

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 2021 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 2021;
- 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

2021 was the second year of our audit. The uncertainties created by Covid-19 lessened, and the audit was still largely performed remotely. We continued to use technology to help coordinate our work and exchange information required for our audit. We adapted our working practices to mitigate the risks arising from the remote working arrangements, and to address changes in the Bank's timelines for financial reporting as they returned to normal.

Overview

Materiality	<ul style="list-style-type: none">• Overall materiality: €152 million (2020: €133 million), based on 0.75% of total members' equity.• Performance materiality: €114 million (2020: €99 million).
Audit scope	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Provisions for impairment in relation to Banking loans.• Valuation of financial instruments measured using significant unobservable inputs.

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 judgements, 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 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) identified by us as auditors, including 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

The valuation of pension liabilities and the impact of Covid-19, which were key audit matters last year, are no longer considered to be key audit matters. The underlying assumptions in the pension liability are no longer expected to have a material impact on the financial statements. Our consideration of the impact of Covid-19 in the current year is captured by our key audit matters and it no longer represents an area of increased audit attention in its own right. The key audit matters below are otherwise consistent with the prior year.

Provisions for impairment in relation to Banking loans

Key audit matter description	<p>The determination of expected credit loss allowances (ECL) in relation to Banking loans is subjective. The Bank's loan portfolio exposures span 38 countries and 12 industry sectors, leading to a range of diverse credit risk considerations impacting these judgements. There remained uncertainty in 2021 given the impacts of Covid-19 as well as geopolitical events in jurisdictions to which the Bank is exposed.</p> <p>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 focused our audit work on the following areas:</p> <ul style="list-style-type: none">• The appropriateness of the model methodologies, and the changes to those introduced in 2021;• The criteria used in assessing whether a significant increase in credit risk has occurred since initial inception of the loan;• The multiple economic scenarios and scenario weightings used to determine the expected likely outcomes in the probability of default (PD) rates;• Judgements and assumptions involved in the determination of internal credit ratings, used to determine the PD rates; and• The use of post model adjustments, including the appropriateness of the release of the adjustments made in 2020 to reflect uncertainty as to the impact of Covid-19. <p>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 weighting attributed to expected likely outcomes.</p>
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How our audit addressed the key audit matter

<p>We understood and assessed the appropriateness of the impairment policy, including the changes introduced in 2021, and how the Bank considered the impact of Covid-19 in the determination of ECL.</p> <p>We understood and evaluated the design and implementation of key controls relating to the provisions for impairment in relation to Banking loans.</p> <p>Stage 1 and 2 loans</p> <p>We understood the Bank's process and tested the operating effectiveness of key controls around the determination of ECL, including controls relating to:</p> <ul style="list-style-type: none">• The review of modelling methodologies used;• The integrity of data feeds from source systems into the model;• The approval of significant assumptions; and• The periodic assessment of credit performance, and staging. <p>We assessed the reasonableness of the model methodologies and significant assumptions involved in the determination of the ECL such as staging criteria (used in determining whether a significant increase in credit risk had occurred), PD and LGD rates.</p> <p>We evaluated and tested the mathematical integrity of the methodology applied, and changes that were made to the model during 2021, and performed sensitivity analyses on the results. 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.</p> <p>We assessed the reasonableness of the scenarios and weightings used in the multiple economic scenarios applied within the models.</p> <p>For a sample of loans within stage 1 and stage 2, we performed procedures to assess whether the staging applied was reasonable based on the evidence obtained. For sovereign counterparties, we independently obtained publicly available credit ratings in performing this work.</p> <p>We considered whether the results of management controls over these activities indicated that the models continued to perform appropriately.</p> <p>We assessed the appropriateness of the release of the post-model adjustment recorded in 2020 to reflect uncertainty as to the impact of Covid-19, and considered whether there were any other uncertainties not captured by the model that could have a material impact on the ECL and whether any further post-model adjustments were required.</p> <p>Stage 3 loans</p> <p>We understood the Bank's process and tested the operating effectiveness of key controls around the identification of credit-impaired loans and the calculation of the provision, including controls relating to:</p> <ul style="list-style-type: none">• Monitoring of loans on the watchlist and identification of changes to staging; and• The review and challenge of the assumptions and underlying calculations. <p>For a sample of loans in stage 3, we re-performed the provision calculation, critically assessing and testing significant assumptions including expected future cash flows, discount rates, valuations of collateral held where relevant, and the weightings applied to scenario outcomes.</p> <p>We also evaluated and tested the disclosures in the financial statements.</p> <p>We used credit risk modelling specialists and economic experts to support the audit team in the performance of these audit procedures.</p> <p>Based on the evidence obtained, we concluded that the methodologies, assumptions, judgements and data used within the ECL were appropriate and materially compliant with the requirements of IFRS 9.</p>

Valuation of financial instruments measured using significant unobservable inputs

Key audit matter description	<p>The Bank holds significant investments in financial instruments that are valued using prices or significant inputs which are not readily observable in the market. These financial instruments are classified as Level 3, in accordance with the IFRS 13 fair value hierarchy.</p> <p>The valuation of the following Level 3 portfolios and the associated gains and losses recognised in the income statement were given specific focus:</p> <ul style="list-style-type: none"> • Unlisted equity investments where judgement is required in determining the appropriate valuation methodology, and significant 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 exit routes for certain unlisted equity investments held by the Bank. The valuations of these instruments are driven by the underlying unlisted equity investments; • Loans at fair through profit and loss which have non-standardised features and are valued using models with unobservable inputs such as discount rates and counterparty credit assumptions; and • The Equity Participation Fund (EPF) liability through which economic interests are shared with the EPF, and for which the fair value is significantly driven by the underlying unlisted equity investments.
How our audit addressed the key audit matter	<p>We understood and evaluated the design and implementation of key controls relating to the valuation of financial instruments measured using significant unobservable inputs.</p> <p>We understood the Bank's valuation process and tested key controls supporting the identification and valuation of the financial instruments, including the review and challenge of the appropriateness of the valuation methodology and assumptions used.</p> <p>For a sample of Level 3 financial instruments, we performed procedures including:</p> <ul style="list-style-type: none"> • Evaluation of the valuation methodologies and assessment of the appropriateness of the methodology, of model inputs, and significant assumptions; and • Where inputs were unobservable, critically assessed if the inputs and assumptions fell within a reasonable range, based on our independent review (including testing to third party data sources where available), industry knowledge and experience of the market. <p>We used valuation experts to support the audit team in the performance of these audit procedures.</p> <p>We tested the completeness and accuracy of key data inputs, sourced from underlying systems and contractual arrangements, that were applied in the valuations and tested the calculations.</p> <p>We also evaluated and tested the disclosures in the financial statements.</p> <p>Based on the evidence obtained, we concluded that the valuation methodology, assumptions and judgements were appropriate and materially compliant with the requirements of IFRS 13.</p>

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. We performed an audit risk assessment, giving consideration to relevant internal and external factors, including Covid-19 and climate change, geopolitical and economic risks, and relevant accounting developments in order to plan our work. With regards to the impact of climate risk, we evaluated management's assessment, which is set out on page 32, and considered the potential impact on ECL for loans at amortised cost, and the valuation of share investments, being the financial statement areas we determined to be most likely to be impacted by climate risk.

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 judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	€152 million (2020: €133 million)
How we determined it	0.75% of total members' equity.
Rationale for benchmark applied	Total members' equity is an appropriate benchmark given EBRD's purpose, 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 75% (2020: 75%) of overall materiality, amounting to €114 million (2020: €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 €8 million (2020: €6 million) 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 2017–21;
- 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 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 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 auditors' 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 the variation letters dated 21 January 2021, 12 April 2021, 23 August 2021, and 21 December 2021, 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.

The logo for PricewaterhouseCoopers LLP, featuring the company name in a stylized, handwritten-style font.

PricewaterhouseCoopers LLP

Chartered Accountants
London, United Kingdom
6 April 2022