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# Additional reporting and disclosures

## Corporate governance

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The EBRD is committed to the highest standards of corporate governance. Responsibilities and related controls throughout the Bank are properly defined and delineated. Transparency and accountability are integral elements of its corporate governance framework. This structure is further supported by a system of reporting, with information appropriately tailored for, and disseminated to, each level of responsibility within the Bank to enable the system of checks and balances on the Bank's activities to function effectively.

The Bank's governing constituent document is the Agreement Establishing the Bank ("the Agreement"), which states that the institution will have a Board of Governors, a Board of Directors, a President, Vice Presidents, officers and staff.

### Board of Governors

All the powers of the Bank are vested in the Board of Governors, which represents the Bank's 66 members. With the exception of certain reserved powers, the Board of Governors has delegated the exercise of its powers to the Board of Directors, while retaining overall authority.

### Board of Directors

The Board of Directors comprises 23 Directors and is chaired by the President. Each Director represents one or more members. Subject to the Board of Governors' overall authority, the Board of Directors is responsible for the direction of the Bank's general operations and policies. It exercises the powers expressly assigned to it by the Agreement and those powers delegated to it by the Board of Governors.

### Board Committees

The Board of Directors has established three Board Committees to assist with its work:

The **Audit Committee** assists the Board of Directors in fulfilling its responsibilities in relation to the following:

- the integrity of the Bank's financial statements and its accounting, financial reporting and disclosure policies and practices
- the soundness of the Bank's systems of internal controls that management has established regarding finance and accounting matters and their effective implementation
- the status, the ability to perform duties independently and the performance of the Bank's compliance, internal audit, evaluation and risk management functions
- the independence, qualifications and performance of the Bank's external auditor
- other responsibilities within its remit.

The **Budget and Administrative Affairs Committee** assists the Board of Directors in fulfilling its responsibilities in relation to the following:

- the budgetary, staff and administrative resources of the Bank
- efficiency, cost control and budgetary prudence
- the EBRD Shareholder Special Fund, the use of donor funding and relations with the donor community
- the Bank's Human Resources policies
- specific responsibilities in relation to Governors, the President, Vice Presidents and Directors of the Bank
- policies relating to governance and ethics
- the Bank's administrative arrangements
- other responsibilities within its remit.

The **Financial and Operations Policies Committee** assists the Board of Directors in fulfilling its responsibilities in relation to the following:

- the Bank's financial policies
- the Bank's Treasury operations, Liquidity Policy and Borrowing Programme
- the Bank's operational policies
- the Bank's strategic portfolio management within the framework of the Medium Term Strategy
- transparency and accountability of the Bank's operations within the framework of the Public Information Policy and the Project Complaint Mechanism
- other responsibilities within its remit.

The composition of these committees during 2013 is detailed in the separate Review section of the Annual Report.

### The President

The President is elected by the Board of Governors. He is the legal representative and chief of staff of the Bank. Under the direction of the Board of Directors, the President conducts the day-to-day business of the Bank.

The President chairs the Bank's Executive Committee, which also includes the Vice Presidents and other members of the Bank's senior management.

## Primary Management Committees

Listed below are the committees that directly advised the President or a member of the Executive Committee in the overall management of the Bank in 2013.

Management Committees	Chair	Purpose of the Committee	Meeting frequency
<b>Executive Committee</b>	President	Reviews and decides on all aspects of Bank strategy, the budget and day-to-day management falling within the competence of the President and approves submissions to the Board. Considers HR policy and senior management appointments and performance.	Fortnightly
<b>Strategy and Policy Committee</b>	Vice President, Policy	Primarily focuses on transition strategy and policy work: country, sector and thematic strategies and related policies, policy products and policy-related research.	Fortnightly
<b>Risk Committee</b>	Vice President and Chief Risk Officer	Oversees Bank-wide risks, including credit and operational risk, with associated follow-up actions. It oversees risk aspects of the Banking and Treasury portfolios (e.g. stress testing), approves risk policies and risk reports and considers new Banking/Treasury products.	Monthly
<b>Operations Committee</b>	First Vice President and Chief Operating Officer	Considers all banking transactions at various stages (concept, structure and final reviews) before submission by the President for consideration by the Board of Directors.	Weekly
<b>Equity Committee</b>	First Vice President and Chief Operating Officer	Maintains oversight of listed and unlisted share investments. Reviews and identifies suitable exit opportunities and makes recommendations on such exits to the Operations Committee.	Quarterly
<b>Procurement Complaints Committee</b>	Deputy General Counsel, Banking and Finance	Considers complaints and disputes arising from tendering and contracts for goods, works and consultant services (including those funded by cooperation funds or the Special Funds resources), subject to the Procurement Policies and Rules or the Corporate Procurement Policy. Reviews procurement and related matters referred to it by the Executive Committee.	As necessary
<b>Information Technology Governance Committee</b>	Vice President and Chief Administrative Officer	Ensures that the Bank's IT strategy and business plan support the Bank's business strategy. Establishes the framework for measuring business benefits and oversees the realisation of benefits arising from IT projects. Reviews and approves business requests for budget allocation on new projects from the approved IT budget.	At least six times per year
<b>Crisis Management Team</b>	Vice President and Chief Financial Officer	Prepares coordinated responses to all critical internal and external issues arising in connection with events that affect the normal operations of the Bank. Ensures that the crisis management and business recovery plans are in place and are tested on a regular basis.	At least three times per year
<b>Enforcement Committee</b>	Deputy General Counsel, Banking and Finance	Conducts proceedings in accordance with the Bank's Enforcement Policy and Procedures, concerning allegations of fraud, corruption, collusion or coercion in the context of projects financed by the Bank. Decides whether to take any enforcement action based on a third party finding or in the implementation of any agreement for the mutual enforcement of debarment decisions in effect between the Bank and another international organisation.	As necessary

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## EBRD Codes of Conduct

The EBRD has Codes of Conduct for Officials of the Board of Directors and for Bank personnel which articulate the values, duties and obligations, and ethical standards that the Bank expects of its Board officials and staff. These Codes were reviewed in 2011 and the revised versions were adopted by the Bank's Board of Governors in February 2012. The revised Codes of Conduct prohibit retaliation against whistleblowers. The Codes of Conduct can be obtained at [www.ebrd.com/pages/about/integrity/compliance.shtml](http://www.ebrd.com/pages/about/integrity/compliance.shtml).

## Compliance

The EBRD has an independent Office of the Chief Compliance Officer (OCCO). This is headed by a Chief Compliance Officer (CCO) who reports directly to the President, and to the Audit Committee either quarterly or as necessary. The CCO can be dismissed by the President only in accordance with guidance given by the Board of Directors in an executive session.

OCCO's mandate is to promote good governance throughout the EBRD and in its operations and to ensure that the highest standards of integrity are applied throughout all of the Bank's activities. The responsibilities of OCCO include dealing with issues of integrity due diligence, confidentiality, conflicts of interest, accountability, ethics, anti-money-laundering, counter-terrorist financing and the prevention of fraudulent and corrupt practices.

The EBRD has adopted an Integrity Risks Policy, which can be obtained at [www.ebrd.com/downloads/integrity/integrityriskpol.pdf](http://www.ebrd.com/downloads/integrity/integrityriskpol.pdf). This policy allocates responsibility within the EBRD for managing and mitigating integrity and compliance risks in the Bank's operations.

Financial and integrity due diligence are integrated into the Bank's normal approval of new business and in the monitoring of its existing transactions. OCCO provides independent expert advice to management about the existence of potential integrity risks and whether these risks are acceptable to the Bank. It monitors the integrity due diligence information provided by the Banking Department to ensure that it is accurate and that integrity concerns are properly identified.

OCCO is further responsible for investigating allegations of staff misconduct as well as fraud and corruption in relation to Bank projects and counterparties. Allegations of staff misconduct are investigated under the Conduct and Disciplinary Rules and Procedures (CDRPs). The CDRPs specify the rights and duties of both the Bank and staff member during the investigative and disciplinary processes and provide safeguards for the subject of the investigation.

Allegations of fraud and corruption in relation to Bank projects or counterparties are investigated under the Bank's Enforcement Policy and Procedures (EPPs). The EPPs also describe the process by which the Bank applies sanctions imposed by other multilateral development banks (MDBs) pursuant to the Agreement for the Mutual Enforcement of Debarment Decisions. In 2013 OCCO recommended to the EBRD Enforcement Committee that 88 Notices of Mutual Enforcement be issued after receiving debarment decisions from MDBs with respect to 303 incorporated entities and 25 individuals. The EBRD's Enforcement Committee approved this recommendation and determined that sanctions should be imposed on the entities and individuals noted in the 88 Notices. Details of the individuals, entities and sanctions are posted at [www.ebrd.com/pages/about/integrity/list.shtml](http://www.ebrd.com/pages/about/integrity/list.shtml).

OCCO is also responsible for training Bank personnel in relation to the Bank's integrity, anti-money-laundering and counter-terrorist finance requirements. In addition, it provides specialist training and advises, as necessary, individuals who are nominated by the Bank to serve as directors on the boards of companies in which the Bank holds an equity interest.

The Bank has an accountability mechanism that assesses and reviews complaints about Bank-financed projects and provides, where warranted, a determination as to whether the Bank acted in compliance with its relevant policies when it approved a particular project. The Project Complaint Mechanism (PCM) is administered by OCCO, and there is a dedicated PCM Officer, appointed by the President. The PCM Officer is responsible for the day-to-day implementation of the PCM. Information about the PCM and registered complaints can be found at [www.ebrd.com/pages/project/pcm/register.shtml](http://www.ebrd.com/pages/project/pcm/register.shtml).

The Bank's annual *Anti-Corruption Report* is published by OCCO. The report describes the Bank's strategy to promote integrity and prevent fraud and corruption, and highlights the most recent measures taken. The report can be found at [www.ebrd.com/pages/about/integrity/reports.shtml](http://www.ebrd.com/pages/about/integrity/reports.shtml).

## Reporting

The EBRD's corporate governance structure is supported by appropriate financial and management reporting. The Bank has a functioning mechanism to be able to certify in the *Financial Report 2013* as to the effectiveness of internal controls over external financial reporting, using the COSO (Committee of Sponsoring Organisations of the Treadway Commission) internal control framework (1992).<sup>8</sup> This annual certification statement is signed by both the President and the Vice President and Chief Financial Officer (VP & CFO) and is subject to a review and an attestation by the Bank's external auditor. In addition, the Bank has a comprehensive system of reporting to its Board of Directors and its committees. This includes reporting to the Audit Committee on the activities of the Evaluation Department and the Internal Audit Department.

## Financial risks

Financial risks are discussed in the Risk Management section of this report.

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<sup>8</sup> In line with other organisations the Bank will adopt the revised 2013 framework during 2014.

## Operational risk

The Bank defines operational risk as all aspects of risk-related exposure other than those falling within the scope of credit, market and liquidity risk. This includes the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and reputational risk. Examples include:

- errors or failures in transaction support systems
- inadequate disaster recovery planning
- errors in the mathematical formulae of pricing or hedging models
- errors in the computation of the fair value of transactions
- damage to the Bank's name and reputation, either directly by adverse comments or indirectly
- errors or omissions in the processing and settlement of transactions, whether in the areas of execution, booking or settlement or due to inadequate legal documentation
- errors in the reporting of financial results or failures in controls, such as unidentified limit excesses or unauthorised trading/trading outside policies
- dependency on a limited number of key personnel, inadequate or insufficient staff training or skill levels
- external events

The Bank has a low tolerance for material losses arising from operational risk exposures. Where material operational risks are identified (that is, those that may lead to material loss if not mitigated), appropriate mitigation and control measures are put in place after a careful weighing of the risk/return trade-off. Maintaining the Bank's reputation is of paramount importance and reputational risk has therefore been included in the Bank's definition of operational risk. The Bank will always take all reasonable and practical steps to safeguard its reputation.

Within the Bank, there are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the Bank's high standards of business ethics, its established system of internal controls, checks and balances and segregation of duties. These are supplemented with:

- the Bank's Codes of Conduct
- disaster recovery/contingency planning
- the Public Information Policy
- the Environment and Social Policy
- client and project integrity due diligence procedures, including anti-money-laundering measures
- procedures for reporting and investigating suspected staff misconduct, including fraud
- the information security framework
- procurement and purchasing policies, including the detection of corrupt practices in procurement.

Responsibility for developing the operational risk framework and for monitoring its implementation resides within the Risk Vice Presidency. Risk Management is responsible for the overall framework and structure to support line managers who control and manage operational risk as part of their day-to-day activities. The Risk Committee governs all matters of risk and related policies Bank-wide, including monitoring, assessment and oversight of Bank-wide risks including operational risk. The Risk Committee is chaired by the Vice President and Chief Risk Officer (VP & CRO) with other senior managers represented or present for operational risk related discussion.

The Bank's current operational risk framework includes an agreed definition (see above); the categorisation of different loss type events to assess the Bank's exposure to operational risk; a group of key risk indicators to measure such risks; the identification of specific operational risks through an annual self-assessment exercise; internal loss data collection; and the contribution to, and use of, external loss data.

Departments within the Bank identify their operational risk exposures and evaluate the mitigating controls that help to reduce the inherent or pre-control risk. Each risk (both inherent and post control) is assessed for its impact, according to a defined value scale and the likelihood of occurrence, based on a frequency by time range. Operational risk incident losses or near misses above €5,000 are required to be reported. The collection of such data is primarily to improve the control environment by taking into account the cost of control strengthening and perceived potential future losses. The Bank is a member of the Global Operational Risk Loss Database (GOLD), the external loss database where members "pool" operational risk incident information over a monetary threshold. This provides the Bank with access to a depth of information wider than its own experience and supplements its own analysis on reported internal incidents. GOLD is run as an unincorporated not-for-profit consortium of financial services institutions.

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## External auditor

The external auditor is appointed by the Board of Directors, on the recommendation of the President, for a four-year term with a maximum of two consecutive terms. The Bank has appointed Deloitte LLP (UK) as auditor for the period 2011-14.

The external auditor performs an annual audit in order to be able to express an opinion on whether the financial statements present fairly the financial position and the profit of the Bank in accordance with International Financial Reporting Standards (IFRS). In addition, the external auditor reviews and offers its opinion on management's assertion as to the effectiveness of internal controls over financial reporting. This opinion is given as a separate report to the audit opinion. At the conclusion of its annual audit, the external auditor prepares a management letter for the Board of Governors, setting out its views and management's responses on the effectiveness and efficiency of internal controls and other matters. This letter is reviewed in detail and discussed with the Audit Committee. The Audit Committee reviews the performance and independence of the external auditor annually.

There are key provisions in the Bank's policies regarding the independence of the external auditor. The external auditor is prohibited from providing non-audit related services unless such service is judged to be in the interest of the Bank and unless it is approved by the Audit Committee. However, the external auditor can provide consultancy services paid for by cooperation funds relating to client projects; such incidents are reported periodically to the Audit Committee.

## Compensation policy

The Bank has designed a market-oriented staff compensation policy, within the constraints of the Bank's status as a multilateral institution, to meet the following objectives:

- to be competitive enough to attract and retain high calibre employees from a wide range of member countries
- to motivate and encourage superior performance
- to take account of differing levels of responsibility
- to allow the Bank flexibility to respond rapidly to changing conditions
- to support a climate of constant staff development
- to deliver benefits that provide social security in daily life.

To help meet these objectives, the Bank's members have agreed that the Bank should use market comparators to evaluate its staff compensation and that salary and performance-based compensation awards should be driven by performance. Market comparators for the Bank are primarily private sector financial institutions in each of its locations plus other IFIs.

The performance-based compensation awards are structured to recognise individual and team contributions to the Bank's overall performance. These payments represent a limited proportion of the overall total compensation and benefits package provided to staff.

## EBRD staff remuneration

All staff on fixed-term or regular contracts receive a salary which is reviewed on 1 April each year. In addition, members of staff who are not eligible for overtime pay are eligible to receive a performance-based compensation award depending on the Bank's and the individual staff member's performance.

All fixed-term and regular employees, as well as most of the Board of Directors,<sup>9</sup> the President and Vice Presidents, are covered by medical insurance, life insurance and participate in the Bank's retirement plans. Certain staff hired from abroad may be eligible for some allowances to assist with costs related to their relocation.

There are two retirement plans in operation. The Money Purchase Plan is a defined contribution scheme to which both the Bank and staff contribute, with Plan members making individual investment decisions. The Final Salary Plan is a defined benefit scheme, to which only the Bank contributes. Both plans provide a lump sum benefit on leaving the Bank or at retirement age, such that retirement plan obligations to staff once they have left the Bank or retired are minimal (being limited to inflation adjustments on undrawn or deferred benefits under each plan). The rules for the retirement plans are approved by the Board of Directors and are monitored by a Retirement Plan Committee, a Retirement Plan Administration Committee and a Retirement Plan Investment Committee.

The salaries and emoluments of all staff are subject to an internal tax, applied at rates that vary according to the individual's salary and personal circumstances. Their salaries and emoluments are exempt from national income tax in the United Kingdom.

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<sup>9</sup> Some Directors and Alternates are paid directly by their constituency and do not participate in the Bank's retirement plans and/or other benefits.

## President and Vice Presidents

The President is elected by the Board of Governors and typically receives a fixed-term contract of four years. The President's salary and benefits are approved by the Board of Governors. The President can participate in the same benefit schemes as the staff but s/he is not eligible for performance-based compensation awards.

The Vice Presidents are appointed by the Board of Directors on the recommendation of the President and typically have fixed-term contracts of four years. Their salaries and benefits are approved by the Board of Directors. The Vice Presidents can participate in the same benefit schemes as the staff but are not eligible for performance-based compensation awards.

The most recently approved gross salaries, from which internal tax is deducted, for each of these positions is as follows:

	2013 £ 000	2013 € 000	2012 £ 000	2012 € 000
President	329	388	327	401
First Vice President and Chief Operating Officer <sup>10</sup>	304	359	298	365
Vice President and Chief Financial Officer	277	327	272	334
Vice President and Chief Risk Officer <sup>11</sup>	277	327	225	276
Vice President and Chief Administrative Officer <sup>12</sup>	70	83	n/a	n/a
Vice President, Policy <sup>13</sup>	219	258	233	286

## Board of Directors

Directors are elected by the Board of Governors for a term of three years and may be re-elected. Directors appoint Alternate Directors. The salaries of Directors and Alternate Directors are approved by the Board of Governors. They can participate in the same benefit schemes as staff but are not eligible for performance-based compensation awards. Some Directors and Alternates are paid directly by the directorship that they represent. In such cases, the funds that would otherwise be used by the Bank to pay such Directors and Alternates are made available to the directorship to offset other eligible costs to the directorship.

The most recently approved gross salaries for these positions, from which internal tax is deducted, are as follows:

	2013 £ 000	2013 € 000	2012 £ 000	2012 € 000
Director	143	169	140	172
Alternate Director	118	139	116	142

## Senior management

Key management personnel comprises: members of the Bank's Executive Committee; Director of the President's Office; Managing Directors; the Treasurer; the Controller; the Head of Internal Audit; the Chief Evaluator; and the Chief Compliance Officer. This group, excluding the President and Vice Presidents (for whom information is given above), consists of 30 individuals who received gross salaries, from which internal tax is deducted, in the ranges shown in the table below. The average performance-based compensation award for this group was 22 per cent of annual gross salaries in 2013 (2012: 23 per cent).

	2013 £ 000	2013 € 000	2012 £ 000	2012 € 000
Minimum	100	118	95	117
Median	176	208	172	212
Maximum	213	251	210	258
No. in group	30	30	27	27

<sup>10</sup> Role changed hands on 1 March 2013.

<sup>11</sup> Changed positions from Vice President, Risk and Resources to Vice President and Chief Risk Officer on 1 October 2013.

<sup>12</sup> Employed from 1 October 2013.

<sup>13</sup> Role changed hands on 1 July 2013.