Report of the independent auditor

To the Governors of the European Bank for Reconstruction and Development

We have examined management's assessment that the European Bank for Reconstruction and Development (the Bank) maintained effective internal controls over financial reporting as contained in the Bank's *Financial Report 2019*, based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission (2013 framework). Management is responsible for maintaining effective internal controls over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assertion over the effectiveness of the Bank's internal control over financial reporting, based on our examination.

We conducted our examination in accordance with the International Standard on Assurance Engagements (ISAE) 3000. Our examination included obtaining an understanding of internal control over financial reporting, evaluating management's assessment and performing such other procedures as we considered necessary in the circumstances. We believe that our work provides a reasonable basis for our opinion.

A bank's internal controls over financial reporting are 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. A bank's internal controls over financial reporting include those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that the 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 bank are being made only in accordance with the authorisation of the bank's management; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, management's assertion that the Bank maintained effective internal control over financial reporting, included within the 'Responsibility for external financial reporting' section of the Bank's *Financial Report 2019* 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 Organisations of the Treadway Commission (2013 framework).

This report, including the opinion, has been prepared for, and only for, the Board of Governors as a body in connection with management's attestation for maintaining effective internal controls over financial reporting 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, save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP

Chartered Accountants
London, United Kingdom
7 April 2020

Independent auditor's report to the Governors of the European Bank for Reconstruction and Development

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of the European Bank for Reconstruction and Development (the Bank):

- give a true and fair view of the state of the Bank's affairs as at 31 December 2019 and of its profit for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

We have audited the financial statements of the Bank, which comprise:

- the income statement
- the statement of comprehensive income
- the balance sheet
- the statement of changes in equity
- the statement of cash flows
- the accounting policies
- the risk management disclosures
- the related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • valuation of illiquid equity investments and associated derivatives; • loan impairment and provisioning. Within this report, key audit matters are identified as follows: (!) Newly identified (⌃) Increased level of risk (<>) Similar level of risk (⌄) Decreased level of risk
Materiality	The materiality that we used in the current year was €133 million, which was determined based on 0.75 per cent of total shareholders' equity.
Scoping	Our audit was performed on the Bank entity. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	During the period there were no significant changes to the audit approach from the previous year.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

Valuation of illiquid equity investments and associated derivatives.

Key audit matter description	The valuation of illiquid equities including funds (December 2019: €3.5 billion, December 2018: €3.2 billion) and associated level 3 derivatives (December 2019: €60 million, December 2018: €400 million) is a key audit matter given the large size of the portfolio and the inherent subjectivity when determining fair values. In general, there is a lack of comparable market transactions in the economies where the Bank operates leading to difficulties in deriving fair values for illiquid equity investments. Additionally, the Bank enters into option transactions in order to facilitate an exit route for certain equity investments. Consequently, the fair value of both the illiquid equity investments and associated derivatives can fall within a relatively wide valuation range. Common methodologies include the use of earnings multiples or net asset values multiples based on comparable companies. Discounted cash flows are also used in certain cases. There are a number of assumptions inherent in valuation models that are highly subjective and sensitive to model choice and inputs. The process of defining the fair value of an illiquid equity investment involves a high degree of subjectivity and, accordingly, the Bank has defined a set of valuation principles and rules by which valuations are governed and reviewed. The equity option valuations are subjective and complex with respect to whether they have value, what inputs to use and how to model contractual features. Management has assessed the sensitivity of the portfolio by considering reasonably possible alternative assumptions (such as multiples) in the individual equity valuations as disclosed within Risk Management note F on page 54 in the financial statements. The relevant accounting policy is disclosed in note C on page 24, and further details in notes 5, 14, 18 and 24 to the financial statements.
How the scope of our audit responded to the key audit matter	We completed the following procedures in relation to the valuation of illiquid equity investments and associated derivatives: • We have obtained an understanding of relevant controls within the business process and performed testing over management's controls in place over the valuation process for equity investments and derivatives. • Our review of the valuation process has included obtaining the Bank's valuation methodology and the processes and procedures that assess whether this is applied consistently over the portfolio, focusing on management review and challenge. • For the illiquid equity investments, we have performed tests of detail over a sample of valuations as well as assessing the valuation methodology applied by the Bank for reasonableness and consistency with IFRS and market practice. • Our testing involves agreement of multiples to third-party evidence and challenge to any discounts applied. • We performed retrospective testing of equity exits made in the year to assess whether the Bank's valuations were reasonable in light of the actual exit proceeds received for realised transactions. • For a sample of options, we have assessed the contractual features and then understood how the Bank has modelled them. We have tested the inputs to the valuation models for consistency of approach, reasonableness against the type of underlying transaction and against market practice and IFRS requirements. We have also agreed the inputs into the models to supporting documentation where applicable. • We assessed the accuracy of the Bank's disclosures within the financial statements including those around the fair value hierarchy.
Key observations	We conclude that the valuation of illiquid equities and associated derivatives is reasonable and within the acceptable range of possible outcomes.

Loan impairment and provisioning: stage classification and specific provisions.

Key audit matter description	The total provision balance for December 2019 is €946 million (December 2018: €981 million), split between Stage 1 (€162 million), Stage 2 (€132 million) and Stage 3 (€652 million). Provisions are calculated on an expected credit loss basis. Specific provisions comprise the majority of the loan loss provisions held by the Bank, these constitute impaired loans within Stage 3 and represent loans in the portfolio where there is objective evidence of impairment. The key audit matter relates to the appropriate stage classification and the key judgements are outlined below: • For exposures determined to be within IFRS 9 Stage 1, impairments are calculated using 12-month expected credit losses (ECLs). • Assets that have experienced a significant increase in credit risk (but where there is no objective indicator of impairment) are classified as Stage 2 and require provisions equal to lifetime ECL. • Lifetime ECLs are also calculated for assets where there is objective evidence of impairment. These are classified as Stage 3. There are a number of key elements that drive the IFRS 9 calculation, some of which are mechanical in nature while other elements involve more judgement. This includes: • The internal credit rating applied to each exposure and the change in credit rating is a significant determinant of whether an exposure is considered Stage 1 or Stage 2 (or indeed Stage 3) and this can involve a high level of judgement. The movement from Stage 1 to Stage 2 results in the use of a lifetime expected loss and so can potentially have a significant effect on the overall level of provisioning. • The actual probabilities of default (PD) or loss given default (LGD) applied to a credit rating is an exercise which is largely mechanical in nature although there is some judgement in the selection of historical default data and how "through the cycle" PDs are converted to "point in time" PDs as required by the standard. • For Stage 3 loans, individual calculations are performed to determine the impairment loss, a complex and judgemental process. Management has assessed the sensitivity of the portfolio provisions by considering reasonably possible alternative inputs into the provision calculation (such as probability of default ratings) in the individual loans as disclosed within the "Critical accounting estimates and judgements", note C on page 26. The relevant accounting policy is disclosed in note B on page 20, and further details in notes 6, 10 and 15 to the financial statements.

Highlights
Financial results
Additional reporting
Financial statements
External financial reporting
Independent auditor's report

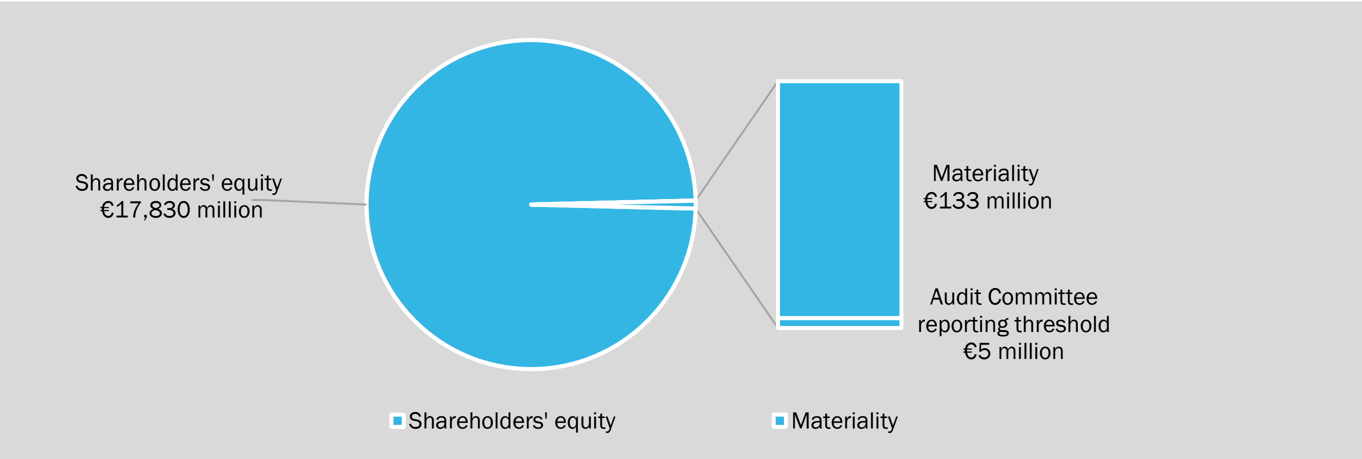
How the scope of our audit responded to the key audit matter	We completed the following procedures in relation to the loan impairment and provisioning balances: • We have obtained an understanding of relevant controls within the business process and performed testing over management's controls in place over loan impairment and provisioning, including performing testing on the relevant IT systems. • We challenged each element of the IFRS 9 methodology to evaluate compliance with the accounting standards and have assessed the reasonableness of judgements within the methodology such as the level of internal versus external default data used and the appropriateness and correlation of macroeconomic variables to the probability of default. • We further assessed if any overlays to the provisioning model were required. • We have tested the mechanical elements of the calculation such as the loan exposure data, the historical default data and GDP data used. • We have involved internal specialists to test that that the "calculation engine" performs calculations in line with the approved methodology, and we have reviewed all changes to the underlying code made during 2019. • The key judgement relates to the credit rating applied to each exposure. In this respect we have picked a large sample of exposures across Stage 1 and Stage 2 to assess credit ratings and hence whether the staging of the exposures is reasonable. In particular, we have selected Lebanese and Turkish loan exposures and assessed the staging of these exposures. This has involved consideration of the financial performance of the borrower including the currency exposure of financing and the ability to repay in such a currency given the business activities of the company. In order to consider the appropriateness of the valuation of specific provisions we performed further procedures: • We have obtained an understanding of relevant controls within the business process and performed testing over management's controls in in place over the credit assessment process for banking loans. • For a sample of specific provisions we: – assessed the economic situation of the borrower against Stage 3 determinants outlined in IFRS 9 – challenged management on assumptions made in factors affecting the cash flow forecast for specific loans. This included checking the consistency of inputs used to determine whether they are appropriate – performed detailed testing through re-performing the individual provision calculations associated with each specific provision tested and reconciling the inputs to supporting documentation. We have assessed completeness of Stage 3 exposures through our testing of Stage 1 and Stage 2 exposures. This includes testing of watchlist exposures and exposures rated just below 8 (Stage 3) in the internal credit rating system.
Key observations	We concluded that the loan impairment provision balance is reasonable and in compliance with IFRS 9.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Materiality	€133 million (2018: €121 million)
Basis for determining materiality	The materiality was determined on the basis of 0.75 per cent (2018: 0.75 per cent) of shareholders' equity of €17.8 billion as disclosed in the balance sheet and statement of changes in equity.
Rationale for the benchmark applied	Materiality has been based on shareholders' equity given our assessment of this being the most stable metric, and the most applicable to the operation of the Bank.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70 per cent of materiality for the 2019 audit (2018: 70 per cent). In determining performance materiality, we considered the following factors:

a. our assessment of the control environment
b. lack of significant changes in the business
c. low turnover of management or key accounting personnel
d. low history of corrected and uncorrected misstatements identified in prior periods.

Error reporting threshold

We agreed with the Audit Committee that we would report to the committee all audit differences in excess of €5 million (2018: €5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Bank and its environment, including internal control, and assessing the risks of material misstatement. Our audit was performed on the Bank entity given there were no material consolidated entities as at 31 December 2019. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

The scoping remains in line with the scoping for the prior year audit, given there have been no material changes to the Bank's structure, activities or relevant accounting standards.

Other information

The President is responsible for the other information. The other information comprises the highlights, financial results and additional reporting and disclosures sections of the *Financial Report* for the year ended 31 December 2019.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, 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 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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

Responsibilities of the President for the financial statements

The President is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the President determines 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, the President 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 the President either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's 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 auditor's 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 judgement 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 President.
- conclude on the appropriateness of the President'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 auditor's 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 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, include the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We also provide those charged with governance with a statement that we have complied with the relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 auditor's 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.

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit
- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report to you in respect of these matters.

Other matters

Audit tenure

Following the recommendation of the Audit Committee, we were appointed by the President on 31 May 2011 to audit the financial statements for the year ended 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is nine years, covering the years ended 31 December 2011 to 31 December 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs.

Use of our Report

This report is made solely to the Board of Governors, as a body, in accordance with Article 24 of the Agreement Establishing the Bank dated 29 May 1990. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Alan Chaudhuri

For and on behalf of Deloitte LLP

London, United Kingdom
7 April 2020