



**INTERNATIONAL
INVESTMENT
BANK**

**COMPLIANCE
REPORT**

2018

COMPLIANCE FUNCTIONS	4
COMBATING MONEY LAUNDERING, FRAUD, AND CORRUPTION	6
CODE OF CONDUCT	9
TRAININGS AND WORK PERSONNEL DEVELOPMENT	11
AUTOMATION	12
PROCUREMENT	13
INTERNATIONAL COOPERATION	14

INTRODUCTION

This report has been drawn up to provide interested parties with the information on the key performance results of the Compliance Department of International Investment Bank (hereinafter referred to as the Bank or IIB) in 2018. The report sums up the results of the compliance function activities and provides the description of their implementation in terms of identification, monitoring, and control of compliance risks assumed by the Bank as well as development of the compliance system in the past year.

Publication of this report is an independent and voluntary decision of the Bank based on the principle of publicity and information disclosure rules, and at the same time it is dictated by observance of the principles and standards stipulated by the Uniform Framework for Preventing and Combating Fraud and Corruption, which the Bank joined by correspondence in 2015.

As compliance risks IIB determines the following: “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”. As key compliance rules 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, preventing corruptive and fraudulent activities by both counterparties and the Bank’s personnel.

The division responsible for implementation of compliance policies and rules approved by the managing bodies of the Bank is the Compliance Department (hereinafter referred to as the Department or CD). Identification, assessment, and control of compliance risks are carried out by the Department across all areas of the 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 risks are systematically evaluated as a part of the regular self-assessment of compliance risks and analysis of certain workstreams, transactions, initiatives, and counterparties, as well as in the wake of changes in the external or internal environments, based on the analysis of their influence on the Bank and its performance.

In order to timely identify and assess compliance risks, the Bank monitors changes in the international markets, on the territories of its presence and those affecting 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, high importance is attached to aligning activities with other international development institutions and taking a common stand in response to the changing conditions of doing business.

During 2018, the external conditions of the Bank's operations were characterized by continued geopolitical tensions impacting some of the member states, reinforcement of the programs for de-offshorization of economies and, in general, increasingly sophisticated regulation in a number of areas of compliance activities. The Bank took these changes into account when carrying out its current acti-

vities, developing its planned documents and updating the internal regulations.

In 2018, mounting anti-corruption pressure from civil society and the business community became an important trend in some of the member states. The past year was marked by a number of high-profile exemplary anti-corruption investigations in these countries. Disclosure of crimes of corruption and prosecution of the guilty officials in some countries became the element of both political struggle for influence and the state policy aimed at economic recovery and improvement of the political environment.

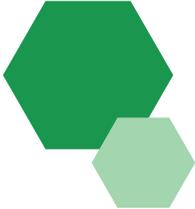
The economic restrictions introduced by countries in relation to each other in 2018 concerned large industrial enterprises, triggering structural changes in a number of sectors of the global economy. Unilateral refusal of certain countries to comply with previously signed agreements constituted an additional factor of instability and decline in mutual trust of long-standing partners. In general, the introduced restrictive measures are becoming increasingly sophisticated and complicated, hampering the working conditions and in some cases resulting in the counterparties' refusal to collaborate with each other.

The year 2018 was marked by strengthening and expansion of anti-money laundering measures. New requirements and regulations aiming to achieve convergence with international standards were introduced in the legislation of the IIB member states. At the same time, a number of large-scale scandals featuring the world's leading financial institutions involved in money laundering and the failure of controls implemented by them demonstrated that the market and its

major participants were not ready to counteract illegal practices that keep finding new ways of implementation.

In view of growing external threats, the IIB compliance function had to take adequate measures in the form of timely reaction and development of additional competencies and skills. Some of the traditional compliance elements were reinforced with additional expert assessments and new requirements. Close monitoring of changes in the external environment and their timely assessment made it possible to maintain the Bank's compliance profile at the level acceptable for the shareholders and ensure secure business operations aimed at meeting the approved goals.





The work of the Compliance Department is aimed at establishing the compliance system of the Bank in accordance with the international standards and best practices of international financial institutions in this area.



COMPLIANCE FUNCTIONS

The key objective of the Department is to take measures for identification, assessment, prevention, and control of the compliance risks arising through the Bank's activities in order to provide the management with objective information for managerial decision-making.

The main functions of the Department are described in the *Regulations on Compliance Control of IIB*.

The work of the Department is aimed at establishing the compliance control system within the Bank in accordance with the international standards and best practices of international financial institutions in this area. The Department pays special attention to the experience gained by the international organizations and development banks to which the IIB member states are also parties.

When developing the compliance system, the Department strives to maintain a high level of efficiency and stay business-oriented and proactive in managing risks with due consider-

ation of IIB's large-scale strategic goals related to fulfilling its mission of the international financial institution.

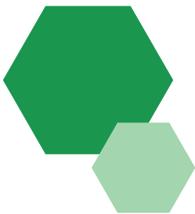
The Compliance Department is an active participant of the Bank's operational processes. Within the scope of operational compliance implementation, the Department provides assessment, advice and recommendations on the transactions that are being executed and planned, counter parties and projects.

Within the scope of institutional compliance, the Department applies expertise and provides recommendations on the Bank's draft regulations. In the area of personnel development, the Department offers in staff training, prevention of prohibited practices and investigation of incidents in which they are used. The main divisions and collective bodies that are CD's internal clients include the Credit Committee, the Procurement Committee, the Lending and Investment Section, and the Department of Structural and Debt Financing. CD's expert opinion is reviewed when the Financial Committee and the Board make decisions. Representatives of the Department are members of a number of the Bank's collective bodies, closely cooperate with expert divisions, and report regularly to the Chairperson of the Management Board of the Bank.

THE KEY FUNCTIONS OF CD INCLUDE:

- ◆ PERFORMING COMPLIANCE PROCEDURES (DUE DILIGENCE AND KYC) WITH REGARD TO COUNTERPARTIES AND PROJECTS;
- ◆ WORK IN ACCORDANCE WITH THE PROVISIONS OF THE CODE OF CONDUCT AND MANAGEMENT OF CONFLICTS OF INTEREST;
- ◆ COMPLAINTS AND REQUESTS HANDLING;
- ◆ DEVELOPMENT OF RECOMMENDATIONS ON MITIGATION OF COMPLIANCE RISKS IDENTIFIED IN THE BANK'S PROJECTS;
- ◆ ENSURING TRANSPARENCY AND EFFICIENCY OF PROCUREMENT PROCEDURES, INCLUDING THE PROJECTS BEING IMPLEMENTED AT THE MOMENT;
- ◆ PARTICIPATION IN INVESTIGATIONS OF PROHIBITED PRACTICES OR MISCONDUCT;
- ◆ IDENTIFICATION, MONITORING AND CONTROL OF OFFSHORE RISKS;
- ◆ DEVELOPING AND IMPLEMENTING COMPLIANCE CONTROL POLICIES, as well as other functions performed jointly with the Bank's other units aimed at prevention of prohibited practices and reducing the Bank's compliance risk exposure.





In 2018, no incidents of fraud or corruption or involvement of the Bank in such activities were identified.



COMBATING MONEY LAUNDERING, FRAUD, AND CORRUPTION

One of CD's key objectives is identification and assessment of compliance risks associated with the Bank's potential and current counterparties. Their main principles and implementation procedure 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 the Know Your Customer (KYC) procedure.

In 2018, CD performed initial KYC assessment of credit projects, trade finance projects, new financial organizations counterparties, and counterparties in non-core activities of the Bank. Additionally, the compliance risk of all the Bank's counterparties was duly monitored and reviewed. Compliance risks were identified and assessed not only in respect of the direct Bank's counterparties but also in respect of all the persons participating in the project and influencing it (e.g. contractor, supplier, adviser, appraiser, auditor, underwriter, etc.).

As a part of support of trade finance activities, CD screened 54 prospective deals (for each one – financing bank, issuer, exporter, importer, as well as check of the submitted documents for the risks of fraud, sanctions, and money laundering). Special attention was paid to checks of the supplied products and the economic feasibility of the deal.

To identify and assess compliance risks associated with counterparties, CD uses both publicly available sources of information and commercial data-

bases. For screening of counterparties, CD has access to databases of the leading providers of such services and credit bureaus in a number of member states of the Bank. These tools made it possible to provide CD with required information to the maximum extent and to increase the probability of identification of compliance risks inherent in the projects.

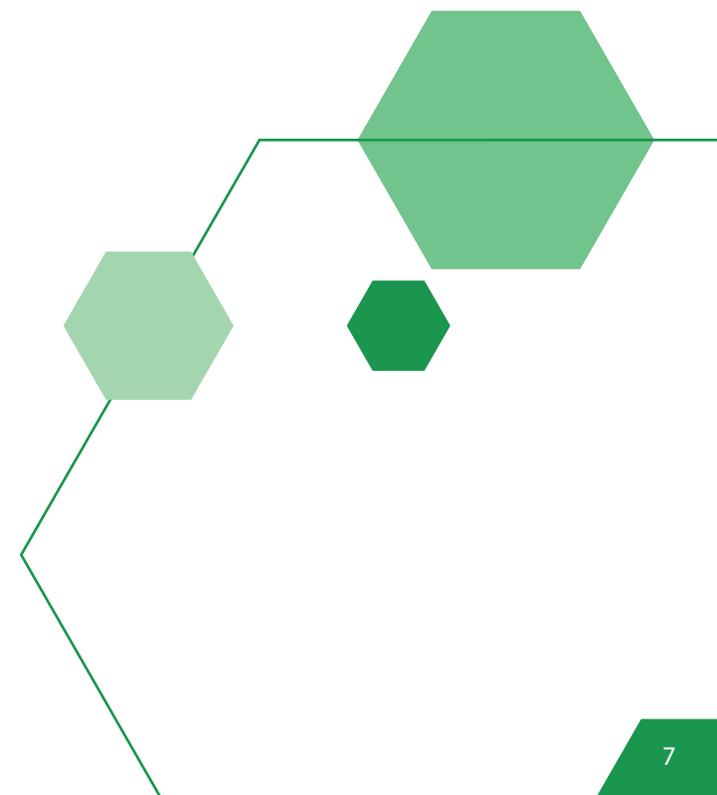
In 2018, CD carried out activities to combat fraud and corruption both within the Bank and in operations with counterparties. CD reported to the management and the Chairperson of the Management Board on cases of identified fraud and corruption risks. It should be noted that none of the suspicions of fraud/corruption investigated by CD was confirmed. The checks performed by CD in 2018 did not reveal any real facts of fraud or corruption or the Bank's involvement in such activities.

In 2018, the Bank prepared proposals for updating the Policy on Combating Money Laundering, Financing Terrorism, Fraud, and Corruption and IIB's Compliance Regulations taking into account the new three-tier management structure. The Policy was amended with a number of provisions envisaged by the international standard ISO 37001, with plans to integrate its key provisions in the internal Bank's compliance rules and regulations.

In 2018, the Bank presented a new format of the CD opinion, allowing to reflect all the risks that were identified, recommendations on

their mitigation and information based on which the conclusions were made in a better structured format.

In 2018, the Bank presented a new, better structured format of the CD's opinion, allowing to reflect all the risks that were identified, recommendations on their mitigation and information based on which the conclusions were made.



Taking into account the IIB's strategy to enter new markets, primarily through trade finance products, CD continued assessment of compliance risks of jurisdictions in 2018. This assessment makes it possible to provide the management bodies of the Bank with additional information on maturity and safety of the new markets to be entered by IIB for further justified and informed decision-making. In 2018, the opinions of CD on compliance risks were submitted to the Financial Committee for review.

The Bank's position on restrictive measures is that all its operations shall fully comply with the established restrictions (while applicable) at both international and national levels. In 2018, the Bank's activities did not violate any of the restrictive measures or embargoes monitored by IIB.

To protect its investments, the Bank includes provisions in loan agreements charging the borrowers with certain obligations to duly organize the anti-money laundering and anti-fraud system. To control fulfilment of the obligations taken by the borrowers and to get the understanding of the actual situation, the Bank held meetings with the borrowers in 2018. As the result of such meetings, it was agreed what exact changes and improvements must be introduced into these processes on the borrowers' end, which would allow to prevent the prohibited practices more effectively.

As a part of expert activities of the Taskforce which performs preliminary project analysis, the format of project information presentation was amended by adding a section on compliance risks, which allowed the Taskforce participants to get the idea of the compliance risks being accepted in documented form for taking a balanced decision.

Guided by the IIB's strategy to enter new markets, in 2018, CD continued implementation of the project aimed at assessing compliance risks of jurisdictions. Such assessment makes it possible to provide the management bodies with additional information on the maturity and safety of the new markets IIB enters.



To maintain the employees' compliance knowledge and skills at a high level, trainings and specialized workshops are conducted at the Bank.



CODE OF CONDUCT

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

In 2018, with the assistance of the interested divisions and the top management, CD participated in resolving cases, which could result in violation of the Code's provisions.

In 2018, CD reviewed in total 4 important situations, which could result in a conflict of interest. The required measures were developed and applied to avoid the conflict of interest for each case. The identified cases and risks of a conflict of interest have not given rise to any significant negative results yet.

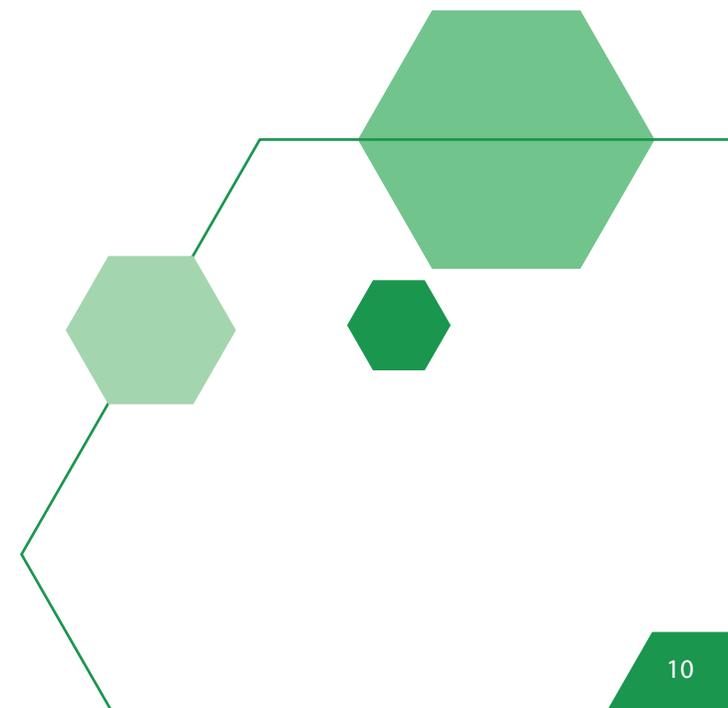
An employee is bound to inform the manager and CD of any suspicions and facts of any prohibited practices in the Bank as well as any situations which may result in a conflict of interest. Information on violations in IIB or in the projects to which the Bank is a participant can be received through several communication channels: via the internal document flow system, by mail, by email compliance@iibbank.com, through the electronic form on IIB's website: www.iib.int. Full anonymity and

protection from retaliation are guaranteed to all the whistleblowers.

In 2018, IIB did not receive any messages meeting the criteria set for review. At the same time, investigation of the violation registered in 2017 took place and was successfully completed in 2018. Administrative action was taken against the employee who had violated the standards of behavior adopted by IIB. IIB requirements to ethical behavior and compliance with the laws of the host country were additionally clarified to him. As a result of review of another violation detected by the Bank on its own in 2018, the *Code of Conduct* was updated with additional requirements to the employees concerning mandatory adherence to high standards of conduct, while the description of such standards became more specific and detailed.

In accordance with the Procedure for Receiving and Presenting Gifts, in 2018 CD took measures aimed at practical implementation of this document by way of corresponding reminders and clarifications to the Bank's employees. In 2018, 6 messages on presenting approved gifts to the Bank's partners were registered. No messages from the Bank's employees about getting gifts with the value exceeding EUR 100 were sent to CD, and no such cases were identified.

As IIB issues securities traded on stock exchanges, CD identifies insiders and processes information received from them. By the end of 2018, about 86 insiders in total were registered at the Bank, including both individuals and legal entities. Such persons are being monitored for compliance with the insider criteria. CD informs them of inclusion in and exclusion from the insider list.



TRAININGS AND PERSONNEL DEVELOPMENT

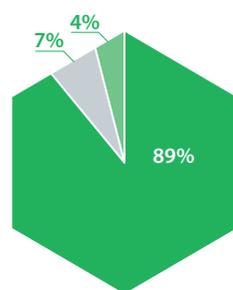
To maintain the employees' compliance knowledge and skills at a high level, trainings and specialized workshops are conducted in the Bank. Compliance training is provided annually face-to-face for new employees and in the form of distant learning for all IIB employees. As a part of the trainings on combating money laundering, financing terrorism, corruption, and fraud, CD informs the Bank employees of the recent trends globally and in IIB member states as well as the measures to be taken for prevention of corruption and fraud. During the annual knowledge testing, 97% of the Bank employees successfully answered the questions.

In addition, the Bank provides training for the employees who encounter compliance risks most of all. In 2018, the Bank involved an external expert certified by the Association of Certified Fraud Examiners (ACFE) who presented the materials on prevention of fraud and corruption. Upon completion of the training, all the participants were successfully certified.

In 2018, a training program on detection and counteraction to risks of involvement of the Bank in prohibited practices in the course of implementation of lending activity was presented for the employees of the Lending and Investments Section at the Bank and was attended by 27 employees. During the training sessions, the most common situations when

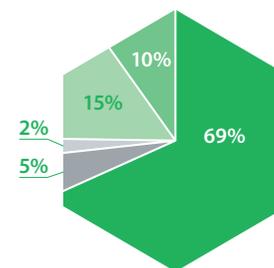
the money was legalized by borrowers and the key types and types that recently emerged in this sphere were reviewed. The Bank employees demonstrated a high level of knowledge and passed the tests.

As a part of the training, the Bank conducted a poll of the employees to find out their level of satisfaction with performance of the compliance system. In general, organization of compliance and the overall level of the employees' knowledge received positive assessments, which the Bank will use to improve the existing procedures:



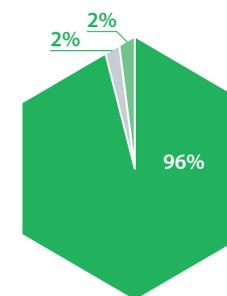
WHAT IS YOUR OVERALL ASSESSMENT OF DEVELOPMENT OF THE BANK'S COMPLIANCE SYSTEM?

- Sufficient and adequate to the risks that are taken
- Requires serious changes and improvement
- Developed excessively and is not demanded in general



WHICH UNIT, IN YOUR VIEW, HAS THE HIGHEST COMPLIANCE RISKS?

- Lending activity
- International activity
- Treasury transactions
- Work with personnel
- Finance and Accounting



DO YOU KNOW WHERE TO REPORT ON THE FRAUD RISKS THAT HAVE BEEN DETECTED AT THE BANK?

- The Compliance Department or the Security Department
- Colleagues at work
- This information is confidential and must be stored without transfer to anyone

15 employees left the Bank in 2018, CD held exit interviews with 13 of them. No compliance risks were revealed according to the results of the interviews. The Bank strictly monitors that all the employees follow the internal rules of the Code of Conduct and there was an only case of serious violation of the bank requirements that ended by the termination of the employment contract.

In resolving its personal tasks employee tried to refer to immunities provided by the IIB Statutory documents, which must be applied only during the performance of the official duties.

In 2018, the Bank hired 16 employees whose functional duties were related to compliance risks. For such employees CD held compliance trainings.

In order to provide the Bank employees with comprehensive and up-to-date information on compliance control requirements, CD modified

the data submission format on the intranet and ensured regular updates of the information on requirements, questionnaires and an update of the register of the counterparties in respect of which the KYC procedures had been performed.

AUTOMATION

The KYC procedure, process of checking counterparties against special compliance directories, communications between the front office units and CD, risk level calculation are automated in IIB. The automated system used in IIB made it possible to fully switch to electronic documentation, improve stability and integrity of the analytical work 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; they are regularly monitored, and alerts are sent if changes are detected.

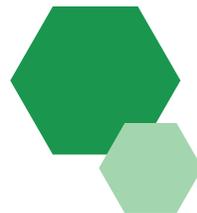
To generate regular reporting on compliance risks taken, the Bank uses automated analytical systems making it possible to obtain and supply the Bank's management with up-to-date information on the state of compliance risks to take necessary preventive measures based on the results of their analysis. Currently, reporting on compliance risks is generated automatically based on the set parameters and data processing algorithms.

In 2018, internal audit of the automated banking system (ABS) compliance module was conducted to check the integrity and relevance of the information about the clients and the Bank employees responsible for them, a plan was developed for keeping the information up-to-date and transfer the cases.

In 2018, the Bank approved the project of adjustment of the ABS compliance module for handing it over to the developer, envisaging

significant simplification of the work process for the front office units achieved by removal of unutilized tabs and functions and addition of the new functionality ensuring comprehensive presentation of the counterparties' data.

For fraud prevention, the ABS modules reconciling the transferred payments with the list of the counterparties under the KYC procedure remain in operation. For control of the screening system's efficiency, the Bank conducted an internal check-up of the system's integrity and made sure it was impossible to bypass. Gaps were registered for remedial actions to be taken for control to be performed. Currently, none of the Bank's payments (in excess of the set limit of EUR 3,000) can be made without registration of the counterparty in the accounting system and its screening for compliance risks.

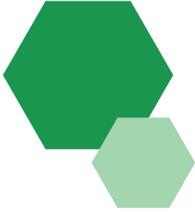


PROCUREMENT

CD mandatorily carries out the KYC procedure with regard to all the potential suppliers of goods, works, and services for the Bank. Some procedures were initiated in 2018 to increase the transparency of the Bank's own procurements. Specifically, the mandatory requirement to use mailboxes with access for the members of the Procurement Committee was implemented in the procurement activities of all units in full scope. This initiative allowed to improve the procurement process's transparency at each stage of its implementation.

In order to expand international presence in the Committee, it was strengthened by IIB experts from countries other than IIB's host country.

The policy for procurement activities within the scope of projects funded by IIB was approved. The document allows borrowers-state enterprises to perform procurements using the Bank loans in accordance with special tender procedures of IIB as the international financial institution. 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.



The Bank's important initiative was organizing the second annual conference *Compliance Challenges for Development Financial Institutions* in Budapest, in October 2018.



INTERNATIONAL COOPERATION

In 2018, CD continued participation in international cooperation on compliance and activities aimed at propagation of the best compliance practices both inside the Bank and in the external environment.

In the reporting year, the CD representatives took part in compliance activities arranged by the leading service providers. In 2018, CD continued developing and broadening contacts with representatives of compliance divisions of international financial organizations. The Bank's representatives took part in the *Private Sector Integrity Meeting*, a work meeting of compliance divisions of international financial organizations.

An important initiative of the Bank and a great success on the global stage of professional compliance events was organizing the second *Compliance Challenges for Development Financial Institutions* annual conference in Budapest in October 2018. Compliance officers of both international development banks and national development institutions of IIB member states and observers took part in the conference. The event received strong support from the host, Hungary, and became an important step for IIB towards the expansion of cooperation with the professional community of the country's financial sector in view of the forthcoming relocation of the Headquarters to Budapest.

In 2018, the compliance officer from IIB was invited to conduct a workshop on prevention of prohibited practices to the Development Bank of

Belarus, IIB's observer state. This event is an example of IIB's promotion of compliance practices and successful exchange of experience in the field of joint prevention of prohibited practices.

It should be mentioned that the first project with the Technical Assistance Fund established by IIB and the Ministry of Finance of the Slovak Republic aimed at improving the Mongolian law on combating money laundering and financing terrorism was successfully completed in 2018.



The participants of the conference Compliance Challenges for Development Financial Institutions

The advisors that were selected provided high-quality services to the Mongolian financial market regulator in staff training and development of a number of draft regulations taking into account international standards. In 2018, the Bank's representatives were invited as experts of the monitoring mission of the Organization for Economic Cooperation and Development Anti-corruption Network for Mongolia. The purpose of this activity was to provide the Bank with a better understanding of the processes and phenomena occurring on the territory of one of IIB's member states and facilitate development

and implementation of anti-corruption reforms. IIB organized a business trip for a representative of the Bank of Mongolia to IIB as a new activity aimed at promotion of compliance standards in member states.

During this event, the parties exchanged the experience in designing the compliance function and automation of this process, discussed prospects of using new analytical tools for implementation of the KYC and DD procedures.

The Bank intends to continue developing its international compliance function with a focus on practical actions aimed at improvement and promotion of best practices.

