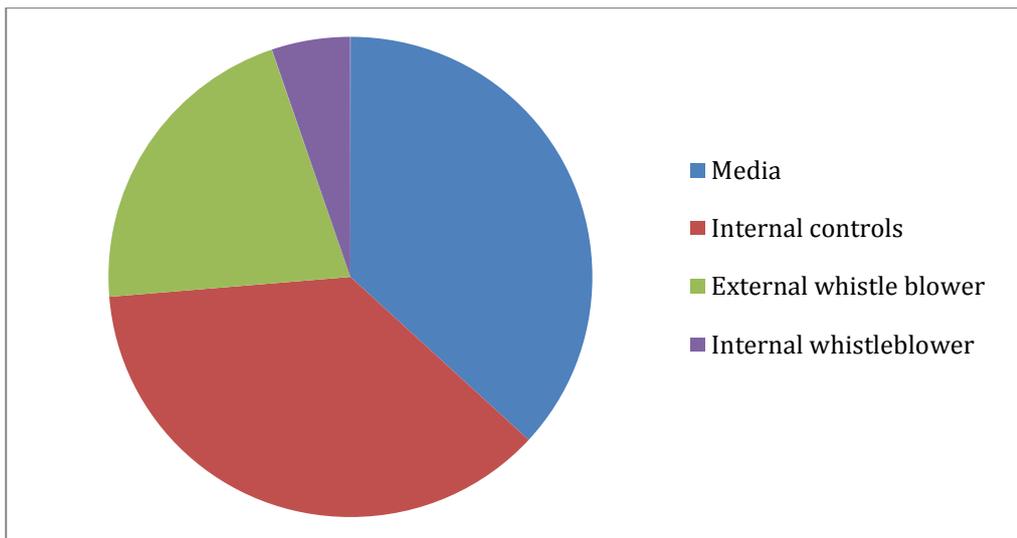


Figure 2 Source of allegations 2010 – 2014⁵



³Cases under investigation by CoFC and cases under investigation by other IFIs or national authorities and monitored by CoFC

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

⁵ 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 not notified of any new internal cases in 2014. The investigation of one case that was initiated in 2013 was concluded in 2014 and reported to the President.

3.3.2 Alleged cases of external fraud and corruption

OCCO registered four new cases in 2014. Three of these cases relate to payments of bribes and one case relates to fraud. Ten cases were altogether handled by OCCO in different ways in 2014, whereof six cases were concluded and closed.

Of the aforementioned concluded cases in 2014, one was referred to a national authority for investigation and another case that had been referred to national authorities in 2013 has been followed up on in 2014.

By the year end of 2014 four cases were pending of which one was under investigation by CoFC and the other three cases under investigation by national authorities.

4 Transparency and accountability

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 and to ensure compliance with its own policies and rules, for example when it comes to sustainability, disclosure of information and procurement.

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-loan⁶ NIB shall, in accordance with the Sustainability Policy and Guidelines, 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. Furthermore, OCCO has coordinated NIB's responses provided to environmental, social and governance (ESG)/corporate social responsibility (CSR) rating agencies.

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. To avoid any real or perceived conflict of interest in its operations, the Bank requires all staff, the President and members of the Board to annually disclose their financial and business interests. Rules on insider information and insider trading are also in place.

⁶ http://www.nib.int/about_nib/environment/environmental_analysis

Induction courses on integrity and ethics have been arranged regularly by OCCO as part of the Bank's induction programme for all new staff.

OCCO provides recommendations on a continuous basis to questions relating to the application of the codes of conduct.

6 Cooperation

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

Collaboration with other IFIs is important for OCCO to maintain the highest professionalism in its proceedings and for the benefit of the Bank's general integrity work. NIB strives to harmonise its policies and processes with those of other IFIs and to increase information sharing with the aim of improving the effectiveness and speed of investigations and due diligence processes. In 2014 the cooperation with other IFIs has included regular consultations on NCJ related matters.

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.

During 2014 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 2015

OCCO and the Committee on Fighting Corruption will conduct investigations of alleged fraud and corruption and other complaints reported to the Bank.

OCCO and the Committee on Fighting Corruption will present to the Board of Directors a proposal of a revised structure of the Bank's anti-corruption framework. This would be followed by the preparation and implementation of the revised policies and procedures as approved by the Board.

OCCO will evaluate the Bank's Anti-Money Laundering (AML) and Counteracting Terrorist Financing (CTF) procedures, including mapping of related compliance risks, in order to ensure that NIB follows best practice in this area.

OCCO will review the quality of the Bank's IDD checks for lending operations.

OCCO will train staff on Ethics/Code of Conduct, Integrity Due Diligence (IDD), AML, CTF and Non-Compliant Jurisdiction Policy and the revised Anti-corruption framework, including development of new training methods and activities.

OCCO will continue the cooperation with the Communications unit to ensure that the Bank follows best practice in sustainability reporting, including CSR and Corporate Governance.

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

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