Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Year End 2023 & Supervisory Topics

David Lynch, Paul Cullen

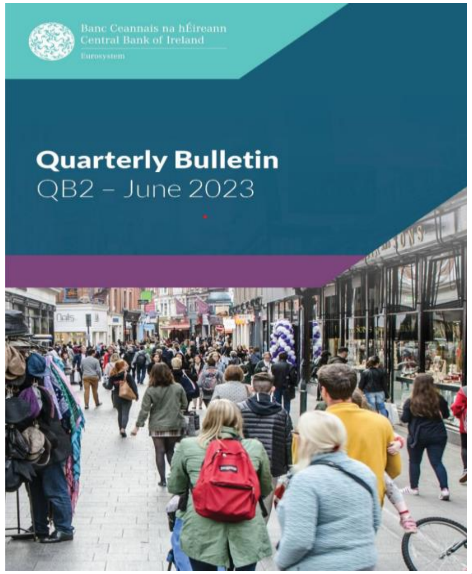
Contents

Context

Challenged Economic Environment

Macro-Financial Environment

- Growth in the domestic economy for 2023 is expected to be slightly stronger than previously anticipated.
- Irish domestic economic growth forecast contingent on various factors including geopolitical tensions not escalating and energy prices continuing on their downward trajectory.
- Global economy is subject to downside risks stemming from high inflation, further tightening of financial conditions and geopolitical fragmentation.
- Uncertainty remains including risks related to borrowers' repayment capacity amid rising interest rates.
- All of these factors exacerbate the risks and challenges for credit unions, ***heightening the well-documented sustainability challenges faced by many individual credit unions***.



Impairment Reviews – Loan Provisioning, Fixed Assets & Investments

"detailed assessments of loan books are rigorous, with loan losses prudently provided for with an overarching objective of ensuring the level of distress is not underestimated"

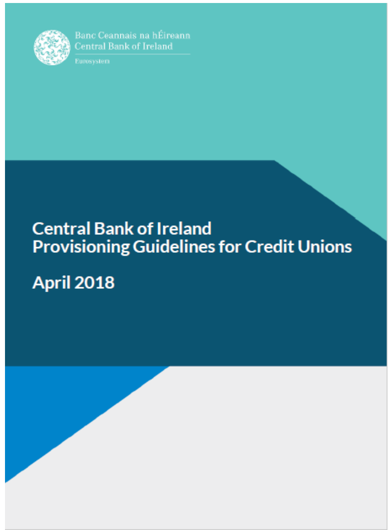
- **Provisioning** guidelines issued in April 2018 should continue to inform the credit union's approach to assessing the level of required loan loss provisions on an on-going basis.

- ***Financial Reporting Standard 102 (FRS 102)*** - requires an '*incurred loss*' approach to calculation of bad debt provisions on loans and that all loans are reviewed for ***objective evidence of impairment.***

- **Fixed Assets** – Where a ***value in use*** approach is adopted for the valuation of a credit union premises, the directors should consider the appropriateness of the underlying assumptions used in deriving the expected cash flows to ensure they are reasonable and supportable particularly in the current economic environment.

- **Investments** – The accounting policy adopted by the Board of Directors of a credit union for the valuation of investments should comply with the relevant sections of the Credit Union Act, 1997.

- ***Section 110 of the Credit Union Act, 1997*** requires that the amount of any item in the financial statements shall be determined on ***a prudent basis*** and in particular that ***all liabilities and losses*** which have arisen, or are likely to arise in the financial year to which the financial statements relate, or a previous financial year, ***shall be taken into account.***



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Central Bank of Ireland
Provisioning Guidelines for Credit Unions

April 2018

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Credit Union Distributions and Prudent Reserve Management

"It is fundamentally important that a prudent approach is maintained to all aspects of a credit union's business, including lending, investments, liquidity and reserve management, to underpin the overall financial resilience of the credit union."

- There continues to be ***elevated levels of risk and uncertainty*** regarding economic outlook with a challenging economic environment.
- Building and maintaining adequate reserves, including adequate operational risk reserves, remains key to ensuring credit union financial stability and resilience. We expect all credit unions to continue to take a ***prudent approach to distributions in the context of reserve management***.
- Credit unions, in preparing their 2023 accounts, should take account of all matters set out in the ***2023 Financial Year-End Circular.***
- Any credit unions considering the potential for a proposed distribution are expected to ***contact their supervisor within RCU*** outlining the rationale for the proposed distribution taking account of liquidity and operational resilience positions and the ***need to demonstrate prudent forward-looking capital reserve management in the current environment***.

Draft Financial Statements / Statutory Notifications to the Central Bank

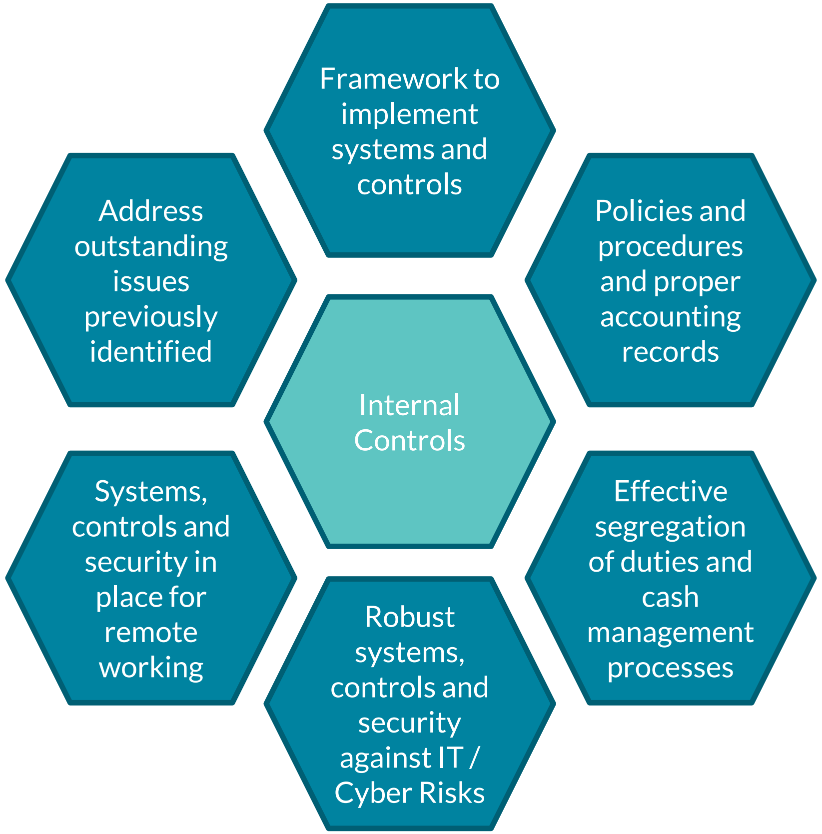
"Credit unions should focus on the timely preparation of the 2023 annual accounts and audit arrangements, so that the financial position is finalised and this can inform board and management decision making".

- Draft Financial Statements return to be submitted through the Central Bank of Ireland Portal login in advance of their finalisation.
- Credit unions must submit returns through their Central Bank of Ireland Portal login.
- Year-End Circular includes an Appendix which details the timelines for statutory notifications to be submitted to the Central Bank.
- Supervisors may follow up directly with individual credit unions on any issues arising.
- Any questions or issues with any of the submissions please contact your supervisor.

Supervisory Topics

Systems of Control and Cybersecurity

"Credit unions are reminded of their responsibilities for establishing an effective internal control framework and for monitoring systems and controls on an ongoing basis."



- Year-end is an opportunity for each credit union to review its internal controls environment.
- Credit unions need to be continuously vigilant regarding their ***IT systems vulnerabilities***, particularly from ***cyber risks*** and ensure on an ongoing basis that they have strong systems of controls in place relating to their IT framework.
- Given the potential adverse impacts arising, IT and cybersecurity risks remain a key focus for the Central Bank and should be an on-going priority for credit unions.
- Credit Unions must ensure that they have strong and robust systems of controls in place to maintain ongoing compliance with section 76G (2) (a) of the Credit Union Act, 1997 (Information Systems).
- Responsibility of each credit union to understand the range of risks it is exposed to and ensure that these are appropriately mitigated and managed.

Liquidity Management

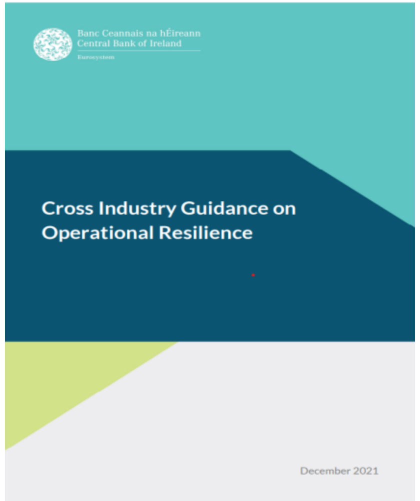
Section 85 A (2) of the Credit Union Act, 1997 requires each Credit Union to keep a proportion of its total assets in liquid form at all times, being such a proportion and having such a composition as to enable the credit union to meet its liabilities as they arise.

- Credit Unions must have regard to the nature, scale and complexity of their business activities and the composition and maturity of assets and liabilities in the ongoing **management and maintenance of adequate liquid assets**.
- Credit Unions are reminded to **continuously monitor their liquidity position** so as to enable the credit union to meet its liabilities as they arise **in adherence with Regulation 9 of the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016**.
- Detailed Board approved **Liquidity Management policy** required under section 55 (1) (o) (iii) of the Credit Union Act, 1997 and reflective of guidance set out in the Credit Union Handbook (Chapter 14 – Liquidity).

Operational Resilience

"The ability of a Credit Union, and the financial services sector as a whole, to identify and prepare for, respond and adapt to, recover and learn from an operational disruption"

- The **Central Bank's Cross Industry Guidance on Operational Resilience** (the Guidance) comes into effect in December 2023.
- Credit Unions are expected to be actively and promptly addressing operational resilience vulnerabilities and be in a position to evidence actions / plans to apply the Guidance by this date, reflective of the nature, scale and complexity of its business.
- Credit Unions should have their **operational resilience governance structures in place**, have set the criteria for **identifying their Critical or Important Business Services** and have begun setting impact tolerances for each identified Critical or Important Business Services.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Cross Industry Guidance on Operational Resilience

December 2021

Outsourcing

"Credit Unions are expected to have effective governance, risk management and business continuity processes in place in relation to outsourcing, to mitigate potential risks of financial instability and consumer detriment"

- Outsourcing requirements are set out in Section 76J of the Credit Union Act 1997.
- The Central Bank Cross-Industry Guidance on Outsourcing (December 2021) can assist Credit Unions, in **developing their outsourcing risk management frameworks** to effectively identify, monitor and manage their outsourcing risks.
- Where credit unions have obtained approval to provide additional services to members, they should also be cognisant of how they will meet the conditions attached, including those on outsourcing / **continuity of services**.
- The Central Bank expects that each Credit Union will **establish and maintain an Outsourcing Register of all outsourcing arrangements** to assist centralised oversight and management of related risks appropriately.