

**New Development Bank**  
**Anti-Corruption, Anti-Fraud and Anti-Money Laundering Policy**

**Owner:** Compliance Division

**Version:** 2019 V1

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## **Anti-Corruption, Anti- Fraud and Anti-Money Laundering Policy**

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### **Change Log**

<b>Revision Date</b>	<b>Chapter revised</b>	<b>Revision Details</b>
September 18, 2018	4.6.2	Modification to Clause 4.6.2 of the Policy (2016 V1) with respect to the mandatory information required to be included in the loan agreements with borrowers and the contracts for goods.
December 3, 2019	The whole policy	The Policy was redrafted by the Compliance Division, reviewed by the Audit, Risk and Compliance Committee and approved by the Board of Directors.

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### **Abbreviations**

<b>AML</b>	Anti-Money Laundering
<b>ARC</b>	Audit, Risk and Compliance Committee
<b>Bank or NDB</b>	New Development Bank
<b>Board</b>	The Board of Directors
<b>CFT</b>	Countering Financing of Terrorism
<b>IDD</b>	Integrity Due Diligence
<b>KYC</b>	Know Your Client
<b>Policy</b>	The Anti-Corruption, Anti-Fraud and Anti-Money Laundering Policy
<b>Senior Management</b>	The senior management personnel of New Development Bank

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### **Introduction**

#### **1.1. Objective and Overview**

The New Development Bank (“NDB” or “Bank”) supports competitive and fair markets, and efficient, effective, accountable and transparent public administration of the Bank’s businesses and operations with an overall objective to establish a good governance framework.

The purpose of the Anti-Corruption, Anti-Fraud and Anti Money Laundering Policy (“Policy”) is to provide a conceptual framework for understanding the various forms, types and levels of misconduct and unethical behaviours (“prohibited practices”), outline where and how it may occur in the Bank’s operations and set out procedures on how employees of the Bank respond to such incidents. The Policy ensures that the Bank’s staff, projects and transactions adhere to all applicable laws, industry practices and the highest ethical standards of integrity.

Specifically, the Policy is centered on two perspectives:

- a) Preventing and combating Prohibited Practices by:
  - Promising anti-corruption and anti-bribery efforts and improving the quality of the Bank’s dialogue with its member countries on a range of governance issues, including corruption and bribery; and
  - Preventing and combating fraudulent acts that may occur in the Bank’s operation, in projects financed by the Bank and in contracts with external vendors engaged by the Bank.
  
- b) Preventing money laundering and terrorist financing activities, and detect accounts and transactions that may relate to money laundering or terrorist activities.

#### **1.2. Approval of Policy**

The Board of Directors (“Board”), upon recommendations of the Audit, Risk and Compliance Committee (“ARC”), approves this Policy, and amendments to it from time to time, in order to monitor and manage the risk of prohibited practices in the Bank’s business and to regulate the Bank’s Anti Money Laundering (“AML”) activities.

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### **1.3. Release and Control**

- a) Authority: The Compliance Division drafts, reviews and proposes amendments to this Policy, and the Board has the right to approve the draft of, and the amendments to the Policy.
  
- b) Version control and revision: In order to ensure the validity and application of this Policy, review is conducted at least on an annual basis, and as necessary to reflect any business environment changes or operational updates.

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### **Chapter I Governance Structure**

#### **2.1. Roles and Responsibilities**

- Board
  - Approve the Policy and any revisions thereto;
  - Delegate to the ARC the authority to monitor and implement the Policy and operational procedures for preventing and combating prohibited practices and money laundering/terrorism financing transactions, which are stipulated in the Policy
- ARC
  - Review the Policy and submit it to the Board approval;
  - Monitor the implementation of the Policies and operational procedures;
  - Review and approve the case investigation report of prohibited practice and AML work report;
  - Review the implementation of AML upon receipt of report on major issues related to AML, and review the improvement efforts for defects identified in AML work; and
  - Review the functioning of the Whistleblower mechanism.
- President
  - Review and discuss the formulation and implementation of the Policy with the Compliance Division, put forward corresponding opinions and suggestions for the ARC in a timely manner, and supervise the effective implementation of the policies and procedures.
  - Review the case investigation report of prohibited practice, discuss with the Internal Audit Division, Legal Division and Compliance Division on potential internal control issues and external legal implication, and evaluate the effect on the risk management of the Bank.



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- Compliance Division
  - Maintain and update the Policy on an annual basis for submission to ARC's review;
  - Advise on questions raised by Bank staff related to the Policy, including its applicability and potential violations;
  - Prepare divisional guidelines to lay down procedures of the Policy, assist and provide advice on the implementation of divisional guidelines;
  - Investigate complaints of prohibited practice as per the process prescribed under the Whistleblower Procedures;
  - Conduct reviews to identify potential areas of vulnerability in the Bank's operations; evolve intelligence mechanisms to detect actual/potential violations and develop appropriate response;
  - Review the AML work report of the Bank and propose improvement measures;
  - Submit AML work report to the ARC according to the internal reporting requirements of the Bank;
  - Ensure that suitable KYC procedures are implemented. Review and approve documents required for sensitive accounts and any other accounts that require special approval during client identification;
  - Compile and maintain a list of clients/external counterparties which are subject to sanction by the Bank;
  - Control to ensure approval of any deviations from the Policy;
  - Report to the President and ARC about major issues identified;
  - Ensure that the norms of the Bank are communicated to external stakeholders where necessary;
  - Provide training to the staff and senior management from time to time on the laws and regulations of anti-corruption, anti-fraud and AML as well as Bank

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- policies and procedures; and
- Other responsibilities as authorized by the President or his delegate from time to time when considered necessary.
  - Operation Division and Treasury and Portfolio Management Division
    - Perform integrity due diligence as per internal procedures;
    - Perform ongoing monitoring on the true purpose, end use of disbursed funds and capital source/use of transactions with clients and counterparties;
    - Cooperate with the Compliance Division to carry out AML work;
    - Report to the Compliance Division about suspicious transactions;
    - Assist the Compliance Division, and cooperate with the work of investigation personnel; and
    - Other responsibilities as authorized by the President or the delegated Vice President from time to time when considered necessary.
  - Internal Audit Division
    - Record reports of prohibited practice, analyze the evidence and initiate investigation if necessary as per the Whistleblower Procedures;
    - Discuss with the Compliance Division during investigation if needed;
    - Report to the ARC on the investigation findings;
    - Evaluate the effectiveness of the policies and procedures of anti-corruption, anti-fraud and AML and put forward improvement measures against internal control deficiencies observed in the case of audit and investigations;
    - Inform the Human Resources Division on any sanctions related to the Bank staff pursuant to the investigation, if any, carried out by the Internal Audit Division under the provisions of this Policy;
    - Keep proper record of all reports and investigation, and maintain confidentiality of such information; and

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- Other responsibilities as authorized by the President (or his authorized delegate under this Policy) from time to time when considered necessary.
  
- Human Resources Division
  - Assist the Compliance Division on arrangement with training;
  - Execute the disciplinary actions/sanctions to the Bank staff; and
  - Other responsibilities as authorized by the President or his delegate from time to time when considered necessary.
  
- Other Divisions including the Bank Staff
  - Understand the requirements on policies, procedures and guidelines of the Bank to the extent required by their duties;
  - Participate in trainings organized by the Compliance Division of the Bank according to their duty requirements; and
  - Report to the head of their division and the Compliance Division when they become aware of or have doubt about any suspicious activities.

### **2.2. Reporting Line**

The reporting line includes the Board, the ARC, the President, and the Compliance Division.

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### **Chapter II Policy on Preventing and Combating Prohibited Practices**

#### **3.1. Introduction**

- a) The Bank strongly affirms that corruption and bribery are serious impediments to social and economic development. The Bank places anti-corruption and anti-bribery at the center of its mandate to promote good governance and integrity, stipulated by the fundamental fiduciary responsibility the Bank has to its stakeholders.
- b) The Bank further affirms its commitment to prevent frauds, detect any fraudulent activity, and to respond to any fraud incident quickly and accurately, in order to avoid financial losses and reputational damage to the Bank.
- c) To fulfill its responsibility, the Bank adopts this Policy for laying down appropriate measures to prevent and combat prohibited practices in the Bank's operations.

#### **3.2. Scope of Application**

This Policy covers all staff of the Bank at all locations, all Clients/Third Parties, and activities associated with the Bank including proposed, ongoing, and completed projects, operations and all other business.

#### **3.3. Definitions**

- a) **Prohibited Practice** means any Corrupt Practice, Fraudulent Practice, Coercive Practice, or Collusive Practice defined as follows:
  - Corrupt Practice means the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.
  - Fraudulent Practice means any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.
  - Collusive Practice means an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

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- Coercive Practice means any act impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party;

*Note:* Please refer to in Annexure 1 for further explanation of Corrupt and Fraudulent practices.

b) **Obstructive Practice** means

- Any act that deliberately destroys, falsifies or conceals evidence material to the investigation or makes false statements to the investigators in order to impede an investigation into allegations of a prohibited practice;
- Any act that threatens, harasses or intimidates any party to prevent it from disclosing its knowledge relevant to the investigation or from pursuing the investigation;
- Any act that intends to impede the Bank or its authorized representatives' rights of audit, inspection, or access to information.

c) **Client** means a borrower, recipient (including potential borrower or recipient) of financial or other assistance from the Bank, including employees, agents, or representatives of the Clients.

d) **Third party** includes an external entity or vendor including resources deployed by such entity or vendor providing service to the Bank based on principal-to-principal service provider agreement executed with the Bank.

e) **Public official** includes any officer or employee of a government or any department, agency, or instrumentality thereof, or of a public international organization; any person acting in an official capacity for or on behalf of a government or government entity or of a public international organization.

### **3.4. Zero-Tolerance**

a) The Bank enforces a zero-tolerance approach against prohibited practices (including corruption and bribery of its staff and during operations). The approach is to ensure that internal control process and procedures comply with the highest standards of ethics, accountability and integrity. Any identified or reported instance of a prohibited Practice will be fully investigated and severely disciplined.

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- b) Zero-tolerance approach also applies to the terms and conditions of the agreements entered into by the Bank and its clients/third parties. If the Bank uncovers credible evidence of prohibited practice in the operations of clients/third parties and a breach of the conditions in the agreement entered into with the Bank, the Bank will enforce a range of options including cancellation of a loan in full or in part or termination of contract.
- c) Violations of the policy by the staff of the Bank will be dealt with severely. Depending on the gravity and the circumstances, disciplinary measures may be imposed pursuant to the Bank's disciplinary procedures. The disciplinary measures may include, but are not limited to, full restitution of any benefits arising from the prohibited practice, formal written censure, suspension from duty without pay and summary dismissal.

### **3.5. Basic Principles**

- a) The staff of the Bank are required to follow the Code of Business Conduct and Ethics of the Bank in their day-to-day activities.
- b) No staff of the Bank, or any third-party authorized to act on behalf of the Bank, may offer or promise to offer a financial or other advantage to another party including a public official with the intention of inducing the other party to improperly perform a function or activity or reward them for doing so; or request, receive or agree to receive a financial or other advantage with the intention that a function or activity would be performed improperly as a result or as a reward for doing so.
- c) No staff of the Bank shall accept, receive or promise or agree to receive a bribe or any kind of inducement or benefit, in any form from any counterparty, vendor, third party service provider, or any other person with whom Bank has or may have a business relationship. Any kind of gift and entertainment not proportional or reasonable, and which is not consistent with the normal business practice of developing and maintaining a business relationship, should not be accepted or offered.
- d) Clients/Third Parties have obligation in the context of Bank operations to guarantee full compliance with the commitments and conditions agreed in the loan and service provider agreements with the Bank. Clients/Third Parties must take all appropriate measures to prevent prohibited practices in connection with the Bank, including (but not limited to):

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- adopting appropriate fiduciary and administrative practices to ensure that the proceeds of the loan are used only for the purposes for which the loan was granted and the services are provided according to the agreed clauses; and
  - ensuring that all the parties involved with the project and service contracts are aware of the Policy.
- e) The Bank also makes continuous efforts to upgrade the efficiency of markets and the quality of the public sector as a whole. The Bank supports economic, legal, and institutional reforms by advancing policy recommendations to eliminate market distortions and reduce the possibility of engaging in corruption or bribery behavior.
- f) The Bank also cooperates with other international organizations to support international and country-specific efforts to combat corruption and bribery. The Bank may also work with non-government organizations on specific anti-corruption and anti-bribery initiatives within a particular country, under the condition that the full support and backing of the government concerned is granted.

#### **3.6. Operational measures**

The Basic Principles are operationalized internally through a series of measures taken throughout the entire cycle of the Bank's business, including through Divisional Guidelines, outlined as follows:

- a) The Bank puts in place general precautions to eliminate factors that may result in prohibited practices through actions such as:
- Establishing a business flow, which separates the operations of different divisions and ensures the clear segregation of duties, seamless linkage and effective checks and balances between different posts;
  - Drawing upon the internal control mechanisms for all kinds of daily business to enhance and improve on the prevention and control of prohibited practices;
  - Reducing the potential incentives and gains from the prohibited practice by setting up deterrents such as rigid punishment and disciplinary actions; and
  - Creating an anti-fraud culture by emphasizing the importance and seriousness of preventing and combating fraud by through systematic and sustained professional communication and training programs.
- b) Compliance Division lays down the integrity due diligence measures to address the integrity risks associated with Bank's operations (viz., project financing, treasury

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operations and procurement of goods and services).

- c) Human Resources Division of the Bank sets up proper recruitment procedures to ensure the appropriate staff with the required qualification/experience and high integrity standard for the post are hired.
- d) Third Party Risk: In conducting its normal business, the Bank may seek assistance from and/or outsource some business to a third party. The Bank may be liable for any prohibited practices by the third parties in connection with the Bank's business. Therefore, the Bank must:
- Carefully select the third parties and evaluate their references, past performance and integrity;
  - Inform all business related third parties that their service to the Bank must not involve any prohibited practices;
  - Closely scrutinize the external vendor for their qualification/background and monitor their activities for any prohibited practices related to the Bank operation (in accordance with the Divisional Guidelines dealing with procurement processes); and
  - Communicate to third parties that they maintain high integrity standard, conduct business in accordance with all applicable laws, and that the Bank has the right of ongoing monitoring and performing inspection of the third parties' status of compliance.
- e) Loan and service provider agreements entered into by the Bank shall include necessary enabling clauses for ensuring that the Policy principles are adhered to by Clients and Third Parties. These clauses shall form part of the general conditions of such agreements. Deviations from these general conditions, if any, on a case-to-case basis, shall be jointly approved by the Heads of the Legal and Compliance Divisions and suitable MIS reporting mechanisms shall be put in place internally for this purpose.

### **3.7. Reporting and Investigating the Prohibited Practice**

- a) Whistleblower Procedures of the Bank provide for mechanisms to report any misconduct complaints in the nature of prohibited practice. These Procedures also lay down principles of investigation into such reported instances. Obstructive practices during the course of investigation are subject to appropriate disciplinary action.



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- b) While investigating the reported prohibited practice, if the main facts do not impair the confidentiality, the affected divisions of the Bank will be notified to analyze the impact of the prohibited practice on the division, including the operating activities, operating system, adequacy of the existing policies and procedures and the actual and/or potential damage.
- c) The findings and recommendations of the investigation will be submitted to the ARC as per the Whistleblower Procedures of the Bank. The ARC exercises full discretion to determine the validity of the evidence presented and the suitability of the recommended sanctions or remedial action. The ARC has full authority to decide on the appropriate course of actions.
- d) Based on investigative results, relevant divisions need to implement the recommendations to make necessary changes to operating activities, operating systems or policies and procedures, in order to strengthen the Bank's capability to prevent and combat prohibited practice and mitigate further threats to identified weaknesses.
- e) The Bank can consider whether it is appropriate to refer investigative information relating to the prohibited practice to the appropriate authorities and/or release to the public. Any such release of information must be discussed with the Compliance Division and reported to the ARC and the Board for approval.

### **3.8. Debarment and Punishment**

- a) Where an investigation determines that any individual or entity engaged in prohibited practice in connection with any Bank-financed activity or Bank-related contract, the Bank has the right to sanction such individual or entity with economic punishments and/or disciplinary actions in accordance with the Debarment Guidelines put in place internally. Such sanctions may include but are not be limited to:
  - termination or suspension of the contractual relationship with the individual or entity;
  - restitution of any payment by the Bank;
  - indemnity of loss or damage caused;
  - restriction or prohibition on future opportunity to be awarded, or otherwise participate in, a Bank-financed contract;
  - reporting to law enforcement as may be required.

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- b) Where an investigation recommends formal disciplinary action against a Bank staff member, he/she may face remedial or disciplinary actions, including formal written censure, suspension from duty without pay and summary dismissal, depending on the nature of the findings. The Bank may refer the matter to law enforcement as may be required.
- c) Where an investigation determines that the complaint of a prohibited practice is frivolous, the individual or entity who files such complaint may face remedial or disciplinary actions, including warning, formal written censure, and suspension from duty without pay, depending on the severity.
- d) The Bank has zero tolerance on retaliation. Suitable mechanisms are put in place so that fear and apprehension of retaliation do not deter officials to bring any information regarding any prohibited practice to the notice of appropriate authority in the Bank.

#### **3.9. Compliance with Domestic Laws of Member Countries**

The Bank must comply with the domestic laws of member countries when those laws are more stringent than the Bank's policy including reporting requirement thereto. The staff can consult with the Compliance Division to determine appropriate actions, including seeking advice from outside counsel.

#### **3.10. Staff Training**

- a) Information about the Bank's policy on good governance, anti-corruption strategy, including the zero-tolerance approach are incorporated into the Code of Business Conduct and Ethics of the Bank.
- b) General training is provided to the staff of the Bank on issues of good governance, ethics, integrity and accountability and anti-corruption and anti-bribery standards. Additionally, specialized training on early warning indicators of corruption and bribery, areas of potential vulnerability and methods of detection can be provided to experts in procurement, disbursement and financial process to broaden the technical expertise.
- c) The Bank offers training to all Staff to raise their anti-fraud awareness. The training includes the standard business flow, relevant policy and procedures of the Bank, vulnerable areas of fraudulent actions and remedial measures needed to prevent future recurrence of such fraud. The Bank may also create awareness about its anti-

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fraud program among its clients, potential clients or third parties through appropriate mechanisms.

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### **Chapter III Policy on Preventing and Combating Money Laundering and Terrorist Financing**

#### **4.1. Introduction**

According to the Financial Action Task Force (FATF), Money Laundering (ML) is the processing of criminal proceeds in order to disguise their illegal origin. ML takes place through the financial system so that after a series of transactions, the money, its ownership and the income earned from it appear to be legitimate. In the case of Terrorist Financing (TF) the funds are used for financing activities related to terrorism.

The AML Policy establishes the standards of AML/CFT (Countering the Financing of Terrorism) compliance and is applicable to all activities of the Bank. The key objective of the AML Policy is to prevent the Bank's funds being used for illegal activities and its services being used as a channel for ML/TF.

#### **4.2. Risk-based approach in implementing the AML framework**

The Bank shall conduct a risk assessment exercise in accordance with this Policy to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk for borrowers, third parties, countries or geographic areas annually. The Bank shall put in place Divisional Guidelines to manage and mitigate the risks that have been identified by it or based on the risk assessment exercise mentioned above.

#### **4.3. Know Your Client (KYC)**

- a) The Bank is aware that availability of sufficient client information underpins all other AML procedures. KYC is recognized as a critical element in effective management of ML/TF risks. KYC measures include recording and verification of the identity of the counter party, information on its ownership, its business activities and obtaining information on the purpose and intended nature of the business relationship.
- b) The Bank has established Integrity Due Diligence procedures that also incorporate KYC measures to be applied for different type of Clients/Treasury Counterparties with which the Bank enters into business relationship on an ongoing basis.
- c) The Bank shall not deal with entities, which do not meet relevant requirements as identified in the Integrity Due Diligence procedures. The Bank shall risk-rate clients

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and counterparties based on their profile. A report in this regard shall be submitted to the ARC as part of the annual AML Work Report.

### **4.4. Monitoring of transactions**

The Bank implements on-going monitoring (including monitoring of transactions) in a risk-based manner to detect possible Money Laundering, Financing of Terrorist or related integrity risks arising throughout the life of the business relationship.

### **4.5. Reporting of Suspicious Transactions**

- a) Suspicions that funds, regardless of the underlying amount, represent the proceeds of criminal activities or related to ML/TF, are involved in the activities of the Bank's financing, must be reported for assessment and investigation, as appropriate, to the Compliance Division.
- b) The Bank's Code of Business Conduct and Ethics stipulate that the Bank shall ensure confidentiality of the Bank Staff who make bona fide reports of suspicions of ML/TF and that such staff members will be protected against any acts of retaliation.
- c) Informing the counterparty(ies), or other third parties, that a suspicious transaction is being, will be or has been reported or investigated is prohibited ("no-tipping off").

### **4.6. Sanctions Compliance**

- a) The over-arching approach of the Bank is to comply with international sanctions regimes (including those imposed by UN) applicable for its operations. Further, as a responsible player in international financial markets, the Bank is also guided by regulations that all its counter-parties are required to comply with, as incorporated in its contractual terms and conditions.
- b) The Bank shall fulfill its commitments towards sanctions compliance through operational mechanisms such as:
  - Screening procedures using subscribed databases (comprising sanctions lists published by international organizations such as the UN), and against sanction list of the Bank, to monitor compliance risks arising from sanctioned territories/entities/individuals, and undertake only such transactions that comply with applicable regulatory requirements;

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- Ensuring that the Bank's funds are used only for projects that comply with applicable regulatory requirements and do not intend to benefit any sanctioned territories/entities/individuals;
- Incorporating necessary clauses in loan agreements, wherever required, to ensure that the borrowers understand and comply with applicable sanctions regimes while dealing with Bank's funds; and
- Periodic risk-based re-screening of existing transactions on an ongoing basis.

### **4.7. Client Identity Material and Transaction Record Retention**

- a) On the principle of security, accuracy, completeness and confidentiality, the Bank retains client identity materials and transaction records properly, to ensure that each transaction can be sufficiently reproduced to provide the information required to identify clients, monitor and analyze transactions, assist in the investigation of suspicious transaction activities, and deal with money laundering cases.
- b) The client identity materials retained by the Bank include a wide variety of records and materials that carry the client identification information and materials and reflect the Bank's client identification activities. The client identity materials are required to be retained for 5 years after the business relationship is ended or after the one-time transaction is recorded in the account.
- c) The transaction records retained by the Bank include the data, accounting certificates and accounting books about each transaction as well as the underlying contracts, business certifications, documents, business correspondences and other materials that may reflect the actual situation of the transaction.
- d) Identity materials and transaction records of a client of the Bank involved in suspicious transaction activities that are under AML investigation or subject to criminal detection or litigation of money laundering cases, and such AML investigation, criminal detection or litigation is still on-going when the minimal time period for keeping expires, are retained by the Bank until the completion of the relevant investigation, criminal detection or litigation.
- e) Where there are different retention periods for client identity materials or transaction records on the same medium, the material is kept according to the longest retention period.

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- f) If the client identity materials or transaction records for the same client are kept on different media, the client identity materials or transaction records need to be retained on at least one medium according to the aforesaid requirements on minimum retention period.
- g) The AML work documents and materials of various business lines (divisions) of the Bank are retained for the period required by AML Policy. Such AML work documents and materials include but are not limited to meeting minutes, staff training records, and AML publicity program records.
- h) When a business division of the Bank is cancelled or combined, the client identity materials, the transaction records and other AML documents and materials are transferred to another relevant division of the Bank according to rules on management of files.

### **4.8. Reporting to ARC**

The Compliance Division shall annually submit a work report to the ARC on the KYC/AML/CFT activities of the Bank.

### **4.9. Audit**

The scope of activities of the Compliance Division will be reviewed by the Internal Audit Division according to its internal audit plan.

### **4.10. Client and employee awareness**

The Bank shall educate the clients and staff on the objectives of KYC/AML related programmes of the Bank.

### **4.11. Co-operative efforts**

The Bank shall co-operate with the designated law enforcement and investigative agencies as may be required under the applicable laws. The Bank shall also cooperate with regard to the mutual assistance programmes initiated by various countries in accordance with the applicable laws.

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### **Annexure 1**

#### **1. Corrupt Practice**

- a) Corrupt Practice means the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.
- b) Corrupt Practice primarily manifests in the form of Corruption and Bribery defined as follows:
- Corruption is the misuse of public power for private profit, or the misuse of entrusted power for private gain.
  - Bribery is the offer, promise, or payment of cash, gifts, or even excessive entertainment, or an inducement of any kind offered or given directly or indirectly to a person in a position of trust to influence that person's views or decision or conduct or to obtain an improper advantage.
- c) Corruption and Bribery can take many forms, including but not limited to the provision or acceptance of:
- Cash payments;
  - Kickbacks;
  - Gifts, travel, hospitality, and reimbursement of expenses; or
  - Donations or charitable contributions.
- d) Indicators of possible corruption or bribery behaviour
- The Bank devotes attention and resources to prevent and detect any committed or potential corruption or bribery behavior and upgrade the quality of project implementation and monitoring, particularly for high-risk projects. Appropriate indicators of possible corruption or bribery behavior are set up to regularly monitor the daily business of the Bank and the projects financed by the Bank.

Some of the indicators may include:

- projects conducted in countries with high-risk of corruption and bribery;
- significant discrepancy between budget and actual cost of the projects;
- shortened bid preparation period and unreasonable requirement in procurement process;
- high concentration of contracts with the same external vendors, etc.



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### **2. Fraudulent Practice**

Fraudulent Practice means any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation. The following paragraphs indicate various types of fraudulent practices.

#### **a) Fraud in Bank Operation**

Fraud in Bank operations is an issue related to the Bank's management and staff when they violate their duties and obligations to the Bank. The Bank addresses the fraud risks at the operational level by promoting transparency, accountability and efficiency through rigorous risk analysis and implementation of internal control mechanisms.

#### **b) Fraud in Projects Financed by the Bank**

Fraud may occur in connection with the use of proceeds of a project financed by the Bank. The fraudulent act may be committed by the borrower as well as other recipient of the loan proceeds or financial assistance during the following stages:

##### *Project Identification and Preparation*

During project identification, a borrower may try to disregard standard identification procedures and steer the Bank into identifying and selecting projects and/or regions that may not meet the Bank's standard requirements.

Project preparation may be carried out by borrowers themselves or through assistance provided by the Bank. Inadequate preparation and projects not meeting the Bank's standards may result in projects that are vulnerable to manipulations and result in cost over-runs and implementation delays.

##### *Project Appraisal*

Project appraisal assesses all aspects of a project, including its relevance, feasibility, and potential effectiveness before the Board makes a decision on whether to offer assistance. During this stage, Bank staff examines the design and implementation of internal control mechanisms, financial reporting mechanisms and project procurement mechanisms to ensure that the project management is sound and transparent, and is in compliance with Bank rules. Lack of appropriate due diligence or misrepresentation that knowingly or recklessly misleads, or attempts to mislead the Board from making the appropriate decision, may result in misappropriation of the Bank's assets and financial resources.

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### *Project Implementation and Supervision*

The borrower must implement the project in conformity with the loan agreements. The borrower may work with the Bank staff overseeing the project and make over-billing of fraudulent payment requests for goods/services not delivered or approved in the loan agreements.

### *Disbursement and Financial Management*

When the Bank funds are channelled to the borrowers, potential fraud may include duplication of payments, falsification of project procurement documents/invoices, diversion of funds, false end use certifications and payment without proper authorisation. The Bank reduces the opportunities of fraud by ensuring the effectiveness of internal control mechanism of the Bank and the borrowers while the Bank staff perform stringent verification throughout the disbursement process.

#### c) Fraud in External Vendors Operation

The Bank may engage external vendors in conducting the normal business. The external vendors of the Bank must also adhere to the highest ethical standard and the Bank policy as the Bank may be held liable for fraudulent actions conducted by the external vendors in connection with the Bank's operation. The Bank sets up procedures to ensure that appropriate due diligence actions are taken in selecting the external vendors and on-going monitoring is in place to detect any fraud incidents.