



NORDIC  
INVESTMENT  
BANK

FINANCING  
THE  
FUTURE



# Integrity Report 2018

Published by the Office of the Chief Compliance Officer

## Message from the President

The work on ethics and integrity is never finished. Unfortunately, there will never be a moment when we can lean back and say; *we have done it, we are satisfied with what we have achieved.*

The year 2018 was marked by a number of cases related to money laundering and corruption in the Nordic and Baltic region. The cases seem to be attributed to a number of factors, ranging from failure in the companies' internal controls, insufficient instructions regarding the elevation of compliance matters within the three levels of defence, and insufficient supervision by national authorities in cross-border transactions.

As an international financial institution with around eighty percent of its lending in the Nordic and Baltic member countries and with a mandate to improve the productivity and the environment in this region, NIB cannot alienate itself from corruption and money laundering cases. On the contrary, I see this is an opportunity for NIB to increase its role as a dialogue partner by assisting borrowers interested in upscaling their internal controls in terms of corporate governance, anti-corruption, anti-money laundering and counter-acting the financing of terrorism. NIB is no stranger to this role. NIB's Office of the Chief Compliance Officer is currently providing input to three borrowers on updating their codes of ethics and anti-corruption policies.

Robust internal integrity controls will help companies, including NIB, to better manage non-financial risks and achieve their financial goals. It is always easier to act with integrity together rather than alone. That is why culture matters and why NIB champions a transparent way of working, inviting staff to openly discuss matters of integrity and ethics. Questions relating to integrity can often be hard, but decisions are easier to make after an open, frank and structured dialogue.

Regulatory changes, increasing cross-border transactions, and FinTech are just some of the factors that demand international organisations to adapt and change. In 2018, NIB went through a revision of its most important internal controls regarding the conduct of its employees and the KYC process to its counterparties. As a result, the Bank revised its Code of Conduct for Staff and adopted a new Integrity Due Diligence Policy clearly establishing NIB's expectations towards its employees and counterparties.

Henrik Normann  
President & CEO

## Contents

Message from the President

Contents

Abbreviations

1 Introduction .....	5
2 Preventive work .....	5
2.1 Preventive work with the lending operations .....	6
2.2 Preventive work with the treasury operations .....	6
2.3 Preventive work with the other operations.....	7
2.4 Consultations in relation to the codes of conduct .....	7
2.5 Training.....	7
3 Investigations of Prohibited Practice and Misconduct.....	8
3.1 Investigations in brief .....	8
3.2 Alleged cases of internal Prohibited Practice and Misconduct.....	9
3.3 Alleged cases of external Prohibited Practice .....	9
4 Accountability and handling of Complaints .....	10
4.1 Complaints received .....	10
5 Cooperation with NIB's stakeholders.....	10
6 The Office of the Chief Compliance Officer .....	11
7 Planned activities for 2019 .....	11
8 Contact information .....	11

## Abbreviations

EDD	Enhanced Due Diligence
IDD	Integrity Due Diligence
IFI	International Financial Institution
ISU	IDD Screening Unit
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

## 1 Introduction

A number of improvements related to internal controls marked the year for the Office of the Chief Compliance Officer (OCCO).

During 2018, OCCO concluded a major investigation of Prohibited Practices relating to a NIB-financed project in a non-member country. The investigation resulted in the sanctioning of four legal entities and three individuals by NIB's independent Sanctions Panel. The sanctioned subjects appealed the decision. However, the decision was upheld by the Bank's Appeals Committee. The names of the sanctioned subjects have been published on NIB's website at [https://www.nib.int/who\\_we\\_are/compliance/sanctioned\\_entities](https://www.nib.int/who_we_are/compliance/sanctioned_entities).

Another important achievement for OCCO in 2018 was the updated IDD framework, which includes a new IDD Policy that establishes NIB's risk appetite for integrity and reputational matters. The framework follows a risk-based approach and is built around integrity risk assessments that dictate the required checks and mitigation measures prior to engaging with new counterparties. It also directs the frequency of the monitoring of existing counterparties. As a result, the Bank is able to better allocate resources in proportion to the associated IDD risk. The new policy covers all operations of the Bank, including lending and treasury counterparties and entities providing goods and services to NIB.

In 2018, the Board of Directors approved a revised Code of Conduct for Staff. One of the areas that the new Code of Conduct emphasises is the avoidance of conflict of interests by regulating the staff's trading in financial instruments in stock listed companies while the Bank is considering a loan to the company. The change also includes revised forms for annual declarations of financial and business interests.

This is the ninth publication of NIB's Integrity Report. Previous Integrity Reports can be found at [https://www.nib.int/who\\_we\\_are/compliance](https://www.nib.int/who_we_are/compliance). You can find general information about the Bank at [https://www.nib.int/who\\_we\\_are/about](https://www.nib.int/who_we_are/about) and in the Bank's Annual Report available at [https://www.nib.int/who\\_we\\_are/our\\_year\\_in\\_brief](https://www.nib.int/who_we_are/our_year_in_brief).

## 2 Preventive work

Through preventive work, the Bank aims to ensure that activities are carried out with counterparties that meet NIB's compliance and integrity standards.

The preventive work entails a range of tasks; from mapping out the risks the Bank is facing to mitigating risks by establishing appropriate procedures and controls. These procedures and controls need to be reviewed regularly in order to maintain any residual risks at a level that is acceptable to the Bank, and to meet market expectations created by a changing regulatory landscape.

One area of preventive work that OCCO is increasingly focusing is training. During 2018, a range of different trainings were arranged to ensure that staff are well acquainted with and understand new policies. Training is considered an essential element of developing a new policy.

OCCO has also centred its resources on the development of an IDD framework consisting of an IDD Policy laying the foundations of all NIB activities, and procedures describing the specific IDD process for each operation. The IDD framework includes topics such as the identification of Politically Exposed Persons (PEPs), adverse media, sanctions imposed by

international and national bodies, and risk indicators related to tax evasion, aggressive tax planning, fraud, corruption, money laundering, financing of terrorism, among other things.

The Bank's structure and size has enabled OCCO to foster a close relationship with each department and has facilitated frequent discussions and learning opportunities. In this way, the communication between the first line of defence and second line of defence works both ways and improves controls.

The most efficient way to ensure a culture of high integrity is through preventive work, which as a result continues to take a central part of OCCO's work.

OCCO regularly discusses topics related to risks with the Internal Audit and the Risk Management units.

## **2.1 Preventive work with the lending operations**

In 2018, OCCO's involvement in the Bank's lending operations was strengthened by the new IDD-Procedures for Lending (the IDD-Procedures). The IDD-Procedures provide guidance on how and when the Lending staff shall escalate IDD concerns to OCCO. Moreover, it defines the cases that require Enhanced Due Diligence (EDD) and escalation to the decision-making bodies of the Bank, including the Board of Directors.

The Lending department has established a new unit, the IDD Screening Unit (ISU), to provide support to the first line of defence by collecting information and conducting the IDD screenings against sanctions lists, PEP database and negative news.

Besides the IDD screenings, the IDD-Procedures also cover the assessment and mitigation of risks for money laundering, terrorist financing and complex cross-border structures, and the prevention of engagement with sanctioned entities and individuals.

The new procedures have provided a robust platform for managing integrity risk. Nonetheless, as with any new rules, a number of questions have come up concerning the application of the procedures. Therefore, the work to improve and streamline the process has carried on in 2018. OCCO has continued to provide guidance to the first line of defence in connection with the IDD process and is also considering additional amendments to the IDD-Procedures for Lending.

In addition to honing the new process, OCCO has continued to further develop tools that will help the first, second and third lines of defence in the management of the IDD process. Currently, OCCO and the IDD Screening Unit are developing an IT tool with the purpose of digitalizing the workflows and the IDD forms. This will improve the record keeping of IDD-related documentation and ensure compliance with the IDD-Procedures.

## **2.2 Preventive work with the treasury operations**

The new IDD-Procedures for Treasury define when and how IDD are conducted on Treasury counterparties.

The risk assessment conducted on NIB's activities concluded that Treasury activities present lower integrity risk than Lending operations. Therefore, OCCO decided to establish a simplified IDD process for Treasury counterparties that are established outside the EU. The application of the new IDD Policy is less frequent in Treasury operations. OCCO continues to work closely with Treasury to ensure that operations are carried out with a high level of integrity.

In addition to the new Treasury IDD-Procedures, the Treasury operations are subject to the Policy on handling Inside Information and prevention of Market Abuse (MAR-Policy). The MAR-Policy is still a relatively new policy and OCCO has continued to provide advice in this topic. Questions have ranged from inside matters, conflicts of interests to market soundings. The MAR-Policy, together with the Code of Conduct for Staff, has provided for a functional framework to deal with these matters.

During 2018, the sanctions screening process for payments has been fully operational. OCCO has worked with the first line of defence to improve the efficiency of the tool and resolve positive hits.

### **2.3 Preventive work with the other operations**

As mentioned in last year's report, the Bank also intended to include formal IDD checks on service providers and vendors. This work has now been completed and IDD checks are part of the procurement process. OCCO and the Legal department (responsible for coordinating the IDD in the procurement process) have developed new IDD-Procedures for Internal Procurement for this purpose.

The process is risk based, and caters to enhanced due diligence in connection with contracts that have a high monetary value or are of strategic importance.

### **2.4 Consultations in relation to the codes of conduct**

During the year, OCCO continued to provide advice to staff in relation to the Code of Conduct for the Staff on questions related to received gifts, business trips, perquisite positions and declarations of financial and business interests.

The Code of Conduct for Staff was updated during 2018, which resulted in a number of changes. The rules on trading in financial instruments was amended and, as a general rule, staff shall not trade in financial instruments issued by stock listed companies that are currently in the process of negotiating a loan with NIB. The aim of this change is to eliminate any perceived conflicts of interest for NIB staff.

Another amendment related to the reporting channels for harassment. Now, OCCO has been added to the list of channels to which harassment can be reported.

An updated e-training about the Code of Conduct will be launched in 2019. The training reflects the changes made to the Code of Conduct for Staff and includes elements from the Speaking-up and Whistleblowing Policy.

### **2.5 Training**

OCCO arranged a number of trainings and events during the year. Among them is the training session organised for the Bank's Board of Directors and Control Committee on the European Market Abuse Regulation (MAR) that took place on 8 March 2018. A similar training was arranged for the Bank's staff on 9 March 2018.

Moreover, all operational staff in the Lending department received training on the new IDD Policy and Procedures. Presentations on the new IDD Policy were also arranged for the Credit and Analysis unit and for NEFCO.

OCCO provided induction training on the Code of Conduct and its anti-corruption framework for all new employees to the Bank in 2018.

To celebrate the International Anti-Corruption Day in November 2018, NEFCO, NDF and NIB organised together an anti-corruption awareness seminar. The seminar focused on the experience of large Nordic corporations when investing in high-risk countries.

### 3 Investigations of Prohibited Practice and Misconduct

NIB has a zero tolerance policy towards corruption. The Chief Compliance Officer, in collaboration with the Head of Internal Audit, conducts preliminary assessments of all allegations of Prohibited Practice (corruption, fraud, coercion, collusion, theft, obstruction, money laundering and terrorist financing) and Misconduct reported to the Bank. If an allegation is linked to a NIB-financed project or activity and meets the criteria established in the Investigations and Enforcement Policy, it is referred to OCCO for investigation.

Regarding investigations of Prohibited Practices, an independent Sanctions Panel is responsible for imposing sanctions on external parties to the Bank when OCCO has found sufficient evidence of Prohibited Practices. The Sanctions Panel has three members, one internal and two external.

In 2018, the Sanctions Panel considered one case and decided to debar four entities and three individuals relating to a project financed by NIB.

Regarding investigations of Misconduct and internal Prohibited Practice, OCCO reports any findings and recommendations to the President, who decides, in consultations with the Head of Human Resources, on the sanctions.

#### 3.1 Investigations in brief

Table 1 below shows the number of cases of Prohibited Practice and Misconduct that has been registered and processed during 2013–2018. The table includes the number of cases that have resulted in sanctions by NIB and/or referral to national enforcement agencies.

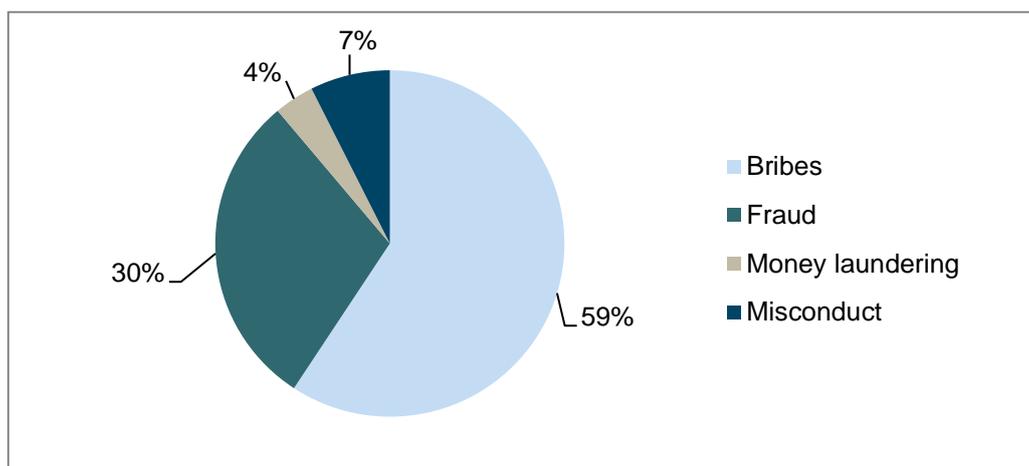
**Table 1: Cases registered and processed during 2013-2018**

By year end	Registered during the year	Handled <sup>1</sup> during the year	Concluded during the year	Pending by end of year	Sanctions decisions by NIB	Referrals to national authorities
2018	2	8	2	6	1	
2017	2	7	1	6		
2016	2	8	3	5		
2015	3	7	1	6		
2014	4	10	6	4	2	1
2013	6	12	6	6	1	1

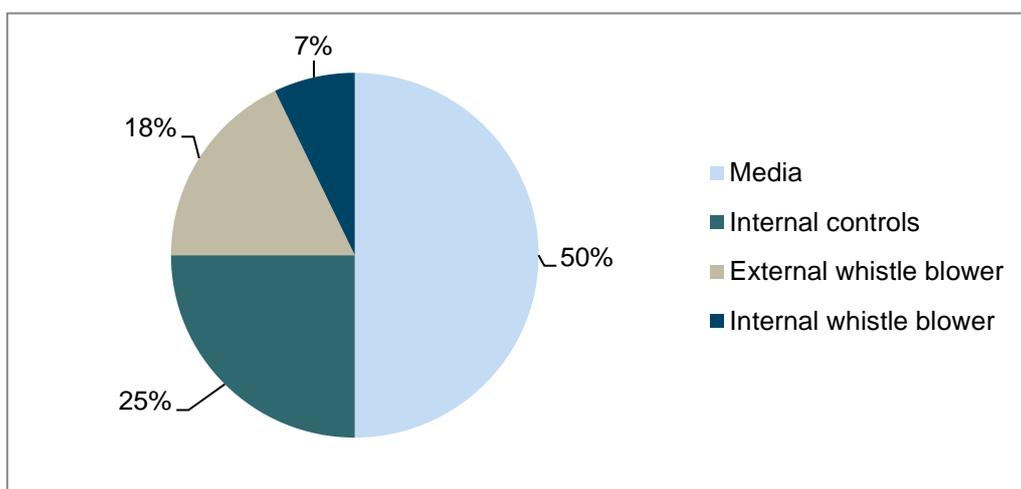
Figures 1 and 2 below respectively show the types of allegations handled and the types of sources that have brought the allegations to the Bank's attention over the same period.

<sup>1</sup>Cases under investigation by OCCO and cases under investigation by national enforcement authorities with relation to NIB financed projects.

**Figure 1: Types of allegations 2010 – 2018 <sup>2</sup>**



**Figure 2: Source of allegations 2010 – 2018 <sup>3</sup>**



### **3.2 Alleged cases of internal Prohibited Practice and Misconduct**

OCCO received three allegation of internal misconduct in 2018. The preliminary assessment concluded that none of the allegations merited a full investigation.

### **3.3 Alleged cases of external Prohibited Practice**

OCCO registered two cases of alleged Prohibited Practice in 2018. The preliminary assessment concluded that both cases merited a full investigation.

Two previously registered cases were concluded. One case in a member country was closed based on the national anti-corruption agency's decision to close the case. OCCO's investigation report of the second case (in a non-member country) was presented to the Bank's Sanctions Panel, which decided to debar four entities and three individuals for Fraudulent Practices and Obstruction. The sanctioned subjects appealed the decision to the

<sup>2</sup> More than one type of prohibited practice may be attributed to an individual case.

<sup>3</sup> More than one source of allegation may be attributed to an individual case.

Bank's Appeals Committee, which upheld the decision of the Sanctions Panel. The sanctions are published on NIB's website:

[https://www.nib.int/who\\_we\\_are/compliance/sanctioned\\_entities](https://www.nib.int/who_we_are/compliance/sanctioned_entities)

The six pending cases by the end of 2018 shown in Table 1 above relate to investigations and/or prosecutions initiated by national authorities in two NIB member countries. OCCO is following these cases closely. Further actions by OCCO will depend on the outcomes of the national investigations and eventual court rulings. With reference to section 2.1 of this report, OCCO is currently assisting three of its borrowers under investigation for fraud or corruption with improving their anti-corruption policies and code of ethics.

## **4 Accountability and handling of Complaints**

NIB promotes good governance in the projects it finances and strives to be transparent in its operations. The Bank is guided by the principles of transparency, predictability, accountability, responsibility and disclosure. These principles strengthen the Bank's commitment to ensure compliance with NIB policies and rules, for example, when it comes to sustainability, disclosure of information and procurement.

The Investigation and Enforcement Policy adopted by the Board of Directors in 2016 includes a section on Complaints relating to non-compliance with the Bank's policies and procedures. It describes how to lodge a complaint with OCCO, and how the complaints will be investigated and reported to the decision making bodies of the Bank.

NIB publishes information about loans after the loan agreement has been signed. Any potential loan to a project that has been classified as a Category A project<sup>4</sup> shall, in accordance with the Sustainability Policy and Guidelines, be disclosed on NIB's website ([www.nib.int](http://www.nib.int)) before the Board of Directors approves it.

### **4.1 Complaints received**

During 2018, OCCO has investigated a complaint relating to the procurement process in a NIB-financed project in a non-member country. OCCO will present its report to the Bank's management and the Board of Directors in early 2019.

## **5 Cooperation with NIB's stakeholders**

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

The collaboration with other IFIs' compliance and investigation functions is important for OCCO to maintain a high level of professionalism to the benefit of the Bank's general integrity and anti-corruption 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 of investigations and due diligence processes. In 2018, OCCO has participated in various IFI meetings where investigation and compliance matters have been discussed.

NIB also 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

---

<sup>4</sup> [http://www.nib.int/about\\_nib/environment/environmental\\_analysis](http://www.nib.int/about_nib/environment/environmental_analysis)

as well as participation in the institutions' anti-corruption and sanction committees. A Memorandum of Understanding on cooperation with NDF and NEFCO on integrity matters was signed in 2015.

## **6 The Office of the Chief Compliance Officer**

The Chief Compliance Officer reports to the Bank's President and has unrestricted access to the Chairperson of the Board of Directors and the Chairperson of the Control Committee.

Besides the Chief Compliance Officer, OCCO has currently two full-time compliance officers. The Bank has established the Council of Fighting Corruption with members from different departments in order to strengthen the links between the operational activities of the Bank and OCCO. For more information about OCCO, see NIB's Compliance, Integrity and Anti-corruption Policy available at [https://www.nib.int/who\\_we\\_are/compliance](https://www.nib.int/who_we_are/compliance)

## **7 Planned activities for 2019**

Training of the Bank's staff on integrity due diligence, anti-corruption and conduct matters is one of OCCO's top priorities in 2019. As mentioned earlier, training plays an important role in the prevention of Prohibited Practices, Misconduct and non-compliance with policies. An updated e-learning on the revised Code of Conduct and the Speaking-up and Whistleblowing Policy will be rolled out to all staff in February 2019.

OCCO is also prioritizing the development and use of IT solutions in the IDD-process with the aim to strengthen the implementation of the IDD-Policy and Procedures.

Another important task for 2019 is to monitor and finalize the registered investigations of Prohibited Practices, Misconduct and Complaints reported to the Bank.

OCCO will continue to advise the Bank's operational units on conducting integrity due diligence, and ensuring that relevant departments in the Bank comply with the updated IDD Policy and related procedures.

## **8 Contact information**

More Information regarding this report is provided by:

The Chief Compliance Officer  
Office of the Chief Compliance Officer  
Nordic Investment Bank  
Fabianinkatu 34  
P.O. Box 249  
FI-00171 Helsinki  
Finland

Telephone: +358 10 618 0205

Email: [per.sovik@nib.int](mailto:per.sovik@nib.int)

Reporting prohibited practice by email: [corruption@nib.int](mailto:corruption@nib.int)

Reporting complaints by email: [complaints@nib.int](mailto:complaints@nib.int)