



NORDIC  
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FUTURE



# Integrity Report 2017

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## **Message from the President**

NIB has established competence, commitment and cooperation as core corporate values in which ethics is an integral part. The Bank's ethical values are reflected in the codes of conducts. However, the extent to which we are living up to our standards is not something that we ourselves can proclaim. It is something that we have to earn in the eyes of our investors, borrowers, other stakeholders and colleagues with whom we interact and collaborate on a daily basis.

In trainings, arranged by the Office of the Chief Compliance Officer (OCCO) in 2017, we discussed the meaning and importance of business ethics in our operations. Good business ethics is one of the pillars that NIB's reputation rests on.

We are working and living in diverse communities and our jobs require different skills and strategies to which we attach different values. However, as we learned from the Business Ethics training, it is important that the core values of the Bank and its stakeholders are aligned with each other and with the society in which we conduct our business. NIB is committed to engage with its stakeholders to promote a common ground for ethical decision making. It is important to preserve a NIB culture in which we all feel comfortable and are proud to be part of.

This year has witnessed a wide public debate on harassment in the workplace. To prevent any form of harassment; it is crucial that staff and other stakeholders have the ability to speak up and to report misbehaviour without fear of retaliation. In NIB's case, I would like to refer to our Speaking up and Whistleblowing Policy which ensures that any reported allegation of prohibited practice, misconduct and non-compliance with our policies will be handled in accordance with the Bank's established rules.

Henrik Normann  
President & CEO

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## Abbreviations

AML	Anti-money laundering
CCO	Chief Compliance Officer
CoFC	Council of Fighting Corruption
CSR	Corporate Social Responsibility
CTF	Counteracting terrorist financing
ESG	Environment, Social, Governance
FATF	Financial Action Task Force
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

The Office of the Chief Compliance Officer (OCCO) continued its work on preventing and fighting fraud and corruption in 2017. As part of these activities, OCCO organised trainings on business ethics, provided support to the Lending, Treasury and other departments of the Bank on integrity due diligence as well as initiated a number of investigations.

As part of the trainings organised by OCCO, in March 2017, the members of the Board and the Control Committee attended a Business Ethics seminar delivered at the Bank's Headquarters in Helsinki by the Institute of Business Ethics. The external members of NIB's Sanctions Panel also attended this Business Ethics seminar as they were visiting NIB to acquaint themselves with the operations of the Bank. A similar Business Ethics seminar was organised for the Bank's staff in October and November 2017.

Based on the review of the Bank's overall compliance and integrity risks conducted in 2016, including NIB's measures to counteract money laundering, terrorist financing, tax fraud and tax evasion, OCCO, in close cooperation with operational departments, has, during 2017, reviewed the existing Integrity Due Diligence (IDD) guidelines and procedures of the Bank. The aim is to establish a new IDD Policy and related Procedures for the operational departments to ensure that integrity issues are better identified and monitored.

One new external case of alleged fraud and corruption was registered by OCCO in 2017. OCCO has also been following up on cases registered in earlier years which are under investigation or prosecution by national enforcement authorities. Further actions by NIB on these cases depend on the outcome of the investigations and possible court rulings in respective countries.

This is the seventh Integrity Report of the Bank. Previous Integrity Reports can be found on NIB's website, link: [https://www.nib.int/about\\_nib/compliance\\_anti-corruption](https://www.nib.int/about_nib/compliance_anti-corruption) You can find general information about the Bank and its financial results at [https://www.nib.int/about\\_nib](https://www.nib.int/about_nib) and in the Bank's Annual Report 2017 available at <https://report.nib.int/2017> (published on 13 March 2018).

## 2 Preventive work

The Bank focuses on the prevention of fraud and corruption to ensure that the Bank is carrying out its operations and all other activities with a high level of integrity. In terms of compliance risks, the Bank has adopted the three lines of defence approach where the operational units of the Bank are the first line, the Compliance function (OCCO) the second and Internal Audit the third line of defence.

Identifying compliance risks is an important element integrated into the various business functions and the credit process of the Bank. As part of the preventive work, OCCO provides independent advice to all the Bank's business functions and operations with respect to identifying compliance and integrity risks and by proposing mitigation measures. OCCO can also provide its opinions to the Management and the Board of Directors. This means that integrity concerns can be raised at all stages and serious matters are escalated to the highest decision making bodies of the Bank.

The aim of the Bank is to maintain an open atmosphere where integrity concerns are taken seriously and discussed openly. Staff members are obliged to report suspicions of prohibited practices. Managers have a duty to report misconduct to OCCO. External stakeholders are encouraged to report suspicions and allegations of prohibited practice to the Bank. The reporting requirement is an important aspect of monitoring the Bank's activities and

operations. This process has been strengthened through the Bank's Speaking-up and Whistleblowing Policy, which provides protection of staff and other stakeholders against retaliation when speaking-up or blowing the whistle.

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

OCCO's involvement in the Bank's lending operations is currently based on the Integrity Due Diligence Guidelines (IDD-Guidelines), the Non-Compliant Jurisdictions (NCJ) Policy and the Anti-Money Laundering (AML) and Counteracting Financing of Terrorism (CFT) processes. Most of this work takes place when new clients are on-boarded, but also in relation to the Bank's annual follow up of the project portfolio.

During 2017, OCCO has increasingly been consulted in relation to projects financed by NIB in non-member countries and in relation to on-lending through intermediary financial institutions. The IDD has focused on identifying the beneficial owners of the borrower and analysing cross border corporate structures, which may, or may not, have been set up for the purpose of tax evasion or aggressive tax planning. It is also important for NIB to ensure that the intermediary financial institutions have appropriate AML policies and controls in place that provide mitigation that is in par with NIB's compliance risk appetite.

In recent years, OCCO has offered its assistance to borrowers that have experienced cases of fraud and corruption by reviewing their codes of ethics and anti-corruption policies. The aim of this exercise is to find better means for the entities to combat fraud and corruption and thereby facilitate future borrowing from NIB. Currently, OCCO is following up on the policy development of three such borrowers.

In 2017, the Policy on handling Inside Information and prevention of Market Abuse came into force. For lending operations this means establishing Insider lists for certain stock listed borrowers which share sensitive information with the Bank's staff. The main purpose of the Insider lists is to ensure that NIB is a trustworthy participant in the financial markets with sufficient procedures in place for safeguarding confidential information.

During 2017, OCCO has been drafting a new IDD Policy and related procedures for the various activities of the Bank. The final policy and procedures will be presented to the Board of Directors for consideration in early 2018.

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

In December 2017, the Board of Directors adopted the Policy on handling Inside Information and prevention of Market Abuse. While NIB's Code of Conduct has clear Insider Rules that prohibit staff to disclose inside information and to use such information for personal gain, the new Policy focuses on the institutional aspects of handling inside information within the Bank. Special focus is on the Treasury's funding and investment activities in order to mitigate risk of market manipulation and market abuse.

The Treasury activities are also subject to the Bank's Non-compliant Jurisdiction Policy. This Policy is based on the recommendations of the Financial Action Task Force (FATF), Global Forum and EU concerning the criteria on money laundering and tax fraud and evasion set by these institutions. Based on the recommendations of these specialist organisations, OCCO advises the Board of Directors if there are transactions with links to jurisdictions that pose a risk to NIB.

During 2017, OCCO has continued its revision of the Bank's integrity due diligence procedures. This has involved consultations with the different units of the Treasury

Department with the aim of determining the type of IDD-check that should be conducted on relevant treasury counterparties. The new Policy and Procedures will be presented to the Board of Directors for approval in early 2018.

In 2017, NIB has implemented a sanctions screening process for incoming and outgoing payments for treasury and lending activities

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

OCCO is also providing assistance in relation to integrity concerns that arise in the Bank's own procurement or in the administration of contractors and consultants hired by NIB. As part of the development of a new IDD Policy and Procedures, OCCO, in coordination with the Administrative Legal Affairs Unit, is working on the IDD process for NIB's internal procurement of external suppliers.

OCCO is also providing comments to new and revised policies, rules of procedures and instructions to ensure that relevant compliance and integrity matters are taken into account.

OCCO coordinates its control functions with the Internal Audit and the Risk Management Unit to ensure that appropriate processes are in place. The three units share information when considered appropriate, including situations where an integrity issue is reported to one of the units but should rather be assessed or investigated by another unit. The information sharing among the controlling functions helps the Bank avoid that compliance risks are not addressed.

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

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. NIB has established three separate codes of conduct, i.e. one for the Staff, one for the Board of Directors and the President, and one for the members of the Control Committee. The codes establish a set of rules on sound business conduct and ethical behaviour.

The codes provide guidance on how to handle confidential information and include rules on how to handle inside information. The Code of Conduct for Staff stipulates limitations to the staff's rights to trade in financial instruments. All staff, the President and the members of the Board disclose their financial and business interests annually or when changes occur in their interests.

OCCO provides advice and recommendations to questions relating to the application of the codes of conduct and regularly organises courses on integrity and ethics as part of the Bank's induction programme for new staff.

### **2.5 Training**

OCCO arranges training sessions for the Bank's staff and members of governing bodies on integrity, anti-corruption and business ethics. In close cooperation with NEFCO and NDF, OCCO organised in October and November 2017 a business ethics seminar for staff of the three institutions. The aim of the business ethics training is to increase the general awareness of NIB's core values and how staff is expected to behave in certain circumstances and respond to ethical dilemmas in decision making.

For operational staff it is important to understand the various integrity and compliance risks, including identifying fraud and corruption in projects financed by the Bank. For new

transaction managers, individual training on the Bank’s IDD procedures has been provided throughout the year.

The Chief Compliance Officer attended two conferences organised by the IFI community in 2017 on investigation of corruption and on compliance relating to private sector lending operations.

### 3 Investigations of prohibited practice and misconduct

NIB has a zero tolerance of corruption. The Chief Compliance Officer in collaboration with the Head of Internal Audit is responsible for the preliminary assessment of the substance of any allegation of Prohibited Practice (corruption, fraud, coercion, collusion, theft, obstruction, money laundering and terrorist financing) and misconduct reported to the Bank. If an allegation meets the criteria for conversion, it is referred to OCCO for investigation.

An independent Sanctions Panel was established in 2016 to decide on sanctions imposed to persons and entities suspected to be guilty of prohibited practice by OCCO. The Sanctions Panel has three members, one internal and two external. The two external members visited NIB in 2017 to familiarise themselves with the Bank’s operations. No investigation has yet been presented to the Sanctions Panel for decision.

#### 3.1 Investigations in Brief

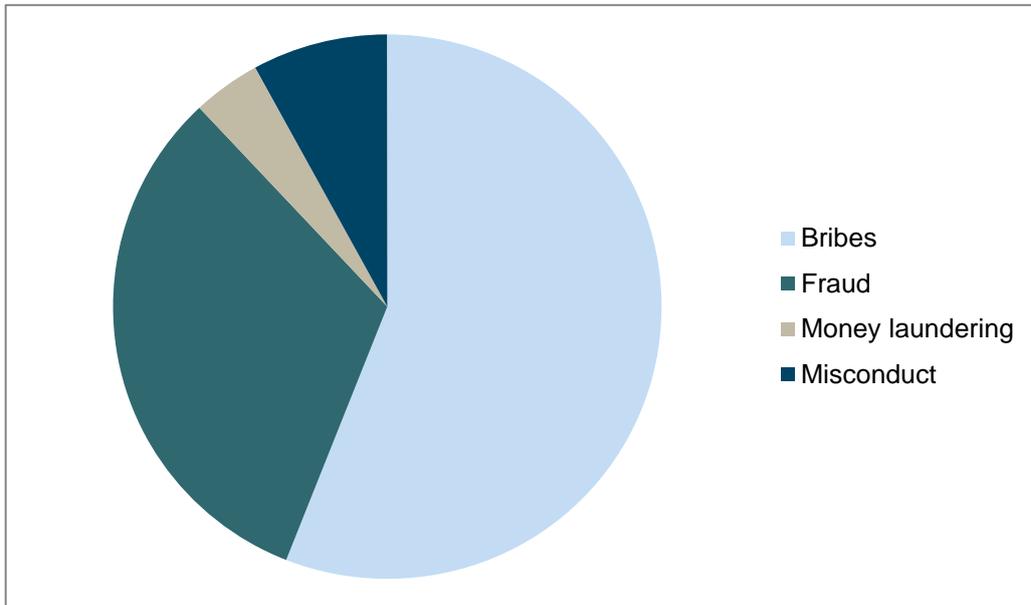
Table 1 shows the number of cases of prohibited practice and misconduct that has been registered and processed during 2010 - 2017, including the number of cases that has resulted in sanctions by NIB and/or referral to national enforcement agencies. Figures 1 and 2 respectively show graphically the types of allegations handled and the types of sources that have brought the allegations to the Bank’s attention over the same period.

**Table 1 Cases registered and processed during 2010-2017**

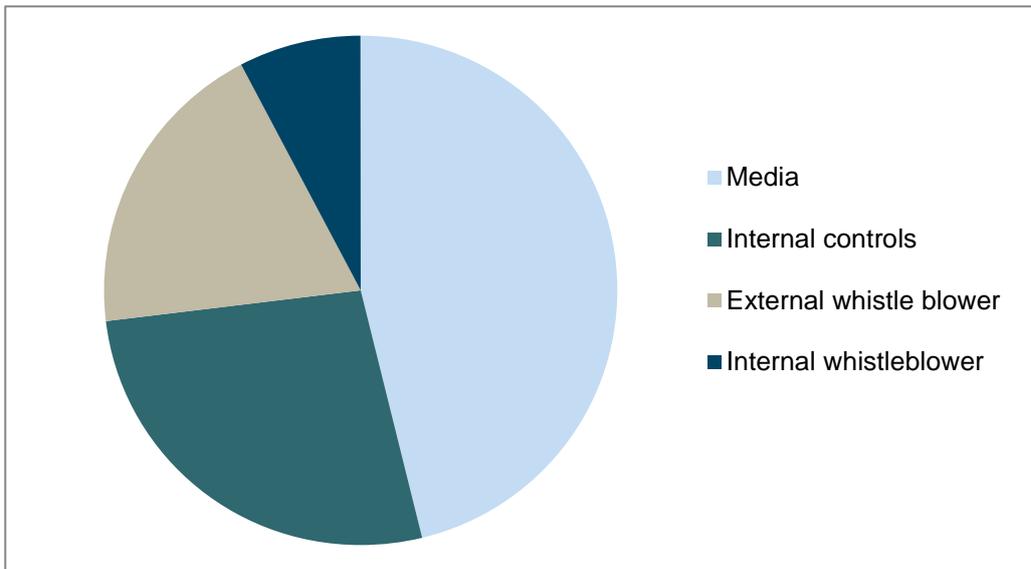
By year end	Registered during the year	Handled <sup>1</sup> during the year	Concluded during the year	Pending by end of year	Sanctions decisions by NIB	Referrals to national authorities
2017	2	7	2	5		
2016	2	8	3	5		
2015	3	7	1	6		
2014	4	10	6	4	2	1
2013	6	12	6	6	1	1
2012	3	7	1	6		
2011	1	4	0	4		
2010	4	4	1	3		

<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 – 2017 <sup>2</sup>**



**Figure 2 Source of allegations 2010 – 2017 <sup>3</sup>**



### **3.2 Alleged cases of internal fraud, corruption and misconduct**

OCCO received one allegation of internal misconduct in 2017, but did not initiate an investigation as the allegation was withdrawn. The case was closed and the complainant informed accordingly.

<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.

### **3.3 Alleged cases of external prohibited practice**

OCCO registered one new external case of prohibited practice in 2017 relating to a procurement process in a project financed by NIB in a non-member country.

Four (4) out of the five (5) pending cases by the end of 2017 shown in Table 1 relate to investigations and/or prosecutions initiated by national authorities in two NIB member countries. OCCO is closely following up on these four cases. 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 which have been investigated for fraud or corruption with improving their anti-corruption policies and code of ethics. In two cases, the improvement of the anti-corruption policies has been set as a condition in the respective loan agreements.

## **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 handling of complaints relating to non-compliance with the Bank's policies and procedures. It describes how to lodge a complaint with OCCO, how the complaints will be investigated and reported to the decision making bodies of the Bank.

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<sup>4</sup> NIB shall, in accordance with the Sustainability Policy and Guidelines, disclose information about the project on its website, [www.nib.int](http://www.nib.int). Project descriptions shall, according to NIB's Public Information 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. The Policy also includes a section on the handling of complaints and provides a link to standard forms used for sending complaints to OCCO. This link can also be found on the Bank's website.

### **4.1 Complaints received**

In 2017, OCCO received one complaint relating to a procurement process in a NIB financed project in a non-member country. The complaint is still under investigation. Complaints relating to non-compliance with the NIB policies are handled by OCCO in accordance with Section 9 of the Investigations and Enforcement Policy and findings and recommendations are reported to the Board of Directors.

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

## **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 2017, OCCO has been represented in various IFI meetings where investigation and compliance matters have been discussed.

One of NIB's Compliance Officers was during 2017 on a 6 months secondment to the Asian Development Bank's Office of Anticorruption and Integrity (OAI) to learn more about investigation techniques and processes.

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 and participation in the institutions' anti-corruption and sanction committees. A Memorandum of Understanding on cooperation 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 he 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 staff, one permanent and one temporary staff member. 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/filebank/a/1455887228/dc9d671ad61bfb3366c5caa1c5d53837/5233-Compliance Integrity and Anti-corruption Policy.pdf](https://www.nib.int/filebank/a/1455887228/dc9d671ad61bfb3366c5caa1c5d53837/5233-Compliance%20Integrity%20and%20Anti-corruption%20Policy.pdf)

## **7 Planned activities for 2018**

OCCO's priority is to investigate cases of prohibited practices, misconduct and complaints reported to the Bank. Another priority is to advise the Bank's operational units on conducting integrity due diligence, identifying critical issues that can cause harm to the Bank's integrity and reputation, including ensuring that NIB's funds are not used for money laundering and terrorist financing and protecting the Bank from transferring funds to sanctioned entities or persons.

With regard to policy development, OCCO, in collaboration with the operational departments of the Bank, will finalise in 2018 the IDD Policy and Procedures with the aim of enhancing the quality of the IDD checks.

Training of the Bank's staff on integrity due diligence, anti-corruption measures and the code of conduct are important tasks in 2018. As part of the revision of the Code of Conduct for Staff, OCCO will further develop its e-learning.

## 8 Contact information

More Information regarding this report is provided by:

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