Independent assurance report

To the Board of Governors of the European Bank for Reconstruction and Development

The Board of Governors of the European Bank for Reconstruction and Development (the "Bank") engaged us to perform an assurance engagement over management's assertion that the Bank maintained effective internal control over financial reporting as at 31 December 2020 ("management's assertion"), included within the 'Responsibility for external financial reporting' section on page 87 of the Bank's *Financial Report 2020*.

Our opinion

In our opinion, based on our work performed, management's assertion that the Bank maintained effective internal control over financial reporting as at 31 December 2020, is fairly stated, in all material respects, based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2013 framework").

This opinion is to be read in the context of what we say below.

Professional standards applied and level of assurance

We performed a reasonable assurance engagement over management's assertion in accordance with International Standard on Assurance Engagements 3000 (Revised) – '*Assurance Engagements other than Audits or Reviews of Historical Financial Information*' issued by the International Auditing and Assurance Standards Board.

Our independence and quality control

We complied with the Institute of Chartered Accountants in England and Wales Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, that are at least as demanding as the applicable provisions of the IESBA Code of Ethics.

We also apply International Standard on Quality Control (UK) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Definition and limitations of internal control over financial reporting

An organisation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An organisation's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the organisation; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the organisation are being made only in accordance with authorisations of management and directors of the organisation; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the organisation's assets that could have a material effect on the financial statements.

An assurance engagement of this nature is not designed to detect all instances of controls operating ineffectively as it is not performed continuously throughout the period and the tests performed are on a sample basis. Any projection of the outcome of the evaluation of controls to future periods is subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Also, because of the inherent limitations of any control structure, even if controls are suitably designed and operating effectively, the control objectives may not be achieved and so fraud, error, or non-compliance with laws and regulations may occur and not be detected.

Our opinion is based on historical information and the projection to future periods about the suitability of the design of the controls would be inappropriate.

Management's responsibilities

Management of the Bank are responsible for:

- the assessment of the effectiveness of internal control over financial reporting and management's assertion that the Bank maintained effective internal control over financial reporting, included within the "Responsibility for external financial reporting" section;
- designing, implementing, operating and monitoring processes to maintain effective internal controls over its financial reporting;
- supporting management's assertion with sufficient evidence, including documentation; and
- the maintenance and integrity of the Bank's website.

Our responsibilities and procedures performed

Our assurance engagement over management's assertion included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating to the extent necessary the design and operating effectiveness of internal control based on the assessed risk of management's assertion not being fairly stated, in all material respects. Our examination also included performing such other procedures as we considered necessary in the circumstances.

We are responsible for planning and performing the engagement to obtain evidence to support our assurance opinion; forming an independent opinion, based on the procedures we have performed and the evidence we have obtained; and reporting our conclusion to the Board of Governors of the Bank.

While the internal control over financial reporting may be informed by the need to satisfy legal or regulatory requirements, our scope of work and our opinion does not constitute assurance over compliance with those laws and regulations.

We believe that our assurance procedures provide a reasonable basis for our opinion.

Intended users and purpose

This report is produced in accordance with the terms of our agreement dated 4 November 2019 and is intended solely for the use and benefit of the Board of Governors of the Bank and solely for the purpose of reporting on management's assertion with regards to the effectiveness of the Bank's internal controls over financial reporting.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Governors and the Bank for our work, for this report or for the opinion we have formed, save where terms have been agreed in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants
London, United Kingdom
14 April 2021

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Independent auditors' report to the Board of Governors of the European Bank for Reconstruction and Development

Report on the audit of the financial statements

Our opinion

In our opinion, the European Bank for Reconstruction and Development's (the "Bank's") non-statutory financial statements:

- give a true and fair view of the state of the Bank 's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

What we have audited

The Bank's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the income statement, the statement of comprehensive income, the statement of cash flows, and the statement of changes in equity for the year then ended;
- the accounting policies;
- the risk management section (other than those parts specifically identified as unaudited); and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and applicable law. Our responsibilities under ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Context

Following our appointment in November 2019, 2020 was our first financial year as auditors. We met with the former auditors and attended the Audit Committee meetings at the end of the 2019 audit cycle to understand the key audit matters as and when they arose. We also reviewed the audit working papers of the former auditors to gain sufficient comfort over the 2020 opening balance sheet and comparative financial information. Our review also focused on how they had responded to the key judgments used in preparing the financial statements and work performed over key business processes.

The 2020 audit was impacted by the need to conduct our work remotely and to consider the impact of COVID-19 on the nature and extent of our work. We used technology effectively to coordinate the audit and exchange information between PwC and the Bank. By adapting our working practices, we mitigated the risks arising from the remote working environment.

Overview

Materiality	• Overall materiality: €133 million (2019: N/a), based on 0.75% of total members' equity.
Audit scope	• The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors (including history of misstatement through fraud or error).
Key audit matters	• Provisions for impairment in relation to Banking loans. • Valuation of financial instruments measured using significant unobservable inputs • Valuation of pension liabilities. • Impact of COVID-19.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Bank made use of subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias in key estimates that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provisions for impairment in relation to Banking loans

Key audit matter description	The determination of expected credit loss allowances (ECL) is subjective and judgmental. The Bank's loan portfolio and exposures span across 38 countries and 12 industry sectors, leading to a range of diverse credit risk considerations impacting these judgments. There is an increased risk of material misstatement of ECL due to the inherent uncertainty in the assumptions made to incorporate the impact of COVID-19, and the increased degree of expert judgment required. Complex models are used to collectively assess and determine ECL on loans at amortised cost in Stage 1 and 2 which are not classified as being credit impaired at the reporting date. We focussed our audit work on the following areas: • The appropriateness of model methodologies; • The significant increase in credit risk criteria since initial inception; • Multiple economic scenarios and scenario weightings used to determine the expected likely outcomes in the point-in-time (PIT) probability of default (PD) rates; • Judgments and assumptions used in the determination of internal credit ratings due to the uncertainty over future performance of counterparties; and • Loss given default (LGD) rates including how government support arrangements and guarantees are considered within these estimates. The expected credit loss provision also included additional modelled and judgment based post model adjustments to capture the economic impact of Covid- 19. Individual specific ECLs are estimated for credit impaired loans categorised as Stage 3. The principal assumptions applied in estimating provisions include the valuation of collateral, forecast cash flows and the reasonableness of the scenario weighting of expected likely outcomes.
How our audit addressed the key audit matter	We understood and critically assessed the appropriateness of the impairment policy (including the definitions of default and significant increase in credit risk) including how the Bank considered the impact of COVID-19 and its application in the determination of ECL. *Stage 1 and 2 ECL* We understood the Bank's process and tested key controls around the determination of expected credit loss allowances, including controls relating to: • The review of modelling methodologies; • The integrity of data feeds from source systems into the model; and • The approval of key inputs and assumptions; and • Monitoring controls which periodically assess the appropriateness of internal credit ratings. We assessed the reasonableness of the model methodologies and key inputs used in the determination of the ECL such as significant increase in credit risk, PD and LGD rates. We independently tested the model code and performed sensitivity analyses on the results. We assessed the judgment as to whether the results of these activities indicated whether the models continued to perform appropriately or if any post-model adjustments were required. We used our economist experts to support our risk assessment and to assess the reasonableness of the GDP data used in determining economic scenarios and associated scenario weightings, giving specific consideration to the economic volatility and uncertainty. We tested the completeness and accuracy of key data inputs, sourced from underlying systems, that are applied in the calculation of ECL and tested the integrity of the calculations. We used credit risk modelling specialists to support the audit team in the performance of these audit procedures. *Post-model adjustments* We assessed the appropriateness of the methodology of the post-model adjustment recorded to account for the impact of COVID-19. We assessed the appropriateness of methodologies used to determine and quantify the post model adjustment required and the reasonableness of key assumptions. Based on our knowledge and understanding of the limitations in models and industry emerging risks, we critically assessed the completeness of the post model adjustment proposed by the Bank. *Stage 3 provisions* We understood the Bank's process and tested key controls around the identification of credit-impaired loans and the calculation of the provision, including controls relating to: • The review and challenge of the assumptions and underlying calculations; and • Monitoring of loans on the watchlist and identification of changes to staging.

	We performed the following procedures to test the completeness of the identification of loans requiring individual assessment: • We critically assessed the criteria for determining whether credit impairment had occurred; and • We tested a sample of loans which the Bank had determined were not in stage 3 at the reporting date. For each sampled loan, we independently assessed whether they had indicators of a credit impairment event and therefore whether they were appropriately categorised. For a sample of individually assessed loans in stage 3 and related ECL, we re-performed the provision calculation, critically assessing key inputs and assumptions including expected future cash flows, discount rates, valuations of collateral held where relevant and the weightings applied to scenario outcomes. We also evaluated and tested the disclosures in the Financial Report. Based on the evidence obtained, we concluded that the methodologies, modelled assumptions, judgments and data used within the ECL provisions to be appropriate and materially compliant with the requirements of IFRS 9.

Valuation of financial instruments measured using significant unobservable inputs	
Key audit matter description	The financial instruments held by the Bank range from those that are traded on active markets with quoted prices, to more complex and bespoke instruments. The valuation of these complex financial instruments can require the use of prices or inputs which are not readily observable in the market. These financial instruments are classified as Level 3, per the IFRS 13 fair value hierarchy. The valuation of the following Level 3 portfolios and the associated gains and losses recognized in the income statement were given specific focus: • The Bank's unlisted equity investments where judgment is required in determining the key assumptions including estimating earnings and determining the illiquidity discount on observable price / earnings multiples used in the valuation; • Put and call options which are used to facilitate an exit route for certain unlisted equity investments. The valuations of these instruments are driven by the underlying unlisted equity investments, with significant uncertainty over volatility; • Loans at fair through profit and loss which have non-standardised features and are valued based on models with unobservable inputs such as discount rates and counterparty credit assumptions; and • Within the Final Salary Plan (FSP) defined benefit scheme pension assets, there is a hedge fund asset that is valued based on net asset value (NAV).
How our audit addressed the key audit matter	We understood the Bank's process and tested key controls supporting the identification and measurement of the valuation of financial instruments including the review and challenge of the appropriateness of the methodology and assumptions. For the hedge fund asset held within the FSP where the valuation is based on NAV statements, we performed the following: • Obtained third party confirmation from the investment manager; and • Evaluated the reliability of the valuation by assessing the investment manager's third party control report on the valuation process. For all other Level 3 fair value financial instruments we performed the following: • Evaluation of the valuation methodologies and assessment of the appropriateness and consistency of model inputs, key assumptions and contractual obligations; and • Where inputs are unobservable, critically assessed if the inputs and assumptions fall within a reasonable range, based on our independent review, industry knowledge and experience of the market. We used valuation experts to support the audit team in the performance of these audit procedures. We also evaluated and tested the disclosures in the Financial Report. Based on the evidence obtained, we concluded that the assumptions and judgments were appropriate and materially compliant with the requirements of IFRS 13.
Valuation of pension liabilities	
Key audit matter description	The accounting valuation of the obligations of the Final Salary Plan ('FSP') is dependent on a number of actuarial estimates, primarily the discount rate and inflation rate. The Bank uses an actuarial expert Willis Tower Watson ('WTW') to determine the valuation of the defined benefit obligation using a number of market-based inputs and other financial and demographic estimates. The estimates are updated to reflect market changes in the discount rate and to reflect changing market practice and views of long-term inflation. Changes in these estimates can have a material impact on the valuation due to the long duration of the pension obligations.
How our audit addressed the key audit matter	We tested the controls over the review, challenge and approval of assumptions and methodologies employed, based on the WTW actuarial report and completeness and accuracy of other data inputs. We engaged our actuarial experts and performed the following: • Evaluated the objectivity and competence of the Bank's actuarial expert involved in the valuation of the defined benefit obligation; • Assessed the reasonableness of the assumptions used against independently compiled expected ranges based on market observable indices and our market experience; • Tested the calculation of the obligations; and • Performed testing over the members' data used in calculating the obligation. We also evaluated and tested the disclosures in the Financial Report. Based on the evidence obtained, we concluded that the assumptions and data used were appropriate and materially compliant with the requirements of IAS 19.

Impact of COVID-19	
Key audit matter description	The COVID-19 pandemic, and measures taken by governments in order to contain COVID-19 as well as to provide support to economies have a significant impact on the operations and performance of the Bank. The Covid-19 pandemic has also changed the way that organisations operate, with one of most substantial impacts being the transition to remote working. As a result of the pandemic there are significant judgments and assumptions that impact financial reporting that the Bank have considered. The judgmental areas of our audit most impacted by COVID-19 are set out in the following other key audit matters in this report: • Provisions for impairment in relation to Banking loans; and • Valuation of financial instruments measured using significant unobservable inputs. The financial statements are prepared on the going concern basis of accounting. We also focused on the appropriateness of using a going concern basis of accounting given uncertainty about the economic outlook.
How our audit addressed the key audit matter	In assessing the Bank's consideration of the impact of COVID-19 on the financial statements, we have undertaken the following procedures: • In areas where the Bank is required to estimate future financial performance when preparing the financial statements, we have challenged the forecasts and the extent to which they have been impacted by COVID-19; • Assessed the impact of COVID-19 on estimates and the assumptions that underpin them; • Reviewed management's going concern assessment, which considered the potential impact of COVID-19 on funding requirements; • Considered the impact of COVID-19 on the Bank's internal control environment through our audit testing and inquiries of management; and • Evaluated the adequacy of the disclosures made in the financial statements with respect to the impact of COVID-19. As a result of these procedures, we concluded that the impact of Covid-19 has been appropriately evaluated and reflected in the Financial Report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Bank, its accounting processes and controls, and the sector in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

Overall materiality	€133 million (2019: N/a)
How we determined it	0.75% of total members' equity.
Rationale for benchmark applied	Total members' equity is the most appropriate benchmark given EBRD's purpose, and focus on deployment of its resource base as a development bank and is a generally accepted benchmark for determining audit materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was €99 million.

In determining the performance materiality, we considered a number of factors; the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €6 million (2019: N/a) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Other information

Management of the Bank is responsible for the other information. The other information comprises the following sections of the Financial Report (but does not include the financial statements and our auditors' report thereon):

- Highlights;
- Key financial indicators 2016-20;
- Additional reporting and disclosures;
- Financial Risks; and
- Those parts of Risk management specifically identified as unaudited,

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities for the financial statements and the audit

Responsibilities of management for the financial statements

As explained more fully in the Statement of management's responsibilities in respect of the financial statements, the management of the Bank is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. Management is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank.
- Conclude on the appropriateness of the Bank's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This report, including the opinion, has been prepared for and only for the Bank's Board of Directors and Board of Governors to enable the Bank to comply with the requirements of Articles 24, 27 and 35 of the Agreement Establishing the Bank and Section 13 of the By-Laws of the European Bank for Reconstruction and Development as set out in our engagement letter dated 4 November 2019 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Bank, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

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