

INTERNATIONAL
INVESTMENT
BANK

COMPLIANCE REPORT **2020**

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ACRONYMS

| | | | |
|-------|---|------|--|
| AML | Anti-Money Laundering | IFI | International Financial Institution |
| CD | Compliance Department | KYC | Know Your Customer |
| CFT | Combatting the Financing of Terrorism | MDB | Multilateral Development Bank |
| CRS | Common Reporting Standard | OECD | Organisation for Economic Cooperation and Development |
| ENMO | Ethics Network of Multilateral Organizations | OFAC | Office of Foreign Assets Control |
| EU | European Union | PEP | Politically Exposed Person |
| FATCA | Foreign Account Tax Compliance Act | SDG | Sustainable Development Goals |
| IIB | International Investment Bank | UN | United Nations |



1

EXECUTIVE SUMMARY

This report has been prepared to provide interested parties with information on the key performance indicators and results of the Compliance function of International Investment Bank (hereinafter referred to as “the Bank” or “IIB”) in 2020. The report defines the different adopted measures as well as their implementation and monitoring regarding the identification, prevention and control of compliance risks. Besides, the compliance system has been updated and new tools and functionalities have been deployed.

Publication of this report is an independent and voluntary decision of the Bank based on the principle of publicity and information disclosure and at the same time dictated by observance of the standards stipulated in the “Uniform Framework for Preventing and Combating Fraud and Corruption”, which the Bank joined in 2015. By publishing this report, IIB demonstrates its strong adherence to transparency and accountability principles as well as demonstrating the Bank’s readiness to share with different stakeholders best practices in managing compliance risks. We note the particular importance of unprecedented efforts and initiatives taken by IFIs, other international organizations and civil society to address the multiple global challenges (corruption, inequalities, health, security, climate change) which has in turn paved the way for a better environment, more efficient cooperation, reduction of poverty, the implementation of new

development models and a stronger resilience in an interconnected world.

Throughout 2020, the world faced the Covid-19 pandemic, triggering multiple challenges for countries, populations and governments in each region of the globe. This virus has caused extensive damage to the global economy and trade as well as to the healthcare and education systems.

IIB played an important role in assisting its member countries through increasing its lending activities to a record level. As a multilateral development bank, IIB is fully aware of its crucial mandate to support member state economies, particularly during these difficult times. In light of the global disruptions affecting many countries, the Bank has stepped up to offer support and assistance. The Bank has provided a wide-ranging support (bolster private sector and trade finance, support to borrowers, postpone the payments, reschedule the loans).


The pandemic hit developing countries at a very critical moment, as the achievement of the Sustainable Development Goals (SDGs) and the climate change initiatives were already suffering a lack of resources, both in terms of domestic and external flows.

Besides, since the start of the pandemic, criminals and fraudsters have exploited the crisis to commit crimes, particularly using new technologies.

As a result, the number of online scams, frauds and cybercrimes is constantly increasing. The pandemic has created new opportunities for money laundering, fraud and corruption, particularly in the procurement fields. As a response, IIB has actively worked to identify and address new money laundering threats and vulnerabilities emerging from the crisis.

In this challenging context, IIB put lot of efforts in the compliance management area in order to overcome the health, economic, financial and social crisis.



An aerial photograph of a large concrete dam with a reservoir behind it. The dam is curved and has several spillways. The reservoir is a deep blue color. The surrounding area is a mix of green forest and rocky terrain. A small building is visible on the left side of the dam.

2

ROLE AND ACTIVITIES OF THE COMPLIANCE DEPARTMENT

Compliance is integral to the Bank's values of partnership, efficiency, goodwill, responsibility and honesty.

The Compliance Department (hereinafter referred to as "the Department" or "CD") is independent from all other Departments in the Bank. The independence is a core principal and is critical to an effective oversight by the compliance function. It consists of the four following elements:

- The compliance function has a formal status within IIB that gives compliance "appropriate standing, authority and independence." (Basel Committee on Banking Supervision);
- IIB has appointed a Compliance Director with overall responsibility for overseeing the organization's management of compliance risk and supervision of other compliance function staff members;
- IIB Compliance function staff members perform only compliance responsibilities and are not involved in other business and non-compliance responsibilities, which may compromise their independence;
- The Compliance function has direct access to the governing body, as well as the right to obtain any information and contact any personnel of the organization necessary to carry out its compliance

responsibilities. The Compliance Director reports to the Chairperson of the Bank.

The Compliance Department is responsible for the identification, assessment, prevention, monitoring and reporting of compliance risks arising from the Bank's **activities, operations and projects in line with the IIB Compliance Policy.**

The Compliance activities include:

- Prevention activities to identify, assess and control compliance, integrity and reputational risks on IIB financed projects and activities. It includes integrity checks on operations (KYC performed on counterparties) and integrity of staff and governing bodies;
- Awareness raising and improvement of IIB's knowledge regarding the compliance environment at the international, regional and national level, the integrity risks and the ethics violations;
- Promotion of the highest standards of ethics and integrity in all of IIB financed projects and activities;
- Investigations on sanctionable and prohibited practices and misconduct;
- Development and Implementation of policies, procedures, tools, mechanisms and best practices in the AML/CFT and compliance fields to strengthen the integrity of the Bank;

- Verification of the procurement selection procedures, and particularly the compliance with internal rules and regulations;
- Report the achievements and developments of the CD to the Bank's senior management.

According to the status of MDBs in international law, IIB is not required to integrate the legislation of its member countries into its internal policies but aligns its practices to the regulations of its host environment. Consequently, MDBs have a 'dual character' in international law as they are intergovernmental organizations and they engage in financial transactions, similar in nature to the transactions of private commercial entities. In order to address these difficulties and prevent the compliance risks, IIB develops, adopts and integrates rules and regulations, standards and best practices defined by international organizations in the fields of AML/CFT, compliance, ethics, risk management, corporate and social responsibility and sustainable development.

Despite the non-binding character of these principles and policies, IIB is committed to promote and apply the highest standards and norms in each project, operation and activity in each country where it operates.



3

**DUE DILIGENCE
AND FINANCIAL CRIME
(ML/FT, FRAUD AND CORRUPTION)**

In 2020, the CD conducted due diligence on:

- 21 credit and 39 trade finance projects;
- 13 financial institutions (as counterparties);
- 56 third parties (suppliers, vendors etc.).

The compliance reviews covered 21 projects in 9 countries.

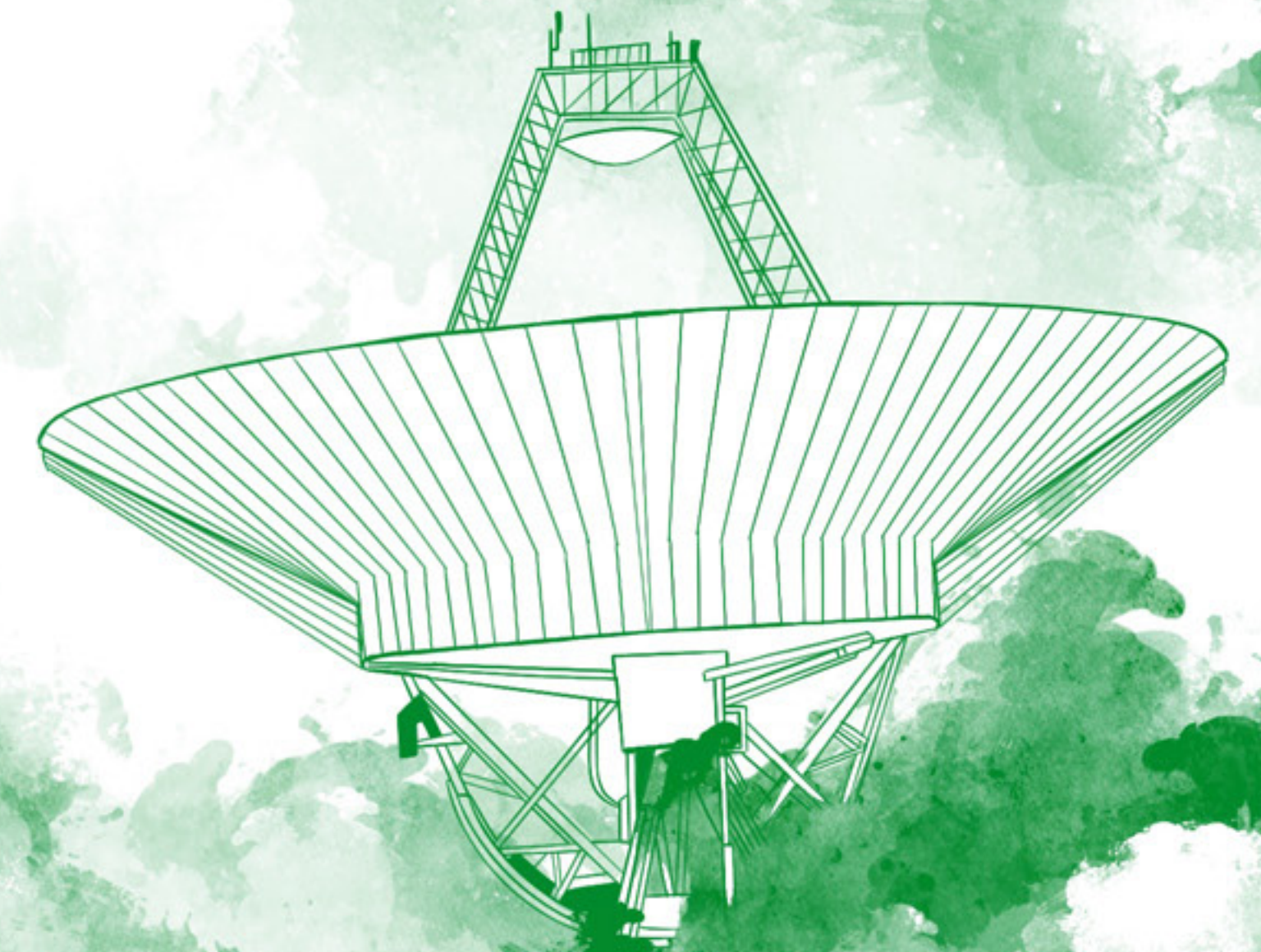
For each project, loan, guarantee, equity participation, financing or entry into any kind of business relationship, the CD performs an enhanced due diligence to assess the compliance and ML/TF risks, identify the ultimate beneficial owner, define a compliance risk rating and monitor it accordingly. The ultimate beneficial owners, the Directors and the Management Board's members are screened against the sanction lists (EU/OFAC/UN/Member countries). The compliance risks of the stakeholders and persons involved in the project (contractors, suppliers, auditors, etc.) are also carefully assessed. The Bank's counterparties are regularly reviewed in order to confirm or reassess the compliance risk rating.

To address and mitigate the risks of ML/TF, Fraud and Corruption, the CD applies the following measures:

- KYC procedure on the counterparty, checks of business reputation of shareholders and beneficiary owners, identification of PEPs and monitoring of adverse media;

- Examination of each project in cooperation with other involved units and departments (Strategy, Credit, Risks, Legal);
- Escalation to the Management Board for High-level decision (for higher risks);
- Review of compliance policies and procedures on a regular basis;
- Monitoring of the customers on a monthly basis;
- Preparation of a Compliance risk map, which identifies the risks in IIB's activities and projects (Overall compliance risk, Country compliance risk, Fraud and corruption risk, Misconduct risk, Misuse of insider information and market abuse, FATCA/CRS risks, and Sanctions risk). Each category of risk is assessed in view of its probability and impact. To assess the impact of risks, the CD takes into account the possible damages of the risk event on the IIB capital. To assess the likelihood of risks, the CD takes into account risk events that took place in the practice of IIB and of other IFIs;

- Implementation of a risk-based approach: the risk level is defined in three categories (Low, Medium, and High) which set the terms of counterparty's regular revision;
- Participation of CD on the Credit Committees, Finance Committees, Procurement Committees and Management Board meetings;
- Identification of source of funds and counterparty's capital.





4

**CODE OF CONDUCT
AND PREVENTION
OF MISCONDUCT**

The Code of Conduct of IIB establishes the basic corporate values, the rules of conduct based on high professional and ethical standards, which the Bank's employees shall comply with regardless of the position held. The Code sets out broader principles that align to our values of partnership, efficiency and goodwill. The purpose of the Code of Conduct is that the corporate life and business relations of the Bank with all stakeholders are characterized by common values that define the unique image of IIB.

The Compliance Department is responsible for supporting the Bank's employees regarding application and understanding of the provisions of this Code. The CD provides information, recommendations and advice on various aspects of the Bank's activities and ensures that the attention of the Bank's Management Board is drawn to instances involving non-compliance with the requirements of this Code and internal regulatory documents of the Bank so that appropriate action may be taken.

The **Regulation on Management of Conflict of Interests** of IIB defines the principles and lays down the conditions, prevention, identification, settlement and monitoring of conflict of interests.

During 2020, no reports on misconduct or conflicts of interest were reported. One complaint was registered and managed according to the policies of the Bank.

According to the "gift register", IIB did not present gifts with a value more than 100 euro, and the IIB staff declared no received gifts higher than 100 EUR.

During 2020, 7 employees left the Bank. The Compliance Department conducted an exit interview with each of them. No compliance risks were identified.

In order to identify and prevent the market abuse risks, the CD identifies insiders among persons who have access to the information that can influence the bond's price, register them and notify about their rights and obligations. The list of insiders was updated to include five newly appointed members of BoG, and BoD of the Bank. Furthermore, two newly appointed employees of the Bank were put on the list.





5

TRAINING AND AWARENESS RAISING

The key objective of AML/CFT and compliance trainings is to promote adherence to international compliance laws, and rules and regulations. This essential element of our compliance program cannot be achieved without the involvement of all employees, being aware of their roles and responsibilities, as well as the consequences of noncompliance. Each employee has a role to play in the compliance field and in the fight against financial crime (money laundering, fraud, corruption, bribery).

The organization of regular trainings is one of the ways to achieve our objectives and is one of the most effective way to raise awareness within the Bank. Increasing the employee's knowledge of the laws and regulations, of the typologies and trends in money laundering, terrorist financing and corruption helps to identify the threats, implement efficient controls and prevent the risks in a more efficient way.

The training sessions are also the opportunity to share experience, develop specific topics and raise questions. Trainings are a very important component of the compliance program, which is updated every year in order to integrate the needs of the employees.

The compliance training program allows to achieve the following elements:

- Identifying and monitoring the risks in a more efficient way;

- Raising awareness on the compliance topics (AML/CFT, Confidentiality, Data protection, Business ethics, Conflict of Interests, Violations of laws and regulations,
- Increasing productivity;
- Preventing the risks of non-compliance;
- Protecting the Bank 's reputation;
- Minimizing the risk of legal action.

In May 2020, the CD provided joint online training for the employees on AML/CFT/F/C matters. All participants have successfully passed the knowledge test after the training.

As result of the pandemic situation, a very limited number of new colleagues joined the bank. The compliance training for the new employees who joined the Bank in the last quarter of the year will be held in the first semester of 2021.





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AUTOMATION AND PROCESSES

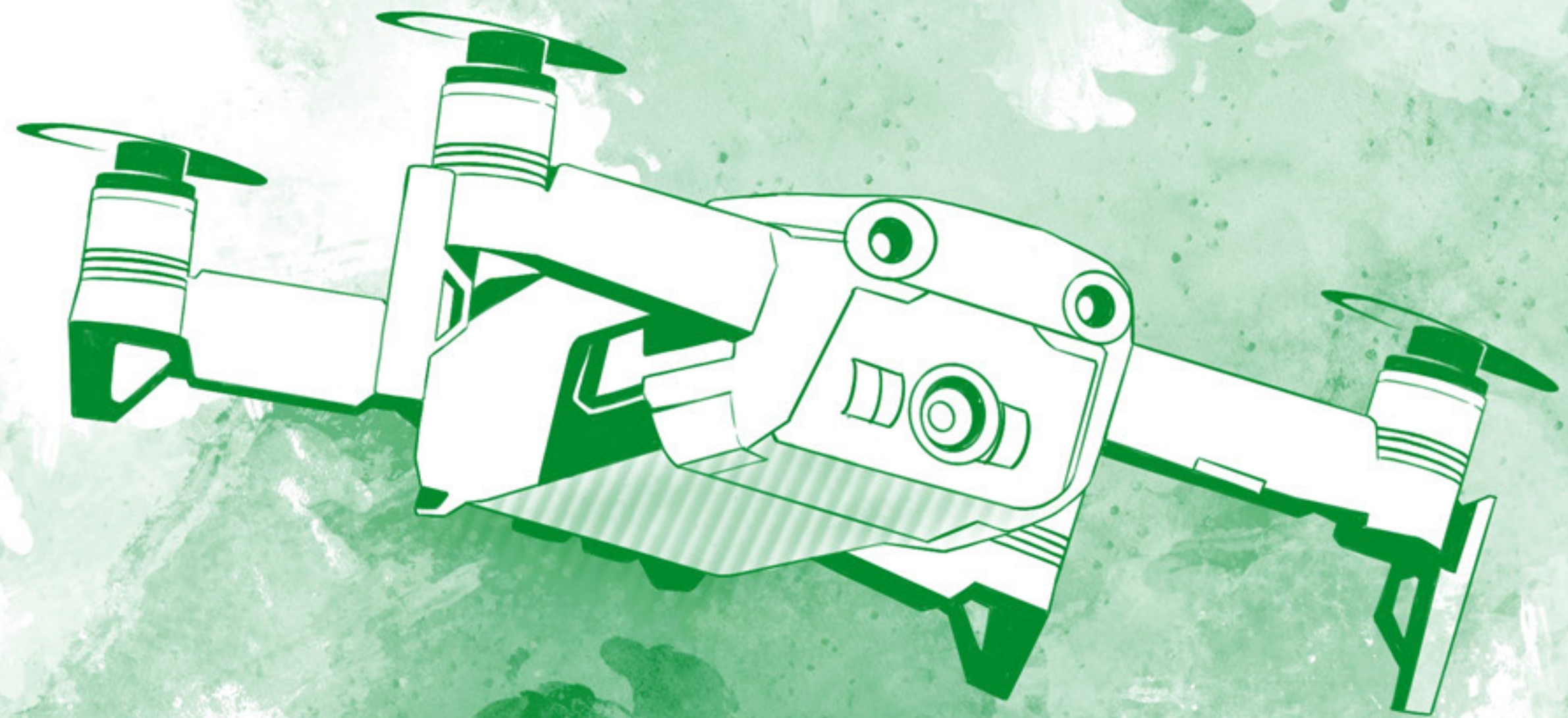
As of now, all requirements of CD related to KYC and DD are fully integrated into core system of the Bank, which allows providing management and involved units with the comprehensive assessment and timely reaction to all emerging risks.

Information on all parties involved into IIB projects is uploaded into the system, which allows its easy access, analysis and update. The Bank uses a combination of manual and automated screening of counterparties, including shareholders, beneficiary owners, suppliers and third parties to the projects, against sanction lists and official black lists.

CD uses automated analytical system that makes it possible to supply the Bank's management with up-to-date information on the state of compliance risks and to take necessary preventive measures based on the results of their analysis. Currently, reports on compliance risks are generated automatically based on the necessary parameters and allows seeing the Bank's compliance risk profile, assessing the adequacy of the mitigating measures and identifying the risks beyond control.

In 2020, the Bank continued its work to fully transfer the process of gathering data from counterparties into electronic format. The proposed solution was tested by the business units and external counterparties and operates now on a trial basis to identify possible gaps and bottlenecks.

In addition, in 2020 CD launched a new automatization project with the aim to apply compliance controls on personal transfers of the Bank's employees, which previously had been withdrawn from the KYC process. All transfers are now automatically screened against black lists and sanction lists with the involvement of CD in case of possible matches. The solution was successfully put into operation in 1Q2021.





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PROCUREMENT

In the year 2020 CD remained actively engaged in the procurement processes of IIB. On several levels, CD is constantly represented in the Procurement Committee, a working group that is reviewing procurements, and its opinion is taken into consideration during the decision making process. Special attention of CD to the procurement activity not just ensures transparency and competition, but also mitigates fraud and corruption risks.

Procurement activity faced new challenges during the year 2020 not only because of Covid, but also because of a complex and large scale project was realised by the bank, the renovation of the HQ building. The task required significant efforts to monitor the tendering process, review of technical requirements, offers and conduct KYC on participants but it also included on site visits. Besides the main project, additional procurements were running both in Moscow and Budapest which required review from CD.

As it was announced previously, in 2019 IIB reached an important milestone by launching a project based on the Bank's own procurement rules in one of the member states. While in the previous year procurements for advisory contracts were conducted, in 2020 the EPC contract tender was finalized and the realization of the project started. CD not just overviewed

the tendering process, but actively monitored the developments and technical realization in the form of weekly and monthly reports. To ensure transparency and to mitigate fraud risks, CD reviewed subcontractors and the contracts signed with them.





8

INTERNATIONAL COOPERATION

Despite this challenging year, IIB continued throughout the year to participate in several events held virtually.

The CD participates actively to the regular dialogue with the IFI/ENMO Community, discusses the various training initiatives (pool the resources of the IFIs, develop training programs to benefit the IFI/ENMO community and explore synergies on this topic).

In July 2020, the CD participated on the 12th annual meeting of the Ethics Network of Multilateral Organizations (ENMO) hosted online by the World Bank Group. The meeting brought together over 100 senior ethics officers from more than 40 multilateral intergovernmental institutions.

The CD participated in the 40th BACEE Regional Banking Conference, held in a full virtual format on November 2020. The Conference gathered 149 participants from 26 countries and 74 institutions.

IIB, like each international organization, had to cope with the difficulties imposed by the Covid-19 pandemic all around the world. The most urgent and important actions were:

- To ensure continuity of our annual program and to focus on core activities, by implementing rapidly flexible and adaptable rules (deployment of IT tools, organization of remote meetings, postponement of events)

- To maintain a constant dialogue with our member countries in order to rapidly meet their needs and offer solutions adapted to the crisis

- To coordinate with international organizations and MDBs, exchange on the best practices and build strong cooperation channels.





9

PERSPECTIVES AND DEVELOPMENTS

In line with the strategy adopted by the Board of Directors, the CD will put its efforts to achieve the following objectives in 2021:

- **Provide responses commensurate with the scale of the Covid-19 crisis**

The current sanitary, financial and economic crisis started in 2020 have put pressure on the Bank who has to meet the urgent needs of countries and populations. IIB will mobilize its efforts to provide an adequate and efficient response for its member countries all along the year.

- **Integrate additional topics**

Over the past few years, the global emphasis on environmental sustainability has further given rise to green projects that promote sustainable projects and respond to climate change. MDBs can play a vital role in efforts to shift finance and projects toward the achievement of sustainable development goals. IIB is willing to integrate topics such as sustainability into its compliance risk assessments.

- **Strengthen the Compliance Framework**

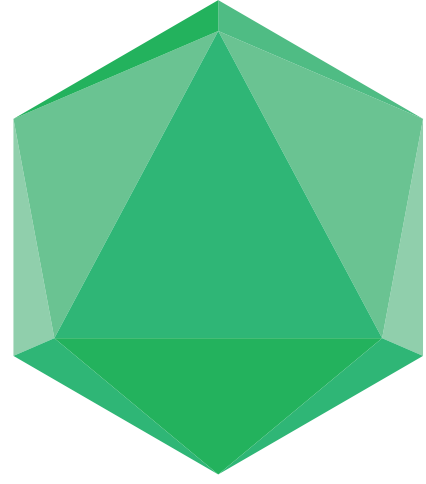
New threats, trends and typologies in the ML/TF, Fraud and Corruption field have been identified since the beginning of the health crisis. The CD

will implement additional measures to monitor the risks, identify and prevent the new threats. This new environment requires flexibility and adaptability and the Compliance function has a very important role to play at different levels.

- **Focus on the compliance capacity-building endeavours**

The CD plans to reinforce capacity building, both internally and externally (outreach events and activities, awareness raising, training programs, compliance networks, introduction of new tools, guidance, workshops) and to develop new KPIs to measure the impact of compliance work.





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