



INTERNATIONAL
INVESTMENT
BANK



COMPLIANCE
REPORT

2017

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INTRODUCTION

This report has been drawn up to provide interested parties with information on the key results of functioning of the compliance control system at the International Investment Bank in 2017.

The report sums up the results of the compliance control activities and provides description of its performance in terms of identification, monitoring, and control of compliance risks assumed by the Bank.

Publication of this report is implied by the commitments made by the IIB to observe the principles and standards stipulated by the UNIFORM FRAMEWORK FOR PREVENTING AND COMBATING FRAUD AND CORRUPTION, which the Bank joined by correspondence in 2015.

Transparency and integrity are the key principles for the Bank when disclosing information on the state of assumed compliance risks.

The IIB determines the following as compliance risks: “the risks of legal or regulatory sanctions, financial loss, or loss to reputation that a bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice”.

The Bank sees external and internal policies, regulations and other regulatory documents along with decisions by the Bank’s managing bodies on the

issues related to corporate ethics, managing conflicts of interest, combating money-laundering and financing terrorism, preventing corruptive and fraudulent activities by both counterparties and the Bank's personnel as key compliance rules.

The division responsible for implementation of compliance policies and requirements approved by the management of the Bank is the Compliance Department (CD). Identification, assessment, and control of compliance risks are carried out across all areas of Bank's activities: both as part of building internal relations at the personnel and divisions level and when working with counterparties in the course of making transactions with them. The CD systematically evaluates risks as part of a regular self-assessment of compliance risks and analysis of certain workstreams, transactions, initiatives, and counterparties, as well as after changes in the external or internal environment have occurred.

In 2017, the Bank's external conditions were characterized by the increased complexity of the regulatory environment and the emergence of new compliance-related initiatives. Such changes became an additional load for the Bank's divisions responsible for identification of emerging risks and responding to them.

In order to timely reveal and assess compliance risks, the Bank closely monitors changes in the international environment and in the territories of its presence, as well as those occurring with its key partners and counterparties.

This makes it possible to promptly respond to such changes and take measures to mitigate their potential negative impact on the Bank. In such work special importance is attached to aligning the activities with other international development institutions and taking a common stand in response to the changing conditions of doing business.

In particular, 2017 was characterized by a burst of anticorruption investigations on the IIB's markets of

presence. This prompted the Bank to update its internal procedures aimed at reinforcing the work and analysis of borrowers' relations with public sector and their dependence upon decisions taken by the authorities.

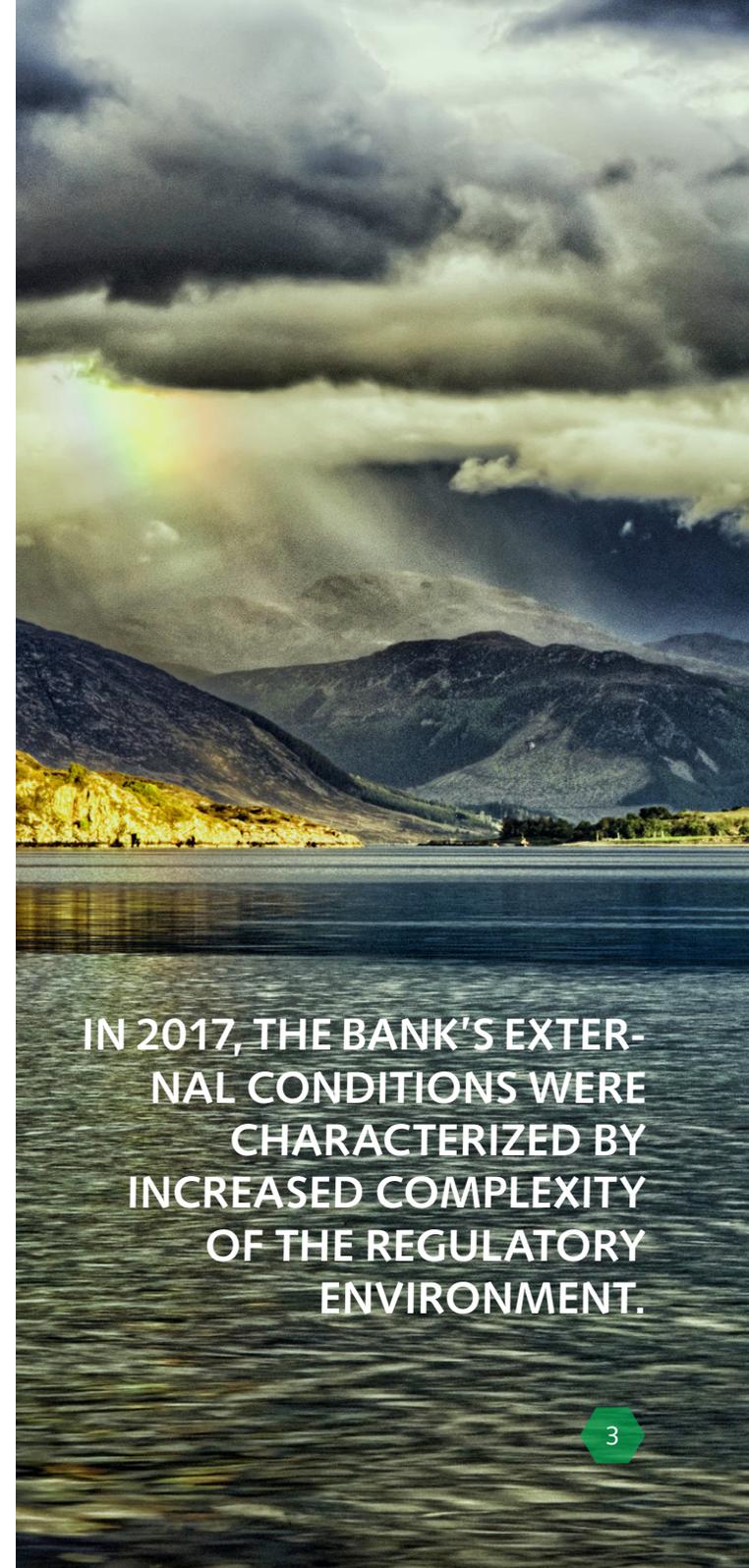
2017 saw an overall reduction in the number and amount of penalties imposed by certain jurisdictions due to the exposed violations against restrictive economic and political sanctions. On the other hand, the requirements of certain jurisdictions for the application of such measures and new unconventional restrictive instruments issued by them significantly complicated the work of compliance divisions on the international markets.

In 2017, an additional expert assessment of newly introduced restrictive measures was required to ensure their correct interpretation followed by the updates in internal policies, accounting systems, and contracts with counterparties.

Significant growth of national and international efforts in combating money laundering.

The legislation in certain member states underwent significant changes aimed at bringing them closer to international standards. International community and world's leading countries increasingly call for aligning efforts in combating tax avoidance. And their voices are getting louder. The issues of international tax relations are becoming more and more critical, when structuring and implementing projects in several jurisdictions.

Following such developments, 2017 saw the emergence of new areas in compliance control function, whereas some of its traditional elements were reinforced with additional expert assessments and requirements. Close monitoring of changes in the external environment and their timely assessment make it possible to maintain the Bank's compliance risk profile at the level acceptable for the shareholders and ensure secure business operations aimed at meeting the goals approved by the member states.

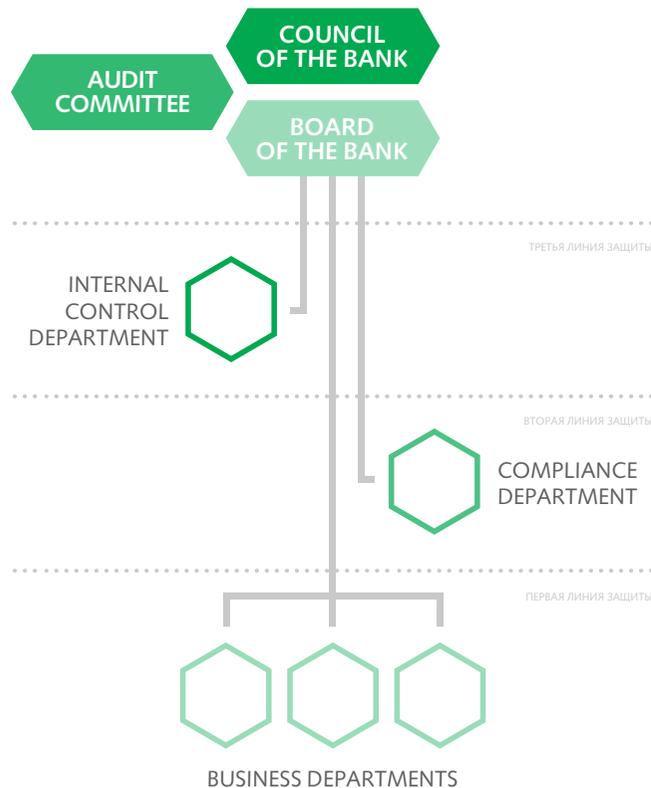


IN 2017, THE BANK'S EXTERNAL CONDITIONS WERE CHARACTERIZED BY INCREASED COMPLEXITY OF THE REGULATORY ENVIRONMENT.

CORE ACTIVITIES

The key objective of the Department is to take measures for identification, assessment, prevention, and control of compliance risks arising in the Bank's activities.

Department's key functions are described in the Regulations on Compliance Control of the IIB. The work of the Department is aimed at establishing a compliance control system within the Bank in accordance with the corresponding international standards and the best practices in this area.



The Department pays special attention to experience gained by international organizations and development banks, including those participated by the IIB member states.

When developing the compliance control system the Department strives to maintain a high level of efficiency and be business-oriented and proactive in managing risks taken by the division with due consideration of the large-scale strategic goals of the IIB related to fulfilling its mission of an international financial institution.

The daily operations involve providing consultations and opinions of the Department on issues under consideration (agreeing draft regulatory documents, agreements, and questionnaires, analyzing and assessing risks associated with the Bank's projects, personnel management, etc.). The main divisions and collegiate bodies that are CD's internal clients include the Credit Committee, the Procurement Committee, the Credit and Investment Block, and Structured and Debt Finance Department.

The CD's expert opinion is reviewed and taken into consideration when making decisions by the Financial Committee and the Board.

Representatives of the CD are members of a number of the Bank's collegiate bodies, closely cooperate with expert divisions, have access to Board meetings and report regularly to the Chairman of the Board of the.

THE KEY FUNCTIONS OF THE CD INCLUDE:



PERFORMING COMPLIANCE PROCEDURES (DUE DILIGENCE AND KYC) WITH REGARD TO COUNTERPARTIES AND PROJECTS;



WORK ON THE PROVISIONS OF THE CORPORATE CODE OF ETHICS AND MANAGEMENT OF CONFLICTS OF INTEREST;



COMPLAINTS AND REQUESTS HANDLING;



PRODUCING RECOMMENDATIONS ON MITIGATION OF COMPLIANCE RISKS IDENTIFIED IN THE BANK'S PROJECTS;



ENSURING TRANSPARENCY AND EFFICIENCY OF PROCUREMENT PROCEDURES;



PARTICIPATION IN INVESTIGATIONS OF PROHIBITED PRACTICES OR MISCONDUCT;



IDENTIFICATION, MONITORING, AND CONTROL OF OFFSHORE RISKS;



DEVELOPING AND IMPLEMENTING COMPLIANCE CONTROL POLICIES.

COMBATING MONEY LAUNDERING, FRAUD, AND CORRUPTION

One of CD's key objectives is the identification and assessment of compliance risks associated with the Bank's potential and current counterparties. Its key principles and regulation are established in the Policy for Combating Money Laundering, Fraud, and Corruption and the corresponding internal regulations. The key tool for identification and assessment of compliance risks is Know Your Customer (KYC) procedure.

In 2017, the CD performed initial KYC assessment of projects, new counterparties being financial organizations, and counterparties in non-core activities of the Bank. Additionally, all the Bank's counterparties were assessed and monitored against compliance risk.

Since 2017, the CD has been arranging a compliance check on the auditors of financial reports of IIB's potential borrowers.

As part of support of the trade financing activities the CD arranged checks on 81 prospective deals (for each on the financing bank, the issuer, the exporter, the importer as well as checks of the submitted documents for the risks of fraud, sanctions, and money laundering).

To identify and assess compliance risks associated with counterparties the CD uses both publicly available sources of information and commercial databases. The CD has access to databases of the leading providers of vetting services.

These tools made it possible to provide the CD with required information to the maximum extent and had a positive impact on the quality of opinions prepared.

In 2017, the CD gained access to credit bureaus in a number of member states and corporate registers and commercial databases containing extended information on legal entities and individuals being residents of the member states.

In 2017, the CD carried out activities to combat fraud and corruption both inside the Bank and in operations with counterparties. Cases of identified fraud and corruption risks were reported to the management and the Chairman of the Board. However, none of the suspicions of fraud/corruption investigated by the CD was confirmed. The checks performed by the CD in 2017 did not reveal any real facts of fraud or corruption or Bank's involvement in such activities.

In 2017, the CD updated the Regulations on Measures for Combating Money Laundering, Financing Terrorism, Fraud, and Corruption. The regulations were updated taking into consideration practices and experience obtained in professional discussions with other development institutions. The CD conducted a comparative analysis of the compliance control requirements in various

development banks and based on the findings developed proposals to improve the IIB's procedures. Thus, the CD was included in the list of divisions that monthly monitor the loan portfolio and a monitoring form was developed. Counterparty compliance questionnaires under KYC procedure were adjusted with a special emphasis on control via funds and offshore jurisdictions and the disclosure of detailed biographies of owners and key management.

New reporting forms for client relations managers were also introduced to enhance their involvement in identification of potential compliance risks associated with counterparties. The CD opinion form was adjusted to include a section on beneficiary's biography, improve the opinion structure, and introduce a special appendix describing the KYC results in a more structured way.

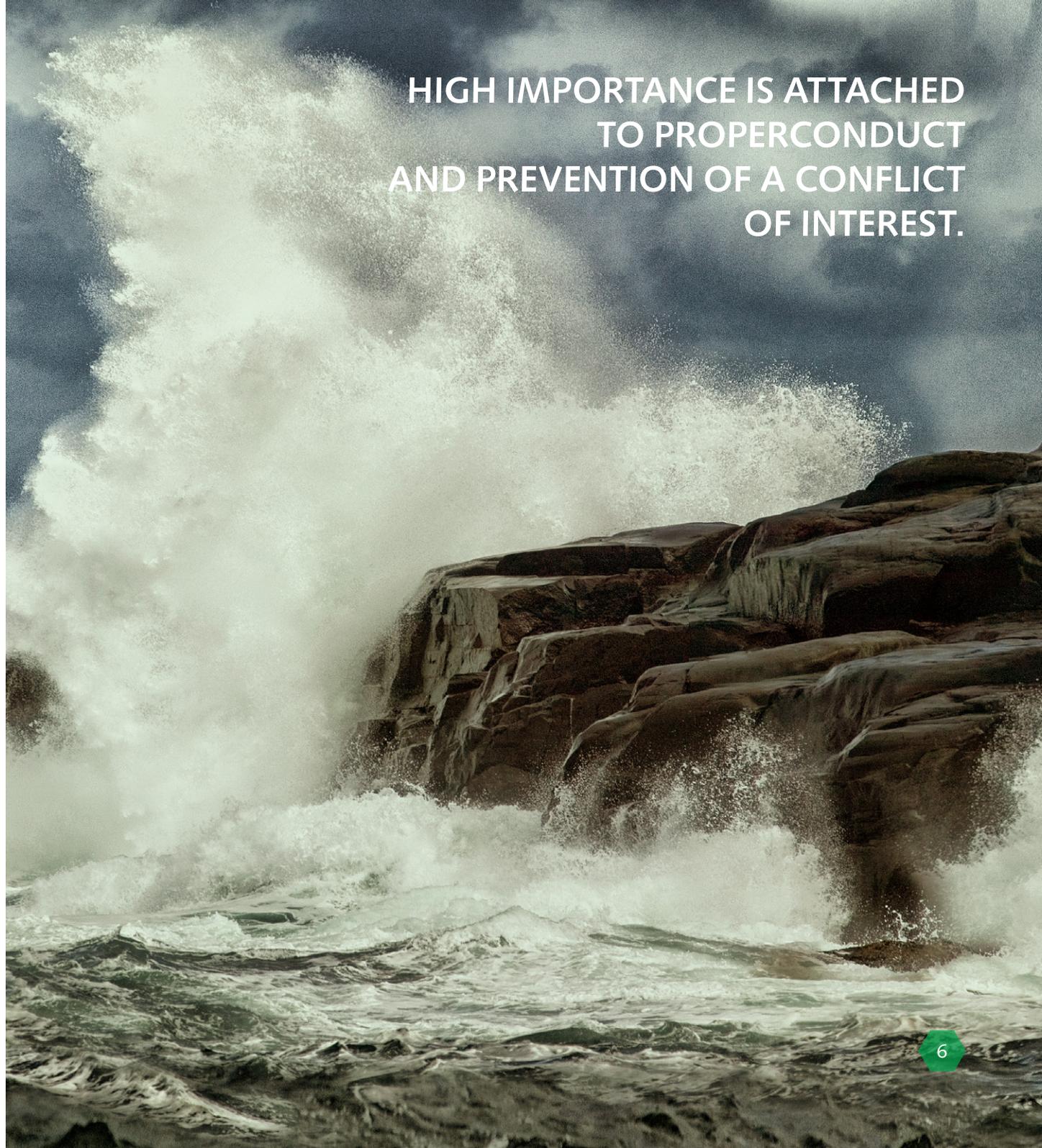
In view of the IIB's strategy to enter new non-traditional markets of presence, mostly through trade financing products, the CD initiated a project aimed at the preliminary assessment of jurisdictions' compliance risks. Such assessment will make it possible to provide the management bodies with additional information on the maturity and safety of new markets to be entered by the IIB to assist in further justified and informed decision-making.

The Bank's position on restrictive measures is that all its operations shall fully comply with the established restrictions (where applicable) at both international and national levels. In 2017, the Bank's activities did

not violate any of the restrictive measures or embargoes monitored by the IIB.

Noteworthy is the CD's initiative to explore the requirements of national and international regulators for politically exposed persons (PEPs) to which a number of the Bank's executives belong. The necessary information on the banks' requirements for public officials in the country of IIB's residence was communicated to the interested employees of the Bank.

**HIGH IMPORTANCE IS ATTACHED
TO PROPER CONDUCT
AND PREVENTION OF A CONFLICT
OF INTEREST.**



CODE OF ETHICS

The IIB attaches close attention to staff discipline and prevention of conflicts of interest. For this purpose, the Bank has developed and applies the Code of Ethics and the Regulations on Management of Conflicts of Interest. The CD holds regular consultations with employees on the application of the above documents and on how to resolve occurring situations. In order to prevent a conflict of interest the CD collects filled in questionnaires on conflicts of interest from all new employees and regularly collects and analyses the filled in questionnaires on conflicts of interest from all current employees.

During 2017, by the assistance from interested divisions and the top management, the CD took part in resolving the cases, which could result in the violation of the Code's provisions.

In total, the CD reviewed 10 important situations, which could result in a conflict of interest in 2017.

For each case, required measures were developed and applied to avoid the conflict of interest. As yet, the identified cases and risks of a conflict of interest have not given rise to any significant negative results.

An employee is responsible for informing their manager and the CD of any suspicions and facts of any prohibited practices in the Bank as well as any situations which may result in a conflict of interest.

Information on violations in the IIB or in the projects to which the Bank is a participant can be

received through several communication channels: via the Intranet, by mail or email (compliance@iibbank.com), through the electronic form on the IIB's website (www.iib.int). Full anonymity is guaranteed to all the whistleblowers.

In 2017, the IIB received only one message meeting the criteria set for review. Investigation of the message took place in 2018.

In accordance with the Procedure for Receiving and Presenting Gifts, in 2017 the CD took measures aimed at practical implementation of this document by way of corresponding reminders to the Bank's employees.

In 2017, 14 messages on presenting approved gifts to the Bank's partners were registered. The CD received 2 messages from Bank's employees about getting gifts and in each case the gift value did not exceed EUR 100. In accordance with the Bank's policies regarding gifts, these were retained by those, who received them.

As the IIB issues securities traded on stock exchanges, the CD identifies insiders and processes information received from them. In total, as of the end of 2017, about 120 insiders were registered in the Bank, including both individuals and legal entities. Such persons are being monitored for compliance with the insider criteria. The CD informs them of inclusion in the insider list.

CASE STUDY

The following case can be used as an example of reviewing a situation related to a conflict of interest. In 2017, an IIB employee responsible for attraction and disbursing loans to clients approached the CD with an information that a substantial amount of money was credited to their personal account. Shortly after that, a loan application initiated by this employee was to be reviewed by the Credit Committee. Based on the results of the actions taken and the evaluation of the situation, the CD was informed by the bank, which had credited the funds that the operation had been made by mistake, for the money had been intended for another person from another international financial organization. The money was returned to the sender.

TRAININGS AND PERSONNEL DEVELOPMENT

The CD arranges face-to-face training on compliance control for all new employees of the Bank and organizes annual trainings to update the knowledge of compliance risks.

As part of the trainings on combating money laundering, financing terrorism, corruption, and fraud the CD informs the Bank employees of the recent trends globally and in the IIB member states as well as the measures to be taken for prevention of corruption and fraud. For this purpose, in 2017, the CD updated the presentations on combating fraud

and corruption and forwarded them to the personnel for studying.

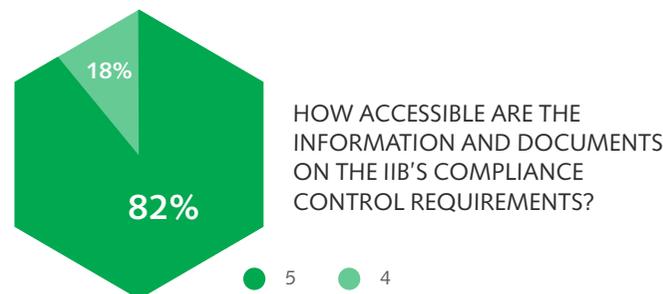
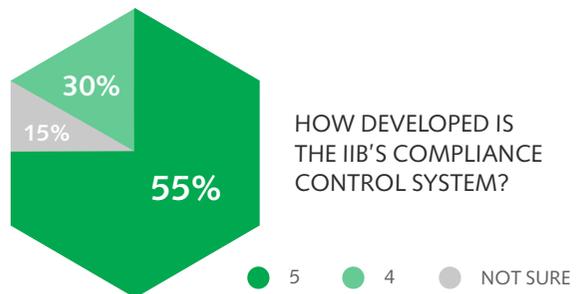
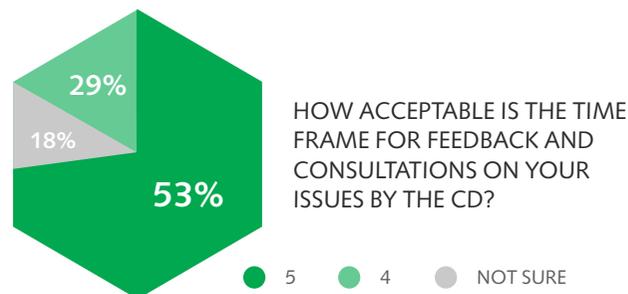
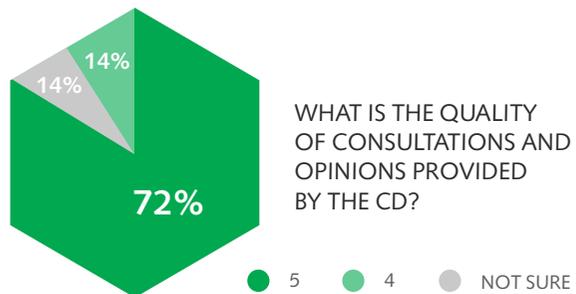
In 2017, a specialist company providing online training and testing services was engaged for regular personnel training. Ninety-eight percent of the trained employees successfully passed the testing.

Fifteen employees left the Bank in 2017, the CD held exit interviews with 13 of them. No compliance risks were revealed based on the results of the interviews.

Additionally, the CD consulted a number of employees dismissed/transferred by the Bank on the observance of their right in connection with the regulations and the values of the Bank in accordance with the Code of Corporate Ethics. In 2017, the Bank hired 14 employees whose functional duties are related to compliance risks. For such employees the CD held trainings on compliance.

In 2017, the CD surveyed the divisions for their satisfaction with the services provided by the Bank's compliance function. All the employees interacting with the CD took part in the survey. Mostly positive responses were received regarding the quality of the services, the timing, the availability of materials, and the general development level of the Bank's compliance system. Based on the received feedback, the CD revised the internal content of the Bank's portal where all the key documents and explanations regarding the compliance requirements, which employees need for their daily work, are placed in a structured way.

RESULTS OF THE SURVEY ASSESSING THE SATISFACTION WITH THE CD WORK AMONG INTERESTED DIVISIONS:



AUTOMATION OF COMPLIANCE PROCESSES

The key functions of the IIB's automated compliance system were successfully implemented in 2017. The system is fully operable and meets CD's needs in terms of systematization, processing, and control of requests for KYC. This made it possible to fully switch to electronic documentation, improve stability and integrity of the work with counterparties and substantially reduce the resources for data processing and primary analysis. All the Bank's counterparties along with the basic information on them are entered into the system. The checks for their presence in the lists of undesirable persons and persons with increased compliance risks are conducted regularly. Counterparties are constantly monitored for the need to update the information entered on them and their assigned risk group.

An important stage in developing internal compliance reporting system was the completion of the project to establish a corporate data warehouse. This tool makes it possible to obtain live data and supply the Bank's management with up-to-date information on the state of compliance risks. Necessary preventive measures may be taken based on the results of such analysis. Currently, reporting on compliance risks is generated automatically based on the set parameters and data processing algorithms.

In order to prevent internal fraud the CD initiated a number of adjustments in the Bank's payment modules for their integration with the compliance control system. Currently, none of the Bank's payments (in excess of the set limit of EUR 3,000) can be made without registration and confirmation of the counterparty in the accounting system.

PROCUREMENT

The CD mandatorily arranges the CD procedure with regard to all the potential suppliers of goods, works, and services for the Bank. In 2017, the CD initiated implementation of a number of procedures in the procurement activities aimed at improvement of transparency of the Bank's own procurement.

For example, common email boxes were arranged with access for all the members of the Procurement Committee to be mandatorily used for all the

correspondence of the business divisions with their potential suppliers.

The key principles and requirements to the materials for review of draft CAPEX estimates were developed to increase transparency and justifiability of the requested investments, the procedure for conducting typical works and emergency works was improved.



INTERNATIONAL COOPERATION

In 2017, the CD continued participation in international cooperation on compliance and activities aimed at propagation of best compliance practices both inside the Bank and in the external environment.

In the reporting year, CD representatives took part in compliance activities arranged by the leading service providers. In 2017, the CD continued developing and broadening contacts with representatives of international financial organizations' compliance divisions. Bank's representatives took part in the Private Sector Integrity Meeting, a work meeting of international financial organizations' compliance divisions.

Signing a Memorandum of Cooperation in the Field of Compliance with the EDB became an important step. According to the document,



Signing the Memorandum of Understanding in the field of compliance control between the IIB and the EDB, December 2017.

information exchange on joint investment projects, sharing experience in use of compliance tools, and arrangement of joint training activities are planned between the banks. Practical implementation of this Memorandum is planned for 2018.



Compliance Challenges for Development Financial Institutions conference, December 2017.

An important initiative for the bank and a great success on the global stage of professional compliance events was arrangement of the Compliance Challenges for Development Financial Institutions conference in Bratislava in December 2017. Compliance officers of both international development banks and national development institutions took part in the event. Prospects and issues of compliance control development in the IIB countries and globally were discussed at the conference.

It should be mentioned that the first project with the Technical Assistance Fund established by the IIB and the Ministry of Finance of the Slovak

Republic was a project in Mongolia aimed at improving the law on combating money laundering and financing terrorism. Selected consultants will provide assistance to the regulator of the Mongolian financial market in bringing the national law into compliance with the international standards.

The Bank intends to continue developing its compliance function with a focus on practical actions implemented with the involvement of partners and other development institutions.

THANK YOU!

In conclusion, the CD would like to extend their gratitude to all the divisions and the top management of the Bank for their active involvement in the development and support of the IIB's compliance control system in 2017.