

# Responsibility for external financial reporting

## Statement of management's responsibilities in respect of the financial statements

The management of the European Bank for Reconstruction and Development (the Bank) is responsible for preparing the non-statutory financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB for the purposes of compliance 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.

Management must not approve the financial statements unless they are satisfied that the financial statements give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing the financial statements, management is responsible for:

- safeguarding the assets of the Bank and preventing and detecting fraud and error and non-compliance with the Bank's internal policies and procedures
- ensuring that the Bank maintains accounting records which disclose with reasonable accuracy, at any time, its financial position
- such internal control as management determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and
- preparing financial statements which give a true and fair view of the Bank's state of affairs and profit or loss and, when applicable, the cash flows, in accordance with IFRSs as issued by the IASB.

## Statement of management's responsibilities in respect of the effectiveness of internal controls over external financial reporting

Management is responsible for establishing and maintaining effective internal controls over external financial reporting for financial presentation and measurement in conformity with IFRS. The system of internal controls contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal controls for external financial reporting – which are subject to scrutiny and testing by management and are revised, as considered necessary, taking account of any related internal audit recommendations – support the integrity and reliability of the financial statements.

Because of their inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements. In addition, any projections of 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 policies or procedures may deteriorate.

The Bank's Board of Directors has appointed an Audit Committee, which assists the Board in its responsibility to ensure the soundness of the Bank's accounting practices and the effective implementation of the internal controls that management has established relating to finance and accounting matters. The Audit Committee is comprised entirely of members of the Board of Directors. The Audit Committee meets periodically with management in order to review and monitor the financial, accounting and auditing procedures of the Bank and related financial reports. The external auditor and the internal auditor regularly meet with the Audit Committee, with and without other members of management being present, to discuss the adequacy of internal controls over financial reporting and any other matters that they believe should be brought to the attention of the Audit Committee.

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### Management's assessment in respect of the effectiveness of internal controls over external financial reporting

The management of the Bank has assessed its internal controls over external financial reporting for 2021. Management's assessment was 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 assessment includes evaluating controls over external financial reporting in respect of the Special Funds and other fund agreements referred to in notes 30 and 31 of the *Financial Report 2021*, and the retirement plans. The assessment is restricted to the controls over the reporting and disclosure of these funds/plans within the Bank's financial statements, rather than the operational, accounting and administration controls in place for each fund.

The assessment noted a weakness in the controls for classifying a subsection of financial assets, specifically the controls to ensure that new financial products are correctly classified and accounted for. The key control to identify and classify new financial products is the new product approval review, whereby new products must be considered and approved by the Risk Committee before they can be deployed at the Bank. However, subsequent to 31 December 2021, it was discovered that the controls designed to identify new products had failed to identify six sustainability linked debt securities with a notional value of €229 million as new products (0.3 per cent of total assets as at 31 December 2021), and as a result those were incorrectly classified as loans held at amortised cost. In fact these instruments had cash flow characteristics that necessitated classification as a loan held at fair value through profit or loss. Correcting the classification of these assets resulted in a change in their carrying value of €8 million. Accordingly, the Bank did not have effective internal controls as at 31 December 2021 to identify and classify all new financial products as they did not identify the sustainability linked debt securities.

### Management's assertion in respect of the effectiveness of internal controls over external financial reporting

Based upon the Bank's assessment management asserts that, with the exception of the failure in control noted above, as of 31 December 2021 the Bank maintained effective internal controls over its financial reporting as contained in the *Financial Report 2021*.



**Odile Renaud-Basso**  
President



**Soha El-Turky**  
Vice President, Finance, and Chief Financial Officer

European Bank for Reconstruction and Development  
London  
6 April 2022

# Independent assurance report

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

### Report in respect of the effectiveness of internal controls over external financial reporting

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 2021 (“management’s assertion”), included within the ‘Responsibility for external financial reporting’ section on page 87 of the Bank’s *Financial Report 2021*.

#### Our opinion

In our opinion, based on our work performed, management’s assertion regarding the effectiveness of the Bank’s internal controls over financial reporting as at 31 December 2021, 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.

#### Emphasis of matter

We draw your attention to the control weakness described in management’s assessment of the financial reporting control effectiveness, in relation to the identification and classification of sustainability linked debt securities, and the resultant exception noted in management’s assertion. Our opinion is not modified in this regard.

#### 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.

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## 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 the variation letters dated 21 January 2021, 12 April 2021, 23 August 2021, and 21 December 2021 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  
6 April 2022