



INTERNATIONAL  
INVESTMENT  
BANK



# Annual Compliance Report 2021

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# Acronyms

<b>ACAM</b>	<b>Association of Certified Anti-Money Laundering Specialists</b>
<b>ACFE</b>	<b>Association of Certified Fraud Examiners</b>
<b>AML</b>	<b>Anti-Money Laundering</b>
<b>BACEE</b>	<b>Banking Association for Central and Eastern Europe</b>
<b>CD</b>	<b>Compliance Department</b>
<b>CFT</b>	<b>Combatting the Financing of Terrorism</b>
<b>CRS</b>	<b>Common Reporting Standard</b>
<b>ENMO</b>	<b>Ethics Network of Multilateral Organizations</b>
<b>EU</b>	<b>European Union</b>
<b>FATCA</b>	<b>Foreign Account Tax Compliance Act</b>
<b>FATF</b>	<b>Financial Action Task Force</b>
<b>IIB</b>	<b>International Investment Bank</b>
<b>IFI</b>	<b>International Financial Institution</b>
<b>KYC</b>	<b>Know Your Customer</b>
<b>MDB</b>	<b>Multilateral Development Bank</b>
<b>OECD</b>	<b>Organization for Economic Cooperation and Development</b>
<b>OFAC</b>	<b>Office of Foreign Assets Control</b>
<b>PEP</b>	<b>Politically Exposed Person</b>
<b>SDG</b>	<b>Sustainable Development Goals</b>
<b>UK</b>	<b>United Kingdom</b>
<b>UN</b>	<b>United Nations</b>
<b>US</b>	<b>United States</b>



# Executive Summary

This report has been elaborated to provide an overview of the main achievements, projects and results of the Compliance Department (hereinafter referred to as “the Department” or “CD”) of International Investment Bank (hereinafter referred to as “the Bank” or “IIB”) in 2021. The report describes the tools and measures adopted all along the year and the initiatives taken by the Compliance function to continuously enhance integrity and compliance at each level and in each project.

Due to its diplomatic status as a Multilateral Development Bank (MDB), IIB does not fall within the scope of EU legislation on financial institutions. Nevertheless, reflecting its commitment and willingness to conform to the best international practices, the Bank complies with the EU regulations and integrates the EU principles and guidelines in its own compliance framework.

In performing its mission, tasks and activities, the Compliance Department of IIB has built a robust and efficient compliance framework and has reviewed on a regular basis its policies and procedures in order to integrate the best practices and update tools to identify, prevent and monitor the compliance risks.

The concrete actions, various initiatives and continuous efforts taken at the international level by Multilateral Development Banks, International Financial Institutions (IFIs) and International Organizations led to overcoming the multiple crises. These

organizations have been able to provide rapid responses to the global challenges (risks of fraud and corruption, a divergent economic recovery, disparities and inequalities, conflicts, access to healthcare and education, negative impacts of climate change) and have been efficient and relevant in a post-pandemic world.

The year 2021 saw widened disparities in terms of recovery, economic growth, digital divides, access to resources and levels of developments. The multiplicity of crises has accelerated the fragmentation already visible and damaging in many places of the world. The COVID-19 pandemic and its effects are still visible in several region of the globe and the unequal distribution of vaccine doses have worsened the situation of fragile countries. The climate action failure, the social cohesion erosion, income disparities, infectious diseases, geopolitical tensions trigger important risks for populations and present challenges to the economic growth and recovery.

The role of the MDBs is to participate in the recovery, to contribute to closing of the economic gaps, to accompany the green transition and to put an end to the societal fractures in both developed and developing countries. The IIB played an important role in financing projects in its member countries and in assisting them during this period of transition and recovery.

IFIs and MDBs face different challenges of implementing their commitment to fully align their strategy,

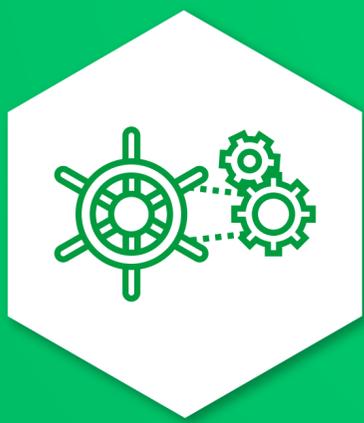
activities and operations to the sustainable development goals. As a multilateral development bank, IIB is fully committed to achieving the Sustainable Development Goals (SDGs) defined by the United Nations (UN) and to orienting its efforts and work towards providing the best options and solutions to its members. More than ever, in these challenging times, the MDBs have a role to play and do their best to improve life of people.

The IIB has been particularly vigilant to the development of new types of fraud, following the leap in digitalization. This acceleration of technologies and the rapid digitalization led to new cyber vulnerabilities exploited by cybercriminals and fraudsters. Consequently, there is a new trend in online frauds and some sectors are particularly vulnerable. The Bank has exchanged best practices and worked to prevent and identify these new threats.

In this challenging context, IIB dedicated time and efforts to continuously improve and upgrade its compliance framework, policies and management in order to better fulfill its mission.

The IIB Compliance Report is designed to demonstrate its strong adherence to transparency and accountability principles and to provide details and information about its work, program, improvements, actions and achievements, including the strategic developments during 2021 and priorities for 2022. It also provides insights on the ways compliance framework is implemented to prevent, detect, monitor and manage the compliance risks.

This report has been approved by the Management Board. The report is also transmitted to the IIB's Audit Committee and to the Board of Governors.



# Organization, Function and Activities of the Compliance Department

## Organization of the Compliance Department

The IIB has established a Compliance Department responsible for compliance framework, program and management. It has defined specific internal compliance policies and procedures, implemented robust controls aimed at preventing, identifying and monitoring the compliance risks in the Bank-financed activities and projects.

## Compliance Function and main tasks

The Compliance Department includes the following activities:

- **KYC and Risk assessment:** CD provides inputs on compliance issues/risks and performs KYC in potential projects/activities at the pre-approval discussion stage;
- **Policies and Procedures:** CD develops, reviews and implements compliance policies, procedures, tools, mechanisms and integrates the best practices to in the framework of the Bank;
- **Monitoring:** CD performs compliance risk assessment and monitoring of the portfolio on a monthly basis. This activity is part of the ongoing monitoring of approved projects and loans;
- **Financial Crimes:** CD is in charge of the AML/CFT framework, fight against corruption, fraud, embezzlement, sanctionable practices;
- **Investigation:** CD conducts and leads investigations on sanctionable and prohibited practices and misconduct;
- **Ethics:** CD ensures the diffusion of a compliance culture within the Bank, emphasizes the ethics topics (Code of conduct, conflicts of interests, insider trading) at each level, and checks integrity of operations. CD develops and reinforces awareness raising and improvement of IIB's knowledge regarding the compliance environment, the prevention of integrity risks and the ethics violations;
- **Sanctions:** CD monitors the international sanctions and screens each client and counterpart against these lists. The Bank has implemented risk mitigating measures a long time ago, which includes screening, risk assessment and continuous monitoring;
- **Procurement:** CD is involved in the procurement process and participates to each procurement committee meetings, ensures the accuracy of the procurement selection procedures, and the respect of the internal rules and regulations;
- **Reporting:** CD reports to the Bank's senior management and to the Board the compliance risk assessment, the country risk assessment and the identification of the compliance risk exposure of the Bank's projects and activities in the different countries in which it conducts operations.

## Structure of the Compliance Department

The Compliance Department is independent from the other Departments. The independence is a core principal and is critical to an effective oversight by the compliance function.

IIB has appointed a Compliance Director with overall responsibility for overseeing the organization's management of compliance risk and framework 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 Board of Directors of the Bank, and is entitled, according to the internal policies, to obtain any information and contact any personnel of the organization necessary to carry out its compliance responsibilities and to perform investigations.

The Compliance Director reports to the Chairperson of the Bank.

## Three lines of defense

The design of IIB's control functions and risk management systems complies with the three lines of defense model.

The CD performs work and activities to reinforce the first line of defense's capacity to identify, detect, evaluate, monitor and report on ML/TF and non-compliance risks, which may affect the Bank-financed projects.

The CD performs the second line of defense and ensures the compliance framework, the internal policies and procedures, and the monitoring are robust, efficient and properly understood.

The third line of defense is conducted by the External Audit, which provides an external and independent review of the Compliance function and framework and reports its conclusions to the Audit Committee and to the Board of Directors of IIB. The External Audit conducts an annual audit of the CD, AML/CFT activities, and regular audits of missions directly managed by the Compliance function.

## The Compliance Program



The sanctions landscape is very challenging, evolving and complex.

IIB, as an MDB, has a diplomatic status and is not required to integrate all the

sanctions, except the UN sanctions. However, IIB made the commitment to strictly comply with all EU, UK, US and Member States sanctions imple-

mented in order to not be used to circumvent any sanctions.

The IIB's sanctions risk is linked to its finance and business activities within the European Union and outside in Europe, Asia and in Latin America. In this context, the Bank fully adheres to the applicable EU, UK, US, UN and Member States sanctions, as defined in the IIB Compliance Policy and procedures.

The sanctions program of the Bank is comprehensive and covers all activities (loans, investment, participation, guarantee, procurement...).

Over the past five years, developments and improvements have been made in the organization of the controls, new contractual provisions have been inserted in the contracts and a compliance report dedicated on the sanction risks is presented to the Finance Committee on a monthly basis.

IIB maintains continuous dialogue with IFIs and MDBs on this topic and integrates the best practices in its policies. The Bank is committed to promote and apply the highest standards in each country where it operates.



# Due Diligence and KYC (ML/FT, Fraud and Corruption)

In 2021, the CD conducted and updated due diligence on:

- 80 credit and trade finance projects;
- 64 financial institutions (as counterparties);
- 88 third parties (suppliers, vendors etc.).

The compliance reviews covered more than 30 projects in (11) countries.

For each project, loan, participation, financing or entry into business relationship, the CD performs a full due diligence to assess the ML/TF risks, identify the shareholders and 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 and Debarment/Cross-Debarment of MDBs).

The CD performs a compliance risk assessment of key stakeholders involved in the project (contractors, suppliers, auditors, etc.). The Bank's counterparties are reviewed on a monthly basis as part of the monitoring process in order to properly reassess the compliance risk rating.

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

- KYC on each entry into business relationship (check of business

reputation of the company, its shareholders and its beneficiary owners, identification of PEPs through data analytics tools, access to various databases, newspaper search, online portals);

- Assessment of each loan/project in cooperation with other involved units and departments (Strategy, Credit, Risks, Legal) in order to have a complete overview of the project;
- Preparation of reports and escalation to the Management Board for High-level decision (for higher risks);
- Review of compliance policies, procedures and tools on a regular basis in order to assess their relevance and their adequacy;
- 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, Reputational risk, Conflict of Interests, 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.



# Ethics, Code of conduct and Conflicts of Interest



In September 2021, the CD has updated the Code of Conduct of IIB. The amendments were proposed in order to:

- Reflect the best practices and standards adopted by the MDBs and the IFIs;
- Clarify some elements related to the interpretation and application of the ethical principles;
- Provide guidance to Bank Staff, particularly regarding duties and obligations;
- Integrate new topics in line with global changes;
- Ensure a common understanding of the different threats and risks to the Bank's projects and operations.

The main changes of the Code of Conduct were:

- Enlarge the scope of the Code;
- Add several terms and definitions, in line with the new edition of the IIB Statutory Documents and updated Regulations;
- Integrate and define ethical standards and standards of conduct;
- Distinct professional and personal conduct and duties;
- Remind the proper use of privileges and immunities and the risks of abuse;
- Place the protection of the reputation of the Bank at the core of each action, project, activity and behavior;

- Distinct the external activities and the political activities and precise the requirements to exercise such activities;
- Focus on the responsibility of Bank Staff regarding the confidentiality of information;
- Integrate Corporate, Social and Environment Responsibility to be in line with the new requirements of the MDBs.

The new **Code of Conduct** of IIB establishes the basic corporate values and the rules of conduct based on high professional and ethical standards. Consequently, it is essential to review the dispositions of the Code on a regular basis and to ensure that the Code is up to date.

The CD is responsible for providing advice and supporting the Bank's employees regarding application and understanding of the provisions of this Code.

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. The Regulation's objective is to establish an efficient conflict of interest's management system in the Bank, to ensure integrity, fairness and performance in the IIB's projects and decision-making processes, to protect the reputation of the Bank and to prevent the risks of non-compliance with the Code of Conduct and the principles established by the Regulatory Documents of the Bank.

All potential, apparent and actual conflict of interests must be avoided or properly identified, reported and managed.

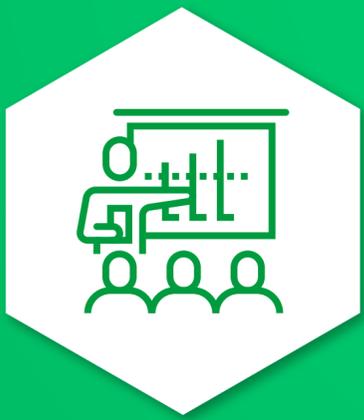
The Regulation is made in view of the IIB goals and objectives, basic recommendations of the Organization for Economic Cooperation and Development (OECD) and in accordance with the best practices and standards of financial institutions in the field of conflict of interests' management.

During 2021, the CD managed a conflict of interests, which included a decision of abstention from decision-making process in a Bank-financed project. The CD also provided advice to Bank Staff on questions related to potential conflict of interests.

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

During 2021, 15 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 and insider trading 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 newly appointed members of BoG, and BoD of the Bank.



# Training and Awareness Raising

Several initiatives developed to raise awareness and to provide up-to-date information to Bank staff were conducted during the year 2021.

Trainings are divided into the following:

- **Mandatory AML/CFT training**

The AML/CFT training is mandatory for each new joiner. The objectives of this compliance training are to provide a global overview of the AML/CFT and compliance laws, rules and regulations, to prevent the risks of non-compliance, to inform Bank Staff about the rules of confidentiality, ethics and deontology, conflict of interests.

- **Code of conduct and Ethics training**

The Ethics training is provided to Bank Staff on an annual basis. The objectives are to promote adherence to international compliance laws and ethics principles. This essential aspect of our compliance-training program cannot be achieved without the involvement of each employee, being fully aware of their roles and responsibilities, as well as the consequences of non-compliance or breach of internal rules.

- **Trade-based ML/TF risks training**

The CD organized a trade-based ML/TF risk and focused on the trade process and risks, on the products and economic sectors vulnerable to trade-based ML/TF risks, methodologies, case studies, risk indicators, control mechanisms and mitigating measures in place.

The compliance-training program aims to raise awareness on various compliance topics such as AML/CFT, Fraud, Corruption, Confidentiality, Ethics and Deontology, Conflict of interests. The training sessions are the best way to share experience, gain knowledge, identify specific risks and prevent the risks of non-compliance.

The training program is updated every year, the decisions to focus on a specific topic are linked to the global compliance environment, the needs of the employees, the challenges and the most important risks identified during the general compliance risk assessment. After the trainings, the participants took a knowledge test.

The employees of the CD participated to compliance and ethics trainings and events, organized by the ACAMS and the ACFE, as well as other organizations and associations.



# Automation, Systems and Data



IT resources and systems used for the CD include national company registers, official state databases, open sources and publicly available information, specific compliance databases, sanctions screening tools and newsletters.

The KYC documents are integrated into the core system of the Bank, which allows a strong monitoring and an efficient communication with the concerned departments.

Information on the KYC performed on customers, suppliers, banks, counterparts involved into IIB projects and

activities is uploaded into the system, allowing an easy access and update. This system allows for a comprehensive risk assessment of the information and a rapid reaction to potential risks and sanctions.

The Bank uses a combination of manual and automated screening of counterparties, including shareholders, beneficiary owners, suppliers and third parties to the projects, against EU, US, UN, IIB's Member States sanction lists, OECD/FATF grey lists and MDB Debarment and Cross-debarment lists.



# Procurement



In the year 2021 CD remained actively engaged in the procurement processes of IIB. The internal procurement policy contributes to enhance the Bank's procurement process and ensures transparency and competition.

CD participates to all Procurement Committees and provides a compliance opinion for each purchase and counterparty. CD takes into account the fraud and corruption risks and ensures that fairness is always respected. In the past year, the pandemic also affected the procurements and the work of the procurement committee

itself. Many of the committee meetings were held through video conference, the necessary maintenance works and subjects of procurements were presented through pictures, maps and descriptions. New risks appeared in procurements globally as fraudsters tried to take advantage on the pandemic situation and gain illegal wealth by using the lack of personal meetings and presentations of products, services and references. The procurements and proposed suppliers were subject of more rigorous assessment to exclude any doubt and mitigate all possible risks.



# International Cooperation



Despite the difficulties caused by COVID-19 pandemic, IIB attended several events and conferences on a virtual mode.

The CD maintained regular contacts with peer international financial institutions and participated on a regular basis to the dialogue with the IFI/Ethics Network of Multilateral Organizations (ENMO) Community, in order to always improve and update the Bank's policies and activities with the best international standards.

In April, the CD attended the virtual Conference of International Investigators.

In July and November, the CD participated on the 13<sup>th</sup> annual meeting of the ENMO hosted online by European Central Bank.

In October, the CD attended the 42<sup>nd</sup> Banking Conference of the Banking Association for Central and Eastern Europe (BACEE) and in December, participated to the 9<sup>th</sup> AML and Compliance Conference organized by the BACEE, both held in a virtual format.



# Priorities for 2022

The main priorities of CD are aligned with the strategy adopted by the Board of Directors and with the objectives of the Bank in the development, best practices and continuous improvement.

The CD will focus on the following topics in 2022:

- **Strengthen the AML/CFT and Compliance Framework**

The fight against financial crimes remains a top priority on the agenda of the Bank. The CD plans to improve processes and policies, to reinforce the compliance framework at each level and to strengthen its AML/CFT design. The CD will help to reinforce the first line of defense, share knowledge of compliance risks and extend the compliance culture by integrating new topics, particularly in the field of ethics, prevention and deontology. The CD works closely with the units in charge of the first line of defense, develops tailor-made trainings, analyses new threats and typologies and keeps a proactive approach.

- **Contribute to a greener and better development in a post COVID-19 situation**

The sanitary crisis started in 2020 triggered a financial and economic crisis impacts of which are still particularly violent in the developing countries. IIB, like all the IFIs and MDBs, has a very important role to play in promoting an inclusive, green and sustainable growth. In 2022, the Bank will mobilize its efforts to address the current and various challenges and will contribute to a durable and inclusive recovery from COVID-19, adapting to climate change, reinforcing transparency and countering corruption.

- **Process review and capacity-building**

The CD will continue mainstream AML/CFT and compliance in all activities of IIB, look for continuous improvement and reinforce capacity building within the Bank. Some policies and processes will be reviewed in order to integrate the best practices.