COMPLIANCE POLICY
This Policy is approved by the Board of Directors and enters into force as of 1 January 2010. The Policy will be subject to review at least every three years or as needed to ensure that it reflects developments in the market and best practices, taking into account the changing environment of the Bank and with due regard to the resources assigned from time to time to the Compliance function.

This Policy shall be published both internally for the staff and externally at the Bank’s website.
1. Introduction - Purpose and scope

NIB is committed to follow best practices and market standards in areas of accountability, transparency and business ethics in order to promote sustainability. Good governance and corporate social responsibility (CSR) form an integral part of market standards. At the core of these efforts are integrity issues and the reputation risk the Bank faces in its activities. To manage these issues the Bank has established an independent compliance function (hereinafter referred to as Compliance function or OCCO). This policy is intended to present how NIB defines compliance and the Compliance function’s role and responsibilities regarding the management of compliance risks.

2. Compliance and compliance risk

2.1. Definitions

Compliance is a multi-dimensional issue which can have different meaning and scope depending on the institution which it concerns. Financial institutions generally have a compliance function due to the fact that is often required by laws and regulations. For International Financial Institutions (IFIs) like NIB, compliance focus is on following best practices and meeting high expectations in the market.

*Compliance* can be defined as the adherence to laws, regulations, rules, related self-regulatory organisation standards and codes of conduct in matters concerning observing proper standards of market conduct, managing conflicts of interest and specifically dealing with matters such as prevention of money laundering and terrorist financing, and investigations of alleged corrupt and fraudulent behaviour.

*Compliance risk* is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation, a bank may suffer as a result of its failure to comply with compliance laws, rules and standards. For example, a bank that knowingly participates in transactions intended to be used by customers to avoid regulatory or financial reporting requirements, evade tax liabilities or facilitate illegal conduct will be exposing itself to significant compliance risk.

In an IFI compliance can typically cover three areas in which compliance risk is assessed.

*Institutional compliance* includes issues of governance, internal structure and decision-making process, principles of procurement, principles of CSR, disclosure policies, sustainability reporting and adherence to internal instructions.

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1 The role of and cooperation with other functions in the Bank in Compliance matters are further described in Annex 1.

2 Derived from the Basel Committee on Banking Supervision (BCBS) "Compliance and compliance function in banks" (April 2005).
Operational compliance includes the assessment of integrity risk and reputation risk in the Bank’s transactions, in particular certain principles, such as Anti-Money Laundering (AML), Counter Terrorist Financing (CTF) and Know Your Customer (KYC) as well as compliance issues in relation to the development of new products or business practices.

Conduct compliance includes risk in terms of conflict of interest, insider trading and other issues related to professional conduct of members of the Bank’s governing and supervisory bodies and staff.

2.2. Compliance standards

Compliance laws, rules and standards have various sources, including primary legislation, rules and standards issued by legislators and supervisors, market conventions, codes of practice promoted by industry associations, and internal codes of conduct applicable to the staff members and other bodies of the Bank. Compliance laws typically include specific areas such as the prevention of money laundering and terrorist financing and tax laws. The fact that the Bank is funded by public money and is not bound directly by any national laws or under the supervision of any national authority results in a specific need to address potential risks by adopting an extensive set of guidelines, regulations, rules and instructions governing the activities of the Bank and its staff. These are likely to go beyond what is legally binding and embrace broader standards of integrity and ethical conduct.

There are a number of conventions, EU-directives and other internationally used standards that are relevant for the Compliance function in addition to NIB’s internal framework of policies and guidelines. Some of the important standards and other documents as well as those included in NIB’s own legal framework are listed in Annex 2.

NIB pays special attention to activities carried out in jurisdictions not covered by NIB’s own legal framework, to be able to assess the additional risk it might take on. The Bank will also see to it that if any duties covered by the Compliance function are outsourced, they remain subject to appropriate supervision as compliance is regarded as a core risk management activity of NIB. Thus the ultimate responsibility for compliance with all applicable laws, rules and standards will lie with NIB.

3. Basic principles concerning compliance

- Compliance starts at the top and shall be part of the culture of the Bank and the Board of Directors, the President and senior management shall lead by example.

- Compliance is an integral part of the Bank’s business activities. The identification of compliance risk, its assessment and appropriate risk response shall be elements to consider in any due diligence process.

- Members of the governing and supervisory bodies and of the staff of the Bank carry out their tasks in accordance with the legal framework applicable to the Bank and in compliance with generally accepted standards of good financial and administrative
practice. In doing so they shall observe the fundamental principles of conduct of the Bank: *Integrity, Impartiality, Loyalty, Accountability, Discretion* and *Respect*.

4. Responsibilities and organisation

4.1. Governing and Supervisory bodies

The Board of Directors (BoD) is responsible for overseeing and for assessing how the compliance risk is managed in the Bank. The BoD approves the compliance policy. The President is responsible for communicating the compliance policy, for implementation and ensuring that it is observed and that the management of the compliance risk is reported to the BoD.

The Control Committee (CC) is responsible for the audit of the Bank and that the activities are conducted in accordance with the Statutes. Within the CC’s mandate there is an express focus on monitoring compliance issues.

Members of senior management are responsible for the day to day management of compliance risks and to ensure that the procedures and guidance in support of the Bank’s integrity and ethical standards are adhered to in the areas for which they are responsible. This includes responsibility for ensuring that appropriate remedial or disciplinary action is taken according to the relevant procedures if breaches are identified.

4.2. The Compliance function

In addition to clearly defined responsibilities, the BCSB underlines the principles pertaining to an effective compliance function such as independence, authority, including access to information and reporting

4.2.1. Independence and Authority

The Compliance function has been established as an independent function in line with the requirements of the BCBS meaning that a) it has a formal status b) there is one person responsible for coordinating the Bank’s management of the compliance risk c) the Chief Compliance Officer (CCO) is not engaged in any other business of the Bank which could create a conflict of interest, and d) the Compliance function is given access to all information and to staff necessary to carry out its responsibilities.

To provide for the independence of OCCO, the CCO reports functionally and administratively to the President and shall have full and free access to the Chairman of the BoD and to the Chairman of the CC.

The Compliance function is subject to review by the Internal Audit.

Independence does not, however, prevent a functioning co-operative working relationship with other units in the Bank including Internal Audit.

OCCO has access to all the Bank’s departments, units and teams for the purpose of discharging its responsibilities in an independent manner. OCCO shall have full and
unrestricted access to all Bank’s functions and personnel, including the President and to the External Auditors. OCCO shall, in compliance with applicable rules of the Bank, also have access to any information, records or files, it deems necessary for carrying out its duties. Information accessed by OCCO shall be handled in the same prudent and confidential manner as required from those persons who are normally accountable for such information and documents.

The Compliance function is further free to report to senior management of any breaches, or non-compliance with this policy or any other relevant policy, rules and regulations. This means that OCCO shall be able to carry out its functions on its own initiative (including using outside expertise) without obstruction and fear of retaliation from management and other staff members.

4.2.2. Reporting

The CCO will inform the President, the BoD and the CC of matters of importance regularly and as they occur in accordance with established policies and guidelines.

In addition to the follow-up on its annual business plan, OCCO also reports on its work plan directly once a year on a regular basis to the BoD and to the CC.

4.2.3. Responsibilities

The overall responsibility of the Compliance function is to assist the Bank in identifying, assessing, monitoring and reporting on, compliance risk in matters relating to the institution, its operations and to personal conduct. By this OCCO contributes in an independent manner to the overall risk management of the Bank in protecting the integrity and reputation of the Bank and the staff and to strengthening the Bank’s accountability and transparency.

In carrying out its responsibilities, OCCO works closely with a number of other functions in the Bank. OCCO strives to cooperate and carry out its work in a pro-active manner. In particular, the Compliance function and the CCO

- Advises senior management on relevant rules, standards, recommendations and practices in the market place with special focus on compliance activities in other IFIs.
- Develops reporting on corporate governance and CSR including the corporate governance statement and the sustainability reporting of the Bank as well as contributes to the disclosure policies of the Bank.
- Provides for training on compliance issues in order to raise awareness of integrity issues and business ethics by arranging seminars as needed and by acting as a contact point for queries from staff members.
- Gives independent advice to management on significant integrity concerns in the Bank’s activities and assists in the Integrity Due Diligence Process in accordance with the Bank’s integrity due diligence guidelines and procedures.
- Recommends and comments on, policies, guidelines, rules and procedures for compliance issues such as codes of conduct.
• **Interprets the Code of Conduct and reports** on cases of breach of the Code of Conduct.

• **Acts as Chairman for the Committee for Fighting Corruption (CFC)** and in this capacity (i) recommends with the CFC preventive action to avoid and limit the occurrence of fraud and corruption, (ii) receives complaints and allegations of corrupt and fraudulent behavior of external or internal parties, and (iii) together with CFC investigates cases of allegations and recommends with CFC sanctions in accordance with the Bank’s Resolution for Fighting Corruption and the Rules of Procedure of the CFC.

• **Monitors compliance** with the internal policies, procedures and guidelines relating to compliance, including testing and checking the functionality, efficiency and adherence of established policies.

• **Liaises and coordinates** with internal and external functions in matters of compliance and managing compliance risks.