EUROPEAN BANKING AUTHORITY

2017

ANNUAL ACCOUNTS

CERTIFICATION LETTER FROM THE EBA ACCOUNTING OFFICER

The annual accounts of the European Banking Authority for the year 2017 have been prepared in accordance with the Title IX of the Financial Regulation applicable to the general budget of the European Union, the accounting rules adopted by the Commission's Accounting Officer and the accounting principles and methods adopted by myself.

I acknowledge my responsibility for the preparation and presentation of the annual accounts of the European Banking Authority in accordance with Article 68 of the Financial Regulation.

I have obtained from the authorising officer, who certified its reliability, all the information necessary for the production of the accounts that show the European Banking Authority's assets and liabilities and the budgetary implementation.

I hereby certify that based on this information, and on such checks as I deemed necessary to sign off the accounts, I have a reasonable assurance that the accounts present fairly, in all material aspects, the financial position, the results of the operations and the cash-flow of the European Banking Authority.

Done in London, on 03/05/2018.

[SIGNED]

Yves Lecoanet

Accounting Officer

Table of Contents

1. GENERAL INFORMATION

EUROPEAN BANKING AUTHORITY

The European Banking Authority ('the EBA' or 'the Authority') is an independent EU agency established by Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010, as amended by Regulation (EU) No 1022/2013 of the European Parliament and of the Council of 22 October 2013. The EBA started its operations on 1 January 2011, taking over all existing and ongoing tasks and responsibilities from the Committee of European Banking Supervisors (CEBS).

The EBA has a broad mandate which includes preventing regulatory arbitrage, guaranteeing a level playing field in regulation, strengthening international supervisory coordination, promoting supervisory convergence, enhancing consumer protection and providing advice to the EU institutions in the areas of banking, payments and e-money regulation as well as on issues related to corporate governance, auditing and financial reporting. As an integral part of the European System of Financial Supervisors (ESFS), the EBA works in close cooperation with its sister authorities, the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) in the Joint Committee, and with the European Systemic Risks Board (ESRB).

FUNDING

The EBA is financed from Union funds (40%) and through contributions from Member States (60%) made in accordance with the weighting of votes set out in Article 3(3) of the Protocol (No 36) on transnational transitions (recital 68 of the EBA Regulation).

AUTHORITY STRUCTURE

The European Banking Authority (EBA) is governed by its Board of Supervisors and a Management Board. The Board of Supervisors is responsible for taking the main decisions relating to the EBA's mandate and work. The Management Board takes decisions relating to the EBA's operations and the execution of its annual work programme. The Authority is represented by the Chairperson who is responsible for preparing the work of the Board of Supervisors and chairs its meetings, as well as those of the Management Board. The Chairperson's term of office is five years and may be extended once.

The EBA Executive Director is in charge of the implementation of the annual work programme under the guidance of the Board of Supervisors and under the control of the Management Board. The Executive Director's term of office is five years and it may be extended once.

The EBA is organised in three departments (Oversight, Regulation, Operations) and three units (Policy Analysis and Coordination, Resolution, Consumer Protection, Financial Innovation and Payments). It works together with experts from national authorities within a number of working groups and task forces to carry out its tasks.

The annual work programme, published on the EBA's website every year, describes the objectives and specific tasks to be carried by the departments and units of the EBA.

2. FINANCIAL STATEMENTS

2.1 Balance sheet

ASSETS	Note	31.12.2017	31.12.2016
NON-CURRENT ASSETS			
Intangible fixed assets	3.2.1		
Computer software		1,946,853	2,396,134
Tangible fixed assets	3.2.2		
Computer hardware		206,349	179,602
Furniture		420,108	473,199
Other fixture and fittings		7,227,136	8,571,612
Total		**9,800,446**	**11,620,547**
CURRENT ASSETS			
Current receivables	3.3.1	988,907	586,608
Sundry receivables	3.3.2	198,526	9,881
Prepaid expenses	3.3.3	1,648,546	1,220,853
Cash and cash equivalents	3.3.4	3,511,280	4,500,288
Total		**6,347,259**	**6,317,630**
TOTAL ASSETS		**16,147,705**	**17,938,177**
LIABILITIES			
NON-CURRENT LIABILITIES			
Provision for risks and charges	3.4	6,731,978	2,797,506
Deferred revenue	3.5	1,100,051	5,986,434
Total		**7,832,029**	**8,783,940**
CURRENT LIABILITIES			
Current payables	3.6	2,519,046	2,410,813
Sundry payables	3.7	68,906	128,435
EU entities	3.8	1,823,361	1,601,492
Deferred revenue		4,461,317	648,074
Total		**8,872,630**	**4,788,814**
TOTAL LIABILITIES		**16,704,659**	**13,572,754**
NET ASSETS			
Accumulated surplus/(deficit)		4,365,423	5,021,224
Economic outturn for the year - surplus/(deficit)		(4,922,377)	(655,801)
TOTAL NET ASSETS		**(556,954)**	**4,365,423**

2.2 Statement of financial performance

	Note	2017	2016
OPERATING REVENUE	**3.9**		
Contribution from the Member States		22,994,562	21,634,257
Contribution from EFTA countries		653,254	614,610
EU Subsidy		12,948,382	12,641,720
Foreign currency conversion gains		619,680	959,100
Other administrative revenue		205,489	4,740
TOTAL OPERATING REVENUE		**37,421,367**	**35,854,427**
OPERATING EXPENSES	**3.10**		
Staff expenses	3.10.1	26,062,142	21,821,230
Building and related expenses	3.10.2	2,135,278	2,849,257
Other expenses	3.10.3	10,495,897	8,650,415
Depreciation and amortisation	3.10.4	3,002,426	2,250,643
Foreign currency conversion losses		538,472	986,840
TOTAL OPERATING EXPENSES		**42,234,215**	**36,558,384**
SURPLUS / (DEFICIT) FROM OPERATING ACTIVITIES		**(4,812,848)**	**(703,957)**
NON OPERATING REVENUES / (EXPENSES)	**3.11**		
Financial revenue		-	5,666
Financial expenses		(109,529)	42,490
SURPLUS / (DEFICIT) FROM NON OPERATING ACTIVITIES		**(109,529)**	**48,156**
SURPLUS / (DEFICIT) FROM ORDINARY ACTIVITIES		**(4,922,377)**	**(655,801)**
SURPLUS / (DEFICIT) FROM EXTRAORDINARY ITEMS		**-**	**-**
ECONOMIC RESULT FOR THE YEAR		**(4,922,377)**	**(655,801)**

2.3 Cash flow statement

	2017	2016
CASH FLOW FROM ORDINARY ACTIVITIES		
Surplus /(deficit) from ordinary activities	**(4,922,377)**	**(655,801)**
Operating activities		
Depreciation and amortisation	3,002,426	2,250,643
Increase/(decrease) in provisions for risks and liabilities	3,934,472	1,218,158
(Increase)/decrease in short term receivables	(1,018,637)	290,772
Increase/ (decrease) in accounts payable	48,704	778,970
Increase/ (decrease) in liabilities related to consolidated EU Entities	221,869	1,220,252
Increase/(decrease) in deferred income	(1,073,141)	(648,074)
Net cash flow from operating activities	**193,316**	**4,454,920**
CASH FLOW FROM INVESTING ACTIVITIES		
(Increase)/decrease in tangible and intangible fixed assets	(1,182,324)	(2,348,561)
Net cash flow from investing activities	**(1,182,324)**	**(2,348,561)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(989,008)**	**2,106,359**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**4,500,288**	**2,393,929**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**3,511,280**	**4,500,288**

2.4 Statement of changes in net assets

	Accumulated Surplus	Net surplus/(deficit) for the period	Total Net Assets
Balance as of 31 December 2016	4,365,423		4,365,423
Economic result of the year		(4,922,377)	(4,922,377)
Balance as of 31 December 2017	**4,365,423**	**(4,922,377)**	**(556,954)**

3. NOTES TO FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies

The Annual Accounts of the European Banking Authority (the 'Authority') comprise the financial statements and the reports on the implementation of the budget.

The financial statements show all charges and income for the financial year, based on accrual accounting rules which comply with the EU Accounting Rules, and are designed to establish the financial position in the form of a balance sheet as at 31 December. Specifically, the principles applied in drawing up the financial statements are:

- going concern basis
- prudence
- consistent accounting methods
- comparability of information
- materiality
- no netting
- reality over appearance
- accrual-based accounting

The budgetary accounts give a detailed picture of the implementation of the budget. They are based on the modified cash accounting principle.

Basis of preparation

The financial statements are prepared on a going concern basis as there is no indication that the Authority will not continue to operate in its current state for the twelve months from the date of establishing these accounts.

On 29 March 2017, the United Kingdom notified the European Council of its decision to withdraw from the European Union.

On 20 November 2017, the General Affairs Council of the European Union agreed to move the seat of the European Banking Authority to Paris, France.

On 29 November 2017, the European Commission made a legislative proposal to amend the founding Regulation of the EBA, which defines in its article 7 the seat of the Authority.
It is specified in the legislative proposal that the change of the seat shall apply from the date on which the Treaties cease to apply to the United Kingdom or from 30 March 2019, whichever is the earlier.

Even though Article 7 of the founding Regulation has not been amended as at 31/12/2017, it is considered that the selection made by the EU27 ministers constitutes for the EBA a constructive obligation to move its seat to the new location.

Functional and reporting currency

The euro is the functional and reporting currency of the Authority and amounts shown in the financial statements are presented in euros (EUR) unless indicated otherwise. Any slight differences versus the actual balances are due to rounding.

Currency and basis for conversion

All foreign currency transactions are recorded using the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of financial performance.

Exchange rates used for the preparation of the accounts are as follows:

1 EUR in GBP	2017	2016
Year-end exchange rate	0.88723	0.85618
Average exchange rate	0.87218	0.81176

Use of estimates

In accordance with IPSAS and other generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management based on the most reliable information available. Significant estimates include, but are not limited to, amounts for provisions, accounts receivables, accrued income and charges, contingent assets and liabilities, and degree of impairment of intangible assets and property, plant and equipment. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Non-current assets

Non-current assets correspond the acquisitions made from 01/01/2011 and still in use at the closing date.

Internally generated fixed assets relate to the development cost incurred for projects that have been authorised by the Management Board with an asset value at the end of the project higher than EUR 250 000.

Fixed assets are registered at cost and depreciated using the straight-line method according to the following schedule:

Type of asset	Useful life (years)	Annual depreciation rate
Hardware and software	4	25%
Telecommunications and audio-video equipment	4	25%
Other fixture and fittings	10	10%
Movable furniture	10	10%

Leases

Lease of fixed assets where the Authority has substantially all the risks and rewards of ownership are classified as financial leases. There are no items to be reported under this category.

Leases where the lessor retains a significant portion of the risks and rewards inherent in the ownership are classified as operating leases. Payments made under operating leases are charged to the Statement of financial performance for the portion accrued during the financial year. This is the case for rent paid.

Receivables

All receivables are indicated at the original amount less write-down for impairment where there is objective evidence that the Authority will not be able to collect all amounts due according to the original terms of receivables.
If any, the amount of write-down is charged to the Statement of financial performance.

Cash and cash equivalents

Cash includes only cash in hand as there are no other cash equivalents or liquid investments to be reported. Currently, the Authority works with two banks.

Payables

Payables arising from the purchase of goods and services are recognised at invoice reception for the original amount and corresponding expenses are entered in the accounts when the supplies are delivered and accepted by the Authority.

Accrued expenses

In accordance with EU Accounting Rule 10 supplemented by paragraph 19 of IPSAS 19 (Provisions, contingent liabilities and contingent assets) accruals recognise the amounts to be paid for goods or services that have been received or supplied but which have not yet been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). The accruals are determined based on estimates received from the authorising officer as a result of the analysis of the budget amounts carried to the next year. These accruals are reported under current liabilities-current payables.

Revenue

The EBA's revenue consists of the contributions received from the EU (40%) and EU National Competent Authorities (EU NCAs, 60%), increased by EFTA NCAs' contributions and the amount of the employer's contribution of the European pension scheme to be financed by EU and EFTA NCAs, in compliance with Article 83 a (2) of the Staff Regulation applicable to the European agencies.

Pursuant to Article 19.5 of the EBA Financial Regulation, the EU contribution constitutes a balancing contribution in the budget of the Authority. As a result, it is recognised as revenue in the amount necessary to cover budget expenditure. The difference between the amount actually received and the contribution has to be returned to the European Commission and booked as a liability.

Contributions from the National Competent Authorities are recognised as revenue when these resources are approved together with the budget by the Board of Supervisors.

Expenditure

Expenses arising from the purchase of goods and services are recognised when the supplies are delivered and accepted by the Authority. They are valued at original invoice cost.
At year end, incurred eligible expenses already due to the beneficiaries but not yet reported are estimated and recorded as accrued expenses.

Contingent assets and liabilities

In line with EU Accounting Rule 10, the term 'contingent' is used for liabilities and assets that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Employee benefits

The staff of the Authority is entitled to pension rights according to the pension scheme as defined in the Staff Regulations of the European Communities. The corresponding pension benefits are managed and paid by the European Commission. In compliance with Article 83a of the Staff Regulations, the contribution needed to fund the scheme is financed by the General Budget of the European Community and no employer contribution is paid by the Authority, except for the part financed by the Member States and the EFTA National Competent Authorities pursuant to Article 83 a (2) of the Staff Regulation. As a result of this, no pension liability is recognised in the balance sheet of the Authority.

3.2 Non-current assets

Non-current assets are fixed assets used and controlled by the Authority and are composed of tangible, intangible and other non-current assets.

3.2.1 Intangible fixed assets

Intangible fixed assets 2017		Computer software	Intangible assets under construction	Total
Gross carrying amounts 01.01.2017	**+**	**4,873,642**	-	**4,873,642**
Additions	+	547,917	212,524	760,441
Disposals	-	-	-	-
Transfers between headings	+/-	-	-	-
Other changes		-	-	-
Gross carrying amounts 31.12.2017		**5,421,559**	**212,524**	**5,634,083**
Accumulated amortisation and impairment 01.01.2017	**-**	**(2,477,508)**	-	**(2,477,508)**
Amortisation	-	(1,209,722)	-	(1,209,722)
Write-back of depreciation	+	-	-	-
Disposals	+	-	-	-
Impairments	-	-	-	-
Transfers between headings		-	-	-
Other changes		-	-	-
Accumulated amortisation and impairment 31.12.2017		**(3,687,230)**	-	**(3,687,230)**
Net carrying amounts as at 31/12/2017		**1,734,329**	**212,524**	**1,946,853**
Net carrying amounts as at 31/12/2016		**2,396,134**	-	**2,396,134**

Intangible fixed assets relate to internally generated software and computer software licences.
Internally generated software corresponds to development costs incurred in the implementation of projects in relation with the mission of the Authority.

Additions of internally generated software in 2017 correspond essentially (for EUR 545 743) to the E-Gate-2.0 platform which was deployed on 15/09/2017. They also include two projects which are still under construction as at 31/12/2017, the DPM-Driven Data Analysis project for EUR 194 000 and the EUCLID Work stream 2 project for EUR 18 524.

3.2.2 Tangible fixed assets

Tangible fixed assets include mainly furniture, fixtures and IT equipment.

Tangible fixed assets 2017		Plant and equipment	Computer hardware	Furniture	Other fixtures and fittings	Total
Gross carrying amounts 01.01.2017	**+**	**15,303**	**549,315**	**683,422**	**10,674,170**	**11,922,210**
Additions	+	-	137,473	23,664	260,746	421,883
Disposals	-	-	(35,477)	(1,159)	-	(36,636)
Transfer between headings	+/-	-	-	-	-	-
Other changes	+/-	-	-	-	-	-
Gross carrying amounts 31.12.2017		**15,303**	**651,311**	**705,927**	**10,934,916**	**12,307,457**
						-
Accumulated depreciation and impairment 31.12.2017	**-**	**(7,105)**	**(369,713)**	**(210,223)**	**(2,110,756)**	**(2,697,797)**
Depreciation	-	(3,831)	(109,537)	(76,167)	(1,601,391)	(1,790,926)
Write-back of depreciation	+	-	-	-	-	-
Disposals	+	-	34,288	571	-	34,859
Impairment	-	-	-	-	-	-
Write-back of impairment	+	-	-	-	-	-
Transfer between headings	(+/-)	-	-	-	-	-
Other changes	(+/-)	-	-	-	-	-
Accumulated depreciation and impairment 31.12.2017		**(10,936)**	**(444,962)**	**(285,819)**	**(3,712,147)**	**(4,453,864)**

Net carrying amounts as at 31/12/2017		**4,367**	**206,349**	**420,108**	**7,222,769**	**7,853,593**
Net carrying amounts as at 31/12/2016		**8,198**	**179,602**	**473,199**	**8,563,414**	**9,224,413**

In line with the Agreement for lease signed on 14 May 2014 with the owner of the new offices in Canary Wharf, the fitting out was delivered on 8 December 2014, date of the start of the lease. The related cost recognised as an asset at that date, in amount of EUR 7 435 369, includes a contribution by the landlord in amount of EUR 2 256 212 which is recognised as a deferred income (see Note 3.5).

The other fixtures and fittings also include EUR 2 797 506 for the cost of returning the offices to their original state at the termination of the lease as requested by the contract. The counterpart is recorded as a long-term provision (see Note 3.4).

Because of the obligation to move to new offices in Paris, the useful life of the fit out has been revised to result in a full depreciation of the related assets as at 31 March 2019.

3.3 Current assets

3.3.1 Current receivables

Current Receivables	31.12.2017	31.12.2016
VAT recoverable	988,907	586,608
Total	**988,907**	**586,608**

The recoverable VAT relates to payments to suppliers made during the year 2017 and still to be refunded by UK Authorities.

3.3.2 Sundry receivables

Sundry Receivables	31.12.2017	31.12.2016
Amounts to be regularised from staff	69,349	9,809
Amounts to recover from other EU institutions	67,187	72
Other amounts to recover	61,990	-
Total	**198,526**	**9,881**

3.3.3 Prepaid expenses

	31.12.2017	31.12.2016
Rent expenses	735,907	738,772
Other prepaid expenses	912,639	482,081
Total	**1,648,546**	**1,220,853**

Other prepaid expenses relate to insurance, IT maintenance, and subscriptions to publications.

3.3.4 Cash and cash equivalents

Cash	31.12.2017	31.12.2016
Citigroup (GBP Account)	644,238	1,505,169
ING (EURO Account)	2,867,042	2,995,119
Total	**3,511,280**	**4,500,288**

3.4 Provisions for risks and charges

	31.12.2016	Additional provisions	Other	31.12.2017
Re-instatement cost of the offices	2,797,506	-	252,364	3,049,870
Cost related to the move to the new seat	-	3,682,108	-	3,682,108
Total	**2,797,506**	**3,682,108**	**252,364**	**6,731,978**

- In line with commercial lease terms, the lease contract for the premises in Canary Wharf includes the obligation for the EBA to return the offices to their original condition.

  The related provision as 31/12/2016 was based on the average of two valuations by professional experts valued at the exchange rate at the closing date taking into account inflation at 2 % and discount rate impact at 3.5 % (HM Treasury guidance – The Green Book).

  The increase in the provision as at 31/12/2017 reflects the unwinding of the discount as well as the changes in the scheduling of the works and in the exchange rate at the closing date.

  The re-instatement to the initial condition has to be performed by the end of the lease. The exact amount to be paid will depend on the cost of the works actually done and the result of possible further negotiation.

- The cost related to the move encompasses the removal of the staff of the Authority with their families in accordance with the Staff Regulation.

3.5 Deferred revenue

	Total Deferred revenue as at 31/12/2017			Thereof Non-current portion:	
	Original amount as at 8/12/2014	Amount reversed	Net amount as at 31/12/2017	As at 31.12.2017	As at 31.12.2016
Capital sum received from the Landlord	4,291,684	(1,322,809)	2,968,875	587,250	3,196,227
Landlord contribution to Fit out works cost in Canary Wharf	2,256,212	(698,928)	1,557,284	308,034	1,676,491
Rent free period	1,376,425	(341,216)	1,035,209	204,767	1,113,716
Total	**7,924,321**	**(2,362,953)**	**5,561,368**	**1,100,051**	**5,986,434**

The Agreement for lease signed on 14 May 2014 provided for a term of 12 years together with a rent-free period of 32 months which could be converted totally or partially into a capital sum to be used for the financing of the fit out works. The EBA opted for the conversion of 25 months resulting in a capital sum of EUR 4 291 684 and a remaining rent-free period of 7 months.

The Agreement for lease also included a Landlord contribution to fund part of the fit out works cost.

The capital sum, the Landlord contribution and the rent-free period have been recorded as deferred revenue. They have been recognised in the Statement of financial performance, until 20 November 2017, over the full term of the lease, 12 years. From that date, they have been recognised over the remaining period until the expected date of the move, i.e. 31/03/2019.

3.6 Current payables

Current Payables	**31.12.2017**	**31.12.2016**
Payables to Member States	-	966,181
Payables to suppliers	40,958	202,913
Accrued charges-untaken annual leaves	587,147	509,835
Accrued charges-other	1,890,941	731,884
Total	**2,519,046**	**2,410,813**

Other accrued charges correspond to invoices to be received as at 31 December 2017 for services rendered in 2017 as well as provisions derived from the obligation to move to the Authority's new seat.

3.7 Sundry payables

	31.12.2017	**31.12.2016**
Sundry payables	68,906	128,435
Total	**68,906**	**128,435**

This amount relates to tangible and intangible fixed assets received but not yet invoiced at the closing date.

3.8 Payables to EU entities

	31.12.2017	**31.12.2016**
Subsidy to reimburse to the European Commission	1,823,361	1,601,492
Total	**1,823,361**	**1,601,492**

The contribution to repay to the European Commission corresponds to the budgetary result for the financial year 2017, which was determined on a modified cash basis. The detailed calculation is presented in the Budget result (Note 4.2).

The EBA is financed by Union funds (40%) and contributions from Member States (60%) in accordance with the weighting votes set out in Article 3(3) of the Protocol (No 36) on transnational transitions (recital 68 of the EBA Regulation). According to Articles 19.5 and 20.1 of the EBA Financial Regulation, the Union contribution paid to the Authority constitutes for its budget a balancing contribution which is accounted for as pre-financing. If the balance of the budget result account is positive, it is to be repaid to the Commission up to the amount of the Union contribution paid during the year.

The EBA has therefore allocated 100% of the surplus to the European Commission.

This is still an issue subject to discussion, as Member States consider that 60% of the surplus should be refunded to them. However, it is assumed that the solution found for the surpluses of the previous years, which is the deduction of the surplus from the budget contributions of year N+2 will continue to apply, resulting in the reimbursement to the national authorities for the part corresponding to their contribution.

3.9 Operating revenue

The Authority’s 2017 revenue comes from the following sources:

Operating revenue	**2017**	**2,016**
Contribution from Member States	22,994,562	21,634,257
Contribution from EFTA countries	653,254	614,610
EU Subsidy	12,948,382	12,641,720
Foreign currency conversion gains	619,680	959,100
Other administrative revenue	205,489	4,740
Total	**37,421,367**	**35,854,427**

The 2017 expected budget contributions amounted to EUR 38,419,555.

The contribution actually paid in 2017 by the Directorate-General for Financial Stability, Financial Services and Capital Market Union amounted to EUR 14 771 743 including the re-imbursement of the Member States’ and Observers’ share (EUR 228 744) in the 2015 Budgetary surplus of EUR 381 239.

In accordance with Article 20.1 of the Financial Regulation, the unused part of this contribution, which corresponds to EUR 1 823 361 in the 2017 Budget result (see note 4.2), has to be reimbursed to the European Commission. The difference of EUR 12 948 382 is recognised as operating revenue.

3.10 Operating expenses

3.10.1 Staff expenses

Staff expenses	2017	2016
Salaries and related allowances	25,441,979	21,393,642
Social contributions	620,163	427,588
Total	**26,062,142**	**21,821,230**

The increase in the staff expenses essentially reflects the amount to be paid to the staff in accordance with the Staff Regulation as a result of the move to the Authority's new seat.

3.10.2 Building and related expenses

Building and related expenses	2017	2016
Rent	976,398	1,635,925
Related expenses	1,158,880	1,213,332
Total	**2,135,278**	**2,849,257**

The decrease in the building and related expenses essentially reflects the increase in the release of the deferred revenue linked to the premises as well as the decrease in the GBP/EUR exchange rate.

3.10.3 Other expenses

Other expenses	2017	2016
Office supplies	140,767	108,610
Publicity and Legal	20,218	61,451
Recruitment	57,646	61,581
Training	194,383	170,012
Travel	66,715	68,264
Experts and related expenditure	1,016,307	1,101,902
IT support cost	2,529,242	1,613,099
Other services	1,058,800	935,997
Operational activities	5,411,819	4,529,499
Total	**10,495,897**	**8,650,415**

- Operational activities include IT expenses in amount of EUR 2 833 048, corresponding essentially to IT Infrastructure costs, licence maintenance and consultancy working on the various IT projects for their part not capitalised.
  Project costs for their part not capitalised amounts to EUR 438 779. Cost incurred for other projects which do not meet the requirements for capitalisation amounts to EUR 291 741.

The operational activities also include the cost of travel for the operational staff (EUR 818 526) and translation and editing (EUR 1 138 367).

- The increase in IT support cost essentially reflects the provision created in relation to the move the IT infrastructure.

3.10.4 Fixed asset related expenses

	2017	2016
Depreciation of tangible fixed assets	1,375,980	1,072,231
Depreciation of intangible fixed assets	1,209,722	1,045,495
Amortisation of the offices re-instatement cost	414,946	131,612
Amounts written-off	1,778	1,305
Total	**3,002,426**	**2,250,643**

3.11 Non-operating revenue (expenses)

Non-operating revenue	**2017**	**2016**
Bank interest received	-	5,666
Total	**-**	**5,666**
Non-operating expense		
Bank charges	(2,653)	(2,260)
Unwinding of the discount related to the re-instatement provision	(106,876)	-
Interest expense on financing of the fit out of the new premises	-	44,750
Total	**(109,529)**	**42,490**
Total Non-operating activities net	**(109,529)**	**48,156**

3.12 Contingent liabilities

Contingent liabilities include the part of the budgetary commitments, which have not been recognised in expenses as at 31 December 2017.

Budgetary commitments	**2017**	**2016**
Commitments carried forward to year N+1	3,318,044	2,950,064
Less expenses already recognised in year N	(868,058)	(917,313)
Net budgetary commitments as at 31/12/N	**2,449,986**	**2,032,751**

3.13 Operating lease commitments

Due to the expiry of its previous lease at the end of 2014, and following an open competitive selection process, the Authority negotiated and signed a 12-year office lease agreement in London for the period up to 7 December 2026.

Based on the 12-year tenure of the contract, the Authority was able to negotiate a rent free period of 32 months, which was drawn down in full at the beginning of the contract, whereby the related amount was partially used (25 months) to finance the fit out works of the offices and partially (7 months) to occupy the offices without paying rent.

The lease agreement provides for the option to break the contract at half way through the term of the lease, thus significantly reducing the potential cost associated with the removal, in case the seat of the Authority was to be removed from London. Notice should be given to the landlord at the latest 9 months before the expiry of the 6th year of the term, i.e. by 07/03/2020.

Because of the agreement of the General Affairs Council to move the seat of the EBA to Paris (see Note 3.1 – Basis of preparation), it is expected that the Authority will exercise the break option. The lease contract provides that, in that case, it has the obligation to repay half of the incentive (16 months of rent) it had received at the beginning of the contract, and which was based on the full 12 years term of the contract (32 month rent free) and to pay all rents and service charges until 07/12/2020.

The remaining future contractual payments are scheduled as follows:

Operating lease - One Canada Square - Canary Wharf Amounts in EUR using exchange rate at 31/12/2017 : 1 EUR = 0.88723 GBP	**Charges still to be paid as at 31/12/2017**		
	2018	**2019 to 2020 (until 7/12/2020)**	**Total charges to be paid**
Rent	2,014,044	3,902,554	5,916,598
Service charges	898,328	1,740,664	2,638,992
Repayment of half of the 32 month incentive received in 2014	-	2,685,392	2,685,392
Total	**2,912,372**	**8,328,610**	**11,240,982**

3.14 Financial instruments

Financial instruments comprise cash, current receivables and recoverable, current payables, amounts due to and from consolidated entities. Financial instruments give rise to liquidity, credit, interest rate and foreign currency risks, information about which and how they are managed is set out below.
Prepayments, accruals and deferred income are not included.

The carrying amounts of financial instruments are as follows:

	31.12.2017	31.12.2016
Financial assets		
Current receivables	988,907	586,608
Sundry receivables	198,526	9,881
Cash and cash equivalents	3,511,280	4,500,288
Total financial assets	**4,698,713**	**5,096,777**
Financial liabilities		
Current payables	40,958	1,169,094
Sundry payables	68,906	128,435
EU entities	1,823,361	1,601,492
Total financial liabilities	**1,933,225**	**2,899,021**

3.14.1 Liquidity risk

Liquidity risk arises from the ongoing financial obligations, including settlement of payables.

The Authority manages liquidity risk by continually monitoring forecast and actual cash flows.

EU budget principles ensure that overall cash resources for a given year are always sufficient for the execution of all payments.

Details of contractual maturities for assets and liabilities form an important source of information for the management of liquidity risk.

The table below provides detail on the contractual maturity of all financial instruments of the Authority:

As at 31.12.2017	On demand	< 1 year	1-2 years	> 2 years	Total
Current receivables		988,907			988,907
Sundry receivables		198,526			198,526
Cash and cash equivalents	3,511,280				3,511,280
Total financial assets (A)	3,511,280	1,187,434	-	-	**4,698,714**
Current and non current payables		40,958	6,731,978		6,772,936
Sundry payables		68,906			68,906
EU entities		1,823,361			1,823,361
Total financial liabilities (B)	-	1,933,225	6,731,978	-	**8,665,203**
Cumulative liquidity gap (A) - (B)	**3,511,280**	**(745,791)**	**(6,731,978)**	-	(3,966,489)

3.14.2 Credit risk

Credit risk is the risk of loss due to a debtor's/borrower's non-payment of a loan or other line of credit (either the principal or interest or both) or other failure to meet a contractual obligation. The default events include a delay in repayments, restructuring of borrower repayments and bankruptcy.

Treasury resources are kept with commercial banks. The EBA recovers contributions from national supervisory authorities and the European Commission two times per year to ensure appropriate cash management and to maintain a minimum cash balance on its bank account. This is with a view to limit its risk exposure. Requests to the European Commission are accompanied by cash forecasts. The overall treasury balances fluctuated in 2017 between EUR 3.5 million and EUR 21.0 million, with an overall amount of payment executed in 2017 that equals approximatively EUR 39,8 million.

In addition, specific guidelines are applied for the selection of commercial banks in order to further minimise counterparty risk to which the EBA is exposed:

- All commercial banks are selected by call for tenders. The minimum short-term credit rating required for admission to the tendering procedures is Moody's P-1 or equivalent (S&P A-1 or Fitch F1). A lower level may be accepted in specific and duly justified circumstances.

- The credit ratings of the commercial banks where the EBA has accounts are reviewed at least on a monthly basis, or higher frequency if and when needed.

The table below shows the maximum exposure to credit risk by the EBA:

	31.12.2017	**31.12.2016**
VAT	988,907	586,608
Other receivables	198,527	9,881
Cash in banks	3,511,280	4,500,288
Total credit risk	**4,698,714**	**5,096,777**

3.14.3 Market risk

Market risk can be split into interest rate risk and currency risk.

3.14.3.1 Interest rate risk

The EBA does not borrow any money. As a result it is not exposed to interest rate risk. It does, however, earn interest on balances it holds on its banks accounts.

Overnight balances held on commercial bank accounts earn interest on a daily basis. This is based on variable market rates to which a contractual margin (positive or negative) is applied. For most of the accounts, the interest calculation is linked to the EONIA (Euro overnight index average) or EURIBOR (Euro Interbank Offer

Rate) and is adjusted to reflect any fluctuations of this rate. In case the resulting interest rate to be applied is less than 0, then a fixed rate is applied for a certain period of time. As a result no risk exists that EBA earns interest at rates lower than market rates.

Average deposit in banks in 2017 was EUR 13.3 million. Due to the level of interest rates, there were no interests earned.

3.14.3.2 Currency risk

Currency risk is the risk that the EBA's operations or its investment's value will be affected by changes in exchange rates.

The EBA is exposed to exchange rate fluctuations since it undertakes most transactions in GBP.
The following table is a summary of the EBA's net foreign currency-denominated monetary assets and liabilities:

As at 31.12.2017	**GBP EUR equivalent**	EUR	**Other EUR equivalent**	**Total EUR**
Monetary assets (C)	1,633,145	3,065,569	-	4,698,714
Receivables with Member States	988,907			988,907
Other receivables		198,527		198,527
Cash and cash equivalents	644,238	2,867,042		3,511,280
Monetary liabilities (D)	3,081,991	5,583,211	-	8,665,202
Provisions	3,049,870	3,682,108		6,731,978
Payables with third parties	32,121	77,742		109,863
Payables with consolidated entities		1,823,361		1,823,361
Net Position (C) - (D)	(1,448,846)	(2,517,642)	-	(3,966,488)

If the GBP/EUR exchange rate were to increase by 10%, the net asset position would be negatively impacted by EUR 145 000.

3.15 Related party disclosure

Highest grades description	**Grade**	**Number of persons of this grade**
Chair Person	AD 16	1
Executive Director	AD 15	1

The remuneration equivalent to the grades of the key management personnel in the table can be found in the Official journal of the European Union, 2017/C 429/06 of 14 December 2017.

3.16 Events after the balance sheet date

At the date on which the accounts are authorised, no material issue came to the attention of the accounting officer of the Authority or were reported to him that would require separate disclosure under this section. The Annual Accounts and related notes were prepared using the most available information and this is reflected in the information presented above.

4. BUDGET IMPLEMENTATION REPORTS

(Articles 92(b) and 97 of the EBA Financial Regulation)

4.1 Introduction to budget management

4.1.1. Budgetary principles (summary)

The establishment and implementation of the Authority's budget shall comply with the principles of unity and budget accuracy, annuality, equilibrium, unit of account, universality, specification, sound financial management and transparency as provided for in the Authority's Financial Regulation.

- *Principle of unity and budget accuracy*

The budget is the instrument which, for each financial year, forecasts and authorises the revenue and expenditure considered necessary for the Authority's activities. No revenue shall be collected and no expenditure effected unless booked to a line in the budget. An appropriation must not be entered in the budget if it is not for an item of expenditure considered necessary. No expenditure may be committed or authorised in excess of the appropriations authorised by the budget.

- *Principle of annuality*

The appropriations entered in the budget shall be authorised for one financial year which shall run from 1 January to 31 December, inclusive. Commitments shall be entered in the accounts on the basis of the legal commitments entered into up to 31 December. Payments shall be entered in the accounts for a financial year on the basis of the payments effected by the accounting officer by 31 December of that year at the latest.

- *Principle of equilibrium*

The Authority's budget revenue and payment appropriations must be in balance. Commitment appropriations may not exceed the amount of the voted budget, plus own revenue and any other revenue. The Authority may not raise loans.

- *Principle of unit of account*

The budget shall be drawn up and implemented in euro and the accounts shall be presented in euro.

- *Principle of universality*

Total revenue shall cover all expenditure. All revenue and expenditure shall be entered in full without any adjustment against each other.

- *Principle of specification*

The appropriations in their entirety shall be earmarked for specific purposes by title and chapter; the chapters shall be further subdivided into articles and items. The Executive Director may authorise transfers from one article to another within each chapter.

- *Principle of sound financial management*

Budget appropriations shall be used in accordance with the principle of sound financial management, that is to say, in accordance with the principles of economy, efficiency and effectiveness.
The principle of economy requires that the resources used by the Authority for the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. The principle of efficiency is concerned with the best relationship between resources employed and results achieved. The principle of effectiveness is concerned with attaining the specific objectives set and achieving the intended results.

- *Principle of transparency*

The budget shall be drawn up and implemented and the accounts presented in compliance with the principle of transparency. The budget, as finally adopted, shall be published in the Official Journal of the European Communities and amending budgets shall be published in an appropriate way within two months of their adoption.

4.1.2. Types of appropriations

The Authority makes use of non-differentiated appropriations for both its administrative (Title I & II) and operational expenditure (Title III).

4.1.3. Description of the budget accounts

Following the provisions of the Financial Rules of the Authority, the budget accounts shall provide a detailed record of the budget implementation and shall record all budget revenue and expenditure operations (voted appropriations, commitments and payments of the financial year, entitlements established).

The content of the budget accounts, also called budget lines, is adopted annually by the Board of Supervisors, taking into account the general budgetary nomenclature and the Authority's rules on the structure and presentation of the statement of expenditure.

Title I budget lines are related to staff expenditure: salaries and allowances of the staff members working for the Authority and all other entitlements such as removal expenditures, installation costs. Title I also includes recruitment costs incurred by the Authority. Interim staff, training, staff perquisites and administrative mission costs are incorporated also under Title I.

Title II budget lines relate to all buildings, equipment, IT and other miscellaneous administrative expenditure.

Title III budget lines provide for the implementation of all the activities carried out in the frame of the missions and tasks assigned to the Authority by its founding Regulation. The accounts under this Title are sub-divided into the main activities performed in each area such as organisation of meetings, training, coordination missions, supervisory activities, etc.

4.2 Budget result for the financial year

		2017	2016
REVENUE			
Balancing Commission subsidy	+	14,390,504	13,958,958
Surplus Year N-2	+	381,239	284,253
Contributions from National Supervisory Authorities (Member States)	+	22,994,557	21,634,257
Contributions from Nationial Supervisory Authorities (EFTA countries)		653,254	614,610
Bank interests		-	5,511
Other income	+	91,186	125,749
TOTAL REVENUE (a)		**38,510,740**	**36,623,339**
EXPENDITURE			
Title I:Staff			
Payments	-	24,485,847	23,952,625
Appropriations carried over	-	55,481	55,181
Title II: Administrative Expenses			
Payments	-	4,784,942	4,866,648
Appropriations carried over	-	1,185,166	929,025
Title III: Operating Expenditure			
Payments	-	4,256,321	3,538,020
Appropriations carried over	-	2,077,396	1,965,859
TOTAL EXPENDITURE (b)		**36,845,153**	**35,307,358**
RESULT FOR THE FINANCIAL YEAR (a-b)		**1,665,587**	**1,315,981**
Cancellation of unused payment appropriations carried over from previous year	+	76,566	313,245
Adjustment for carry-over from the previous year of appropriations available at 31.12 arising from assigned revenue	+	-	5
Exchange differences for the year (gain +/loss -)	+/-	81,208	(27,739)
BALANCE OF THE RESULT ACCOUNT FOR THE FINANCIAL YEAR		**1,823,361**	**1,601,492**

4.3 Reconciliation of the budget result versus the economic result

In order to reconcile the budget result to the economic result for the period, differences between budget accounting and accrual accounting need to be taken into account. These differences can be attributed to timing or permanent differences. The most significant of these are the following:

- In budget accounting, capital expenditures are recorded as current year expenses. In accrual accounting these types of expenditures are capitalised and depreciated over the useful life span of the assets.

- In budget accounting, revenue is required to cover all committed expenditures at 31 December. In accrual accounting, revenue and expenses only include amounts corresponding to the financial year. The difference is treated as deferred revenue or accrued expenses in accrual accounting.

- In budget accounting, revenues are expressed on a cash basis and consist of cash received until 31 December of that year. In accrual accounting, revenue is measured at the fair value of the consideration received or receivable (see accounting policy).

		2017	2016
Economic outturn for the year (positive for surplus and negative for deficit)	**+/-**	**(4,922,377)**	**(655,801)**
Adjustment for accrual items (items not in the budgetary result but included in the economic result)			
Adjustments for Accrual Cut-off (reversal 31/12/N-1)	**-**	(1,241,719)	(1,659,892)
Adjustments for Accrual Cut-off (cut- off 31/12/N)	**+**	2,478,088	1,445,009
Depreciation of intangible and tangible assets	**+**	3,002,426	2,250,643
Provisions	**+**	3,934,472	-
Recovery orders issued in year N in class 7 and not yet collected	**-**	(118,145)	(2,984)
Payments made from carry-over of payment appropriations	**+**	2,873,498	2,906,536
Adjustments for differed charges cut-off (Reversal from 31/12/N-1)	**+**	318,899	281,926
Adjustments for differed charges cut-off (Pre-payments made as at 31/12/N)	**-**	(765,689)	(318,899)
Adjustment for partial reversal of the capital sum, the landlord contribution and the rent free period received with the lease agreement		(1,073,141)	(648,074)
Other	**+/-**	(62,510)	(79,761)
Adjustment for budgetary items (item included in the budgetary result but not in the economic result)			
Asset acquisitions (less unpaid amounts)	**-**	(1,182,324)	(1,001,969)
New pre-financing received in the year N and remaining open as at 31/12/N	**+**	1,823,361	1,601,492
Budgetary recovery orders issued before N and cashed in the year	**+**	-	-
Payment appropriations carried over to N+1	**-**	(3,318,044)	(2,950,064)
Cancellation of unused carried over payment appropriations from year N-1	**+**	76,566	313,246
VAT collected in January 2016 related to invoices from 2011 to 2014, previously recognised in accrued revenue in 2015	**+**	-	120,084
Total		1,823,361	1,601,492
Budget result		**1,823,361**	**1,601,492**

4.4 Budgetary transfers

Chapter	**Budgetary expenditure 2017**	**Initial appropriations**	**Amending budget**	**Transfers**	**Final appropriations**
		A	*B*	*C*	*D = A + B + C*
	Title 1 Staff expenditure	**26 436 000**	**- 355 445**	**- 846 144**	**25 234 411**
11	Salaries & allowances	23 871 000	- 250 000	- 401 046	23 219 954
12	Expenditure relating to staff recruitment and management	1 404 000	- 105 445	- 424 098	874 457
13	Mission expenses	70 000			70 000
14	Socio-medical infrastructure	797 000		- 66 000	731 000
15	Training	265 000		- 25 331	239 669
17	Receptions and events	29 000		70 331	99 331
	Title 2 Administrative expenditure	**5 954 000**	**-**	**235 534**	**6 189 534**
20	Rental of building and associated costs	3 322 000		71 400	3 393 400
21	Information and communication technology	1 809 000		- 41 466	1 767 534
23	Current administrative expenditure	230 000		41 600	271 600
24	Postage / Telecommunications	235 000		- 42 000	193 000
25	Information and publishing	358 000		206 000	564 000
26	Meeting expenses				
	Title 3 Operational expenditure	**6 385 000**	**-**	**610 610**	**6 995 610**
31	General operational expenditure	2 534 000		640 610	3 174 610
32	IT expenses for operational purposes	3 851 000		- 30 000	3 821 000
	TOTAL	**38 775 000**	**- 355 445**	**-**	**38 419 555**

The initial budget for the year was EUR 38,775,000. This was reduced in December 2017 by EUR 355 445 to 38 419 555.

In 2017, the EBA made 34 transfers. All of them were below the 10% threshold for Management Board approval.

4.5 Budgetary execution in 2017

Title	Budget	Committed	%	Paid	%	Carried forward	%
	A	*B*	*C = B / A*	*D*	*E = D / A*	*F*	*G = F / B*
I: Staff-related	25 234 411	24 541 328	97%	24 485 847	97%	55 481	0%
II: Administrative	6 189 534	5 970 108	96%	4 784 942	77%	1 185 166	20%
III: Operational	6 995 610	6 333 718	91%	4 256 321	61%	2 077 396	33%
TOTAL	**38 419 555**	**36 845 154**	**96%**	**33 527 110**	**87%**	**3 318 044**	**9%**

4.5.1 Execution 2017

The EBA had an overall budget execution rate in 2017 of 96% for commitments and 87% for payments.

The report on detailed implementation of the budget by chapter is shown in Note 4.7.

Note 4.4 summarises the budget transfers by chapter.

4.5.2 Carry forward to 2018

The percentage of carry forward relative to the budget increased by 1 % from 2016 (EUR 2 950 065) to 2017 (EUR 3 318 044), in the context of a five percent increase in total budget between the two years.

The table below shows the movement in carry forward percentages compared to the previous year:

Title	2017	2016	Movement
	A	*B*	*C = A - B*
I: Staff-related	0%	0%	0%
II: Administrative	20%	16%	4%
III: Operational	33%	36%	-3%
TOTAL	**9%**	**8%**	**1%**

One hundred and twenty-seven commitments were carried forward from 2017.

4.6 Budgetary execution in 2017 on carry-forward from 2016

Title	Carry forward	Paid	%	Cancellations
	A	*B*	*C = B / A*	*D = B - A*
I: Staff-related	55 181	52 355	95%	- 2 826
II: Administrative	929 025	858 904	92%	- 70 120
III: Operational	1 965 859	1 962 238	100%	- 3 621
TOTAL	**2 950 064**	**2 873 498**	**97%**	**- 76 566**

4.7 Detailed budget implementation 2016 by chapter

Chapter	Budget	Total commitments		Total payments		Carry forward	
	A	*B*	*C = B / A*	*D*	*E = D / A*	*F*	*G = F / B*
11 Staff in active employment	23 219 954	22 783 242	98%	22 783 242	98%		0%
12 Expenditure relating to staff management and recruitment	874 457	739 703	85%	724 564	83%	15 140	2%
13 Mission expenses, travel and incidental expenses	70 000	67 012	96%	65 376	93%	1 636	2%
14 Socio-medical infrastructure	731 000	668 376	91%	651 661	89%	16 716	3%
15 Training	239 669	193 461	81%	172 943	72%	20 518	11%
17 Representation expenses, receptions and events	99 331	89 534	90%	88 062	89%	1 472	2%
20 Rental of building and associated costs	3 393 400	3 349 767	99%	3 195 090	94%	154 677	5%
21 Information and communication technology	1 767 534	1 750 392	99%	1 048 341	59%	702 050	40%
22 Movable property and associated costs							
23 Current administrative expenditure	271 600	161 527	59%	120 099	44%	41 428	26%
24 Postage and telecommunications	193 000	165 960	86%	137 551	71%	28 409	17%
25 Information and publishing	564 000	542 464	96%	283 862	50%	258 602	48%
26 Meeting expenses							
31 General operational expenditure	3 174 610	2 944 235	93%	2 364 912	74%	579 323	20%
32 IT expenses for operational purposes	3 821 000	3 389 482	89%	1 891 409	50%	1 498 073	44%
Grand Total	**38 419 555**	**36 845 154**	**96%**	**33 527 110**	**87%**	**3 318 044**	**9%**

5. FINANCIAL SYSTEMS AND MANAGEMENT

Since June 2011, the EBA has been using the accounting systems provided by the European Commission, which include ABAC Workflow for budgetary accounting, ABAC Accounting for financial reporting and ABAC Assets for the management of fixed assets. These systems were validated by the accounting officer in compliance with Article 50.1(e) of the EBA Financial Regulation in December 2012 on the basis of work carried out by an independent accounting firm covering the systems, the financial circuits and a review of the accounting schemes.

A revalidation after 5 years was completed on 27 March 2018.

A physical check of all IT items was performed in September-October 2017. No material discrepancies were identified.