Strategy Implementation Plan

2022-24

PRESIDENT'S RECOMMENDATION

I **recommend** that the Board of Directors approve together:

- An Administrative Expenses Budget of £432.2 million (€505.7 million), comprising a
  - Core Administrative Expense Budget of £410.1 million (€479.9 million) and
  - Extraordinary Budget Items of £22.1 million (€25.8 million)
- The parameters and objectives contained in the 2022 Corporate Scorecard.

Odile Renaud-Basso

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Executive Summary

SIP 2022-24 Supports the Recovery and Deepens the Bank's Impact

This SIP fosters continued implementation of the EBRD's mandate to assist recipient countries become sustainable market economies and its core principles of transition impact, sound banking and additionality. The Bank is a reliable impact investor in regions and sectors where long-term commercial finance is scarce. By combining policy work with investments, focused on the private sector and systemic change, the EBRD offers a powerful development model that is equally adept at providing bespoke solutions or contributing to global goals. Each route has development impact. SIP 2022-24 makes room for both.

The SIP reflects the current environment of disruption and uncertainty. The past 18 months have been as dramatic as they have been difficult. Across the EBRD regions, output fell 2.4 per cent in 2020, at its steepest rate since the transition began, and then recovered much of the ground through 2021. More widely, costs are now rising and inflation is picking up, threatening to interrupt gains in output.

This roller-coaster ride – which appears to be far from over – sets the context for the present Business Plan. The EBRD was quick to respond to the crisis last year, developing new facilities and promising in March to provide up to €21 billion of finance by the end of 2021. Clients made good use of the available funding, especially short-term finance. The Bank is well on track to deliver its commitment.

But it cannot stop there. **The Bank must continue to support its countries of operations** as they struggle to make the most of the recovery. Now that the immediate Covid-related effort is mostly done, the EBRD can return to its regular strengths.

The Bank expects to supply more than €10 billion of new business investment in 2022 under this SIP which, if achieved, would be a record compared with any other year bar the last one. The EBRD will thereby support the recovery. Operational Plan projections indicate that the development focused portfolio will pass €50 billion with operating assets continuing their upward trend.

SIP 2022-2024 builds on last year's Plan by putting in place concrete means to deliver the SCF priorities: on Green, on Inclusion, on Digital and more. There is now a clear path, backed by dedicated resources, designed to fulfil the aspirations behind the SCF.

At the core of this SIP are proposals that deepen the Bank's impact by increasing the quality of its investments and other interventions. There is a significant shift towards the SCF priorities, and a scaling up to meet them. There is an effort to underpin the Bank's business model, both through internal reinforcement and from valuable external help from donors and other partners. SIP 2022-24 highlights the following:

- The EBRD's commitment to aligning all its activities with the Paris Agreement by the end of the first year of the SIP; and a ramping up of the Green Economic Transition agenda to provide innovative climate finance and ambitious low carbon pathways along the trajectory to become a majority green Bank by 2025. This SIP supports the EBRD as a vanguard MDB in the climate space.
- Two new Strategies, on Equality of Opportunity and Gender Equality, backed up by new resources, that will be implemented through 2022, strengthening the delivery of the EBRD's inclusion goals on access to finance, skills and services and aligning the Bank with global efforts to promote SDG 5 on 'Women's equality and empowerment'.
- With a framework for accelerating the digital transition in place, the SIP provides the resources to start addressing this cross-cutting theme which touches on many sectors and is highly pertinent to inclusion and GET work. As with those areas, digital transition is likely to draw on donor resources, particularly for projects in less advanced transition countries.

These themes are attractive to donors, including the European Union which supplies a large portion of the Bank's donor funds. Their contributions form an important input into this SIP.

Further key SCF themes are developed in SIP 2022-24:

- The EBRD already mobilises significant sums of private finance to help close the finance gap many countries of operations face. The SCF aim is to double the annual mobilisation goal to €2 billion by 2025. This SIP puts flesh on the bones of this ambition. New products, commitment to green mobilisation and a more than 15 per cent higher AMI target for 2022 mark important steps along this road.
- Management took note last year of the need to improve institutional performance through a more integrated and systematic self-evaluation process. This year's SIP identifies how this will be taken forward. A self-evaluation programme, dedicated unit and tailored products will produce better feedback loops and learning, ultimately improving new project quality. The Evaluation Department will be closely involved.

Reflecting the ambition to scale up activities on SCF priorities and deepen the Bank's impact, the 2022 **Corporate Scorecard** sets higher targets on GET (45 per cent of ABI), gender-tagged operations (minimum 25 per cent of projects), AMI (minimum €1.4 billion) and for the average ETI range (an increase in the upper bound to 69) and PTI (minimum floor increased to 68). It also includes a metric for operational risk for the first time.

Pressures from higher workloads arising from a range of factors – a growing portfolio, greater complexity of transactions including from increased reliance on EU and specialist donor funds, data demands, compliance and high regulatory standards – have increased the **risks to the smooth running of the Bank's operational platform. This SIP takes a number of steps to address these concerns**, being careful to build extra capacity where it is most urgently needed. It is noted, however, that putting the Bank's operational capacity onto a sustainable footing requires further work, to be considered in future SIPs.

A related dimension that is being addressed is the upgrading of the Bank's IT systems under the Multi-Year Investment Plan (MYIP). Phase 1 has faced some challenges but is broadly on track. The Bank is already benefitting from a number of improvements, from software upgrades of legacy systems to project-related tools like Monarch. Phase 2, which is due to start in 2022, will be pro-actively managed to focus on critical tasks, in particular to ensure the migration of systems to the Bank's new data centres and the move to EBRD's new HQ are successful. Capex for Phase 2 is confirmed at £47.1 million, of which £19.9 million will be invested in 2022.

Projections based on planned business volumes and related financial assumptions show that the **EBRD's finances are sustainable over the SIP period**. Members' equity after income allocations is expected to grow further, capital utilisation should remain broadly stable and returns on required capital adequate (4.3 per cent is projected for 2022). Stress test results are within financial loss tolerance thresholds.

After a notable drop in 2021 the cost to debt income ratio is expected to increase in 2022, to 57 per cent, reflecting the impacts of GBP strengthening (increase of EUR denominated costs), MYIP and other Administrative Expense Budget costs. The ratio is projected to stay below the SCF control parameter limit of 70 per cent. By contrast, the debt rate of return on capital, at 14 per cent, is expected to be considerably higher in 2022 than in 2021.

After last year's large Borrowing Programme, planned activity is slightly lower in 2022, with a proposed **Borrowing Programme of up to €11 billion**. Nonetheless, liquidity ratios maintain a comfortable buffer above required minimum levels, meeting the relevant stress tests, and net cash requirements are well covered.

Ambitions are nothing unless they are resourced properly and managed by staff with the right skills. **SIP 2022-24 represents a turning-point in the way resources are managed. The substantial needs to deliver SCF ambitions have been found through reallocations and efficiencies.**

Management have addressed resource effectiveness holistically and embarked on a continuous search to find better ways of doing things. As a result of these efforts, an additional £6.4 million has been allocated to SCF priorities while among other budgetary demands significant funds are devoted to capacity strengthening of front-line support services to ensure the Bank maintains a robust delivery capability and can support the recovery reliably. Reviews of organisational structures, workload reallocations, RO optimisation and a range of other streamlining efforts have created capacity to make room for these improvements.

The Budget Proposal of a Core Administrative Expense Budget of £410.1 million for 2022 represents an increase of 3.97 per cent, below Bank-wide inflation of 4.05 per cent and equivalent to the increase in UK CPI (August) inflation plus 0.77 per cent. Staff costs account for the majority of the change, reflecting the full year impact of previous decisions and 2022 Compensation and Benefits proposals. A PBC accrual adjustment replaces a previous reliance on unidentified savings. **£13.6 million savings and reallocations** slated for 2022 create substantial space for incremental resources for business priorities, resulting in a **net resource request of £4.8 million**.

The **Total Administrative Expense Budget for 2022 is £432.2 million**, and includes £22.1 million for extraordinary items (LIBOR transition, £5.3 million; IT MYIP Phases 1 and 2 opex and depreciation, £11.3 million and £5.5 million respectively).

This SIP delivers the requirements to meet SCF priorities in the coming year and strengthens the Bank's capacity to help its countries recover from the impact of the pandemic. It does so within a responsible financial envelope that protects the EBRD's financial standing, and has been achieved through a well-designed management effort on resource effectiveness and efficiency. **SIP 2022-24 supports the recovery and deepens the Bank's impact.**

1. The Economic Context

Introduction

For the past 18 months, the world has been facing a pandemic on a scale not seen for one hundred years. The initial shock was dramatic and immediate measures taken to deal with it were severe. Vital early medical advances and the deployment of vaccination programmes helped to quickly restore hope that activity could return to more normal levels. Indeed, mobility and output improved significantly and the Bank's efforts to support its clients played their part in weathering the impact of this worldwide shock in its Countries of Operations.

Nonetheless, although the outlook is considerably brighter than a year ago, it cannot be said that business is truly 'back to normal'. Many uncertainties remain over the path the recovery may take and the generation of new investment business continues to be hampered by Covid-19 related restrictions. Meanwhile, costs are rising and the period of exceptional policy stimulus of recent quarters appears to be over.

1.1 The Economic Situation and Outlook

The Covid-19 crisis resulted in the greatest disruption to global economic activity since the Second World War. Output in the EBRD regions contracted by 2.4 per cent in 2020. The impact of the crisis was partially mitigated by widespread fiscal support for those most affected, laxer social distancing measures in some countries and, in some cases, by strong exports of goods.

In 2021, a recovery has been gathering pace. The extremes of the health situation seen in the winter months and spring lowered during the summer, allowing confidence to return, and the average mobility of people in the EBRD regions[1] returned to pre-pandemic levels by May 2021. Industrial production and retail sales largely recovered in the first half of 2021. Higher commodity prices boosted the revenues of commodity exporters and demand for manufacturing exports was strong.

However, among sectors the recovery has been more mixed. Although some economies enjoyed a better than expected tourism season in 2021, tourist arrivals remained well below 2019 levels and the hospitality sector remains fragile, with the outlook highly uncertain, affecting economies from Croatia to Georgia and from Egypt to Tunisia. Foreign investment also remains far below its pre-crisis level in most of the EBRD's regions.

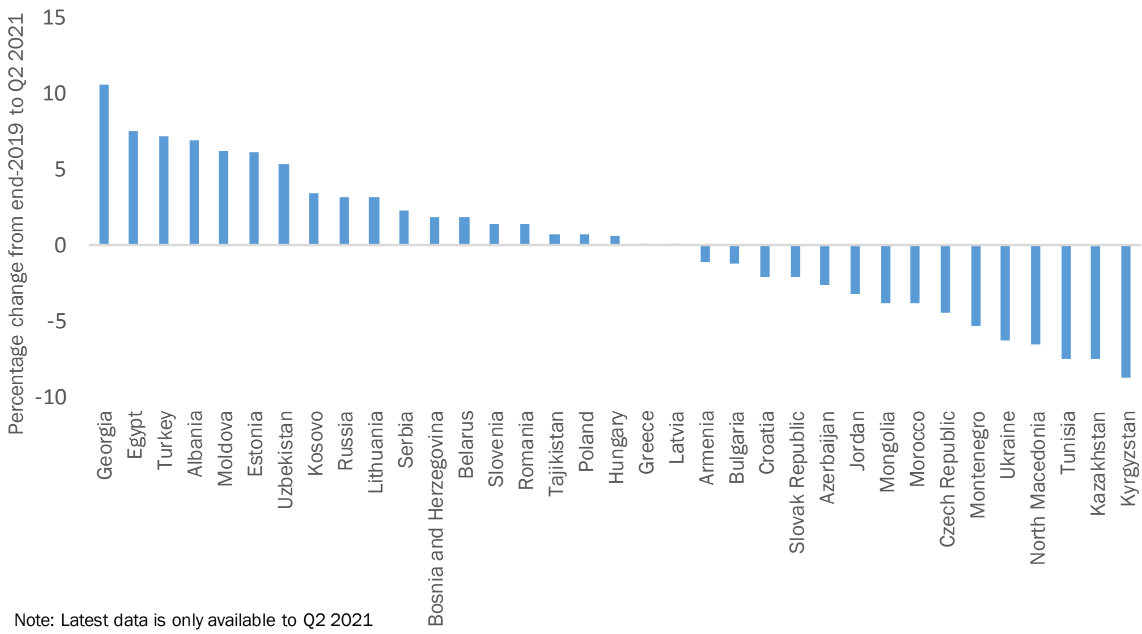
Fiscal vulnerabilities have increased as large stimulus packages aimed at mitigating the effects of the Covid-19 crisis on individuals and firms, coupled with output declines, raised public debt in the EBRD regions by an average of 12 percentage points of GDP. In many economies, public debt reached levels last seen during the transition recession of the early 1990s and may rise further. While borrowing costs have been stable as a share of GDP, they remain high or have increased in some countries (including Belarus, Egypt and Lebanon), sharply in some cases.

High energy prices, supply chain disruptions and some currency depreciations have pushed inflation up. On average, inflation rates in EBRD regions were 3 percentage points higher than at the end of 2019, despite the slack in labour markets in many economies (in Turkey, for instance, unemployment surpassed 12 per cent), and at a level not seen since 2008. Rapid wage growth in some countries added to authorities' concerns. Over one quarter of central banks in EBRD countries of operations raised policy interest rates between May and October 2021.

Output in the EBRD regions is expected to grow by 5.5 per cent in 2021, propelled by the easing of Covid-19 restrictions and as manufacturing exporters gain from a shift in global demand away from services and towards manufacturing. Within this picture, commodity exporters benefit from higher prices while economies dependent on tourism lose out. Growth is projected to

[1] Measured by trips to work, retail and recreation facilities, transit stations and groceries. See Regional Economic Prospects, EBRD, November 2021.

Figure 1.1 Percentage Change in Output of EBRD Countries since end-2019



Note: Latest data is only available to Q2 2021

moderate to 3.8 per cent in 2022, by which time most economies are expected to have regained their 2019 levels of income per capita.

Headline numbers hide significant heterogeneity in the individual experiences of countries and workers within economies, with the young and those with lower levels of education and pre-pandemic income being especially hard hit.

1.2 Risks to Recovery and Uncertainties ahead

The outlook for post-Covid recovery is highly sensitive to the path of Covid-19 infections and possible new variants of the virus, as well as to assumptions over how far government responses and policies are effective in limiting persistent economic damage from the crisis. A complicating feature in the EBRD regions is the slow rate of vaccination (and high mortality), where only 38 per cent of the population had received at least one dose of a vaccine by mid-October 2021 compared with over 70 per cent in advanced European economies.

Worsening external conditions, in particular a rising cost base, and weaker growth in trading partners also create risks to the outlook, while increasingly widespread inflationary concerns may trigger less accommodative monetary conditions in advanced economies. A faster-than-anticipated monetary normalisation in advanced economies could lead to a sudden tightening of global financial conditions, creating risks for economies with large (foreign currency) debt and financing needs in the EBRD regions.

2. The Strategic Framework

2.1 Meeting the Bank's Mandate

The mandate of the Bank is to support the transition of its countries of operations to a sustainable market economy. In delivering transition impact, the Agreement Establishing the Bank (AEB) provides for two further principles: that the EBRD should pursue sound banking at the project and institutional level, in keeping with the objective of financial sustainability, and be additional by providing finance on commercial terms not otherwise available from the market.

The EBRD's overarching transition goal is made operational through its investments which are designed to improve the qualities that drive a sustainable market economy. The application of the transition concept and associated Transition Qualities to the Bank's activities supports its countries of operations develop as economies which are competitive, well-governed, green, inclusive, resilient and integrated.

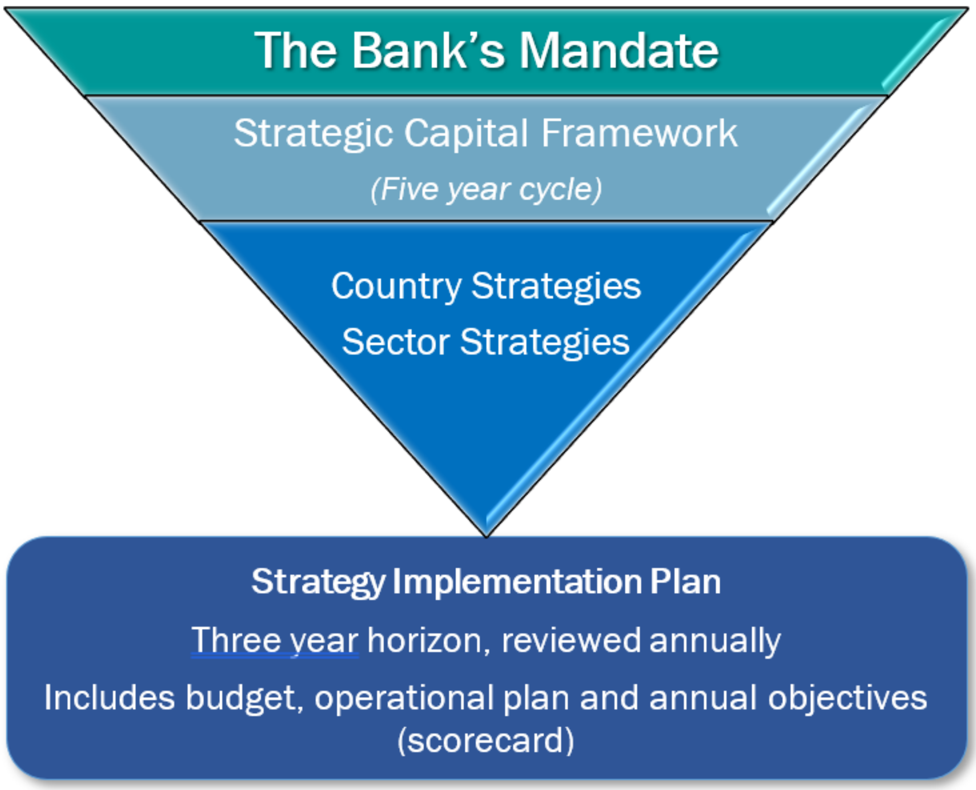
2.2 The Strategic Goals

The fulfilment of the Bank's transition mandate is supported by a comprehensive strategic planning structure and a complementary set of strategic documents.

The foundation of the Bank's strategic approach is the Strategic and Capital Framework (SCF) which is anchored in an analysis of capital resources and the Bank's value added. This is approved by the EBRD's Board of Governors and sets the Bank's strategic orientation for the subsequent five years.

Country and sector strategies operationalise the directions provided by the SCF by translating them into specific sets of actions and priorities tailored to the individual country or sector context. They are complemented by cross-cutting themed initiatives. Finally, the SIP sets out on an annual basis how the EBRD will implement these guiding tools in terms of specific business plans and the financial, resource and budgetary requirements to meet them. The SIP also defines

Figure 2.1 Strategic Planning: Building Blocks



Management's accountability to the Board for the year ahead, which is measured by a set of scorecard performance objectives.

The current SCF runs from 2021 to 2025 and reaffirms the enduring relevance of the EBRD's transition mandate and business model. Its overarching aim is for the EBRD to support its countries of operations in preserving and accelerating transition to build a more resilient and sustainable future in a context shaped by the Covid-19 crisis and its aftermath.

The SCF contains a clear set of strategic operational, geographical, financial and institutional aspirations for the Bank in 2025 (for more details see the table in Annex 1). Together these goals provide the yardstick through which the Bank's success over the SCF period will be judged. In summary, the Bank is expected to:

- **Be responsive and flexible:** in supporting all its countries of operations, with a particular emphasis on working with the private sector and increasing its activity in countries which are least advanced in transition, as well as enhancing the support available to any country that chooses to graduate.
- **Build on its strengths**: by expanding and deepening its work in supporting progress to a green, low carbon economy; further mainstream gender into the Bank's work and increase its focus on combating inequality of opportunity.
- **Undertake new activity:** through the development of the Bank's first systematic programmes to support digital transition and mobilise private finance and - in the event of shareholders' agreement - engaging in new countries of operations either within the existing SEMED region or possibly beyond its current geographic scope.
- **Strengthen its institutional capacity:** through enhancing the Bank's policy offer; invigorate its culture and conduct of monitoring, learning and evaluation; and put in place the human and IT resources to deliver the strategy cost-effectively.

The **Strategy Implementation Plan (SIP)** translates the SCF's medium term aspirations into near term priorities, sequencing delivery of the SCF as appropriate based on country demand and institutional readiness. Approved by the Board of Directors, the SIP provides a three-year rolling perspective on the implementation of the SCF and the context for the EBRD's proposed annual Budget and Corporate Scorecard.

The achievement of transition is only fully realised at the individual country level. Accordingly, country strategies are integral to the Bank's planning and delivery. Country strategy objectives are set for five years through a rigorous and structured process that includes systematic analysis of:

- The **needs** of the country to progress towards the achievement of the qualities of a market economy (via an assessment of transition qualities and subsequent in-country diagnostic work);
- The **opportunities** which may exist for making progress in fulfilling those needs, including the scope for investment and the availability of committed partners in both the private and public sectors; and
- The **capacity** of the Bank to take advantage of those opportunities, based on its areas of expertise, business model and complementarity to other development finance institutions.

Country Strategy Delivery Reviews assess progress against country strategy objectives annually in accordance with Article 11.2 of the Agreement Establishing the Bank (AEB) and highlight challenges and opportunities for future delivery of transition. Country strategies are complemented by sector and thematic strategies. These dovetail with country strategies by outlining the ways in which the Bank will achieve transition impact, reflecting sector developments and transition challenges across countries of operations.

2.3 Investment and Policy

An important component of the Bank's delivery architecture is its capacity for policy engagement. The current SCF emphasises that policy engagement, together with investments, is at the centre of the Bank's capacity to achieve and sustain systemic transition impact including through its cross-cutting strategic themes. Management committed to enhance the effectiveness and impact of the Bank policy work by:

- Broadening the focus of policy activity from individual transactions at the firm level to seeking systemic impact through sector and economy level interventions;
- Consolidating knowledge, experience gained and lessons learned, especially in the core areas of EBRD's distinct expertise;
- Stepping up coordinated policy efforts by working closely with a range of partners; and
- Building stronger and clearer internal incentives to deliver policy objectives.

Institutional and regulatory reforms are critical components behind improvements in business environments and in creating new investment opportunities. The Bank's policy engagement with authorities in its countries of operations offers new ideas and dedicated expertise that supports their reform efforts and complements the practical inputs that come from EBRD investments.

2.4 Balancing Risks, Impact and Profitability

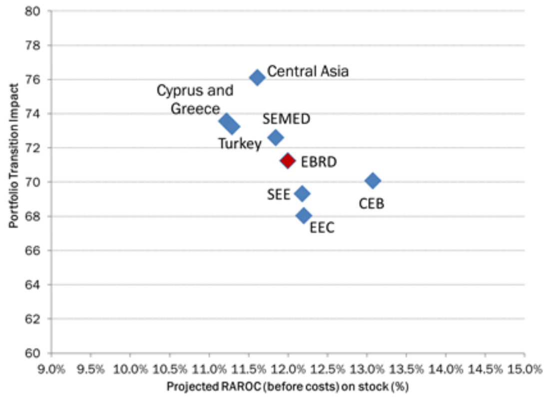
The EBRD is a development institution with a private sector focus. It is a quintessential impact investor, taking on risks with its partners and making profitable investments which carry transition impact and are additional. Sound banking in its projects also underpins medium term financial sustainability, ensuring that the Bank's administrative costs are covered and that it can gradually expand its operations based on its income-generating capacity.

This section illustrates how the dual objectives of impact and financial returns are balanced in the Bank's portfolio. The geographical pattern of the Bank's activity in some important strategic dimensions is also presented.

A balanced portfolio

The SIP looks forward to propose the Bank's annual objectives for a specific year in the context of a medium term projection of the Bank's activity. This planning is informed by the state and performance of the Bank's current stock of activity – both investment and policy work – contained in its portfolio. This stock of activity determines the Bank's achievement of its transition impact and financial sustainability. The SCF also provides a number of additional objectives for the Bank to pursue. Reconciling this multiplicity of goals requires the Bank to maintain a balanced portfolio.

Figure 2.2 Full Portfolio, 2020



The Bank's financial strength enables its continued ability to achieve its transition mandate. The charts below show two views of the distribution of transition impact and financial performance by region. Figure 2.2 presents the relationship between the transition impact and the financial returns of the current debt portfolio, as measured by Portfolio Transition Impact (PTI) and projected portfolio Risk Adjusted Return on Capital (RAROC) before costs. It shows that regions where transition performance is currently above average have below average returns (and vice versa), indicating a trade-off between the two, on average. However, the pattern of transition and financial performance is clustered relatively tightly which suggests that the Bank has been pricing for risk in a broadly consistent manner across regions.

Figure 2.3 New Projects, 2020

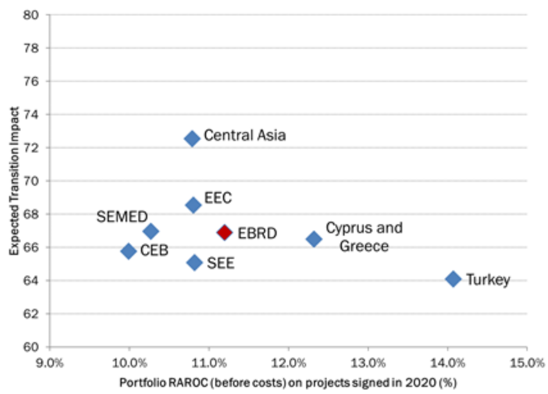


Figure 2.3 shows the financial and transition characteristics of new debt projects signed in 2020, by region. The relationship between expected transition and financial performance and the distribution of transition ratings for these

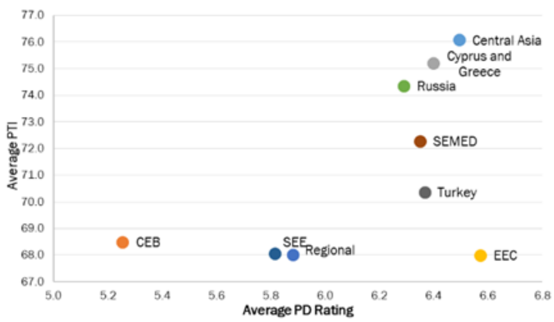
Table 2.1 GET and Private Sector Shares, per cent

	GET Share in ABI		Private Share in ABI	
	2019	2020	2019	2020
Central Asia	43%	29%	42%	57%
Central Europe and Baltics	55%	64%	100%	87%
Cyprus and Greece	31%	37%	100%	74%
Eastern Europe and Caucasus	51%	34%	78%	65%
South-Eastern Europe	47%	19%	70%	68%
Southern and Eastern Mediterranean	38%	11%	86%	65%
Turkey	47%	23%	86%	89%
EBRD	46%	29%	78%	72%

projects is similar to those in the portfolio while the range of projected financial returns is greater, reflecting the nature of various EBRD tools and instruments to support countries during the crisis.

As a complement to this analysis, Figure 2.4 shows the distribution of probability of default (PD) and PTI by region within the portfolio. It shows some evidence that where the Bank takes on more risks transition impact is higher. Analysis at the individual project level shows that better financial risk ratings and commercially strong client firms are associated with a higher likelihood of transition success. This reflects the strong connection between good commercial outcomes and client alignment with positive transition results.

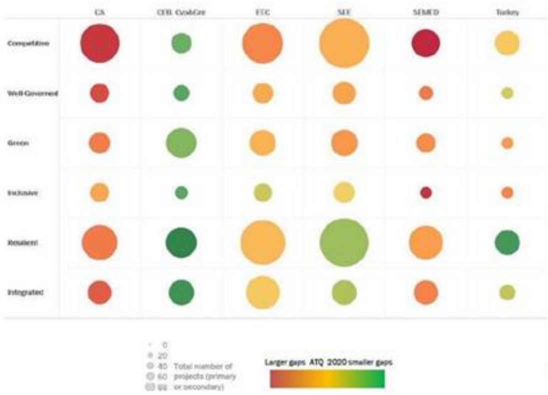
Figure 2.4 PTI and Client Probability of Default by Region, 2020



Delivering on multiple objectives

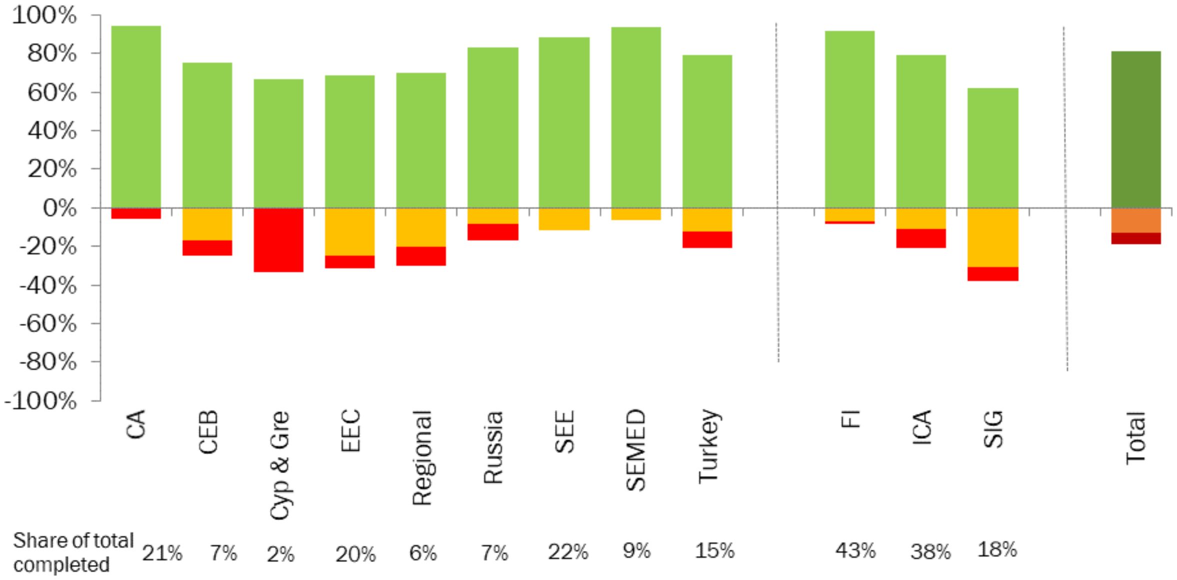
From a different perspective, Figure 2.5 shows the Bank's projects across qualities and regions. The size of the bubbles reflects the number of projects signed in 2020 and the colour the size of the transition gaps, with red denoting larger gaps. The chart illustrates how these signings are balanced, with the Bank active in addressing all qualities in all regions but with more projects associated with countries and qualities where transition gaps are larger, while targeting specific challenges within these qualities (e.g. capital market development via the resilience quality in more advanced countries).

Figure 2.5 Annual Investment by Transition Quality (primary or secondary) and Region, 2020



In addition to the foundational goals of achieving high levels of transition impact and maintaining the Bank's strong financial position, the SIP and the proposed plan for 2022 has specific objectives for the shares of Green and private sector investment in ABI. Table 2.1 shows the share of each in ABI in the past two years. Broadly, the pattern so far in 2021 has been closer to that seen in 2019 than under the crisis conditions of 2020.

Figure 2.6 Performance of Completed Projects, 2020



Note: The green, yellow and red portions of each bar show the share of projects which achieved all, some or none of their transition objectives respectively. Projects which span more than one country are also shown as Regional, hence if this is included the shares add up to more than 100 per cent.

Successful delivery of transition objectives is one indicator of the results of the Bank's planning. Figure 2.6 shows that over 80 per cent of projects completed in 2020 achieved their expected transition objectives, a strong and consistent improvement on 2018 and 2019. Projects in Central Asia and SEMED performed particularly well, as did projects with financial intermediaries. Just six per cent of the 2020 completions, mainly in corporate sector, failed to achieve their envisaged transition objectives, down from 10 per cent in 2019.

Overall, when considering the consistency of any set of annual objectives with the Bank's goals and achievement of portfolio balance, it is important to emphasise that across the Bank's planning process no single factor dominates. The EBRD works to maximise its transition and financial objectives subject to the geographic and sectoral aspirations contained in the SCF and reflecting past performance. It is the balance between these forces which is reflected in this plan.

3. Supporting the Recovery and Deepening Impact: The Operational Plan

Introduction

With the arrival of the Covid-19 pandemic in early 2020 and its subsequent spread across the globe, the past year and a half has been one of exceptional disruption to economic activity and normal life everywhere. This has been no less true of the EBRD's regions and, while the situation has improved, the outlook remains uncertain. Vaccination rates – which have given hope in advanced economies – linger at low levels in many countries of operations, supply chains continue to suffer and costs are rising.

The EBRD responded decisively to the crisis and delivered substantial support to its countries and continues to do so, although the nature of operations is gradually returning to normal. Growing concerns for the recovery, which may be patchy for some sectors, make for a demanding investment environment. Nonetheless, the Bank believes it has the right tools to assist countries ahead as they emerge from the initial consequences of the pandemic. The Bank's investments and related activities, which are underpinned by this SIP, will provide vital support for the recovery of countries of operations.

Despite the significant disruption caused by Covid-19 in the first year of the SCF 2021-2025, the EBRD's strategy to deliver a strong transition towards sustainable market economies for its countries of operations is moving ahead robustly. SIP 2022-24 is the second plan in this five-year period and aims to support the recovery and deepen the Bank's impact by enhancing the quality of its investments and other interventions.

The SCF set clear goals for the Bank to achieve by 2025, including strong support to countries less advanced in their transition. It also sought to place the EBRD at the forefront of MDB actions to tackle some of the most pressing development challenges that confront us today: climate change, unequal opportunities for many and the need to adjust to a digital age.

The operational plan behind SIP 2022-24 develops the Bank's approach to tackling these issues further and at pace: by scaling up its green activities and aligning them with the Paris Agreement on Climate Change, by deploying new strategies on Gender and Equality of Opportunity and by introducing an operational approach to accelerating the digital transition. These will all enhance the quality of the EBRD's impact.

The SIP goes further by taking on the challenge of doubling the EBRD's mobilisation of private finance. Together, the EBRD's own funds and mobilised finance contribute to closing the gap in finance for investment in countries of operations, which has been made worse by the pandemic. Raising the bar for mobilisation in 2022 marks the start of this important journey.

The EBRD cannot meet the ambitions of the SCF without partners, especially its donors whose support is an important and growing part of the Bank's business. Nor can the Bank be fully successful without incorporating the lessons learned from its interventions in its work effectively. And, as Bank activities grow and standards and regulatory practices advance, the best laid operational plans can only be delivered if the institution's operational capabilities are up to the job.

It is in this context that the Bank's Operational Plan, set out below, along with details of the projected path of its investments, has been developed.

3.1 Supporting Clients during the Recovery

3.1.1 Covid-19 response

As the first MDB to launch an emergency crisis response package, the Bank's operational response to the onset of the pandemic was swift and decisive. On 13 March 2020, the Board of Directors approved an initial Covid-19 Solidarity Package (SP), which was increased a month later. In total, up to €21 billion was anticipated to be channelled to countries for operations over 2020-2021 under the SP. Cumulative financing in response to the pandemic to end-September 2021 was over €15 billion.

Two new dedicated facilities were created - the Resilience Framework (RF) to meet short-term liquidity and working capital needs of existing clients and the Vital Infrastructure Support Programme (VISP) to finance essential public investment in infrastructure – which together have already provided financing of over €2.5 billion. A further dimension was an unprecedented surge in the Trade Facilitation Programme (TFP), which saw both record investments and annual turnover in 2020.

The outlook has improved considerably since the nadir of the crisis but remains clouded. Developing new business opportunities is constrained by travel restrictions and many clients, especially foreign investors, are hesitant to recommit to taking risks and investing while uncertainties abound. Targeted responses under the RF and VISP remain relevant to clients in many countries and sectors which have yet to recover from the crisis and will continue to be deployed. However, it can be expected that the high demand for shorter-term finance seen last year will tail off as economic activity picks up.

The Bank responded quickly to new demands, without sacrificing sound banking, to preserve transition. As well as responding to the immediate effects of the crisis, the Bank helped lay the groundwork for post-pandemic improvements. Its task now is to support the recovery. Every effort will be made to do so using the Bank's armoury of financial instruments and knowledge of the region. It is well positioned to help build a better future for its countries of operations in the post crisis context.

3.1.2 Delivering transition: Country strategy objectives and transition qualities

Transition impact is about delivering results on the ground. The EBRD does this through its country strategies by supporting countries of operations to become sustainable market economies in focusing its activities on six key transition qualities: Competitive, Green, Inclusive, Resilient, Integrated and Well-Governed. Recent country strategies have also highlighted the Bank's support for recovery efforts from the impact of Covid-19 pandemic.

Strengthening the **Competitive** quality continues to be a core priority in country strategies. Investments and policy engagements are tailored to country-specific challenges and needs, with a recent emphasis on digitalisation as a tool to strengthen competitiveness. Common themes include strengthening SMEs, improving business skills and the commercialisation and restructuring of state-owned enterprises. Product innovation, including in capital market instruments, and equity for high-growth companies support the competitive quality in more advanced transition countries while improved business standards and managerial capacity, as well as moves towards more diversified economic structures, assist early transition countries.

Supporting a **Green** economy transition is another major objective across all EBRD regions, reflecting the Bank's strategic focus and strength in this area. Assistance is provided to help countries meet NDCs and Paris alignment, including through continuing support for energy and resource efficiency, renewables and decarbonisation. Rising global temperatures have intensified the focus in more recent strategies on efforts to reduce vulnerabilities to climate change, for example via investments in climate-resilient municipal infrastructure, including under the Green Cities programme. Green financial products, such as green bonds, are also contributing to the green transition.

Improving **Inclusion** – better economic opportunities for women and young people, and in less developed regions - by increasing access to finance, skills and services is a priority in SEMED and Turkey, and an important focus in the Western Balkans (including in the recent country strategy for Montenegro). In Central Asia, country strategies target skills development while in Eastern Europe and the Caucasus inclusion gaps are addressed through promoting access to finance. Women-in-Business, a flagship inclusion programme, is now joined by a Youth-in-Business programme also operated through partner financial institutions across a number of countries.

The Covid-19 pandemic has thrown an additional spotlight on the importance of **Resilience**, with recent country strategies making clear that enhancing this quality is a key objective. Among the areas targeted are the financial sector, where strong capitalisation of banks and sustainable funding structures are needed (particularly in Greece, Turkey and Central Europe), capital and local currency markets, and the energy sector. In the case of energy resilience strategies, notably in Eastern Europe, the Caucasus, SEMED and Turkey, the goals are developing energy markets and reinforcing networks and regulatory standards.

Better **Integrated** economies through investments in higher quality infrastructure feature strongly in country strategies in Central Asia, Turkey and South-eastern Europe. Together with multilateral partners, for example under the Western Balkans Investment Framework (WBIF), the Bank works to integrate regional markets and strengthen connectivity through cross-border transport and energy networks. The EBRD also supports options to help broadband infrastructure reach more remote rural areas and to enhance trade via process upgrades and improved value chains.

Improved **Governance** is an important cross-cutting theme of EBRD support in country strategies, especially in Central Asia and South-eastern Europe and, to lesser extent, Eastern Europe, the Caucasus and SEMED. In these countries, the focus is on strengthening the rule of law and better corporate governance and procurement practices. Corporate governance and the rule of law are often linked to the Competitive quality in country strategies where improved business standards and commercially-sound decision-making are targeted, including through core programmes such as the Investment Climate and Governance Initiative (ICGI).

3.2 Deepening the Bank's Impact and Contributing to Global Goals

The SCF emphasised that the Bank would accelerate its work on the Green Economy, Equality of Opportunity and Digitalisation; and that it would seek to increase its mobilisation of private finance significantly by 2025. SIP 2022-24 tackles these issues directly.

3.2.1 Developing the Green Economy Transition

Green Economy Transition (GET) Approach, approved in July 2020, set the stage for the EBRD to become a majority green bank by 2025. 2021 has seen a further growth in ambition, with the Bank committing to full alignment of all its activities with the goals of the Paris Agreement by 31 December 2022, thus accelerating the Bank's support for countries of operations as they build sustainable and inclusive market economies on the basis of ambitious low carbon and climate resilient pathways.

Globally, the focus on climate change has grown significantly in the past year, following disruptive weather events around the world and the IPCC report of August 2021 which was described by the UN Secretary General as a "code red for humanity". Markets and institutional investors are increasingly integrating climate disclosure and risk assessments into governance and operations.[2] EBRD shareholders have continued to ratchet up both their own ambition for the low carbon and climate resilient transition, and their ambition for the MDB system, notably in the context of the UNFCCC COP26 conference in Glasgow in November 2021.

In this context, EBRD operational priorities in the period ahead will be pursued with focused but increased urgency, accompanied by an internal reorganisation of green finance due to conclude in Q1 2022. Now under way, the reorganisation will improve the delivery of strategic priorities, clarify divisions of labour, eliminate duplications and lead to greater operational effectiveness.

The key areas for operational prioritisation during 2022 will be:

- **Implementing the Bank's alignment with the goals of the Paris Agreement**. In Q1 2022 the Bank's methodology for screening investment operations for climate change mitigation and adaptation will be finalised. Additional systematic design, screening and verification of operations within the parameters of these frameworks will ramp up through 2022, in order to meet the year-end deadline for full alignment across all of the Bank's investment operations. At the same time, the Bank will develop robust approaches to ensuring Paris alignment of its corporate activities, with clarity on the material impact and operational implications by Q2-Q3.
- **Scaling up and innovating climate finance, including through mobilisation.** Following the pandemic-induced disruption of 2020, the Bank in 2021 re-established a positive

[2] The EBRD issued its first TCFD report in October 2020.

trajectory towards the 50 per cent plus green finance target. In order to continue this momentum, and find new ways of mobilising additional private sector investment, product innovation across the thematic areas set out in the GET Approach will be key. Operational goals are powerful incentives, but innovation also requires adequate staffing, trial and error, risk appetite, and the removal of internal barriers to "thinking outside the box". The reorganisation of the Bank's green finance work is intended to deliver a structure, centred in VP3, to deliver on this.

- **Scaling up policy engagement on ambitious low carbon and climate resilient pathways.** The Bank's value proposition to shareholders on policy engagement will continue to rest on its investment operations, and on the imperatives, insights and leverage these operations bring. At the same time, the urgency of the low carbon and climate resilient transition calls for scale and systemic impact, with greater attention to economy-wide low carbon planning tools, be they nationally-determined contributions, long-term strategies, sector pathways, or green city action plans. Subject to adequate resourcing, the Bank will scale up its interventions in these areas, linking to investment opportunities and focusing on innovation and business development. It will do so by leveraging enhanced partnerships with other IFIs, international partners, and local stakeholders.

3.2.2 Fostering Equality of Opportunity

Widening economic gaps between regions and within countries divide societies, polarise politics and increasingly challenge democratic and market reform principles. Gender, place of birth and parental background remain major drivers of income inequality, which is manifested in high youth unemployment and low female participation rates in many EBRD countries of operations.

The situation is exacerbated by global megatrends, such as climate change and digitalisation, that force rapid adjustment and require adaptation, creating opportunities for some – but leaving others even further behind.

The Covid-19 pandemic has increased these inequalities and the complexity of the challenges, with women's labour force participation dwindling further, young people's education severely disrupted and many workers in sectors hardest hit by the crisis seeing their livelihoods severely affected.

The EBRD region faces already high and growing levels of inequality due to specific challenges that include overall lower human capital resilience, rigid social norms and stereotypes that constrain personal choices, low levels of trust in meritocratic systems and weak social safety nets.

The Board approved two interlinked strategies on 24 November 2021 to address these problems, which will be deployed through 2022 and beyond.

- **The Strategy for the Promotion of Gender Equality (2021-25)**[3] will scale up the mainstreaming of gender equality activities across the Bank's operations, especially in the green and digital economy areas, develop support for the care economy, tackle gender-based violence and harassment and promote women's voice and agency. The ambition to increase significantly projects with a gender component aligns with global efforts to promote SDG 5 for 'Women's equality and empowerment' and brings the Bank closer to the often more ambitious goals of its key partners, such as the EU, donors and policy stakeholders.
- **The Equality of Opportunity Strategy (2021-25)**[4] will expand the EBRD's distinct private sector orientation towards tackling inequality by adopting a human capital approach. Building on existing products, such as investments in vocational skills, support for SMEs and inclusive infrastructure, it will introduce new approaches to inclusion – promoting Inclusive Financial Systems, urban regeneration, Inclusive Regions and Just Transition - as well as focus on digital, green and STEM skills.

The two Strategies are fully consistent – with focus areas such as inclusive and gender-responsive financial systems, services and public goods – and their delivery will broaden access to

[3] BDS21-133 (Rev 1).
[4] BDS21-134 (Rev 1).

skills and employment as well as help ameliorate the unequal impact of key trends and shocks.

The capacity to deliver these objectives on a sustainable footing however requires a further effort and resources to strengthen existing capacity and expand the hub-and-spoke model (including more experts based in ROs), build new thematic expertise and training systems and reduce over-dependency on donor-funded staff. In 2022, these needs will begin to be met by strengthening capacity in the central team (with some positions embedded in ROs and sectoral banking), ESD and the financial institutions' group in Banking.

3.2.3 Accelerating the Digital Transition

In the SCF, the EBRD committed for the first time to leverage the Digital Transition as an enabler of transition across all sectors. On 10 November 2021 the Board approved the **Approach to Accelerating the Digital Transition 2021-2025**,[5] which puts in place a framework to deliver on this commitment. It sets out how EBRD will use all its instruments - policy, investment and advisory - to unleash the transformational power of digital technologies across all sectors in its countries of operations. The use of these instruments will be tailored and adapted to the specific circumstances of each client in line with EBRD's demand-driven business model and the relevant country strategy.

While recognising that technological trends are accelerating, EBRD will take an evolutionary approach to build up capabilities inside the Bank. This will ensure that technology is deployed and matching capabilities are built up in a responsible and sustainable manner and clearly in support of the core objective of achieving measurable transition impact. The principles of sound banking and additionality will also continue to be respected.

The cross-cutting nature of digital transformation requires a comprehensive response from the EBRD. The Bank will focus on establishing the foundations for digital transformation in its countries of operations, promoting adaptation among clients and governments, and supporting innovation through new entrants across markets. There are significant positive synergies with EBRD's other cross-cutting strategic priorities, as described above, which will be leveraged to the full.

Partnerships with other MDBs, policy makers and technology specialists will be critical as EBRD scales up its work in this new area where the rules and standards are evolving rapidly. Significant donor resources will be required to fund policy and advisory work. Internally, the Bank will systematically seek to build up digital skills and know-how across the organisation through appropriate training, secondments, mentoring and selective recruitment.

A small central hub in VP3 will co-ordinate the implementation of the Approach, working closely with 'spokes' in sector teams and other relevant departments. Policy capabilities will be built up over time and, where appropriate, synergies with the internal Multi-Year Investment Plan (MYIP) will be leveraged. The EBRD will track progress on the Approach, including the number of digital engagements undertaken, and report formally to the Board at the mid-point of the SCF in the first half of 2023.

3.2.4 Enhancing Mobilisation

Mobilisation of additional finance allows the EBRD to scale up the total investment it can deliver to its countries of operations and was identified as a core strategic objective in the SCF.

The backdrop to the Bank's mobilisation efforts is nonetheless a challenging one. Commercial lenders' engagement in EBRD syndicated loan markets shrank in 2020 (supply side) and the pandemic has continued to play a role as companies focus on deleveraging rather than new investments (demand side), leading to low or even negative growth in bankable transactions. Many global investors also consider EBRD countries too difficult and its region insufficiently diverse to support a dedicated fund allocation strategy.

The EBRD's clear goal, however, is to raise larger amounts of mobilisation of high-quality private sector finance from committed and engaged investors to support recipient countries' transition towards becoming sustainable market economies. Higher mobilisation also aids the management of capital and the risks that the Bank faces.

[5] BDS21-122.

The Board approved the EBRD **Mobilisation Approach** on 8 December 2021 which lays out the Bank's ambition for mobilisation based on a set of guiding principles, a road map for implementation and a set of enabling factors. In doubling the annual target for direct mobilisation to €2 billion by 2025 (as measured by Annual Mobilised Investment, AMI) the Bank is pursuing stretching but realistic goals in the current market environment.

Mobilisation leverages EBRD-originated transactions and reflects the Bank's overall delivery, including the SCF goal of 50 per cent plus green finance. In the context of the Mobilisation Approach, and following the Action Plan to Mobilise Climate Finance announced at COP26, which seeks to increase the demand for green finance, the Bank aims to achieve GET AMI of at least €1 billion by 2025.[6] Private indirect mobilisation and policy work are important complements to these efforts.

The approach, which builds on both supply and demand sides, will be developed through a number of channels, including:

- Deepening mobilisation through existing products: B loans, parallel loans and Unfunded Risk Participations (URPs);
- Introducing additional products such as Non-Payment Insurance (NPI) and a new unfunded mobilisation tool;
- A focus on the Bank's PPP and renewables auction advisory activities to ensure that large projects are bankable for private co-financiers;
- Considering the creation of a debt fund, which, after a pilot, may be scaled going forward;
- A comprehensive set of action areas to spur on demand, such as green capital markets, renewable energy markets and innovative instruments, as set out in the Action Plan.

Efforts will also be made to improve investor interest through stronger communication of the EBRD's attractive risk/return proposition and its high-quality SDG delivery.

Higher volume and new products will involve the creation of a small mobilisation solutions' team in 2022 to improve communications and drive the structuring and implementation of new mobilisation products as well as additional resources for support services (distribution, legal, reporting and administration).

3.3 Strengthening the Business Model

Support for countries as they recover from the effects of Covid-19 depends on the smooth running of the Bank's unique business model and its sustainability. As the EBRD gears up to meet the challenges ahead it will need to benefit increasingly from donor funds and other support to reach development areas where commercial risks are perceived to be high and to extend its additionality. The complexities of these types of transactions, as well as the increasing size of the portfolio and the need to maintain high standards, impose burdens and risks on the operational side which must be addressed if 'business as usual' is to be maintained without interruption. These matters are considered below, along with the importance of reflecting the lessons from self-evaluation in the pursuit of new avenues of business.

3.3.1 The Role of Donors

Donor finance

Donor funds are a critical financing source for the Bank's activities. Nearly half the investments in EBRD's active portfolio benefit in some way from donor or net income funds while many other activities, such as the Bank's advisory services or support for policy reform, are fully funded by donor resources. Access to grants and concessional finance plays an especially important role in certain sectors (like sustainable infrastructure) and in the Bank's less advanced regions.[7] A close partnership with donors remains central to the EBRD's mission and 2022 business plan.

EBRD's donor landscape has evolved with several new contributors to the Bank's growing donor community. A significant increase in the volume of donor inflows in recent years has

[6] See 'Action Plan to Mobilise Climate Finance', EBRD, 3 November 2021 and 'EBRD Mobilisation Approach 2021-2025', BDS21-121.
[7] Almost three-quarters of funds used in 2020 were allocated to Eastern Europe and the Caucasus, SEMED and Central Asia.

come from multilateral donors such as the EU and global climate funds, a trend that is expected to continue. In 2022 the majority of support is expected to come from multilateral donors.

Indicative funding *needs* remain high for 2022, amounting to approximately €1.1 billion. In particular, donor funds in 2022 will be needed to support Paris alignment and the EBRD's green agenda as well as the implementation of the new Gender and Equality of Opportunity strategies. Donor support will also be needed in sectors especially hard-hit by the pandemic, including SMEs, and basic infrastructure. As countries emerge from the Covid pandemic, demand for access to grants and concessional finance is likely to remain high.

While grants remain a cornerstone of the Bank's donor support, there has been a notable shift towards more sophisticated financial instruments such as concessional loans and both funded and unfunded risk-sharing instruments. The number of Bank-funded operations benefitting from these instruments increased threefold in the past five years and this trend will likely continue, making these instruments an important component of total support. Going forward, high demand is envisaged for donor-funded concessional loans on flexible terms. The Bank is also working on securing additional access to unfunded guarantees in 2022 from both the EU and bilateral donors, which can be drawn upon as risk-mitigating instruments over several years to come.

Fund mobilisation efforts by the Bank will concentrate on raising and channelling bilateral funds into multi-donor vehicles, for example the new climate finance vehicle HIPCA[8] and the emerging multi-donor fund for gender and inclusion, alongside regular outreach to the Bank's multilateral donors to secure support for its priorities and business plan.

Table 3.1 shows the indicative funds mobilisation *plan* for 2022, which amounts to an expected €1.2 billion. Funds will be mobilised for a variety of purposes and instruments to match project needs now and as they are implemented in the future. A significant part of mobilised support will come in the form of unfunded guarantees.

The Bank will also mobilise net income in 2022 to blend with its investments and for policy reform and advisory services. The SSF will remain a vitally important resource that flexibly responds to Bank needs, complements donor finance and with a focus on the Bank's core SCF priorities. Funding for the ongoing 2021-2022 **SSF Work plan**[9] of €196.45 million, secured from 2019 and 2020 NIAs, was approved by the Board on 14 July 2021. It includes the establishment of a €15 million Innovation and Transformation Pool designed to encourage innovative approaches. An allocation from net income for future support to West Bank and Gaza will be considered at the AGM 2022 as part of an evaluation and update of the Bank's work in the territories.

Table 3.1 2022 Donor Funds Indicative Mobilisation Plan†

Source	€ million
Grants	565
Concessional loans	130
Unfunded guarantees	505
Total	**1,200**

† Note: Figures are best estimates, with a range of variation in the total of ± €100 million.

Donor Fees

The Bank manages over 200 funds on behalf of donors. In accordance with the Bank's **Fees for Donor Funds** policy it charges donors a fee to cover the costs related to the management and administration of those funds, including the incremental costs associated with meeting donor obligations.

Following a change in approach implemented in 2020, the Bank each year releases an amount of fees in accordance with accounting requirements and then ensures that the related expenses for that year are broadly in line with this amount.

To be aligned with the Bank's donor fee policy, the following key principles are applied when planning for the use of these fees. That they are:

- Relevant: Additional resources and costs should be relevant for donor activities (they must be related to and generated by projects

[8] High Impact Partnership on Climate Action.
[9] This covers the 18-month period to the calendar end of 2022.

implemented, or facilities managed, by the EBRD).

- Eligible: Agreed resources and costs must meet the eligibility criteria of donors.
- Time-bound: Since fees are received in connection with donor funds/projects that follow a specific timeline, all costs charged to fees must be time-bound.

As part of the annual business planning process, teams requiring donor funds are invited to put forward a business case for the use of donor fees. These cases are assessed against the above criteria and prioritised in relation to the needs of the business.

The model used to determine the amount of income released each year is based on a number of assumptions around which there are varying degrees of uncertainty, which means the projected release each year displays some volatility. As such, the Bank plans expenses below the level of the projected income release given the uncertainties over income projections when these are made. The projected release for 2022 is estimated to be £15.4 million. The amount held in reserve, at around 15 per cent of income, is £2.2 million, leaving £13.2 million to be used for expenditure in 2022.

Of the total fee budget for 2022, three quarters will cover the costs of existing staff (including extensions to positions) and ongoing non-staff costs, such as audit fees, bank charges and some costs related to communications. The remainder of the budget will be spent on:

- 30 new staff positions, covering high priority areas related to areas of historical under-investment and capacity building, reform areas related to the Donor Funds Business review and to meeting new cross-cutting donor demands.
- Non-staff costs related to important internal functions such as procurement, legal counsel, reporting and donor communications.

Table 3.2 Donor Fees 2020 – 2022 (£ million)

	2020 Actual	2021 Estimate	2022 Estimate
Income	7.3	13.9	15.4
Reserve	-	4.6	2.2
Expenses	7.3	9.3	13.2

3.3.2 Improving Institutional Performance through Self-Evaluation

Learning from experience makes an important contribution to institutional development. In response to the conclusions of an independent review of evaluation at the EBRD (the ‘Kirk report’, 2019), Management committed in the SCF to take ownership of and achieve a significant improvement in self-evaluation processes at the EBRD.

Following a detailed review of practices at other organisations and wide consultations across the Bank, Management presented a paper to the Audit Committee on the **Self-Evaluation System Going Forward** on 22 July 2021. The strategic purpose of the proposed new self-evaluation system (SES) is primarily to improve the EBRD’s institutional performance, with learning from the Bank’s experience and improved results management further objectives.

Reorientation of self-evaluation towards useable learning and better institutional performance will be achieved by:

- A self-evaluation programme driven by demand for learning from Management and other stakeholders across the Bank;
- Focusing where learning is likely to be richest;
- Delivering a range of new products for assessing EBRD results and impact, covering clusters of activities as well as individual projects, and including technical cooperation and policy dialogue.
- Complementing such new ‘deep-dive’ products with summary project assessments for all monitored projects reaching completion, thus strengthening accountability.
- Curating and regularly documenting the most relevant lessons, and disseminating them through both push (active broadcast) and pull (easy accessibility).

The SES will provide a powerful feedback loop to origination on ways to improve the design and implementation of projects, strategies and work processes. For meaningful improvements in performance to be achieved, it will be vital that information and data on past performance are of high quality, which is an aspiration of the new system. Products and lessons from self-evaluation will be shared with the Bank's Management Committees and Independent Evaluation Department (EvD), and Management will report key findings to the Board.

In order to deliver these improvements dedicated resources with the necessary evaluation expertise will be allocated in 2022 to a new specialised Self-Evaluation Unit (SEU) which will form part of the Results, Impact and Knowledge Management team created under the VP3 reorganisation. Bankers will continue to assess individual projects and provide inputs to cluster and impact studies, with the SEU running the system, including coordinating and driving delivery of its products, curating and disseminating results, providing training and capacity building, and ensuring standards, consistency and quality.

The new SES will be launched in close co-ordination and co-operation with EvD. The speed of change and effectiveness of the new system will depend on resourcing, the success of pilots and IT support capacity.

3.3.3 Sustaining the EBRD's Operational Capability

In 2020, the EBRD achieved record business volume for the second year in a row, including in ETCs, while the number of projects, at over 400, maintained the high level seen in the past few years. Donor funding now supports half of new projects, a significant increase compared with a few years ago, increasing the complexity of administration. In parallel, the Bank has strengthened its policy engagement capacity, often in areas with global impact, to increase the additionality and quality of its investments. The EBRD has been delivering its mandate while operating at full stretch, including in the challenging circumstances brought about by the Covid-19 pandemic.

It is nonetheless the case that there are rising material pressures on the Bank's operational systems – its people, processes, data and technology. These are coming from the application of regulatory change or commitments to emerging best practice, for example: IFRS/External auditor demands; donor policy requirements; AML/CFT and sanctions considerations; GDPR; Paris Agreement alignment; TCFD and the LIBOR replacement products. In addition, business activities have become more bespoke, where the requirements of donors are addressed through larger volumes of concessional and risk-reducing activities and staff deal with a wider array of instruments with tailored documentation requirements, such as NPL resolution instruments, creating markets for MREL and increasing the range and volume of local currency funding.

The ability to sustain the EBRD's operating platform is critical to the success of the SCF and fundamental to the delivery of the EBRD's mission. Management is acutely aware that investment in these areas has to keep pace with the expansion of its ambition and the demands of modern-day standards. Such investment is vital to maintain key services, create capacity for sound growth and meet objectives without placing the Bank at material risk of reputational or financial damage. In the face of high business volumes, intensive and increasing donor requirements, new commitments and areas that add complexity to business activities - all in a rapidly changing external environment – Management believe it is essential to invest further in sustaining the EBRD's operational capability.

During the past 18 months, Management have worked closely with the shareholders to break the cycle of short-term tactical solutions, in favour of a strategic approach to investment in technology. In the coming year Management, intend to assess and review with shareholders the need to make the same shift towards strategic investment in the other areas that are essential to a resilient and efficient delivery platform.

Within the SIP 2022-24 proposal, Management has striven to ensure that incremental investment will be made to these less visible but essential needs without materially sacrificing the resourcing of SCF goals. However, more needs to be done to avoid future emergency responses and rising risk levels. The SIP thus proposes a commitment to review operating platform needs and place them on a path towards a strategic funding approach, including commitments to transparency of activity cost drivers, benchmarking, realistic streamlining efforts and agreement on the funding model.

3.4 The Pace and Pattern of Investment Activity

This section presents the Bank's projected activity and portfolio over the period 2022 to 2024 in line with its operating principles and the strategic directions of the SCF.

Amidst ongoing uncertainty on the duration and impact of the crisis, projected activity for the SIP period reflects a move from crisis response to a quality-focused recovery phase in the Bank's countries of operations. The first nine months of 2021 showed a return to broadly similar levels of activity compared to pre-pandemic levels following the large volumes observed during the crisis response period. With a strong focus on quality, annual activity stood at €6.3 billion at end-September, 21 per cent below the end-September 2020 level while the number of projects was 9 per cent lower for the same period.

These activity levels reflect only a gradual return to normal business conditions in countries of operations, compounded by significant limitations on business travel for most of 2021. As a result, Annual Bank Investment (ABI) for 2021 is expected to reach around €10.2 billion, above the lower end of the BP2021 range, while the number of operations is likely to reach around 400.

3.4.1 Support for Less Advanced Transition Countries

The Bank's mission to support the transition towards sustainable market economies is especially valuable in less advanced transition countries where development needs are high and capacity for reform is often limited. Over a long period, the Bank has worked to tailor its toolkit through innovation and adaptation to address the challenges in these nations. The SCF set out the Bank's aim to increase the proportion of its investment activities in these countries, recognising that investment levels depend on the overall business and reform environment.

SIP 2022-24 supports the Bank's engagement in Early Transition Countries, SEMED and the Western Balkans through a scorecard target of 48 per cent of ABI. Many of these countries are small, face difficult business environments and require significant investment financing assistance, particularly in view of weak financial intermediation arrangements. Furthermore, SMEs form the largest part of the private sector and EBRD financing facilities can offer these enterprises important help. Management pays particular attention to these dimensions in these regions through well-targeted country strategies and by investing in a wide range of sectors and supporting local entrepreneurs.

Almost 60 per cent of the number of projects the Bank makes annually are invested in the Early Transition Countries, SEMED and the Western Balkans with an average of around 250 projects annually over the period 2018 to 2020. This implies that SIP 2022-24's scorecard objective for the overall number of operations reflects a large number of below average size projects to be expected in less advanced transition countries, notwithstanding the higher average unit investment costs involved.

The Bank's effort to improve delivery, including through the allocation of additional staff to ROs and development of local currency options, will assist these countries in 2022. Further resources to SCF priorities – in particular GET energy efficiency, renewables activities, inclusion projects to support women businesses, training opportunities for young people and digital transition – will also make important contributions to developing the Bank's engagement in less advanced countries. In all, more than one-third of net new resources in this SIP are expected to support Early Transition Countries, SEMED and the Western Balkans. Significant policy engagement will continue to be focused on these countries, helping to drive policy reforms and open up investment opportunities, thereby increasing the Bank's systemic impact.

3.4.2 Investment Activity

The projections presented here take account of this context and the hesitant investment appetite seen so far this year as well as the selective pursuit of projects supporting the recovery and the strategic priorities of the Bank. At the top end of the operating range, ABI is projected at €10.5 billion for 2022, rising to €10.75 billion in 2023 and 2024. This is based on the following assumptions:

Table 3.3 Number of operations and Annual Bank Investment 2020-2024 (€ billion at plan rate €/$1.15)

	2020 Actual	2021 Estimate	2022 Projected	2023 Projected	2024 Projected
Annual Bank Investment	11.3	10.2	10.0–10.5	10.75	10.75
Number of Operations	411	400	395-435	up to 450	up to 450

- An equity share of ABI returning to pre-crisis levels[10] of around 7 per cent over the SIP period, after the sharp drop in 2020 to 4 per cent, reflecting the Bank's ambition to grow its equity portfolio in support of transition impact and profitability.
- Sovereign lending is projected at around 18 per cent of ABI, similar to the average between 2016 and 2019 (19 per cent) and in line with a private share objective of ABI of 75 per cent.
- Trade facilitation is assumed to amount to around 13 per cent of ABI, a level marginally above the average of the 2016 to 2019 period (12 per cent) and well below the peak of 2020 (18 per cent).
- No change is made to the Bank's regional mandate over the course of the SIP2022-2024. Management may conduct selective defensive portfolio and restructuring operations in the Russian Federation but, based on recent trends in portfolio dynamics and the marginal amount of restructuring operations conducted in recent years, no ABI is assumed for the Russian Federation.

The bulk of the crisis response in the middle two quarters of 2020 led to a strong increase in the average project size to €25 million by the end of the third quarter. Activity so far in 2021 indicates a return towards pre-crisis project average size, with €21.9 million recorded for the first three quarters of the year compared to around €19 million for the same period in 2018 and 2019.

Based on ABI growth and the assumption of a return to historical average project sizes during the SIP 2022-2024 period, the number of operations is projected to increase from around 400 in 2021 to an upper end of 435 by end-2022 and growing to 450 by end-2024.

The Bank's portfolio and operating assets are driven by a range of parameters, including ABI and disbursements on the inflow side and portfolio reflows (repayments, pre-payments, divestments and cancellations) on the outflow side.

Annual disbursements reached €5.0 billion at the end of September 2021, 12 per cent below the 2020 level for the same period though above the 2019 level. Full year disbursements are expected in a range from €7.0 to 7.5 billion and, reflecting activity at the upper end of the range for 2022 to 2024, to reach up to €8.0 billion in 2022, remaining broadly at this level throughout the planning period.

Higher portfolio reflows than in 2020 are projected for 2021, at around 15 per cent of the opening portfolio stock (up from 12 per cent). This reflects the combined impact of a concentration of repayments in the first half of 2021 following payment deferrals offered to a number of clients in 2020 and a progressive return to pre-pandemic levels of cancellations and prepayments. This trend is expected to continue over the SIP period as the impact of short- to medium-term crisis response financing unwinds and a substantial number of projects reach maturity in 2022 and 2023.

Based on an analysis of individual reflow parameters which are either estimated on the basis of actual information (as for scheduled repayments on existing operating assets) or ratios to operating assets (for prepayments, divestments, and write-offs) or portfolio (cancellations), reflows are projected to reach an

Table 3.4 Annual disbursements 2020-2024 (€ billion at plan rate €/$1.15)

	2020 Actual	2021 Projected	2022 Projected	2023 Projected	2024 Projected
Disbursements	7.8	7.0-7.5	7.0 – 8.0	up to 8.0	up to 8.0

[10] The equity share averaged 7 per cent between 2016 and 2019.

Table 3.5 Portfolio reflows 2020-2024 (€ billion at plan rate €/$1.15)

	2020 Actual	2021 Projected	2022 Projected	2023 Projected	2024 Projected
Portfolio Reflows	5.7	7.2	up to 8.0	up to 7.7	up to 8.0

average of 16 per cent of the opening portfolio stock over the SIP, as follows:

- Annual repayments of 17 per cent of the unimpaired loan operating stock, up from 16 per cent expected in 2021 and after 14 per cent in 2020. The current schedule of repayments peaks in 2022 reflecting a concentration of repayments under the Bank's Resilience Framework (around €700 million in 2022 alone).
- Annual prepayments at around 4 per cent of unimpaired loan operating assets for the period 2022 to 2024. After a strong decline in 2020 to less than 3 per cent, prepayments had reached almost €600 million by end September 2021, 79 per cent higher than the September 2020 level although still below historic levels.
- Divestments almost halved in 2020, amounting to 10 per cent of the equity stock. Annual divestments are assumed to gradually return towards historical levels, rising from 11 per cent in 2021 to 13 per cent in 2024.
- The ratio of cancellations decreased from 8 per cent over the period 2016 to 2019 to 6 per cent in 2020. Given recent trends, it is projected to rise to around 7 per cent over the SIP period.

Based on the above trends and projections of annual disbursements, portfolio reflows and investment activity levels, the Bank's portfolio and operating assets are projected to increase by up to 6 per cent and 10 per cent respectively from 2020 to end-2024 (Table 3.6). Taking account of this portfolio growth, historic trends of average project size and projected reflows, the number of active projects in the Bank's portfolio is projected to increase by some 10 per cent from 2,196 at the end of 2020 to up to 2,420 by the end of 2024.

From a regional perspective, the three largest portfolio shares are projected to be in Southern and Eastern Mediterranean, Eastern Europe and Caucasus and in South Eastern Europe regions, while the highest portfolio growth rates are projected to take place in the Southern and Eastern Mediterranean and Central Asia region.

Portfolio composition is a function of region-specific activity levels based on assessment of transition opportunities and the Bank's additionality, product composition, reflow rates, and the maturity of the portfolio. Reflecting these parameters, illustrative portfolio projections for 2021 to 2024 are presented in Table 3.7. They show the following trends in the portfolio:

- An expansion in **Central Asia** of 27 per cent from €5.4 billion at end-2020 to €6.8 billion by end-2024 reflecting projected activity levels in the region.
- **Central Europe and Baltics** broadly constant at just below €7.0 billion until 2024 when it decreases slightly to €6.7 billion due to the region's portfolio high maturity level and expected repayment profile.
- A decrease in **Cyprus and Greece** from €2.3 billion to €2.1 billion over the SIP period, which reflects the combined impact of a growing reflow rate in the region and the cessation of new project activity in Cyprus at end-2020.
- Growth of over 8 per cent in **Eastern Europe and Caucasus**, from €8.9 billion to €9.6 billion in 2024.
- A decrease in **Russia** of 37 per cent over the SIP period, reflecting the expected

Table 3.6 Portfolio and operating assets 2020-2024 (€ billion at plan rate €/$1.15)

	2020 Actual	2021 Estimated	2022 Projected	2023 Projected	2024 Projected
Portfolio	49.4	49.7	up to 50.4	up to 51.5	up to 52.2
Operating Assets	34.0	34.9	up to 35.6	up to 36.6	up to 37.3
Active Portfolio Operations, number	2,196	up to 2,240	up to 2,300	up to 2,360	up to 2,420

amortisation of the Russian debt portfolio and divestment levels on the outstanding equity portfolio, which accounts for 86 per cent of the total portfolio.

- After peaking at €9.5 billion in 2021 a drop in **South-Eastern Europe** towards €9.1 billion in 2024 due to a combination of a stable flow of new projects over the period and the rising maturity of the Bank's assets in the region.
- Growth of 26 per cent in the **Southern and Eastern Mediterranean** region between end-2020 and end-2024 towards €10.6 billion, reflecting higher activity levels over the period amidst a growing maturity of this portfolio.
- A small decline in **Turkey** to €6.5 billion, reflecting strong reflow pressure during the period with, in particular, the expiry of a high level of trade facilitation in 2021 and scheduled repayments on existing loans in 2022 and 2023.

Table 3.7 Indicative regional portfolio composition 2020-2024 (€ billion at plan rate €/$1.15)

Volume	2020 Actual	2021 Estimated (up to)	2022 Projected (up to)	2023 Projected (up to)	2024 Projected (up to)
Central Asia	5.4	5.7	6.2	6.5	6.8
Central Europe and Baltics	6.8	6.9	6.9	7.0	6.7
Cyprus and Greece	2.3	2.4	2.3	2.2	2.1
Eastern Europe and Caucasus	8.9	8.8	9.0	9.4	9.6
Russia	1.2	1.0	0.9	0.8	0.7
South-Eastern Europe	9.2	9.5	9.3	9.2	9.1
Southern and Eastern Mediterranean	8.4	8.7	9.2	10.0	10.6
Turkey	7.2	6.8	6.5	6.4	6.5
Total	**49.4**	**49.7**	**50.4**	**51.5**	**52.2**

Share, per cent	2020 Actual	2021 Estimated	2022 Projected	2023 Projected	2024 Projected
Central Asia	11%	11%	12%	13%	13%
Central Europe and Baltics	14%	14%	14%	14%	13%
Cyprus and Greece	5%	5%	5%	4%	4%
Eastern Europe and Caucasus	18%	18%	18%	18%	18%
Russia	2%	2%	2%	2%	1%
South-Eastern Europe	19%	19%	18%	18%	17%
Southern and Eastern Mediterranean	17%	17%	18%	19%	20%
Turkey	15%	14%	13%	12%	12%

Table 3.8 2022 Indicative regional and sectoral Annual Bank Investment (€ billion at plan rate €/$1.15)

	BP2021 Indicative Share, per cent	BP2022 Indicative Share, per cent	BP2021 Indicative Planning Level ABI	BP2021 Indicative Upper End ABI	BP2022 Indicative Planning Level ABI	BP2022 Indicative Upper End ABI
Central Asia	13%	14%	1,400	1,450	1,350	1,450
Central Europe and Baltics	12-13%	12%	1,300	1,400	1,200	1,250
Greece	5%	5%	500	550	500	550
Eastern Europe and Caucasus	18%	18%	1,900	1,950	1,800	1,850
South-Eastern Europe	17%	17%	1,750	1,850	1,700	1,800
Southern and Eastern Mediterranean	22%	21%	2,350	2,400	2,100	2,200
Turkey	12-13%	13-14%	1,300	1,400	1,350	1,400
Corporate	27%	27%	2,850	3,000	2,700	2,800
Financial Institutions	36%	37%	3,750	3,950	3,700	3,900
Sustainable infrastructure	37%	36%	3,900	4,050	3,600	3,800

4. Maintaining Financial Sustainability

4.1 Financial Sustainability

Financial sustainability is an integral element of the Bank's operational mandate as it aims to deliver transition without an ongoing need for additional funds from shareholders. In order to support this, the Bank follows a three-pronged approach, namely to consider profitability, capital adequacy and liquidity requirements. To ensure that these are quantifiable and measurable, the Bank has a set of tools to assess, monitor and manage returns against risk, as well as ratios to determine if adequate liquidity is in place. These are summarised as follows:

(i) Profitability

- **Investment Profitability Model (IPM),** which allows assessment of projected risk-adjusted returns on new debt projects at the point of origination and decision.

Corporate scorecard metrics:

- **The Return on Required Capital (RoRC)** captures the overall return of the Bank (including debt, equity and Treasury activities); and
- **The debt RoRC** (before costs) aims to isolate and assess risk-adjusted financial returns within the debt portfolio only.

(ii) Capital management

Established as capital control parameters in the SCF, the Bank manages its capital adequacy based on:

- **The Capital Adequacy Policy (CAP),** which provides an internal indicator of likely rating agency assessments of the Bank's capital adequacy (focusing specifically on Standard & Poor's methodology). The policy is monitored using a utilisation ratio, defined as required capital to available capital. A 90 per cent prudential limit is defined to preserve a buffer above minimum requirements for 'triple A' strength.
- In addition to the risk-based measure, the Bank also adheres to a **statutory capital** metric that ensures that total Banking exposure does not exceed the capital base (including callable capital). A prudential limit is set at 92 per cent against this nominal measure. The SCF 2021-25[11] provided that the Bank will plan to operate at levels of statutory capital utilisation below 90 per cent in order to provide a capital buffer.

The Bank's existing capital policies are supplemented by forward looking macroeconomic stress testing. High level financial and risk management objectives have been articulated in a Risk Appetite Statement, including a quantification of the risks associated with the Bank's business plan through Financial Loss Tolerance Thresholds (FLTT). Stress test results are measured against these thresholds.

Finally, a **Framework for Net Income Allocation Proposals** guides the financial assessment of net income allocations within the context of growth in members' equity.

(iii) Liquidity management

The Bank's Liquidity Policy is a key element in safeguarding the Bank's financial stability in the medium term and supports the Bank's 'triple-A' rating. The Bank also ensures that at any time it is able to meet each of the minimum liquidity requirements set out in the Bank's **Treasury Asset and Liquidity Policy (TALP).**

4.2 Profitability

To ensure sufficient capital headroom the detailed financial projections are based on the 'upper-end' of the planning range of ABI during the SIP period. The Bank's capital is projected to grow by €1.36 billion from €19.79 billion (estimated at end-2021) to €21.15 billion by end-2024 as shown in table 4.1.

The estimated net profit before net income allocations of €1.9 billion for 2021 is predominantly driven by a strong equity performance (with unrealised equity gains estimated at €1.0 billion) and impairment losses significantly below plan. The net profit in 2021 reflects the year-to-date financial performance at the time of writing. It also incorporates estimates

[11] BDS20-030/F

Table 4.1 Profitability (€ billion)

Profitability	2019 Actual	2020 Actual	2021 Estimated	2022 Projected	2023 Projected	2024 Projected
Debt operating income	0.81	0.73	0.85	0.88	0.88	0.89
Equity operating income	1.14	0.32	1.34	0.32	0.32	0.33
Treasury operating income	0.17	0.18	0.17	0.13	0.13	0.13
Cost of euro-denominated equity capital	0.00	0.00	(0.08)	(0.07)	(0.06)	(0.06)
Financial reporting adjustments	(0.23)	(0.00)	0.06	0.00	0.00	0.00
Total operating income before impairment	**1.89**	**1.24**	**2.35**	**1.26**	**1.26**	**1.28**
Provisions for impairment	(0.02)	(0.48)	0.09	(0.15)	(0.15)	(0.15)
Administrative expenses	(0.44)	(0.47)	(0.46)	(0.55)	(0.56)	(0.59)
Net profit/(loss) before net income allocations	**1.43**	**0.29**	**1.97**	**0.56**	**0.55**	**0.54**
Net income allocations	(0.12)	(0.12)	(0.08)	(0.10)	(0.10)	(0.10)
Net profit/(loss) after net income allocations	**1.32**	**0.17**	**1.89**	**0.46**	**0.45**	**0.44**
Other comprehensive income (OCI)	0.23	(0.11)	0.00	0.00	0.00	0.00
Total movements in members' equity	**1.54**	**0.06**	**1.89**	**0.46**	**0.45**	**0.44**
Total members' equity	**17.83**	**17.89**	**19.79**	**20.25**	**20.71**	**21.15**
Return on total members' equity, per cent	10.2%	1.0%	11.0%	2.9%	2.8%	2.6%

of stable income streams, prudent estimates of specific impairments and anticipated releases in the level of general provisions[12] to the year end.

Net profit is projected to be moderately lower compared with SIP 2021-23. This is driven by higher administrative costs together with market interest rates placing continued pressure on debt margins and also driving a negative return on the Bank's euro-denominated equity capital. On the positive side, the outlook in terms of credit losses has improved, with impairment projections reverting to long run averages. Overall, the Bank's core earning capacity is expected to remain strong.

The primary financial variables behind the projections are as follows:

Debt

- The average margin on performing non-sovereign debt is assumed at 2.75 per cent across the planning period (2.8 per cent in SIP 2021-23), reflecting evidence of a recent decline in average margins on stock (2019: 2.97 per cent; 2020: 2.69 per cent; September 2021: 2.68 per cent). Note that since annual business investment replaces only a portion of operating assets each year, margins on new signings (2019: 3.07 per cent; 2020: 2.34 per cent; September 2021: 2.68 per cent) take time to impact average stock margins. The decline in margins observed in 2020 was primarily driven by the Bank's focus on providing lines of liquidity at shorter tenors, particularly in the financial institutions sector. There are signs of improvement in margins during 2021, together with a corresponding reversion of average tenor to pre-crisis levels.
- Net specific provision charges are assumed at €150 million per annum for the SIP 2022-24 period. The projection is based on the (externally audited) IFRS 9 expected credit loss (ECL) model,[13] using GDP projections from OCE for the *baseline scenario* established for stress testing (see section 4.3.3). The assumed credit losses across the planning period result in a projected decrease in the non-performing ratio to 4.6 per cent, from 5.9 per cent at end-2020.

Equity

- Overall equity returns (dividends received, realised and unrealised gains) are assumed at 6 per cent per annum across the planning period. Forecasting equity returns is

[12] Includes removal of the management overlay (€70 million) and the expected release of an additional €70 million following a move to 100 per cent own experience when calibrating PD rates.
[13] Using PD rates based on 100 per cent EBRD own experience and one-year Expected Credit Loss.

challenging, particularly during periods of economic turbulence. As a result, average annual returns are set uniformly across the planning period. Whilst annual returns are unchanged from SIP 2021-23, absolute income is higher due to the larger opening fair value of equity investments at the start of the planning period.

Cost of euro-denominated equity capital

- Since the global financial crisis, several central banks have deployed negative policy rates with EURIBOR turning negative for the first time in 2014 (*minus* 10bps). As a result, this has generated a cost on the Bank's 'free' capital.[14] This is beginning to have a notable impact on the Bank's income, especially in the last 12 months, as rates continue to worsen (currently *minus* 53bps), accentuated by a growing capital base. This was estimated at €58 million in the nine months to the end of September 2021. However, the position is expected to improve over the planning period as interest rates are assumed to rise in view of inflationary pressures and the macroeconomic outlook.

Treasury

- Treasury operating income before considering the impact of negative interest rates on the Bank's 'free' capital is assumed to be €125 million for 2022 and to remain around this level to the end of the planning period.

Historically, profits have been supported by gains from the Asset & Liability Management (ALM) desk. However, due to their unpredictable nature, ALM gains are set at prudent levels in the Plan. Returns on short term assets declined during 2021 and are also projected at lower levels than in earlier years. Total treasury assets are projected to remain broadly constant throughout the planning period at around €33 billion.

Other

- Administrative expenditure projections are based on the medium term budget assumptions set out in Chapter 6. The consideration of administrative costs against planned debt income allows projections of the cost to debt income metric (SCF control parameter) as set out in Table 4.2.
- At 65 per cent the ratio is projected to be below the SCF control parameter limit of 70 per cent by 2024. The 9.2 percentage point increase in the cost to debt income ratio from 47.7 per cent estimated for 2021 to 56.9 per cent in 2022 is mainly driven by projected increases in the Administrative Expense Budget. This reflects impacts of GBP strengthening, which increases EUR denominated costs (2.8 percentage points), major capital expenditure on the Bank's IT systems under the Multi Year Investment Plan

Table 4.2 Cost to Debt Income Ratio

Cost to debt income ratio	2019 Actual	2020 Actual	2021 Estimated	2022 Projected	2023 Projected	2024 Projected
Total operating income before impairment	(435)	(466)	(464)	(548)	(556)	(592)
Exceptional & non-budgeted items to adjust:						
Libor opex		0.7	2.9	6.2	0.0	0.0
HQ transition costs			9.0	24.9	0.0	0.0
Staff mobility		11.1				
OEE	5.8	0.2				
Non-budgetd items	14.4	15.6	29.5	17.6	17.6	17.6
Exceptional & non-budgeted items sub-total	**20.2**	**27.6**	**41.4**	**48.7**	**17.6**	**17.6**
Adjusted expense base	(415)	(438)	(423)	(500)	(538)	(574)
Total debt operating income	**811**	**838**	**887**	**878**	**879**	**886**
Cost to debt income ratio*	**51.2%**	**52.3%**	**47.7%**	**56.9%**	**61.2%**	**64.8%**

*Before effective interest rate adjustment and deferral of fee income.

[14] This is defined as total members' equity less equity investments and represents a free source of funding.

Table 4.3 Operational and Capital Utilisation Trends, € billion

Planning rate [1]	2019 Actual	2020 Actual	2021 Estimated	2022 Projected	2023 Projected	2024 Projected
Annual Bank Investment	10.1	11.0	10.2	10.5	10.8	10.8
Portfolio	46.1	48.4	49.7	50.4	51.5	52.2
Operating assets at cost	**31.8**	**33.3**	**34.9**	**35.6**	**36.6**	**37.3**
less accumulated specific provisions	(0.7)	(0.8)	(0.8)	(0.8)	(0.9)	(0.9)
Adjusted net operating assets (a)	**31.1**	**32.5**	**34.1**	**34.8**	**35.7**	**36.4**
Total statutory capital [2] (b)	41.2	41.4	42.1	42.6	43.0	43.5
Statutory capital utilisation (a / b)	**75%**	**79%**	**81%**	**82%**	**83%**	**84%**
SIP2021-23			83%	85%	87%	
Capital adequacy:						
Required Capital	11.8	12.0	13.0	13.1	13.3	13.4
Available Capital	17.8	17.9	19.8	20.2	20.7	21.1
Capital utilisation (under CAP)	**66%**	**67%**	**66%**	**65%**	**64%**	**63%**
SIP2021-23			67%	68%	68%	

(1) Actuals at reported rates; projections at planning rate of €/$1.15

(2) Statutory capital is reduced by accumulated specific provisions (see 'Review of the Gearing Ratio Interpretation' (BDS15-018)).

(2.2 percentage points) and other increases.[15]

4.3 Capital

As well as profitability, capital projections are also influenced by any potential future allocations of net income to 'other purposes' pursuant to Article 36.1. Any such net income allocation proposal needs to be developed under the Framework for Net Income Allocation Proposals, where it is expected that at least 75 per cent of the Bank's growth in members' equity should be retained in reserves on a rolling three-year basis.

For planning purposes, illustrative amounts for net income allocations have been assumed over the period of this Plan and are set at levels broadly in line with average allocations made in recent years. Such illustrative amounts should not be seen as pre-empting any decisions on net income allocations that are taken by the Board of Governors on the basis of proposals from the Board of Directors.

Whilst the illustrative amounts are well within thresholds in the Framework, any future net income allocations will impact growth in the statutory capital base. The statutory capital policy (rather than the risk-based capital policy) is expected to remain the binding constraint for operational capacity assessments in the medium term.

4.3.1 Capital utilisation projections

The development of the Bank's actual and projected operation levels and capital utilisation is presented in table 4.3.

The lower than previously projected statutory capital utilisation over the planning period (2022-2024) compared with SIP2021-23 is driven by lower projections of operating assets due to higher expected reflows resulting from the 2020 Covid-response business profile (see section 3.4).

The capital and financial projections incorporate an implied risk profile for the projected portfolio. On the basis of the indicative changes in the regional shares within the portfolio by end-2024 and assuming that the average risk rating for each region remains constant,[16] the average capital requirements for debt would be 14.0 per cent of debt exposure by end-2024 (September 2021: 14.2 per cent).

Estimates of rating agency capital assessments have also been projected for each year of the

[15] Excluding the MYIP and the effect of the change in fx planning assumption (from €/£ of 1.11 in SIP 2021-23 to €/£ 1.17 in this SIP), the cost to debt income ratios for 2022, 2023 and 2024 are 51.9, 54.5 and 56.7 per cent respectively.

[16] See section 4.3.3 on financial resilience where the Plan is subject to macroeconomic stress tests, resulting in rating downgrades and losses across the debt and equity portfolios.

plan. The Bank remains above minimum thresholds for triple-A capital strength throughout the SIP 2022-24 period. Rating agencies also consider a range of non-financial factors when determining overall ratings, such as policy importance and strength of shareholder support.

Overall, the Bank has appropriate capital to support and implement its plans in the period to 2024, whilst remaining well within the prudential thresholds, even under stressed conditions (see section 4.3.3). There is also capital headroom to support additional operational activity and to absorb variations in equity portfolio growth and returns.

4.3.2 Return on capital

The **return on required capital** on a rolling three-year basis is projected to exceed the minimum required 3.5 per cent over the period covered by the SIP (Table 4.4). The annual return is subject to significant volatility arising from the fair value of equity investments. The lower result of the 3 year rolling return in 2024 is driven by the exceptional performance in 2021 no longer being included in the calculation.

4.3.3 Financial resilience

Stress testing

The Bank conducts stress tests to better understand potential vulnerabilities in its overall portfolio and sub portfolios. It also assesses the impact of stress scenarios on the Bank's projected capital capacity to understand if the operational plan is within an acceptable risk tolerance and the potential implications of stress events from a capital planning perspective.

Stress scenarios are translated into key drivers of financial impact on the Bank, including debt, equity and treasury losses, as well as growth in capital requirements. Debt losses are calculated using stressed probabilities of default (PD) which are directly linked to country level GDP growth projections, whereas equity losses are calculated based on a Value at Risk approach applied to relevant regional equity indices. Growth in debt capital requirements are driven by PD rating downgrade assumptions, as well as by the projected evolution of sovereign ratings (which act as a ceiling on non-sovereign PD ratings). Both capital requirements and losses also depend on SIP business growth assumptions.

For planning purposes, the Bank's main focus is on the Severe (1-in-25) scenario. The Bank aims to be sufficiently capitalised to withstand such a severe macroeconomic shock with resulting capital ratios consistent with retaining a 'triple-A' rating under rating agency methodologies, whilst relying on perceived shareholder support for such a rating. Under the Bank's CAP, this equates to a capital utilisation level of 100 per cent after stress.

Based on the Severe stress (post institutional actions)[17] and maintaining planned investment levels outlined in the SIP operational plan, **peak capital utilisation during the planning period is projected at 71 per cent**, marking a 5 per cent increase relative to 66 per cent (estimated) at end-2021.

In conclusion, the results from the stress test confirm that capitalisation levels are very strong and the Bank would remain resilient in the event of a severe shock during the implementation of the SIP2022-24 operational plan.

Risk appetite

A framework has been established to transparently quantify the level of financial loss that could be experienced (and absorbed) against each operational plan.[18] Such losses are assessed under stressed conditions of differing severity. The results are then compared against boundaries, or *Financial Loss Tolerance Thresholds* (FLTTs), to ensure the risk associated with each plan is understood and within the expected appetite.

Table 4.4 Return on Required Capital, per cent

Return on required capital, %	2019 Actual	2020 Actual	2021 Estimated	2022 Projected	2023 Projected	2024 Projected
Annual return basis	14.1%	1.5%	15.8%	4.3%	4.2%	4.1%
3-year rolling average return	7.7%	5.9%	10.5%	7.2%	8.1%	4.2%

[17] Reduction in equity share of ABI and reduction in net income allocations.
[18] See Risk Appetite Statement (CS/AU/21-19) and 2020 Review of Financial Loss Tolerance Thresholds (CA/AU/20-51).

Under the FLTT framework, the Bank looks at the Severe and Cyclical stress scenarios to assess financial performance at different levels of severity. Considering more than one scenario widens the understanding of the Bank's exposure to more predictable downturn conditions, but also against more severely correlated tail-risk shocks.

The results from these stress scenarios applied to the SIP2022-24 plan are presented in Table 4.5 below together with the FLTT. Projected financial losses (net earnings at 1 year) are within the boundaries of the FLTTs confirming that the plan is within the confines of the Bank's risk appetite.

Table 4.5 Stress Test Results vs. Financial Loss Tolerance Thresholds

Scenario	Net Eamings 1 year (€m)	FLTT (€m)
Downturn	-956	-1,000
Severe (post-Institutional Actions)	-2,439	-3,000

As in any modelling exercise, the stress results represent only one outcome out of a multitude of possible adverse paths the future can take. While any projected financial outcomes are subject to model risk, the risk of underestimation of losses is considered low due to the number of conservative modelling assumptions.

4.4 Liquidity and 2022 Borrowing Programme

The assessment of the Bank's liquidity requirements and resulting size of the Borrowing Programme is performed annually in the medium-term context provided by each SIP. In determining liquidity requirements for the following year, the Bank sets an operating target for liquidity above the minimum policy requirements.

Based on planned activity levels in this year's Plan, **a Borrowing Programme of up to €11 billion (expected use, €10 billion) net new issuance is set for 2022.**

The borrowing authority for 2021 was €14 billion (€12 billion expected utilisation). The purpose of the higher Borrowing Programme in 2021 was to enable the Bank to take advantage of favourable opportunities offered by the market to secure long-term funding and in turn to build a comfortable liquidity buffer above minimum levels required by internal policies and external rating agency methodologies.

As a result, the Bank has successfully strengthened its liquidity position in 2021, with the EBRD one-year stressed ratio at end-September 2021 standing at 157 per cent. The estimate for end-2021, although lower than current levels, is 151 per cent. Relative to the 100 per cent minimum this is equivalent in absolute terms to a €10.4 billion liquidity buffer and is three times the period average cover achieved in 2020.

With a **borrowing level of €10 billion** anticipated for 2022:

- Liquidity ratios maintain a comfortable buffer above minimum levels required by the Bank's internal policies and the Bank's liquidity position is assessed to be in the strongest category under external rating agency methodologies;
- There is flexibility in the implementation of the borrowing programme so that the Bank is not required to borrow funds in unfavourable market conditions.

4.4.1 Projected liquidity ratios

The projected liquidity levels at the end of 2022 are designed to ensure the Bank achieves the strongest assessment rating on liquidity from rating agencies.

Table 4.6 presents the one-year stressed liquidity ratio broadly following the approach applied by Standard & Poor's. At the end of 2022, it is estimated to be 144 per cent against a required ratio of 100 per cent (end-2021 estimate: 151 per cent). This ratio level ensures that the Bank's liquid funds are sufficient to meet its cash requirements against a one-year debt service plus 50 per cent of undrawn commitments. Coverage is projected to be moderately lower in 2022 relative to end-2021 due to the higher debt service requirements. Despite this, the Bank's liquidity buffer remains strong.

Table 4.6 Projected One-Year Stressed Liquidity Coverage Ratio

€ billion	End 2020 Actual	End 2021 Estimate	End 2022 Projected
Cash in			
Gross Treasury assets	31.7	33.2	34.2
less associated liquidity haircuts	(6.6)	(6.4)	(6.5)
Adjusted Treasury assets	**25.1**	**26.8**	**27.7**
Discounted maturing Banking loans and gross interest income	4.3	4.3	4.1
Total Treasury assets and maturing loans	**29.4**	**31.1**	**31.8**
Cash out			
Banking undrawn commitments (50%)	6.8	6.8	6.8
Guarantees (100%)	1.6	1.3	1.1
Debt redemptions (short & long-term)	13.4	10.9	12.6
Other obligations [(1)]	1.7	1.7	1.6
Total obligations	**23.5**	**20.7**	**22.2**
1 year EBRD stressed ratio	**125%**	**151%**	**144%**
Liquidity buffer to 100% minimum (€ billion)	6.0	10.4	9.7

[(1)] Includes cost of borrowings, non-borrowed funds, administrative expenses and deferred Net income allocations.

In line with the second requirement under the Bank's TALP, it is projected that at the end of 2022 the Bank will have 139 per cent coverage of the next two years' net cash requirements (to end-2024), comfortably above the policy minimum of 75 per cent. (Table 4.7).

Liquidity performance under a one-in-100 stressed scenario is the third requirement under the TALP. In this scenario, under the 2021 Bank-wide Stress Test, the EBRD has sufficient liquidity resources to meet net cash requirements for at least 24 months, compared with a minimum of 12 months set out in the TALP.

Table 4.7 Projected 2 Years Net Cash Requirements Ratio

	End 2021 Estimate	End 2022 Projected
Gross Treasury Liquidity assets	33.2	34.2
less short term borrowings [(1)]	(3.6)	(2.6)
Net Treasury Liquid assets	**29.6**	**31.5**
Net outflows	**Years 2022/23**	**Years 2023/24**
Net operational disbursements	(1.9)	(1.9)
Net profit (incl. Net income allocations)	1.2	1.2
Debt redemptions [(2)]	(20.2)	(22.0)
2 years net cash requirements [(3)]	**(20.9)**	**(22.7)**
Net cash requirements ratio	**142%**	**139%**

(1) Includes non-borrowed funds.

(2) Represents total debt (incl. short term debt) maturing in the next 24 months. Assumes no new issuance in years 2023 and 2024.

(3) Estimate for 2021 based on SIP22-24 projections.

5. Resourcing the Plan

Introduction

The Bank's business priorities for 2022 were outlined in the Operation Plan in Section 3 and the economic context in Section 1. The challenges the EBRD faces and how the Bank will deliver its objectives were set out there, including in particular the way in which the Bank plans to scale up its efforts to deliver tangible impact in key areas of the SCF and to reinforce its delivery model.

This section provides a high-level overview of the net resource needs to meet the Bank's ambitious operational goals for 2022 and how a major effort to inculcate a management culture which embeds resource efficiency and effectiveness as part of everyday thinking has created the capacity to redeploy substantial resources across activities and within departments. The result is a small net resource request notwithstanding the large gross needs to accelerate work on the SCF priorities and secure the Bank's ability to deliver results effectively.

Further quantification and details of specific budget and resource requirements are presented in the Budget Proposal in Section 6.

5.1 Embedding a Culture of Resource Effectiveness and Efficiency

The ambitions laid out in the SCF and developed in the Operational Plan present significant challenges from a budget and resource perspective as was anticipated at the time of the approval of the SCF.

On one hand, some increase in the core budget is essential to support the post-crisis recovery of EBRD countries of operations. The complications of operating in a Covid-affected environment, combined with a growing portfolio and tighter regulatory standards, has put support for front-line activities under further stress and resources are needed to cope with the strain, notwithstanding longer-term investments being made under the MYIP. At the same time, the Bank is eager to scale up its activities in support of the ambitious goals approved in the SCF. This SIP addresses these needs head-on, identifying the skills and capacity required to deliver what promises to be a significant deepening of the EBRD's impact in these important areas.

It was agreed a year ago in the SCF, and reflected in last year's SIP discussion, that the Bank should develop a more effective approach to resource management. Over the past year, the EBRD's senior management team has met frequently to identify potential resource effectiveness and efficiency themes, as well as ideas for optimising costs and resources, with the aim of embedding these principles in the Bank's culture.

There have been good reasons for doing so. Dynamic and successful organisations constantly reassess the way they operate and manage their business. This helps in managing workload pressures, growing complexities and new tasks in a seamless fashion.

The EBRD has been facing multiple pressures on its resources leading management to consider every aspect of Bank business as it harnesses a culture of continuous review. In doing so, all departments, all components that make up the Bank (its people, processes, systems and data), and all cross-cutting initiatives both short- and medium-term have been scrutinised closely for ways of making improvements.

Effective use of resources involves streamlining structures and processes to optimise output and redeploy resources where they are most needed. Management's collective commitment and approach to the task has manifested itself through organisational structure reviews, ideas to curtail less critical areas of activity, streamlining and (where feasible) increasing automation, refreshing skillsets and reallocating workloads to higher priorities, re-engineering processes and sharing services. In parallel, each ExCom member has committed to drive efficiency within their own area.

Benefits identified include freeing up resources for new priorities, reduced operational risk, service level improvements and more informed decisions. With some specific opportunities identified to date across the Bank the ambition to embed efficiency and effectiveness into day-to-day business is materialising. Common tools used have included:

- Top-down reallocations and adjustments to budgets, including cutting travel and consultancy costs;
- Renegotiating leases and optimising RO footprints (representative offices and closures);
- Leveraging the Mobility Enhancement Programme (MEP)[19] to enhance skills and deploy resources to new priorities or enhance mobility;
- Stopping low value add activities;
- Outsourcing;
- Exploring opportunities related to natural staff turnover and reallocating resources to the fullest extent possible;
- Reviewing and changing organisational structures to deal with changes in activity requirements; and
- Reviewing vacancies and decentralising activities to ROs where it makes both operational and business sense.

It should be noted that in some cases structural changes require process redesign and automation (IT support). Hence, further opportunities will evolve following the business design / Target Operating Models (TOM) work under the MYIP. This SIP reflects maximised use of the tools currently available, excluding opportunities that require IT enablement under the MYIP.

Regular discussion has helped ExCom members reach agreement on optimising use of existing resources with regular updates on progress. This has been an important enabler for delivery of new priorities without losing sight of the need to improve existing activities, skills and processes. It supports this year's SIP but, by embedding it in the Bank's mindset, it will continue to yield dividends in future SIPs.

5.2 Net Resource Needs

In SIP 2022-24 the **net resource request is £4.8 million or a 1.26 per cent increase in the Core Administrative Expense Budget**, once carry-over costs, compensation and benefits and price increases have been taken into account.[20]

The total Core Administrative Expense Budget increases by 3.97 per cent. It is equivalent to UK CPI (August 2021 figure) plus 0.77 per cent and is below Bank-wide aggregate inflation of 4.05 per cent (August 2021 figure, also combining higher inflation affecting the costs of Resident Offices).The pattern of net resource requests is shown in Figure 5.1 below, with additional detail provided in section 6. As described in this section over 75 per cent of the new/net resources are allocated to SCF priorities and improving business delivery capabilities.

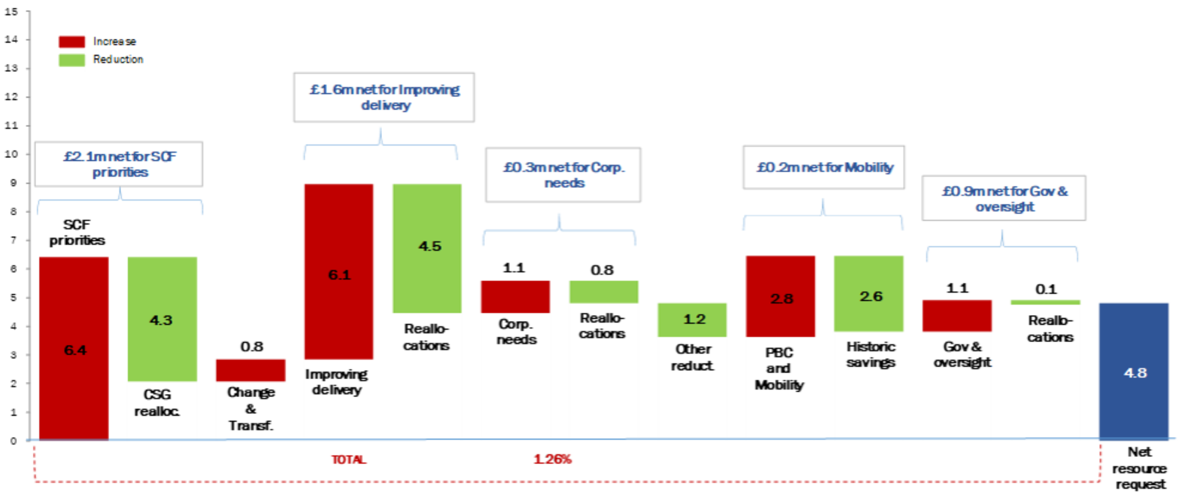
SCF priorities

First and foremost, additional resources are provided for SCF priorities. The scaling up of SCF thematic priority resources builds on incremental investments approved for the first year of SCF. Whereas the 2021 Budget concentrated mainly on Green, with some elements of Self-evaluation and Results Management-related resources, the 2022 Budget proposal increases Green resources further and builds additional capacity to deliver on three additional priorities – Equality of Opportunity, the Bank's Approach to the Digital Transition and Mobilisation. SIP 2022-24 also strengthens Self-evaluation.

The amount of **new resources going to SCF priorities** - Green Economy Transition, Equality of Opportunity, Digital, Mobilisation and Self-evaluation - **is £6.4 million**, with the largest allocation, £2.0 million, for ramping up Green activities. The outcome of a review of organisational structure in CSG and the reprioritising of activities, along with RO optimisation and reduced non-staff costs budgets provides **£4.3 million reallocations** to help create room for this significant adjustment in the balance of resources. The amount to support the shift towards SCF activities is **net request of £2.1 million**.

[19] The Bank continues looking for ways to increase mobility and opportunities for staff for development and career growth. The MEP was introduced in 2021 to support activities relating to increasing mobility within the Bank's organisation structure, and support aligning skills with the strategic priorities in the SCF.
[20] This increase is indicatively equivalent to 64-65 FTEs, prior to internal CSG reallocations to fund SCF priorities (for more details, see section 6.3.2).

Figure 5.1 2022 Net Resource requests (£ million)



Improving business delivery capability

Secondly, there is a need to strengthen the resilience of the Bank's delivery model and, in particular, its capacity to support front-line banking activities.

There are a number of factors at work here that make this urgent, starting with the increased size of EBRD business and its growing complexity. For example, the number of portfolio transactions to manage has risen by 17 per cent in less than five years, while the share of the generally more complex SIG component has increased to almost half of the total (from 42 per cent). Local currency transactions have increased too, with a desire to do more, as has this portfolio; and a rapid build-up in donor financed projects has involved more complex structuring efforts and reporting requirements. Maintaining the latest market standards in environmental and climate-related issues (e.g. on Paris alignment, TCFD, procurement), compliance with sanction regimes, AML/CFT and the cross-cutting requirements of EU guarantee programmes have become more widely spread across the Bank's set of projects, putting pressure on the services that support front-line banking and increasing the risks to their smooth-running.

On **Improving Delivery, the net request is £1.6 million.** Here **£6.1 million of gross resources** are provided for operations, portfolio and back-office work (Risk Management, OSM, OGC), local currency markets (Treasury) and compliance (OCCO). Ensuring a robust operating platform, while keeping disruptions and delays to a minimum, is a critical enabler for front-line delivery, especially with the Bank operating at close to record business volumes. These enhancements to delivery capability form part of the effort in this SIP to support the recovery in the Bank's countries of operations and underpin the acceleration on SCF priorities.

Reviews within the above departments to create capacity for strengthened delivery, for example via process re-engineering, organisation structure design and upgrading skills, yield **£4.5 million of internal reallocations**.

Performance Based Compensation (PBC) accrual

The **net request for PBC accrual** is zero, or **£0.0 million.**

It is proposed to improve budget transparency by accruing an amount of PBC commensurate with past experience instead of holding back savings in a less transparent way to make room for a PBC amount the Board may subsequently approve. Savings used for this purpose in the past seven years have averaged around £3.2 million annually so it is proposed to transparently accrue a higher amount in this year's budget (£2.63 million). This has a net zero implication for the budget as it is entirely offset by savings previously held back in case of PBC payments above the accrued level.

The adjustment to the PBC accrual brings it closer to actual levels of PBC in recent years, and thus represents prudent budgeting and an increase in the transparency of the Bank's cost structure. It does not restrict in any way the freedom of the Board of Directors to consider and approve PBC amounts actually allocated for payment to the Bank's staff in respect of performance. These decisions will be made in the normal way after the end of the year, based on performance of the Bank against its scorecard targets. To the extent that the actual PBC paid is above or below the amount allocated in the budget, adjustments from or to savings will subsequently be made to the actual cost base of the previous year.

Change and Transformation

£0.75 million is allocated to Change and Transformation, in order to set up initial capabilities aligned with best practices in other organisations where change and transformation are continuously managed to ensure continued high performance, and to strengthen the data management function within the new VP CTO area.

Other net resource changes

The **remaining items** amount to a **net request of £0.3 million.**

- Mostly self-funded through reallocations, small increases for various **corporate business needs** in OSG, Comms, Corporate Strategy and HROD. These amount to a **net total of £0.3 million.**
- **£0.9 million net for Governance and Oversight** functions. There are incremental resources and budgets here for EVD, IPAM, Internal Audit, the Staff Council and the Board, partially offset by some small savings from EvD consultancy budgets.
- **£0.2 million** for the **Mobility Policy Review.**[21]
- **Other Budget reductions and adjustments**, in particular ASD costs and FX adjustment contribute additional **savings of £1.2 million**.

Full details of these changes, along with those for extraordinary items (LIBOR, IT MYIP and HQ) and medium term projections, are provided in Section 6 on the Budget Proposal.

5.3 Staff, Workforce Planning and Knowledge Management

The Bank cannot deliver its objectives without an adequate, suitably skilled and motivated staff. And, given the EBRD's role as a knowledge provider in countries of operations and its ability to deliver considerable sectoral expertise to its clients, careful management of this resource – the Bank's knowledge – is of great importance.

5.3.1 The Bank's Workforce

A total of 193 staff joined the Bank in the last 12 months (a mix of new and replacement positions), representing a 14 per cent increase in recruitment volumes over the previous 12-month period. The proportion of women decreased slightly, by 1 per cent, to 56 per cent of the total. The proportion of donor-funded staff also decreased by 1 per cent, to 11 per cent, while the proportion of staff located in ROs remained static. Turnover decreased slightly from 4.5 per cent to 4.1 per cent, possibly due to the impact of Covid-19. Total staff headcount at Q3 2021 stood at 2913, of which 35 per cent were located in ROs. (Table 5.1)

Table 5.1 The Bank's Workforce in 2021, end-September

	2019 Q3		2020 Q3		2021 Q3	
	Headcount	Per cent	Headcount	Per cent	Headcount	Per cent
Headquarters	1809	65%	1858	65%	1895	65%
Resident office	966	35%	985	35%	1018	35%
Banking	1524	55%	1541	54%	1561	54%
Non-Banking	1251	45%	1302	46%	1352	46%
Regular	2074	75%	2111	74%	2198	75%
Fixed-Term contract	536	19%	567	20%	560	19%
Short-Term contract	165	6%	165	6%	155	5%
Non-Overtime Eligible (male)	1098	40%	1144	40%	1193	41%
Non-Overtime Elgible (female)	1107	40%	1157	41%	1238	42%
Overtime Elgible (male)	93	3%	90	3%	87	3%
Overtime Elgible (female)	477	17%	452	16%	395	14%

[21] See "Staff Compensation and Benefits Proposals for 2022", BDS21-159, Section 1.4.1.

5.3.2 The impact of Covid-19

Since the start of the lockdown on 11 March 2020, 2,858 days of absence recorded by staff have been attributed to Covid-19 taken by 295 unique employees and comprising 17.2 per cent of the total number of instances of medical absence during this period.

The negative impact of Covid-19 on available resources was off-set by the positive impact of remote working. In 2020, the total number of instances of medical absence fell to its lowest levels in the last 5 years: the number of booked medical absences in Q4 2020 was 72 per cent lower than in Q4 2016 (and 65 per cent lower than in Q4 2019). This trend continued to April 2021 but has reversed slightly since then.

Within the total there has been a material increase in the proportion of medical absences that are stress-related. In 2019, 4 per cent of medical absences booked by staff were attributed to stress, which rose to 8.4 per cent in 2020. Stress-related absences have increased in 2021, though the number remains small. The HR department continues to monitor the data to make sure the Bank is able to respond quickly if necessary and to support its staff and business activities.

5.3.3 Developing Talent

In 2022, the EBRD will focus its talent development programme on the following:

- Continuation of the Skills Sharing Initiative, which provides informal short-term opportunities to staff across the organisation and increases the visibility of departments to them;
- Supporting the delivery of the GET 2.1 approach via masterclasses and dedicated learning opportunities for staff to raise awareness and understanding of climate change and climate action interventions;
- Development of a learning concept to support the delivery of the Digital Transition agenda;
- Introduction of measures to increase staff mobility and strengthen the Bank's corporate and leadership capabilities.

5.3.4 Organisation Design

Organisation design efforts in 2021 focused on delivery of the Top Structure Review, supporting the Vice Presidency, Policy and Partnerships reorganisation and decentralisation.

Over the period covered by SIP 2022-24 it is expected that significant organisational design support will continue to be required. The Bank will adopt a phased approach, determined by resource availability, prioritisation and alignment of activity, with the focus in 2022 likely to be on:

- Implementation of the Policy & Partnerships re-organisation;
- Decentralisation, with a focus on priority regional hubs;
- Design work to support the Bank's efficiency agenda e.g. potential nearshore centres of excellence;
- Organisational design changes as a consequence of the target operating model design and process re-engineering work resulting from the MYIP; and, if appropriate,
- Preparatory work for the possible geographic expansion of the Bank.

5.3.5 Knowledge Management

The EBRD currently lacks a formal knowledge management (KM) system, although donor funds have supported a small embryonic KM team in VP3 to date. In this regard, the Bank lags far behind its peer international financial institutions where the importance of KM is emphasised and resourced with centralised units.

Plans for future KM improvements are being considered in the light of a recent EvD Report on **Learning and Knowledge Management**. The outcomes of the Audit Committee discussion of this Report will help to determine the scale of future staffing and other resource needs on the Bank's knowledge management practices.

6. Budget Proposal

Introduction

This section presents the core budget proposal for 2022, including a medium-term view based on illustrative assumptions of prudent growth in costs.

Beyond the core administrative budget, two exceptional items are presented in the 2022 Budget: the IT Multi-Year Investment Plan (IT MYIP), endorsed by the Board in July 2020 (Phase 1 approved in December 2021, Phase 2 presented for approval in this SIP); and proposed carryover of the unused LIBOR Transition Project budget (one-off costs).

Each of these elements is further discussed in this chapter. In addition, it was agreed last year that costs of the new HQ would be reflected outside the Budget (recognition of the lease costs between April 2021 and December 2022 following accounting standards and double running costs in 2022). The details are presented in Annex 3.

6.1 The Medium-Term Budget Perspective

This SIP covers three years to 2024 and has a multi-year perspective. It builds on investments approved for the first year of the SCF, reflects proposed sequencing and scaling up of resources to support SCF goals and addresses other business requirements in response to the challenging operating environment. Multi-year resourcing plans have been developed for the IT Multi-Year Investment Plan (section 6.5) and SCF themes (see Annex 2, Table A.5).

In 2022-2024, the Bank's resources will shift towards the priorities proposed in this SIP. As set out in the SCF, the Bank should first seek to reallocate capacity to invest in these priorities. The Bank also needs to create capacity to respond to higher workloads, greater complexity and new tasks within similar resource envelopes. This means continuing to upskill, innovate and encourage staff mobility within the existing resource base, facilitated by resource effectiveness initiatives, such as streamlining structures and processes, redeploying resources and developing skills.

However, the SCF is clear that in order to deliver the Bank will also require budget increases in every year of the SIP. Section 5 details the requirements for delivery in specific areas, in view of increases in business volumes, complexity and risk (resource intensity), as well as the need to bring in new expertise with specific skillsets to deliver the Bank's goals (resource matching). The proposed Budget for 2022 envisages an increase of 3.97 per cent in nominal terms from the 2021 Budget level for core expenses, of which 2.7 per cent is for carry-overs, price and volume impacts. The latter includes 2.3 per cent for compensation related increases: carry-over impact of 2021 Compensation and Benefits proposals, 2022 Compensation proposals and Board, VP and other salary increases at UK CPI (assumptions).

In addition to supporting core expenses, current and future SIPs will be impacted by extraordinary items (one-off and multi-year investments). Table 6.1 includes an illustrative development of Total Administrative Expenses to 2024 based on an illustrative 5.0 per cent nominal growth in the core budget in 2023 and 2024 in addition to exceptional budget items proposed in the current SIP. This illustration is provided purely to assess financial sustainability under prudent assumptions of cost growth and does not pre-empt future budget proposals. Budgets beyond 2022 will be approved by the Board of Directors in subsequent SIPs.

The Bank remains committed to an efficient use of resources and to strict budgetary control. The projections here do not prejudge development of the budget over the medium term. Among other items, future budgets for core expenses will need to take into account:

- Phased implementation of the SCF 2021-25 priorities;
- Resources to support the Bank's operational delivery and possible regional expansion;
- Adjustments for reward to remain competitive and address inflationary pressures.

Table 6.1 Projected Total Administrative Expense Budget 2022-24 (£ million)

	2021 Budget	2022 Budget	2023 Projection	2024 Projection
Core Administrative Expenses, GBP	394.5	410.1	430.7	452.2
Extraordinary Items, GBP	11.6	22.1	29.3	38.4
o/w LIBOR Transition	7.8	5.3	-	-
IT MYIP (opex and depreciation) - Phase 1	3.9	11.3	22.9	23.5
IT MYIP (opex and depreciation) - Phase 2	-	5.5	6.4	14.9
Total Administrative Expense Budget, GBP	**406.1**	**432.2**	**460.0**	**490.6**
GBP/EUR rate	1.12	1.17	1.17	1.17
Core Administrative Expenses, EUR	441.8	479.9	503.9	529.1
Extraordinary Items, EUR	13.0	25.8	34.3	44.9
o/w LIBOR Transition	8.7	6.2	-	-
IT MYIP (opex and depreciation) - Phase 1	4.3	13.2	26.8	27.5
IT MYIP (opex and depreciation) - Phase 2	-	6.4	7.5	17.4
Total Administrative Expense Budget, EUR	**454.9**	**505.7**	**538.2**	**574.0**

6.2 2022 Total Administrative Expense Budget with extraordinary items

The Board is requested to approve the 2022 Total Administrative Expense Budget consisting of a core budget, and two extraordinary strategic items, amounting to £432.2 million (€505.7 million). This includes:

1. Core Administrative Expense Budget of £410.1 million.
2. LIBOR Transition Project budget of £5.3 million.
3. IT Multi-year Investment Plan Phases 1 and 2 implementation impact of £16.8 million.

6.3 Core Administrative Expense Budget

A total of £410.1 million is proposed for the Core Administrative Expense Budget in 2022, a 3.97 per cent nominal increase from the 2021 Budget of £394.5 million (see Table 6.2).

The proposed 3.97 per cent nominal growth in Core Administrative Expenses Budget comprises:

- 2.7 per cent to fund carry over impacts, price and volume increases. This includes 2.3 per cent compensation-related increases: 0.3 per cent carry over impact of 2021 Compensation and Benefits proposals, 1.9 per cent for 2022 Compensation proposals and 0.1 per cent for

Figure 6.1 Total Administrative Expense Budget for 2022 (£ million)

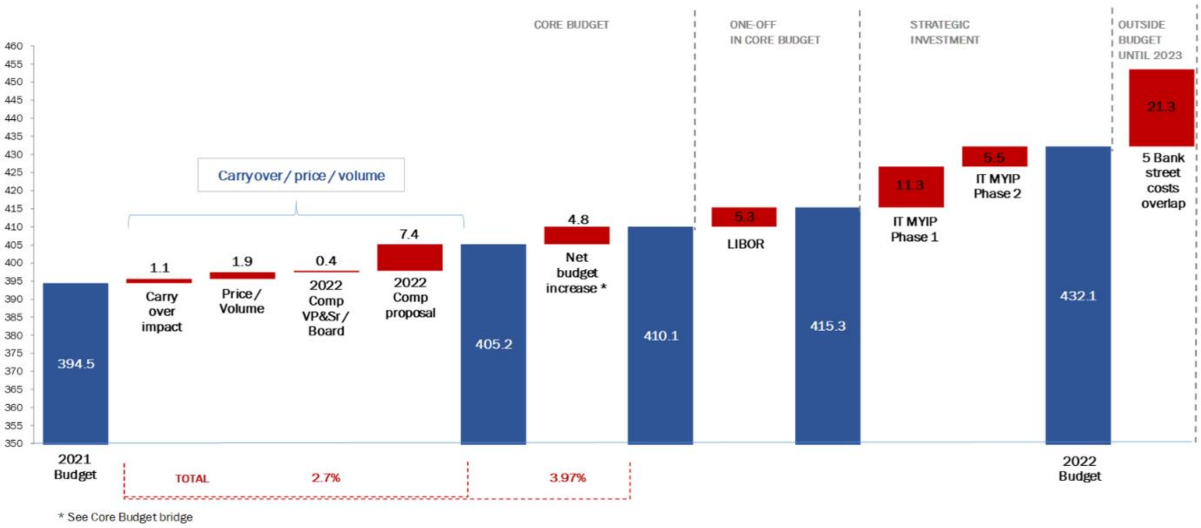
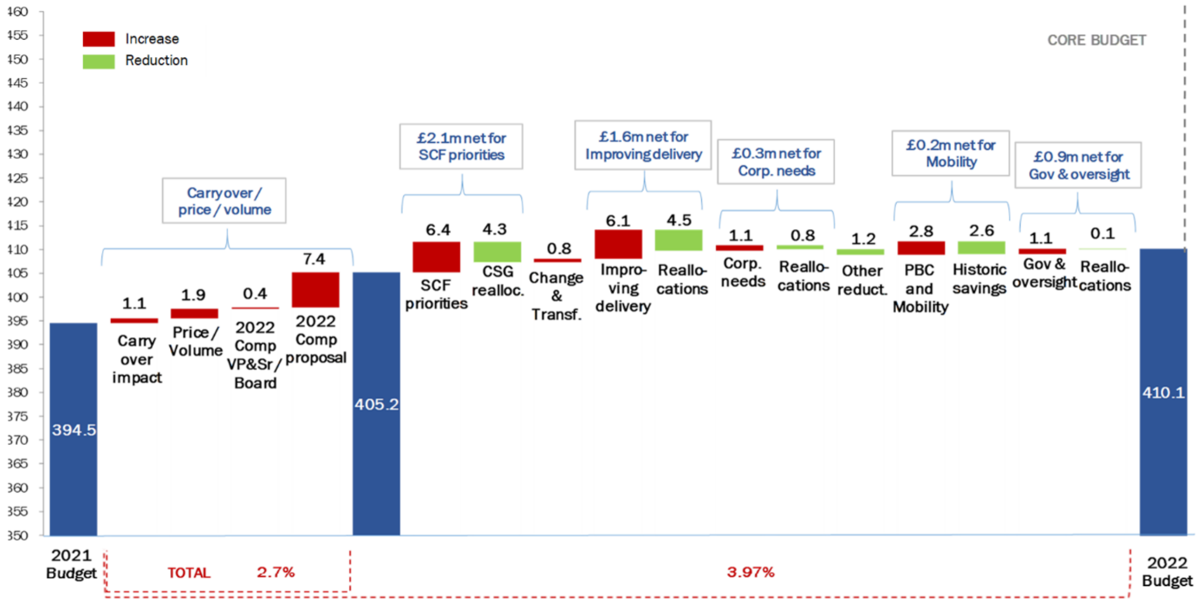


Figure 6.2 Core Administrative Expense Budget for 2022 (£ million)



Board, VP and other salary increases at UK CPI (assumptions).

- A net 0.5 per cent for SCF priority themes;
- 0.2 per cent for change and transformation capability;
- Net 0.4 per cent for improving delivery and 0.1 per cent for corporate business needs, offset by 0.3 per cent budget reductions and adjustments;
- Net 0.1 per cent for increased PBC accrual and Mobility Policy review;
- Net 0.2 per cent for governance and oversight functions.

6.3.1 Core Budget: Key Movements and Reallocations

Movements in the Core Administrative Expense Budget are driven by various factors set out below (see also Table 6.3):

- **£10.8 million additional budget for carry over / price / volume impacts** (factor A), including:
  - **Carry over impact.** This includes the full year impact of previous decisions:
    - Full year impact of 2021 Compensation adjustments (three months impact January–March 2022) of £0.8 million;[22]
    - Full year impact of 2021 Reward Review proposals (three months impact January – March 2022) of £0.3 million resulting from changes to Family Friendly benefits.[23]
  - **Price and volume changes.** This includes £1.9 million reflecting inflationary / contractual increases for IT software license costs (£0.8 million), database and information service costs (£0.5 million), audit fees (£0.4 million) as well as £0.2 million for other costs (Banking insurance and HR systems).

Table 6.2 Core Administrative Expense Budget for 2022 (£ million)

Administrative Expenses	2021 Budget	2022 Budget	2022 vs 2021 £ million	2022 vs 2021 Per cent
Operating Expenses	351.4	366.6	15.2	4.3%
Depreciation	43.1	43.6	0.5	1.1%
Core Administrative Expenses	**394.5**	**410.1**	**15.6**	**3.97%**

22 See "Staff Compensation and Benefits Proposals for 2021", BDS20-206 (Rev 1), Section 1.1.
23 See "Staff Compensation and Benefits Proposals for 2021", BDS20-206 (Rev 1), Section 1.1.

- **Board, VP and other salary increases.** Current assumptions include £0.4 million additional budget to reflect salary increases at August 2021 UK CPI (3.2 per cent) for the Board (£0.24 million), VPs and other senior roles (£0.16 million). This assumes a £0.6 million full year impact, resulting in a £0.1 million carry over onto the 2022 Core Administrative Expense Budget.
- **An additional £7.36 million budget is proposed for 2022 base salary increases** (effective from 1 April 2022)**, including the impact on benefits** (£9.54 million full year impact). An incremental £0.16 million is included in the 2022 Budget to support the 2022 Mobility Policy review proposals (£0.25 million full year impact, see factor C).[24] The two measures will result in a carryover of approximately £2.3 million onto the 2022 Core Administrative Expense Budget.

- **£6.4 million gross increase for SCF priority themes, offset with £4.3 million internal reallocations within CSG to partially fund these incremental resources** (factor B):
  - **Green**. Incremental £2.0 million funding and c. 18 FTEs are proposed for investment in Green. New activities include Paris Agreement alignment methodology to all new operations, policy support to CoOs on low carbon trajectories and climate governance, accelerating climate mobilisation, continuing to grow GET investment towards 2025 goals, as well as assurance activities to ensure a robust ex post Measurement, Reporting and Verification (MRV) process for Paris Alignment and GET attribution.
  - **Equality of Opportunity.** Incremental c. 13 FTEs and £1.1 million budget are proposed to develop key thematic priority areas (e.g. inclusive financial systems, inclusive region and cities, digital/green skills, care economy, safe transport and inclusive infrastructure, as well as gender mainstreaming through institutional capacity building).
  - **Digital Transition.** Incremental five FTEs and £1.6 million budget are proposed to develop a digital policy package, provide thought leadership, external engagement and implementation coordination, internal staff training, as well as digital specialists embedded in sector teams to coordinate and ensure consistency and provide effective client outreach.
  - **Mobilisation.** Incremental c. eight FTEs and £0.8 million budget are proposed to strengthen impact in CoOs by increasing investment through private sector mobilisation. The additional resources will be used to increase B loans and parallel loan mobilisation, unfunded mobilisation through URPs, launch and deploy a debt co-investment fund with a minimum size of €500 million, and strengthen communication with potential investors.
  - **Self-evaluation.** Incremental five FTEs and £0.8 million budget are proposed to be centrally located within the Impact pillar of VP3 and OCE to oversee the launch and management of a new self-evaluation system (Kirk Report recommendation) and to provide support, expertise, quality control and training to CSG staff. The new system will improve institutional performance by better use of a range of quality, IT-supported, self-evaluation products for organisational learning and results management.
- **£0.8** million **increase to set up permanent change and transformation capability and strengthen the data management function within the new VP CTO area** (factor C). This investment is to be aligned with best practices in other organisations where change and transformation are continuously managed to ensure continued high performance.
- **£1.6 million net increase for improved delivery** (factor D). This reflects significant internal reallocations within Finance, Risk and Compliance and OGC to address increased volumes in Banking portfolio and operations (OSM, Risk Management, OCCO, OGC), enhancing the service model for frontline activities (OSM), Treasury activities

[24] See "Staff Compensation and Benefits Proposals for 2022", BDS21-159, Section 1.4.1.

(Risk Management), strengthen local currency activities (Treasury) and improve disbursement rates (PPAD). The net budget increase for Finance is £0.4 million in the OSM budget, £0.3 million in OGC mainly in the Banking team (including for field-based resources) and £0.9 million in Risk and Compliance Group (including £0.1 million centrally managed costs for the Security team, £0.1 million for Information security consultancy and database costs, resources for project integrity in OCCO, and additional budget for PPAD).

- **£0.3 million net increase for corporate business needs** (factor E)**.** This reflects significant internal reallocations within OSG (to shareholder relations and language services), HROD (to support organisational changes) and Communications (organisational structure adjustments to come with activity requirements) and incremental budget requests for HROD centrally managed costs (mental health application piloted in 2021), OSG (centrally managed costs) and Corporate Strategy (junior resource for analytical support).
- **£1.2** million **net budget reductions / adjustments** (factor F), including:
  - **£0.8** million reduction identified in **central costs managed by ASD**, mostly related to HQ costs.
  - **£0.3** million favourable impact of **SIP FX rates** on staff and non-staff costs (salary costs and associated benefits for staff on local currency contracts, information services and database costs, resident office lease costs/depreciation).
  - **Reallocation** of **£0.1 million** negative wage drift identified in ASD staff costs.
- **£0.2** million **net increase to fund higher PBC accrual and Mobility Policy review proposals** (factor G). This includes:
  - **£2.63 million included for PBC** to bring the budgeted level in line with sound accounting practices from 2022 onwards. This reflects a one-off adjustment to the budget, reflecting past experience in a less transparent use of savings, with no carryover impact and **fully funded by £2.63 million permanent budget reductions**, from**:**
    - Review and assessment of central budgets yields a **£1.6 million** permanent budget reduction in the **central benefit budgets**, from a reduction of ongoing employment costs related to legacy Expat allowances, as this population is shrinking (new staff are on IHS/mobility policy), and increased recovery of benefits costs for externally funded staff, based on historic trend analysis.
    - **£0.5 million**, a 5 per cent reduction, of the **EBRD travel budget** (including for the Board, EvD and IPAM) to reflect the post-Covid environment, as well as a conscious reduction in the Bank's environmental footprint. This makes a **cumulative 24 per cent decrease against the pre-Covid situation**, i.e. the 2020 original travel budget. Its long-term sustainability is unclear and may need to be revisited in subsequent budgets (the proposed 2022 travel budget is 68 per cent of actual expenditure in 2019).
    - **£0.5 million** reduction in centrally managed costs related to **RO footprint optimisation and closures.** This includes renegotiation of the most expensive RO lease contracts (Moscow) and reviewing the Bank's presence and Representative Offices in Tokyo and Washington DC as well as closure of the Cyprus office.
  - **£0.16 million for 2022 Mobility Policy Review proposals** (effective 1 April 2022).[25] The annual estimated impact of these proposals is £0.25 million resulting in £0.09 million carryover impact on the Core Administrative Expense Budget.
- **£0.9 million net increase to strengthen governance / oversight functions** (factor H). Additional capacity in EvD, IPAM and Internal Audit, self-managed non-staff costs for the Board (BCVs, language and conference costs, consultancy), as well as central funding to

[25] See "Staff Compensation and Benefits Proposals for 2022", BDS21-159, Section 1.4.1.

Table 6.3: Key Movements in the 2022 Budget (£ million)

2021 Budget	394.5				
Changes		Proposed	Saving	Net	Increase
A. Carry over / price / volume:		**10.8**	**-**	**10.8**	**2.7%**
2021 Comp &Benefits proposals (full year impact, Jan-Mar 2022)		1.1	-	1.1	
Price and volume impacts		1.9	-	1.9	
Board, VP and other UK CPI (assumptions, 9m phasing, Apr-Dec 2022)		0.4	-	0.4	
2022 Compensation proposals (9 months phasing, Apr-Dec 2022)		7.4	-	7.4	
B. SCF priorities		**6.4**	**(4.3)**	**2.1**	**0.5%**
Green		2.0	-	2.0	
Equality of Opportunities		1.1	-	1.1	
Digitalisation		1.6	-	1.6	
Self-evaluation (excludes EVD)		0.8	-	0.8	
Mobilisation		0.8	-	0.8	
CSG reallocations		-	(4.3)	(4.3)	
C. Change & transformation capability		**0.8**	**-**	**0.8**	**0.2%**
D. Improving delivery		**6.1**	**(4.5)**	**1.6**	**0.4%**
E. Corporate business needs		**1.1**	**(0.8)**	**0.3**	**0.1%**
F. Budget reductions / adjustments		**-**	**(1.2)**	**(1.2)**	**(0.3%)**
ASD self and centrally managed		-	(0.9)	-	
FX impact (impact on costs in local currencies)		-	(0.3)	-	
G. PBC accrual and Mobility		**2.8**	**(2.6)**	**0.2**	**0.1%**
PBC accrual		2.6	(2.6)	0.0	
Mobility Policy review (9 months phasing, Apr-Dec 2022)		0.2	-	0.2	
H. Governance and oversight functions		**1.1**	**(0.1)**	**0.9**	**0.2%**
Board (BCVs, language and conf., consultancy)		0.1	-	0.1	
EvD & IPAM		0.4	(0.1)	0.2	
Internal Audit		0.3	-	0.3	
Staff Council (backfill of SC Officer positions)		0.2	-	0.2	
I. Total movements		**29.1**	**(13.6)**	**15.6**	**3.97%**
2022 Budget	410.1				

Note: Numbers are rounded to one decimal and sum of subtotals may not exactly add up to aggregate numbers.

backfill Staff Council Officer positions. This reflects a £0.1 million reduction in EvD's consultancy budget.

Budget savings (net of FX adjustments) amount to 3.5 per cent of the 2021 Budget, higher than 1.7 per cent permanent savings delivered in the 2021 Budget.[26]

As in the past, flexible reallocations of staff and budgets are implemented throughout the year to support operational requirements. Reallocations or adjustments since the beginning of 2021 included:

- **Reallocation of up to 25 staff and positions in Client Services Group.** This included reorganisation of the OSP team, geographic transfers between Sofia, Warsaw, London, Pristina and Cairo and a number of position splits across teams.
- **Creation of three positions within other departments** to address resource pressures during the year using permanent headroom generated within the approved 2021 staff cost budgets. This included an additional junior position in ESD, one in PODD and one in Internal Audit.

Covid-19 response, temporary reallocations/re-deployment. In addition to permanent budget and resource reallocations described above, the Bank continues to make temporary staff moves to address current pressures linked to the Covid-19 crisis. Up to six staff resources (or equivalent

[26] See 'Strategy Implementation Plan 2021-23', BDS20-213, Table 7.4.

to £0.7 million staff costs funded by 'home' team budgets) were temporarily reassigned from Banking and other functions to support increased workload in VP, Risk and Compliance (OCCO, Risk Management).

6.3.2 Core Budget: Details

2022 Core Administrative Expense Budget by cost line

An increase of £15.6 million or 3.97 per cent is proposed for the 2022 Core Administrative Expense Budget. The total budget of £410.1 million is broken down in Table 6.4.

Total staff costs budget increase of £14.8 million or 5.4 per cent reflects the full year impact of previous decisions (£1.1 million for 2021 Compensation and Benefits proposals), increases reflecting the 2022 Compensation and Benefits Proposals (£7.36 million for salary increases and £0.16 million for Mobility Policy Review), increase in PBC accrual (£2.63 million), Board, VP and other salary increases (£0.4 million), net impact of incremental resource requests for business priorities (SCF themes, other business and corporate requirements, additional budgets for governance/oversight functions) offset by reallocations and redeployments, reductions in central benefits, RO footprint optimisation and SIP FX impact on local staff costs (£3.1 million).

Total non-staff costs budget increase of £0.2 million or 0.7 per cent is driven by £1.1 million non-staff costs budget requested under business priorities (mainly SCF themes of Digitalisation and Self-evaluation), contractual increase/price impact for audit fees (£0.4 million), increase in information services costs (£0.5 million) and other smaller increases for governance/oversight functions and other teams (£0.5 million). These are offset by a 5 per cent top-down reduction in travel budgets (£0.5 million), savings identified in self-managed budgets (£1.8 million).

An increase of £0.7 million or 0.8 per cent in centrally-managed costs mainly relating to £0.8 million contractual increases / price impact for centrally managed IT costs, £0.5 million depreciation (£0.6 million increase in IT and £0.3 million HQ fire sprinkler system costs offset by £0.2 million for a smaller property lease at the Moscow RO and the Japanese Government paying £0.2 million of RO lease costs), £0.2 million central staff expenses for the Bank-wide roll out of a mental health application that was

Table 6.4 Detailed Administrative Expense Budget for 2022 (£ million)

Administrative Expenses	2019 Actual	2020 Actual	2021 Budget	2022 Budget	2022 vs 2021 £ million	2022 vs 2021 Per cent
Salaries	134.4	145.5	147.5	155.1	7.7	5.2%
Total Benefits	93.3	106.4	107.2	110.3	3.1	2.9%
Performance Based Compensation	19.4	20.2	16.7	20.7	4.0	23.9%
Other Staff Costs	2.5	1.7	1.4	1.4	(0.0)	(0.3%)
Staff Costs	**249.7**	**273.8**	**272.8**	**287.5**	**14.8**	**5.4%**
Consultancy/Legal	13.1	9.2	10.7	11.6	0.9	8.0%
Travel/Hospitality	14.6	2.1	10.6	10.1	(0.5)	(5.0%)
Other Direct Costs	13.2	13.1	13.8	13.7	(0.1)	(0.7%)
Non Staff Costs	**40.9**	**25.0**	**35.2**	**35.4**	**0.2**	**0.7%**
Direct Costs	**290.6**	**298.2**	**307.9**	**322.9**	**15.0**	**4.9%**
Occupancy Costs	10.7	9.6	11.0	10.1	(0.9)	(8.2%)
Technology (License, Hosting & Vendor)	17.3	21.3	23.2	24.0	0.8	3.4%
Annual Meeting	1.0	0.6	1.2	1.2	-	-
Central Staff Expenses	6.3	3.9	5.7	5.9	0.2	3.5%
Institutional Fees	1.5	1.5	2.1	2.2	0.1	4.1%
Depreciation	42.6	43.9	43.1	43.6	0.5	1.1%
Contingency		-	0.3	0.3	-	-
Total Centrally Managed Costs	**79.4**	**80.9**	**86.6**	**87.2**	**0.7**	**0.8%**
Core Administrative Expenses	**370.0**	**379.7**	**394.5**	**410.1**	**15.6**	**3.97%**

Note: Numbers are rounded to one decimal place and subtotals may not add up to aggregate numbers exactly.

piloted in 2021, and £0.1 million for increased Banking insurance premium costs (Institutional Fees). There is a £0.9 million reduction in occupancy costs made up of a £0.6 million reduction in the HQ estate service charge, £0.2 million in reduced HQ running costs and £0.1 million for the smaller property lease at Moscow RO.

Total contingency funds included in the 2022 Budget are £1.3 million, or around 0.3 per cent of the Core Administrative Budget. This includes a Management Reserve of £1.0 million together with the existing £0.3 million General Contingency (use of the latter is subject to Board approval).

Departmental budgets

An increase of £15.0 million or 4.9 per cent is proposed for direct costs. The total direct costs budget of £322.9 million for 2022 is broken down by department in Table 6.5.[27] An additional column is shown to remove the impact of temporary departmental budget adjustments in 2021. Variance against this column for the proposed 2022 Budget is explained in this section.

CSG: Direct costs *reduction* of £0.8 million. CSG is self-funding all of its needs and contributing resources to other departments. This reflects a £4.3 million increase to support SCF priorities, offset by £0.9 million reduction in consultancy and legal costs, £0.4 million staff costs' budget transfer to Risk Management (support for increased Banking portfolio work), £0.7 million reduction in direct costs from RO footprint optimisation efforts and the Cyprus RO closure, £2.7 million further reductions in staff and non-staff costs (includes £1.2 million identified as vacancy cancellations or other direct costs reduction and a £1.5 million additional challenge to be identified during 2022) and £0.4 million from the 5 per cent travel budget reduction.

£4.3 million of additional resources for SCF priority areas includes:

- £1.1 million and c. 10 FTEs under **Green** to address four themes (Paris Alignment, scaling

Table 6.5 Direct Costs by Department (£ million)

Department	2021 Budget	2021 Adjusted Budget*	2022 Budget	Variance 2022 vs 2021	Variance 2022 vs Adjusted
Banking Department	118.2	124.3	123.9	5.7	(0.4)
VP, Policy & Partnerships	26.3	27.7	27.3	0.9	(0.4)
Client Services Group	**144.5**	**152.0**	**151.1**	**6.6**	**(0.8)**
Finance	23.5	23.7	24.6	1.2	0.9
VP CTO	14.3	14.5	15.5	1.2	1.0
VP, Risk and Compliance Group	31.2	31.6	34.6	3.4	3.0
Office of the General Counsel	16.7	17.0	17.3	0.6	0.3
Office of the Chief Economist	2.4	2.5	2.8	0.4	0.2
Internal Audit	1.6	1.6	1.9	0.3	0.3
Corporate Strategy	1.6	1.7	1.8	0.2	0.1
Communications (incl. BIS)	7.1	7.3	7.3	0.2	0.0
Office of the Secretary General	4.6	4.6	4.6	0.0	0.0
President's Office	1.7	1.7	1.7	0.0	(0.0)
Human Resources Department	8.1	8.2	7.5	(0.6)	(0.7)
Indep. Project Account. Mechanism	1.1	1.1	1.2	0.1	0.1
Evaluation Department	3.3	3.3	3.4	0.1	0.1
Board of Directors	13.8	13.8	14.1	0.3	0.3
Unallocated	32.5	23.3	33.5	0.9	10.2
Total Direct Costs	**307.9**	**307.9**	**322.9**	**15.0**	**15.0**

Note: Numbers are rounded to one decimal and sum of subtotals may not exactly add up to aggregate numbers;
* 2021 Adjusted Budget added to remove the impact of temporary departmental budget adjustments in 2021.

[27] Historic data is available in Board Online Information and Annex 2.

investments, policy ambitions and assurance). Specific allocation of the £1.1 million budget for CSG under the Green SCF priority to be confirmed post finalisation of the VP Policy and Green delivery review and only to the extent that there is a clear need following realisation of all efficiencies and reallocations.

- £1.0 million and c. 12 FTEs under the **Equality of Opportunity** theme. Ten FTEs to further embed G&EI experts across sectoral and regional banking teams by ensuring conversion of donor- to Bank-funded positions to maintain existing capacity, building capacity in strategic priority areas of policy engagement and gender mainstreaming, and for the management of a fast-increasing stock of projects and Technical Cooperation positions. Two FTEs for gender capacity within the Financial Institution group in Banking to promote gender mainstreaming across PFIs.
- £1.6 million staff/non-staff costs and five FTEs under the **Digital Transition theme**. This includes £1.0 million in consultancy budget to support the design of scalable products across key areas of work including digital finance, digitalisation of firms, smart infrastructure and cybersecurity and £0.6 million in staff costs to design, coordinate, deliver and scale the Bank's activities in the Digital Finance space as aligned to both the Accelerating the Digital Transition Approach and the new Financial Institutions Strategy.
- £0.7 million staff/non-staff costs and four FTEs under the **Self-Evaluation** theme to coordinate and support an annual self-evaluation programme which ensures evaluation standards are met, quality control, training, promotion of organisational learning and regular reporting to Strategy and Policy Committee, Executive Committee, Audit Committee and the Board.

Budgets are restated to reflect the recent transfer of the GECA team from Banking Department to VP Policy and Partnerships (VP3); as well as the transfer of the Brussels Office and other budgets from VP3 to Corporate Strategy. These are changes under the first phase of VP3 reorganisation approved in September. The end goal is to reorganise VP3 under three main pillars (Policy, Partnerships and Results) with a view to:

- Improve the Bank's policy priority setting and delivery capability with the right delivery model supported by the right organisational structure, skills and quality assurance in place;
- Achieve a shift towards a comprehensive results, learning and knowledge management capability that balances ex ante and ex post measurement of Bank's investment, policy and advisory activity; and
- Enhance, consolidate and streamline the donor and external partnerships agenda of the Bank, with a reflection on donor partnerships and EU Affairs, relations with the EIB and EDFIs as well as the Nuclear Safety Department.

This reorganisation also aims to increase the effectiveness, efficiency and integrity of these three core functions. Final assessment of the efficiencies will be carried out in Q1 2022 and realised during the year.

Additionally, CSG is reallocating resources, linked to the Mobility Enhancement Programme, which will strengthen local presence in Early Transition Countries, SEMED and the Western Balkans. Efforts to reallocate further resources to these regions as part of the Bank-wide decentralisation and mobility drive will continue where possible.

Finance: Direct costs increase of £0.9 million, including £1.2 million for SCF priorities and other business needs, £0.4 million contractual increase for audit fees and £0.1 million full year impact of 2021 Compensation increases, offset by a £0.7 million reduction reflecting transfer of the Data Management team to VP CTO (full year impact of the transfer from October 2021). The 2022 SIP new requests include:

- £0.8 million and c. eight FTEs under the **Mobilisation** theme for Loan Syndications and Operations and Service Management (OSM) to support the increase in the number of transactions, setup of a Debt Co-investment Fund and a Mobilisation Solutions unit.
- £0.4 million in staff costs to support OSM realignment to facilitate increases in the volume and complexity of transactions. This is on top of c. £1.1 million internal reallocations within the team budget to support the new

target-operating model, using savings from departures (including under the Mobility Enhancement Programme).

Additionally, within a flat staff costs budget, c. £0.7 million was reallocated in Treasury to strengthen the local Currency Balance Sheet Management team.

VP CTO: £1.0 million increase reflecting transfers of the Data Management team from Finance and Organisational Change and Performance (OCP) team from HR, £0.8 million for new business requests, offset by £0.6 million reduction in IT direct costs ('business as usual' budget) and £0.2 million reduction of mobility budget. The new 2022 SIP request of £0.8 million is for setting up the overall transformation capability and strengthening the data management function within VP CTO.

VP, Risk and Compliance: Direct costs increase of £3.0 million, including £1.9 million for SCF priorities and business needs, £0.4 million transfer from Banking (for increased Banking portfolio work), £0.6 million increase in mobility and £0.2 million for information services. These increases are offset by £0.1 million reduction in non-staff costs including target savings in travel budget, adjustments relating to the transfer in of the Security Team from ASD and SIP FX movements (information services). The £1.9 million additional funding provided for SCF priorities and business needs reflects an additional c. 14.5 FTEs:

- £0.9 million and c. eight FTEs under the Green theme to support Climate and Environment MRVs, Paris Alignment Methodologies and Assessment, and TCFD Compliance.
- £0.1 million and one FTE under the Equality of Opportunity theme for the Gender Based Violence and Harassment project.
- £0.7 million and c. 5.5 FTEs to address increased volumes in Banking portfolio and operations (Risk management, OCCO), Treasury activities (Risk Management) and improve disbursement rates (PPAD).
- £0.2 million increase in non-staff cost for RO inspection costs (OCCO), Information Security consultancy, and an increase in GEMs information services subscription.

Additionally, within a flat staff costs budget, circa £1.4 million was reallocated within Risk Management (including for Banking portfolio support) and PPAD (to address increased workload) using savings from departures.

Office of the General Counsel: Direct cost increase of £0.3 million, including £0.4 million to support new requests for business needs offset by the total reduction of £0.1 million in consultancy, legal and office supplies costs. New SIP requests include:

- £0.4 million staff / non-staff costs and c. five FTEs, including two field-based lawyers, for more efficient OGC Banking portfolio management; and support for OGC Corporate/Finance/LTP.

Additionally, within a flat staff costs budget, circa £1.2 million was reallocated to address increased workload, hire of more field-based lawyers, and to respond to priorities in OGC Corporate (strengthened capacity to support upstream donor co-financing, commercial and IT matters, as well as HR and institutional work).

Office of the Chief Economist: Direct costs budget increase of £0.2 million for one FTE under the Self-Evaluation theme to lead and increase capacity for impact evaluations at the EBRD.

Internal Audit: £0.3 million increase in direct costs budget comprises £0.2 million for two additional FTEs and £0.1 million of consultancy. This is to increase the level of assurance provided, particularly with SCF priorities, to right-size the department in line with the growth of the Bank, and for the IAD work programme to be based on risk assessment metrics rather than be constrained by resource availability.

Corporate Strategy: Increase of £0.1 million in the direct costs budget reflects one additional FTE to provide more sustainable analytical support. Budgets are restated to reflect transfer of the Brussels Office and other budgets from VP Policy and Partnerships.

Communications (including BIS): Inflationary increases in information services and database costs and reinstatement of travel budget temporarily reduced in 2021, net of the 5 per cent permanent reduction in 2022, are offset with a reduction in mobility budget for 2022. This reflects circa £0.1 million reallocation within the departmental budget to adjust seniority levels.

Human Resources: £0.7 million *decrease* in direct costs budget due to centralisation of £0.7 million of the International Professionals Programme (IPP) budget as no intake is planned in 2022, transfer of the OCP team to VP CTO (£0.3 million), offset by £0.3 million to fund new requests for business needs (£0.2 million to allow for backfilling Staff Council Officer roles and £0.1 million for HR system license costs). Additionally, circa £0.5 million staff costs budget was reallocated internally within HROD to support organisational changes.

IPAM: £0.1 million increase in direct costs budget reflects a SIP request for increased non-staff budgets to address business needs in line with a better established and stabilised operating model, with more outreach and advisory activities planned.

Evaluation Department: £0.1 million increase in direct costs reflects capacity building in response to the Kirk Report recommendations. A departmental reorganisation including the creation of an Evaluation Knowledge Management Unit is planned, requiring an upgrade of an existing position and two new FTEs. Incremental costs of £0.3 million are offset by a £0.1 million decrease in consultancy costs and £0.1 million savings in underlying staff costs.

Board of Directors: £0.3 million additional budget includes £0.26 million funding for the 2022 Compensation and Benefits Proposal, £0.1 million for new SIP requests (Board country visits, language and conference services, interaction platform and consultancy), offset by £0.03 million reduction in travel budget.

Unallocated: £10.2 million increase includes £7.36 million funding for the 2022 Compensation and Benefits Proposals, £2.63 million increase in PBC, £0.2 million for Mobility Policy review, £0.16 million budget for VP and other salary increases at UK CPI level, £0.7 million centralised IPP budget (no intake in 2022) and £0.7 million full year impact of 2021 Compensation and Benefits Proposals. These increases are partially offset by £1.6 million reduction in underlying central benefits. The Unallocated category also includes the Management Reserve and General Contingency of the Bank (unchanged from 2021 levels).

6.4 Capital Expenditure

Responding to requests by Board Directors for enhanced information disclosure, Table 6.6 presents a summary of planned capital expenditure for the current SIP (further details presented later in this section). This includes capital expenditure for business as usual, as well as for strategic investments and projects.

6.4.1 HQ and Resident Offices

Capital expenditure is budgeted and indirectly approved through its effect on depreciation. A total of £2.9 million capital expenditure is planned for HQ and Resident Offices (business as usual).

- **HQ.** Replacement of 1 Exchange Square fire sprinkler system and replacement of failing assets such as ID card printers and cameras.
- **Resident Offices.** Covid-19 has delayed the majority of the Resident Office planned capital expenditure in 2021. The revised work programme for 2022 is now £2.6 million. The programme includes:
  - Office expansions in Belgrade, Istanbul and Tbilisi;
  - Relocation of the Ankara, Karaganda and Pristina offices;
  - Fit-out of Cluj, Dushanbe, Ismailia and Sofia;
  - Replacement of eight RO vehicles; and
  - Upgrade of all Resident Office remote monitoring equipment (CCTV, Access Control) and license update to ensure compatibility with new system at Bank Street HQ of £0.3 million, and replacement of failing assets such as Access Control Equipment and cameras.

New HQ Capex

The Bank's headquarters (HQ) lease expires in December 2022. The Board approved signing of the lease for 5 Bank Street, Canary Wharf, as well as a separate associated capital expenditure budget of £111 million in 2019 (BDS19-076). Following an extensive procurement process, the contract for the main fit contractor was signed in April 2021 and construction for this project commenced in May 2021. Depreciation will commence on

Table 6.6 Capital Expenditure (£ million)

Capital Expenditure	2021 Forecast	2022 Budget	2023 Budget	2024 Budget	2021-2024 Total
IT CapEx	11.2	5.8	TBC	TBC	17.0
HQ CapEx	0.5	0.3	TBC	TBC	0.8
RO CapEx	0.7	2.6	TBC	TBC	3.3
Business as Usual	12.4	8.7	TBC	TBC	21.1
HQ Project	55.5	55.5	-	-	111.0
IT MYIP - Phase 1	66.8	11.4	-	-	78.3
Phase 2 - Mandatory Initiatives	-	5.4	4.2	2.0	11.6
Business Design	-	0.5	0.1	-	0.7
Sustaining Value	-	9.7	9.8	2.2	21.6
Early Opportunities	-	4.4	8.7	0.1	13.2
IT MYIP - Phase 2	-	19.9	22.9	4.3	47.1
IT MYIP - Phase 3 (not for approval)			46.1	30.7	76.8
IT MYIP (Phases 1 and 2)	66.8	31.4	22.9	4.3	125.3
Libor Phase 1	1.3	-	-	-	1.3
Libor Phase 2	3.0	1.7	-	-	4.7
Libor (Phases 1 and 2)	4.3	1.7	-	-	6.0
Strategic Investment and Projects	126.6	88.6	22.9	4.3	242.3
Total Capital Expenditure	139.0	97.2	22.9	4.3	263.4

Note: The HQ project forecast for 2022 includes a portion related to spend in 2021/2022. 2021/2022 split is an estimate until the fit-out contractor procurement process completes in 2021. MYIP Phase 1 and Libor forecasts in 2021 include capex spend in 2020 and 2021. MYIP Phase 1 capex spent across 2021/2022 is indicative, to be updated in 2022 based on the actual capital expenditure incurred in 2021. Phase 3 within the £200 million agreed envelope not shown as it is not yet approved and profiled. Numbers rounded to one decimal and sum of subtotals may not exactly add up to aggregate numbers.

completion and occupation of the new Bank headquarters in Q3 2022.

- Fit-out costs of £99.1 million for internal fit-out of property, including design and installation of air-conditioning, structured cabling, structural steel works, security systems, audio visual equipment, building of the office space, break-out space, meeting rooms, auditorium, restaurant, Boardroom and security control rooms.
- Furniture costs of £11.9 million for desk, chairs, meeting rooms and soft furniture.

6.4.2 IT Capex: Business as Usual

Planned IT capital expenditure in 2022, excluding carried forward budgets and investment related to the multi-year investment plan, is £5.8 million, including:

- Non-discretionary expenditure of £1.8 million for 2022 to cover ROs and new hardware requirements to align with the increase in demand for mobile phone refresh, new starter laptops, expansion and relocation of ROs, and fix and replace IT equipment.
- Business pipeline projects of £1.0 million in 2022, for urgent intra-year business-led demand, with funding allocation to be reviewed and approved by IT Governance Committee (ITGC).
- £2.0 million in IT transformation capacity for staff to work on a backlog of small enhancements and improvements of systems to support business demand.
- Tech-led pipeline projects of £1.0 million for technical changes to remove debt, tactical performance enhancements and emergency remediation.

For pipeline projects, the business case, scope and budget requirements are to be finalised and approved by Management.

Table 6.7 IT MYIP Phase 1 Financial Implications (£ million)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Operating expenses	1.2	8.5	12.4	12.4	12.4	12.4	11.0	10.1	10.1	9.0
Depreciation	0.4	2.8	10.5	11.2	11.2	11.2	9.8	5.0	4.4	1.1
Total Phase 1*	**1.6**	**11.3**	**22.9**	**23.5**	**23.5**	**23.6**	**20.8**	**15.2**	**14.6**	**10.1**

* Phase 1 estimates are based on operating expenses for ongoing and pipeline projects; the depreciation forecast does not include contingencies and allowance for unknown deviations and so does not add up to the approved capex.

6.5 Extraordinary Item: IT Multi-Year Investment Plan

On 23 July 2020, the Board considered the **IT MYIP** and:

- Acknowledged the requirement for an overall IT multi-year investment plan in three phases and approximately £200 million Capex programme for the period 2020 to 2025.
- Endorsed the plan for Phase 1 with an indicative capex of £78.3 million in 2020-2021, including the financial implications of Phase 1 implementation on operating expenditure and corresponding depreciation in 2021 and subsequent years, and noting the indicative cost estimates of Phases 2 and 3.
- Agreed that the three Phase budgets for this programme to be the subject of a full discussion and agreement in the annual SIP process and to be held separately from the core Administrative Budget until all projects in all phases go live. Each phase is a set of projects (in most part, multi-year) and costs within each phase are fungible across the projects and cost categories. There is no fungibility between capital and operating expenditure.

Phase 1 - Capex of £78.3 million and associated financial implications (operating expenditure and depreciation for future periods) were confirmed in SIP 2021-23. The programme remains broadly on track, within the agreed budget and timeframes. The impact on risk profile can be seen in a gradual reduction in risk ratings, although implementation complexities remain a challenge.

Achievements so far have been:

- Commencement of the upgrades' programme with completion of major system upgrades for Java, SAP, Appian and Livelink;
- Release of Monarch Increments covering integrity and GET Impact;
- Mobilisation of the CRM project;
- Roll out of Pegasus 1.0 and 2.1;
- Commencement of defining procurement requirements for the HQ Tech enablement programme.

Phase 2 - Due to the challenging nature of Phase 1 activity in 2022 the capacity to start new initiatives is not yet known. Business design and mandatory initiatives will continue as they are required to minimise operational risk and provide the blueprint for future transformation work. Current initiatives that can deliver independently of the move to the new HQ and the Data Centre (DC) migration will also continue. Other initiatives will only be started if there is sufficient capacity and appetite to do so – a position that is unlikely to be clear until mid-year. Capex for the phase is confirmed at £47.1 million, of which up to £19.9 million will be invested in 2022. The cost impact on the 2022 Budget (operating expenses and depreciation) is £5.5 million, rising to £6.4 million in 2023 and £14.9 million in 2024. This will be partially offset in subsequent years by cost avoidance deriving from increased process efficiencies and reduced operational risk. The expected quantum of these will be identified as initiatives are initiated.

Phase 2 comprises the following elements:

Business Design and Central Resourcing of £0.7 million - Required

- A series of design activities to define the future business platform across the key dimensions of people, process, technology and data.
- Pre-requisite for the future transformational initiatives to ensure a coherent operating platform with modernised end-to-end process consistency, including critical decisions

Table 6.8 IT MYIP Phase 2 Financial Implications (£ million)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Annual operating expenses	-	-	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Project delivery expenses	0.0	0.0	0.0	-	-	-	-	-	-	-
Depreciation	-	-	1.2	1.7	1.7	1.7	1.7	1.7	1.7	0.4
Phase 2 - Mandatory Initiatives	**0.0**	**0.0**	**2.2**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**	**1.5**
Annual operating expenses	-	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Project delivery expenses	2.4	0.8	0.4	-	-	-	-	-	-	-
Depreciation	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	-
Business Design	**2.4**	**1.2**	**0.9**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.4**
Annual operating expenses	-	0.5	2.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Project delivery expenses	0.1	0.2	0.1	-	-	-	-	-	-	-
Depreciation	-	0.6	2.0	3.1	3.1	3.1	3.1	3.1	2.5	1.1
Sustaining Value	**0.1**	**1.3**	**4.4**	**6.1**	**6.1**	**6.1**	**6.1**	**6.1**	**5.5**	**4.1**
Annual operating expenses	-	0.7	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Project delivery expenses	0.1	0.2	0.0	-	-	-	-	-	-	-
Depreciation	-	0.0	1.8	1.9	1.9	1.9	1.9	1.9	1.8	0.1
Early Opportunities	**0.1**	**0.9**	**5.0**	**5.1**	**5.1**	**5.1**	**5.1**	**5.1**	**5.1**	**3.3**
Annual operating expenses	-	-	-	-	1.8	1.8	1.8	1.8	1.8	1.8
Project delivery expenses	2.8	2.8	2.4	2.1	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-
Central Transformation Team	**2.8**	**2.8**	**2.4**	**2.1**	**1.8**	**1.8**	**1.8**	**1.8**	**1.8**	**1.8**
Annual operating expenses	**-**	**1.6**	**6.9**	**7.8**	**9.6**	**9.6**	**9.6**	**9.6**	**9.6**	**9.6**
Project delivery expenses	**5.5**	**4.0**	**2.8**	**2.1**	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation	**-**	**0.7**	**5.2**	**6.7**	**6.7**	**6.7**	**6.7**	**6.7**	**6.0**	**1.5**
TOTAL Admin Expenses	**5.5**	**6.4**	**14.9**	**16.7**	**16.3**	**16.3**	**16.3**	**16.3**	**15.6**	**11.1**

Note: Budgets will be fungible within the approved phase, including across cost types. Internal EBRD governance will ensure that combined costs for all projects remain within the approved budget for the phase.

regarding core tech, such as the future of SAP platforms for Finance and HR.

- Resourcing of the central teams (Programme, Communications, Legal, EPMO, central Transformation team).

Mandatory Initiatives, £11.6 million - Required

- Initiatives to ensure applications remain supported, and the environment remains secure and stable.
- Remediation of critical data items within existing applications to improve the quality and integrity of reporting.

Sustaining Value, £21.6 million - Valuable improvements independent of HQ and DC moves

- Continuing to build on current initiatives or capabilities such as Monarch, CRM, and RPA which can deliver further value with minimal impact on Phase 1 and HQ move activities.

Early Opportunities, £13.2 million - To be started in 2022, if there is no impact on DC or HQ moves and a clear business case is approved

- New initiatives that are relatively self-contained can be considered for mobilisation, **if confirmed** to have minimal impact on Phase 1, HQ move activities and dependency on business design work.

Only initiatives that can deliver accelerated business value and well-articulated benefits (subject to business case approval by PSB) will be prioritised for each activity within the approved budget envelopes.

Table 6.9 List of Potential Initiatives for MYIP Phase 2 (£ million)

Activity	Initiative	CapEx*	OpEx‡	2022 Cost	Annual Cost§
Business Design and Central Team	• Enterprise Wide Operating Model • Function Specific Operating Model • Develop a data governance framework • Donor funds and Grant Management E2E redesign • Finance Process and System selection analysis • Resourcing of the central team (Programme, Communications, Legal, EPMO, Transformation)	0.7	13.7	5.2	2.7
Mandatory Initiatives	• Enterprise Data Remediation • Mandatory Upgrades to Critical IT Platforms	11.6	0.1	-	2.7
Sustaining Value	• Process Automation (inc. RPA / AI) • CRM – Develop an automated workflow and availability of key data including donor contracts • Approval process (including donor funding approval) for investment projects • Waiver, amendment, consent policy and covenant compliance process and tooling • Integrity Automation • Investment project E&S, GET, Green assessment and monitoring • Self Evaluation and Results Management Requirements: developing self-evaluation • module • Operational System Access (for EVD) • Self-service Learning & development	21.6	0.4	0.1	6.1
Early Opportunities†	• Content Management and Delivery • Risk and Control System • Matter Management - improve collaboration, increase automation and improve workflow • Implement modern expense management policy, process and tooling • Structured Product Pricing • Trading/lending platform assessment and improvements (Summit) • Enhancing Operating Platform and Process	13.2	0.3	0.1	5.1

† Note these initiatives are subject to agreement with ExCom on prioritiy on capacity;
* Total capex of the projects over the multiyear delivery period starting in 2022;
‡ Delivery opex relating to Phase 2 initiatives for the full delivery period starting 2022;
§ Peak annual cost impact on the cost base once the projects have gone live.

6.6 Extraordinary Item: LIBOR Transition Project

It was previously announced by the UK Financial Conduct Authority (FCA) that financial institutions will no longer be compelled to publish LIBOR (London Inter-Bank Offered Rate) rates after December 2021. A large number of transactions are impacted, from derivatives and bonds to Banking loans (around £10 billion). All LIBOR-linked instruments within EBRD are being examined to see if and how the documentation needs updating, negotiating and transitioning to alternative rates, and agreeing pricing with counterparties. There is an operational impact on IT systems that need upgrading to take into account new replacement benchmark rates and the redesign of the current booking processes. The Bank has signed the ISDA protocol that will facilitate LIBOR amendments for derivative contracts.

In March 2021 the FCA announced that the **USD LIBOR cessation date would be extended from December 2021 to June 2023.** LIBOR will now cease to exist from:

- January 2022 for all tenors for GBP, CHF, JPY and EUR LIBOR currencies and lesser used tenors (1 week and 2 months) for USD LIBOR. New loans issued will be referenced to a new replacement rate, while loans signed in 2021 contain a mechanism to facilitate conversion to a new reference rate.

- July 2023 for main USD LIBOR tenors (overnight, one, three, six and twelve months), though no new USD LIBOR trading other than some permitted exceptions after 31 December 2021.

2020 costs of £0.6 million were funded from in-year savings within the approved 2020 budget. The approved budget for 2021 was £7.8 million. There were project implementation delays relating to the above-mentioned change in legislation, constantly evolving regulatory and market position, the complexity of portfolio amendments and lack of strong market consensus for the syndicated loan portfolio. This resulted in a budget underrun in 2021 with activities and associated spend moving into 2022/23 to finalise implementation in line with the new USD LIBOR cessation date.

Total funding to complete the project is estimated at £5.3 million, funded by the unused 2021 project budget proposed to be carried forward to 2022/23. Future activities will be focused on the finalisation of the new replacement reference rate into existing and new loan agreements (in particular, syndication, co-finance projects, Trade Facilitation Programme and Risk Sharing Facility with EBRD partner Banks), rebooking of trades, and completion of the IT architecture redesign and implementation of new funds transfer pricing methodology (incorporating IFRS standards and addressing system implications to booking, billing and cash management).

A total of **£6.0 million capital expenditure** was approved to support the project. System changes were planned to be carried out in two phases: (i) upgrade of the core Summit software and (ii) LIBOR enhancement with relevant upstream/downstream systems and interfaces impacted by Summit and LIBOR changes. The Phase 1 Summit upgrade was completed in August 2021 (six months later than planned) and on budget, at £1.3 million. Phase 2 LIBOR enhancement has been re-scoped with delivery of £3.0 million in 2020/2021 and £1.7 million in 2022, in line with the approved total budget. Phasing of related depreciation has been adjusted accordingly.

45 per cent (£2.4 million) of the 2022/23 proposed project budget is for legal and consultancy costs, 35 per cent (£1.9 million) for staff costs with the remaining budget mainly for IT costs (15 per cent for operating expenses and deprecation) and travel.

Any budget savings in 2022 will not be used to support ‘business as usual’ activities and will be released / carried forward to 2023, as required. Capital investments required for LIBOR system changes will result in incremental operating expenditure and depreciation. From 2023 these incremental annual costs are expected to be consolidated into core EBRD expenses. Project costs will continue being ring-fenced and treated as a one-off element within the Core Administrative Expenses and tracked and reported on separately.

The project is being delivered by nine workstreams with the remaining activities and associated costs presented in Table 6.10.

Table 6.10 LIBOR Transition Project (£5.3 million in 2022/23)

Banking Stream
£1.1 million

- Outreach to sovereign and bilateral counterparties, syndication, TFP, RSF negotiations (fallback language)
- Introduction of the Bank's preferred product to the client & co-lenders (new centralised team)

Treasury Stream
£0.3 million

- Managing economic risk associated with IBORs
- Building of new market data framework
- TAG development (analytics, interfaces migration)

Communication Stream
£0.5 million

- Internal/external communication
- Workshops and seminars with central banks and regulatory bodies
- Material for Bankers/Clients
- Banking training workshops

IT - Summit Stream
£0.8 million (Opex)

- Summit development - infrastructure and staff support
- Version update of Summit Finastra software
- Depreciation

Accounting Stream
£0.1 million

- IFRS9, IFRS13 impact
- Hedge accounting
- Transfer pricing methodology between Banking and Treasury - new RFR model

OSM/Market Data Stream
£0.3million

- System update for new market data requirements
- Assessing booking and billing implications
- Rebooking IBOR products to new RFR
- Cash management process for new RFR trades
- Amendments process

OGC - Finance Stream
£0.05 million

- Amendments to bond documentation

OGC - Banking Stream
£2.0 million

- Fallback language introduced into existing and new loan agreements (and other relevant instruments)
- Development of a loan template with new reference rate mechanism
- Transactions portfolio amendments (bilateral, syndicated)

Risk Stream
£0.1 million

- Model validation
- Valuation and modelling (funds transfer pricing, curve building/market data application and systems updates)

Note: Numbers above £0.05 million are rounded to one decimal place.

7. Governance, Incentives and Accountability

Introduction

By design, the SCF is not prescriptive and allows the Bank to respond to opportunities and circumstances to deliver its objectives. This flexibility is exercised within a clear framework for accountability. Control parameters are set to provide assurance to shareholders that the Bank is pursuing its strategic objectives responsibly and Management is held to account for the Bank's performance on the basis of an annual Scorecard set out in the SIP and approved by the Board.

7.1 The Control Parameters

The control framework consists of six elements that relate to the three key components of the Bank's operating framework:

- **Transition.** The transition parameters set minimum levels for the quality of the Bank's transition delivery through its projects at approval and throughout their life. The average level of transition impact that should be exceeded is set for the Bank's projects at their initial approval (Expected Transition Impact, ETI) and over their lifetime (Portfolio Transition Impact, PTI) as measured through the Bank's internal monitoring systems.
- **Capital.** The capital parameters set maximum levels of capital utilisation, as measured both on a statutory basis and through the Bank's Capital Adequacy Policy (CAP).
- **Resources.** The resource parameters set maximum levels for annual level of the Bank's cost-to-debt income ratio and the five-year rolling average of the share of staff costs in total costs.

Projections for the development of the capital and resource control parameters are presented for the period covered by the SIP in Table 7.1. The table shows that the Bank has been performing within the constraints set by the control framework and is projected to continue to do so within the period of this Plan.

- **The** levels of ETI and PTI at 69.2 and 71.7 at the end of September 2021 are well above the control levels of 60 and 65 respectively set out in the SCF.
- Levels of capital utilisation are below the control levels of 92 per cent for statutory capital utilisation and 90 per cent for the Bank's Capital Adequacy Policy. They are projected to remain so, although an increase is expected over the period covered by the SIP reflecting the scale of the Bank's crisis response and continued strong activity levels.
- Both the resource parameters are currently below the control levels of 70 per cent for the cost-to-debt ratio and 70 per cent based on a five-year rolling average for the ratio of staff costs to total costs. The projections show that this will continue over the period covered by the SIP, with the cost-to-debt income ratio rising steadily and the five-year rolling

Table 7.1 Projected SCF Control Parameters 2019 to 2024

	Control Level	2019 Actual	2020 Actual	2021 Estimate*	2022 Projected	2023 Projected	2024 Projected
Transition Parameters							
Expected Transition Impact	>60	66.4	66.9	69.2	>63	>63	>63
Portfolio Transition Impact	>65	70.9	71.3	71.7	>68	>68	>68
Capital Parameters							
Statutory Capital Utilisation	<92%	75%	79%	81%	82%	83%	84%
Capital Adequacy Utilisation	<90%	66%	67%	66%	65%	64%	63%
Resource Parameters							
Cost to Debt Income ratio	<70%	51.2%	52.3%	47.7%	56.9%	61.2%	64.8%
Staff Cost to Total Cost ratio (5-year average)	<70%	67%	68%	68%	69%	69-70%	69-70%

* End Q3 figures for ETI and PTI.

average of the staff cost to total cost ratio remaining stable.[28]

7.2 Corporate Scorecard

The Board of Directors approved the template for the Corporate Scorecard in October 2021 to reflect the priorities of the SCF 2021-25. The levels for each element in the Scorecard are presented below. They act as incentives to Management and staff to deliver results and reflect the Bank's projections and ambitions for 2022, as set out in the rest of this document.

Transition Impact

- **Average ETI is set as a range of 63-69:** The higher range for average ETI than in the 2021 scorecard reflects the Bank's continuing ambition to deliver strong impact.
- **Average PTI is set at a minimum level of 68**, and is also higher than in last year's SIP. It is consistent with the lower bound of the ETI range but goes beyond previous levels. The three-year moving average of the difference between ETI and PTI is 4.1 points as transition impact is realised and the risks to future transition delivery decrease. The SIP floor for 2022 goes further by targeting a minimum level of five points above the ETI lower bound.
- **For each of the six Transition Qualities**, there will be a quantitative and qualitative assessment, as currently, through Composite Performance Assessments, each rated either Very Good, Good or Requires Attention.
- **Green Economy Transition is set as a percentage of ABI at 45 per cent.** The increase on the target set in SIP 2021-23 (40 per cent) reflects an accelerated upward path to meet the Bank's commitment of a share of ABI in 2025 of more than 50 per cent.
- **The target for Gender-tagged operations is set at a minimum share of 25 per cent of the total number of projects**: a seven percentage points increase over the SIP2021-23 goal and reflecting the Bank's commitment to reach 40 per cent of operations by the end of the SCF period.

Operational Performance

- **The number of operations is set as a range of 395 to 435** reflecting projected activity composition levels and expected project size dynamics.
- **ABI is set as a range €10.0 to €10.5 billion,** reflecting anticipated transition opportunities across the Bank's regions.
- **Annual Mobilised Investment (AMI) at €1.4 billion.** This rise is consistent with the goal set in the Bank's first Mobilisation Approach to reach €2 billion by end-2025.
- **Annual disbursements are set as a range of €7.0 billion to €8.0 billion** reflecting expected ABI in 2022.
- **The private Sector share of ABI is set at a minimum of 75 per cent**, consistent with the medium term objective in the SCF.
- **Activity in Early Transition Countries, Western Balkans and SEMED is set at a minimum of 48 per cent of ABI.** The methodology for setting this annual goal was explained in the *Review of the Corporate Scorecard* (BDS20-147/F). The level is set as the higher of the share of these countries in ABI over the past three years[29] or the baseline level as determined for the Corporate Scorecard in 2021. The current three-year average level is 44.9 per cent, which is below the 2021 baseline of 48 per cent.

Financial Performance

- **Return on Required Capital is set as a three-year rolling average minimum of 3.5 per cent,** reflecting its nature as a 'through the cycle' measure of performance.
- **Debt Return on Required Capital is set at a minimum level of 12.0 percent.** This new financial measure provides a focus on the more stable part of the Bank's income flows from the debt portfolio. This greater stability allows the setting of an annual goal. Reflecting the significant Covid-19 related uncertainties, the target is set at a

[28] Due to high uncertainty over the split of IT MYIP operating expenses into staff and other costs, the staff costs to total costs calculation takes into account the Core Administrative Expense Budget only.

[29] Calculated using the levels of the last two full years and the first three quarters of the current year.

level that is two percentage points below the 2022 projection of 14.0 per cent.

Institutional Performance

- **Productivity is set as a range of 1.4-1.6**, reflecting the proposed budget and operational plan for 2022. The metric is based on the annual number of operations plus the number of operations monitored in the portfolio, divided by the actual level of expenditure of the Bank (expressed in pounds sterling). The lower level for 2022 is proposed bearing in mind the growing share of budgeted costs associated with the capital investment under the Multi-Year Investment Programme.
- **Cost to Debt Income is set at a maximum level of 60 per cent.** While costs are expected to be highly predictable, the level is set 3 percentage points above the central forecast for 2022 to allow for potential fluctuations in debt income.
- **Operational Risk Assessment** is introduced for the first time in the Corporate Scorecard following the commitment made at the time of the review of the Corporate Scorecard. This measure is designed to assess the Bank's progress in achieving the goal of creating an organisation where management and staff show accountability and leadership in proactively identifying, mitigating and reporting risks to ensure the risk profile remains within adequate tolerance. The assessment will be made annually through a mix of quantitative and qualitative measures, rated as either Very Good, Good or Needs Improvement, and will be shared with the Board of Directors.
- **Staff Engagement** is a tracked indicator that has no specific target associated with it, but informs the annual assessment of the performance of the Bank against the Scorecard.

Resource Framework

- **The Administrative Expense Budget** is set at €479.9 million (£410.1 million).

Corporate Scorecard, 2022

	2022	30/09/2021		2021	2020	
	BP and Budget	Actual	Plan rate	BP and Budget	Actual	Plan rate
TRANSITION IMPACT						
Expected Transition Impact	63-69	69.2		63-67	66.9	
Portfolio Transition Impact	Min 68	71.7		Min 67	71.2	
Transition Qualities						
Competitive, innovative economies	CPA*	CPA*		CPA*	Good	
Well-governed economies and firms	CPA*	CPA*		CPA*	Good	
Environmentally sustainable, green economies	CPA*	CPA*		CPA*	Req. Attention	
Inclusive, gender-equal economies	CPA*	CPA*		CPA*	Very Good	
Resilient economies and firms	CPA*	CPA*		CPA*	Very Good	
Well-integrated, connected markets	CPA*	CPA*		CPA*	Good	
Green Economy Transition (% ABI)	45%	49%		40%	29%	
Gender-tagged Operations (% No. of ops)	Min 25%	33%		Min 18%	15%	
OPERATIONAL PERFORMANCE						
Number of operations	395-435	248		395-435	411	
Annual Bank investment (€ billion)	10.0-10.5	6.3	3.3	10.0-11.0	11	11.3
Annual mobilised investment (€ billion)	Min 1.4	1.6		Min 1.2	1.2	
Private Sector Share (% ABI)	Min 75%	79%		Min 75%	72%	
Disbursements (€ billion)	7.0 – 8.0	5.0	3.3	7.0 – 8.0	7.6	7.8
Activity in Early Transition Countries, Western Balkans and SEMED (% ABI)	Min 48%	39%		Min 48%	48%	
FINANCIAL PERFORMANCE						
Return on Required Capital (3 year rolling average)	Min 3.5%	10.6%		Min 3.5%	5.90%	
Debt Return on Required Capital before Costs	Min 12%	19.2%		Min. 10.3%	7.10%	
INSTITUTIONAL PERFORMANCE						
Productivity (number of operations based)	1.4-1.6	Annual		1.5-1.7	1.7	-
Cost to Debt Income Ratio (12 mths rolling avg)	Max 60%	47.2%		Max.55%	52.3%	
Operational Risk	Assessment					
Staff Engagement Ratio	Tracked	Annual		Tracked	7.6	
RESOURCE FRAMEWORK						
EXPENDITURE						
Administrative Expense Budget						
Euro (million)	479.9	299.8		441.8	450.3	
Pound Sterling (million)	410.1	269.6		394.5	379.7	

* Composite Performance Assessment

Annex 1. The Bank in 2025

SCF Box 1

Based on the strategic directions of the SCF, by 2025, the Bank will have:

- Provided timely and effective support to countries of operations to preserve and accelerate transition in the context of the economic crisis caused by the COVID-19 pandemic.
- Demonstrably focused its efforts on supporting those of its countries of operations less advanced in transition, including the Early Transition Countries[30] (ETCs), SEMED and the Western Balkans, through enhanced investment and policy activity.
- Reinforced its private sector focus by ensuring that more than three-quarters of the Bank's total investment in the SCF period is in the private sector.
- Directly supported progress towards green, low-carbon economies through higher levels of investment in the Green Economy Transition.
- Promoted equality of opportunity for disadvantaged groups and deepened the mainstreaming of gender considerations in projects through strengthened capacity for investment and policy engagement.
- Launched comprehensive and coherent activities to help countries of operations leverage the digital transition as an enabler of transition across all sectors.
- Successfully begun operations in new countries of operations within the Bank's existing region, such as Algeria, subject to the approval of Governors.
- If approved by the Board of Governors, taken steps to begin operations in a limited number of countries beyond the Bank's current geographic region.
- Strengthened support for any country that chooses to graduate from the use of the Bank's resources through an enhanced Post-Graduation Operational Approach.
- Increased the levels of private capital it mobilises for countries of operations through a widened and deepened scope of activities.
- Achieved greater transition impact by further integrating policy engagement and investment activity and reinforced its ability to measure its effectiveness
- Strengthened its overall results framework, knowledge management and the use of evaluation findings to improve the design and impact of operations.
- Enabled cost effective delivery of the SCF through investment in staffing, skills, processes, systems and IT upgrades, as well as increased efficiency and reallocation.

[30] Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.

Annex 2. Budget Data Disclosure Reporting

Responding to the request by members of the Bank's Budget and Administrative Affairs Committee for enhanced budget data disclosure in the Strategy Implementation Plan document, this Annex provides the five-year trend of:

- Table A.1: Core Administrative Expense Budget (2018-2022)
- Table A.2: Detailed Core Administrative Expense Budget (2018-22), including a further breakdown of staff costs (benefits lines)
- Table A.3: Direct Costs by Department (2018-22)
- Table A.4: HQ and RO occupancy

This data will be available at Board Online Information (BOI). The structure of BOI reporting is updated to also reflect budget and actual costs for extraordinary items (LIBOR, IT MYIP), as well as a temporary treatment of 5 Bank Street HQ costs outside Core Administrative Expenses.

In addition, the following table is included to provide indicative resources and costs for SCF priorities during the SIP 2022-24 period. Resources and costs for 2023 and 2024 are estimated at high level, and are subject to further refinement in following SIP documents.

- Table A.5: SCF Priorities Multi-Year Investment for 2022-24

Table A.1 Core Administrative Expense Budget for 2022, 5-year view (£ million)

	2018	2019	2020	2021	2022	2022 vs 2021	
Administrative Expenses	Budget	Budget	Budget	Budget	Budget	£ million	Per cent
Operating expenses	338.6	327.4	339.8	351.4	366.6	15.2	4.3%
Depreciation	20.9	42.6	43.6	43.1	43.6	0.5	1.1%
Core Administrative Expenses	**359.5**	**370.0**	**383.4**	**394.5**	**410.1**	**15.6**	**3.97%**

Table A.2 Core Administrative Expense Budget for 2022 (Detailed), 5-year view (£ million)

Administrative Expenses	2018 Budget	2019 Actual	2020 Actual	2021 Budget	2022 Budget	2022 vs 2021 £ million	2022 vs 2021 Per cent
Salaries	130.2	135.1	141.3	147.5	155.1	7.7	5.2%
Expat/ IHS	9.4	9.8	9.5	9.8	9.5	(0.3)	(3.3%)
Medical Plan	8.2	9.0	10.3	9.6	9.6	(0.0)	(0.1%)
Gross Retirement Costs	48.1	50.0	53.5	58.9	61.4	2.5	4.2%
Other Benefits	28.0	28.7	28.9	28.8	29.8	0.9	3.2%
Total Benefits	93.7	97.4	102.1	107.2	110.3	3.1	2.9%
Performance Based Compensation	14.5	15.5	16.1	16.7	20.7	4.0	23.9%
Other Staff Costs	1.5	1.4	1.4	1.4	1.4	(0.0)	(0.3%)
Staff Costs	**240.0**	**249.4**	**260.9**	**272.8**	**287.5**	**14.8**	**5.4%**
Consultancy/Legal	16.5	12.5	11.1	10.7	11.6	0.9	8.0%
Travel/Hospitality	12.6	13.0	13.2	10.6	10.1	(0.5)	(5.0%)
Other Direct Costs	13.3	13.3	12.9	13.8	13.7	(0.1)	(0.7%)
Non Staff Costs	**42.4**	**38.9**	**37.2**	**35.2**	**35.4**	**0.2**	**0.7%**
Direct Costs	**282.4**	**288.2**	**298.1**	**307.9**	**322.9**	**15.0**	**4.9%**
Occupancy Costs	32.6	10.9	11.0	11.0	10.1	(0.9)	(8.2%)
Technology (License, Hosting & Vendor)	14.9	19.3	21.9	23.2	24.0	0.8	3.4%
Annual Meeting	1.5	1.2	1.2	1.2	1.2	-	-
Central Staff Expenses	4.9	5.3	5.4	5.7	5.9	0.2	3.5%
Institutional Fees	1.9	1.7	1.9	2.1	2.2	0.1	4.1%
Depreciation	20.9	42.6	43.6	43.1	43.6	0.5	1.1%
Contingency	0.3	0.8	0.3	0.3	0.3	-	-
Total Centrally Managed Costs	**77.1**	**81.8**	**85.3**	**86.6**	**87.2**	**0.7**	**0.8%**
Core Administrative Expenses	**359.5**	**370.0**	**383.4**	**394.5**	**410.1**	**15.6**	**3.97%**

Table A.3 Direct Costs by Department, 5-year view (£ million)

Department	2018 Budget	2019 Budget	2020 Budget	2021 Budget	2021 Bud Adj	2022 Budget	Variance 22 vs 21	Variance 22 vs 21 Adj
Banking Department	115.9	118.7	123.6	118.2	124.3	123.9	5.7	(0.4)
VP, Policy & Partnerships	24.9	26.1	27.0	26.3	27.7	27.3	0.9	(0.4)
Client Services Group	**140.9**	**144.9**	**150.6**	**144.5**	**152.0**	**151.1**	**6.6**	**(0.8)**
Finance	20.9	21.9	22.7	23.5	23.7	24.6	1.2	0.9
VP CTO	17.1	13.8	12.6	14.3	14.5	15.5	1.2	1.0
VP, Risk and Compliance Group	27.5	29.1	30.2	31.2	31.6	34.6	3.4	3.0
Office of the General Counsel	16.2	16.3	16.8	16.7	17.0	17.3	0.6	0.3
Office of the Chief Economist	2.3	2.3	2.4	2.4	2.5	2.8	0.4	0.2
Internal Audit	1.1	1.2	1.3	1.6	1.6	1.9	0.3	0.3
Corporate Strategy	1.6	1.7	1.7	1.6	1.7	1.8	0.2	0.1
Communications (incl. BIS)	6.8	6.9	7.0	7.1	7.3	7.3	0.2	0.0
Office of the Secretary General	4.2	4.3	4.6	4.6	4.6	4.6	0.0	0.0
President's Office	1.7	1.8	1.8	1.7	1.7	1.7	0.0	(0.0)
Human Resources Department	6.9	7.2	8.2	8.1	8.2	7.5	(0.6)	(0.7)
Indep. Project Account. Mechanism	0.1	0.7	0.8	1.1	1.1	1.2	0.1	0.1
Evaluation Department	3.0	3.1	3.1	3.3	3.3	3.4	0.1	0.1
Board of Directors	13.1	13.4	13.8	13.8	13.8	14.1	0.3	0.3
Unallocated	19.0	19.6	20.2	32.5	23.3	33.5	0.9	10.2
Total Direct Costs	**282.4**	**288.2**	**298.1**	**307.9**	**307.9**	**322.9**	**15.0**	**15.0**

Note: 2022 unallocated budget includes funding for the 2022 Compensation and Reward Review proposals, estimated Performance Based Compensation pool (including the impact of 2022 Compensation and Reward Review proposals), as well as the Management Reserve of the Bank. This table reflects the most recent structure of the Bank with restated historic data in case of reorganisations/restructuring, if applicable.

Table A.4 HQ and RO Occupancy (£ million)

Administrative expenses	2021 Budget	2022 Budget	2022 vs 2021 £ million	2022 vs 2021 Per cent
HQ Occupancy	8.8	8.0	(0.8)	(9.2%)
HQ Lease Depreciation	15.0	15.0	-	-
HQ Fixed Asset Depreciation	6.1	6.4	0.3	5.6%
Subtotal - HQ Occupancy	**29.8**	**29.4**	**(0.5)**	**(1.6%)**
RO Occupancy	2.2	2.1	(0.1)	(4.5%)
RO Lease Depreciation	6.4	6.0	(0.4)	(6.2%)
RO Fixed Asset Depreciation	1.6	1.5	(0.1)	(3.4%)
Subtotal - RO Occupancy	**10.2**	**9.6**	**(0.6)**	**(5.4%)**
Total HQ and RO Occupancy	**40.0**	**39.0**	**(1.0)**	**(2.5%)**

Note: Lease and other related centrally managed costs for the 5 Bank Street office will be treated outside of the Core Administrative Budget in 2021/22.

Table A.5 SCF Priorities Multi-Year Investment for 2022-24

	2022 Request	**2023** Estimate	**2024** Estimate	**2022-24** Total
Green				
Administrative Expenses £m	2.0	2.0	1.9	**6.0**
FTE	18.0	18.0	17.0	**53.0**
Digital Transition				
Administrative Expenses £m	1.6	1.3	1.1	**4.0**
FTE	5.0	5.0	5.0	**15.0**
Equality of Opportunity				
Administrative Expenses £m	1.1	1.1	1.1	**3.4**
FTE	13.0	13.0	13.0	**39.0**
Mobilisation				
Administrative Expenses £m	0.8	0.8	0.8	**2.4**
FTE	8.0	8.0	8.0	**24.0**
Self-Evaluation				
Administrative Expenses £m	0.8	0.8	0.8	**2.4**
FTE	5.0	5.0	5.0	**15.0**
Total Priorities				
Administrative Expenses £m	**6.4**	**6.1**	**5.8**	**18.2**
FTE	**49.0**	**49.0**	**48.0**	**146.0**

Note: Admin Expenses include staff and non-staff costs (£1.0 million consultancy for Digital to provide specialist expertise and client facing support, and £0.2 million consultancy under Self-Evaluation for impact and more complex cluster studies).

Annex 3. Treatment of New HQ Lease

Although the lease for 5 Bank Street will contractually only start in mid-2022 and no rental payments will be made before 2026, accounting standards require the recognition of the cost from May 2021 when the building became available which coincided with the commencement of construction works.

- During the period of overlap, there is an increase in the leasing depreciation costs recognised in the income statement of £8.1 million in 2021 and £12.1m in 2022. This increase is being recorded as a non-core expense (but reported to the Board in the QPR).
- As the current HQ lease ends in December 2022, there will therefore be 20 months during which the Bank is recognising costs under both leasing contracts.
- During the majority of this period of overlap, the new HQ will not be occupied by the Bank.
- It should be noted that new HQ lease depreciation is a current best estimate as some variables may change, for example, the precise commencement date and prevailing discount rates. New HQ lease depreciation for 2021 and 2022 has changed from the estimate presented last year primarily as a result of changes in discount rates.

New HQ Opex

- The full impact in 2022 of the new HQ running cost is £21.3 million: Rent charged as "Right of Use Asset Depreciation" of £12.1 million in accordance with IFRS 16 Leasing for 12 months to December 2022.
- Running cost of £4.3 million for insurance, utilities, cleaning, maintenance security and service charge that is a liability of the Bank from 1 July 2022.
- Non-occupancy costs of £1.1 million for catering facilities, which the Bank will incur as staff gradually, relocate to the new headquarters.
- Fixed asset depreciation of £3.8 million in relation to the £111 million incurred for fit out of 5 Bank Street.

From 2023 Bank's Core Administrative Expenditure Budget will reflect £12.1million annual costs as HQ Lease Depreciation (based on the current estimate/underlying assumptions), as well as running occupancy and other costs described above.