Dear Minister

Under the Central Bank Act 1942 (as amended), the Central Bank of Ireland (the Bank) is required to prepare a report on its activities during the year and to present this document to you within six months after the end of each financial year.


I have the honour to enclose herewith the Activities and Annual Accounts of the Bank for the year ended 31 December 2014.

Yours faithfully

Patrick Honohan
Governor
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## Part 2

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Statement of Accounts for year ended 31 December 2014
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The Central Bank Commission

as at 31 March 2015

Patrick Honohan, Governor*

Stefan Gerlach, Deputy Governor (Central Banking)*

Cyril Roux, Deputy Governor (Financial Regulation)*

Derek Moran, Secretary General of the Department of Finance*

Alan Ahearne

Patricia Byron

Blanaid Clarke

John FitzGerald

Des Geraghty

Michael Soden

Neil Whoriskey, Secretary

* Ex-officio members
Organisation

CENTRAL BANK COMMISSION
Patrick Honohan*, Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach*, Derek Moran*, Cyril Roux*, Michael Soden, Neil Whoriskey (Secretary)

GOVERNOR
Patrick Honohan

DEPUTY GOVERNOR (CENTRAL BANKING)
Stefan Gerlach

DEPUTY GOVERNOR (FINANCIAL REGULATION)
Cyril Roux

CHIEF OPERATIONS OFFICER
Gerry Quinn

* Ex-officio
† Effective 5 May 2015

Internal Audit Division reports directly to the Governor and only reports to the Director of Resolution and Corporate Affairs for matters of an administrative or budgetary nature.
Senior Management

as at 31 March 2015

Patrick Honohan, Governor

Stefan Gerlach, Deputy Governor (Central Banking)

Cyril Roux, Deputy Governor (Financial Regulation)

Gerry Quinn, Chief Operations Officer

John Coyle, Director Resolution and Corporate Affairs

Sylvia Cronin, Director Insurance Supervision

Sharon Donnery, Director Credit Institutions Supervision

Gabriel Fagan, Chief Economist

Kevin Garland, Chief Information Officer

Liz Joyce, Director Human Resources

Maurice McGuire, Director Financial Operations

Paul Molumby, Director Currency & Facilities Management

Gareth Murphy, Director Markets

Derville Rowland Director Enforcement

Bernard Sheridan, Director Consumer Protection

Gerry Cross†, Director Policy & Risk

† Effective 5 May 2015
## Management

### as at 31 March 2015

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<td>Fiona McMahon</td>
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<td>Grainne McEvoy</td>
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<td>Investment Firms and Funds Supervision</td>
<td>Michael Hodson</td>
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<td>Policy &amp; Risk</td>
<td>Prudential Policy</td>
<td>Mary Burke</td>
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<td>Risk, Governance and Accounting Policy</td>
<td>Máiread Devine</td>
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<td>Markets Policy</td>
<td>Martin Moloney</td>
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<td>Helena Mitchell</td>
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<td>Colm Kincaid</td>
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<td>Brenda O’Neill</td>
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<td>Anti-Money Laundering</td>
<td>Domhnall Cullinan</td>
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<td>Advisors to the Governor</td>
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<td>Frank Browne</td>
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<td></td>
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<td>Lars Frisell</td>
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* Effective 1 May 2015
Foreword

Having emerged from the EU-IMF Programme at the end of 2013, the Irish economy displayed continuing recovery during the past year. In the banking sector progress was also made, with bank balance sheets gradually being repaired, although challenges remain, particularly around longer term loan arrears.

In active pursuit of its mission of safeguarding stability and protecting consumers, the Central Bank once again took significant steps to ensure the resilience and stability of the recovery, not least in regard to the soundness of the banking system.

The establishment of the Single Supervisory Mechanism (SSM), which became operational in November 2014, transfers the final responsibility for the prudential supervision of the main banks to this euro area-wide institution. In preparation for the start of the SSM, the Irish banks participated in a comprehensive Eurosystem risk assessment carried out by the Bank, the results of which confirmed the lasting quality of the asset quality reviews previously conducted by the Bank in 2011 and 2013. In response to this major change in the approach to supervision in Europe, the Bank’s resources for the supervision of banks were extensively reorganised during 2014. The Deputy Governor (Financial Regulation) is ex officio a member of the Supervisory Board of the SSM.

A key policy objective of the Bank during 2014 was to avoid, in the recovery, the risk of bank credit and house price spirals from developing. To address this, the Bank enhanced its macro-prudential policy framework. An overview was published, which described the policy aims, and legal powers available to the Bank to address systemic risk in the banking sector. A public consultation was undertaken on macro-prudential policy measures for residential mortgage lending and, early in 2015, new regulations were introduced which apply proportionate limits to mortgage lending by regulated financial services providers in the Irish market.

The Bank continued to engage directly with lenders and take action regarding the elevated levels of mortgage arrears, as part of its overall approach to resolving distressed debt. This was done in the context of the protections for borrowers under our consumer protection framework, including, in particular, the protections contained in the Code of Conduct on Mortgage Arrears. After a slow start, the capacity and approach of the banks for dealing with distressed borrowers has materially improved over the past few years, with a significant shift from relying on short-term forbearance, to longer term sustainable solutions. Notwithstanding the progress, significant bank specific areas for improvement remain. However, progress is now well established.

Looking at the wider economy, a sustained recovery is gathering pace. Employment has been growing steadily, and the rate of unemployment declining markedly. Improving domestic demand and favourable external factors are underscoring the recovery. On the wider European economy, the measures of economic growth are positive and the Eurosystem’s exceptional monetary policy stance has helped sentiment.

This report documents the wide range of specific activities undertaken by the Bank, for example in ensuring fair treatment of consumers, in designing and implementing ever-increasingly complex European regulation of financial market participants, in meeting more demanding international supervisory standards, in the resolution of certain weak credit unions, and on enforcement.
The demanding nature of this and the other tasks assigned to the Bank have led management to reassess the Bank’s organisational structures with a view to removing barriers to effective and constructive working methods. This review is expected to lead to considerable improvements over time.

The Bank is reporting a 2014 financial profit of €2.1 billion. After retained earnings, €1.7 billion is being paid over to the Exchequer. The unprecedented scale of profits earned in recent years reflects several exceptional crisis-related factors and the manner in which they have been handled by the Bank.

Over the years I have been repeatedly struck by the professionalism, dedication and unstinting hard work displayed by the staff and management of the bank, both in the times of crisis and now of post-crisis recovery and reform. My thanks goes to them as well as to the members of the Central Bank Commission for their support and advice throughout the year.

Patrick Honohan
Governor

April 2015
2014 at a Glance
Surplus income paid to the Exchequer increased to €1,708.8 million (€1,212.1 million in 2013).

Total Assets decreased to €81.3 billion (€108.1 billion in 2013).

There were approximately 250 operations conducted by the Bank on behalf of the Eurosystem (289 in 2013).

The number of banknotes issued decreased (326 million in 2014 from 345 million in 2013) and the number of coins issued increased (256 million in 2014 from 172 million in 2013).
The economy expanded in 2014, growing in real GNP terms, by an estimated 3.24 per cent and in real GDP terms by an estimated 4.75 per cent.

The 2014 General Government deficit comfortably outperformed its ECOFIN Excessive Deficit Procedure target of -5.0% of GDP.

The unemployment rate decreased to an average of 11.5 per cent in 2014. The current (March) ILO rate of unemployment is 10.1 per cent.

Lending to Irish Households and Non-Financial Corporations (NFCs) fell by 3.7 per cent and by 7.2 per cent, respectively, year-on-year by end-2014. Note: Growth rates are based on underlying transactions, i.e., after adjusting for write-downs, securitisations, and transfers to NAMA, etc.
# Common Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AIFMD</td>
<td>Alternative Investment Fund Managers Directive</td>
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<tr>
<td>AIFMs</td>
<td>Alternative Investment Fund Managers</td>
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<td>CA</td>
<td>Comprehensive Assessment</td>
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<td>CCMA</td>
<td>Code of Conduct on Mortgage Arrears</td>
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<td>CCR</td>
<td>Central Credit Register</td>
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<td>CRD</td>
<td>Capital Requirements Directive</td>
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<td>CSMAD</td>
<td>Criminal Sanctions for Market Abuse Directive</td>
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<tr>
<td>DGS</td>
<td>Deposit Guarantee Scheme</td>
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<td>EBA</td>
<td>European Banking Authority</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<tr>
<td>EIOPA</td>
<td>European Insurance and Occupational Pensions Authority</td>
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<tr>
<td>ESCB</td>
<td>European System of Central Banks</td>
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<td>ESMA</td>
<td>European Securities and Markets Authority</td>
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<tr>
<td>ESRB</td>
<td>European Systemic Risk Board</td>
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<tr>
<td>IOSCO</td>
<td>International Organisation of Securities Commissions</td>
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<tr>
<td>LSI</td>
<td>Less Significant Institution</td>
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<td>MART</td>
<td>Mortgage Arrears Resolution Targets</td>
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<td>MiFID</td>
<td>Markets in Financial Instruments Directive</td>
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<td>NCB</td>
<td>National Central Bank</td>
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<td>PRISM</td>
<td>Probability Risk and Impact System</td>
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<td>SI</td>
<td>Significant Institution</td>
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<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<td>SSM</td>
<td>Single Supervisory Mechanism</td>
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<td>SRM</td>
<td>Single Resolution Mechanism</td>
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<tr>
<td>UCITS</td>
<td>Undertakings for Collective Investment in Transferable Securities</td>
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</table>
Chapter 1:
Key Activities and Developments in 2014
Introduction

The Bank’s mission of Safeguarding Stability, Protecting Consumers is being delivered through its current three-year Strategic Plan for the period 2013-2015. The Plan sets out the Bank’s key strategic priorities over the three years under eight High Level Goals, which are closely aligned to the Bank’s legal mandate.

The High Level Goals of the current Strategic Plan are:

» **Eurosystem Effectiveness and Price Stability**
  The Bank is responsible for maintaining price stability through monetary policy formulation at Eurosystem level.

» **Stability of the Financial System**
  Financial stability in Ireland and across the euro area is a key priority for the Bank.

» **Proper and Effective Regulation of Financial Institutions and Markets**
  Regulation of institutions and markets is undertaken through assertive risk-based supervision which is underpinned by credible enforcement deterrents.

» **Resolution of Financial Difficulties in Credit Institutions**
  Embedding recovery and resolution plans in banks, credit unions and other financial institutions is a vital component of sustained economic recovery in Ireland.

» **Protection of Consumers of Financial Services**
  Consumer protection strategic priorities strengthen and maintain protection for consumers of financial services.

» **Independent Economic Advice and High Quality Financial Statistics**
  The quality and relevance of economic analysis, research and financial statistics assists the provision of assessments and advice on domestic economic related issues for policy-makers, the media, the public and the markets.
» Efficient and Effective Payment and Settlement Systems and Currency Services
The operations and oversight of payment and securities settlement systems is aimed at ensuring that they are safe, resilient, efficient and effective. A key component of the payments systems is the provision of high quality banknotes and coin and other related currency services to the public.

» Operational Efficiency and Cost Effectiveness
Efficiency and cost effectiveness underpin all the Bank’s operations. Operations are also conducted within well-defined risk management and control frameworks.

The developments and activities of the Bank during 2014 are reported under each of the High Level Goals.
Chapter 1: Key Activities and Developments

Eurosystem Effectiveness and Price Stability

The Bank is responsible for maintaining price stability through monetary policy formulation at Eurosystem level.

Monetary Policy – Decisions

The Governor is a member of the European Central Bank (ECB) Governing Council which is responsible for monetary policy (setting interest rates and the provision of liquidity) in the euro area. During 2014, the Bank continued to support the formulation of Eurosystem-wide monetary policy through its contribution to relevant key committees and the effective contribution of the Governor on standard and non-standard monetary policy issues.

In 2014, the annual headline inflation remained below 1 per cent in the euro area and turned negative (-0.2 per cent) in December for the first time since late 2009. In Ireland, the headline Harmonised Index of Consumer Prices (HICP) inflation rate was -0.3 per cent at end-2014. The Governing Council introduced a number of measures aimed at bringing inflation back to a level of close to but below 2 per cent in the medium term. The key policy rates were lowered, with the rate on the deposit facility below zero per cent (at February 2015). The Governing Council turned to additional non-standard measures to provide extra monetary stimulus. Targeted longer-term refinancing operations were introduced and an asset purchase programme consisting of covered bonds and asset backed securities commenced. This was followed by the announcement of a wider Public Sector Purchase Programme in January 2015. The Bank remains active in analysing existing and potential policy measures to contribute to successful policy formulation at the Eurosystem level during these challenging times.

Monetary Policy – Operations

The Bank participated in the key open market operations used by the Eurosystem in 2014 which comprised Main Refinancing Operations (MROs), Longer-Term Refinancing Operations (LTROs), Targeted Longer-Term Refinancing Operations (TLTROs), and Early Repayment Operations (EROs) in addition to standing facilities and minimum reserve requirements. The Eurosystem also embarked on a series of asset purchase programmes throughout the second half of 2014, with the announcement of an expanded asset purchase programme in January 2015. Such balance sheet measures became warranted due to heightened risks of a prolonged period of low inflation, given that the key ECB interest rates have reached the lower bound.

The Bank conducted and settled all monetary policy operations in a timely, efficient and effective manner in compliance with the Eurosystem operational framework during the year. It also put the necessary procedures in place to allow for participation in the TLTROs by its counterparties. Furthermore, the Bank monitored the minimum reserve requirements for credit institutions in compliance with ECB procedures. In this way, the Bank ensured that Irish banks had continued full access to Eurosystem liquidity.

The number of operations which the Bank conducted on behalf of the Eurosystem decreased from 289 in 2013 to 250 in 2014, resulting mainly from the suspension of the special-term refinancing operations with a maturity of one maintenance period and the weekly liquidity-absorbing fine tuning operations in June 2014. The number of counterparties eligible to participate in operations at the end of 2014 was 22, down from 32 in 2013, as certain counterparties, who did not regularly avail of liquidity providing operations, did not renew legal documentation with the Bank, following the move to a pooling collateral system. Total outstanding monetary policy borrowings by Irish counterparties stood at €20.7 billion as at 31 December 2014 compared to €39.6 billion as at 31 December 2013. The decline in borrowings occurred against a backdrop of reduced funding requirements and ongoing deleveraging as access to both wholesale and retail funding markets improved.

While there was an improvement in the function of money markets, the ECB also engaged in a series of measures designed to transmit a further stimulus to the real economy.
Further details of the ECB actions are provided in Box 1. The combination of TLTROs and asset purchase programmes serves to increase the size of the Eurosystem’s balance sheet, resulting in a further easing of the monetary policy stance in order to improve financing conditions for firms and households in the euro area.

Box 1 – Non-Standard Monetary Policy Measures

In 2014, the ECB Governing Council announced a number of monetary policy measures in light of downward revisions to the ECB staff projections for inflation and growth in the euro area. The policy changes included:

- Reductions in key interest rates
- The introduction of TLTROs
- The suspension of the weekly liquidity-absorbing Fine Tuning Operations (FTOs) associated with liquidity injected via the Securities Market Programme (SMP)
- The prolongation of the fixed rate, full allotment tender procedures
- The introduction of asset purchase programmes.

Reduction of Interest Rates and Forward Guidance

Against the backdrop of falling headline inflation readings and a decline in market measures of inflation expectations, on 5 June 2014 the ECB introduced a number of non-standard policy measures. The measures included the reduction of the interest rate paid on the deposit facility by 10 basis points to a negative rate of -0.10%, while the interest rate on the MROs was reduced by 10 basis points to 0.15% and the rate on the marginal lending facility was lowered by 35 basis points to 0.40%. In line with the ECB’s forward guidance and determination to maintain a high level of monetary accommodation, the Governing Council decided to continue conducting the Eurosystem’s main and three-month longer-term refinancing operations as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the Eurosystem’s reserve maintenance period ending in December 2016. This gives counterparties certainty as to the amount of liquidity that will be provided, subject to having sufficient eligible collateral.

However, owing to the subdued outlook for inflation, and the weakening euro area’s growth, the Governing Council announced further reductions to key interest rates on 4 September 2014. The interest rate on the MROs was reduced by 10 basis points to 0.05%, with equivalent rate reductions on the marginal lending and deposit facilities, bringing the deposit facility to -0.20%. The Governing Council also continued to commit to keeping ECB interest rates at the lower bound for an extended period of time.

Changes to the Operational Framework

In the context of low inflation, in addition to weak monetary and credit dynamics, the Governing Council decided to suspend the weekly FTO sterilising the liquidity injected under the Securities Markets Programme (SMP), with effect after the operation allotment on 10 June 2014. This had the impact of suspending the absorption of €108 billion of liquidity as at the date of commencement.

In order to ensure that the improved conditions in money market funding is transmitted to the real economy and to support bank lending to households (excluding loans to households for house purchase) and non-financial corporations, the ECB introduced a series of TLTROs which will mature in September 2018.
Chapter 1: Key Activities and Developments

Box 1 – Non-Standard Monetary Policy Measures

The operations enabled counterparties to initially borrow up to 7% of the total amount of their loans to the euro area non-financial private sector (excluding loans to households for house purchase) that were outstanding as at 30 April 2014. The combined initial entitlement amounted to circa €400 billion. Two successive TLTROs were conducted in September and December 2014 with €82.6 billion allotted in the first and €129.8 billion allotted in the second TLTRO. The remaining operations are scheduled to take place in 2015. On a quarterly basis, from March 2015 to June 2016, all counterparties will be entitled to borrow up to three times the amount of their net lending to the euro area non-financial private sector (excluding loans to households for house purchase) over a specific period in excess of a specified benchmark. Those counterparties that have not met their benchmark for the volume of their net lending to the real economy will be required to pay back borrowings in full in September 2016, while counterparties will be entitled to make voluntary early repayments starting 24 months after each operation.

Introduction of Asset Purchase Programmes

ECB President Mario Draghi in his 4 September 2014 post-policy meeting press conference announced that the Eurosystem would begin purchasing asset-backed securities (ABSs) and covered bonds issued by financial institutions domiciled in the euro area, with the goal of further enhancing the functioning of the monetary policy transmission mechanism and to support the provision of credit to the broad economy. On 2 October 2014, the ECB announced that the programmes would last at least two years with purchases to begin in the fourth quarter of 2014. Purchases of covered bonds commenced on 20 October 2014 and purchases of ABSs on 21 November 2014. By end-year the Eurosystem had purchased, in nominal terms, €29.6 billion of covered bonds and €1.7 billion of ABSs.

On 22 January 2015, the ECB announced it would expand its existing asset purchase programme to include bonds issued by euro-area central governments, agencies and European institutions. The programme will encompass the previously announced asset-backed securities purchase programme (ABSPP) and the covered bond purchase programme (CBPP3). Combined monthly purchases will amount to €60 billion, and are intended to be carried out from March 2015 to at least September 2016 and in any case, until the ECB Governing Council sees a sustained adjustment in the path of inflation that is consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term. Most of the purchases are being conducted on a decentralised basis, i.e. by national central banks including the Central Bank of Ireland.

(For further information on the ECB’s expanded asset purchase programme, please go to https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122_1.en.html)

Monetary Policy - Statistics

The Bank has extensive reporting obligations to the ECB across a range of statistical areas. Data provided by the Bank feeds directly into euro area statistical aggregates and are a key input for monetary policy decision-making and for the performance of the other functions of the Eurosystem and the European System of Central Banks (ESCB). During 2014, the Bank continued to meet all its statistical reporting obligations to the ECB. Data provided includes detailed information on the funding and lending activities of credit institutions (banks) and money market funds. Detailed data are also provided monthly on interest rates applied by banks to loans and deposits vis-à-vis households and non-financial corporates.

The Bank provides monthly and quarterly data to the ECB on the non-bank financial sector, primarily for investment funds and Financial Vehicle Corporations (FVCs). Irish data is particularly significant as Ireland is a prime location within the euro area for funds and FVCs and its contribution to euro area statistical aggregates are disproportionately large in relation to the size of the economy. Quarterly financial accounts, which provide an overview of the financial transactions and positions between economic sectors and the rest of the world, are also compiled for Ireland and provided to the ECB.

There were a number of significant developments in ECB and ESCB statistics during 2014. Meeting the statistical requirements of the European Systemic Risk Board (ESRB) and developing information
to support financial stability analysis was a key priority during the year. Part of the work undertaken focused on the integration and reconciliation of statistical and supervisory data to provide a more holistic picture of the banking sector, and improved information on the inter-connectedness and cross-border exposures of the financial sector. The collection of granular data is also being developed to enhance statistical, financial stability and prudential functions.

Significant progress was also made during the year in the development of securities holding statistics and in establishing a reporting framework for statistics on insurance corporations and pension funds. Quarterly integrated sector accounts were also enhanced in joint work with Eurostat.

Much of the developmental work in 2014 concerned first reporting under the updated statistical standards. The international statistical manuals\(^1\) were implemented in 2014, and a number of related ECB Regulations and Guidelines were updated to reflect these.

**Bank Lending Survey**

The Bank was responsible for the Irish component of the euro area Bank Lending Survey (BLS). During 2014, four rounds of the euro area BLS, which examined quarterly changes in credit market conditions, were completed with a 100 per cent response rate from the five Irish banks that participate. Similar to previous years, the survey was supplemented with ad-hoc questions examining topical issues in financial markets and credit markets.

\(^1\) European System of Accounts 2010 (ESA 2010) and Balance of Payments Manual 6 (BPM6)
Stability of the Financial System

Financial stability in Ireland and across the euro area is a key priority for the Bank.

Financial Stability

A significant development in 2014 was the enhancement of the Bank's macro-prudential policy framework. An overview published in October described the policy aims, decision-making processes and legal powers available to the Bank to address systemic risk in the banking sector. Subsequently, a public consultation commenced to seek submissions on proposed macro-prudential policy measures for residential mortgage lending. The Bank published several analytical and policy-orientated studies to inform discussions on the proposed policy measures, and to support the development of a macro-prudential policy framework. The public consultation closed on 8 December.

The Bank subsequently announced, in January 2015, the introduction of new regulations which will apply proportionate limits to mortgage lending by regulated financial services providers in the Irish market. The key objective of these regulations is to increase the resilience of the banking and household sectors to the property market and to reduce the risk of bank credit and house price spirals from developing in the future.

The Bank fulfils its domestic and European treaty mandates to contribute to financial stability in Ireland and the euro area through the prevention and mitigation of financial sector risks, at both the system-wide (macro-prudential) and the institution (micro-prudential) levels. In addition to the development of the macro-prudential policy framework in 2014, contributions to financial stability included actions to assist in the resolution of the financial crisis, the completion of the ECB Comprehensive Assessment for Irish banks, macro-prudential analysis and the publication of the Macro-Financial Review. The Bank's conduct of its financial stability mandate is co-ordinated through its Financial Stability Committee, which met 16 times during the year. This Committee advises the Governor on relevant matters in Ireland and the euro area.

Two editions of the Bank's Macro-Financial Review were published in 2014. Its purposes are to provide an overview of the current state of the macro-financial environment in Ireland, to promote informed dialogue on the financial system's strengths and weaknesses and efforts to improve its resilience, and to help the public and other parties evaluate financial risks. Furthermore, data on financial and credit conditions among small and medium enterprises (SMEs) were collated in two SME Market Reports. The Bank's analytical research and publications on financial stability in 2014 involved a special focus on mortgage arrears, modifications, sustainable solutions to arrears and SME finance. A loan-loss forecasting model for Irish banks was completed in 2014 and the Bank's research series featured technical papers describing aspects of this framework.

Throughout 2014, the Bank participated actively in the relevant EU and ESCB committees, such as the ESCB-SSM Financial Stability Committee and its Macro-Prudential Analysis and Macro-Prudential Policy Groups. The Bank contributed to the ESRB through attendance at meetings of its General Board, Advisory Technical Committee and working groups. Specific actions in these fora in 2014 included:

» Identification and assessment of systemic risks in the European Union

» Analysis and policy development to address specific risks in the European financial system

» Identification of analytical tools for future development

» Input into the Comprehensive Assessment

» Development of a macro-prudential policy framework and operationalising macro-prudential policy in the banking sector.
Financial Stability - Statistics

Statistical data collected by the Bank are central to assessments of financial stability. These data facilitate monitoring of funding and credit developments within the financial sector and across the wider domestic economy. Detailed data are collected from banks on their lending and funding activities broken down by instrument, maturity and purpose. During 2014, the Bank enhanced its publications on mortgage arrears by including new information on the types of restructures offered by lenders. These data cover all mortgages outstanding, including loans which have been sold by mortgage providers. Internationally, the Bank provides data to other international organisations and participates in international fora on financial statistics, including initiatives to address data gaps arising from the crisis.
Proper and Effective Regulation of Financial Institutions and Markets

Regulation of institutions and markets is undertaken through assertive risk-based supervision which is underpinned by credible enforcement deterrents.

The Bank has responsibility for the supervision of most but not all financial service providers and funds in Ireland (see Table 1). Changes of the population of regulated entities in 2014 have been driven in particular by the licensing under the newly created Alternative Investment Fund Managers (AIFM) regime and the revocation of inactive retail intermediaries (see Table 2).

During 2014, the Bank’s supervisory activities and outcomes across all financial sectors continued to be underpinned by its risk-based approach to supervision coupled with the effective threat of enforcement. Central to those activities was the Bank’s focus on its strategic and statutory objectives of safeguarding stability and protecting consumers. In 2014, no disorderly failure of a financial service provider under the prudential supervision of the Bank occurred.

Table 1 – Regulated Financial Service Providers

<table>
<thead>
<tr>
<th>Service Provider</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Institutions (including branches of overseas credit institutions)</td>
<td>65</td>
<td>62</td>
</tr>
<tr>
<td>Life Insurance Companies</td>
<td>53</td>
<td>51</td>
</tr>
<tr>
<td>Non-Life Insurance Companies</td>
<td>104</td>
<td>102</td>
</tr>
<tr>
<td>Reinsurance Companies</td>
<td>77</td>
<td>74</td>
</tr>
<tr>
<td>MiFID</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Investment Firms</td>
<td>117</td>
<td>102</td>
</tr>
<tr>
<td>• Branches of overseas firms</td>
<td>29</td>
<td>32</td>
</tr>
<tr>
<td>Non-Retail Investment Business Firms</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Fund Service Providers (Including Alternative Investment Fund Managers)</td>
<td>238</td>
<td>227</td>
</tr>
<tr>
<td>Retail Intermediaries, including</td>
<td>2,964</td>
<td>2,822</td>
</tr>
<tr>
<td>• Investment Intermediaries (authorised advisors, multi-agency intermediaries, mortgage intermediaries)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Insurance/Reinsurance Intermediaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collective Investment Schemes (including sub funds)</td>
<td>5,599</td>
<td>5,833</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>393</td>
<td>383</td>
</tr>
<tr>
<td>Money Transmitters and Bureaux de Change</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Moneylenders</td>
<td>40</td>
<td>38</td>
</tr>
<tr>
<td>Regulated Market/Market Operator</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Moneybrokers</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Retail Credit Firms &amp; Home Reversion Firms</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>Payment Institutions</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Debt Management Firms</td>
<td>0</td>
<td>51</td>
</tr>
</tbody>
</table>

3 Figures do not sum due to multiple authorisations
### Table 2 – Authorisations/Revocations

<table>
<thead>
<tr>
<th>Category</th>
<th>Authorisations 2014</th>
<th>Revocations 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Institutions (including branches of overseas credit institutions)</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Life Insurance Companies</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Non-Life Insurance Companies</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Reinsurance Companies</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td><strong>MiFID</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Investment Firms</td>
<td>4</td>
<td>19^4</td>
</tr>
<tr>
<td>• Branches of overseas firms</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Non-Retail Investment Business Firms</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Fund Service Providers</td>
<td>8</td>
<td>35</td>
</tr>
<tr>
<td><strong>Alternative Investment Fund Managers (AIFMs)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Authorised External AIFMs</td>
<td>54^6</td>
<td>0</td>
</tr>
<tr>
<td>• Registered External AIFMs</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Retail Intermediaries, including</td>
<td>139^6</td>
<td>382^7</td>
</tr>
<tr>
<td>• Investment Intermediaries (authorised advisors, multi-agency intermediaries, mortgage intermediaries)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Insurance/Reinsurance Intermediaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collective Investment Schemes (including sub funds)</td>
<td>799^8</td>
<td>565</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Money Transmitters and Bureaux de Change</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Moneylenders^9</td>
<td>38</td>
<td>3</td>
</tr>
<tr>
<td>Regulated Market/Market Operator</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Moneybrokers</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Retail Credit Firms &amp; Home Reversion Firms</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Payment Institutions</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Debt Management Firms</td>
<td>51</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>1,133</td>
<td>1,038</td>
</tr>
</tbody>
</table>

4 In 2014, 9 MiFID firms revoked and were granted AIFM authorisation.
5 In 2014, 35 of the 54 AIFM authorisations were granted to existing firms.
6 During 2014, 139 retail intermediaries were authorised. This accounted for 194 individual authorisations as a number of firms seek authorisation under more than one retail intermediary authorisation type. (The figures do not include 96 tied insurance intermediaries which were authorised in 2014.)
7 During 2014, 382 retail intermediaries (including 137 tied insurance intermediaries) let their authorisations expire, had their authorisations voluntarily revoked or were otherwise involuntarily removed from the Bank’s statutory registers. This accounted for 461 individual authorisations.
8 Of which 26 were authorised as UCITS Self-Managed Investment Companies, 18 authorised as Internally Managed Alternative Investment Funds (AIFs) and 20 registered as Internally Managed AIFs.
9 Subject to annual renewal of licence.
The Bank’s mandate to deliver proper and effective regulation of financial institutions and markets is effected through a range of tools:

> Supervisory assessments of individual regulated firms according to the engagement cycles set out under PRISM, the Bank’s risk-based supervisory framework

> Themed supervisory assessments focusing on priority areas as announced at the beginning of the year

> Monitoring of regulatory returns filed with the Bank

> Reactive supervisory work on foot of various supervisory triggers including regulatory returns, market intelligence and whistleblowing complaints

> Approvals of persons under the fitness and probity standards

> Processing of authorisations and acquiring transactions

> Enforcement action.

The Bank’s approach to supervision is subject to regular external scrutiny from peer regulators, the European Supervisory Authorities, the IMF and international standard-setters.

**Risk-Based Supervision of Regulated Firms**

The Bank’s supervisory approach is based on the principle that not all firms are equally important to the economy and that a regulator can deliver most value through focusing its resources on the firms which are most significant and on the risks that pose the greatest threat to financial stability and consumers. This approach is embodied in a tool called PRISM which also provides a systematic and structured means of assessing different types of risk. This allows judgements about potential risk in different firms to be made using a common risk typology on a common scale.

Since this supervisory approach was launched in 2011, significant progress has been made by Bank supervisors identifying areas of risk in regulated firms and conclusively mitigating these areas of risk. Bank supervisors have now conducted inspections and assessed the risks of Higher Impact regulated firms over multiple assessment cycles and this has allowed supervisors to progressively focus on new areas of weakness which were of a lower priority in previous years. Significant changes are apparent in the culture and compliance of firms across a broad range of areas including prudential requirements, corporate governance and conduct of business.

Throughout 2014, the Bank continued to supervise firms within its risk-based framework.
Chapter 1: Key Activities and Developments

Banking Supervision

Introduction of SSM

A key development in November 2014 was the introduction of the Single Supervisory Mechanism (SSM). The SSM is a system of prudential supervision of credit institutions comprising the ECB and the national competent authorities of participating EU countries, including the Bank. The primary aims of the SSM are to ensure the safety and soundness of the Eurozone banking system and to increase financial integration and stability in Europe. The Deputy Governor (Financial Regulation) is a member of the Supervisory Board of the SSM. The Director of Credit Institutions is the alternate member.

Banks within the Eurozone have been categorised into Significant Institutions (SIs) and Less Significant Institutions (LSIs). For SIs, consisting of the larger institutions operating within Ireland, a Joint Supervisory Team (JST) led by the ECB, and consisting of both ECB and Bank supervisors directly supervises these firms. Smaller banks continue to be supervised wholly by the Bank (within the overall SSM approach).

In response to the major changes in the approach to supervision in Europe due to the commencement of the SSM, the Bank’s resources for the supervision of banks were restructured during 2014 (see Box 2, below).

Box 2 – Restructuring of Banking Supervision Resources – 2014

In 2014, the Bank conducted a comprehensive review of the organisational and operating structures in its Banking Supervision divisions that resulted in a move to a three-division structure that has created clear lines and engagements between the Bank and SSM.

Banking Supervision: Analysis Division (BSAD)

BSAD was structured to establish clear linkages, relationships, organisational workflows and seniority of engagement between the Bank and the SSM, and in particular the SSM’s Directorate General IV (DG IV). DGIV has 10 divisions which include a wide range of horizontal functions such as Internal Models and Crisis Management.

BSAD’s role includes assessing risks across the Irish banking system and ensuring that they are understood and proactively addressed. BSAD works closely with the other banking supervision divisions and the Bank’s Financial Stability Division in this regard.

Banking Supervision: Inspections Division (BSID)

Onsite inspections of the banks’ operations are more intensive than heretofore under the SSM methodology, including a larger breadth and depth in terms of scope required. Consequently, it was determined that a separate Inspections Division was required, mandated to complete independent and in-depth inspections in the banks. The purpose of inspections is, through the performance of these in-depth investigations, to assess the:

- Level, nature and features of the inherent risks and the risk culture
- Suitability and quality of banks’ corporate governance and internal control framework
- Control systems and risk management processes, focusing on detecting weaknesses or vulnerabilities that may have an impact on the capital and liquidity adequacy of the bank
- Quality of balance sheet items and the financial situation of the bank
- Compliance with banking regulations.
Chapter 1: Key Activities and Developments

Box 2 – Restructuring of Banking Supervision Resources – 2014

Banking Supervision: Supervision Division (BSSD)

The responsibilities of supervisory teams remain sizeable further to the implementation of the SSM. Working with the SSM’s DGI, DGII and DGIII, BSSD continues to assess the strategies, key risks, processes, procedures, governance and control structures of the banks. In conducting this work, supervisors are required to review and analyse the banks’ various regulatory reports, internal capital and liquidity assessment and management processes, and risk appetite statements etc., and are required to verify and challenge the banks’ estimates, risk assessment outcomes, the outcome of stress tests and to determine overall risk priorities.

Supervisors are also expected to continue to hold regular and ad-hoc meetings with the supervised banks at various levels of staff seniority, conduct ongoing risk analysis, ongoing analysis of approved risk models, and analyse and assess banks’ recovery plans.

On 31 December 2014, Banking Supervision was responsible for the prudential supervision of 30 licenced credit institutions as well as 13 non-SSM pass-ported branches of European Economic Area banks and one third country (non EEA) branch. There were also 18 branches of SI banks passported from other Eurozone countries that the Bank will continue to engage with the SSM on their supervision.

Other Key Developments

Other key banking supervisory responsibilities during the year included:

» Completion of the ECB Comprehensive Assessment (CA) for the in-scope banks operating in Ireland, which included an Asset Quality Review (AQR) and a stress test (see Box 4 below for more details).

» Driving the continued resolution of financial difficulties (i.e. distressed mortgage and commercial debt), for example, through the Mortgage Arrears Resolution Targets (MART) work, and ongoing engagement and reviews of the effectiveness of the banks’ resolution of distressed SME debt.

» Ongoing engagement with the External Partners as part of the Post-Programme Monitoring.

» Contributing to the development of macro-prudential policy.

» Policy matters related to the application and development of European banking legislation.

The European Commission, the IMF and the European Central Bank.
**Box 3 – Bank’s SSM Implementation Programme**

The Bank’s change programme (Project Europe) was completed on time and within budget. Project Europe had multiple work-streams focused on, inter alia:

- Governance and decision making
- Supervisory data
- Communications
- Divisional restructures
- SSM Supervisory Board briefings
- Fitness and probity
- Updates to national legislation
- Enforcement impacts
- Training
- Technology and support.

While there were significant impacts and changes in many areas of the Bank, Banking Supervision was most directly impacted.

A comprehensive review of the skills and resources needed to deliver supervision and related Bank responsibilities post the implementation of SSM was undertaken. This involved, inter alia, in-depth reviews of the proposed supervisory methodologies and manuals, piloting exercises, and extensive engagement with the ECB. A thorough training needs analysis was also carried out.

Banking supervision was reorganised and resources were increased to enable effective working within the Joint Supervisory Teams and with DGIV (SSM-Directorate General IV). The Project also took this opportunity to consider ways of working and to try and be early adopters of elements of the Bank’s strategic change projects (including the Organisation Review).
Box 4 – Comprehensive Assessment

The Comprehensive Assessment (CA) comprised three elements:

1) Asset Quality Review (AQR)
   » A ‘deep-dive’ balance sheet assessment as at 31 December 2013
   » Review the carrying value of assets on the significant banks’ balance sheets on a static basis, including an assessment of provision adequacy
   » Portfolios and samples drawn using a risk-based, representative approach
   » AQR provided adjusted solvency ratios which allowed for the meaningful comparison of all SIs on a like-for-like basis.

2) Stress Test
   » Forward-looking view of banks’ shock-absorption capacity under stress
   » Examined the resilience of banks’ balance sheets under two separate scenarios (baseline, adverse)
   » Data from December 2013, with scenarios starting in 2014 and running to 2016
   » Analysed solvency ratio of each bank over the period to understand how the bank would react to certain prescribed stressed economic conditions.

3) Join-Up
   » Include bottom-up observations from AQR in the Stress Test
   » AQR reclassifications of stocks of assets were reflected in the starting point of the Stress Test
   » Ensure performance projections in the Stress Test are reflective of performance observed through AQR
   » Ensure capital calculation consistent between AQR and Stress Test, and remove any double counting.

The results of the CA were published on 26 October 2014.

Connected with this process, the Bank was also required to submit to the SSM draft capital and liquidity decisions for the in-scope Irish banks by 4 November 2014.

In February 2015, the European Banking Authority (EBA) announced that it had decided not to carry out an EU-wide Stress Test in 2015; it would begin preparations for the next exercise in 2016. Instead of a Stress Test in 2015, the EBA will conduct a transparency exercise in line with the one carried out in 2013. This will provide data on EU banks’ balance sheets and portfolios.

Risk Modelling

In addition to the work done regarding the CA, the focus in 2014 was on following up on the issues arising from the supervisory review framework work undertaken in 2013 for the Internal Ratings Based (IRB) Approach models for the covered banks. Also, as part of the wider supervisory review process, detailed work was undertaken in relation to support of Risk Governance Panel (RGP) work completed during the year.

Non-Performing Loans (NPLs)

The Bank continued to take a strategic approach to arrears/distressed credit recognising that excessive forbearance and a lack of long-term sustainable solutions to the arrears problem is a drag on the economy, on new lending and on the future profitability of the banks.
In 2014, further Distressed Credit Operations Reviews (DCORs) were undertaken and the Bank also engaged heavily with the banks to ensure that the significant findings and capacity shortfalls identified through previous reviews were addressed.

2014 saw the Bank continue operational on-site reviews and deep-dive loan file reviews to monitor progress in addressing distressed SME Credit. The banks have continued to progress resolution of these distressed loans, but it will take a number of years to work through the restructures, which are frequently complex and multi-layered.

**Mortgage Arrears**

*A third of all arrears stemming from NPLs are attributable to mortgages.* The Mortgage Arrears Resolution Targets (MART) were monitored throughout the year and continued to be met by the banks in terms of proposed, concluded and terms being met targets. Further audit work was undertaken in 2014 to assess performance against the targets in detail, the findings from which were followed up with the individual banks, with appropriate risk mitigation programmes being issued.

While there is much work still to be done, the slow but tangible progress that was observed in 2013 has continued. Supervisory interventions have resulted in the banks having largely effective, although not issue free, operational capability for dealing with distressed borrowers. There is now a pipeline of sustainable non-legal solutions for those distressed Principal Dwelling Homes (PDH) and Buy to Let (BTL) borrowers that are cooperating and not in deep arrears. Over time, with continued Bank focus and the driving of the banks, this will continue to bring down NPLs (recognising a lag between the concluding of the solution and the reduction in NPLs).

The issue of borrowers in deep arrears remains. The Bank’s role for this cohort is to ensure that:

» The banks are continuing to make progress in the resolution of these cases, many of which may involve loss of ownership

» The banks continue to try and are open to reengagement with these borrowers

» Legal resolutions are being pursued appropriately.

**Business Model Analytics**

The Bank continued to challenge firms on their business models and strategy. Key trends affecting bank business models and strategy are communicated regularly, while tools to better identify and communicate industry trends and threats to the business models and/or strategy of supervised credit institutions are utilised and enhanced. Business model reviews for High Impact banks were completed during the year in line with the PRISM engagement model.

**Risk Assessments/Risk Mitigation Programmes (RMPs)/Supervisory Colleges**

In the course of 2014 the Bank carried out 9 Full Risk Assessments (FRAs) on banks (13 in 2013). Those institutions not subject to an FRA were subject to oversight in line with the risk-based approach to supervision under PRISM. Financial Risk Reviews were conducted for all institutions rated as High Impact under PRISM. The outcome of the risk assessments include the issuance of bank specific RMPs, which set out the work to be undertaken by institutions to remediate identified weaknesses. The Bank proactively monitors institutions’ full and timely implementation of RMPs.

As part of the consolidated supervision of banking groups which have operations in multiple jurisdictions, the Bank participates in Supervisory Colleges which are bilateral and multilateral fora for the exchange of supervisory information, coordination of supervisory oversight and to the extent possible undertaking joint supervisory work. The Bank is a member of 15 Supervisory Colleges and
during 2014 participated in relevant Supervisory Colleges, including hosting two Supervisory College meetings in respect of Irish banking groups. Supervisory Colleges are the vehicles through which activities are co-ordinated in the supervision of banking groups that have branches or subsidiaries across national boarders. The efficient and effective functioning of Colleges is promoted by the EBA through its policy work and also through its direct engagement and participation in Colleges.

The Colleges were held in line with the European Banking Authority (EBA) guidelines on Supervisory Colleges and involved input from the Prudential Regulatory Authority (UK), the Financial Conduct Authority (UK), the Federal Reserve Bank of New York (US) and the Connecticut Department of Banking (US).

Box 5 – Central Credit Register (CCR)

The Credit Reporting Act 2013 provides for the establishment by the Bank of the CCR. In December 2014, following a public procurement process, the Bank selected a preferred bidder to establish and operate the CCR. Contracts were concluded in January 2015. The Bank also engaged with representative industry groups to explain its approach and to gain an understanding of the likely implications of the CCR for lenders. It is anticipated that the CCR will commence phased operations from mid-2016.

Banking Policy

Embedding the EU Capital Requirements regulatory framework into supervisory practices continued to be one of the Bank’s priorities in 2014. While the Capital Requirements Regulation (CRR) became applicable from June 2013, many of the constituent prudential standards did not take effect until 2014. The associated Directive, Capital Requirements Directive (CRD IV) was transposed into Irish legislation on 31 March 2014. This CRR/CRD IV package forms the basis of the Single Rulebook - a single set of harmonised prudential rules for EU credit institutions and investment firms.

During 2014, there was further progress on the European regulatory framework for Banking Union - another key element in creating a safer post-crisis financial sector in the euro-area. The concept of Banking Union rests on three complementary pillars: the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) and a common Deposit Guarantee Scheme (DGS). The ECB assumed its role of banking supervisor under the SSM on 4 November 2014. The Banking Recovery and Resolution Directive and the Single Resolution Board of the SRM will become fully effective during 2015. The recast DGS Directive which was published in June 2014 is due to take effect from July 2015.

During 2014, the Bank provided technical assistance to the Department of Finance in transposing CRD IV and the Financial Conglomerates Directive (FICOD) into national legislation via Statutory Instruments 158, 159 and 416 of 2014. The Bank continues to provide technical advice to the Department on the development of EU financial services legislative frameworks at the EU Council. (For example, the European Commission’s proposal on Banking Structural Reform, which the EU Council commenced in 2014 with hopes to finalise in 2015.)

Following the transposition of CRD IV into Irish legislation, the Bank issued a revised Implementation Notice in May 2014 specifying its requirements and guidance in relation to the implementation of competent authority discretions and options arising under CRR/CRD IV. This Notice is likely to be revised further in 2015 to take account of the publication of related EU Level 2 regulatory instruments and to reflect the competencies assumed by the SSM. The Bank also issued Guidelines on calculating the Liquidity Coverage Ratio (LCR) for the interim observation period. These Guidelines were issued to ensure consistent reporting of liquidity coverage requirements by Irish banks. The
Guidelines, which contained an interim definition of High Quality Liquid Assets, were used as a standard by Irish banks until the European Commission’s delegated act on the EU LCR entered into force in February 2015. As part of its remit to increase industry awareness of the new regulations, the Bank presented at a number of Irish and EU conferences on CRD IV and the Liquidity Requirements during 2014.

Aside from its supervisory responsibilities as part of the SSM, the Bank contributed effectively to the development of supervisory policy and practices within the SSM. In addition, further development of the Single Rulebook and regulatory framework falls to the European Banking Authority (EBA) of which the Bank is a member. The EBA is tasked with the development of binding technical standards and guidelines to underpin the Level 1 EU Regulations and Directives. The Bank was an active participant at EBA expert working groups and committees that developed the more than 100 measures that were published in 2014. This work is scheduled to continue in 2015.

Credit Union Supervision

Risk Identification and Mitigation

The Bank’s primary objective in relation to credit unions is the protection of members’ savings in line with its statutory mandate.

The credit union sector continued to face significant challenges in 2014. The aggregate loan to asset ratio for the sector declined to 30 per cent as new lending continued to trend downwards, albeit at a slower rate. However in the latter part of the year new lending volumes appear to have improved for some individual credit unions.

With three out of four credit unions’ loan ratios now below 35 per cent and with lower yields on surplus funds as operating costs continue to rise, the pressure on net margins is likely to continue into 2015 and beyond.

With a business model which is wholly dependent on revenues from unsecured consumer loans and surplus funds, credit unions are strategically challenged to reverse the decline in lending, address revenue diversification and operational costs.

The Bank remains concerned that most credit unions are not addressing viability and sustainability through effective strategic or business planning. Additionally, in quite a number of cases the standard of risk assessment and management requires significant improvement. There was also concern that credit union proposals to offer payment accounts and related payment services are not addressing the required operating model and resultant impact on the business model and risk profile.

Supervisory Engagement

In the course of 2014, a full suite of on-site engagements was undertaken with 115 credit unions, under the PRISM engagement framework. Of these, 17 were Full Risk Assessments. For the majority of the 98 Medium Low Impact credit unions involved, it was their second cycle of engagements and for the Medium High cohort, the third cycle. While the Bank anticipated significant improvement, the level of progress evidenced was not fully to expectations. Although there were a number of exceptions to this overall finding, significant work continues to be required to meet and appropriately embed necessary minimum standards.

The Bank has found that where credit unions have engaged positively in this process, change is clearly occurring as they transition their risk governance framework to comply with the new regulatory framework. For those credit unions that have not embraced the need to change, the outcome will include more intense supervision to mitigate risks and where necessary enforcement action.
In order to transparently communicate these findings and importantly, recognising that nearly one third of the credit union sector is Low Impact, and with whom the Bank did not at that point have a standard bilateral onsite engagement, a paper was issued to the sector in May 2014 titled, ‘Credit Union PRISM Risk Assessments – Supervisory Commentary’. This paper set out the Bank’s findings on the current state of governance and risk management standards and practices, drew attention to significant issues and set out the Bank’s minimum supervisory expectations of credit unions in demonstrating compliance with relevant legislation and regulation.

The Bank expects that this document would be used by all credit unions as an essential guide to boards and management as they implement their risk management frameworks and compliance programmes. It should be used to benchmark performance and, where necessary, to develop and implement plans to achieve and maintain the standards expected of soundly governed and managed credit unions.

In addition, as part of the 2014 supervisory work programme for the credit union sector, an IT survey of credit unions was conducted in May 2014 which focused on a targeted group of credit unions. The purpose of this survey was to provide additional insight into the evolution of governance and standards across the sector and the work undertaken by individual credit unions to address matters since the 2013 IT Survey. Overall findings and recommendations were issued to the sector in aggregate form in September 2014 and highlighted in particular that the level of progress made by many credit unions, in managing and controlling the risks associated with IT, was disappointing.

The Bank’s supervisory focus will continue to remain on ensuring that credit unions transition their governance, management and operational structures and systems to adapt to the higher standards now required of them.

**New Governance and Prudential Requirements**

New governance and prudential requirements for credit unions came into effect on 11 October 2014 arising from The Credit Union and Co-Operation with Overseas Regulators Act 2012 (the 2012 Act), which was enacted on 19 December 2012.

The Act introduced new requirements for boards of directors, board oversight committees and for credit unions to submit an annual compliance statement to the Bank on an annual basis. The Credit Union Handbook and Frequently Asked Questions were updated to reflect the new requirements and additional guidance was provided in relation to the preparation and submission of annual compliance statements.

**Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions**

In December 2013, the Bank published CP76 - Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions. The consultation closed in March 2014 and 164 submissions were received. Feedback received on CP76, in relation to the timing of the introduction of a tiered regulatory approach for credit unions, indicated that the majority of respondents were of the view that a tiered regulatory approach should not be introduced at the time, given the amount of change the credit union sector is currently undergoing arising from the introduction of the strengthened regulatory framework and the voluntary restructuring of the sector.

In light of the feedback received, and as indicated in the Feedback Statement on CP76, the Bank deferred the introduction of a tiered regulatory approach for credit unions. The next steps proposed in the Feedback Statement included the development of regulations for all credit unions to continue the introduction of the strengthened regulatory framework.
Consultation on Regulations for Credit Unions
In November 2014, the Bank published Consultation Paper CP88 - Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act. These include regulations in relation to reserves, liquidity, lending, investments, savings and borrowing. The three-month consultation period closed in February 2015. Final regulations will be published later in 2015 following consideration of submissions received.

Fitness and Probity Regime for Credit Unions
A Fitness and Probity regime for credit unions came into effect on 1 August 2013 and is being introduced on a phased basis with transitional arrangements. The first phase of this tailored Fitness and Probity regime was introduced on 1 August 2013 for credit unions with total assets of greater than €10 million and was fully implemented on 1 August 2014. The second phase, which applies to credit unions with assets of €10 million or less, will commence on 1 August 2015.

The Bank also consulted on the Fitness and Probity regime for those credit unions that are authorised as retail intermediaries (Consultation Paper CP83). Submissions received generally welcomed and supported the Bank's proposals on a revised approach and a feedback statement was published which indicated that the Bank would proceed as indicated in CP83. This regime for credit unions that are authorised as retail intermediaries will also commence on 1 August 2015. Updated fitness and probity documents including regulations, standards and guidance were published in Q1 2015.

Information Seminars
A key part of the Bank’s regulatory engagement model for the sector is to engage directly with individual credit unions and discuss the Bank’s regulatory approach. The Bank undertook a series of nine nationwide information seminars for credit unions during November and December 2014. The seminars’ objectives were: provide an overview of the new regulatory developments in 2014, present details of the draft regulations for credit unions contained in CP88, give details on regulatory developments planned for 2015 and to engage with credit unions on matters they wished to discuss.

Credit Union Newsletter
In July 2014, the Bank published the first issue of a new biannual newsletter for credit unions ‘Credit Union News’. The purpose of the newsletter is to assist credit unions by providing details of key regulatory updates, topical items of interest and to highlight where key information on such matters can be accessed. The newsletter also includes articles on matters relating to credit unions from other Bank Divisions. The second issue of this newsletter was published in January 2015.
Insurance Supervision

Through its PRISM engagement model the Bank identifies key risks which assists the Insurance Supervision team in achieving its objectives. As part of this process the Bank held Risk Rating meetings which reviewed key issues, primarily to assess and challenge probability risk ratings and rationales entered into the PRISM system. During the year the Bank completed a wide range of regulatory reviews in accordance with the PRISM models including Risk Governance Panels, Full Risk Assessments and Financial Risk Reviews. A wide range of custom engagements were undertaken including meeting with key executives and Independent Non-Executive Executive Directors (INEDs) of regulated entities.

Quarterly and annual solvency has been monitored closely throughout the year by the Bank for all regulated companies. Any solvency breaches have been promptly investigated and escalated appropriately.

Under-reserving of claims and mispricing of insurance risks continued to be the key reasons for the underwriting losses incurred by (re)insurance undertakings. The Bank carried out a number of pricing, claims and reserving reviews during the year. Where necessary the Bank required undertakings to put in place mitigating measures to address identified weaknesses in their reserves and/or pricing and emphasised the continued need for reserving and pricing discipline.

As part of the Bank’s regulatory reviews of the Life insurance industry, a Thematic Pricing Review of the Term Protection market was completed. In addition, Stress Testing of the Variable Annuity Industry was undertaken to ensure that (i) the Bank fully understood the preparedness of companies in respect of the current low interest rate environment and (ii) to ensure the supervisory regime is appropriate. The test findings were considered by the Bank and letters were issued to industry. Follow up actions are being monitored as part of the standard ongoing PRISM engagement.

In September 2014, the Bank launched a Variable Annuity (VA) market risk monitor which variable annuity companies will be required to complete on a regular basis. The risk monitor will provide the Bank with more up-to-date data, on a consistent basis, on market exposures. It will also assist in identifying areas where enhancements are required to risk function/processes.

Solvency II – Preparatory Work

In 2014, the Bank continued its preparatory work for the commencement of the full Solvency II regulatory environment, working closely with the European Insurance and Occupational Pensions Authority (EIOPA). The Preparatory Guidelines took effect for the Forward Looking Assessment of Own Risk commencing April 2014 and reports have been received from regulated entities. The Bank is preparing itself to receive the first financial reports from industry in early 2015 and is finalising its preparation for the full implementation of the Solvency II Directive which will be effective from 1 January 2016.

Solvency II – Internal Models

During the year the Bank continued to work with insurance companies seeking approval of internal models. This work ensured that the Bank gained an understanding of their proposed models and to ensure that the models meet the criteria specified for approval by the Solvency II Directive. In addition the Bank has worked with fellow National (Member State) Supervisory Authorities (NSAs) to develop the required technical standards.

There are currently 17 companies seeking approval for their Solvency II Internal Models (the second highest number in the EU). The Bank is engaged with these companies in an active internal model pre-application process. An Actuarial Services Framework has been put in place in 2014. The Framework provides flexibility of resources to be able to cope with potential unexpected applications and model changes.
Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers

Following feedback received on Consultation Paper CP73 (issued in September 2013), in 2014 the Bank published the finalised requirements on reserving practices titled ‘Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers’. The project’s aim was to ensure the codification of better reserving practices by non-life (re)insurance companies. The new requirements were in place by end-year.

Stakeholder Engagements

Regulator-to-Regulator Engagement

Bilateral and multilateral supervisory meetings and cooperation with other regulators plays a key role in the effective supervision of regulated (re)insurance undertakings and hence European and global financial stability.

The Bank works closely with Regulatory bodies throughout the world on matters of mutual interest and has Memoranda of Understanding in place with a large number of them.

National Association of Insurance Commissioners (NAIC) Accreditation

The Qualified Jurisdiction Working Group of the NAIC completed its Summary of Findings and Determination with respect to the Bank on 12 November 2014.

The recommendation of the Working Group was that the NAIC recognise the Bank as a Qualified Jurisdiction and place it on the NAIC List of Qualified Jurisdictions, with effect from 1 January 2015, after which the Bank will be re-evaluated every five years. Further, the NAIC Working Group recommended that Delaware be designated the Lead State for purposes of regulatory cooperation and information sharing with the Bank.

Engagement with EIOPA

EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union.

» Supervisory Colleges

As part of the programme for Groups Supervision, EIOPA recommends that Supervisory Colleges attended by other global regulators be held on an annual basis to discuss key aspects of the group’s performance and to ensure a holistic view is obtained of the supervisory risks for such a group. A key output of this College is a work plan to ensure all key risk areas are addressed. It is the responsibility of the group supervisor to ensure this plan is executed effectively before the next College meeting.

There were 45 Supervisory College meetings held by the Bank with other supervisors from around the globe, as part of the Bank’s programme for group supervision in 2014. All Colleges were well attended and resulted in an increasing level of engagement among supervisors on issues of mutual interest.

» EIOPA Committees

The Bank has representation on a wide range of EIOPA Groups and Committees including the Board of Supervisors on which the Director of Insurance acts as the Bank’s representative.

In 2014, a member of the Bank chaired EIOPA's Internal Governance Supervisory Review and Reporting (IGSRR) Sub Group 1.
Engagement with Industry
The Bank had regular interactions with industry throughout the year on a number of different topics. Scheduled meetings were held with stakeholders and there was a good level of engagement. In addition, Bank representatives spoke at a number of industry conferences.

Key industry fora include Insurance Ireland, DIMA (Dublin International Insurance & Management Association) and the Society of Actuaries. Effective communication with industry remains a key priority for the Bank and is an important aspect in support of its supervisory agenda.

Insurance Policy
The Omnibus II Directive was adopted by the European Parliament in its plenary vote on 11 March 2014 and was published in the Official Journal of the EU on 22 May 2014. The Omnibus II Directive completes the Solvency II Directive and finalises the new framework for insurance regulation and supervision in the EU, which will be implemented on 1 January 2016.

On 10 October 2014, the European Commission adopted a Delegated Act containing implementing rules for Solvency II; the Bank provided technical advice to the Department of Finance as these proposals were being developed.

Following the introduction of preparatory guidelines on Solvency II by EIOPA, the Bank introduced Guidelines on Preparing for Solvency II, effective 1 January 2014. Assessing compliance with these guidelines formed part of the Bank’s ongoing supervisory engagements with firms during 2014 and will continue into 2015, assisting firms in their preparation for the implementation of the new regime.

The Bank continued to provide input during 2014 to the development of Implementing Technical Standards (ITS) and Guidelines through active participation in key EIOPA working groups that developed these ITS and Guidelines. The process to develop the ITS and Guidelines will conclude in July 2015 with the publication of the final set of guidelines in advance of the application of the Solvency II regime. The Bank will maintain its engagement in EIOPA working groups in 2015.

The implementation and embedding of the Solvency II regime for the supervision of (re)insurance undertakings will be a key objective of the Bank in 2015, working to ensure that the Bank’s supervisory processes and procedures are fully updated in advance of 1 January 2016.

Insurance Compensation Fund
The Insurance Act 1964 (under which the Fund was established) was amended in 2011 to facilitate payments to policyholders in relation to risks in the State where an Irish or other EU-authorised non-life insurer goes into liquidation or administration. The role of the Bank under the legislation includes performing an annual assessment of the financial position of the Fund and determining an appropriate contribution to be paid to the Fund by non-life insurance undertakings.

In November 2014, the Bank carried out its annual assessment of the Fund and determined that the contribution to the Fund be maintained at 2 per cent of gross written premium.
Markets Supervision

Investment Firm and Fund Service Provider Supervision
The Bank continued with its risk-based supervisory approach to investment firms and fund service providers and completed its first round of assessments of Medium-High Impact firms since PRISM was rolled out in 2012. A significant number of FRAs of firms took place as part of the ongoing supervisory work. There were also a number of inspections in response to certain supervisory triggers and as part of the programme of themed supervisory work. These interventions have made a significant impact in improving the compliance culture in firms and highlighting the importance of investor protection. Particular emphasis and improvements were seen in the areas of corporate governance (increase in number of firms with independent non-executive directors), risk management procedures and capital planning.

Themed-Inspection Programme
The Bank supervises a large number of regulated entities under PRISM of which over 5,000 are Low-Impact entities. The themed inspection programme for 2014 covered areas such as: (a) outsourcing by fund service providers, (b) data integrity of regulatory returns, (c) funds corporate governance, (d) client categorisation under MiFID, (e) quality of UCITS Key Investor Information Document. In each of these areas, specific findings were communicated to the firms and general findings were communicated to relevant industry participants. In some cases, follow-up supervisory interventions were necessary.

Alternative Investment Fund Managers Directive (AIFMD)
The new regime for alternative investment fund managers (AIFMs) came into effect on 22 July 2014. By the end of the year, 72 AIFMs had been authorised of which 54 were external managers and 18 related to internally managed funds. The Bank engaged extensively with Industry on the authorisation process including two industry workshops held in 2014.

EU AIFMs may passport their management and marketing services within the EU. As at the end of 2014, the Bank issued 539 Passporting Notifications to other EU national competent authorities (NCAs) so that Irish AIFMs could provide services in other EU Member States. The Bank received 230 such notifications from other EU NCAs. The Bank also processed 115 applications from non-EU AIFMs to market and manage AIFs in Ireland. In addition, by end-December 2014, 324 non-UCITS funds had converted to alternative investment funds (AIFs) and 132 non-UCITS funds revoked their authorisation.

AIFMD Reporting
Following the introduction of the AIFMD, registered AIFMs, authorised AIFMs and non-EU AIFMs marketing their AIFs in the EU are respectively subject to reporting obligations under Articles 3 and 24 of the AIFMD. Article 110 of the implementing Regulation sets out the different reporting frequency required (quarterly, half-yearly and annually) for each entity type. The content of the information required is set out in Annex IV of the Regulation. European Securities and Markets Authority (ESMA) has published a consolidating reporting template, Guidelines and Q&As on AIFMD reporting obligations while the Bank has also published its own ‘Reporting Guidance for Alternative Investment Fund Managers’. The Bank held an AIFMD Reporting Seminar on 16 July 2014 with 200 industry participants to fully explain the requirements of the AIFMD Reporting requirements.

The Bank’s Online Reporting System (ONR) was enhanced to receive and process these new and complex return types. The first reports were received from firms in August 2014.

New Authorisation Process for Investment Firms
The new authorisation process regime for investment firms which was implemented in January is now fully operational. Four new Markets in Financial Instruments Directive (MiFID) investment firms have been approved during the year and a further six applications are under consideration. The Bank also received 251 Passporting Notifications for MiFID firms passporting inward from other EU States.
Chapter 1: Key Activities and Developments

CRD IV - Reporting for Investment Firms
The CRD IV reporting requirements came into effect in 2014 for all MiFID investment firms defined under point (2) of Article 4(1) of Regulation (EU) No. 575/2013. In preparation for this the Bank engaged with industry and workshops were held in early 2014.

Four new returns were deployed to the ONR in June 2014 as part of the first release of returns, Taxonomy 2.0.1, with 54 firms submitting returns for the first reporting period to 31 March 2014. For the reporting period to 30 September 2014 changes to the returns required under Taxonomy 2.1 were implemented. Further changes to the returns, along with two new returns, for the reporting period to 31 December 2014 were deployed in January 2015.

Throughout the process, extensive work was involved in enabling the Bank’s systems, including the ONR, PRISM, Business Intelligence Cube and SharePoint, to be able to process the new/amended returns.

European Market Infrastructure Regulation
The European Market Infrastructure Regulation11 (EMIR) entered into force on 16 August 2012 and the Bank was appointed a competent authority under the regulation in the European Union (European Markets Infrastructure) Regulations 2014 12. An EMIR Unit was established earlier in the year to prepare for undertaking this role, to engage with the various stakeholders and to act as the central point for EMIR supervision responsibilities. A consultation paper on the supervisory approach for non-financial counterparties (CP 90) subject to the regulation was issued in December 2014.

Client Asset Regulations and Guidance
The Client Asset Regulations for Investment Firms were approved by the Bank and the Department of Finance in Q4 2014. In accordance with EU legislation, the European Commission was also notified. The Bank published the new Regulations on 30 March 2015. The Regulations will apply when an Irish authorised investment firm is holding client assets in a client asset account.

The Investor Money Regulations for Fund Service Providers were also approved by the Bank in Q4 2014 and were published on 30 March 2015. These Regulations will apply when an Irish authorised Fund Service Provider is holding investors’ money in a collection account.

Collective Investment Schemes
Collective Investment Schemes (funds) are established for the purpose of investing the pooled subscriptions of investors (held as units or shares in the scheme) in investment assets in accordance with investment objectives published in the prospectus. The net asset value of Irish authorised funds amounted to €1,661 billion as at 31 December 2014 represented by 5,833 funds, including sub-funds. The number of revocations (all voluntary) of existing funds, including sub-funds, in 2014 was 565. The total number of funds authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2003, Unit Trusts Act 1990, Part XIII of the Companies Act 1990, the Investment Funds, Companies and Miscellaneous Provisions Act 2005 and the Investment Limited Partnerships Act 1994 in 2014 was 105 funds (799 including sub-funds)13.

Table 3 – Company Information Disclosures14

<table>
<thead>
<tr>
<th>Disclosure</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Financial Reports published</td>
<td>134</td>
<td>123</td>
</tr>
<tr>
<td>Half-yearly Financial Reports published</td>
<td>113</td>
<td>111</td>
</tr>
<tr>
<td>Interim Management Statements published</td>
<td>98</td>
<td>93</td>
</tr>
<tr>
<td>Major shareholding submitted</td>
<td>416</td>
<td>463</td>
</tr>
<tr>
<td>Number of Issuers whose securities were suspended from trading on the ISE by the Bank</td>
<td>14</td>
<td>9</td>
</tr>
</tbody>
</table>

12 S.I. No. 443 of 2014
13 This data meets the Bank’s reporting requirements under Section 3(6) of the Unit Trust Act 1990.
14 The Bank is the designated central Competent Authority for the purposes of the Regulations, except for the purposes of Article 24(4)(h) of the Transparency Directive in respect of which the Irish Auditing and Accounting Standards Authority (IAASA) has been appointed the relevant Competent Authority.
### Table 4 – Investigations under Securities Law

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enquiries initiated regarding possible contraventions</td>
<td>52</td>
<td>162</td>
</tr>
<tr>
<td>Enquiries completed regarding possible contraventions</td>
<td>67</td>
<td>120</td>
</tr>
<tr>
<td>Suspicious Transaction Reports submitted to the Bank by persons professionally arranging transactions</td>
<td>27</td>
<td>33</td>
</tr>
<tr>
<td>Suspicious Transaction Reports submitted to the Bank by other EU Competent Authorities</td>
<td>8</td>
<td>22</td>
</tr>
<tr>
<td>Suspicious Transaction Reports transmitted by the Bank to EU Competent Authorities</td>
<td>21</td>
<td>36</td>
</tr>
<tr>
<td>Assistance rendered to other EU Competent Authorities</td>
<td>17</td>
<td>28</td>
</tr>
<tr>
<td>Stabilisation Notifications submitted to the Bank</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Securities Law Settlement Agreements (Concluded)</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Securities Law Formal Private Cautions (Issued)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Table 5 – Market Monitoring Reports

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction reports received from entities located in Ireland (millions)</td>
<td>142.8</td>
<td>159.3</td>
</tr>
<tr>
<td>Transaction reports sent to other Competent Authorities via TREM* (millions)</td>
<td>124.4</td>
<td>139.4</td>
</tr>
<tr>
<td>Transaction reports received from other Competent Authorities via TREM* (millions)</td>
<td>17.0</td>
<td>22.7</td>
</tr>
<tr>
<td>Administrative Sanctions/Supervisory Warnings - Cases Opened</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Administrative Sanctions/Supervisory Warnings - Cases Closed</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Audits conducted on firms’ transaction reports</td>
<td>60</td>
<td>38</td>
</tr>
</tbody>
</table>

* Transaction Reporting Exchange Mechanism

### Table 6 – Prospectus Approval Process

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Final Terms Filed</td>
<td>1,750</td>
<td>2,845</td>
</tr>
<tr>
<td>Number of Documents Approved</td>
<td>844</td>
<td>1,020</td>
</tr>
<tr>
<td>Number of Documents/Notifications published</td>
<td>3,124</td>
<td>4,348</td>
</tr>
<tr>
<td>Passport Certificates prepared</td>
<td>250</td>
<td>279</td>
</tr>
<tr>
<td>Inward Passporting Notifications processed</td>
<td>492</td>
<td>471</td>
</tr>
<tr>
<td>Number of Issuers whose securities were suspended from trading by the ISE at the request of the Bank</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

The difference between the number of documents that have been approved to date and the number of documents that have been published on the Bank’s website relates to (i) Final Terms, Final Offer Price and Amount of Securities Announcements and Annual Information Reports (which do not require approval) that have been filed and published on the website and (ii) notifications in respect of prospectuses which have been approved by the Competent Authority of another Member State and which are then passported into Ireland and do not require the approval of the Bank.
Chapter 1: Key Activities and Developments

Markets Policy

The Bank is represented on each of the Standing Committees of ESMA, which deal with issues such as market structure, investor protection, investment management, market integrity, financial innovation, corporate reporting and corporate finance. ESMA has a number of sub-groups and task forces that work on particular issues under each of the Standing Committees. The Bank actively participated on a wide selection of these sub-groups, many of which are responsible for the initial drafting of technical standards in relation to forthcoming securities legislation.

Significant resources were devoted during 2014 to the drafting of technical advice, regulatory and implementing technical standards pursuant to the mandate received by ESMA from the EC under the Central Securities Depositories Regulation (CSDR), MiFID/MiFIR, Market Abuse Directive/Market Abuse Regulation (MAD/MAR), European Venture Capital Funds (EuVECA) and European Social Entrepreneurship Funds (EuSEF). The Bank provided technical support and advice on proposed delegated legislation and acted as technical experts to the Department of Finance on the transposition into national law of a number of European Regulations.

Advice was provided on the CSDR, Undertakings for Collective Investment in Transferable Securities (UCITS V), the AIFMD, European Market Infrastructure Regulation (EMIR), Capital Requirements Directive and Regulation (CRD IV/CRR), MiFID and the MAR during 2014.

The Bank also acted as the internal co-ordinator for the ESMA Board of Supervisors. Advice was provided to the Deputy Governor (Financial Regulation) both as the Bank’s member of the ESMA Board of Supervisors and since September 2014, in his capacity as a member of the ESMA Management Board and to the Director of Markets Supervision who is the Bank’s alternate member of the ESMA Board of Supervisors.

During 2014, the Bank hosted or supported 21 separate industry meetings and presentations ranging across issues such as the current review of MiFID to the EMIR Handbook, highlighting the importance the Bank places on engaging with and educating industry on the developments in regulation within Europe.

Table 7 – Markets: Meetings and Presentations

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Industry Presentations</td>
<td>31</td>
<td>21</td>
</tr>
<tr>
<td>IOSCO &amp; OTC Regulators Forum</td>
<td>11</td>
<td>6</td>
</tr>
<tr>
<td>Internal Training Provided</td>
<td>13</td>
<td>29</td>
</tr>
<tr>
<td>ESRB Meetings</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Number of ESMA Meetings</td>
<td>64</td>
<td>90</td>
</tr>
<tr>
<td>European Council Meetings</td>
<td>36</td>
<td>8</td>
</tr>
<tr>
<td>Number of Policy Papers Produced</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>Number of Public Consultations initiated</td>
<td>2</td>
<td>7</td>
</tr>
</tbody>
</table>
Policy, Risk and Governance

EU & International Engagement

Engagement with European and international regulatory bodies is a crucial component of the Bank’s outward focus. Throughout 2014, the Bank continued to build its profile internationally and has continued its engagement with industry.

It enhanced its engagement with the International Organisation of Securities Commissions (IOSCO) through its participation on both the European Regional Committee and a number of committees that have a secondary markets and investment funds focus. The Bank has also been a member of the IOSCO’s Committee on Issuer Accounting, Auditing and Disclosure (Committee 1) since June 2012.

As part of the Bank’s continuing engagement with stakeholders, it held its annual Roundtable on 4 December 2014 with the theme ‘The Pathway to EU Regulatory Reform: 2014-2015’. The aim of the Roundtable was to facilitate discussion and exchange with key stakeholders on the EU and international financial regulatory agenda. Topics discussed included the Bank’s engagement in European and international fora, the proposed Capital Markets Union, the challenges faced in implementing Solvency II by 2016 and other developments such as: EU-US convergence in insurance, the Transatlantic Trade and Investment Partnership, the ECB credit initiative and its alignment with the development of the Central Credit Register.

The Bank has maintained a high degree of engagement at the European level by means of its participation in the European Systemic Risk Board (ESRB). The Bank continued to be heavily involved in the discussion on Shadow Banking in Europe through its participation in the Expert Group on the subject. It also had a leading role in the Joint Expert Group on Shadow Banking policy task-force. This task force produced a paper on shadow banking issues that is scheduled to be presented to the Advisory Technical Committee and the Board of the ESRB in the first half of 2015.

It also continued to actively participate in Working Party Meetings of the Council of the EU on dossiers such as the proposed regulation of Money Market Funds and the Securities Financing Transaction Regulation; and participated at European Commission Expert Group Meetings on the transposition of the 2014 Markets in Financial Instruments Directive/Regulation (MiFID/MiFIR) and Market Abuse regimes (MAR/CSMAD).

Development and Implementation of Domestic Policy

Throughout 2014, the Bank engaged with stakeholders internally and externally on new developments and initiatives arising within Europe and locally. These included governance, auditing, accounting, remuneration, fitness and probity and regulatory frameworks. In addition, the Bank was active on the development of internal supervisory processes pertaining to the ongoing application of its supervisory framework – PRISM.

Auditor Assurance

A working group which comprised representatives from the recognised accountancy bodies, the ‘Big Four’ accounting and auditing practices, and the Bank was established in January 2014 to develop a framework for the implementation of Auditor Assurance. In September 2014, the Auditor Assurance Regulations were finalised and notification letters were circulated to the audit firms in respect of each financial institution in scope for the year ending 31 December 2014. The auditor of the financial institution is required to undertake an examination in accordance with this notice and provide an assurance report and a review and recommend report outlining their findings to the Bank.

15 Deputy Governor Cyril Roux hosted the event with stakeholders including: the Competition and Consumer Protection Commission, Financial Services Ireland, Banking and Payments Federation Ireland, Dublin International Insurance and Management Association, Insurance Europe (on behalf of Insurance Ireland), Irish Funds Industry Association and Irish Association of Investment Managers. The Department of Finance also participated.
Skilled Persons' Reporting Powers

In November 2014, the Bank published the ‘Skilled Persons’ Reporting – Statement of Proposed Use’. The Statement applies to all firms regulated by the Bank and sets out the policy and expectations when using the Skilled Persons’ Reporting Powers as a supervisory tool. The Statement covered:

» The use of the Skilled Persons’ Reporting Powers in practice

» Preparation of the Skilled Persons’ Report

» Expectations in respect of a Skilled Person

» Confidentiality.

The Statement is aligned to the Skilled Persons’ Reporting Handbook which was prepared, and training provided, in order to facilitate the application of the Skilled Persons’ Review powers on a consistent basis by supervisors.

Risk Appetite

In June 2014, the Bank published ‘Risk Appetite – A Discussion Paper’ with a view to generating discussion and debate with Bank stakeholders on risk appetite, its linkage with organisational strategy, and its importance for financial institutions. The Discussion Paper considered the main concepts and theories of risk appetite and its place within Risk Appetite Frameworks and provided some suggestions as to what a risk appetite statement might contain. In December 2014, a Feedback Statement was published summarising the responses received to reflect the views presented to the Bank.

Fitness and Probity Regulations

The Bank published an amendment to the Fitness and Probity Regulations in September 2014 which introduced a number of changes to the Fitness and Probity Regime including the addition of six new Pre-Approval Controlled Functions (PCFs), the exclusion of Certified Persons and a change in title for PCF 14 from Head of Risk to Chief Risk Officer. The Bank also issued Non Statutory Guidance on the Fitness and Probity Amendments 2014 which aims to assist regulated financial service providers in complying with their obligations under the Amending Regulation.

Corporate Governance Code for Fund Service Providers

A new Corporate Governance Code designed for fund service providers was introduced in July 2014 by the Irish Funds Industry Association (IFIA), in collaboration with the Bank. The Code provides a set of principles and guidance which categorises existing good practice and presents suggestions based on codes introduced in other jurisdictions. Central to the new Code is the introduction of an independent director to the board of each service provider and a clear set of responsibilities for the board, including oversight, risk and compliance.

Cross-Sector Research

Environmental risk assessments are produced through collaboration with the Bank’s financial stability and supervisory resources for each regulated sector twice a year. These assessments are made available for supervisors as a backdrop, or context, when assessing the business models or risk profiles of regulated entities. In addition to this, the Bank produced research on emerging risks and trends in financial services, for example, on the area of peer-to-peer lending and with the commencement of a series of papers on behavioural economics during 2014.
Supporting the Bank’s Supervisory Framework

Work continued throughout 2014 on the development of guidance materials on risk assessment, the design and delivery of training on the supervisory framework, and engagement with supervisory teams or individuals with queries on supervisory approaches. A series of quality assurance reviews were conducted across all regulated sectors on the effectiveness of and supervisory alignment with the PRISM framework. Senior management considered the findings of those reviews.

The Bank also worked closely with the ECB’s Supervisory Quality Assurance Network to develop the ECB’s approach to quality assurance of supervision under the SSM.

Engagement with IAASA

The Bank engages with Irish Accounting and Auditing Supervisory Authority (IAASA) on matters relating to the affairs in entities of mutual interest and holds a seat on the IAASA Board.

Design and Delivery of Regulatory Rulebooks

In 2013, the Bank was actively engaged in the design and delivery of the AIF Rulebook which consolidated into one document the conditions which the Bank imposes on authorised AIFs, AIFM, AIF management companies, fund administrators and AIF depositaries.

In a similar vein, during 2014 the Bank examined the rules and conditions that it imposes under UCITS legislation in order to produce a consolidation in the form of a UCITS Rulebook. The final UCITS Rulebook will be delivered in the form of Central Bank Regulations pursuant to the Central Bank (Supervision and Enforcement) Act 2013, which provides that the Bank may make regulations for the proper and effective regulation of regulated financial service providers. Further, the Bank also examined the regulatory requirements that it imposes on investment firms. This work was progressed during 2014 and the UCITS Rulebook is expected to be published in the first half of 2015. The Investment Firms Regulatory Requirements will also be consulted on in that time period.
Enforcement Actions

In February 2014, the Central Bank published its enforcement priorities for 2014, highlighting the importance of enforcement within its risk-based regulatory framework. The document identified various areas by industry sector that were consistently a priority for the Bank. It also noted that there is a continuing enforcement focus on certain areas across almost all industry sectors, notably prudential requirements and systems and controls.

The enforcement actions taken by the Bank during 2014 were in line with these published enforcement priorities. The enforcement actions taken also fit with the Bank’s overall strategy of assertive risk-based supervision. Where firms fail to comply with their regulatory requirements, enforcement is an important tool to affect deterrence, achieve compliance and promote the behaviours expected. The enforcement actions taken during 2014 also support the effective supervision of Lower Impact rated entities in respect of which the Bank does not have an active supervisory relationship.

Table 8 below sets out the range of regulatory actions taken during 2014.

Settlement Agreements

In 2014, the Bank entered into 11 settlement agreements under the Administrative Sanctions Procedure under Part IIIC of the Central Bank Act 1942 (as amended) in relation to contraventions of various legislative and regulatory requirements.

The sanctions imposed involved reprimands and fines ranging from €640 to €3.5m, totalling €5.42m. Publicity notices were published following each settlement to explain the Bank’s approach, to highlight the Bank’s enforcement approach, and to further promote compliance and educate stakeholders on the standards of behaviour the Bank expects from regulated entities.

The cases settled during the year involved entities with Impact ratings across the PRISM framework spectrum with over half relating to Low or Medium Low Impact-rated firms.

Significant issues identified in the above cases related to failures by firms to:

» Put in place robust governance arrangements in relation to IT systems and controls.

» Adhere to large exposure limits and to have in place proper internal controls to ensure compliance with regulatory reporting obligations and large exposure limits.

» Maintain required levels of regulatory capital and to have in place and use sound administrative and accounting procedures and internal control mechanisms to ensure compliance with regulatory capital requirements.

» Comply with obligations regarding accurate and timely transaction reporting.

» Hold satisfactory professional indemnity insurance.

» Ensure resources and procedures, systems and controls were in place to ensure compliance with the Consumer Protection Code.

» Comply with certain moneylending practices.

Supervisory warnings\textsuperscript{16} were issued in 9 other cases.

\textsuperscript{16} A Supervisory Warning is a non-statutory device that is available where a supervisory division has reasonable cause to suspect that a prescribed contravention has occurred and where it is considered that an ASP sanction is not warranted.
Table 8 – Regulatory Actions Table

<table>
<thead>
<tr>
<th>Type</th>
<th>Number of Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Sanction Settlement Agreements</td>
<td>15 11</td>
</tr>
<tr>
<td>Securities Law Settlement Agreements</td>
<td>1 0</td>
</tr>
<tr>
<td>Securities Law Formal Private Cautions Issued</td>
<td>0 0</td>
</tr>
<tr>
<td>Directions Imposed under Transparency Directive</td>
<td>18 13</td>
</tr>
<tr>
<td>Warning Notices Issued Regarding Unauthorised Activity</td>
<td>27 31</td>
</tr>
<tr>
<td>Supervisory Warnings</td>
<td>15 9</td>
</tr>
<tr>
<td>Request for External Reviews - Credit Unions</td>
<td>184 26</td>
</tr>
<tr>
<td>Authorisation/Licence/Registration Refused</td>
<td>0 0</td>
</tr>
<tr>
<td>Appointment of Administrator/Liquidator</td>
<td>1 0</td>
</tr>
<tr>
<td>Firms Recapitalised due to Solvency Issues</td>
<td>3 5</td>
</tr>
<tr>
<td>Direction/Requirement Imposed on Credit Unions</td>
<td>24 10</td>
</tr>
<tr>
<td>Appointment of Independent Auditor/Inspector Required</td>
<td>0 1</td>
</tr>
<tr>
<td>Advertising Issues Investigated</td>
<td>182 180</td>
</tr>
<tr>
<td>Appointment of Court Appointed Inspector</td>
<td>0 0</td>
</tr>
<tr>
<td>Direction/Requirement Imposed under Other Legislation</td>
<td>470 402</td>
</tr>
<tr>
<td>Disclosure of Information to other Enforcement Authorities</td>
<td>60 126</td>
</tr>
<tr>
<td>Involuntary Revocation/Withdrawal of Authorisation</td>
<td>27 30</td>
</tr>
<tr>
<td>Securities Law Decision to refer to Assessor</td>
<td>0 0</td>
</tr>
<tr>
<td>Skilled Persons’ Report</td>
<td>0 1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,027 845</td>
</tr>
</tbody>
</table>

Significant Financial Cases

Irish Bank Resolution Corporation (IBRC)
An Garda Síochána informed the Bank in May 2011, following consultation with the Director of Public Prosecutions, that to proceed with the Bank’s examinations at that time may prejudice any future criminal prosecutions. The Bank’s examination into IBRC remains deferred due to criminal prosecutions which are ongoing. Given the seriousness and sensitivity of criminal proceedings and the strength of the sanctions available to An Garda Síochána and the Office of the Director of Corporate Enforcement (ODCE), this remains the most appropriate approach to take.

The Bank continues to keep this decision under review and liaison with An Garda Síochána and ODCE is continuing.

Quinn Insurance Limited (Under Administration)
The Bank entered into a Settlement Agreement with Quinn Insurance Limited (Under Administration), pursuant to its Administrative Sanctions Procedure, on 18 February 2013. Whilst the Bank’s investigation into this firm is now closed, related investigations by the Bank are at an advanced stage.

Irish Nationwide Building Society (INBS)
An investigation into historical lending practices at INBS is ongoing. This investigation is at an advanced stage.

Directions imposed under the Transparency Directive can only be issued for a period of 10 days at a time and, therefore, a new Direction must be issued every 10 days. For example, if an issuer failed to publish their annual financial report within the required timeframe specified in the Regulations, the Bank would issue a Direction to the Irish Stock Exchange requesting it to suspend trading in the issuer’s securities for a period of 10 days pending publication of the annual financial report. If the issuer was suspended for a period of 30 days, this would be based on 3 Directions issued by the Bank. In 2014, a total of 384 Directions were issued under the Transparency Directive (376 in 2013). However, adjusted for the re-issue of Directions previously issued, the number of Directions issued pursuant to the Regulations falls to 13 (18 in 2013).
Bloxbam Stockbrokers
An investigation into financial irregularities at Bloxbam Stockbrokers is at an advanced stage.

Anti-Money Laundering, Countering the Financing of Terrorism and Financial Sanctions
The Bank is the competent authority for the supervision of credit and financial institutions’ compliance with legislation pertaining to Anti-Money Laundering, Countering and Financing of Terrorism (AML/CFT) and EU Financial Sanctions (FS) activities. It is also responsible for investigation of unauthorised business activity.

Inspections and Risk Evaluations
The Bank conducted 33 inspections during 2014; in addition AML/CFT risk evaluations of 20 firms in 2 sectors were undertaken.

Table 9 – Anti-Money Laundering/Countering the Financing of Terrorism/Financial Sanctions - Inspections

<table>
<thead>
<tr>
<th>Entity Type</th>
<th>Inspections</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>Retail Banks</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Wholesale Banks</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Markets</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Payment Institutions</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Moneylenders</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Bureaux de Change</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Investment Asset Managers</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Multi-agency Intermediary</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Branches of Foreign Banks</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Insurance</td>
<td>0</td>
<td>6</td>
</tr>
</tbody>
</table>

Policy and Technical Activities
In 2014, the Bank conducted a review of its AML/CFT supervisory strategy. It continued to engage with industry and other stakeholders by presenting on AML/CFT at training events, conferences and seminars; and by participation at domestic policy committees. AML/CFT guidance was also updated on the Bank’s website. The Bank also provided supervisory input into domestic and international AML/CFT policy developments. This included assistance to the Department of Finance in relation to the proposed fourth EU AML Directive. The Bank also contributed directly to the work of the European Supervisory Authorities’ (ESAs’) AML committee and provided input into draft technical guidelines under the proposed fourth EU AML Directive.
In 2014, the Bank received and responded to 188 complaints in relation to alleged unauthorised activity and published warning notices in relation to unauthorised activity by 31 firms.

The Bank took over the authorisation of trust or company service providers which are subsidiaries of credit or financial institutions in 2014 and is responsible for the supervision of these firms for the purposes of AML/CFT compliance. In 2014, the Bank authorised 30 such firms.

Financial Sanctions
The Bank continued to send quarterly financial sanctions alerts to regulated entities and the public notifying subscribers of changes to the Official Journal of the European Union. This was done via the Bank’s automated email alert subscription system. Regular developments in financial sanctions were also communicated via updates published on the financial sanctions pages of the Bank’s website.

In addition, the Bank carried out functions in relation to the recording of freezing notifications and notifications in advance of certain funds transfers. It was involved in the granting of prior authorisations, the processing of derogations and the discounting of potential matches to names on the sanctions lists. In carrying out these functions the Bank answered queries related to financial sanctions received from a wide range of external stakeholders. In addition, certain inspections carried out by the Bank's AML/CFT inspections team were scoped to include consideration of firms’ compliance with financial sanctions obligations.
Resolution of Financial Difficulties in Credit Institutions

Embedding recovery and resolution planning in banks, credit unions and other financial institutions, and carrying out resolution actions where necessary should failure occur, are vital components of sustained economic recovery.

New EU-wide Bank Resolution Regime

Following on from the creation of the SSM, the second pillar of EU Banking Union sees the creation of an EU-wide resolution regime. Under the Bank Recovery and Resolution Directive (BRRD), a single rulebook for the resolution of failed or failing banks and investment firms has been established. BRRD is being transposed into Irish law, and under it, the Bank will be designated Ireland’s National Resolution Authority (NRA). As NRA, the Bank will exercise BRRD resolution powers and functions at member state level.

All Irish licensed banks and certain investment firms come within the remit of BRRD, which requires them to prepare recovery plans setting out measures to be taken to restore finances following deterioration. BRRD requires resolution authorities to prepare resolution plans setting out proposed actions to be taken in the event of a firm’s failure.

Should a firm fail in the future, BRRD seeks to avoid recourse to taxpayers by utilising funds from national resolution funds which are to be raised from industry and by creating a new statutory mechanism to bail in certain liabilities. From 1 January 2016 at the latest, resolution authorities will require credit institutions to meet a new prudential ratio – the Minimum Requirement for Eligible Liabilities (MREL). MREL is aimed at enhancing loss absorbing (bail in) capacity, through the issue of liabilities which are available to absorb losses in the event of failure.

Resolution of Credit Unions

There have been a number of instances where firms have not been able to avail of an alternative solution to address their difficulties, and the Bank has needed to take resolution action under the Central Bank and Credit Institutions (Resolution) Act 2011 in order to protect members’ savings. During 2014, the Bank undertook resolution action concerning three credit unions, two involving transfer orders and one liquidation.

Howth Sutton Credit Union – transferred to Progressive Credit Union

Following an application by the Bank on 5 March 2014, the High Court approved the transfer of Howth Sutton Credit Union (HSCU) to Progressive Credit Union, which assumed the assets and liabilities of HSCU. The Bank worked closely with the Board of HSCU throughout the process.

Killorglin Credit Union – transferred to Tralee Credit Union

Following an application by the Bank on 18 December 2014, the High Court approved a transfer order concerning Killorglin Credit Union (KCU). Under the transfer order, Tralee Credit Union assumed ownership and management of the assets and liabilities of KCU. The Bank sought the transfer order, with the support of KCU’s Board, given KCU was no longer viable as a standalone entity. The Board of KCU worked closely with the Bank, co-operating throughout the resolution process and supporting the transfer as the most appropriate solution in the best interest of its members.

Both transfers were undertaken to protect members’ savings and ensure continued access to credit union services within the local community.
Chapter 1: Key Activities and Developments

Box 6 – Liquidation of Berehaven Credit Union

Following key regulatory concerns regarding governance and oversight at Berehaven Credit Union (BCU), the Bank commissioned an independent review of its governance and lending practices in 2010. This report highlighted serious concerns in respect of connected loans and other governance issues. BCU engaged in discussions with another credit union regarding a possible transfer of engagement over a three year period, but those discussions ended unsuccessfully in April 2014 with the withdrawal of the transferee. Throughout this time, the Bank engaged with BCU in an effort to seek to address both its financial and governance issues. When a transfer of engagement was no longer possible, the Bank pursued resolution action concerning BCU.

In June 2014, BCU breached a regulatory direction requiring it to restore its regulatory reserve position, and as a result it was placed formally in resolution by the Bank. Following a competitive bid process, it was determined that no viable and cost-effective transfer to another credit union was available. Therefore, on 23 July 2014, the Bank applied to the High Court to appoint Jim Hamilton and David O’Connor of BDO as joint provisional liquidators to BCU. The High Court granted a full winding up order on 31 July 2014. The appointment of joint provisional liquidators to BCU resulted in an invocation of the Deposit Guarantee Scheme (DGS). The Bank issued cheques from the Deposit Protection Account to all depositors of BCU within 7 days of the DGS invocation, and no member of BCU lost their savings.

The liquidation of BCU was ultimately the only viable solution available in the circumstances, with the alternative of a directed transfer proving too costly for the Bank to justify on public interest grounds. The Bank undertook this action in the interests of protecting members and their savings.

Restructuring and Resolution

During 2014, the Bank continued to support and facilitate credit union sector restructuring. The Bank worked closely with the Credit Union Restructuring Board (ReBo), the statutory body responsible for facilitating and overseeing the restructuring of credit unions. In 2014, eight transfers of engagement projects involving 20 credit unions were completed. A further 26 transfer of engagement projects are currently being progressed with ReBo and the individual credit unions involved.

The Bank also took pre-emptive actions to identify and resolve weak credit unions focusing in particular on those credit unions where regulatory reserves were below the required regulatory minimum level of 10 per cent of assets. This process involved conducting asset reviews to determine the up-to-date financial position of individual credit unions and where necessary requiring appropriate action including:

- Directing the credit union to increase their regulatory reserves
- Seeking voluntary transfers of engagements
- Taking resolution action (directed transfer or liquidation) – see above.

Deposit Guarantee Scheme (DGS)

The DGS is administered by the Bank and is funded by the credit institutions covered by the scheme.

In July 2014, liquidators were appointed to Berehaven Credit Union leading to the invocation of the DGS. Compensation payments were issued to over 3,500 members of the credit union totalling approximately €11m. These compensation payments were made within 7 working days falling well within the statutory deadline of 20 working days.
A new Directive on Deposit Guarantee Schemes (2014/49/EU) was introduced in 2014 and is due to be transposed into national legislation in 2015. The Directive introduces changes to funding requirements, a reduction in pay-out deadlines and harmonisation of eligibility categories. In addition, new depositor information requirements have been introduced in order to ensure that depositors are aware of the key aspects of protection of their deposits by the DGS.

Box 7 – Deposit Guarantee Scheme

The Irish DGS was established under Irish and European legislation and protects depositors in the event of a bank, building society or credit union authorised by the Bank being unable to repay deposits. Deposits up to €100,000 per person per institution are protected. The DGS is obliged to issue compensation to depositors duly verified as eligible within 20 working days of a credit institution failing. The DGS is administered by the Bank and is funded by the credit institutions covered by the scheme. Each credit institution is required to maintain a Deposit Protection Account (DPA) equivalent to 0.2% of their total deposits, in order to fund the DGS. The DGS is part of the Bank’s strategy to ensure that the best interests of consumers of financial services are protected.

Deposits with credit institutions authorised in another European Economic Area Member State are covered by that country’s deposit guarantee scheme.

In general the DGS protects deposits belonging to individuals, small private limited companies, partnerships, clubs, associations and schools. It excludes deposits belonging to large and medium sized companies, public companies, public authorities, insurers, pension funds, collective investment schemes, banks and certain other financial institutions.

There have been two invocations of the DGS Scheme in Ireland to date. Following the liquidation of IBRC in 2013 and Berehaven Credit Union in 2014, compensation totalling over €47m was issued by the DGS to over 4,800 eligible depositors.
Protection of Consumers of Financial Services

Consumer protection strategic priorities strengthen and maintain protection for consumers of financial services.

The Bank seeks to deliver its consumer protection objective of ‘Getting it right for consumers’ through what it terms the 5 Cs Framework, which helps the Bank keep a clear focus on the risks facing consumers and the outcomes it is trying to achieve. This framework puts the Consumer at its centre, where the focus of firms must be on delivering positive consumer outcomes within a regulatory framework that is fit for purpose. This can only be achieved where firms have a consumer focused Culture which enables consumers to have Confidence in the financial decisions they are making and the firms they are dealing with. However, firms need to Challenge themselves and be challenged by the regulator where their focus is not on those consumer outcomes. There is a need and appetite for appropriate regulatory action where Compliance standards are not being met.

Strengthening the Consumer Protection Framework

The Bank continued to advocate for improved protections for consumers at both domestic and international level, as outlined below.

Domestic

The Bank assumed responsibility for the authorisation and supervision of debt management firms from August 2013. A key element of its work in respect of this sector in 2014 was to apply a rigorous regulatory assessment to those applicants who sought authorisation. As at 31 December 2014, the Bank had authorised 51 debt management firms. As well as seeking to ensure the implementation of a robust authorisation framework, a key priority for the Bank was to ensure that consumers of debt management firms would be protected through additional consumer protection requirements imposed on firms. Following a full consultation, the Consumer Protection Code was updated to include a new chapter, containing the additional requirements for Debt Management Firms (Chapter 13), which came into effect on 1 January 2015. A Feedback Statement on CP82 and a Consumer Guide to Debt Management Services, were also published in late 2014. Minimum competency standards were developed (following a full consultation), to apply to persons providing debt management services which came into effect on 1 June 2014.

Steps were taken to review and consider added protections in the area of lending to SMEs. This included an extensive pre-consultation programme with relevant stakeholders and the consideration of various reports on issues relating to this sector. A Consultation Paper and draft Regulations to replace the existing SME Code were prepared. These were agreed in December 2014 and published in January 2015. The closing date for receipt of submissions to the consultation was 13 April 2015.

The Bank continued to proactively advocate for legislative change, to ensure that borrowers do not lose protections where their loans are sold to an unregulated third party. During 2014, the Bank had a high level of engagement with the Department of Finance on the appropriate consumer protection framework.

EU and International

The Bank’s Director of Consumer Protection continued in his role of Chairman of FinCoNet, an international organisation for financial consumer protection supervisory authorities, whose aim is to promote sound market conduct and strong consumer protection. 2014 saw the publication of a landmark international report by FinCoNet on Responsible Lending. The Bank continued its membership of the OECD Taskforce on Consumer Protection to advance the development of the G20/OECD High Level Principles on Consumer Protection (including becoming the first consumer protection regulator to be reviewed using these principles as a reference point).
In addition, during 2014, the Bank’s Director of Consumer Protection was also appointed to the role of Chair of the European Banking Authority’s Standing Committee on Consumer Protection and Financial Innovation (SCConFin), demonstrating the importance the Bank attaches to the work of the ESAs and the Joint Committee of the ESAs in advancing high consumer protection standards across the European Union.

Box 8 – European Consumer Engagement

The Bank continued to contribute to negotiations and assist with the transposition of various Directives throughout 2014 in addition to its work at the ESAs. The Bank assisted in achieving several enhancements to the European framework for consumer protection:

» The ESA Joint Committee continued its cross-sectoral work on consumer issues, which included the publication of Guidelines on complaints-handling in the securities and banking sectors, a Consultation Paper on cross-selling and a Discussion Paper on Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs).

» The European Banking Authority (EBA) published draft Guidelines for product oversight and governance for retail banking products, credit worthiness assessments for mortgages and the treatment of borrowers in mortgage arrears, the security of internet payments, as well as technical advice and opinions on virtual currencies and structured deposits.

» Work at the European Securities and Market Authority (ESMA) focused on the reforms of the MiFID 2 regime involving the development of enhanced rules on conduct matters such as product governance, remuneration of sales staff, suitability and appropriateness and other consumer protection matters. ESMA also published a number of opinions including an opinion on practices to be observed by firms when selling complex financial products to investors, good practices for firms when manufacturing and distributing structured retail products and an opinion and advice on investment–based crowd funding. ESMA also published an Investor Warning on the risks of investing in complex products.

» The European Insurance and Occupational Pension Authority (EIOPA) published an Opinion on Payment Protection Insurance (PPI), which triggered significant developments in a number of national markets focused on information provision, cross-selling/commission issues and selling practices in general, as well as a Consultation Paper on Product Oversight and Governance of Insurance Products.

Ensuring that Consumers are Treated Fairly by Financial Institutions

Themed Reviews/Inspections

Themed reviews and inspections continued to be an important part of the Bank’s supervisory framework in 2014 allowing for review, assessment and mitigation of risks which have emerged in various industry sectors and across individual firms. The Bank intervened with individual firms, where necessary, and also published the findings from the reviews, enabling all firms to self-assess and raise compliance standards, in these key risk areas.

Following the completion of a cross-sectoral review of variable remuneration arrangements for sales staff of banks, insurance companies and investment firms, the Bank published Guidelines in 2014 to ensure firms’ arrangements focused on encouraging the right culture and behaviour in sales staff, while actively discouraging poor practices. The themed review was undertaken to gauge the extent to which incentive arrangements were operated in the best interests of consumers in their design, management and monitoring. The review examined the incentive arrangements to employees under the Code and the Conflicts of Interest regulations applicable to investment firms under MiFID.

Information on costs and charges provided to consumers plays a crucial role in enabling consumers to make informed decisions. The Bank undertook a themed inspection into the Provision of Information on costs and charges to consumers by MiFID firms, which assessed and evaluated the
arrangements that these firms had in place regarding provision of information to clients on direct costs and charges. The inspection identified weaknesses in how investment firms provide this information to consumers. Concerns in relation to unfair contract terms were also identified. The Bank required remedial action to be taken by individual firms and published guidance to the industry outlining the Bank’s expectations in relation to the disclosure of information on costs and charges to consumers and unfair contract terms.

In mid-2014, the Bank reported on the outcome of its review into the provision of annual pension statements by life assurance firms. The objective of this review was to ensure that consumers were receiving clear and meaningful pension information to allow them to monitor whether or not their personal pension savings plans are on track to meet their retirement goals. The Bank identified a small number of firms who failed to produce new format statements for pension policies. In addition, as a result of consumer research undertaken (which looked at the presentation and content of the statements being provided), the Bank provided best practice guidance to firms, in order to improve transparency and to help consumers understand the information.

In addition to ongoing monitoring of financial services advertising, two specific desk-based reviews were completed among selected firms. Credit and debt management advertising were the focus of the reviews. On foot of the findings, firms were required to take immediate corrective action. Findings from the debt management review were released in Q1 2015. The Bank also issued best practice guidance to firms, with the aim of enhancing consumers’ understanding of advertising information.

**Approval of Bank Charges**

Under Section 149 of the Consumer Credit Act 1995, credit institutions must notify the Bank if they wish to introduce a new customer charge or increase an existing customer charge for providing services such as maintaining and administering transaction accounts, providing and granting credit, making and receiving payments and providing foreign exchange facilities. Having considered the proposed charge, the Bank may approve the charge in full, approve at a lower level or reject the charge.

On 14 February 2014, the Department of Finance published the outcome of its review of the regulation of bank charges in Ireland, in which the department concluded that it would not be appropriate to repeal Section 149 at this time, but requested the Bank to reform the process by which it assesses applications as part of the Section 149 process.

The Bank published an industry information note entitled ‘Information on the Bank Charges Approval Process’ in May 2014. The note was published in order to assist credit institutions when making a notification. It provided information on the process employed by the Bank when assessing these notifications, including in cases where pricing strategies related to the furtherance of the National Payments Plan. This information note also provided more detail for credit institutions on what the Bank expects in an application and how matters are analysed under the various headings. The Bank has engaged with a number of stakeholders in relation to the consumer personal current account profiles, with a view to releasing the updated profiles in 2015.

During 2014, 16 notifications relating to bank charges were received from banks, one of which was requesting an exemption from Section 149. Of the remaining 15 notifications, 10 were approved, while five were not approved. Of these five rejected notifications, three were rejected fully and the remaining two were approved at a lower level than initially requested. In reviewing cases, the Bank considered if the applicant had sufficiently justified the proposed new charge(s) or charge increase(s) and these were considered against criteria such as the promotion of fair competition, the statement
of commercial justification, a credit institution passing any costs on to its customers and the effect on customers.

In addition, a key part of the Bank’s work was to consider and protect vulnerable consumers. In that regard, the Bank continued to prohibit the levying of charges on borrowers in mortgage arrears who were cooperating with their lenders.

Table 10 – Bank Charge Increase Notifications Processed

<table>
<thead>
<tr>
<th>2014 Notifications</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approvals</td>
<td>Full Approval</td>
</tr>
<tr>
<td>Rejections</td>
<td>Subsequently Approved at Lower Level</td>
</tr>
<tr>
<td></td>
<td>Full Rejection</td>
</tr>
<tr>
<td>Exemptions*</td>
<td>Approved</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
</tr>
</tbody>
</table>

* These are applications made seeking exemption from the obligation to make a notification under Section 149, where charges are negotiated on an individual basis.

Redress Arising from Errors or Overcharging

In delivering on the Bank’s consumer protection mandate, the aim is to continually challenge regulated firms to act in the best interest of their consumers, which includes acting swiftly to correct any situation which results in a consumer being dis-advantaged by any action of a firm. In this context, the Bank continued work during 2014 to deliver positive outcomes for consumers, including:

» Work concluded in relation to the sale of Payment Protection Insurance (PPI) by credit institutions which resulted in some €67.4m being identified for refund to 77,000 policyholders in 2014. The Bank’s engagement with other smaller credit institutions resulted in additional PPI refunds being made to consumers of approximately €2.7m.

» Errors by firms and overcharging issues were monitored to ensure that firms resolved them within the required timeframes and that customers were treated fairly. Restitution on foot of errors reported to the Bank under Code requirements, amounted to over €30.7m.

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18 This was reported in the 2013 Annual Performance Statement given the issue date of the report. However, the work concluded and the statement regarding refunds was issued in 2014.

19 Correct as of 6 February 2015.
Table 11 – Consumer Restitution

<table>
<thead>
<tr>
<th>Sector</th>
<th>Restitution on foot of errors reported by firms (required by Code)</th>
<th>Restitution on foot of issues identified through supervisory activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail intermediaries</td>
<td>€64,276</td>
<td>€1,221</td>
</tr>
<tr>
<td>Pensions inspection where</td>
<td></td>
<td></td>
</tr>
<tr>
<td>firms voluntarily agreed to</td>
<td></td>
<td>Pensions inspection where firms voluntarily agreed to provide</td>
</tr>
<tr>
<td>provide compensation to</td>
<td></td>
<td>compensation to consumers.</td>
</tr>
<tr>
<td>consumers.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moneylenders</td>
<td>€22,335</td>
<td></td>
</tr>
<tr>
<td>Banking</td>
<td>€4.8m</td>
<td>€70.1m (PPI)</td>
</tr>
<tr>
<td>Insurance (Life &amp; Non-life)</td>
<td>€25.9m</td>
<td>€0.18m</td>
</tr>
<tr>
<td>[Of this: €24.8m is completed,</td>
<td>[Of this: €0.1m is for Property Claims themed inspections.</td>
<td></td>
</tr>
<tr>
<td>€1.1m is an ongoing error.]</td>
<td>€0.08m is in relation to an issue over no-claims bonuses.]</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>€30,786,611</td>
<td>€70,281,221</td>
</tr>
</tbody>
</table>

*Correct as of 23 Feb 2015

The Bank took a proactive role in initiating and sustaining ongoing contact with the Malta Financial Services Authority (MFSA) in relation to Setanta Insurance (subject to MFSA’s prudential supervision), which entered into voluntary liquidation. In order to mitigate the impact on consumers the Bank communicated via press statements and its website; issued notices to intermediaries and liaised with the insurance representative bodies. The Bank also had extensive engagement with the Department of Finance, the MFSA, and the Appointed Liquidator, as well as attending the Oireachtas Joint Committee on Finance, Public Expenditure and Reform to discuss the impact of this failure for policyholders.

Protecting Consumers Affected by Mortgage Arrears

A key pillar in the Bank’s overall mortgage arrears strategy is the protection of distressed borrowers. The Code of Conduct on Mortgage Arrears (CCMA), which was revised in 2013, is designed to ensure that lenders deal with consumers fairly, positively and sympathetically, giving them enough time and information to decide about the alternatives available to them.

During 2014, the Bank worked with external parties, to progress mortgage arrears related work. This included the MART audits and ongoing engagements with stakeholders and lenders, to ensure consumer interests were represented as well as a consistent and collective approach to tackling mortgage arrears generally.

The Bank continued to monitor mortgage lenders’ systems and practices to ensure that consumers were receiving the protections they are entitled to under the CCMA. This included follow up work on the revised CCMA implementation themed review (which commenced in 2013).

A themed inspection of compliance with the CCMA commenced during 2014, which will continue in 2015. The themed inspection includes onsite inspections of a number of regulated mortgage lenders to examine the processes and controls lenders have in place to ensure compliance with the requirements of the CCMA. This theme builds on the strategic approach and overall project work already carried out by the Bank on mortgage arrears20.

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20 This included: the Mortgage Arrears Resolution Strategies (MARS) project; the revision of the CCMA in 2013, following public consultation; the revised CCMA Implementation theme; and CEO engagements on mortgage arrears, as well as ongoing supervisory engagement with individual mortgage lenders.
Dealing with Emerging Risks

Low Impact Firms

The Central Bank (Supervision and Enforcement) Act 2013, which came into effect from 1 August 2013, established a regime for the regulation of debt management firms. In order to foster a consumer-focused culture from the outset in this newly regulated sector, the Bank undertook a themed inspection of firms that were authorised to provide debt management services. The themed inspection assessed firms’ business processes and practices and their compliance with the conditions of their authorisations. Results from this themed inspection were published in Q1 2015.

The Bank continued to operate a robust process for the authorisation of payment institutions and electronic money institutions. The processing of applications focused on applicants demonstrating their ability to meet the regulatory requirements of the relevant legislation, including their ability to implement governance processes to act in the best interests of consumers in meeting their obligations.

Interactions with authorised payment institutions continued in accordance with the PRISM engagement model and a suite of custom engagements were utilised. These custom engagements included attending board meetings of authorised payment institutions to promote a consumer orientated culture in this regulated sector. The firms are subject to reporting obligations which are monitored closely to assess the firms’ compliance with key regulatory requirements such as the maintenance of capital. Action was taken where necessary to protect the interests of payment services users. The Bank also contributed to developments at EU level where the legislation applying to this industry sector (the Payment Services Directive) is being updated and it continued to provide support to the Department of Finance in this regard.

In addition to the robust authorisation framework, the Bank continued to monitor licensed moneylenders closely and take action where necessary to protect borrowers’ interests. An Administrative Sanction was placed on one licensed moneylending firm. The Bank also attended the Oireachtas Joint Committee on Finance, Public Expenditure and Reform on 29 January 2014 to discuss the regulation of the sector, on foot of the Bank’s research report on the industry published in 2013.

To develop a consumer focused culture in the licensed moneylending sector, the Bank actively engaged with the sector during 2014 with the publication of its first industry Newsletter that concentrated on key risk areas such as responsible lending and sales incentives. The Bank also issued a general information notice to promote responsible borrowing.

With approximately 2,800 firms in the retail intermediaries sector, a risk-based approach has been developed to manage regulatory issues as they arise. During the course of the year, several issues arose from information provided by both internal and external sources, e.g. ex-employees of firms, consumers, other regulated entities and statutory bodies. These regulatory issues were assessed and followed up with the individual firms if required, to ensure that consumer interests were protected.

As in previous years, the Bank continued to proactively follow up with firms that did not have adequate PII or did not reach the minimum capital requirement (a total of 390 firms). Failure in these two areas has resulted in authorisations being involuntarily revoked, sanctions taken or supervisory warnings imposed. The Bank continued its review of the sale of pensions to ensure compliance with the Code. It identified a small number of firms that failed to provide evidence of compliance with the Code and they were requested to undertake further reviews of their pension sales and report the findings to the Bank.

In addition, three newsletters for intermediaries were issued and two regional road shows were hosted in Dublin and Athlone, which were attended by 300 firms. Both of these initiatives were aimed at increasing compliance assistance to the sector. The Bank also published the “Handbook of
Prudential Requirements for Investment Intermediaries’ with an effective date of 1 October 2014, which strengthened existing prudential rules - investment intermediaries must now hold PII cover and are required to submit an Annual Return.

**Conduct Risk Assessments**

As part of the programme of Full Risk Assessments conducted under PRISM, the Bank undertook conduct risk assessments in a number of credit institutions and investment firms during 2014. Formal Risk Mitigation Programmes were imposed which required certain firms to strengthen internal governance and controls around complaints handling and suitability and appropriateness of financial instruments provided to clients. These firms were also required to further develop internal consumer protection risk frameworks and to provide structure to embedding a culture that generates positive outcomes for consumers.

**Evidence-Based Risk Analysis**

The Bank continued to use qualitative and quantitative evidence to identify and analyse existing and emerging risks from a sector and individual firm basis. During 2014, an analysis of online conduct of business return data fed into the sectoral risk assessments/related internal reports, which in turn informed proposals for the 2015 work programme.

Social media monitoring was also used as a useful tool to identify more immediate risk issues. The Bank continued to monitor and report on current account switching statistics (reported in June 2014), which is an area of particular interest for the Bank in the context of considering consumers’ interests in the development of the Payment Accounts Directive.

The Bank continued to conduct consumer based research to review the application of consumer protection requirements and to analyse the impact on consumers’/firms’ attitudes and behaviours. 2014 projects included research on: hire-purchase research (ongoing), Personal Pension Plans - Annual Benefit Statements and an ongoing three-year multi-partner behaviour research project on consumer decision making. Other particular interests included analysing potential risks associated with crowdfunding, virtual currencies, e-technology and mobile payments.

**Promoting Consumer Interests through Stakeholder Engagements**

The involvement of stakeholders is essential to a strong consumer protection environment and stakeholder engagement continued to be a strong feature of Consumer Protection work during 2014 and contributed to policy making, supervisory follow up, research, communications and general decision making/risk management.

The Bank developed 14 proactive consumer protection focused media campaigns during 2014. Some key highlights included information on high-cost credit, crowdfunding, debt management firms, cost and charges (investment firms), switching current accounts, payment protection insurance, and financial services advertising.

**Consumer Advisory Group**

The Bank also continued work with the Consumer Advisory Group, a statutory body specifically established to provide advice to the Bank on its consumer protection activities. The Group met four times during 2014, covering topics including: debt management, mortgage arrears, virtual currencies, crowdfunding/peer-to-peer lending, the SME Sector, Central Credit Register, health insurance, Consumer Redress Scheme and sectoral risk assessments.
### Table 12 - Themed Consumer Focused Inspections and Meetings in 2014

<table>
<thead>
<tr>
<th>Themed Inspections (On-Site and Off-Site)</th>
<th>Entity</th>
<th>Number Inspected/Examined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with Advertising Rules</td>
<td>Debt management firms</td>
<td>32</td>
</tr>
<tr>
<td>Compliance with conditions of authorisation</td>
<td>Debt management firms</td>
<td>10</td>
</tr>
<tr>
<td>Compliance with the Advertising Requirements of the European Communities (Consumer Credit Agreements) Regulations 2010 (the CCR)</td>
<td>Credit institutions, credit unions &amp; moneylenders</td>
<td>23</td>
</tr>
<tr>
<td>Provision of information to consumers in relation to costs and charges</td>
<td>MIFID firms and branches</td>
<td>16</td>
</tr>
<tr>
<td>Professional Indemnity Insurance</td>
<td>Retail Intermediaries</td>
<td>316</td>
</tr>
<tr>
<td>Financial Position</td>
<td>Retail Intermediaries</td>
<td>64</td>
</tr>
<tr>
<td>Payment Protection Insurance</td>
<td>Credit Unions</td>
<td>3</td>
</tr>
<tr>
<td>Loss Assessors</td>
<td>Retail Intermediaries</td>
<td>5</td>
</tr>
<tr>
<td>Review of Pension Sales Process</td>
<td>Retail Intermediaries</td>
<td>9</td>
</tr>
<tr>
<td>Review of Online Annual Return</td>
<td>Retail Intermediaries</td>
<td>35</td>
</tr>
<tr>
<td>Compliance with conditions of authorisation</td>
<td>Retail Intermediaries</td>
<td>3</td>
</tr>
<tr>
<td>SME Code</td>
<td>Credit Institutions</td>
<td>3</td>
</tr>
<tr>
<td>CCMA Compliance</td>
<td>Credit Institutions and Other Lenders</td>
<td>2</td>
</tr>
<tr>
<td>Compliance with Annual Pensions Statement requirements</td>
<td>Insurance Firms</td>
<td>12</td>
</tr>
</tbody>
</table>

### Risk-Based Inspections

<table>
<thead>
<tr>
<th>Themed Inspections</th>
<th>Entity</th>
<th>Number Inspected/Examined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with Consumer Protection Code</td>
<td>Retail Intermediaries</td>
<td>2</td>
</tr>
<tr>
<td>Compliance with Consumer Protection Code</td>
<td>Non-Life Insurance</td>
<td>2</td>
</tr>
<tr>
<td>Compliance with Consumer Protection Code</td>
<td>Life Assurance</td>
<td>3</td>
</tr>
</tbody>
</table>

### Firm Specific Inspection

<table>
<thead>
<tr>
<th>Themed Inspections</th>
<th>Entity</th>
<th>Number Inspected/Examined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inspections as part of Full Risk Assessments under PRISM</td>
<td>MIFID Firms</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Credit Institutions</td>
<td>3</td>
</tr>
</tbody>
</table>

### Other Meetings

<table>
<thead>
<tr>
<th>Themed Inspections</th>
<th>Entity</th>
<th>Number Inspected/Examined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Bodies</td>
<td>CCPC</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>CAG</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FinCoNet</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FLAC</td>
<td></td>
</tr>
<tr>
<td>EU and International Institutions</td>
<td>EBA</td>
<td>87</td>
</tr>
<tr>
<td></td>
<td>JCSCCPFI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>EIOPA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ESMA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>EU Council</td>
<td></td>
</tr>
<tr>
<td>Government Departments and State Bodies</td>
<td>Government Departments</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>FSO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pensions Authority</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insolvency Service</td>
<td></td>
</tr>
<tr>
<td>Regulated/Unregulated Firms and Industry Bodies</td>
<td>PIBA</td>
<td>113</td>
</tr>
<tr>
<td></td>
<td>Insurance Ireland</td>
<td></td>
</tr>
<tr>
<td></td>
<td>BPFI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CCARI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retail Credit Firms</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Credit Institutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Life/Non-Life Insurance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retail and Investment Intermediaries</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Payment Institutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Moneylenders</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bureaux de Change</td>
<td></td>
</tr>
</tbody>
</table>
Table 13 – Advertising Issues

<table>
<thead>
<tr>
<th>Advertising Issues Investigated</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Bank Monitoring</td>
<td>173</td>
<td>153</td>
</tr>
<tr>
<td>Complaints</td>
<td>9</td>
<td>27*</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>182</strong></td>
<td><strong>180</strong></td>
</tr>
</tbody>
</table>

Outcome of Advertising Issues Investigated 2014

<table>
<thead>
<tr>
<th></th>
<th>Advertisements Amended</th>
<th>Advertisements Withdrawn</th>
<th>No Action Required</th>
<th>Ongoing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>104</td>
<td>39</td>
<td>20</td>
<td>17**</td>
</tr>
</tbody>
</table>

* 13 of these were Consumer Complaints with the remaining 14 attributable to a review of Industry for compliance with the Advertising Requirements of the European Communities (Consumer Credit Agreements) Regulations 2012 (the CCR).

** Of the 17 cases ongoing, 4 of the websites have been taken down pending review and amendment.
Independent Economic Advice and High Quality Financial Statistics

The quality and relevance of economic analysis, research and financial statistics assists the provision of assessments and advice on domestic economic related issues for policy-makers, the media, the public and the markets.

Economic Analysis and Commentary

Research activities in the Bank continued to focus on issues germane to the financial crisis. The Bank released 18 research technical papers in 2014 (See Appendix). Some of the topics examined included mortgage arrears, loan loss modelling, and impact of equity shocks on banks’ balance sheets; the development of a core and macro-financial Dynamic Stochastic General Equilibrium (DSGE) model of the Irish economy; the size of government expenditure multipliers; recall bias for house price purchases; and the deleveraging and assessing of the property overhang facing SMEs. Staff economists had 19 peer reviewed articles published in 2014 with a further nine articles forthcoming.

The Barrington Prize is awarded by the Council of the Statistical and Social Inquiry Society of Ireland under the auspices of the Barrington Trust to the best paper written by an Irish economist under 33 years. The 2014 prize was presented to Yvonne McCarthy for her paper ‘Dis-entangling the mortgage arrears crisis: the role of the labour market, income volatility and housing equity’.

Regular macroeconomic forecasts were produced during the year. Six macroeconomic forecasting exercises were completed - two of these were conducted within the context of the Eurosystem’s Broad Macroeconomic Projection Exercise with the remaining four published in the Bank’s Quarterly Bulletin series. In addition, the Bank participated in other non-Eurosystem/ESCB forecasting and policy fora (e.g. OECD/EU) and consulted with visiting quarterly External Partner missions, rating agencies and others.

Work continued on the joint Macro-Modelling Project, between the Bank and the ESRI, where a suite of modern macroeconomic/econometric models of the Irish economy are being developed. The objectives of this project are to enable better analysis and forecasts of the evolution of the Irish economy and to enhance the breadth and quality of economic advice given to the government. In 2014, a core DSGE model with a macro-financial component was developed and a structural econometric model of the domestic economy was nearing completion.

During the year, the Bank continued its participation in several Eurosystem research networks examining competitiveness, household finances, international banking, and wage formation. The Bank hosted five conferences and workshops during the year. The conferences focused on forward guidance, financial statistics, labour markets and Irish financial history. There was also a workshop highlighting work done to date on the joint macro-modelling project.

Financial Statistics

The Bank is the key provider of financial statistics for Ireland and publishes detailed information and analysis on the financial sector and its sub-sectors. Most statistical outputs were updated in 2014 following the implementation of the new statistical manuals22.

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22 European System of Accounts 2010 (ESA 2010) and Balance of Payments Manual 6 (BPM6).
Data compiled by the Bank facilitate the analysis and monitoring of credit flows to the domestic economy with particular emphasis on the household and non-financial corporate sectors. The availability of credit to SMEs, which are largely dependent on domestic credit institutions for funding, is crucial for the re-generation of economic growth. The Bank provides detailed quarterly data on outstanding loan amounts and new credit issued to SMEs broken down by sector of economic activity. Similarly, detailed information on household savings and borrowings with domestic credit institutions, disaggregated by instrument, purpose and maturity, are published monthly. This helps monitor household balance sheets, and particularly, developments in addressing the current high levels of indebtedness and arrears. The Bank also publishes quarterly financial accounts for Ireland as well as regular statistical series on resident investment funds and Financial Vehicle Corporations (FVCs).

In addition, the Bank provides analysis of the data compiled through published articles, economic letters and commentary in the Quarterly Bulletin. Articles published during 2014 covered reinsurance activity in Ireland and an overview of the Irish results of a global triennial survey on Foreign Exchange and Interest Rate derivatives undertaken in association with the Bank for International Settlements (BIS). The Bank also holds regular meetings with stakeholders, including reporting agents, industry representatives and users of statistics, both in the public and private sectors.

A statistics seminar titled ‘From Macro to Micro – A New Era in Financial Statistics’ was held in April 2014 to publicise the range of statistics currently collected by the Bank. Topics covered included the indebtedness and financial vulnerabilities of the non-financial sector, the measurement of value-added in the financial sector and difficulties in interpreting financial statistics for Ireland.

The Bank’s close working relationship with the Central Statistics Office (CSO) continued throughout the year. Areas of co-operation now cover most institutional sector statistics, balance of payments, financial accounts, insurance, and government finance. Much of the joint work in 2014 was focused on the implementation of the new international manuals. The close co-operative arrangements strive to ensure as far as possible, that duplication of reporting by financial sector entities is eliminated, and the burden on industry minimised. In addition, the combined expertise of both institutions enhances the quality of Ireland’s financial statistics.

**EU and International Economic Analysis**

During 2014, the Bank was represented at meetings of the Economic and Financial Committee (EFC) which is an EU council committee set up to promote policy co-ordination among the Member States. The Committee prepares the agenda for the ECOFIN meetings which, inter alia, includes assessing and examining current economic and financial developments, coordinating EU economic and fiscal policies, analysing financial market and financial stability issues, and dealing with relations with third world countries and international institutions. The Bank also contributed background analysis regarding the European Court of Justice (ECJ) CASE C-62/14 (Gauweiler and Others v Deutsche Bundestag) on Outright Monetary Transactions (OMT) by the ECB.

The Bank also participated in the EFC’s Sub-Committee on IMF Issues (SCIMF). SCIMF considered a range of IMF-related policy and institutional issues in 2014, which included a review of access policies and surcharges, the adequacy of reserves, sovereign debt restructuring and the Fund’s Lending Framework as well as the resource situation of the Fund. The implementation of the quota and governance reforms agreed by the IMF in 2010 was a focus of SCIMF discussions during 2014 meetings. Work on further quota reform, and the preparation of messages for international meetings on the global financial architecture, was also undertaken.
IMF Policy and Constituency Issues
The Governor holds the position of Alternate Governor for Ireland on the IMF’s Board of Governors and, in this capacity, attended the IMF/World Bank Group Spring and Annual Meetings held in Washington in April and October 2014. Discussions at the Spring Meetings focused on the global outlook and the policies needed to restore the resilience of the world economy, along with IMF institutional issues, including quota and governance reform. Similarly, the agenda for the October meeting covered global prospects and policies, together with measures to strengthen the IMF. Given the growing interconnectedness among countries, policy coherence was also discussed.

Other International Activities and Relations
Surveys from the IMF, the European Commission, the OECD and the European Parliament were completed and papers from other international organisations were reviewed and commented on during the year. The Bank also provided data and statistics on Ireland to the IMF (which it published on its website), including quarterly reports on financial soundness indicators.

The Bank also contributed to the work of the International Relations Committee (IRC) which is a high-level Eurosystem forum for exchanging views on matters of common interest in the field of international relations, e.g. G20/IMF issues, the functioning of the international monetary system, macroeconomic and financial developments and global imbalances. The Committee is also responsible for preparing the ESCB’s position for the negotiation and conclusion of international agreements concerning monetary or foreign exchange regime matters.

Engagement continued with international institutions such as the IMF, the World Bank and the OECD and, in partnership with the Department of Finance, the Bank helped formulate Ireland’s national position on IMF policy and constituency issues. In addition, the Bank met its Post Programme monitoring and surveillance (PPM/S) obligations to the EU-IMF funding partners including two Post Programme review missions. The Bank assisted with the European Court of Auditors Post Programme review as well as an Ex Post Evaluation completed by the IMF.

Engagements by the Governor included a visit to the Bank by the President of Slovenia and on 28 March 2014 he received a visit from a delegation from the China Bank Regulatory Commission (CBRC) to discuss the progress and remaining challenges in the Irish banking sector. The Governor’s external engagements during 2014 included delivering a speech on 10 January on Ireland’s EU-IMF Programme at a conference hosted by the European Commission’s Directorate General for Economic and Financial Affairs in collaboration with Trinity College, Dublin. He participated in a panel discussion on the euro at the International Economic Association 17th World Congress on 8 June in Jordan; and on the occasion of the IMF-World Bank meetings in Washington in October, he took part in an IMF panel discussion on corporate debt overhang. The Governor also delivered addresses in international conferences and seminars in London, Copenhagen and Athens. The Deputy Governors of Central Banking and Financial Regulation and other members of senior management delivered a number of speeches and participated in various international seminars and conferences throughout the year. The Deputy Governor for Financial Regulation attended high level international seminars in Athens and Milan.

The Bank hosted a number of international delegations and organisations during 2014, among them a delegation from the financial regulator of the Former Yugoslav Republic of Macedonia, the Central Bank of Indonesia, the young economists’ society of the Dutch Central Bank as well as the Bank of Lithuania.
Efficient and Effective Payment and Settlement Systems and Currency Services

The operation and oversight of payment and securities settlement systems are aimed at ensuring that they are safe, resilient, efficient and effective. A key component of the payment system is the provision of high quality banknotes and coin.

Payments Systems Oversight

The Bank’s statutory remit covers the promotion of a safe and efficient national payments infrastructure. In this regard, it continued to liaise closely on payment systems matters throughout 2014 with the Banking & Payments Federation Ireland (BPFI previously the Irish Payment Services Organisation (IPSO)), the representative body of the payments industry in Ireland.

The revised annual payments risk assessment exercise introduced in 2013 (which added an external validation element to what had previously in essence been a process based entirely on self-assessment by the industry) was continued in 2014. The 2014 risk assessment focused on electronic credit transfer and direct debit payments and card payments, and covered the associated infrastructures, procedures and operational risk frameworks in the clearing banks. The 2013 methodology was further refined in 2014, principally through more focused validation by an independent third party consultancy firm, and also the addition of IT systems audit expertise from within the Bank. As was the case last year, the exercise concluded with a presentation by each of the banks involved to a Payments Risk Governance Board composed of senior representatives from the Payments Oversight and Banking Supervision areas of the Bank and BPFI.

At euro area level, the Bank continued its active involvement in the development and implementation of Eurosystem oversight policies, standards and requirements (in relation to both payment and securities settlement systems). This was through its participation in international fora, particularly the ESCB’s Payment and Settlement Systems Committee (PSSC) and its associated working groups.

TARGET2 RTGS (Real Time Gross Settlement System)

TARGET2 is an interbank payment system for the real-time processing of cross-border transfers throughout the European Union. In 2014, the TARGET2 system processed over 90 million transactions with a daily average in excess of 350,000 transactions. This represented a slight decrease of 2.5 per cent compared to 2013. The total value of transactions also decreased in comparison to 2013, falling by 8.5 per cent to €451 trillion, with an average daily value of €1.7 trillion. The Irish TARGET2 component processed almost 950,000 transactions, which represented an increase of 3.6 per cent compared to 2013. The value of transactions processed via the Irish component increased by 3.2 per cent to a total value of €3.9 trillion.

Local Collateral Management System (LCMS) Project

The LCMS project was initiated by the Bank following the termination by the ECB Governing Council in December 2011 of Correspondent Central Banking Model (CCBM2), a major Eurosystem project to harmonise collateral management techniques. The infrastructural changes needed to the collateral management system were necessary in order to meet new mandatory Governing Council requirements, namely the removal of the repatriation requirement23 and the introduction of cross-border tri-party collateral management services24. The final phase of the LCMS project, facilitating tri-party collateral management services, went live in September 2014.

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23 With the removal of the repatriation requirement a National Central Bank (NCB) can act as correspondent for assets that have been issued in a non-domestic Central Securities Depository (CSD) when that CSD has an eligible link with the domestic CSD of the NCB.

24 Tri-party collateral management services allow counterparties to optimise the use of collateral when collateralising credit and other exposures across different products and instruments (e.g. repo, securities lending, central bank credit and secured loans and exposures arising from OTC transactions). The tri-party service provider, referred to as the tri-party agent, processes the instructions on behalf of both the collateral giver and the collateral taker.
At end 2014, 23 eligible counterparties had signed up to the new pooling agreement with collateral of €27.2 billion held with the Bank. Overall for 2014, the average month-end value of collateral submitted to the Bank was €34.75 billion, of which 83 per cent were cross-border assets\textsuperscript{25}. The average month-end holding in the first half of 2014 was €40 billion, while the average month-end holding in the second half of the year was €29.5 billion. This decrease in collateral held can be attributed to the lower levels of ECB borrowing and to the significant operational improvements that counterparties have experienced since the commencement of the LCMS.

**National Payments Plan**

The National Payments Plan (NPP) was published in April 2013 and was the product of over a year of intensive consultation and research. It set out an ambitious plan to transform payments in Ireland with the aim of improving national competitiveness. A number of the recommendations saw progress made in 2014:

- Implementation of ‘e-Day’, the date from which government departments, local authorities and state agencies would no longer use cheques in their dealings with businesses.
- Clearer incentivisation of merchants and consumers to use electronic payments.
- Seminars hosted on mobile and transport payments as part of a series aimed at promoting payments’ innovations in key sectors.

A review of the structures for progressing the objective of the Plan was in train at year-end.

**Single Euro Payments Area (SEPA)**

In its capacity as Competent Authority for ensuring compliance with the Single Euro Payments Area (SEPA) Regulation (i.e., EU Regulation 260/2012) in Ireland, the Bank continued its ongoing engagement with the national banking community and other stakeholders during 2014. This work resulted in the successful migration of Irish electronic credit transfer and direct debit payments to the SEPA standards by the EU Commission’s revised deadline of 1 August 2014.

**Currency Issue and Production**

In 2014, a total of 326 million banknotes were supplied by the Bank to the market, comprising 57 per cent new and 43 per cent re-issued banknotes. This was a 6 per cent reduction on the 345 million banknotes issued in 2013.

Under the ECB pooled production arrangements, the Bank was allocated the production of 163 million €5 banknotes in 2014. Other denominations of banknotes are received from other NCB and issued by the Bank as required.

High speed machinery checks for authenticity and fitness of all banknotes lodged, with unfit banknotes being destroyed under secure conditions and fit banknotes prepared for re-issue into circulation. In 2014, 314 million euro banknotes were processed in this manner.

The Mint, as agent for the Minister for Finance, produced 54 million new coins and issued 256 million coins in 2014, an increase of 49 per cent over 2013 when 172 million coin was issued. This increase was mainly accounted for by an increase in demand for low denomination coin.

Irish pound (IR£) banknotes and coin continue to be processed by the Bank and, once verified, these are exchanged for euro equivalent by the Bank. IR£1.2m (€1.5m) banknotes and IR£0.2m (€0.3m) coin were exchanged by the Bank during the year. At end 2014, €230 million worth of pre-euro Irish pound banknotes and €124 million worth of coin remain outstanding.

\textsuperscript{25} End-month value as at the last Friday of each month. Domestic assets consist of Irish Government Bonds, Mortgage Backed Promissory Notes and Special Mortgage Backed Promissory Notes. All other assets are classified as cross-border.
Following the NPP Steering Committee's acceptance of the recommendations from the Irish Cash Cycle Efficiency (ICCE) project, the Bank engaged with major stakeholders in the cash cycle to agree and prioritise an implementation plan in 2014. As part of ICCE implementation, the Bank has facilitated developments to enhance the overall resilience of the cash cycle which will continue into 2015.

Professional cash-handlers are continually monitored under the relevant ECB mandate in relation to the authentication and fitness checking of euro banknotes and coin prior to recirculation. In 2014, a total of 95 monitoring inspections were carried out and 269 banknote handling devices were tested. The monitoring team conducted ‘unannounced’ inspections in two regional towns in 2014 while a select number of retailer premises were also audited during Q4 2014. In 2013, there were 66 monitoring inspections and 221 banknote handling devices were tested.

All counterfeit banknotes and coin detected in Ireland are received and processed in the National Analysis Centre (NAC) and the Coin National Analysis Centre (CNAC), which are located within the Bank. The counterfeit team also provides training to professional cash-handlers and law enforcement agencies on identifying banknote security features and on authentication and fitness checking of euro banknotes. The training sessions complement the work of the monitoring team and are intended to enhance the knowledge of professional cash-handlers leading to improvements in the overall quality of euro banknotes in circulation.

The Bank issues Irish collector coin products to mark significant events in Irish history, heritage or culture. As agent for the Minister for Finance, the Bank issued eight collector coin products in 2014, compared to nine in 2013.

### Box 9 – The Europa Banknote Series

The second banknote in the Europa series, the €10, was launched on 23 September 2014. The Europa series is being introduced gradually over several years, in ascending order, and the denominations will remain unchanged: €5, €10, €20, €50, €100, €200 and €500. The new series will be circulated in parallel with the first series of euro banknotes, which will remain legal tender. Advance notification will be given when the first series of euro banknotes will cease to be legal tender. However, the first series of euro banknotes will always retain their value and can be exchanged for an unlimited period of time at Eurosystem NCBs.

Prior to the launch of the new series, the Bank supported the preparations of retail banks, post offices, cash-in-transit companies (CITs), credit unions, retailers, vending machine companies, transport companies, leisure companies, charitable organisations, representative bodies and the public for the new banknote. Communication material was provided to stakeholders and the Bank liaised with stakeholders before and during the launch, including a seminar in July for all stakeholders. New €10 banknotes were provided in advance to aid in the testing and updating of banknote handling machines. Training on the security features of the new banknote was available online on the Europa website and training was given to professional cash handlers also. The launch of the banknote was advertised through newspaper and web advertisements and regular tweets. Overall, the launch of the new banknote was a success, with the vast majority of banknote handling machines accepting the new banknote from the launch date.

The €20 will be the next denomination in the Europa banknote series to be released in Q4 2015 and preparations are already underway in this regard.
# Table 14 – Banknote Issues

<table>
<thead>
<tr>
<th>Denomination</th>
<th>2013 No. of Banknotes (million)</th>
<th>2014 No. of Banknotes (million)</th>
<th>2013 Value € million</th>
<th>2014 Value € million</th>
</tr>
</thead>
<tbody>
<tr>
<td>€5</td>
<td>59</td>
<td>55</td>
<td>293</td>
<td>274</td>
</tr>
<tr>
<td>€10</td>
<td>57</td>
<td>59</td>
<td>573</td>
<td>595</td>
</tr>
<tr>
<td>€20</td>
<td>94</td>
<td>77</td>
<td>1,873</td>
<td>1,534</td>
</tr>
<tr>
<td>€50</td>
<td>134</td>
<td>133</td>
<td>6,689</td>
<td>6,674</td>
</tr>
<tr>
<td>€100</td>
<td>1</td>
<td>1</td>
<td>135</td>
<td>105</td>
</tr>
<tr>
<td>€200</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>€500</td>
<td>0</td>
<td>0</td>
<td>16</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>345</strong></td>
<td><strong>326</strong></td>
<td><strong>9,581</strong></td>
<td><strong>9,207</strong></td>
</tr>
</tbody>
</table>

Note: Figures may not sum due to rounding

# Table 15 – Coin Issues

<table>
<thead>
<tr>
<th>Denomination</th>
<th>2013 No. of Coin (million)</th>
<th>2014 No. of Coin (million)</th>
<th>2013 Value € million</th>
<th>2014 Value € million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1c</td>
<td>49</td>
<td>77</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2c</td>
<td>40</td>
<td>50</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>5c</td>
<td>19</td>
<td>36</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>10c</td>
<td>15</td>
<td>25</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>20c</td>
<td>17</td>
<td>24</td>
<td>3</td>
<td>5</td>
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<tr>
<td>50c</td>
<td>11</td>
<td>15</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>€1</td>
<td>6</td>
<td>11</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>€2</td>
<td>15</td>
<td>17</td>
<td>29</td>
<td>34</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>172</strong></td>
<td><strong>256</strong></td>
<td><strong>48</strong></td>
<td><strong>64</strong></td>
</tr>
</tbody>
</table>

Note: Figures may not sum due to rounding
Operational Efficiency and Cost Effectiveness

Efficiency and cost effectiveness underpin all the Bank’s operations. Operations are also conducted within well-defined risk management and control frameworks.

Strategic Plan 2013 – 2015

The Bank’s key strategic objective priorities for the three-year period 2013 to 2015 are set out in its Strategic Plan. The strategy is organised around eight High Level Goals (HLGs) that correspond to the Bank’s statutory objectives. The Bank’s mission of Safeguarding Stability, Protecting Consumers essentially summarises its statutory mandate and strategic objectives.

Balanced Scorecard Process

The Balanced Scorecard (BSC) is a tool the Bank uses to measure its performance against targets set at the beginning of the year, based on the Strategic goals of the organisation. These targets relate not just to the high profile objectives but also to the large number of operational objectives that every area is required to deliver to ensure that the Bank delivers against its mandate.

At the start of 2014, a number of key targets were set in the organisational scorecard. Some more were added as the year progressed, particularly with regard to the implementation of the Single Supervisory Mechanism (SSM).

Accountability for the completion of all organisational objectives rests with the Bank’s Directors. Performance on the Bank’s BSC is monitored, assessed, and reported to a sub-committee of the Central Bank Commission (the Commission) regularly during the year. The Bank also carries out an annual qualitative assessment of the organisation’s performance as reported in the organisation’s BSC, which effectively measures the Bank’s performance for the year in question.

On reviewing the Bank’s work, the Commission determined that the performance in 2014 was of a very high standard, that Bank largely met its targets and achieved significant progress.

The BSC process is also linked with the Bank’s performance management development programme (PMDP) which assesses staff work performance. Merit leave is awarded to those staff that meet or exceed certain ratings under the PMDP process. In reflecting the performance of the organisation and of the individual staff in 2014, the Bank awarded 2,511 days merit leave, which has a financial equivalent cost of €790,000 (an estimated 0.79% of the Bank’s total salary cost).

Staffing

At the end of 2014, the Bank employed 1,364 staff. Of this, 277.6 were assigned to Central Banking functions, 603.5 were assigned to Regulatory areas and 482.9 to Operations. A further eight were assigned to the Investor Compensation Company Limited (ICCL). The total represented a net decrease of 1.4 per cent on 2013 staffing levels, partly reflecting a voluntary severance scheme conducted in 2014. Although there was a slight decrease in staffing levels, resourcing activities continued apace and 204 new appointments were made in 2014. The staff turnover figure for the Bank in 2014 was 7.1 per cent.

HR Strategy Implementation

The Bank’s HR strategy set out objectives for the three years from 2012-2014. During 2014, progress continued on the implementation of the strategy which supports delivery of the Bank’s mandate. Building organisational capability and effectiveness are core elements of the strategy.

There was continued focus on and investment in the capability of staff during 2014. The Bank delivered 71 centrally organised training programmes, with 1,700 participants which included management development and personal effectiveness training. In addition, 20 technical training courses took place in 2014 involving 407 participants. The Bank-wide mentoring scheme, launched in November 2013, has been very successful with over 250 participants.
The negotiation of a formal Collective Agreement (‘the Foster Agreement’) with the union representing Professional & Administrative staff which concluded in December 2013, enabled the Bank and its staff to meet the commitments set down for the wider public service envisaged by the Financial and Emergency Measures in the Public Interest (FEMPI) legislation which took effect on 1 July 2013. The implementation of the agreement and associated changes to terms and conditions of employment, including hours of work were embedded during 2014.

Organisation Review

In 2014, the Bank commenced a comprehensive review of the organisation to ensure the conditions for steady improvements in effectiveness and efficiency, which is one of its high level goals. The review is examining a range of areas including internal structures, career paths and internal processes. It is expected that significant improvements will be made to both organisational structures and work practices within the Bank arising from the review. Further work will be required to develop the detailed design and plan for the implementation of the outcomes of the review in 2015. Full implementation is likely to be completed in 2016.

Management of Internal Processes and Procedures

Investment Portfolio

At end 2014, the Bank's investment portfolio comprised assets of €19.7 billion. This value represents an increase of €0.2 billion on the portfolio value at end 2013 (€19.5bn). Total earnings on the Bank’s investment portfolios amounted to €454.7 million in 2014 compared to €421.7 million in 2013. Returns on the investment portfolio were 2.37 per cent in 2014 compared with 2.25 per cent for 2013.

Assets Acquired as part of the Liquidation of the IBRC

During 2014, the Bank’s holdings of assets acquired as part of the liquidation of the IBRC declined to €25.8 billion (nominal) by year end (comprising FRNs - €24.5bn; 5.4% March 2025 bond - €0.9bn; and NAMA bonds - €0.4bn). This reduction reflected the sale of €2.25 billion nominal of holdings of the fixed coupon 2025 bond, the purchase by the NTMA of €500 million of the Irish FRN 2038 from the Bank in December 2014 and the redemption by NAMA of €12.2 billion of its bonds (all nominal amounts).

Details of the Bank's holdings and related valuations are contained in the Bank's financial statements. Please refer also to the footnote in the financial statements.

ECB Reserves

At the end of 2014, the ECB's net foreign reserves amounted to €61.2 billion equivalent. Each NCB manages a proportion of the ECB’s reserves in line with its capital key share. Following a request from the Central Bank of Malta, since 1 January 2008 the Bank has also managed Malta’s share of the US dollar pooled reserves in conjunction with its own share. The ECB reserves portfolio under management amounts to €808 million equivalent, which is proportionate to the two countries’ shareholdings in the ECB.

Expenditure and Procurement Policy Approval Frameworks

The Bank’s Expenditure Approval framework details the governance within which the approval authorities for investment and operational expenditure are framed for the organisation. The operating and investment expenditures of the Bank are monitored and reported to senior management on a monthly and quarterly basis in accordance with that framework.

The key principles of the Bank’s Procurement Policy are to achieve best value for money while complying with all applicable EU Directives and national laws, and managing all related risks. In support of this policy, the Bank manages the end-to-end procurement process including category management, specification generation, competitive tendering, supplier selection, contracting, supplier relationship management and purchase order management.
Organisational Risk Management

The Bank has an obligation to ensure that it has effective risk management frameworks for the financial risks on the Bank’s balance sheet, and the non-financial risks arising from its activities. Financial risks originate from the Bank’s investment portfolio and its standard and non-standard liquidity providing operations. Non-financial risks focus on operational risk and business continuity management. The Bank also contributes to the development of Eurosystem risk management policy through its participation in the Eurosystem Risk Management Committee.

The Bank continued in 2014 to enhance its capabilities to deliver a more complete view of its risk exposures through the acquisition and application of industry standard credit and market risk systems.

Management of the Bank’s investment portfolio was undertaken in accordance with the parameters prescribed by the Bank’s Commission to control market, credit and liquidity risk. During 2014, a holistic review of the asset allocation, incorporating improved quantitative analysis, was completed and the outcomes were incorporated into the annual strategic review of the investment portfolio.

The Bank contributes to the development of collateral policy through its participation in the Eurosystem Risk Management Committee and its various taskforces and it ensures compliance with the wide ranging collateral risk management framework developed by the Eurosystem. Throughout 2014, the Bank continued in its efforts to increase the availability of liquidity to counterparties through the ongoing implementation of the additional credit claims initiative (ACC). As part of the Bank’s risk control framework, due diligence was carried out on all ACC collateral.

The Operational Risk Management Framework was enhanced during 2014. It comprises three broad elements:

» A risk management process via the Risk and Control Self-Assessment (RCSA) programme and bi-annual reporting of the Bank’s risk profile to the Commission.

» An incident management policy and process, together with monthly escalation of incidents to the Commission.

» An extensive training and education programme to improve risk awareness and the risk management culture throughout the Bank.

With regard to business continuity management (BCM), the dependence of financial sector participants in the Bank’s liquidity-providing operations and the increasing complexity of monetary policy operational requirements continued to drive the importance of the Bank’s resilience and continuity plans. The approach to managing BCM risks includes contingency plans for critical divisions; a testable alternative working area; a broader recovery capability for critical systems; and a significant increase in testing and exercising.

Legal Services

Significant litigation during the year included resolution actions taken by the Bank in respect of Howth Sutton Credit Union, Berehaven Credit Union and Killorglin Credit Union and an enforcement order obtained in respect of Smart Resolutions. Major legislative projects progressed included the Single Supervisory Mechanism and Solvency II. Assistance was provided in respect of the Consumer Protection (Regulation of Credit Servicing Firms) Bill, 2015 and the Irish Collective Asset Management
Vehicles Bill, 2014. Draft regulations were prepared on residential mortgage lending, lending to small and medium enterprises, client asset requirements and credit union regulation.

Legal advice was given on a number of large projects including the development of new premises for the Bank in North Wall Quay, the introduction of a new collateral management system and the proposed Central Credit Register. The Bank’s documentation on monetary policy instruments and procedures was amended to reflect relevant ECB guidelines. Legal reviews were conducted of residential mortgage pools backing Special Mortgage-Backed Promissory Notes. Legal assessments were conducted on the compliance of asset-backed securities with Eurosystem eligibility criteria.

The Bank’s Legal Compliance Function coordinates the Bank’s functions in respect of data protection, whistleblower reports and freedom of information. A project was established to prepare the Bank for its obligations under Freedom of Information legislation (FOI). The Bank will be subject to FOI from 14 April 2015. Legal Compliance also provides support to the Bank’s decision making functions in connection with the refusal or revocation of authorisations.

Facilities Management

All Bank premises were maintained to a high standard and all facilities services were provided to staff, contractors and visitors alike throughout 2014. Various service provider contracts were awarded during the year including facilities management and catering.

In 2013, the Bank entered into the Public Sector Energy Partnership Programme (PSEPP) with the Sustainable Energy Authority of Ireland (SEAI) to work on reducing its energy consumption and meet the EU 2020 target of a reduction of 30 per cent, using 2009 energy usage as the baseline. Because of a number of energy related initiatives (outlined in the environmental, health and safety section, below) the Bank reduced its rating within this partnership by 1.3 per cent in 2012-2013. A further reduction of 14.7 per cent is required by 2020 to meet the aims of the partnership. The Bank is currently the 34th best performer out of 191 Public Sector Bodies as at end of 2013 and, with additional initiatives, the Bank expects its position to have improved further when the 2014 cycle is published in 2015.

Box 10 – New Headquarters

The programme to relocate staff from the three city centre locations to one central location at North Wall Quay, Dublin, progressed throughout 2014.

In April 2014, Dublin County Council (DCC) granted planning permission to the Bank taking into account the amendments to the public realm around the building, an alternative façade design and changes to the internal layouts and reorganisation of uses in the building. The granting of planning permission included some conditions which the Bank continues to engage with DCC in order to conclude.

By May 2014, the Bank approved the detailed design for the base build and internal layouts for the building. The documentation and technical drawings compiled during this feasibility and scheme design phase, formed part of the invitation to tender for the main contractor in Q4 2014.

Q4 2014 saw a number of important Programme developments, including identification of the façade, security equipment and catering equipment contractors, who will engage in direct contracts with the Main Contractor, once appointed.

In December 2014, the Bank received six tenders for the competition to appoint a Main Contractor for the new Central Bank building on North Wall Quay. Following a thorough evaluation process, a preferred bidder was identified by the Bank.

Also in December 2014, a ‘mock-up’ of the proposed new façade was constructed on the south facing exterior of the building. A dedicated section of the Bank’s website – Central Bank of Ireland: Our New Building - was established in 2014 and is updated regularly.
Project and Programme Management

In 2014, the Bank completed 22 projects with strong performance against scope, cost, schedule and benefit targets.

As part of the continuous improvement effort in 2014, important enhancements to the Bank's project management methodology were introduced. The most significant of these was the move away from a single process standard to a suite of processes. This change ensures better alignment between project management effort and the complexity, risk and cost profile of projects, thereby improving overall cost effectiveness. As part of the process improvement a new Programme Management methodology was introduced. This methodology has been applied to major strategic programmes such as the New Headquarters Programme and the SSM programme.

The Bank was awarded the ISO 21500 Project Management Standard by the National Standards Authority of Ireland (NSAI) in 2014 and is the first public sector organisation in Ireland and first NCB in the Eurozone to be certified.

In addition to process improvements, important enhancements to the internal project management training and development programme were introduced. This involved the move to a multi-faceted blended learning approach, which includes independent knowledge assessment and certification following successful programme completion. The focus on internal skill and competency development will be further progressed in 2015 with the creation of a resource pool of experienced, professional project managers for assignment to complex high-priority projects.

Information Technology Management

During the year the Bank continued to progress the replacement of major systems in line with the defined strategy while successfully meeting all regulatory imperatives at a European level. The CRD IV programme was successfully completed together with an underlying XBRL taxonomy supporting EBA requirements for banking and investments returns. Technology requirements supporting the go-live of the SSM were delivered in accordance with ECB requirements. Replacement of the Bank’s collateral management system was a major project for 2014 and was delivered on schedule.

Implementation of the replacement platform for Market Operations progressed significantly with transition scheduled for the first half of 2015.

New Human Resources applications replaced the Payroll system and brought enhanced capabilities in Self-Service, Performance, Talent and Training management. The server side migration of the Bank’s technical infrastructure to a specialist third party data centre operation was completed during the year bringing technical scalability, strengthened security standards and greatly increased resilience to support the Bank’s Business Continuity needs. Data and Information Management have been identified as key focus areas for 2015.

Regulatory Transactions Strategy (RTS)

In 2014, the Bank continued with its programme of process re-engineering and automation designed to improve the efficiency and cost effectiveness relating to key supervisory processes. Progress was
made in automating the Authorisation process for Qualifying Investor Alternative Investment Funds (QIAIFs), Funds, Fund Service Providers and Retail Intermediaries. However, the implementation of the system was delayed due to significant external technical issues which were largely outside the Bank’s control.

External Communications
During 2014, the Bank processed almost 1,000 individual media queries, from both domestic and international media. Queries were focused generally on supervisory, financial and economic issues and the role of the Bank. The Bank’s programme of media engagement continued with regular publication of speeches, media releases and statements with direct engagement by way of interviews and press briefings. In addition, the Bank provided responses to 437 parliamentary questions via the Department of Finance. There were 7,986 direct contacts received from the public during the year, the vast majority of which related to the supervision of regulated firms. Contacts in relation to the banking industry and its dealings with consumers, in particular on mortgages, far outweighed contacts about other financial services industry sectors. Queries on the regulatory status of firms and on unregulated firms operating in Ireland also were prevalent.

Online Communications and Education
In 2014, the Bank expanded its existing social media presence on Twitter and Facebook to YouTube and LinkedIn. Content for social media channels continues to build on material provided to press and other stakeholders along with extracts from statistics publications, charts, images, career opportunities and video recordings of all press conferences.

Generation €uro Students’ Award
The Generation €uro Students’ Award entered its third cycle in 2013-2014. The competition has established itself as Ireland’s leading competition for Transition Year students interested in economics and continues to attract strong interest from schools throughout Ireland with over 250 entries received in 2014. Gonzaga College SJ in Dublin was named National Winners for 2014 and the team travelled to the ECB in April 2014 to meet President Mario Draghi along with the Governors and students from participating NCBs across the euro area. Separately, a number of school visits to the Bank were facilitated throughout the year.

Gonzaga College SJ Dublin – National winners of the Generation €uro Students’ Award, with ECB President Mario Draghi, Governor Patrick Honohan and John O’Connor, the students’ teacher.
Environment, Health and Safety

The Bank operates out of four locations. The majority of staff (approximately 87 per cent) is engaged in office based activities at the city centre sites with the remainder involved in manufacturing activities at the Currency Centre. Appropriate health & safety, fire, environmental and energy policies are in place, supported by up-to-date management systems.

Quarterly divisional health and safety reviews continue to develop environmental, health and safety awareness and deliver compliance across all activities, with the overall divisional target of a 90 per cent EHS compliance average for the year. Compliance exceeded 94.8 per cent by end 2014. A key programme for improvement in 2014 was to promote health and safety awareness. A total of 41 supervisors and managers completed the externally certified Managing Safely programme. This has enhanced the Bank’s ability to identify and control risk at the earliest stages.

The adoption of environmental, health, safety and accessibility principles in the detailed design for the new headquarters building enhanced the final specification to be more ergonomic and universal in design. This approach will help to provide a safer and more inclusive environment for staff and visitors.

The Bank was awarded the top prize in the ‘Financial and Insurance Services’ category at the National Irish Safety Organisation’s (NISO) 23rd Annual Occupational Safety Awards in October 2014. The award is an external endorsement of the strength of management systems (policies, procedures, forms and records), measured against the NISO category. This public recognition highlights the Bank’s success in establishing a safe and healthy environment for staff and visitors through positive behaviour and effective collaboration with internal and external stakeholders.

Actions Undertaken in 2014

The Bank undertook a range of initiatives to improve its energy, safety and environmental performance in 2014, including:

» Small works for some office refurbishment in Sandyford and Dame Street that increased workspace and energy efficiency.

» A new Environment, Health and Safety internal website, enhancing accessibility and awareness of key information.

» A fully integrated environmental and safety management system audit in Dame Street to plot progress to independent ISO and Occupational Health and Safety Advisory Services (OHSAS) certification.

» Upgrade of insulation and glazing at Sandyford that has reduced heating and cooling requirements.

» Centralised first aid provisions and checking programme that improved availability.

» Inclusion of environmental, health, safety and accessibility principles in the detailed design of the new headquarters to enhance the final design specifications.

» Upgraded the emergency lighting systems for the Dame Street and College Green buildings.

» Supported Wellness Week by highlighting physical and psychosocial risk factors, with workshops on control measures for each.

» Introduced an out-of-hours assembly point for Dame Street to increase efficiency and reduce risk during evacuations.

» Winning the Financial/Insurance category in a national safety management (NISO) competition.

Actions Planned for 2015

The Bank intends to further improve its energy, safety and environmental performance in 2015 by undertaking the following initiatives:

Installation of carbon dioxide sensors across suitable locations to improve indoor air quality.

Inaugural environmental awareness week to improve staff awareness and operational efficiency.

Integration of environmental, safety and energy documentation to streamline governance and improve awareness at every level.

Upgrade of the fire doors and fire stopping at Dame Street and Commercial Buildings.

Energy Used in 2014

Notwithstanding an increase in the number of people working in the Bank’s premises in 2014 and the additional electrical cooling required during a protracted warm period between May and September 2014, the energy reducing actions taken during the year allowed the Bank to record an overall energy reduction of 5.60 per cent for 2014 compared with 2013.

<table>
<thead>
<tr>
<th>Energy Usage</th>
<th>Currency Centre</th>
<th>City Centre Sites</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014 kWh</td>
<td>% change</td>
<td>2014 kWh</td>
</tr>
<tr>
<td></td>
<td></td>
<td>against actual</td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>3,549,594</td>
<td>-1.69</td>
<td>5,547,526</td>
</tr>
<tr>
<td>Gas*</td>
<td>2,318,298</td>
<td>1.97</td>
<td>2,886,422</td>
</tr>
<tr>
<td>Oil**</td>
<td>105,193</td>
<td>-43.75</td>
<td>110,000</td>
</tr>
<tr>
<td><strong>Total Energy</strong></td>
<td>5,973,085</td>
<td>-1.62</td>
<td>8,543,948</td>
</tr>
</tbody>
</table>

*Estimates were used for gas consumption across all sites for the month of December 2014.

**Oil figures are ‘actual’ for Currency Centre and ‘ordered’ for City Centre Sites.

This is given under the seal of the Central Bank of Ireland

Patrick Honohan
Governor

Neil Whoriskey
Secretary

13 April 2015
Appendix: Statements and Published Papers by the Bank in 2014

Key Publications
Quarterly Bulletin

Annual Report 2013 – April 2014

Speeches and Presentations 2014
Address by Governor Patrick Honohan to the European Commission DG-ECFIN Conference (in collaboration with Trinity College Dublin) “Future Directions for the Irish Economy” entitled ‘Ireland's EU-IMF Programme: Delivering what it said on the tin’, January

Address by Registrar of Credit Unions, Sharon Donnery, at the Credit Union Development Association (CUDA) AGM, Dundalk, Co. Louth, January

Address by Director of Markets Supervision, Gareth Murphy, at a conference organised by QED on ‘The role of shadow banking in the financial system’, January

Opening Statement by Director of Consumer Protection, Bernard Sheridan, to Joint Oireachtas Committee on Finance, Public Expenditure and Reform, February

Address by Registrar of Credit Unions, Sharon Donnery, to the Credit Union Managers Association (CUMA) AGM, February

Address by Governor Patrick Honohan at the Royal Irish Academy, 10 March 2013, entitled ‘Irish Exceptionalism in the World Economy’, March

Speech by Registrar of Credit Unions, Sharon Donnery, to The Institute of Credit Co-Operative Administration, March

Remarks delivered by Director of Markets Supervision, Gareth Murphy, at the Carne-Dechert Funds Congress, March

Address by Deputy Governor (Financial Regulation), Cyril Roux, to the Deloitte Future of Prudential Regulation Briefing, Dublin, April

Address by Director of Consumer Protection, Bernard Sheridan, to the Board of Directors of the European Banking & Financial Services Training Association (EBTN), April

Opening Statement by Central Bank Governor Patrick Honohan to the Joint Committee on Finance, Public Expenditure and Reform, April

Address by Head of Consumer Protection (Banking, Insurance, Investments and Policy), Colm Kincaid, to the Institute of Banking’s Certified Bank Director Continuing Professional Development Seminar, May

Address by Director of Markets Supervision, Gareth Murphy, at the Irish Funds Industry Association Annual Conference, June

Governor Patrick Honohan response to the presentation by Thomas Piketty, TASC Conference entitled ‘The Impact of the Boom and Bust on the Capital of Households in Ireland’, June
Address by Deputy Governor (Financial Regulation), Cyril Roux, at the Banking Union Conference, entitled ‘The New Regulatory and Supervisory Roadmap for Europe’, June

Address by Director of Markets Supervision, Gareth Murphy, at the BitFin 2014: Digital Money and the Future of Finance Conference, July

Opening Statement by Director of Consumer Protection, Bernard Sheridan, to Joint Oireachtas Committee on Finance, Public Expenditure and Reform, July

Remarks by Gareth Murphy, Director of Markets, at the SuperReturn CFO/COO Private Equity Forum, September

Address given by Governor Honohan to the University College Dublin Economics Society entitled Central Banking Boundaries’, October

Remarks by Governor Patrick Honohan at an event marking the retirement of Professor John FitzGerald entitled ‘Carelessness or misfortune? Lessons from Our Generation’s Two Macroeconomic Collapses’, October

Address by Registrar of Credit Unions, Anne Marie McKiernan, to the National Supervisory Forum Annual Conference, November

Household Indebtedness: Rhetoric and Action’ - Address by Governor Patrick Honohan at the Annual Conference of the Money Advice and Budgeting Service (MABS), November

Speech by the Director of Credit Institutions, Sharon Donnery, to the Banking & Payments Federation Ireland National Conference, November

Opening Statement by Governor Patrick Honohan to the Oireachtas Joint Committee on Finance, Public Expenditure and Reform, November

Address by Director of Markets Supervision, Gareth Murphy, at the 2nd Annual IFIA UK Symposium, November

Address by Director of Consumer Protection, Bernard Sheridan, to the Insurance Ireland Customer 360° Conference, December

Opening Statement by Patrick Casey, on behalf of the Central Bank, at the Committee of Public Accounts, December

Remarks prepared by Director of Enforcement, Derville Rowland, for the Compliance Ireland Seminar, December

Articles in Central Bank Quarterly Bulletins

Trends in Business Investment - Reamonn Lydon and John Scally - No. 1 2014

Some Implications of New Regulatory Measures for Euro Area Money Markets - David Doran, Caroline Kirrane and Mary Masterson - No. 1 2014

Analysis of Recent Monetary Operations & Financial Market Developments - Brian Gallagher and Paul Johnston-No. 2 2014

Irish Results of the BIS Foreign Exchange and Interest Rate Derivatives Survey 2013 - Aisling Menton - No. 2 2014
Central Bank Communications: A Comparative Study - Danielle Kedan and Rebecca Stuart - No. 2 2014

Ireland and the Macroeconomic Imbalance Procedure - Rónán Hickey and Linda Kane - No. 3 2014

Reinsurance in Ireland: Development and Issues - Anne-Marie Kelly and Bridin O'Leary - No. 3 2014

Irish Residential Mortgage-Backed Securities – Preliminary Analysis of Loan-Level Data - Andrew Linn, Anne-Marie Kelly and Samuel Bailey - No. 4 2014

Boxes in Central Bank Quarterly Bulletins
What is driving GNP? - Thomas Conefrey and Martin O'Brien - No. 1 2014

Macroeconomic Imbalance Procedure - Rónán Hickey - No. 1 2014

Development of Own-Use Bank Bonds for Funding Purposes - Dermot Coates, Jenny Osborne Kinch and Aoife Moloney - No. 1 2014

Analysis of Recent Trends in Households’ Debt Reduction - Anne-Marie Kelly and Bridin O'Leary - No. 1 2014

The International Transmission of Monetary Policy - Mary Everett - No. 1 2014

Irish Agriculture in 2013 - Thomas Conefrey - No. 2 2014

Recent Employment Recovery - Thomas Conefrey and Suzanne Linehan - No. 2 2014

Recent trends in NFC Deposits - Martina Sherman - No. 2 2014

Examining the sensitivity of inflation to the output gap across euro area Member States - John Larkin - No. 2 2014

Has the AQR affected the Monetary Financial Institutions’ Balance Sheets in the EA? - David Purdue - No. 2 2014

The Implications of Recent Changes to Macroeconomic Statistics - Thomas Conefrey and Martin O’Brien - No. 3 2014

Housing Supply and House Prices - Reamonn Lydon - No. 3 2014

Employment and Unemployment Flows in the Irish Labour Market - Thomas Conefrey - No. 3 2014

Recent Developments in the Gap between HICP Goods and Services Inflation - Suzanne Linehan - No. 3 2014

The Impact of Redomiciled NFCs on Irish Securities Issues Statistics - Dermot Coates and Anne McHugh - No. 3 2014

Macro to Micro: A New Era in Financial Statistics - Mary Cussen - No. 3 2014

Probability of Negative Inflation for the Euro Area - Nicolas Gobalraja and John Larkin - No. 3 2014

Recent Monetary Policy Measures - Sarah Holton and Rebecca Stuart - No. 3 2014

Employment Growth Dynamics in 2013-2014 - Tara McIndoe-Calder and Martin O’Brien - No. 4 2014

Recent Revisions to Government Finance Statistics - Rónán Hickey - No. 4 2014
Chapter 1:
Key Activities and Developments

Trends in Bank Credit, Deposits and Real Economy Indicators for the SME Sector - Martina Sherman - No. 4 2014

MIR - Interest Rate Statistics - Gavin Doheny - No. 4 2014

The Importance of Housing Assets Across the Wealth Distribution - William Hynes - No. 4 2014

Research Technical Papers 2014


Dis-entangling the mortgage arrears crisis: The role of the labour market, income volatility and housing equity - Yvonne McCarthy - February

Does bank market power affect SME financing constraints? - Robert M. Ryan, Conor M. O’Toole and Fergal McCann - February

The distribution of debt across Euro Area countries: The role of individual characteristics, institutions and credit conditions - Olympia Bover, Jose Maria Casado, Sonia Costa, Philip Du Caju, Yvonne McCarthy, Eva Sierminska, Panagiota Tzamourani, Ernesto Villanueva and Tibor Zavadil - March

Deleveraging in a highly indebted property market: Who does it and are there implications for household consumption? - Yvonne McCarthy and Kieran McQuinn - March

Attenuation bias, recall error and the housing wealth effect - Yvonne McCarthy and Kieran McQuinn - March

Money Demand in Ireland: 1933-2012 - Stefan Gerlach and Rebecca Stuart - March

Money, interest and prices in Ireland, 1933-2012 - Stefan Gerlach and Rebecca Stuart - March

ECB Monetary Operations and the Interbank Repo Market - Peter G Dunne, Michael Fleming and Andrey Zholos - August

A long-run survival analysis of corporate liquidations in Ireland - Robert Kelly, Eoin O Brien and Rebecca Stuart - September

The Effects of Government Spending in a Small Open Economy within a Monetary Union - Daragh Clancy, Pascal Jacquinot and Matija Lozej - September

EIRE Mod- A DSGE Model for Ireland - Daragh Clancy and Rossana Merola - September

Housing Market Activity and Consumption: Macro and Micro Evidence - Daragh Clancy, Mary Cussen and Reamonn Lydon - September

Property debt overhang: the case of Irish SMEs - Fergal McCann and Tara McIndoe-Calder - October

The effect of macro-prudential policy on endogenous credit cycles - Daragh Clancy and Rossana Merola - November

Modelling default transitions in the UK mortgage market - Fergal McCann - November

A transitions-based model of loan default for Irish mortgages - Robert Kelly and Terence O’Malley - November

A transitions-based framework for estimating expected credit losses - Edward Gafney, Robert Kelly & Fergal McCann - November
Chapter 1: Key Activities and Developments

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Peer Reviewed Articles

Journal Articles


Forthcoming


Thomas Conefrey and David Cronin, ‘Spillover in Euro Area Sovereign Bond Markets,’ Economic and Social Review.


Petra Gerlach Kristen, Martina Lawless, and Conor O’Toole, ‘Do SME Credit Constraints Affect Investment and Employment?,’ Economic and Social Review.


Tara McIndoe-Calder, and Fergal McCann, ‘SMEs in Ireland: Contributions, Credit and Economic Crisis,’ Policy Studies.

Yvonne McCarthy and Kieran McQuinn, ‘Consumption and the Housing Market: An Irish Perspective,’ ESRI Budget Perspectives

Statistical Publications

Quarterly Financial Accounts

Investment Fund Statistics - Quarterly

Consolidated Banking Statistics: Foreign Claims - Quarterly

Trends in Personal Lending and Deposits - Quarterly
Chapter 1: Key Activities and Developments

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Trends in Business Credit and Deposits - Quarterly
Securities Issue Statistics - Monthly
Money and Banking Statistics - Monthly
Retail Interest Rate Statistics - Monthly
Securities Holding Statistics - Monthly
Template on International Reserves - Monthly
Official External Reserves - Monthly
Financial Vehicle Corporation Statistics - Quarterly
Locational Banking Statistics - Quarterly
Mortgage Arrears Statistics - Quarterly
Financial Statistics Summary Chart Pack

Consultation Papers published by the Bank in 2014
Consultation on publication of UCITS Rulebook - January
Carrying out depositary duties in accordance with Article 36 of AIFMD - March
Handling of Protected Disclosures by the Central Bank of Ireland - March
Consultation on Guidelines on LCR Calculation - March
Consultation on possible exemption from capital buffers for SME investment firms from CRD IV/CRR - June
Second Consultation on Additional consumer protection requirements for debt management firms - June
Consultation on the adoption of ESMA’s revised guidelines on ETFs and other UCITS issues - July
Consultation on loan originating Qualifying Investor AIF - July
Fitness and Probity regime for Credit Unions that are also authorised as Retail Intermediaries - August
Consultation on Fund Management Company Effectiveness-Delegate Oversight - September
Macro-prudential policy for residential mortgage lending - October
Consultation on National Specific Templates for Insurers and Reinsurers under Solvency II - November
Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act - November
Consultation on the Supervision of Non-Financial Counterparties under EMIR - December
Chapter 2: Governance
This chapter sets out the procedures and processes applicable to the governance of the Bank during 2014.

**Legal Framework and Statutory Objectives**

The Central Bank of Ireland was established by the Central Bank Act 1942 (the Act). The Bank has essentially two functions. Firstly, it is Ireland’s central bank and a member of the European System of Central Banks (ESCB). Secondly, the Bank is responsible for the regulation of Ireland’s financial services sector. The functions of the Bank are set out in the Central Bank Act 1942 (as amended). The primary objective of the Bank is that of price stability. The Bank also has the following objectives:

» Stability of the financial system

» Proper and effective regulation of financial institutions and markets, while ensuring that consumers of financial services are protected

» Efficient and effective operation of payment and settlement systems

» Resolution of financial difficulties in credit institutions

» Provision of analysis and comment to support national economic policy development.

The sole shareholder of the Bank is the Minister for Finance.

**The Central Bank Commission**

The Act provides that the activities and affairs of the Bank (other than ESCB functions) are managed and controlled by the Central Bank Commission (Commission).

**Role of the Commission**

The Commission has the following statutory functions: management and control of the affairs and activities of the Bank; ensuring that the Bank’s financial regulation and central banking functions are coordinated and integrated; and ensuring that the statutory powers and functions conferred on the Bank are properly exercised and discharged. The Commission has adopted its own terms of reference which sets out how it can best deliver on those responsibilities.

**Delegation of Powers and Functions**

The Act provides that any of the statutory functions may be delegated by the Commission to the Governor, a Deputy Governor or an employee of the Bank.

In the interests of the efficient and effective management of the Bank and the exercise of its powers and functions, the exercise of most of the Bank’s statutory functions and powers are delegated to the management members of the Commission. Where functions are so delegated, the responsibility and accountability for the performance of these functions lies with that management member. However, the Commission, often through its three committees (Audit, Budget and Remuneration, and Risk), monitors and reviews the performance of management members in exercising these functions and powers and examines the Bank’s internal controls. In addition, where operational matters are brought before the Commission for decision, the Commission ensures that the Bank is acting in an appropriate manner consistent with its statutory functions and powers.

The Commission engages with management members on issues of strategic importance to the Bank (other than ESCB functions) and advises, supports and constructively challenges them as
appropriate. It also contributes to the formulation of a strategy to allow the Bank to achieve its statutory functions and reviews the Bank’s performance in relation to this strategy.

**Members of the Commission**

The Governor is the Chairman of the Commission. The other ex-officio members comprise the Deputy Governor (Central Banking), the Deputy Governor (Financial Regulation) and the Secretary General of the Department of Finance. The Minister for Finance may appoint at least six, but no more than eight, other members of the Commission who typically hold office for a term of five years. The terms of the initial members of the Commission range from three to five years to ensure continuity of knowledge. Ex-officio members of the Commission remain members for as long they hold the office in question.

The remuneration of Commission members is reported in Note 8 of the Statement of Accounts.

As at 31 March 2015, the following were members of the Commission:

**Ex-Officio Members**

**Governor**

The Governor is appointed by the President, on the advice of the Government, for a term of seven years which may be extended by a further seven years. Patrick Honohan was appointed Governor on 26 September 2009.

The Governor is an ex-officio member of the Governing Council of the European Central Bank (ECB). The Governor, or a substitute, must attend all meetings of the Governing Council. His roles and responsibilities are set out by the EU Treaties, the ESCB Statute and the Act.

The Governor discharges his ESCB functions independently of the Commission and has sole responsibility for the performance of the functions imposed on him and the exercise of powers conferred on the Bank, by or under the EU Treaties or the ESCB Statute. The independence of his role is enshrined in the EU Treaties and takes precedence over Irish law.

Before his appointment as Governor, Patrick Honohan was Professor of International Financial Economics and Development at Trinity College Dublin from 2007. Prior to this, he spent almost a decade at the World Bank where he was Senior Advisor on financial sector policy. He was previously Research Professor with the Economic and Social Research Institute, Dublin (1990-98), Economic Advisor to Taoiseach Garret Fitzgerald (1981-82 and 1984-86) and he spent several years as an economist at the Central Bank of Ireland (1976-81 and 1984-86), and at the International Monetary Fund (1971-73). A graduate of University College Dublin, he received his Ph.D. in Economics from the London School of Economics (LSE) in 1978. He has taught economics at the LSE and at the University of California San Diego, the Australian National University and University College Dublin, as well as at Trinity College. In the years preceding his appointment as Governor, his research mainly focused on monetary and financial sector policy.

**Deputy Governor (Central Banking)**

Stefan Gerlach was appointed Deputy Governor (Central Banking) on 1 September 2011. Prior to joining the Bank, he served as Professor of Monetary Economics and Managing Director of the Institute for Monetary and Financial Stability at the University of Frankfurt, as Research Fellow of the Centre for Economic Policy Research (CEPR) and as a Fellow of the Centre for Financial Studies (CFS). He has served as Head of Secretariat to the Committee on the Global Financial System at the Bank for International Settlements (BIS), as Executive Director (Research) at the Hong Kong Monetary Authority and Director of the Hong Kong Institute for Monetary Research. Before joining the Hong Kong Monetary Authority, he was a staff economist at the BIS.
Deputy Governor (Financial Regulation)

Cyril Roux was appointed to the position of Deputy Governor (Financial Regulation) on 1 October 2013. He is a member of the Single Supervisory Mechanism (SSM) Supervisory Board and is a member of the Management Board of the European Securities and Markets Authority (ESMA). Prior to taking up this role, he served as First Deputy Secretary General of the French resolution and supervisory authority (ACPR) since the Authority was created in March 2010. He also served as a board member of the ANC, the French accounting standard-setting authority.

Prior to joining the ACPR, Cyril Roux was the Deputy Secretary General of the French insurance supervisory authority (ACAM) and spent 10 years at AXA in a variety of posts.

Secretary General of the Department of Finance

Derek Moran was appointed Secretary General of the Department of Finance on 15 July 2014. He previously served as Assistant Secretary General in the Department of Finance where he had responsibility for the Fiscal Policy Division. He is chairman of the Tax Strategy Group and a Council Member of the Foundation for Fiscal Studies. He has served on the National Economic and Social Council, National Statistics Board and the EU's Economic Policy and Tax Policy Committees. Mr. Moran replaced Mr. John Moran, who resigned his position of Secretary General in July 2014.

Appointed Members

The following non-executive members were appointed by the Minister for Finance. The terms of the original members of the Commission ranged from three to five years; newly appointed members, or re-appointed members, are appointed for terms of five years:

Alan Ahearne (Appointed on 8 March 2011 for 4 years and re-appointed on 8 March 2015 for 5 years)

Alan Ahearne lectures in economics in the J.E. Cairnes School of Business and Economics at the National University of Ireland, Galway (NUIG). He is External Advisor to the Strategy, Practice and Review Department of the IMF.

He is a Non-Resident Fellow at Bruegel and is a Research Associate at the Institute for International Integration Studies at Trinity College Dublin. He was Special Advisor to the Minister for Finance from March 2009 to March 2011. Before joining NUIG, he was Senior Economist at the Federal Reserve Board in Washington, DC. He has taught economics at Carnegie Mellon University, University College Dublin, Dublin City University and the University of Limerick. He began his professional career with Coopers & Lybrand and also worked for Bank of Ireland Group Treasury. His areas of expertise are macroeconomics and international finance and his research has been published in leading international journals. He holds a Ph.D. (1998) in economics from Carnegie Mellon University.

Patricia Byron (Appointed on 1 January 2014 for 5 years)

Patricia Byron is the Director General of the Society of Chartered Surveyors Ireland. She was formerly the Chief Executive Officer of the Injuries Board. Over recent years she has also been involved in a number of efficiency initiatives in support of public reform.

Ms Byron previously worked in the insurance sector for the major part of her career, leaving the executive team in Aviva directly before taking up her current role. She is a graduate of University College Dublin, a Chartered Insurer, a former Chairperson of the Motor Insurers Bureau of Ireland and was the first female president of the Insurance Institute of Dublin. She has served on the board of the Institute of Public Administration and is a past chairperson of the Association of Chief Executives of State Agencies.
Blanaid Clarke (Appointed on 1 October 2010 for 3 years and re-appointed on 1 October 2013 for 5 years)

Blanaid Clarke holds the McCann Fitzgerald Chair in Corporate Law at Trinity College Dublin. Her research interests include corporate governance, financial services law, securities law and takeover law and she has published extensively in these areas. She works with the Irish Takeover Panel and is a member of the European Securities and Markets Authority Takeover Bids Network. She is the Irish representative on the OECD Corporate Governance Committee and a member of the European Commission’s Reflection Group on the future of EU Company Law. She was a founding member of the Institute of Directors’ Centre for Corporate Governance at University College Dublin.

John FitzGerald (Appointed on 1 October 2010 for 5 years)

John FitzGerald is a former Research Professor with the Economic and Social Research Institute in Dublin who worked on macro-economic and energy policy and has published widely in these fields. He is a past President of the Irish Economic Association and of the EUROFRAME group of European economic research institutes. He is a former member of the National Economic and Social Council, of the Northern Ireland Authority for Energy Regulation and of the EU ‘Group for Economic Analysis’ advising the President of the European Commission. He studied at University College Dublin and he holds Masters degrees in both history and economics. He began his career in the Department of Finance in 1972 and he moved to the Economic and Social Research Institute in 1984 until 24 October 2014.

Des Geraghty (Appointed on 1 October 2010 for 4 years and re-appointed on 1 October 2014 for 5 years)

Des Geraghty is a former politician and trade union leader. He was president of SIPTU from 1999 to 2004. He was appointed to the European Parliament in 1992 for the Dublin constituency. He was a member of the Committee on Economic and Monetary Affairs and Industrial Policy in the European Parliament. He is a member of the ESB Networks and TG4 boards. He is a former member of the RTÉ Authority, the Board of FÁS, the National Competitiveness Council, the Affordable Homes Partnership and the National Economic and Social Council.

Michael Soden (Appointed on 1 October 2010 for 4 years and re-appointed on 1 October 2014 for 5 years)

Michael Soden was CEO of the Bank of Ireland from 2001 to 2004. Prior to returning to Ireland to take up this post, he spent more than 30 years with several different major international financial institutions, primarily involved in all aspects of capital markets. In that time, he served on the Executive Committee of National Australia Bank, with responsibility for Global Wholesale Banking and, latterly, for Global Retail Banking. He was also responsible for the development of Security Pacific Bank’s international capital markets activities. He spent the early part of his career with Citibank/Citicorp Investment Bank, Canada. He is the author of ‘Open Dissent - An Uncompromising View of the Crisis’, published in 2010.

Secretary of the Bank

Neil Whoriskey is Head of the General Secretariat Division of the Bank and was appointed Secretary of the Bank on 1 January 2011.

Commission Procedures

Meetings of the Commission are scheduled on a monthly basis (except August) and are presided over by the Governor, as Chairman. Further meetings are scheduled as necessary for the proper performance of the functions of the Commission.

A quorum of six members is required for all meetings. All meetings held during 2014 were quorate.
Chapter 2: Governance

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Committees of the Commission

The Commission has the power to establish committees consisting of one or more members of the Commission either solely or together with one or more officers or employees of the Bank and may determine the procedure and define the functions and powers of such committees.

The Commission has established the following committees:

» Audit Committee

» Budget and Remuneration Committee

» Risk Committee

Audit Committee

The Audit Committee, appointed by the Commission, comprises three non-executive members. The current members of the Audit Committee, as at 31 March 2015, are Blanaid Clarke (Chair), Alan Ahearne and John FitzGerald.

Meetings of the Audit Committee are held at least four times per year. All members of the Commission have the right of attendance as observers at meetings of the Audit Committee. The Chair of the Committee will also convene a meeting if requested by the Comptroller and Auditor General or by the independent external auditor. In addition, at least once a year the Committee will meet the Comptroller and Auditor General and the external auditor without the presence of the executives. The Chair will also hold regular meetings with the Head of Internal Audit. The Committee meets in non-executive composition at the beginning of each meeting. The minutes of meetings of the Audit Committee are circulated to the Commission and placed on the agenda of subsequent meetings of the Commission.

The Audit Committee also held one meeting jointly with the Risk Committee during 2014.

The key responsibilities of the Audit Committee are:

» To review and make recommendations to the Commission on the integrity of the Bank’s financial statements including the significant accounting judgements made in the preparation of these statements.

Table 16 – Meetings attended by Commission members during 2014

<table>
<thead>
<tr>
<th>Commission Members</th>
<th>Commission meetings attended during 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patrick Honohan</td>
<td>11/11</td>
</tr>
<tr>
<td>Alan Ahearne</td>
<td>9/11</td>
</tr>
<tr>
<td>Patricia Byron</td>
<td>10/11</td>
</tr>
<tr>
<td>Blanaid Clarke</td>
<td>11/11</td>
</tr>
<tr>
<td>John FitzGerald</td>
<td>11/11</td>
</tr>
<tr>
<td>Des Geraghty</td>
<td>11/11</td>
</tr>
<tr>
<td>Stefan Gerlach</td>
<td>11/11</td>
</tr>
<tr>
<td>Derek Moran</td>
<td>3/5</td>
</tr>
<tr>
<td>John Moran</td>
<td>6/6</td>
</tr>
<tr>
<td>Cyril Roux</td>
<td>9/11</td>
</tr>
<tr>
<td>Michael Soden</td>
<td>11/11</td>
</tr>
</tbody>
</table>

The table above shows that 11 meetings of the Commission were held during 2014 and the total number of meetings attended by each member.
Chapter 2: Governance

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Table 17

<table>
<thead>
<tr>
<th>Committee Members</th>
<th>Audit Committee meetings attended during 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blanaid Clarke (Chair)</td>
<td>4/4</td>
</tr>
<tr>
<td>Alan Ahearne</td>
<td>2/4</td>
</tr>
<tr>
<td>John FitzGerald</td>
<td>4/4</td>
</tr>
</tbody>
</table>

The table shows that four meetings of the Audit Committee were held during 2014 and the total number of meetings attended by each member.

» To review and approve the Annual Statement on System of Internal Financial Controls to be included in the annual report.

» To review the annual audit plans of the Comptroller and Auditor General and the external auditor and ensure that they are consistent with the scope of the audit engagement. Review of the management letters from the Comptroller and Auditor General and the external auditor before the management response is issued.

» To review the Bank’s internal control systems.

» To review and approve the charter and annual work plan of the internal audit function, monitor the effectiveness and independence of the function in the overall context of the Bank’s financial risk management systems and, where appropriate, review and ensure follow up of the reports of the function.

» To advise on the appointment and reappointment of external auditors, on their remuneration, and on questions of resignation or dismissal.

» To monitor policy on the engagement of the external auditors to supply non-audit services. To ensure that appropriate procedures are put in place to ensure that ESCB rules on the appointment of the external auditor for non-audit services are adhered to.

» To review the findings arising from the audits by the Comptroller and Auditor General and the external auditors.

» Review its own terms of reference and its effectiveness on an annual basis.

» To consider other topics as requested by the Commission.

» To ensure that the provisions of the Bank’s Speak Up and Fraud policies are appropriate to ensure a proper approach to dealing with reports by staff of ‘wrong doing’ in the Bank.

Budget and Remuneration Committee

The Budget and Remuneration Committee is appointed by the Commission and comprises either two or three non-executive members in addition to the two Deputy Governors.

The current members of the Budget and Remuneration Committee, as at 31 March 2015, are Michael Soden (Chair), Blanaid Clarke, Stefan Gerlach and Cyril Roux.

Meetings of the Budget and Remuneration Committee are held not less than four times per year. All members of the Commission have the right of attendance as observers at meetings of the Committee. The minutes of the meetings are circulated to all members of the Commission. Four meetings of the Budget and Remuneration Committee were held in 2014.

The key responsibilities of the Budget and Remuneration Committee are:

» To review and make recommendations to the Commission for the remuneration of management members of the Commission, including the Governor.
To review on at least an annual basis the Bank’s overall remuneration policy and procedures and make recommendations to the Commission where necessary.

To review and advise the Commission regarding budgetary and expenditure matters.

To review and advise the Commission of the Bank’s Balanced Scorecard process on an annual basis.

To review its own terms of reference and its effectiveness on an annual basis.

To consider other topics as requested by the Commission.

**Risk Committee**

The Risk Committee is appointed by the Commission and comprises at least three non-executive members in addition to the two Deputy Governors.

The current members of the Risk Committee, as at 31 March 2015, are Des Geraghty (Chair), Alan Ahearne, Michael Soden, Stefan Gerlach and Cyril Roux.

Meetings are held at least quarterly. All members of the Commission have the right of attendance as observers at meetings of the Committee. The minutes of the meetings are circulated to all members of the Commission. Six meetings of the Risk Committee took place during 2014.

The Risk Committee also held one meeting jointly with the Audit Committee during 2014.

The terms of reference of the Risk Committee set out the following key responsibilities:

- To review and advise the Commission on the investment of investment assets.

**Table 18**

<table>
<thead>
<tr>
<th>Committee Members</th>
<th>Budget and Remuneration Committee meetings attended during 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Des Geraghty (Chair)</td>
<td>6/6</td>
</tr>
<tr>
<td>Blanaid Clarke</td>
<td>4/4</td>
</tr>
<tr>
<td>Stefan Gerlach</td>
<td>4/4</td>
</tr>
<tr>
<td>Cyril Roux</td>
<td>4/4</td>
</tr>
</tbody>
</table>

The table above shows that four meetings of the Budget and Remuneration Committee were held during 2014 and the total number of meetings attended by each member.

- To advise the Commission on any matters relating to the Bank’s investment policies and practices which may be referred to the Committee by the Commission from time to time.

- To review and anticipate the current risk exposures and the overall risk strategy for the organisation.
» To review the current financial situation of the Bank taking account of its asset and liability position and forecasts.

» To take account of the control environment and the effectiveness of risk management programmes within the organisation, drawing also on reports of the Audit Committee.

**Code of Conduct for Members of the Central Bank Commission**

The Code of Conduct for Members of the Central Bank Commission is effective since 1 January 2013. It is published on the Bank’s website.

**Internal Governance Structures**

While the Commission has overall responsibility for the management and control of the Bank, there are a number of internal committees with responsibility to co-ordinate the development and implementation of policies and to advise and inform on major issues.

The internal governance model includes the following committees which are chaired by the Governor:

» The **Governor’s Committee** deals primarily with preparation for Commission meetings, follow-up actions, senior appointments and other strategic issues.

» The **Senior Leadership Committee** ensures alignment of all activities and the successful execution of the Bank’s strategy through the development and review of the organisational Balanced Scorecard. The Committee also oversees the implementation of policies having broad organisational impacts.

» The **Financial Stability Committee** is responsible for monitoring and assessing domestic and international economic and financial developments and for highlighting potential areas of concern in the Irish financial system. The committee’s focus is, in particular, on risk mitigation strategies and the consideration, implementation and review of micro and/or macro prudential policy instruments. The role of this committee is both to advise the Governor, and to discuss with and inform key internal management on financial stability issues.

Other high-level committees include:

» The **Operations Committee** (chaired by the Chief Operations Officer) is responsible for formulating and delivering the plans that relate to the efficient functioning of the Bank and ensuring that the organisation conducts its business and utilizes its resources, including technology and human resource capability in an efficient and cost effective manner.

» The **Executive Risk Committee** (chaired by the Deputy Governor (Central Banking)) oversees the management of the Bank’s financial risks including the risk management of the Bank’s investment assets and risks relating to the implementation of Eurosystem monetary policy. Its role is to discuss, review and manage risk issues, and formulate proposals on to the Risk Committee of the Commission.

» The **Supervisory Committee** (chaired by Deputy Governor (Financial Regulation)) considers risk reports escalated to it. The committee also functions as a forum to give input and advice on major supervisory issues and to share information on significant supervisory issues.

» The **Policy Committee** (chaired by Deputy Governor (Financial Regulation)) considers policy issues and monitors EU and international developments relating to financial regulation.

**Accountability**

In accordance with Section 32K of the Act, the Bank prepares a report of its activities during the year and presents this report to the Minister for Finance within six months after the end of each financial year. Section 32J (3) of the Act requires the Bank to prepare and transmit to the Comptroller and Auditor General a Statement of Accounts for the financial year concerned. The Comptroller and Auditor General audits, certifies and reports on the Statement of Accounts and remits both his/her report and the Statement of Accounts to the Minister.
Copies of both of these documents are laid before each House of the Oireachtas.

The Bank’s financial accounts are also audited by independent external auditors as required by Article 27 of the ESCB/ECB Statute.

The Bank is required to prepare an Annual Performance Statement on the regulation of financial services for submission to the Minister for Finance by 30 April each year. In accordance with the Act the Annual Performance Statement must be in three parts:

- A Regulatory Performance Plan outlining the aims and objectives of regulatory activity planned for the current year.
- A Review of regulatory performance during the preceding year having regard to the Regulatory Performance Plan for that year, including activities carried out by the Internal Audit function and the Registrar of Credit Unions and any other relevant matters;
- Report of any international peer review on the Bank’s performance of its regulatory functions carried out under this legislation during the year.

The Minister for Finance may, from time to time, request the Governor to consult with the Minister as regards the performance by the Bank of any of its functions. However, the Minister may not consult with the Governor in relation to his ESCB functions.

Within one month of receiving a Regulatory Performance Statement the Minister must lay the Statement before each House of the Oireachtas.


Subject to the requirements of the Maastricht Treaty and the confidentiality provisions imposed by law, the Governor or the Deputy Governors of Central Banking and Financial Regulation will appear before Joint Committees of the Oireachtas on request. In 2014, representatives of the Bank appeared at six Oireachtas Committee meetings (see table 20).

Table 20 – Appearances before Joint Oireachtas Committees in 2014

<table>
<thead>
<tr>
<th>Date</th>
<th>Attended by</th>
<th>Oireachtas Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 29</td>
<td>Bernard Sheridan, Director of Consumer Protection</td>
<td>Joint Committee on Finance, Public Expenditure and Reform Debate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Report on Licensed Moneylending Industry</td>
</tr>
<tr>
<td>Apr 30</td>
<td>Governor Honohan</td>
<td>Joint Oireachtas Committee on Finance, Public Expenditure and Reform</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Mortgage arrears resolution targets</td>
</tr>
<tr>
<td>4 June</td>
<td>Oliver Gilvarry</td>
<td>Joint Oireachtas Committee on Finance, Public Expenditure and Reform</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Money Market Funds Reform</td>
</tr>
<tr>
<td>July 9</td>
<td>Bernard Sheridan, Director of Consumer Protection</td>
<td>Joint Oireachtas Committee on Finance, Public Expenditure and Reform</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Matters related to Setanta insurance</td>
</tr>
<tr>
<td>Nov 26</td>
<td>Governor Honohan</td>
<td>Joint Oireachtas Committee on Finance, Public Expenditure and Reform</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Consider matters pertaining to the banking sector</td>
</tr>
<tr>
<td>Dec 11</td>
<td>Patrick Casey, Fergal Power</td>
<td>Public Accounts Committee</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Credit Union Resolution Fund</td>
</tr>
</tbody>
</table>
Part 2
Financial Operations
Financial Results for 2014

Context
In recent years, the Bank’s balance sheet continues to reflect its response to the domestic and international financial crisis. These actions are in line with the Bank’s domestic and Eurosystem mandate to contribute to the stability of the financial system, and have had a direct and significant impact on the Bank’s financial results over this period.

In 2014, the improvement in financial market conditions, both at home and abroad, has resulted in a further lessening of the requirement for support from the Bank to the domestic banking sector.

The key developments have been:

» the level of financial support required by the domestic banking sector through lending by the Bank has reduced further;

» the Bank continues to hold a portfolio of long-dated Irish government bonds, which the Bank received in 2013 arising from the liquidation of Irish Bank Resolution Corporation (IBRC). Also almost the entire portfolio of short-dated NAMA bonds received at that time have been redeemed;

» the continuation of the “fixed-rate full-allotment” approach at Eurosystem level to support liquidity provision and bank lending in the euro area;

» the Eurosystem continues to hold securities purchased under the Securities Markets Programme and Covered Bond Purchase Programmes, which had the aim of ensuring depth and liquidity in dysfunctional segments of the euro area debt securities markets, and of restoring an appropriate monetary policy transmission mechanism; and

» the Eurosystem has initiated further non-standard monetary policy programmes, launching an expanded asset purchase programme (encompassing the purchase of covered bonds, asset backed securities and public sector securities issued by central governments, agencies and supra-national institutions). These purchase programmes, involving the combined purchase of €60 billion of these categories of instruments each month, are anticipated to be carried out until September 2016 or until there is a sustained adjustment in the path of inflation consistent with the objective of achieving inflation rates below, but close to, 2 per cent over the medium term.

The Bank’s current balance sheet reflects exposures which have arisen from policy actions taken to address the crisis at domestic and Eurosystem level, and these exposures may grow in the course of 2015 and 2016 reflecting the implementation of the Eurosystem’s expanded asset purchase programmes. The Bank’s profits remain at high levels primarily reflecting the interest income and the realised gains on disposals of long-dated government bonds acquired by the Bank as part of the exchange of assets on the liquidation of IBRC. The policy in relation to disposals from this portfolio remains unchanged, i.e. they will be sold as soon as possible, provided conditions of financial stability permit.

Financial Results
Profit for the year to 31 December 2014 amounted to €2,137.7 million compared with a corresponding amount of €1,518.1 million in 2013. Against a lower interest rate background and lower average balances of interest bearing assets and liabilities, both the interest income and interest expense of the Bank were significantly lower for 2014. Interest income decreased by €487.9 million to €1,530 million while the interest expense decreased by €363.4 million to €107.8 million. As a result, in 2014, the net interest income of the Bank decreased by €124.5 million to €1,422.2 million.

Interest Income
The decrease in interest income was primarily attributable to a significantly lower amount of interest earned on lending conducted by the Bank as part of the Eurosystem’s monetary policy operations.
(2014: €50.5 million, 2013: €289.6 million) and also on Exceptional Liquidity Assistance (ELA) (2014: Nil, 2013: €112.8 million) advanced to domestic credit institutions. The provision of ELA ended on 7 February 2013 following the liquidation of IBRC. The facility deed which was accepted as collateral for ELA was exchanged for NAMA Bonds at the end of March 2013. Income on the facility deed amounted to €80.4 million in 2013. The decrease in income earned on monetary policy operations during 2014 resulted from lower volumes of lending to credit institutions and a reduction in average ECB interest rates. Income earned on securities held under the Eurosystem Securities Market Programme (SMP) decreased to €149.7 million in 2014 from €182.4 million in 2013. The actual income generated from both the SMP and monetary policy advances is pooled and shared among Eurosystem NCBs via the monetary income scheme in accordance with the prevailing Eurosystem capital key shares.

On 5 June 2014 the ECB announced the introduction of a negative deposit facility rate with an effective date of 11 June 2014, which applies to average reserve holdings in excess of the minimum reserve requirements and other deposits held with the Bank. The Bank earned interest income on government deposits and credit institution deposits amounting to €3.3 million and €1 million respectively during 2014.

Interest Expense
Interest incurred on Intra-Eurosystem balances and the Bank’s euro banknote issue over and above its capital key share of total Eurosystem circulation decreased by €285.2 million and €63.4 million respectively. The decreases in both expense categories reflects the fall in the average ECB minimum bid rate (together with a significantly lower average balance in Intra-Eurosystem Liabilities in 2014 of €34.2 billion (2013: €61.1 billion). Interest paid on Credit Institutions’ deposits decreased by €10.1 million in 2014 while interest paid on Government deposits fell by €4.7 million. The decrease in the interest expense on these deposits is primarily due to a decrease in the average balances held in 2014 (Credit Institution deposits 2014: €3.1 billion v 2013: €3.7 billion and Government deposits 2014: €9.2 billion v 2013: €15.8 billion) and a lower interest rate environment during the year.

The net result of financial operations, write-downs and provisions in 2014 was a gain of €833.3 million which compares with a gain of €833.3 million in 2013. Realised gains on the Bank’s investment portfolio amounted to €739.4 million (2013: €54.6 million) and primarily reflect the realised capital gains of €718.1 million on the partial sales of the 5.4% Irish Government Bond 2025 and the 2038 FRN. Unrealised price losses decreased by €16.6 million to €0.4 million at end-2014.

This category also includes the release of part of the provision for risks relating to securities held for monetary policy purposes and investments, an adjustment to the provision for an onerous lease on the Bank’s premises and the creation of a restructuring provision for two voluntary severance schemes and an overtime restructuring scheme which were implemented for administrative and currency staff (Note 32 (iv)).

Following the annual impairment review on the Bank’s holdings in its investment (Hold to Maturity) and Eurosystem monetary policy-related portfolios, a previously established provision of €350 million, which was created in respect of the risks associated with these securities in the context of the continued sovereign debt market crisis, was reduced by €100 million at 31 December 2014 (at end-2013, the provision had reduced from €400 million to €350 million). In 2013 the Bank created a provision for an onerous lease and dilapidations on the Bank’s premises of €18.4 million (€18.2 million onerous lease provision and €0.2 million dilapidations). The provision for the onerous lease has been reduced by €1 million to reflect a change in the timeline for the proposed move to North Wall Quay. Finally, a restructuring provision of €6.7 million was created (of which €2.5 million remained unpaid at end-2014) for the voluntary severance schemes and overtime restructuring scheme referred to earlier.

1 The key ECB minimum bid rate fell from an average of 0.55 per cent in 2013 to 0.16 per cent in 2014.
Net Result of Pooling of Monetary Income

The result of the net pooling of Eurosystem monetary income gave rise to a refund of €0.4 million in 2014, compared with a refund of €15.4 million\(^2\) in 2013. The Bank received a refund of monetary income of €0.4 million (2013: €11.5 million) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares. The refund comprised of the following elements:

(i) A charge of €8.8 million payable to the Eurosystem in respect of monetary income earned above the Bank’s capital key share;

(ii) A receipt of €5.4 million income in respect of exceptional income; and

(iii) Prior year monetary income receipts of €3.8 million.

Operating Costs

In recent years the Bank has focused on strengthening its capabilities and capacity, including reviewing staff requirements and investment in new systems. This continued investment is reflected in the total operating costs for 2014 of €216.4 million (2013: €207.3 million). These comprise pay, non-pay, banknote raw materials and depreciation. Staff costs, including pay, increased by €3.7 million (3.1 per cent), while other operating expenses and banknote raw materials increased by €6.5 million. Depreciation charges amounted to €12.3 million (2013: €13.3 million). A detailed analysis of the Bank’s operating costs is provided in Note 8 to the Statement of Accounts.

After transfers to reserves and adjustments related to the recognition of a net actuarial loss on the Bank’s pension scheme, as required under FRS 17: Retirement Benefits, the Bank’s Surplus Income amounted to €1,708.8 million (2013: €1,212.1 million), which is payable to the Exchequer.

Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2014 were €81.3 billion, a decrease of €26.8 billion (24.8 per cent) over the corresponding figure for end-2013 (€108.1 billion). The decrease was mainly driven by reductions in monetary policy advances to credit institutions and in the Bank’s holdings of securities acquired by the Bank in February 2013 following the IBRC liquidation.

At 31 December 2014, lending to credit institutions through the main refinancing operations (MRO) had decreased by €0.5 billion from the previous year-end to €4 billion, while lending through the longer term refinancing operations (LTRO) decreased by €17.9 billion to €16.6 billion in the same period.

The Bank’s own investment portfolio includes a portfolio of securities acquired by the Bank in February 2013 following the IBRC liquidation. The liquidation ended the extended provision of ELA to IBRC by the Bank. This portfolio decreased by €8.6 billion to €35.3 billion (2013: €43.9 billion) at end December 2014 reflecting the effect of redemptions and sales from the portfolio offset by the increase in market value year on year (Note 15(ii)(i)).

In respect of liabilities, at end year, the Bank’s proportional share of total euro banknotes in circulation amounted to €15.5 billion, which represented an increase of almost €1.5 billion on the previous year. Government deposits decreased by €3.5 billion while Credit Institutions’ (commercial banks) deposits increased by €0.8 billion in 2014. Intra-Eurosystem net liabilities, which amounted to €38.8 billion as at 31 December 2014, were €32.8 billion lower than at end-2013. This comprises a decrease of €32.4 billion in the Bank’s liability to other member central banks of the Eurosystem in respect of cross-border transfers via the TARGET\(^3\) payment system plus a €0.4 billion decrease in the value of euro banknotes issued by the Bank over and above its capital key share of the total Eurosystem issuance.

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\(^2\) This figure includes an amount of €3.9 million which represents a decrease in the Bank’s share of the provision against counterparty risks related to monetary policy operations of the Eurosystem. This provision was dissolved at end-2013.

\(^3\) Trans-European Automated Real-time Gross settlement Express Transfer system.
Provisions decreased by €99.9 million reflecting the following:

» the partial unwinding by €100 million of the provision maintained by the Bank for risks on securities held for monetary policy and investment purposes;

» a reduction of €1 million to the provision for the onerous lease to reflect a change in the timeline for the proposed move to North Wall Quay and

» the redemption of IEP banknotes during the year (€1.5 million).

These gains were offset by the creation of a provision of €6.7 million for restructuring in relation to administrative and currency staff (of which €4.2 million was utilised during 2014).

Redemption of Irish Banknotes
Irish pound banknotes formerly issued by the Bank ceased to be legal tender with effect from 9 February 2002. Since then the Bank has maintained a provision for outstanding IEP banknotes from which €1.5 million was redeemed in 2014 (2013: €1.6 million) leaving €229.8 million in Irish banknotes outstanding at end-2014 and a balance of €10.1 million in the provision at year end.

Proceeds of Coin
During 2014, the net value of euro coin issued was €17.5 million (2013: net issue of €5.2 million) reflecting a significant rise in demand from the public. After deduction of coin production expenses, net proceeds of €16.6 million were paid to the Exchequer compared with a payment to the Exchequer in 2013 of €2.6 million. The Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2014, Irish coin redeemed totalled €0.1 million (2013: €0.2 million). Full details are incorporated in Note 24 of the Statement of Accounts.

Prompt Payment of Accounts 2014
The Bank is obliged to comply with the provisions of the European Communities (Late Payment in Commercial Transactions) Regulations, 2012 (SI.580 of 2012), which provides that penalty interest will become payable if payments for commercial transactions are not met within 30 days, unless otherwise specified in a contract or agreement.

The following is a summary of penalty interest payments made to suppliers during 2014, with corresponding figures for 2013.

<table>
<thead>
<tr>
<th>Metric</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of Late Payments</td>
<td>219</td>
<td>308</td>
</tr>
<tr>
<td>Total Value of All Late Payments (A)</td>
<td>€2,142,000</td>
<td>€2,729,000</td>
</tr>
<tr>
<td>Total Value of All Payments (B)</td>
<td>€111,994,000</td>
<td>€89,649,000</td>
</tr>
<tr>
<td>A as a % of B</td>
<td>1.90%</td>
<td>3.04%</td>
</tr>
<tr>
<td>Total Amount of Interest Paid on Late Payments</td>
<td>€6,000</td>
<td>€15,000</td>
</tr>
</tbody>
</table>
Statement of Accounts
for the year ended 31 December 2014

Presented to Dáil Éireann pursuant to section 32J of the Central Bank Act, 1942 (as amended)
Statement of Commission Members’ Responsibilities

The main statutory provisions relating to the role and duties of the Commission members are covered in Part III of the Central Bank Act, 1942, (as amended). Moreover, under Section 32J of the Central Bank Act, 1942 (as amended), the Bank is responsible for the maintenance of proper accounting records. This responsibility also extends to the preparation and presentation to the Comptroller and Auditor General of a Statement of Accounts within six months of the end of each financial year and the appointment of external auditors as required by Article 27 of the Statute of the European System of Central Banks (the “ESCB”) and of the European Central Bank.

The Commission has overall responsibility for the system of internal financial control in the Bank, which is designed to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities. To discharge this responsibility, the Commission has established an appropriate organisational structure. In this regard, the Audit Committee meets periodically with the Internal and External Auditors and members of the Management of the Bank to discuss control issues, financial reporting and related matters. The Internal and External Auditors have full access to the Audit Committee.

The Commission is satisfied that the ESCB accounting guidelines, the accounting standards generally accepted in Ireland (where appropriate) and statutory provisions which are applicable to the Bank, have been consistently applied and are supported by reasonable and prudent judgements and estimates.

Patrick Honohan, Governor
Blanaid Clarke, Member of the Commission

13 April 2015
Statement on Internal Financial Control

On behalf of the Commission, we acknowledge the Commission’s responsibility for ensuring that the Bank maintains an effective system of internal financial controls and reviews its effectiveness on an on-going basis.

The systems of control in place provide reasonable but not absolute assurance of the safeguarding of assets against unauthorised use or disposition, the maintenance of proper financial records and the reliability of the financial information provided and published. In essence, these systems are designed to manage rather than eliminate inherent financial risks.

The system of internal controls includes:

- A clearly defined organisation structure with specified authorisation limits and reporting requirements to senior management and the Commission;

- Appropriate terms of reference for the Commission and management committees with responsibility for core policy areas;

- A comprehensive financial and budgeting management information system that incorporates:
  - Approval of the annual plan and detailed expenditure budgets by the Commission;
  - Quarterly reporting to the Commission on financial and budgetary performance; and
  - Quarterly reporting to the Commission on project/capital expenditure.

- Detailed policies and procedures relating to financial controls;

- An operational risk framework which is the entire process of systematically facilitating the identification, analysis, response, monitoring and reporting of valid operational incidents and risks in a consistent manner whilst simultaneously assessing the strength of internal controls for each identified risk and incident to mitigate the risk of reoccurrence; and

- A risk control framework to manage the Bank’s key financial risks within clearly defined internal risk policies and with reference to Eurosystem risk-management policies where relevant.

The Internal Audit Division independently and systematically reviews the controls in place and reports to the Audit Committee on a regular basis. While assessing the controls in place, the Internal Audit Division is mindful of the risk of fraud and designs its testing procedures to assist in the detection of fraud.

The Audit Committee approves the Internal Audit Plan and work programme. Additionally, the Audit Committee meets with and receives reports from the Comptroller and Auditor General and the external auditors, RSM Farrell Grant Sparks. The minutes of the meetings of the Audit Committee are circulated to the Commission and placed on the agenda of subsequent meetings of the Commission.

The European Treaties (Article 130 of the Treaty on the Functioning of the European Union and Article 7 of the Statute of the ESCB and of the ECB, which provisions are also reflected in the Central Bank Act, 1942) provide that the Central Bank of Ireland is independent of the Government and so Government decisions, codes of practice and circulars do not apply directly to the Bank. However, the Code of Practice for the Governance of State Bodies is largely applied by the Bank. In accordance with the Central Bank Acts 1942 to 2014, remuneration of Bank staff is set by the Commission. The Bank is guided by Government policy on staff remuneration.

During 2014, expenditure of €4 million (€7.1 million in 2013), approximately 4% (8% in 2013) of the Bank’s committed spend, was incurred across 42 contracts without recourse to a public procurement tender process. Of the 42 contracts (54 contracts in 2013), 28 have been regularised during the year, and there is an action plan in place to address the remaining 14 contracts.
During 2014 a control weakness resulted in a significant irregular payment in relation to supplier services, which is currently being investigated by an Garda Síochána. The controls and the relevant procedures have since been updated to address this issue, and the bulk of this payment has been recovered.

We confirm that the Commission has reviewed the effectiveness of the system of internal financial controls for the year ended 31 December 2014.

Patrick Honohan, Governor

Blanaid Clarke, Member of the Commission

13 April 2015
Statement of Accounts

Profit and Loss and Appropriation Account for year ended 31 December 2014

<table>
<thead>
<tr>
<th>Note</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Interest income</td>
<td>1</td>
<td>1,530,017</td>
</tr>
<tr>
<td>Interest expense</td>
<td>2</td>
<td>(107,838)</td>
</tr>
<tr>
<td>Net interest income</td>
<td></td>
<td>1,422,179</td>
</tr>
<tr>
<td>Net realised gains arising from financial operations</td>
<td>3</td>
<td>739,421</td>
</tr>
<tr>
<td>Write-downs on financial assets and positions</td>
<td>3</td>
<td>(383)</td>
</tr>
<tr>
<td>Transfer (to)/from Provisions</td>
<td>3</td>
<td>94,239</td>
</tr>
<tr>
<td>Net result of financial operations, write-downs and provisions</td>
<td></td>
<td>833,277</td>
</tr>
<tr>
<td>Income from fees and commissions</td>
<td>4</td>
<td>2,493</td>
</tr>
<tr>
<td>Income from equity shares and participating interests</td>
<td>5</td>
<td>16,990</td>
</tr>
<tr>
<td>Net result of pooling of monetary income</td>
<td>6</td>
<td>445</td>
</tr>
<tr>
<td>Other income</td>
<td>7</td>
<td>78,692</td>
</tr>
</tbody>
</table>

TOTAL NET INCOME | 2,354,076 | 1,725,422 |

| Staff expenses | 8      | (124,243) | (120,519) |
| Other operating expenses | 8      | (72,212)  | (69,941)  |
| Depreciation | 8      | (12,266)  | (13,347)  |
| Banknote raw materials | 8      | (7,693)   | (3,478)   |

TOTAL EXPENSES | (216,414) | (207,285) |

PROFIT FOR THE YEAR BEFORE UNREALISED GAINS AND APPROPRIATION OF PROFIT | 2,137,662 | 1,518,137 |

Net movement in unrealised gains | 33     | 6,348,850 | 2,927,569 |
Transfers to revaluation accounts | 33     | (6,348,850) | (2,927,569) |
Actuarial (Loss)/Gain on pension scheme | 31     | (184,429) | 21,214 |
Transfer to general reserve | 34     | (244,472) | (327,241) |

SURPLUS INCOME PAYABLE TO THE EXCHEQUER | 9, 30 | 1,708,761 | 1,212,110 |

The accounting policies together with Notes 1 to 43 form part of these accounts.

Banc Ceannais na hÉireann

Patrick Honohan, Governor
Stefan Gerlach, Deputy Governor

13 April 2015
### Balance Sheet as at 31 December 2014

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Note</td>
<td>€000</td>
</tr>
<tr>
<td>Gold and gold receivables</td>
<td>10</td>
<td>190,979</td>
</tr>
<tr>
<td>Claims on non-euro area residents in foreign currency</td>
<td>11</td>
<td>1,270,239</td>
</tr>
<tr>
<td>Claims on non-euro area residents in euro</td>
<td>12</td>
<td>2,126,878</td>
</tr>
<tr>
<td>Lending to euro area credit institutions related to monetary policy operations in euro</td>
<td>13</td>
<td>20,700,000</td>
</tr>
<tr>
<td>Other claims on euro area credit institutions in euro</td>
<td>14</td>
<td>351,015</td>
</tr>
<tr>
<td>Securities of euro area residents in euro</td>
<td>15</td>
<td>55,095,861</td>
</tr>
<tr>
<td>Intra-Eurosystem claims</td>
<td>16</td>
<td>894,827</td>
</tr>
<tr>
<td>Participating interest in ECB</td>
<td>17</td>
<td>199,021</td>
</tr>
<tr>
<td>Claims equivalent to the transfer of foreign reserves</td>
<td>18</td>
<td>672,638</td>
</tr>
<tr>
<td>Other claims within the Eurosystem</td>
<td>19</td>
<td>23,168</td>
</tr>
<tr>
<td>Items in course of settlement</td>
<td>20</td>
<td>209</td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td>678,031</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td>81,308,039</td>
</tr>
</tbody>
</table>

The accounting policies together with Notes 1 to 43 form part of these accounts.

Banc Ceannais na hÉireann

Patrick Honohan, Governor
Stefan Gerlach, Deputy Governor

13 April 2015
## Balance Sheet as at 31 December 2014

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banknotes in circulation</strong></td>
<td>15,512,370</td>
<td>14,051,139</td>
</tr>
<tr>
<td><strong>Liabilities to euro area credit institutions related to monetary policy operations in euro</strong></td>
<td>4,054,691</td>
<td>3,242,700</td>
</tr>
<tr>
<td><strong>Liabilities to other euro area residents in euro</strong></td>
<td>6,814,494</td>
<td>10,264,054</td>
</tr>
<tr>
<td><strong>Liabilities to non-euro area residents in euro</strong></td>
<td>998</td>
<td>17,280</td>
</tr>
<tr>
<td><strong>Liabilities to euro area residents in foreign currency</strong></td>
<td>202</td>
<td>180</td>
</tr>
<tr>
<td><strong>Counterpart of special drawing rights allocated by the IMF</strong></td>
<td>924,618</td>
<td>867,159</td>
</tr>
<tr>
<td><strong>Intra-Eurosistema liabilities (net)</strong></td>
<td>38,766,926</td>
<td>71,593,462</td>
</tr>
<tr>
<td><strong>Liabilities related to the allocation of euro banknotes within the Eurosistema</strong></td>
<td>16,021,726</td>
<td>16,476,549</td>
</tr>
<tr>
<td><strong>Other liabilities within the Eurosistema (net)</strong></td>
<td>22,745,200</td>
<td>55,116,913</td>
</tr>
<tr>
<td><strong>Other liabilities</strong></td>
<td>2,375,349</td>
<td>1,910,773</td>
</tr>
<tr>
<td><strong>Superannuation liabilities</strong></td>
<td>285,938</td>
<td>84,568</td>
</tr>
<tr>
<td><strong>Provisions</strong></td>
<td>280,023</td>
<td>379,963</td>
</tr>
<tr>
<td><strong>Revaluation accounts</strong></td>
<td>9,611,217</td>
<td>3,262,367</td>
</tr>
<tr>
<td><strong>Capital and reserves</strong></td>
<td>2,681,213</td>
<td>2,436,741</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>81,308,039</td>
<td>108,110,386</td>
</tr>
</tbody>
</table>

The accounting policies together with Notes 1 to 43 form part of these accounts.

Banc Ceannais na hÉireann

Patrick Honohan, Governor
Stefan Gerlach, Deputy Governor

13 April 2015
Accounting Policies and Related Information

(a) Legal Framework
Throughout the Statement of Accounts the term ‘Bank’, where used, refers to the Central Bank of Ireland.

The accounts have been prepared pursuant to Section 32J of the Central Bank Act, 1942 (as amended) which provides that within 6 months after the end of each financial year, the Bank shall prepare and transmit to the Comptroller and Auditor General a statement of accounts for the financial year concerned. The statement is in the form approved by the Minister. The form of the accounts reflects the specific nature of the tasks carried out by the Bank within the framework of the ESCB1 and its diverse range of activities.

(b) Accounting Principles
The Bank, as a participating member of the ESCB, complies with the accounting policies laid down by the Governing Council of the ECB in its Accounting Guideline2. The Guideline establishes in particular the accounting rules applicable to refinancing operations for credit institutions, securities, foreign currency transactions and the issue of banknotes. The Bank’s Statement of Accounts for 2014 was prepared fully in line with the provisions set out in the Guideline. In cases where the Guideline does not provide specific direction or its application is not mandatory, accounting standards generally accepted in Ireland and relevant statutory provisions3 which apply to the Bank are followed.

Having regard to the role and activities of a central bank, the Bank is of the opinion that a cash flow statement would not provide any additional or useful information to users of the accounts. Therefore, such a statement is not included as part of these accounts.

(c) Eurosystem Accounting Guideline
As a member of ESCB/Eurosystem, the Bank has adopted the ECB’s Accounting Guideline. The following is a summary of the main provisions of the Guideline.

(i) Trade Date Accounting4
Transactions in assets and liabilities are generally booked at the settlement date (usually the trade date plus two business days), unless a year-end falls between the trade date and the settlement date, in which case they have to be recognised at the trade date - i.e. all gains and losses arising from these transactions are booked in the current year.

(ii) Intra-ESCB balances
All NCBs of the Eurosystem maintain accounts with each other for the purpose of making bilateral payments including cross-border payments through the TARGET25 system (Note 29). All bilateral balances at the close of business each day are netted by means of a multilateral netting process and replaced by a single outstanding debt-obligation to the ECB by each NCB or vice versa as appropriate.

1 The use of the term European System of Central Banks (ESCB) refers to the twenty-eight national central banks (NCBs) of the Member States of the European Union as at 31 December 2014 together with the European Central Bank (ECB). The term ‘Eurosystem’ refers to the eighteen NCBs of the Member States participating in the Monetary Union, plus the ECB, on the same date.
5 Trans-European Automated Real-time Gross settlement Express Transfer system.
Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a liability under Intra-Eurosystem liabilities (net): ‘Liabilities related to the allocation of euro banknotes within the Eurosystem’ (Note 28, Accounting Policy (c)(iv)).

Intra-Eurosystem claims arising from the Bank’s participating interest in the ECB are reported under ‘Participating Interest in the ECB’ (Note 16, Accounting Policy (c)(iii)).

Intra-Eurosystem balances arising from the transfer of foreign reserve assets to the ECB by the NCBs joining the Eurosystem are denominated in euro and reported under ‘Claims equivalent to the Transfer of Foreign Reserves’ (Note 17, Accounting Policy (c)(viii)).

(iii) Capital Key

The ESCB capital key is the percentage of the subscribed share capital of the ECB held by the respective ESCB NCBs. It is a measure of the relative national size of EU Member States and is a 50:50 composite of GDP and population size. Pursuant to Article 28 of the ESCB Statute, the ESCB NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which must be adjusted every five years. On 1 January 2014 such an adjustment was made as well as an adjustment for the accession of Latvia to the Eurosystem. This resulted in the Bank’s share of the ECB’s subscribed capital changing to 1.1607 per cent from 1.1111 in 2013.

A second key, the ‘Eurosystem capital key’, which is derived from the ESCB capital key outlined above, is used as the basis of allocation for a series of important items including monetary income, banknotes in circulation and the sharing of the ECB’s profit/loss among Eurosystem NCBs.

On 1 January 2014 following the accession of Latvia to the Eurosystem and the five year review of the capital key of the ESCB referred to above, the Bank’s share in the Eurosystem capital key increased from 1.5974 per cent to 1.6587 per cent.

(iv) Banknotes in Circulation

The ECB and the 18 participating NCBs, which together comprise the Eurosystem, issue euro banknotes. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with each NCB’s banknote allocation key.

The ECB has been allocated a share of 8 per cent of the total value of euro banknotes in circulation, whereas the remaining 92 per cent has been allocated to NCBs in the Eurosystem in proportion to their respective paid-up shares in the capital of the ECB. In the year under review, the Bank had a 1.6587 per cent (2013: 1.5974 per cent) share in the fully paid-up capital of the ECB (Accounting Policy (c)(iii)) and therefore a 1.5260 per cent share of the euro banknotes in circulation in accordance with the banknote allocation key. The share of banknotes allocated to each NCB is presented on the Balance Sheet under the liability item “Banknotes in circulation” (Note 22).

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation gives rise to remunerated intra-Eurosystem balances. These claims (in the case of a shortfall of issuance relevant to the banknotes allocation key) or liabilities (in the case of excess issuance relevant to the banknote allocation key), which incur interest, are presented on the
Balance Sheet under “Intra-Eurosystem: net claim/liability related to the allocation of euro banknotes within the Eurosystem” (Note 28, Accounting Policy (c)(ii)). The interest expense (Note 2(iv)) on these balances is cleared through the accounts of the ECB and included in ‘Net interest income’ in the Profit and Loss and Appropriation Account.

(v) Distributions by ECB

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8 per cent share of euro banknotes allocated to the ECB, and the ECB’s income arising from securities purchased under the Securities Market Programme (SMP), Outright Monetary Transactions (OMT), Covered Bonds Purchase Programme 3 (CBPP3) and Asset Backed Securities Purchase Programme (ABSPP) shall be due in full to the NCBs in the same financial year it accrues unless otherwise decided by the Governing Council. The ECB shall distribute this income in January of the following year in the form of an interim distribution of profit\(^9\). It is distributed in full unless the ECB’s net profit for the year is less than its combined income earned on euro banknotes in circulation and the aforementioned asset purchase programmes, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. (The Governing Council may also decide to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation).

The amount distributed to NCBs is disclosed in the Profit and Loss account under “Income from equity shares and participating interest” (Note 5(i)).

(vi) Net Result of Pooling of Monetary Income

The amount of each Eurosystem NCB’s monetary income, i.e. net income earned on Eurosystem monetary policy operations, is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base.

The liability base consists of the following items: banknotes in circulation; liabilities to euro area credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET2 transactions; and net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is deducted from the monetary income to be pooled.

The earmarkable assets consist of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions; intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; and a limited amount of each NCB’s gold holdings in proportion to each NCB’s capital key. Gold is considered to generate no income. Securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bonds purchase programmes and under Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

Where the value of an NCB’s earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying, to the value of the difference, the latest available marginal rate for the Eurosystem’s main refinancing operations. This amount is added or deducted, as appropriate from the monetary income to be pooled.

\(^9\) ECB decision of 15 December 2014 on the interim distribution of the income of the ECB (Recast) (ECB/2014/57).
The net monetary income pooled by the Eurosystem is allocated between NCBs according to the subscribed Eurosystem capital key. The difference between the monetary income pooled by the Bank and that reallocated to the Bank constitutes the “Net result of pooling of monetary income” recorded in the Profit and Loss and Appropriation Account (Note 6(ii)).

In the event of the ECB incurring a loss, the loss can be offset against the ECB’s general reserve fund, and, if necessary, by a decision of the Governing Council, against the monetary income of the relevant financial year in proportion to and up to the amount allocated to the NCBs.

(vii) Claims Equivalent to the Transfer of Foreign Reserves

The Treaty on the Functioning of the European Union 1992 and Section 5(A) of the Central Bank Act, 1942 (as amended) provides that the Bank has the power to “transfer assets, income or liabilities to the European Central Bank where required under the ESCB Statute”. Accordingly, the Bank transferred an amount equivalent to €424.8 million to the ECB in January 1999, at the commencement of the European Monetary Union, and received in turn a corresponding claim on the ECB equivalent to this amount. As a result of the capital key change on 1 January 2014 an amount of €28.7 million was transferred to the ECB in respect of foreign reserves. A total amount of €672.6 million has been transferred since 1 January 1999. The resulting claim on the ECB is remunerated at the latest available interest rate for the main refinancing operations adjusted to reflect a zero return on the gold component (Note 1(vi), Note 17 and Accounting Policy (c)(iii)).

(viii) Off-Balance Sheet Items

Profits and losses arising from off-balance sheet instruments are recognised and treated in a similar manner to on-balance sheet instruments (Accounting Policy (j)). Unrealised (valuation) gains are not recognised as income but are accounted for through the Profit and Loss and Appropriation Account and transferred to Revaluation Accounts. Unrealised (valuation) losses are taken to the Profit and Loss and Appropriation Account at year end where they exceed previous revaluation gains in the Revaluation Account. Unrealised trade date gains/losses on foreign exchange forward contracts are recorded under ‘other assets/liabilities’ in accordance with ESCB guidelines having been accounted for through the Profit and Loss and Appropriation Account as outlined above. This method is used for foreign exchange forward contracts and the techniques covering the most significant off-balance sheet financial instruments which have been identified for possible use by the ESCB are set out in the ECB Accounting Guideline, i.e. foreign exchange forwards, foreign exchange swaps, future contracts, interest rate swaps, forward rate agreements, forward transactions in securities and options.

(ix) Securities Held for Monetary Policy Purposes

These securities were acquired by the Bank within the scope of the purchase programmes for Covered Bonds10 (CBPP1, CBPP2 and CBPP3), and public debt securities acquired in the scope of the Securities Markets Programme11 (SMP). The securities are measured at amortised cost and are subject to impairment (Note 1(iii), Note 15(i) and Note 32(i)). The Governing Council decided on 15 December 2014 that securities held for monetary policy purposes shall be accounted for at amortised cost (subject to impairment), regardless of the holding intention. The new valuation approach did not result in any adjustment of the comparable numbers given that these securities were already valued at amortised cost (subject to impairment) (Accounting Policy (m)).


(d) **Income and Expense Recognition**

Income and expenses are recognised on an accruals basis.

(e) **Fixed Assets**

(i) **Measurement**
In accordance with FRS 15 ‘Tangible Fixed Assets’, fixed assets are stated at cost less accumulated depreciation and are not revalued. In accordance with FRS 11 ‘Impairment of Fixed Assets and Goodwill’, fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of a fixed asset may not be recoverable.

(ii) **Depreciation**
All fixed assets (except for assets under construction) are depreciated on a straight-line basis over their anticipated useful lives as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises</td>
<td>20 - 50 years</td>
</tr>
<tr>
<td>Plant and Machinery</td>
<td>5 - 15 years</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>3 - 5 years</td>
</tr>
<tr>
<td>Other Equipment</td>
<td>5 years</td>
</tr>
<tr>
<td>Furniture, Fixtures and Fittings</td>
<td>5 years</td>
</tr>
</tbody>
</table>

Accelerated depreciation has been provided for on assets which have a reduced useful life (Note 21(iv)).

(f) **Superannuation**

Under the Bank’s superannuation scheme, permanent Bank staff obtain the same superannuation benefits as established civil servants. Up to 30 September 2008, the Bank paid these benefits out of current income as they fell due. On 1 October 2008, a funded pension scheme was established under the Central Bank and Financial Services Authority of Ireland Act, 2003. An amount of €400 million, on the advice of the Bank’s actuaries at that time Willis, was transferred from the Bank’s resources to the fund to purchase pension fund assets. The Scheme is operated on a non-contributory basis for staff employed before 6 April 1995, with the exception of contributions made to the Spouses’ and Childrens’ Pension Scheme and payments received from eligible staff for the purchase and transfer of notional added service. In the case of staff employed on or after 6 April 1995, contributions are also payable in respect of the main scheme. All pension benefits are paid out of this fund. The Bank discloses the cost of providing benefits in accordance with FRS 17 ‘Retirement Benefits’.

Pension scheme assets are measured at fair value. Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at interest rates applicable to high-quality corporate bonds of the same currency and term as the liabilities. The pension related charge in the Profit and Loss and Appropriation Account comprises the sum of the current service cost and past service cost (Note 8) and the difference between the expected return on scheme assets and the interest cost of scheme liabilities (Note 7). The current service cost and any past service costs for the general body of staff are charged to the Profit and Loss and Appropriation Account and to the Currency Reserve in respect of Mint staff. Actuarial gains and losses are recognised in the Profit and Loss and Appropriation Account.

In determining the value of scheme liabilities, assumptions are made as to price inflation, pension increases, earnings growth and demographics. The assumptions underlying the 2014 liabilities and pension costs are set out in Note 31.
(g) **Coin Provision and Issue**

The Bank is involved in the production and issuance of coin on behalf of the Minister for Finance. Proceeds and expenses relating to the provision and issue of coin are transferred directly to the Currency Reserve under the provisions of the *Coinage Act*, 1950, the *Decimal Currency Acts*, 1969-1990 and the *Economic and Monetary Union Act*, 1998. The cost of production of coin is charged to the Currency Reserve in the year in which it is incurred. Proceeds from the issue of coin are credited to the Currency Reserve in the year they are received (Note 24). Section 14A of the *Economic and Monetary Union Act*, 1998 (as inserted by Section 137 of the *Finance Act*, 2002) which came into operation on 25 March 2002 provides for the net proceeds from the issue of coin, from 1 January 2002, to be passed directly to the Exchequer as directed by the Minister for Finance (Note 24(ii)). Where the net proceeds of coin issue, together with expenses, result in a net cost to the Bank, the Minister reimburses the difference to the Bank.

(h) **Foreign Currency Transactions**

Accounting transactions denominated in foreign currency are converted to euro equivalents at exchange rates prevailing at the date of settlement unless the year end falls between the trade date and settlement date, in which case they are recognised at the trade date (Accounting Policy (c)(i)).

(i) **Amortised Income**

Premiums and/or discounts arising on securities are treated as net interest income and amortised on a straight-line basis over the period to their maturity and accounted for through the Profit and Loss and Appropriation Account (Note 1).

(j) **Valuation Policy**

(i) Assets and liabilities denominated in foreign currency, unmatured investments, foreign currency contracts outstanding and shares in the Bank for International Settlements are valued at mid-market closing exchange rates at year-end (Note 33). The exchange rate valuation of assets and liabilities is performed on a currency-by-currency basis.

(ii) In accordance with the ECB Guideline, the valuation of securities is performed on a security-by-security basis. Marketable securities not held for monetary policy purposes and classified as mark-to-market (MTM) are valued at mid-market closing prices at year-end where an active market exists. Where market prices are not available or are unreliable, fair values are determined using mark-to-model valuation techniques including discounted cash flow models which, to the extent possible, use observable market inputs in accordance with FRS 26 ‘Financial Instruments: Recognition and Measurement’. A mark-to-model valuation approach inevitably incorporates a high level of management judgement in the absence of observable market data or when observable market data is judged to be unreliable. This judgement includes but is not limited to: evaluating available market information for comparator instruments; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread; adjusting the methodology when observable market inputs become unavailable or are unreliable (Note 12 and Note 15).

(iii) Marketable securities not held for monetary policy purposes and classified as held-to-maturity (HTM) are carried at amortised cost and are subject to impairment. An impairment review is completed on an annual basis (Note 12 and Note 15(iii)).
(iv) Gold is valued at the closing market price (Note 10).

(v) The financial assets and liabilities of the Bank are classified as prescribed in FRS 29: ‘Financial Instruments Disclosures’. Under the fair value hierarchy, for classification of financial assets and liabilities, Level 1 applies where quoted prices (unadjusted) in active markets for identical assets and liabilities are available; Level 2 applies where inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are available and Level 3 applies where inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used (Note 15(i)).

(k) Recognition of Gains and Losses

Realised gains and losses arising from sales of foreign exchange, gold and securities are accounted for through the Profit and Loss and Appropriation Account. All realised gains and losses (FX and euro) are calculated by reference to average cost.

Unrealised gains identified at the end of every financial year in accordance with the Bank’s valuation policy (Accounting Policy (j)) are accounted for through the Profit and Loss and Appropriation Account and transferred to the Revaluation Accounts.

Unrealised losses at year end are accounted for through the Profit and Loss and Appropriation Account to the extent that they exceed previous revaluation gains on a security-by-security basis. Unrealised losses accounted for through the Profit and Loss and Appropriation Account in this manner may not be reversed in subsequent years against future unrealised gains.

As all of the above gains and losses are recognised through the Profit and Loss and Appropriation Account, it is not considered necessary to include a separate Statement of Total Recognised Gains and Losses.

(l) Reverse Transactions

Reverse transactions are operations whereby the Bank buys or sells assets for cash under a repurchase/reverse repurchase agreement. Under a repurchase agreement, securities are sold for cash with a simultaneous agreement to repurchase them from the counterparty at an agreed price on a set future date. Repurchase agreements are recorded as collateralised inward deposits on the liability side of the Balance Sheet and lead to an interest expense in the Profit and Loss and Appropriation Account. Securities sold under such an agreement remain on the Balance Sheet of the Bank.

Under a reverse repurchase agreement, securities are bought for cash with a simultaneous agreement to sell them back to the counterparty at an agreed price on a set future date. Reverse repurchase agreements are recorded as collateralised loans on the asset side of the Balance Sheet (Note 12 and Note 14) but are not included in the Bank’s securities holdings. They give rise to interest income in the Profit and Loss and Appropriation Account (Note 1).

(m) Provisions

Impairment

All provisions are reviewed annually (Note 32). Where created, in respect of investment assets, allowances for credit risks are recorded in separate liability accounts (i.e. there is no direct write-down of the carrying amount of individual assets).
In respect of provisions relating to securities, the Bank assesses at each balance sheet date whether there is objective evidence that a security or group of securities is impaired. A security or a group of securities is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the security (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the security or group of securities that can be reliably estimated.

Objective evidence of impairment includes observable data about the following loss events, which are not exhaustive:

(i) delinquency in contractual payments of principal or interest;
(ii) cash flow difficulties of the debtor;
(iii) the initiation of a debt restructuring arrangement;
(iv) a significant deterioration in the sustainability of sovereign debt;
(v) external rating downgrade below an acceptable level;
(vi) a deterioration in national or local economic conditions that correlate with defaults on the assets.

The Bank first assesses whether objective evidence of impairment exists individually for securities that are individually significant, and individually or collectively for securities that are not individually significant. If the Bank determines that no objective evidence of impairment exists for individually assessed securities, whether significant or not, it includes the securities in a group of securities with similar credit risk characteristics and collectively assesses them for impairment.

Securities that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a security has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the security’s original effective interest rate. As a practical expedient, the Bank may measure impairment on the basis of a security’s fair value using an observable market price.

Future cash flows in a group of securities that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group suitably adjusted on the basis of current observable data.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (Note 3 and Note 32(i)).

Onerous Leases

An onerous lease is one in which the unavoidable costs of meeting the obligations under the lease exceed the economic benefit expected to be received.

The Bank accounts for onerous leases in accordance with FRS 12 – ‘Provisions, Contingent Assets and Liabilities’.
Where a contract becomes onerous, the present obligation under the contract is recognised and measured as a provision (Note 3, Note 21(iv) and Note 32(iii)).

**Restructuring Provision**

A restructuring is a programme that is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted.

In accordance with FRS 12 a provision for restructuring costs is recognised when the general recognition criteria for provisions are met.

The Bank accounts for restructuring costs in accordance with FRS 12 (Note 3 and Note 32(iv)).

**(n) Surplus Income**

The Bank complies with Statutory Instrument 93/1943 - *Central Bank of Ireland (Surplus Income) Regulations*, 1943. The Bank may retain up to a maximum of 20 per cent of profit in each year. The amount retained is appropriated to reserves and is subject to the approval of the Commission each year (Note 9).
### Notes to the Accounts

#### Note 1: Interest Income

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit Income</td>
<td>304</td>
<td>317</td>
</tr>
<tr>
<td>Interest on Securities - MTM (i)</td>
<td>941,456</td>
<td>943,215</td>
</tr>
<tr>
<td>Interest on Securities - HTM (ii)</td>
<td>357,040</td>
<td>370,445</td>
</tr>
<tr>
<td>Interest on Securities for Monetary Policy Purposes (iii)</td>
<td>175,286</td>
<td>218,130</td>
</tr>
<tr>
<td>Reverse Repurchase Agreements (iv)</td>
<td>262</td>
<td>44</td>
</tr>
<tr>
<td>Monetary Policy Operations (v)</td>
<td>50,466</td>
<td>289,569</td>
</tr>
<tr>
<td>Income from Transfer of Foreign Reserve Assets to ECB (vi)</td>
<td>946</td>
<td>3,059</td>
</tr>
<tr>
<td>Exceptional Liquidity Assistance (ELA) (vii)</td>
<td>–</td>
<td>112,782</td>
</tr>
<tr>
<td>Interest on Facility Deed (viii)</td>
<td>–</td>
<td>80,364</td>
</tr>
<tr>
<td>Credit Institution Income (ix)</td>
<td>982</td>
<td>–</td>
</tr>
<tr>
<td>Government Income (ix)</td>
<td>3,250</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>25</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,530,017</td>
<td>2,017,949</td>
</tr>
</tbody>
</table>

(i) This item includes income earned €889.3 million (2013: €855.1 million) on the portfolio of securities acquired following the Irish Bank Resolution Corporation (IBRC) liquidation in February 2013. The portfolio comprised non-amortising Irish Government Floating Rate Notes, non-amortising NAMA12 bonds and a 5.4% Irish 2025 bond acquired by the Bank following the termination of the IBRC’s market repurchase agreement. The income earned on these securities amounted to €752.5 million (2013: €667.6 million), €29.7 million (2013: €36.1 million) and €107.1 million (2013: €149.5 million) respectively. In 2013, the portfolio also included collateral securing the Main Refinancing Operations (MRO) of IBRC. The income on this portfolio amounted to €1.9 million (Note 15(ii)).

(ii) This relates to income earned on bonds classified as HTM in the Bank’s investment portfolio. The decrease in income primarily reflects the reinvestment in lower yielding securities (Note 15 (ii)(ii)).

(iii) This item incorporates income of €17.5 million (2013: €24.5 million), €7.9 million (2013: €11.3 million), €0.2 million (2013: nil) and €149.7 million (2013: €182.4 million) on the securities purchased by the Bank under the CBPP1, CBPP2, CBPP3 and the SMP respectively (Note 15(i) and Accounting Policy (c)(ix)).

(iv) This is income earned on Reverse Repurchase Agreements outstanding at 31 December 2014 amounting to €529.0 million (2013: €442.0 million) (Note 12, Note 14 and Accounting Policy (l)).

(v) This relates to income earned on lending to credit institutions by the Bank as part of the Eurosystem’s monetary policy operations. The decrease in income reflects the decrease in lending to credit institutions and the lower interest rate environment (Note 13).

(vi) This relates to the remuneration of Foreign Reserve Assets transferred to the ECB. The decrease in income reflects the decreases in the MRO rate during 2014 (Note 17 and Accounting Policy (c)(viii)).

(vii) The provision of ELA ceased on 7 February 2013 following the IBRC liquidation. On that date the Bank took outright ownership of the Promissory Notes, the Facility Deed and the NAMA bonds which had been accepted as collateral for the ELA. Subsequently, in 2013 the Promissory Notes were exchanged for a long-term non-amortising portfolio of standard marketable Irish Government Bonds (Note 1(i) and Note 15(ii)).

(viii) The facility deed was accepted as collateral for the ELA and was exchanged for NAMA Bonds to the value of €12.9 billion at end March 2013.

(ix) On 5 June 2014 the ECB introduced a negative deposit facility rate which applies to certain deposits held with the Bank effective from 11 June 2014. The Bank earned interest income on credit institution deposits and Government deposits amounting to €1.0 million and €3.3 million respectively. Prior to the introduction of the negative interest rate the Bank paid interest on these deposits. The Bank continues to pay interest on these deposits up to an agreed threshold (Note 2(i) and 2(ii)).
### Note 2: Interest Expense

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Deposits (i)</td>
<td>9,400</td>
<td>14,116</td>
</tr>
<tr>
<td>Credit Institutions’ Deposits (ii)</td>
<td>6,168</td>
<td>16,263</td>
</tr>
<tr>
<td>Intra-Eurosystem Balances (net) (iii)</td>
<td>66,059</td>
<td>351,247</td>
</tr>
<tr>
<td>Remuneration of Liability in respect of allocation of Euro Banknotes in Circulation (iv)</td>
<td>25,978</td>
<td>89,365</td>
</tr>
<tr>
<td>Other</td>
<td>233</td>
<td>237</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>107,838</strong></td>
<td><strong>471,228</strong></td>
</tr>
</tbody>
</table>

(i) This item relates to interest paid on Government deposits. The reduction in interest expense is a result of lower Government deposits held with the Bank and the introduction of negative interest rates during 2014 (Note 1(ix)).

(ii) This item relates to interest paid on Credit Institutions’ deposits. The reduction in interest expense reflects the lower interest rate environment.

(iii) The interest expense on these balances, which are remunerated at the short-term refinancing rates of the Eurosystem, is calculated by the ECB at the end of each day. There was a reduction in both the balances held with the Bank and the MRO rate during the year (Accounting Policy (c)(ii)).

(iv) The interest expense is based on the difference between the value of euro banknotes allocated to each NCB in accordance with their banknote allocation key and the value of the euro banknotes that the Bank actually puts into circulation. This is also remunerated at the MRO rate which was reduced during the year (Accounting Policies (c)(ii) and (c)(iv)).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Realised Price Gains on Securities (i)</td>
<td>739,206</td>
<td>53,052</td>
</tr>
<tr>
<td>Net Realised Exchange Rate Gains</td>
<td>215</td>
<td>1,572</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>739,421</td>
<td>54,624</td>
</tr>
</tbody>
</table>

(i) Net realised price gains on securities in 2014 amounted to €739.2 million (2013: €53.1 million) and primarily reflects the realised gains on the partial sales of the 5.4% Irish Government Bond 2025 and the 2038 Floating Rate Note (FRN) amounting to €718.1 million (Note 15 (i)).

<table>
<thead>
<tr>
<th>Write-Downs on Financial Assets and Positions</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealised Price Losses on Securities</td>
<td>(383)</td>
<td>(16,982)</td>
</tr>
<tr>
<td>Unrealised Exchange Rate Losses</td>
<td>–</td>
<td>(32)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(383)</td>
<td>(17,014)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transfer (to)/from Provisions</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision release for Securities (Note 32(i))</td>
<td>100,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Onerous Lease and Dilapidations (Note 32(iii))</td>
<td>971</td>
<td>(18,400)</td>
</tr>
<tr>
<td>Restructuring Provision (Note 32(iv))</td>
<td>(6,732)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>94,239</td>
<td>31,600</td>
</tr>
</tbody>
</table>

### Note 4: Income from Fees and Commissions

<table>
<thead>
<tr>
<th>Service Fees and Charges</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities Lending</td>
<td>1,229</td>
<td>1,392</td>
</tr>
<tr>
<td>TARGET2 Distribution of Pooled Income</td>
<td>559</td>
<td>583</td>
</tr>
<tr>
<td>Other</td>
<td>14</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,493</td>
<td>2,741</td>
</tr>
</tbody>
</table>
### Note 5: Income from Equity Shares and Participating Interests

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of ECB Profits (i)</td>
<td>14,912</td>
<td>28,600</td>
</tr>
<tr>
<td>BIS Dividend (ii)</td>
<td>2,083</td>
<td>3,117</td>
</tr>
<tr>
<td>Other</td>
<td>(5)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>16,990</td>
<td>31,717</td>
</tr>
</tbody>
</table>

(i) This item represents the Bank’s share of the ECB’s profit (Accounting Policy (c)(v)).

The Governing Council of the ECB decided to transfer from the ECB’s profits, for year ended 31 December 2014, an amount of €15.0 million (2013: €0.4 million) (which is distributed from the ECB’s income on securities held in the SMP, CBPP3 and Asset Backed Securities Purchase Programme (ABSPP) and income earned on euro banknotes in circulation) to the ECB risk provision, thereby increasing it to the level of its present ceiling of €7,575.0 million. As a result an amount of €840.7 million (2013: €1,369.7 million) was paid to the Eurosystem NCBs on 30 January 2015 in accordance with their Eurosystem capital key as a partial distribution of the ECB’s profits for the year. The Bank’s share amounted to €13.9 million (2013: €21.9 million) (Note 18). The final distribution of profit for 2013, paid in March 2014, amounting to €1.0 million is also included. The corresponding figure in 2013 was €6.7 million.

(ii) This item represents dividends received on shares held in the Bank for International Settlements (Note 20(i) and Note 35(i) Contingent Liabilities).
### Note 6: Net Result of Pooling of Monetary Income

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Share of Eurosystem Provision Against Counterparty Risks (i)</td>
<td>–</td>
<td>3,952</td>
</tr>
<tr>
<td>Net Result of Pooling of Monetary Income (ii)</td>
<td>445</td>
<td>11,493</td>
</tr>
<tr>
<td>Total</td>
<td>445</td>
<td>15,445</td>
</tr>
</tbody>
</table>

(i) In accordance with the decision of the Governing Council taken under Article 32.4 of the ESCB Statute, the provision against counterparty risks in monetary policy operations that was established in 2008 is allocated between the national central banks of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in the year when the defaults have occurred. In 2008, when the provision was established, there was a charge to the Profit and Loss and Appropriation Account of €73.1 million being the Bank’s share of the total provision for the Eurosystem. In line with the general accounting principle of prudence, the Governing Council reviewed the appropriateness of the outstanding provision and decided to dissolve it at the end of 2013. The respective adjustment arising from this decision was reflected in the 2013 Profit and Loss and Appropriation Account.

(ii) Net Result of Pooling of Monetary Income.

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Net (Contributor)/Receiver of Monetary Income</td>
<td>(8,781)</td>
<td>11,282</td>
</tr>
<tr>
<td>Previous Years’ Eurosystem Adjustments</td>
<td>3,860</td>
<td>175</td>
</tr>
<tr>
<td>Exceptional Income</td>
<td>5,363</td>
<td>–</td>
</tr>
<tr>
<td>Interest Receivable</td>
<td>3</td>
<td>36</td>
</tr>
<tr>
<td>Total</td>
<td>445</td>
<td>11,493</td>
</tr>
</tbody>
</table>

This represents the difference between the monetary income pooled by the Bank of €173.8 million (2013: €254.2 million) and that reallocated to the Bank of €165.0 million (2013: €265.4 million) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares, together with interest and adjustments on net results for previous years of €3.8 million (2013: €0.2 million) (Accounting Policy (c)(vi)). The adjustments relate to 2008-2013. In addition the Bank received a payment of €5.4 million (2013: nil) in relation to exceptional income (Note 18(ii)).
### Note 7: Other Income

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Regulation Net Industry Funding (i)</td>
<td>74,795</td>
<td>53,033</td>
</tr>
<tr>
<td>Financial Regulation Monetary Penalties (ii)</td>
<td>5,422</td>
<td>1,348</td>
</tr>
<tr>
<td>Financial Regulation Deferred Charges (iii)</td>
<td>(319)</td>
<td>7,406</td>
</tr>
<tr>
<td>Other Financial Regulation Income (Note 41(iii))</td>
<td>2,396</td>
<td>1,717</td>
</tr>
<tr>
<td>Interest on Pension Scheme Liabilities (Note 31(i))</td>
<td>(22,423)</td>
<td>(22,025)</td>
</tr>
<tr>
<td>Expected Return on Pension Fund Assets (Note 31(i))</td>
<td>17,423</td>
<td>16,276</td>
</tr>
<tr>
<td>Other</td>
<td>1,398</td>
<td>1,833</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>78,692</strong></td>
<td><strong>59,588</strong></td>
</tr>
</tbody>
</table>

(i) The composition of Financial Regulation Net Industry Funding and the rationale for the inclusion of the Financial Regulation Surplus from 2013 are provided in Note 41(i).

(ii) Monetary penalties represent amounts payable to the Bank by financial services providers following the conclusion of settlement agreements with those entities in relation to breaches of regulatory requirements. The full amount of these penalties, amounting to €5.4 million in 2014 (2013: €1.3 million), is included in Surplus Income payable to the Exchequer following approval of the Statement of Accounts (Note 9).

(iii) This represents the net effect of a change in the estimated provision for the onerous lease attributable to industry (€0.3 million) and the release of a portion of charges previously deferred (€8,000) (Note 41(vii)).
### Note 8: Expenses

<table>
<thead>
<tr>
<th></th>
<th>Total Head Office &amp; Printworks*</th>
<th>Mint**</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries/Allowances (i)(v)</td>
<td>91,228</td>
<td>96,714</td>
<td>436</td>
</tr>
<tr>
<td>PRSI</td>
<td>7,774</td>
<td>7,649</td>
<td>27</td>
</tr>
<tr>
<td>Pensions (Note 31(i))</td>
<td>25,241</td>
<td>16,156</td>
<td>142</td>
</tr>
<tr>
<td>Staff Expenses</td>
<td>124,243</td>
<td>120,519</td>
<td>605</td>
</tr>
<tr>
<td>Communications &amp; IT</td>
<td>10,842</td>
<td>9,418</td>
<td>36</td>
</tr>
<tr>
<td>Business Travel</td>
<td>2,234</td>
<td>2,486</td>
<td>12</td>
</tr>
<tr>
<td>Office Administration Expense</td>
<td>1,044</td>
<td>958</td>
<td>3</td>
</tr>
<tr>
<td>Professional Fees (ii)</td>
<td>27,734</td>
<td>27,083</td>
<td>3</td>
</tr>
<tr>
<td>External Research &amp; Corporate Subscriptions</td>
<td>1,903</td>
<td>1,522</td>
<td>3</td>
</tr>
<tr>
<td>Publishing &amp; Public Relations</td>
<td>295</td>
<td>415</td>
<td>–</td>
</tr>
<tr>
<td>Payments &amp; Asset Management Charges</td>
<td>5,883</td>
<td>4,065</td>
<td>11</td>
</tr>
<tr>
<td>Currency Supplies and Machine Maintenance</td>
<td>822</td>
<td>873</td>
<td>35</td>
</tr>
<tr>
<td>Training, Education &amp; Conferences</td>
<td>3,056</td>
<td>3,147</td>
<td>6</td>
</tr>
<tr>
<td>Recruitment &amp; Other Staff Costs</td>
<td>2,598</td>
<td>2,342</td>
<td>–</td>
</tr>
<tr>
<td>Facilities Management &amp; Maintenance</td>
<td>6,004</td>
<td>6,031</td>
<td>4</td>
</tr>
<tr>
<td>Rent &amp; Utilities</td>
<td>9,382</td>
<td>8,745</td>
<td>–</td>
</tr>
<tr>
<td>Miscellaneous (iii)</td>
<td>465</td>
<td>2,856</td>
<td>11</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>72,212</td>
<td>69,941</td>
<td>124</td>
</tr>
<tr>
<td>Depreciation</td>
<td>12,266</td>
<td>13,347</td>
<td>92</td>
</tr>
<tr>
<td>Currency Production Raw Materials (iv)</td>
<td>7,693</td>
<td>3,478</td>
<td>1,041</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>216,414</td>
<td>207,285</td>
<td>1,862</td>
</tr>
</tbody>
</table>

* Head Office expenses comprise all expenses (including financial regulatory and printwork expenses) other than those relating to the Mint.

**Expenses incurred at the Mint relating to the provision and issue of coin are charged directly to the Currency Reserve (Note 24(ii) and Accounting Policy (g)).

(i) Included in this item is an expense for holiday pay amounting to €0.4 million. In 2013 a holiday pay accrual was set up for the first time amounting to €6.5 million (Note 30 (iii)).

Remuneration of Executive and non-Executive Directors in 2014

<table>
<thead>
<tr>
<th>Name</th>
<th>Period</th>
<th>Salary and Fees</th>
<th>Other&lt;sup&gt;13&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patrick Honohan* Governor</td>
<td>1 January - 31 December</td>
<td>€254,048</td>
<td>€4,817</td>
</tr>
<tr>
<td>Stefan Gerlach Deputy Governor (Central Banking)</td>
<td>1 January - 31 December</td>
<td>€230,350</td>
<td>€2,093</td>
</tr>
<tr>
<td>Cyril Roux Deputy Governor (Financial Regulation)</td>
<td>1 January - 31 December</td>
<td>€310,000</td>
<td>€1,764</td>
</tr>
<tr>
<td>Total fees paid to other Members of the Central Bank Commission</td>
<td>1 January - 31 December</td>
<td>€32,361</td>
<td>–</td>
</tr>
</tbody>
</table>

<sup>13</sup> Relates to expenses refunded.
Note 8: Expenses (continued)

*Governor Patrick Honohan gifted €57,048 under Section 483 of the Taxes Consolidation Act, 1997 to the Minister for Finance from his 2014 emoluments, which resulted in a net remuneration of €197,000 for 2014. Patrick Honohan’s pension entitlements do not extend beyond the standard entitlements in the Bank’s defined benefit superannuation scheme (Note 31).

In keeping with the One Person One Salary principle, three non-executive members of the Commission did not receive payment of any fees. The aggregate annual fee for three non-executive members of the Commission amounted to €32,361 (€14,936 each for two members (Des Geraghty and Michael Soden)) and €2,489 for one member (John FitzGerald). The ex-officio members of the Commission do not receive a fee in respect of their membership of the Commission.

(ii) Professional fees include an amount of €17.6 million in relation to the Comprehensive Assessment of certain credit institutions in 2014.

Also included in professional fees are amounts payable to external auditors. Auditors’ fees incurred in respect of services provided by RSM Farrell Grant Sparks and the Office of the Comptroller and Auditor General amounted to:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of Statement of Accounts</td>
<td>300</td>
<td>265</td>
</tr>
<tr>
<td>RSM Farrell Grant Sparks</td>
<td>180</td>
<td>150</td>
</tr>
<tr>
<td>Office of the Comptroller and Auditor General</td>
<td>120</td>
<td>115</td>
</tr>
<tr>
<td>Other Assurance Services</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>RSM Farrell Grant Sparks</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>335</td>
<td>300</td>
</tr>
</tbody>
</table>

Other Assurance Services relate to audit services provided on behalf of the ECB and the Superannuation Fund.

(iii) Included in miscellaneous is an amount of €0.3 million (2013: €2.3 million) in respect of fixed asset write-offs following the annual review of the fixed asset register (Note 21 (iii)). Also included in this category are the expenses of the Financial Services Appeals Tribunal €0.03 million (2013: €0.08 million) which the Bank discharges, in accordance with the provisions of Section 57AX(4) of the Central Bank Act, 1942, as amended.

(iv) Currency Production Raw Materials expenses relate to the production of Banknotes (€7.7 million) and Coin (€1.0 million). The increase in this item relates to the launch of the new €10 note as part of the Europa Series which entered circulation in 2014.

(v) An amount of €6.1 million (2013: €6.3 million) was payable to the Department of Finance in respect of the pension levy from staff salaries. This figure is not shown separately in the table but is included within the figure for Salaries/Allowances.

(vi) Compensation payments totalling €10,346 (2013: €69,124) were paid in two employment related cases (three in 2013).
Note 9: Surplus Income payable to the Exchequer

Surplus Income of €1,708.8 million is payable to the Exchequer in respect of the year ended 31 December 2014 (2013: €1,212.1 million) (Note 30(i)) and Accounting Policy (n)). The gross amount is payable to the Exchequer as under Section 6J of the Central Bank Act, 1942 (as amended), the Bank is exempt from Corporation Tax and Capital Gains Tax.

Note 10: Gold and Gold Receivables

Gold and gold receivables consist of coin stocks held in the Bank, together with gold bars held at the Bank of England. The increase in the balance at end 2014 is due to the change in the market value of gold holdings since end 2013 (Accounting Policy j(iv)).

Note 11: Claims on Non-Euro Area Residents in Foreign Currency

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables from the International Monetary Fund (IMF)</td>
<td>1,084,881</td>
<td>1,016,123</td>
</tr>
<tr>
<td>Balances with Banks and Security Investments, External Loans and other External Assets due within one year</td>
<td>185,358</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,270,239</td>
<td>1,019,123</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Receivables from the International Monetary Fund (IMF)</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quota</td>
<td>1,519,127</td>
<td>1,394,551</td>
</tr>
<tr>
<td>Less IMF Holdings maintained by the Bank</td>
<td>(1,210,713)</td>
<td>(1,105,325)</td>
</tr>
<tr>
<td>Reserve Position in IMF (i)</td>
<td>308,414</td>
<td>289,226</td>
</tr>
<tr>
<td>SDR Holdings (ii)</td>
<td>776,467</td>
<td>726,897</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,084,881</td>
<td>1,016,123</td>
</tr>
</tbody>
</table>

(i) Reserve Position in the IMF:

This asset represents the difference between Ireland’s Quota in the IMF and the IMF’s holdings of euro maintained by the Bank. Ireland’s Quota is its membership subscription, 25 per cent of which was paid for in foreign currencies and the balance in euro. The holdings of euro by the IMF, maintained with the Bank, which initially were equal to 75 per cent of the Quota, have changed from time to time as a result of instructions received from the IMF regarding its lending to member countries. The current percentage holding is 80 per cent. There was no change in this percentage holding in 2013 and 2014.

(ii) Special Drawing Rights (SDRs) Holdings:

The SDR is an international reserve asset, which was created by the IMF and allocated to member countries in the 1970s/80s in order to increase international liquidity. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of exchange rates of four currencies (US dollar, sterling, yen and euro) (Note 27).
Note 12: Claims on Non-Euro Area Residents in Euro

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Balances with Banks</td>
<td>5,084</td>
<td>1,754</td>
</tr>
<tr>
<td>Security Investments - MTM (i)</td>
<td>710,817</td>
<td>662,600</td>
</tr>
<tr>
<td>Security Investments - HTM (i)</td>
<td>1,081,977</td>
<td>819,374</td>
</tr>
<tr>
<td>Reverse Repurchase Agreements (ii)</td>
<td>329,000</td>
<td>31,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,126,878</td>
<td>1,514,728</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>0 - 3 months</td>
<td>583,185</td>
<td>235,948</td>
</tr>
<tr>
<td>3 months – 1 year</td>
<td>419,545</td>
<td>128,676</td>
</tr>
<tr>
<td>1 – 5 years</td>
<td>1,058,042</td>
<td>1,073,670</td>
</tr>
<tr>
<td>5 – 10 years</td>
<td>66,106</td>
<td>76,434</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,126,878</td>
<td>1,514,728</td>
</tr>
</tbody>
</table>

(i) Accounting Policy (j).
(ii) Accounting Policy (l).
### Note 13: Lending to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Main Refinancing Operations (i)</td>
<td>4,050,000</td>
<td>4,545,000</td>
</tr>
<tr>
<td>Longer Term Refinancing Operations (LTROs) (ii)</td>
<td>16,650,000</td>
<td>34,501,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20,700,000</strong></td>
<td><strong>39,046,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>0 – 3 months</td>
<td>12,255,000</td>
<td>2,150,000</td>
</tr>
<tr>
<td>1 – 5 years (TLTROs)</td>
<td>4,395,000</td>
<td>32,351,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,650,000</strong></td>
<td><strong>34,501,000</strong></td>
</tr>
</tbody>
</table>

These balances consist of advances to local credit institutions and reflect the Bank’s participation in Eurosystem monetary policy operations. All the advances are fully secured by collateral approved by the Eurosystem. There was a decrease in the level of the Eurosystem Main Refinancing Operations (MRO) and Longer Term Refinancing Operations (LTRO) advances during 2014. As at 31 December 2014, total Eurosystem monetary policy-related advances amounted to €630.3 billion (2013: €752.3 billion), of which the Bank held €20.7 billion (2013: €39.0 billion). In accordance with Article 32.4 of the ESCB Statute, any losses from lending to euro area credit institutions related to monetary policy operations, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing Eurosystem capital key shares. For lending secured by Additional Credit Claims, the risks are borne by the Bank (Note 36).

(i) MROs are executed through liquidity providing reverse transactions with a weekly frequency and a maturity of one week, normally by means of standard tenders. Since October 2008, these operations have been conducted as fixed rate tender procedures. These operations play a key role in achieving the aims of steering interest rates, managing market liquidity and signalling the monetary policy stance.

(ii) LTROs aim to provide counterparties with additional longer-term refinancing. In 2014, operations have been conducted with maturities equal to the reserve maintenance period and with maturities of three months. These operations were conducted at fixed rate with allotment of the total amount bid. On 5 June 2014, the Governing Council of the ECB decided to conduct a series of targeted longer term refinancing operations (TLTROs) aimed at improving bank lending to the euro area non-financial private sector, excluding loans to households for house purchases, over a window of two years. The interest rate on the TLTROs is fixed over the life of each operation at the rate of the Eurosystem’s MROs prevailing at the time of take up, plus a fixed spread of 10 basis points. As at 31 December 2014, €4.4 billion in TLTROs was advanced by the Bank to local credit institutions. This amount is included in the LTRO figure.

### Note 14: Other Claims on Euro Area Credit Institutions in Euro

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Maturities less than one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances with Banks</td>
<td>151,015</td>
<td>150,606</td>
</tr>
<tr>
<td>Reverse Repurchase Agreements</td>
<td>200,000</td>
<td>411,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>351,015</strong></td>
<td><strong>561,606</strong></td>
</tr>
</tbody>
</table>
Note 15: Securities of Euro Area Residents in Euro

This item comprises two portfolios: (i) 'Securities held for monetary policy purposes', introduced to reflect the euro-denominated covered bond portfolios, (the first programme commenced in July 2009, the second in November 2011 and the third in October 2014) and the SMP, which began in May 2010; and (ii) 'Other securities', which includes marketable securities that are not related to the monetary policy operations of the Eurosystem.

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities Held for Monetary Policy Purposes (i)</td>
<td>3,396,309</td>
<td>3,306,696</td>
</tr>
<tr>
<td>Other Securities (ii)</td>
<td>51,699,552</td>
<td>60,510,456</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>55,095,861</td>
<td>63,817,152</td>
</tr>
</tbody>
</table>

(i) Securities Held for Monetary Policy Purposes

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortised Cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Covered Bonds Purchase Programme 1 (CBPP1)</td>
<td>276,058</td>
<td>287,371</td>
</tr>
<tr>
<td>Covered Bonds Purchase Programme 2 (CBPP2)</td>
<td>103,783</td>
<td>108,849</td>
</tr>
<tr>
<td>Covered Bonds Purchase Programme 3 (CBPP3)</td>
<td>498,884</td>
<td>498,891</td>
</tr>
<tr>
<td>Securities Markets Programme (SMP)</td>
<td>2,517,584</td>
<td>2,917,146</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,396,309</td>
<td>3,306,696</td>
</tr>
</tbody>
</table>

Maturity Profile

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 3 months</td>
<td>117,932</td>
<td>2,501</td>
</tr>
<tr>
<td>3 months – 1 year</td>
<td>720,615</td>
<td>438,989</td>
</tr>
<tr>
<td>1 – 5 years</td>
<td>1,740,468</td>
<td>1,297,224</td>
</tr>
<tr>
<td>5 – 10 years</td>
<td>721,683</td>
<td>1,473,144</td>
</tr>
<tr>
<td>10 – 15 years</td>
<td>95,611</td>
<td>94,838</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,396,309</td>
<td>3,306,696</td>
</tr>
</tbody>
</table>

This category of securities relates to acquisitions by the Bank within the scope of the purchase programmes for covered bonds, and public debt securities acquired within the scope of the SMP. Under the SMP established in May 2010, the ECB and the NCBs could purchase euro area public and private debt securities to address the malfunctioning of certain segments of the euro area debt securities markets and to restore proper functioning of the monetary policy transmission mechanism.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under the SMP and the three CBPPs. The purchasing of securities under the SMP programme terminated in September 2012, following the announcement of a new programme - OMT, and the CBPP1 and the CBPP2 programmes concluded on 30 June 2010 and 31 October 2012 respectively.

Note 15: Securities of Euro Area Residents in Euro (continued)

On 4 September 2014, the Governing Council announced two new purchase programmes: the Asset Backed Securities Purchase Programme (ABSPP) and CBPP3. Under CBPP3, the ECB and NCBs have started to purchase euro-denominated covered bonds issued in the euro area with the objective of easing funding conditions for credit institutions. This programme will last at least two years. Under the ABSPP, the Eurosystem may purchase senior and guaranteed mezzanine tranches of asset-backed securities (ABSs) in both primary and secondary markets to support the provision of credit to the euro area economy. The ECB commenced purchasing securities under the ABSPP on 21 November 2014. This portfolio will be held on the ECB’s Balance Sheet for an interim period.

The holdings of monetary policy securities are as follows (Note 1(iii) and Accounting Policies (c)(ix)):

<table>
<thead>
<tr>
<th>€M</th>
<th>SMP</th>
<th>CBPP1</th>
<th>CBPP2</th>
<th>CBPP3</th>
<th>ABSPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurosystem</td>
<td>144,263</td>
<td>28,817</td>
<td>12,787</td>
<td>29,632</td>
<td>1,744</td>
</tr>
<tr>
<td>Bank</td>
<td>2,518</td>
<td>276</td>
<td>103</td>
<td>499</td>
<td>0</td>
</tr>
</tbody>
</table>

Securities purchased for monetary policy purposes are measured at amortised cost subject to impairment. Annual impairment tests are conducted on the basis of information available and recoverable amounts estimated as at the reporting date. There was no impairment of securities as at 31 December 2014.

(ii) Other Securities

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security Investments - MTM (i)</td>
<td>43,657,239</td>
<td>52,567,482</td>
</tr>
<tr>
<td>Security Investments - HTM (ii)</td>
<td>8,042,313</td>
<td>7,942,974</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51,699,552</strong></td>
<td><strong>60,510,456</strong></td>
</tr>
</tbody>
</table>

Maturity Profile

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 3 months</td>
<td>3,204,224</td>
<td>14,234,149</td>
</tr>
<tr>
<td>3 months – 1 year</td>
<td>3,756,845</td>
<td>5,160,082</td>
</tr>
<tr>
<td>1 – 5 years</td>
<td>6,329,361</td>
<td>5,488,723</td>
</tr>
<tr>
<td>5 – 10 years</td>
<td>3,576,467</td>
<td>4,255,636</td>
</tr>
<tr>
<td>10 – 15 years</td>
<td>1,187,382</td>
<td>3,545,024</td>
</tr>
<tr>
<td>&gt; 15 years</td>
<td>33,645,273</td>
<td>27,826,842</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51,699,552</strong></td>
<td><strong>60,510,456</strong></td>
</tr>
</tbody>
</table>
Note 15: Securities of Euro Area Residents in Euro (continued)

(i) Security Investments – MTM
The portfolio of securities acquired following the IBRC liquidation form part of this category as outlined in the table below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Floating Rate Notes</td>
<td>25,034,000</td>
<td>(500,000)</td>
<td>24,534,000</td>
<td>2,792,842</td>
<td>(48,475)</td>
<td>6,366,906</td>
<td>9,111,273</td>
<td>33,645,273</td>
<td>27,826,842</td>
</tr>
<tr>
<td>NAMA Bonds</td>
<td>12,638,000</td>
<td>(12,212,000)</td>
<td>426,000</td>
<td>(12,408)</td>
<td>11,989</td>
<td>177</td>
<td>(242)</td>
<td>425,758</td>
<td>12,625,592</td>
</tr>
<tr>
<td>Irish 2025 Government Bond</td>
<td>3,252,354</td>
<td>(2,355,486)</td>
<td>896,868</td>
<td>292,670</td>
<td>290,513</td>
<td>(187)</td>
<td>1,187,381</td>
<td>3,545,024</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40,924,354</td>
<td>(15,067,486)</td>
<td>25,856,868</td>
<td>3,073,104</td>
<td>(248,136)</td>
<td>6,576,576</td>
<td>9,401,544</td>
<td>35,258,412</td>
<td>43,997,458</td>
</tr>
</tbody>
</table>

The above table shows the movement in the book values and the valuation of securities which were acquired following the IBRC liquidation during 2013. The Bank intends to sell the combined portfolio of the Floating Rate Notes and the fixed rate bond as soon as possible, provided conditions of financial stability permit. The Bank will sell a minimum of these securities in accordance with the following schedule: 2015-2018 (€0.5 billion per annum), 2019-2023 (€1 billion per annum), and 2024 on (€2 billion per annum until all bonds are sold).

Floating Rate Notes (FRNs)
In 2013 the Bank acquired eight FRNs amounting to €25.0 billion as part of the exchange of assets on the liquidation of IBRC. The eight FRNs range in maturity from 2038-2053. As at 31 December 2014, the FRNs were valued at €33.6 billion (2013: €27.8 billion) giving rise to an unrealised gain of €9.1 billion (2013: €2.8 billion) (Note 33). During 2014, the Bank sold €500 million nominal of the FRNs (2038 FRN) realising gains amounting to €180.3 million. These are classified as Level 3 type securities.

As there is no active market in floating rate notes, the Bank values the FRNs using an internal model which applies valuation methods and techniques that are generally recognised as standard within the industry. The fair value of these securities has been estimated using a discounted cash flow valuation technique incorporating:

a) an estimated “6 month forward” euribor curve which can change over time in response to a variety of factors, including supply and demand for liquidity in banks as well as economic growth and inflation expectations,

b) a zero coupon yield curve compiled from the Irish yield curve for the period for which directly observable market prices are available, and thereafter extrapolated using observable yields on other relevant European yield curves that are trading in active markets.

Model factors require judgement to ensure they are appropriately estimated over time. A twenty five basis point change in the Irish discount curve used in the pricing model will impact on the valuation by approximately €1.6 billion. The model is periodically evaluated by the Bank to ensure that it is consistent with best practice.

In February 2015 a 30 year Irish Sovereign benchmark bond was issued. When included in the Bank’s internal valuation model, the change in the value of the FRNs is immaterial. This bond will be incorporated in the Bank’s model in future years.

NAMA Bonds
In 2013 the Bank acquired €13.7 billion nominal of NAMA Bonds following the IBRC liquidation, of which, €12.2 billion (2013: €11.1 billion) was redeemed by NAMA in 2014. As at 31 December 2014, the NAMA bonds were valued at €0.4 billion (2013: €12.6 billion) giving rise to an unrealised loss of €0.2 million (2013: €12.4 million) as at that date (Note 3). In the absence of an active market, the Bank values these Bonds using prices derived from the Common European Pricing Hub (CEPH). The CEPH is used for collateral pricing purposes in the context of Eurosystem monetary policy operations. These are classified as Level 2 type securities.
Note 15: Securities of Euro Area Residents in Euro (continued)

5.4% Irish 2025 Government Bond
In 2013 the Bank acquired €3.5 billion nominal of the 5.4% Irish 2025 Government Bond following the IBRC liquidation. During 2014, the Bank sold €2.3 billion (2013: €350 million) nominal of the bond realising gains amounting to €537.6 million (2013: €24.8 million). As at 31 December 2014, the 5.4% Irish 2025 Government Bond was valued at €1.2 billion giving rise to an unrealised gain of €290.5 million (2013: €292.7 million) as at that date (Note 33). This security is valued using quoted market prices (unadjusted) in line with the approach adopted for the remainder of the Bank’s mark-to-market portfolio. This is classified as a Level 1 type security.

All other financial assets and liabilities in the Statement of Accounts are classified as Level 1 (Accounting Policy j(v)).

(ii) These securities comprise debt issued by euro area issuers (Accounting Policy (j)).

Note 16: Participating Interest in ECB

This represents the Bank’s contribution to the capital of the ECB. Pursuant to Article 28 of the ESCB Statute, the ESCB NCBs are the sole subscribers to the capital of the ECB. The level of subscriptions is dependent on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which are adjusted every five years.

On 1 January 2014, a change in the ECB’s capital key occurred as a result of the accession of Latvia to the Eurosystem and the required quinquennial adjustment (i.e. a five year review of each country’s GDP and population size and associated adjustment to the capital key). The Bank’s share in subscribed capital of the ECB increased to 1.1607 per cent (2013: 1.1111 per cent) (Accounting Policy (c)(ii) and (c)(iii)).

As a result, the Bank’s participating interest in the ECB increased by €19.6 million (2013: €3.3 million) to €199.0 million (2013: €179.4 million). This included an increase of €5.4 million (2013: €0.8 million) in the Bank’s share of the ECB’s subscribed capital and an increase of €14.2 million (2013: €2.5 million) in the Bank’s share of the ECB’s accumulated net assets (also referred to as net equity). This gave rise to a transfer of €19.6 million (2013: €3.3 million) to the ECB.

Note 17: Claims Equivalent to the Transfer of Foreign Reserves

These represent the Bank’s claims arising from the transfer of foreign reserve assets to the ECB in accordance with the provisions of Article 30 of the ESCB Statute. The claims are denominated in euro at a value fixed at the time of their transfer. They are remunerated at the latest available interest rate for the main refinancing operations, adjusted to reflect a zero return on the gold component. The adjustment to the capital key of the ECB on 1 January 2014 required the transfer of additional foreign reserve assets to the ECB totalling €28.7 million which incorporated the increase in the Bank’s share of the capital key. This brought the total of the claims in respect of those assets to €672.6 million (2013: €643.9 million) (Note 1(vi) and Accounting Policy (c)(ii) and (c)(vii)).

Note 18: Other Claims within the Eurosystem

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of ECB Profits (i)</td>
<td>13,944</td>
<td>21,879</td>
</tr>
<tr>
<td>Net Result of Pooling Monetary Income (ii)</td>
<td>9,224</td>
<td>11,458</td>
</tr>
<tr>
<td>Total</td>
<td>23,168</td>
<td>33,337</td>
</tr>
</tbody>
</table>

(i) This represents the Bank’s share of the ECB’s interim distribution of seigniorage and other income for 2014 (Note 5(i) and Accounting Policy (c)(vi)).

(ii) This represents monetary income received following the distribution of exceptional income (€5.4 million) (2013: nil) and adjustments to previous years pooled monetary income (€3.8 million) (2013: €0.2 million) (Note 6(i) and Note 29 and Accounting Policy (c)(vii)).
### Note 19: Items in Course of Settlement

Items in the course of settlement represent a claim on credit institutions in respect of cheques lodged in the Bank by its customers on the last business day of the year and presented to those credit institutions on the first business day of the New Year.

### Note 20: Other Assets

<table>
<thead>
<tr>
<th>Item</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares in the Bank for International Settlements (i)</td>
<td>19,677</td>
<td>18,922</td>
</tr>
<tr>
<td>Stocks of Materials for Banknote Production</td>
<td>3,165</td>
<td>3,884</td>
</tr>
<tr>
<td>Accrued Interest Income (ii)</td>
<td>519,531</td>
<td>962,479</td>
</tr>
<tr>
<td>Prepayments</td>
<td>4,063</td>
<td>2,724</td>
</tr>
<tr>
<td>Fixed Assets (Note 21)</td>
<td>84,829</td>
<td>79,435</td>
</tr>
<tr>
<td>Other (iii)</td>
<td>46,766</td>
<td>36,498</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>678,031</td>
<td>1,103,942</td>
</tr>
</tbody>
</table>

(i) The Bank holds 8,564 shares in the Bank for International Settlements, the euro equivalent of which is €19.7 million (2013: €18.9 million) (Note 5(ii) and Note 35(i) Contingent Liabilities). A dividend is paid annually.

(ii) This item includes the accrued income earned on the securities acquired following the IBRC liquidation. The decrease in income reflects the lower interest rate environment.

(iii) Included in this item is an amount of €7.1 million (2013: €7.4 million) in respect of deferred charges to be recouped from industry and an amount of €4.4 million (2013: €4.7 million) representing deficits due from certain Industry Funding sub-categories at end 2014 (Note 41(i)).
Note 21: Fixed Assets

<table>
<thead>
<tr>
<th>€000</th>
<th>Premises</th>
<th>Plant and Machinery</th>
<th>Computer Equipment</th>
<th>Other Equipment</th>
<th>Furniture, Fixtures &amp; Fittings</th>
<th>Assets Under Construction (iii)</th>
<th>Total Fixed Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>At Cost – 1 January</td>
<td>66,950</td>
<td>66,849</td>
<td>55,004</td>
<td>54,751</td>
<td>39,281</td>
<td>40,615</td>
<td>17,038</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>958</td>
<td>101</td>
<td>1,574</td>
<td>253</td>
<td>10,984</td>
<td>4,261</td>
<td>104</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>–</td>
<td>(291)</td>
<td>–</td>
<td>(998)</td>
<td>(5,595)</td>
<td>–</td>
</tr>
<tr>
<td>At Cost – 31 December</td>
<td>67,908</td>
<td>66,950</td>
<td>56,287</td>
<td>55,004</td>
<td>49,267</td>
<td>39,281</td>
<td>17,142</td>
</tr>
<tr>
<td>Accumulated Depreciation at 1 January</td>
<td>23,168</td>
<td>19,743</td>
<td>48,133</td>
<td>46,216</td>
<td>25,937</td>
<td>23,285</td>
<td>15,542</td>
</tr>
<tr>
<td>Depreciation for the year (i)</td>
<td>3,590</td>
<td>3,425</td>
<td>1,447</td>
<td>1,917</td>
<td>5,439</td>
<td>5,901</td>
<td>557</td>
</tr>
<tr>
<td>Disposals (ii)</td>
<td>–</td>
<td>–</td>
<td>(225)</td>
<td>–</td>
<td>(736)</td>
<td>(3,249)</td>
<td>–</td>
</tr>
<tr>
<td>Accumulated Depreciation at 31 December</td>
<td>26,758</td>
<td>23,168</td>
<td>48,355</td>
<td>48,133</td>
<td>30,640</td>
<td>25,937</td>
<td>16,099</td>
</tr>
<tr>
<td>Net Book Value at 31 December</td>
<td>41,150</td>
<td>43,782</td>
<td>6,932</td>
<td>6,871</td>
<td>18,627</td>
<td>13,344</td>
<td>1,043</td>
</tr>
</tbody>
</table>
Note 22: Banknotes in Circulation

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total value of Euro Banknotes issued into circulation by the Bank</td>
<td>31,534,096</td>
<td>30,527,687</td>
</tr>
<tr>
<td>Liability resulting from the ECB’s share of Euro banknotes in circulation</td>
<td>(1,348,870)</td>
<td>(1,221,905)</td>
</tr>
<tr>
<td>Liability according to the Bank’s weighting in the ECB’s capital key</td>
<td>(14,672,856)</td>
<td>(15,254,643)</td>
</tr>
<tr>
<td>Total</td>
<td>15,512,370</td>
<td>14,051,139</td>
</tr>
</tbody>
</table>

This item consists of the Bank’s share of total euro banknotes issued by the Eurosystem. The total value of euro banknotes in circulation is allocated to each national central bank on the last working day of each month in accordance with the banknote allocation key.

During 2014, the total value of banknotes in circulation within the Eurosystem increased by 6.3%. According to the allocation key, the Bank had euro banknotes in circulation worth €15.5 billion at the end of the year, compared to €14.1 billion at the end of 2013. The value of the euro banknotes actually issued by the Bank in 2014 increased by 3.3% from €30.5 billion to €31.5 billion. As this was more than the allocated amount, the difference of €16.0 billion (compared to €16.5 billion in 2013) is shown in ‘Liabilities related to the Allocation of Euro banknotes within the Eurosystem’ (Note 28 and Accounting Policy (c)(iv)).

Note 23: Liabilities to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Reserve Deposits (i)</td>
<td>3,066,229</td>
<td>1,979,736</td>
</tr>
<tr>
<td>Overnight Deposits (ii)</td>
<td>988,462</td>
<td>1,262,964</td>
</tr>
<tr>
<td>Total</td>
<td>4,054,691</td>
<td>3,242,700</td>
</tr>
</tbody>
</table>

(i) Credit institutions in the euro area are required to hold minimum average reserve deposits with their respective NCBs for the purpose of liquidity management. In 2014, interest was paid on these deposits at the ECB’s main refinancing operations interest rate. From June 2014 any reserves held in excess of the minimum requirements are charged at the lower of zero or the deposit facility rate.

(ii) The deposit facility is available to counterparties to place funds with the Bank on an overnight basis at a pre-specified rate.
Note 24: Liabilities to Other Euro Area Residents in Euro

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>General Government Deposits (i)</td>
<td>6,811,449</td>
<td>10,260,770</td>
</tr>
<tr>
<td>Currency Reserve relating to Net Proceeds of Coin (ii)</td>
<td>3,045</td>
<td>3,284</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,814,494</td>
<td>10,264,054</td>
</tr>
</tbody>
</table>

These items have a maturity of less than one year.

(i) This balance includes the Credit Union Fund. This Fund was established under the Credit Union and Co-operation with Overseas Regulators Act 2012. The purpose of the Fund is to provide a source of financial support for the restructuring of credit unions which falls under the remit of the Credit Union Restructuring Board (ReBo), which was also established under the Act. Under the Act the Minister for Finance is responsible for administering and managing the Credit Union Fund. The balance at 31 December 2014 was €247 million (2013: €249 million).

(ii) The costs and proceeds of coin issue are required to be charged or credited to the Currency Reserve. The balance from that activity must be paid into the Exchequer at the direction of the Minister for Finance. Where the net proceeds of coin issue, together with expenses, result in a net cost to the Bank, the Minister reimburses the difference to the Bank. The balance on the Currency Reserve relating to coin issue is reported as an asset or liability of the Bank (Accounting Policy (g)). All expenses in relation to the production of coin are disclosed in Note 8. Superannuation expenses are disclosed in Note 31. Details of net proceeds for the year are included in the table below:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Coin issued into Circulation</td>
<td>17,533</td>
<td>5,150</td>
</tr>
<tr>
<td>Specimen Coin Sets</td>
<td>1,199</td>
<td>2,157</td>
</tr>
<tr>
<td>Withdrawn Irish Coin</td>
<td>(120)</td>
<td>(237)</td>
</tr>
<tr>
<td>Proceeds from Smelted Coin</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td>18,612</td>
<td>7,070</td>
</tr>
<tr>
<td><strong>Less Operating Costs (Note 8)</strong></td>
<td>(1,862)</td>
<td>(3,924)</td>
</tr>
<tr>
<td><strong>Net Proceeds of Coin Issue</strong></td>
<td>16,750</td>
<td>3,146</td>
</tr>
<tr>
<td>Interest on Pension Liability (Note 31)</td>
<td>(360)</td>
<td>(253)</td>
</tr>
<tr>
<td>Superannuation Employer Contribution (Note 31)</td>
<td>(74)</td>
<td>(98)</td>
</tr>
<tr>
<td>Transfer to the Exchequer</td>
<td>(16,555)</td>
<td>(2,606)</td>
</tr>
<tr>
<td>Opening Balance</td>
<td>3,284</td>
<td>3,095</td>
</tr>
<tr>
<td><strong>Closing Balance</strong></td>
<td>3,045</td>
<td>3,284</td>
</tr>
</tbody>
</table>

As a result of the Finance Act, 2002, and as directed by the Minister for Finance, the Bank is required to transfer the net proceeds from the issue of coin directly to the Exchequer. As noted in the table above, there was a net issuance of coin amounting to €17.5 million (2013: €5.2 million) from the Bank to the commercial banks in 2014. As a result, the net surplus generated a transfer of €16.6 million which was paid to the Exchequer (2013: transfer to the Exchequer of €2.6 million).
Note 25: Liabilities to Non-Euro Area Residents in Euro

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International Financial Institutions</strong></td>
<td>€93 000</td>
<td>€98 000</td>
</tr>
<tr>
<td><strong>EU Agencies</strong></td>
<td>€905 000</td>
<td>€17,182 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>€998 000</td>
<td>€17,280 000</td>
</tr>
</tbody>
</table>

These balances above have a maturity of less than one year.

Note 26: Liabilities to Euro Area Residents in Foreign Currency

This liability relates to a deposit placed by the National Treasury Management Agency to fund a minimum balance requirement in an account with the Federal Reserve Bank of New York used for the receipt of funds from the IMF Financing Programme for Ireland.

Note 27: Counterpart of Special Drawing Rights Allocated by the IMF

This is the liability of the Bank to the IMF in respect of the allocation of SDRs to Ireland. The Bank’s SDR assets can change as a result of IMF lending operations or exchanges of SDRs for foreign currency with the IMF itself, other IMF members and other official holders of SDRs. SDR holdings may also change as a result of interest payments made by the IMF on the Bank’s Reserve Position in the IMF and on the Bank’s SDR holdings net of SDR allocations (Note 11(ii)).

Note 28: Liabilities related to the Allocation of Euro banknotes within the Eurosystem

This item consists of the liability of the Bank vis-à-vis the Eurosystem in relation to the allocation of euro banknotes within the Eurosystem. It represents the difference between the value of euro banknotes actually issued by the Bank and its capital key share of the total Eurosystem issuance (Note 22 and Accounting Policies (c)(ii) and (c)(iv)).

Note 29: Other Liabilities within the Eurosystem (net)

This item mainly represents the Bank’s net liability to the ECB as a result of euro cross-border payments transacted over the TARGET2 system by all NCBs participating in the ESCB, which amounted to €22.7 billion at end-2014 (2013: €55.1 billion) (Accounting Policy (c)(iii)). At end-2014, five non-participating countries (Bulgaria, Denmark, Lithuania, Poland and Romania) were members of TARGET2 and, therefore, included in the multilateral netting process. This item also includes a liability of €8.8 million arising from the net result of the pooling of monetary income in 2014 (Note 6(i) and Accounting Policy (c)(vii)).
### Note 30: Other Liabilities

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit &amp; Loss Appropriation (i)</td>
<td>1,708,761</td>
<td>1,212,110</td>
</tr>
<tr>
<td>Deposit Protection Accounts (ii)</td>
<td>391,776</td>
<td>379,757</td>
</tr>
<tr>
<td>Interest Accruals</td>
<td>689</td>
<td>31,594</td>
</tr>
<tr>
<td>Other Accruals (iii)</td>
<td>19,551</td>
<td>24,454</td>
</tr>
<tr>
<td>Credit Institutions Resolution Fund (iv)</td>
<td>238,416</td>
<td>235,746</td>
</tr>
<tr>
<td>Other</td>
<td>16,156</td>
<td>27,112</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,375,349</td>
<td>1,910,773</td>
</tr>
</tbody>
</table>

(i) This represents the amount of surplus income payable to the Exchequer (Note 9 and Accounting Policy (n)).

(ii) These are balances placed by credit institutions, including credit unions, with the Bank as part of the Irish Deposit Protection Scheme (IDPS) under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 and Section 4 of the Financial Services (Deposit Guarantee Scheme) Act, 2009, respectively. The IDPS is funded by credit institutions and credit unions, which are authorised by the Bank. During 2014 the Deposit Guarantee Scheme made total compensation payments of €22 million to approximately 3,700 depositors in respect of the liquidation of Berehaven Credit Union and IBRC. In 2013 total compensation payments of €25 million were paid to 1,350 deposit account holders of IBRC.

(iii) Included in other accruals is an accrual of €5.8 million (2013: €6.5 million) in respect of untaken annual leave (Note 8(i)).

(iv) A Credit Institutions Resolution Fund was established at the end of 2011 under the Central Bank and Credit Institutions (Resolution) Act, 2011. The Minister for Finance lodged €250 million into the Fund account maintained at the Bank. The purpose of the Fund is to provide a source of funding for the resolution of financial instability in, or an imminent serious threat to the financial stability of, authorised credit institutions including credit unions. The increase in the balance of the Fund at end 2014 mainly reflects the receipt of contributions from the credit institutions (€9.4 million) and is offset somewhat by incentive payments to Progressive Credit Union (€2.2 million), Tralee Credit Union (€2.2 million) and payments in respect of Newbridge Credit Union related to the 2013 resolution action (€1.1 million). The liquidation of Newbridge Credit Union is on-going. Separate Financial Statements are prepared by the Bank for the Fund.

(v) Included in Other is an amount of €78,000 (2013: €4.3 million) representing surpluses due to certain Industry Funding sub-categories at end 2014 (Note 41(i)).

### Note 31: Superannuation Liabilities

The pension entitlements of past and current permanent Bank staff arise under a defined benefit pension scheme. Under the scheme, Bank staff receive the same entitlements as established civil servants. The Scheme is operated on a non-contributory basis for staff employed before 6 April 1995, with the exception of contributions made to the Spouses’ and Childrens’ Pension Scheme and payments received from eligible staff for the purchase and transfer of notional added service. In the case of staff employed on or after 6 April 1995, contributions are also payable in respect of the main scheme. Up to 30 September 2008, the Bank operated a pay-as-you-go system in that assets were not separately identified to provide for the Bank’s pension liabilities, with benefits paid as they fell due from current revenues. On 1 October 2008, a funded pension scheme was established (as provided for under the Central Bank and Financial Services Authority of Ireland Act, 2003) and an amount of €400 million was transferred to purchase fund assets. The valuation of the fund assets at 31 December 2014 is detailed in section (v) of this note (Accounting Policy (f)).

The Bank discloses the cost of providing benefits in accordance with Financial Reporting Standard (FRS) 17 ‘Retirement Benefits’.

A full actuarial valuation of the Scheme was completed as at 31 December 2013 by Lane Clark Peacock (LCP), the Bank’s actuaries, to comply with disclosure requirements under FRS 17. An actuarial report was completed by LCP as at 31 December 2014.
Note 31: Superannuation Liabilities (continued)

(i) Amount charged to Profit and Loss and Appropriation Account/Currency Reserve

<table>
<thead>
<tr>
<th></th>
<th>Profit and Loss 2014</th>
<th>Currency Reserve 2014</th>
<th>Total 2014</th>
<th>Total 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected Return on Assets</td>
<td>17,423</td>
<td>–</td>
<td>17,423</td>
<td>16,276</td>
</tr>
<tr>
<td>Interest on Pension Scheme Liabilities</td>
<td>(22,423)</td>
<td>(360)</td>
<td>(22,783)</td>
<td>(22,278)</td>
</tr>
<tr>
<td>Current Service Cost</td>
<td>(25,214)</td>
<td>(142)</td>
<td>(25,356)</td>
<td>(20,255)</td>
</tr>
<tr>
<td>Past Service (Cost)/Credit</td>
<td>(27)</td>
<td>–</td>
<td>(27)</td>
<td>3,957</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>(25,241)</td>
<td>(142)</td>
<td>(25,383)</td>
<td>(16,298)</td>
</tr>
<tr>
<td>Total Pension Cost of Defined Benefit Scheme</td>
<td>(30,241)</td>
<td>(502)</td>
<td>(30,743)</td>
<td>(22,300)</td>
</tr>
</tbody>
</table>

As at 31 December 2014, there was no previously unrecognised surplus deducted from settlements or curtailments, and no gains or losses on any settlements or curtailments. The past service cost/credit for 2013 of €3.9 million relates primarily to pensioner reductions. There were no such reductions in 2014.

(ii) Actuarial (Loss)/Gain on Pension Scheme

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial loss on pension liability</td>
<td>(198,670)</td>
<td>(11,410)</td>
<td>(92,808)</td>
</tr>
<tr>
<td>Actuarial gain on plan assets</td>
<td>14,241</td>
<td>32,624</td>
<td>19,468</td>
</tr>
<tr>
<td>Total</td>
<td>(184,429)</td>
<td>21,214</td>
<td>(73,340)</td>
</tr>
</tbody>
</table>

As at 31 December 2014, the cumulative actuarial loss recognised in the Profit and Loss and Appropriation Account was €312.7 million (2013: €128.3 million). During 2011, the Government introduced a levy for pension fund assets for a period of four years. The levy is accounted for by reducing the expected return on assets by the relevant rate. In 2014, the pension levy rate was 0.75% (2013: 0.6%) (viii).

(iii) Balance Sheet Recognition

The amounts recognised in the Balance Sheet are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of Wholly or Partly Funded Obligations (iv)</td>
<td>(853,883)</td>
<td>(615,766)</td>
<td>(571,218)</td>
<td>(455,336)</td>
<td>(392,615)</td>
</tr>
<tr>
<td>Fair Value of Plan Assets (v)</td>
<td>567,945</td>
<td>531,198</td>
<td>473,793</td>
<td>434,160</td>
<td>443,876</td>
</tr>
<tr>
<td>Net Pension (Liability)/Asset</td>
<td>(285,938)</td>
<td>(84,568)</td>
<td>(97,425)</td>
<td>(21,176)</td>
<td>51,261</td>
</tr>
</tbody>
</table>

Pension scheme assets are measured at fair value. Pension scheme liabilities are measured on an actuarial basis using the projected units method. An excess of scheme liabilities over scheme assets is presented on the Balance Sheet as a liability.
### Note 31: Superannuation Liabilities (continued)

#### (iv) Movement in Scheme Obligations

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Opening Present Value of Scheme Obligations</td>
<td>(615,766)</td>
<td>(571,218)</td>
<td>(455,336)</td>
<td>(392,615)</td>
<td>(377,004)</td>
</tr>
<tr>
<td>Current Service Cost</td>
<td>(25,356)</td>
<td>(20,255)</td>
<td>(15,083)</td>
<td>(11,330)</td>
<td>(9,432)</td>
</tr>
<tr>
<td>Past Service (Cost)/Credit</td>
<td>(27)</td>
<td>3,957</td>
<td>7,585</td>
<td>(1,969)</td>
<td>(720)</td>
</tr>
<tr>
<td>Pensions Paid</td>
<td>13,325</td>
<td>10,468</td>
<td>12,337</td>
<td>10,746</td>
<td>11,387</td>
</tr>
<tr>
<td>Employee Contributions</td>
<td>(4,173)</td>
<td>(4,121)</td>
<td>(4,060)</td>
<td>(3,509)</td>
<td>(2,809)</td>
</tr>
<tr>
<td>Transfers Received</td>
<td>(433)</td>
<td>(909)</td>
<td>(445)</td>
<td>(252)</td>
<td>(763)</td>
</tr>
<tr>
<td>Interest on Pension Scheme Liabilities</td>
<td>(22,783)</td>
<td>(22,278)</td>
<td>(23,408)</td>
<td>(22,119)</td>
<td>(22,085)</td>
</tr>
<tr>
<td>Actuarial Gain from Experience Adjustments</td>
<td>30,274</td>
<td>33,561</td>
<td>21,522</td>
<td>9,492</td>
<td>27,460</td>
</tr>
<tr>
<td>Actuarial Loss from Liability Valuation Adjustments</td>
<td>(228,944)</td>
<td>(44,971)</td>
<td>(114,330)</td>
<td>(43,780)</td>
<td>(18,649)</td>
</tr>
<tr>
<td>Closing Present Value of Scheme Obligations</td>
<td>(853,883)</td>
<td>(615,766)</td>
<td>(571,218)</td>
<td>(455,336)</td>
<td>(392,615)</td>
</tr>
</tbody>
</table>

#### (v) Movement in Fair Value of Plan Assets

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Opening Fair Value of Plan Assets (Bid Value)</td>
<td>531,198</td>
<td>473,793</td>
<td>434,160</td>
<td>443,876</td>
<td>414,611</td>
</tr>
<tr>
<td>Expected Return</td>
<td>17,423</td>
<td>16,276</td>
<td>14,120</td>
<td>22,346</td>
<td>13,586</td>
</tr>
<tr>
<td>Actuarial Gain/(Loss)</td>
<td>14,241</td>
<td>32,624</td>
<td>19,468</td>
<td>(37,580)</td>
<td>12,894</td>
</tr>
<tr>
<td>Employer Contribution</td>
<td>13,802</td>
<td>13,943</td>
<td>13,877</td>
<td>12,503</td>
<td>10,600</td>
</tr>
<tr>
<td>Employee Contributions</td>
<td>4,173</td>
<td>4,121</td>
<td>4,060</td>
<td>3,509</td>
<td>2,809</td>
</tr>
<tr>
<td>Pensions Paid</td>
<td>(13,325)</td>
<td>(10,468)</td>
<td>(12,337)</td>
<td>(10,746)</td>
<td>(11,387)</td>
</tr>
<tr>
<td>Transfers Received</td>
<td>433</td>
<td>909</td>
<td>445</td>
<td>252</td>
<td>763</td>
</tr>
<tr>
<td>Closing Fair Value of Plan Assets (Bid Value)*</td>
<td>567,945</td>
<td>531,198</td>
<td>473,793</td>
<td>434,160</td>
<td>443,876</td>
</tr>
</tbody>
</table>

* Included in the fair value of plan assets are two bank accounts - a Superannuation Capital Account and Superannuation Working Account held with the Bank. The balance on the Superannuation Capital account and Superannuation Working Account at 31 December 2014 amounted to €1.7 million (2013: €0.4 million) and €5.4 million (2013: €4.1 million) respectively.
Note 31: Superannuation Liabilities (continued)

(vi) Financial Assumptions

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>2.35</td>
<td>3.70</td>
</tr>
<tr>
<td>Expected Return on Assets (viii)</td>
<td>2.35</td>
<td>3.25</td>
</tr>
<tr>
<td>Rate of Increase in Pensionable Salaries</td>
<td>3.40</td>
<td>3.50</td>
</tr>
<tr>
<td>Rate of Increase in Pensions</td>
<td>3.40</td>
<td>3.50</td>
</tr>
<tr>
<td>Rate of Price Inflation</td>
<td>2.00</td>
<td>2.00</td>
</tr>
</tbody>
</table>

The impact of a 0.1% increase/decrease in the discount rate would be a corresponding decrease/increase of approximately 2.6% (2013: 2.2%) in scheme liabilities.

(vii) Demographic and Other Assumptions

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortality Pre Retirement</td>
<td>73% ILT15(i) (males)</td>
<td>62% PNML00 (ii) (males)</td>
</tr>
<tr>
<td></td>
<td>77% ILT15 (females)</td>
<td>70% PNFL00 (females)</td>
</tr>
<tr>
<td>Mortality Post Retirement</td>
<td>58% ILT15 (males)</td>
<td>62% PNML00 (males)</td>
</tr>
<tr>
<td></td>
<td>62% ILT15 (females)</td>
<td>70% PNFL00 (females)</td>
</tr>
<tr>
<td>Allowance for future improvements in mortality</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Retirements</td>
<td>Evenly spread over age 60 to 65 (for those with options to retire at 60)</td>
<td>Evenly spread over age 60 to 65 (for those with options to retire at 60)</td>
</tr>
<tr>
<td>Ill Health Retirement</td>
<td>Allowance made</td>
<td>Allowance made</td>
</tr>
<tr>
<td>Early Retirement</td>
<td>No allowance</td>
<td>No allowance</td>
</tr>
<tr>
<td>Withdrawals</td>
<td>No allowance</td>
<td>No allowance</td>
</tr>
<tr>
<td>Percentage married</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>Age difference between spouses</td>
<td>A male is assumed to be 3 years older than his spouse</td>
<td>A male is assumed to be 3 years older than his spouse</td>
</tr>
<tr>
<td>Life Expectancy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age between 60 and 65 at which 40 years’ service completed (for those with option to retire at 60)</td>
<td>Male: 86.0</td>
<td>Male: 86.9 (iii)</td>
</tr>
<tr>
<td></td>
<td>Female: 88.6</td>
<td>Female: 88.6</td>
</tr>
</tbody>
</table>

(i) ILT15(males) & ILT15(females) are both published mortality tables prepared by the Central Statistics Office in Ireland. The mortality assumptions chosen reflect the results of a recent Society of Actuaries investigation into the mortality experience of pension schemes in Ireland. An allowance is also made for increasing life expectancy over time.

(ii) PNML00/PNFL00 are both published mortality tables prepared for the Actuarial Profession in the UK by the Continuous Mortality Investigation Bureau. The mortality assumptions chosen are based on standard tables reflecting typical pensioner mortality and they allow for increasing life expectancy over time.

(iii) Based on life expectancy at age 65.
Note 31: Superannuation Liabilities (continued)

(viii) Plan Assets of the Scheme

The Expected Return on Assets and Asset Distribution as at 31 December 2014 was as follows:

<table>
<thead>
<tr>
<th>Class</th>
<th>Expected Return</th>
<th>Distribution</th>
<th>Long Term Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Equities</td>
<td>6.00</td>
<td>52.6</td>
<td>50.0</td>
</tr>
<tr>
<td>Fixed Interest/Cash</td>
<td>1.00</td>
<td>47.4</td>
<td>50.0</td>
</tr>
<tr>
<td>Total</td>
<td>3.50</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Pension Levy</td>
<td>(0.15)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall Expected Return</td>
<td>3.35</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Commission of the Bank has approved the decision to change the asset allocation ratio from 50:50 bonds/equities to 40:40:10:10 bonds/equities/MAF/property. The investment strategy relating to the new composition will apply in 2015. The expected return has been adjusted by 0.15% to allow for the pension levy which will be deducted from the assets. The actual return on plan assets for the year 2014 was a gain of €31.7 million (2013: gain of €48.9 million).

From 1 January 2015 the Expected Return on Assets will be based on the discount rate rather than on the actual return on assets in accordance with FRS102.

(ix) Prior Year Comparatives

Amounts for the current and previous four years are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Defined Benefit Obligation (iii)</td>
<td>(853,883)</td>
<td>(615,766)</td>
<td>(571,218)</td>
<td>(455,336)</td>
<td>(392,615)</td>
</tr>
<tr>
<td>Fair Value of Plan Assets (iii)</td>
<td>567,945</td>
<td>531,198</td>
<td>473,793</td>
<td>434,160</td>
<td>443,876</td>
</tr>
<tr>
<td>(Deficit)/Surplus in the Plan (iii)</td>
<td>(285,938)</td>
<td>(84,568)</td>
<td>(97,425)</td>
<td>(21,176)</td>
<td>51,261</td>
</tr>
<tr>
<td>Experience Gain Arising On - the plan liabilities (iv)</td>
<td>30,274</td>
<td>33,561</td>
<td>21,522</td>
<td>9,492</td>
<td>27,460</td>
</tr>
<tr>
<td>As a percentage of the scheme liabilities</td>
<td>3.5%</td>
<td>5.5%</td>
<td>3.8%</td>
<td>2.1%</td>
<td>7.0%</td>
</tr>
<tr>
<td>- the plan assets</td>
<td>14,241</td>
<td>32,624</td>
<td>19,468</td>
<td>(37,580)</td>
<td>12,894</td>
</tr>
<tr>
<td>As a percentage of the scheme assets</td>
<td>2.5%</td>
<td>6.1%</td>
<td>4.1%</td>
<td>(8.7%)</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

(x) Expected Contributions to the Plan for the Year Ending 31 December 2015

The following estimates, by the actuary, of expected contributions are based on the current membership and pensionable salary roll of the plan participants.

<table>
<thead>
<tr>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>€000</td>
</tr>
<tr>
<td>Contributions by the Employer</td>
</tr>
<tr>
<td>Contributions by Plan Participants</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>
### Note 32: Provisions

The following provisions were provided for at 31 December 2014:

<table>
<thead>
<tr>
<th>Provision Description</th>
<th>Opening Balance 1 Jan 2014</th>
<th>Created</th>
<th>Utilised</th>
<th>Released to P&amp;L</th>
<th>Closing Balance 31 Dec 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for Securities (i)</td>
<td>350,000</td>
<td>–</td>
<td>–</td>
<td>(100,000)</td>
<td>250,000</td>
</tr>
<tr>
<td>Unredeemed Irish Pound Banknotes (ii)</td>
<td>11,563</td>
<td>–</td>
<td>(1,470)</td>
<td>–</td>
<td>10,093</td>
</tr>
<tr>
<td>Provision for Onerous Lease and dilapidations (iii)</td>
<td>18,400</td>
<td>–</td>
<td>–</td>
<td>(971)</td>
<td>17,429</td>
</tr>
<tr>
<td>Restructuring Provision (iv)</td>
<td>–</td>
<td>6,732</td>
<td>(4,231)</td>
<td>–</td>
<td>2,501</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>379,963</strong></td>
<td><strong>6,732</strong></td>
<td><strong>(5,701)</strong></td>
<td><strong>(100,971)</strong></td>
<td><strong>280,023</strong></td>
</tr>
</tbody>
</table>

(i) The Bank has retained a provision for securities in the amount of €250 million (2013: €350 million). The collective provision reflects an estimated allowance for risks arising in respect of the securities held for monetary policy and investment purposes. The annual estimation of the impairment charge is subject to considerable uncertainty, which remains high in the current economic environment. The assumptions underlying this judgement are subjective and are based on management’s assessment in the context of market conditions at 31 December 2014 (Note 3, Note 15(i) and Accounting Policy (c)(ix) and (m)).

(ii) Irish pound banknotes formerly issued by the Bank ceased to be legal tender with effect from 9 February 2002. Since then the Bank has maintained a provision for outstanding IEP banknotes from which €1.5 million was redeemed in 2014 leaving the balance in the provision at €10.1 million as at 31 December 2014 (2013: €11.6 million) (Note 35 (iii) and Accounting Policy (m)).

(iii) The Bank plans to vacate the Spencer Dock premises as part of the move to North Wall Quay. As a result an onerous lease provision was created in 2013 for an amount of €18.2 million in respect of the Bank’s net obligations relating to the lease on the premises beyond 2016. The provision has been adjusted to reflect the Bank’s net obligations relating to the lease on the premises beyond 2017 since it is likely that the premises will not be vacated until end 2016. The onerous lease provision calculation includes an assumption that the Bank can recover costs from sub-leasing the building and the attached car park. A dilapidations provision (€0.2 million) for the Iveagh Court premises was created in 2013 and it was not necessary to revise it in 2014 (Note 3, Note 21(iv) and Accounting Policy (m)).

(iv) A restructuring provision has been created for two Voluntary Severance Schemes (VSS), and an overtime restructuring scheme for administrative and currency staff. The terms of the VSS schemes for administrative and professional staff and the VSS scheme for security staff are in accordance with standard Government practice in this area. Of the €2.5 million provision as at 31 December 2014, €1.9 million has been paid as at 28 February 2015 (Note 3 and Accounting Policy (m)).
### Note 33: Revaluation Accounts

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>Net Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Gold</td>
<td>143,198</td>
<td>120,663</td>
<td>22,535</td>
</tr>
<tr>
<td>Foreign Currency</td>
<td>23,466</td>
<td>12,792</td>
<td>10,674</td>
</tr>
<tr>
<td>Securities and Other Instruments (i)</td>
<td>9,444,553</td>
<td>3,128,912</td>
<td>6,315,641</td>
</tr>
<tr>
<td><strong>At 31 December</strong></td>
<td>9,611,217</td>
<td>3,262,367</td>
<td>6,348,850</td>
</tr>
</tbody>
</table>

(i) The movement on Securities and Other Instruments relates primarily to unrealised capital gains arising from the end year valuation of the securities acquired following the liquidation of the IBRC (Note 15 (ii)(i) and Accounting Policy (j)(i)).

The foreign exchange rates used vis-à-vis the euro for the end-year valuations are as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollar</td>
<td>1.2141</td>
<td>1.3791</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>145.2300</td>
<td>144.7200</td>
</tr>
<tr>
<td>Sterling</td>
<td>0.7789</td>
<td>0.8337</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>1.2024</td>
<td>1.2276</td>
</tr>
<tr>
<td>Danish Krone</td>
<td>7.4453</td>
<td>7.4593</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>9.3930</td>
<td>8.8591</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>1.4063</td>
<td>1.4671</td>
</tr>
<tr>
<td>SDR</td>
<td>0.8386</td>
<td>0.8942</td>
</tr>
</tbody>
</table>

The gold prices used were:

<table>
<thead>
<tr>
<th>Euro per fine ounce</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>987.7690</td>
<td>871.2200</td>
</tr>
</tbody>
</table>

### Note 34: Capital and Reserves

<table>
<thead>
<tr>
<th></th>
<th>Capital (i)</th>
<th>General Reserve</th>
<th>Currency Reserve</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>At 31 December 2013</td>
<td>30</td>
<td>2,085,063</td>
<td>351,648</td>
<td>2,436,741</td>
</tr>
<tr>
<td>Retained profit for the year (ii)</td>
<td>–</td>
<td>244,472</td>
<td>–</td>
<td>244,472</td>
</tr>
<tr>
<td>At 31 December 2014</td>
<td>30</td>
<td>2,329,535</td>
<td>351,648</td>
<td>2,681,213</td>
</tr>
</tbody>
</table>

(i) The authorised capital of the Bank is fixed under Section 9(1) of the *Central Bank Act*, 1942 at €50,790. Issued and paid-up capital is €30,474 all of which is held by the Minister for Finance. The balance is payable as and when agreed by the Commission and the Minister.

(ii) Under the *Central Bank of Ireland (Surplus Income) Regulations*, 1943, the Commission approved a transfer from the Profit and Loss and Appropriation Account of €244.5 million to the General Reserve, after adjusting for the actuarial loss of €184.4 million, which was recognised in the Profit and Loss and Appropriation Account (Note 30 (i)).
Note 35: Contingent Liabilities and Commitments

Contingent Liabilities

(i) Bank for International Settlements
The Bank holds 8,564 shares in the Bank for International Settlements, each of which is 25 per cent paid up. The Bank has a contingent liability in respect of the balance (Note 5(ii) and Note 20(i)).

(ii) Capital and Foreign Reserve Assets Pledged to the ECB
Under the Statute of the ESCB the Bank may be called upon in the future, along with all other participating NCBs, to transfer further amounts of capital (Article 28) and foreign reserve assets (Article 30) to the ECB.

(iii) Irish Pound Banknotes
The Bank has a contingent liability in relation to Irish pound banknotes that are no longer legal tender and that may be presented at a future date. At 31 December 2014, Irish pound banknotes to the value of €229.8 million (2013: €231.3 million) were still outstanding (Note 32 (ii)).

(iv) The Bank has seven on-going legal cases which may result in a liability for the Bank where claims are being made against the Bank. These contingent liabilities are not quantifiable. The Bank is defending these actions and accordingly no amount has been provided for.

Commitments

(i) Operating Leases
In July 2008, the Bank entered into a 25 year lease agreement (with a breakclause in 2023) in respect of office accommodation at Spencer Dock, Dublin 1. The annual rent payable under this operating lease is €3.6 million (2013: €3.6 million).

The lease on the Iveagh Court premises was extended for a further 2 years to November 2016. The annual rental payment under this operating lease is €2.7 million (2013: €1.5 million).

(ii) North Wall Quay project
The project will involve significant investment by the Bank for the design, construction and fit out of the existing structure, prior to relocating to it as its headquarters in 2016 (Note 21 (iv)). Total contracted commitments as at 31 December 2014 amounted to €14.6 million (2013: €3.4 million).

Note 36: Financial Risk Management

Financial risks arise on the Bank’s Balance Sheet as a consequence of its statutory role, both as a central element of the domestic financial sector and as a constituent central bank of the Eurosystem. These risks include credit, market and currency risk. As a Eurosystem national central bank, euro liability liquidity risk does not arise.

The Central Bank of Ireland has risk management processes in place to identify, assess, manage and monitor risk, within clear internal risk policies and by reference to Eurosystem risk-management policies where relevant.

Specialist teams and committees support senior management in ensuring that agreed standards and policies are followed. In particular, the Commission Risk Committee and the Executive Risk Committee oversee the risk management of the Bank’s central banking activities. On a day-to-day basis, the Organisational Risk Division (ORD) is responsible for monitoring financial risk. ORD is an independent risk management division and reports to the Director of Resolution and Corporate Affairs. The Deputy Governor (Central Banking) is the chair of the Executive Risk Committee.
Note 36: Financial Risk Management (continued)

Credit Risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk in the management of its investment assets and in the monetary policy operations conducted on behalf of the Eurosystem.

Credit risk in the Bank’s investment portfolios is controlled by a system of Commission-approved limits based primarily on external credit ratings provided by Fitch and Moodys rating agencies. Credit exposure is mitigated on the Bank’s investment assets by a relatively conservative investment policy.

Credit risk arising due to Eurosystem monetary policy implementation is controlled through the application of strict eligibility criteria for counterparties and the provisions of Article 18.1 of the Statute of the ESCB, which ensure that all Eurosystem credit operations (i.e. liquidity providing monetary policy operations and intraday credit) are based on adequate collateral.

To further control this risk, strict eligibility criteria for acceptable collateral are applied through the Eurosystem Credit Assessment Framework (ECAF) and on-going risk control measures including valuation haircuts, initial and variation margins. The credit risk to the Bank arising from Eurosystem operations is mitigated further by the system’s loss-sharing mechanism that distributes any losses arising from monetary policy operations in proportion to the capital key of member NCBs. However, in the case of monetary policy operations collateralised by Additional Credit Claims, the risk is borne by the NCB accepting the collateral concerned.

Credit risk in relation to the Eurosystem crisis-related Securities Market Programme and Covered Bond Purchase Programmes is managed in accordance with the relevant Eurosystem frameworks.

Market Risk

Market risk is defined as the risk of loss as a result of changes in market risk factors, including prices, interest rates, foreign exchange rates, commodity prices and credit spreads. The Bank is exposed to market risk through the interest rate sensitivity of its investment assets. In addition, market risk arises from the Bank’s portfolio of bonds which were acquired following the liquidation of the IBRC. Some exposure may also arise due to exchange rate fluctuations, gold prices and to changes in financial market conditions.

Market risk with respect to trading portfolios is managed within the Bank’s Financial Operations Directorate in line with the high-level risk management parameters, governance and control frameworks approved by the Commission as well as reporting arrangements for key risk indicators. Compliance and performance relative to these policies is verified and reported on by ORD.

The Bank is exposed to interest rate risk in the mark–to-market trading investment portfolio. Risk management preferences in relation to the investment assets are expressed through an externally compiled benchmark, against which the investment portfolios are measured and managed. The market (interest rate) risk of the Bank’s mark-to-market portfolios is calculated and managed using modified duration. Modified duration measures the sensitivity of the value of an investment portfolio to changes in bond yields. Value-at-Risk (VaR) and Expected Shortfall are used as supplementary measures of market risk on the Bank’s portfolios.

The Bank is also exposed to market risk on its non-amortising portfolio of standard marketable Irish Government bonds (FRNs) and Government guaranteed NAMA bonds which were acquired following the liquidation of IBRC (Note 15 (iii)).
Note 36: Financial Risk Management (continued)

Currency Risk
In the context of the euro area and the consequent lack of foreign exchange intervention, the Bank’s holdings of volatile foreign assets have been reduced to the minimum. The currency distribution of the investment portfolio is reviewed periodically using a combination of quantitative methodologies, VaR and stress testing as well as a variety of qualitative factors. At end-December 2014, the Bank’s portfolios were predominantly in euro, with a small amount of gold which is priced in US dollars. The Bank is also exposed to currency risk through a net-liability position in Special Drawing Rights (Note 11 and Note 27).

Note 37: Unmatured Contracts in Foreign Exchange
Unmatured Foreign Exchange Contracts at year end were as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2014</th>
<th>31 December 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR</td>
<td>JPY</td>
</tr>
<tr>
<td>Unmatured Purchases</td>
<td>189,423</td>
<td>–</td>
</tr>
<tr>
<td>Unmatured Sales</td>
<td>–</td>
<td>(26,300,000)</td>
</tr>
<tr>
<td>Unmatured Purchases and Sales</td>
<td>189,423</td>
<td>(26,300,000)</td>
</tr>
</tbody>
</table>

All foreign exchange contracts matured by 9 February 2015.

Note 38: Unmatured Contracts in Securities
Unmatured contracts in securities at year end were as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2014</th>
<th>31 December 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Unmatured Purchases</td>
<td>–</td>
<td>131,973</td>
</tr>
<tr>
<td>Unmatured Sales</td>
<td>(529,000)</td>
<td>(442,033)</td>
</tr>
<tr>
<td>Unmatured Purchases and Sales</td>
<td>(529,000)</td>
<td>(310,060)</td>
</tr>
</tbody>
</table>

All contracts matured by 8 January 2015.
Note 39: Related Parties

(i) The Bank provides several services to the Minister for Finance, its sole shareholder, and to other Government departments and bodies.

The main services during the year to 31 December 2014 were:

- provision of banking services including holding the principal accounts of Government;
- provision and issue of coin;
- holding and maintaining the Register of Irish Government securities.

(ii) As a participating member of the ESCB, the Bank has on-going relationships with other NCBs and the ECB.

(iii) The Bank is one of three shareholders of ‘The Investor Compensation Company Limited’ (ICCL) and provides administrative and other services to it, the costs of which are recovered from the ICCL. The Bank is the supervisory authority for the purpose of the Act. The ICCL administers the investor compensation scheme to partially reimburse the clients of failed investment firms. The ICCL prepares its own Annual Report and audited Financial Statements.

Note 40: Post-Balance Sheet Events

(i) ECB Final Distribution of Profits

The Governing Council of the ECB decided on 19 February 2015 to distribute its remaining profit for 2014, amounting to €148 million, to the euro area NCBs, in proportion to their paid-up shares. The Bank’s share of this final distribution of profits was €2.5 million and will be accounted for in the 2015 Financial Statements.

Note 41: Financial Regulation Activities

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levy Income (i)</td>
<td>75,778</td>
<td>69,736</td>
</tr>
<tr>
<td>(Increase) in Provision for Unpaid Levies (ii)</td>
<td>(983)</td>
<td>(1,319)</td>
</tr>
<tr>
<td>Other Income (iii)</td>
<td>2,396</td>
<td>1,717</td>
</tr>
<tr>
<td>Total Income</td>
<td>77,191</td>
<td>70,134</td>
</tr>
<tr>
<td>Subvention from Central Bank of Ireland (iv)</td>
<td>62,195</td>
<td>57,912</td>
</tr>
<tr>
<td></td>
<td>139,386</td>
<td>128,046</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Expenses for Financial Regulation Activities (v)</td>
<td>139,386</td>
<td>128,046</td>
</tr>
<tr>
<td>Deferred Charges attributable to Industry (vi)</td>
<td>(7,087)</td>
<td>(7,406)</td>
</tr>
</tbody>
</table>
### Note 41: Financial Regulation Activities (continued)

#### (i) Levy Income

<table>
<thead>
<tr>
<th>Industry Funding</th>
<th>2013 Deficit/ (Surplus) (A)</th>
<th>Amount Levied in 2014 (B)</th>
<th>2014 Deficit/ (Surplus)* (C)</th>
<th>2014 Levy Income (B+C-A)</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Institutions</td>
<td>3,178</td>
<td>42,809</td>
<td>676</td>
<td>40,307</td>
<td>35,759</td>
</tr>
<tr>
<td>Insurance Undertakings</td>
<td>(2,451)</td>
<td>12,402</td>
<td>238</td>
<td>15,091</td>
<td>14,348</td>
</tr>
<tr>
<td>Intermediaries</td>
<td>75</td>
<td>1,725</td>
<td>2,506</td>
<td>4,156</td>
<td>3,156</td>
</tr>
<tr>
<td>Securities and Investment Firms</td>
<td>(542)</td>
<td>9,479</td>
<td>859</td>
<td>10,880</td>
<td>10,723</td>
</tr>
<tr>
<td>Investment Funds</td>
<td>303</td>
<td>2,992</td>
<td>30</td>
<td>2,719</td>
<td>3,196</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>–</td>
<td>1,380</td>
<td>–</td>
<td>1,380</td>
<td>1,375</td>
</tr>
<tr>
<td>Moneylenders</td>
<td>(146)</td>
<td>415</td>
<td>(55)</td>
<td>506</td>
<td>370</td>
</tr>
<tr>
<td>Approved Professional Bodies</td>
<td>3</td>
<td>11</td>
<td>6</td>
<td>14</td>
<td>43</td>
</tr>
<tr>
<td>Bureau de Change</td>
<td>(2)</td>
<td>16</td>
<td>5</td>
<td>23</td>
<td>20</td>
</tr>
<tr>
<td>Home Reversion &amp; Retail Credit Firms</td>
<td>(3)</td>
<td>90</td>
<td>108</td>
<td>201</td>
<td>96</td>
</tr>
<tr>
<td>Payment Services Institutions</td>
<td>3</td>
<td>527</td>
<td>(23)</td>
<td>501</td>
<td>650</td>
</tr>
</tbody>
</table>

Total Funding                            | 418                          | 71,846                    | 4,350                        | 75,778                    | 69,736   |

* The aggregate of the gross deficits (€4.4 million) and surpluses (€78,000) attributable to each Industry Funding sub-category have been included in Note 20(iii) and Note 30(v) respectively.

Financial Regulation Net Industry Funding is shown in Note 7 as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Levy Income</td>
<td>75,778</td>
<td>69,736</td>
</tr>
<tr>
<td>Add: Surplus from Prior Year</td>
<td>–</td>
<td>(15,384)</td>
</tr>
<tr>
<td>Less: (Increase) in Provision for Unpaid Levies</td>
<td>(983)</td>
<td>(1,319)</td>
</tr>
</tbody>
</table>

Financial Regulation Net Industry Funding (Note 7) | 74,795 | 53,033 |
Note 41: Financial Regulation Activities (continued)

(ii) Increase in Provision for Unpaid Levies

The Bank maintains provisions in respect of levies which remain unpaid at year end. Such levies are pursued as part of the on-going debt recovery process.

The provisions/write-offs are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Provision for Unpaid Levy Notices</td>
<td>€2,640</td>
<td>€1,520</td>
</tr>
<tr>
<td>Levies Written Off</td>
<td>(€130)</td>
<td>(€199)</td>
</tr>
<tr>
<td>Increase in Provision</td>
<td>983</td>
<td>1,319</td>
</tr>
<tr>
<td>Closing Provision for Unpaid Levy Notices</td>
<td>€3,493</td>
<td>€2,640</td>
</tr>
</tbody>
</table>

(iii) Other Income

This is comprised as follows:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities Market Fees</td>
<td>€1,883</td>
<td>€1,465</td>
</tr>
<tr>
<td>Licensing Fees</td>
<td>500</td>
<td>238</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>€2,396</td>
<td>€1,717</td>
</tr>
</tbody>
</table>

(iv) Subvention

By agreement with the Minister for Finance, since 2007 approximately 50 per cent of the total costs of financial regulation activities have been met by the imposition of levies on the industry. The balance of the total annual costs is provided by the Bank in accordance with Section 32I of the Central Bank Act, 1942 (as amended). Since 2007 the Bank, with the approval of the Minister for Finance, has incurred costs in respect of certain securities market supervision activities (relating to the Prospectus, Market Abuse, Transparency and Short Selling Directives) carried out within the organisation. These costs totalling €6.3 million in 2014 (2013: €5.7 million) were excluded from the Net Industry Funding levies issued to the industry in 2014. Securities Market fees (included in Note (iii) above) are shown as income.

In addition, under the provisions of the Central Bank Act, 1942 (Section 32D) Regulations 2014 (the ‘Regulations’), the cost of carrying out Comprehensive Assessments of those credit institutions specified in the Regulations was recovered from the credit institutions concerned by means of a supplementary levy.
Note 41: Financial Regulation Activities (continued)

(v) Total Expenses

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Direct Expenses</td>
<td>85,159</td>
<td>81,674</td>
</tr>
<tr>
<td>Support Services</td>
<td>51,621</td>
<td>46,372</td>
</tr>
<tr>
<td>Provisions</td>
<td>2,614</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to Deferred Charges</td>
<td>(8)</td>
<td>-</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>139,386</td>
<td>128,046</td>
</tr>
</tbody>
</table>

Expenses both direct and in respect of support services, are included in Note 8.

Direct Expenses

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Salaries/Allowances</td>
<td>42,825</td>
<td>45,780</td>
</tr>
<tr>
<td>PRSI</td>
<td>3,790</td>
<td>3,846</td>
</tr>
<tr>
<td>Pension Provision</td>
<td>12,102</td>
<td>7,834</td>
</tr>
<tr>
<td>Staff Expenses</td>
<td>58,717</td>
<td>57,460</td>
</tr>
<tr>
<td>Training, Recruitment &amp; Other Staff Costs</td>
<td>1,765</td>
<td>1,538</td>
</tr>
<tr>
<td>Equipment, Stationery &amp; Requisites</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Business Travel</td>
<td>1,168</td>
<td>1,295</td>
</tr>
<tr>
<td>Publishing &amp; Consumer Advertising</td>
<td>38</td>
<td>43</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>21,630</td>
<td>19,606</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1,840</td>
<td>1,731</td>
</tr>
<tr>
<td>Non-Pay Operating Expenses</td>
<td>26,442</td>
<td>24,214</td>
</tr>
<tr>
<td>Direct Expenses</td>
<td>85,159</td>
<td>81,674</td>
</tr>
</tbody>
</table>

The total amount of professional fees incurred in 2014 in relation to the Comprehensive Assessment of credit institutions was €17.6 million (2013: €12.2 million). These costs were fully recouped from the credit institutions specified in the Regulations and are accounted for under Credit Institutions Industry Funding.
Note 41: Financial Regulation Activities (continued)

Support Services

The Financial Regulation Directorates receive various services including premises, human resources administration, accounting, internal audit, statistical and information technology services from support services directorates in the Bank. The cost of these services in 2014 was €51.6 million (2013: €46.4 million).

The costs involved have been determined by the application of a cost allocation methodology which has previously been reviewed by independent external consultants. Allocation is based on well-recognised industry practice including occupied floor space, personal computer numbers and headcount (staff numbers) as appropriate. The main components of the above costs are as follows:

<table>
<thead>
<tr>
<th>Service</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises &amp; Facilities</td>
<td>13,130</td>
<td>12,309</td>
</tr>
<tr>
<td>Information Technology Services</td>
<td>13,816</td>
<td>15,610</td>
</tr>
<tr>
<td>Human Resources</td>
<td>7,204</td>
<td>5,941</td>
</tr>
<tr>
<td>Other Services</td>
<td>17,471</td>
<td>12,512</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51,621</strong></td>
<td><strong>46,372</strong></td>
</tr>
</tbody>
</table>

Provisions

<table>
<thead>
<tr>
<th>Provision</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring Provision</td>
<td>2,614</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,614</strong></td>
<td>–</td>
</tr>
</tbody>
</table>

The Bank has created a restructuring provision for a Voluntary Severance Scheme which was implemented in relation to administrative and currency staff. This represents the proportion of that provision attributable to financial regulation activity (Note 3 and Accounting Policy (m)).
Note 41: Financial Regulation Activities (continued)

(vi) Share of Deferred Charges attributable to Industry

Since 2013 the Bank recognises certain charges, the relevant proportion of which will be charged to Industry in future years as actual outgoings are incurred. These expenses relate to:

(i) An onerous lease and dilapidations provision (Note 32 (iii));
(ii) An accrual in respect of annual leave (Note 8 (ii)) and
(iii) A restructuring provision for planned restructuring in 2015 in relation to administrative and currency staff.

Changes in the balance of deferred charges are reflected in Note 7. The closing balance will be carried forward until such a time as the related obligation is settled (Note 20).

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance</td>
<td>7,406</td>
<td>–</td>
</tr>
<tr>
<td>Change in Year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creation of Deferred Charges</td>
<td>–</td>
<td>7,406</td>
</tr>
<tr>
<td>Change in estimated provision for onerous lease</td>
<td>327</td>
<td>–</td>
</tr>
<tr>
<td>Transfers to Industry Funding</td>
<td>8</td>
<td>–</td>
</tr>
<tr>
<td>Closing Balance</td>
<td>7,087</td>
<td>7,406</td>
</tr>
</tbody>
</table>

Note 42: Comparatives

Certain comparative information has been reclassified for consistency with current year disclosures.

Note 43: Approval of Accounts

The Commission approved the Statement of Accounts on 13 April 2015.
Comptroller and Auditor General Report for presentation to the Houses of the Oireachtas

Central Bank of Ireland

I have audited the statement of accounts of the Central Bank of Ireland for the year ended 31 December 2014 under the Central Bank Act 1942, as amended by the Central Bank Reform Act 2010. The statement of accounts, which has been prepared under the accounting policies set out therein, comprises the accounting policies and related information, the profit and loss and appropriation account, the balance sheet and the related notes. The financial reporting framework that has been applied in the preparation of the statement of accounts is set out in paragraph (b) of the accounting policies and related information.

Responsibilities of the Central Bank Commission

The members of the Central Bank Commission are responsible for the preparation of the statement of accounts, for ensuring that the statement gives a true and fair view of the state of the Bank’s affairs and of its income and expenditure, and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the statement of accounts and report on it in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of audit of the Statement of Accounts

An audit involves obtaining evidence about the amounts and disclosures in the statement, sufficient to give reasonable assurance that the statement is free from material misstatement, whether caused by fraud or error. This includes an assessment of:

– whether the accounting policies are appropriate to the Bank’s circumstances, and have been consistently applied and adequately disclosed

– the reasonableness of significant accounting estimates made in the preparation of the statement of accounts, and

– the overall presentation of the statement of accounts.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the Bank’s annual report to identify if there are any material inconsistencies with the audited statement of accounts. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the Statement of Accounts

In my opinion, the statement of accounts, which has been properly prepared on the basis described in paragraph (b) of the accounting policies and related information, gives a true and fair view of the state of the Bank’s affairs at 31 December 2014 and of its income and expenditure for 2014.

In my opinion, proper books of account have been kept by the Bank. The statement of accounts is in agreement with the books of account.
Matters on which I report by exception

I report by exception if:

– I have not received all the information and explanations I required for my audit, or

– my audit noted any material instance where public money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or

– the information given in the Bank’s annual report is not consistent with the related statement of accounts, or

– the statement on internal financial control does not reflect the Bank’s compliance with the Code of Practice for the Governance of State Bodies, or

– I find there are other material matters relating to the manner in which public business has been conducted.

Non-competitive procurement and Irregular payment

The statement on internal financial control discloses that

– There was a material level of procurement by the Bank in 2014 that was not based on competitive selection procedures, and that the Bank has an action plan to address the matter.

– During 2014, a control weakness resulted in a significant irregular payment by the Bank in relation to supplier services. The bulk of this payment has been recovered. The controls and relevant procedures have since been updated to address this issue.

Seamus McCarthy
Comptroller and Auditor General

13 April 2015
Independent Auditor’s Report to the Commission of the Central Bank of Ireland

We have audited the Statement of Accounts of the Central Bank of Ireland (“the Bank”) for the year ended 31 December 2014 which comprise the Profit and Loss and Appropriation Account, the Balance Sheet and the related notes 1 to 43. The financial reporting framework that has been applied in their preparation is the Guideline of the European Central Bank on the legal framework for the accounting and financial reporting in the European System of Central Banks and, where the Guideline of the European Central Bank does not provide specific direction or its application is not mandatory, accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) have been followed.

Respective responsibilities of commission members and auditors

As explained more fully in the Statement of Commission Members’ Responsibilities the Commission Members are responsible for the preparation of the Statement of Accounts in accordance with the financial reporting framework.

Pursuant to the requirements of Article 27 of the Statute of the European Central Bank, we have been appointed to audit the Statement of Accounts of the Central Bank of Ireland. Our responsibility, as independent auditors, is to audit and express an opinion on the Statement of Accounts in accordance with Article 27 of the Statute of the European Central Bank and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors. This report, including the opinion, has been prepared for, and only for, the Bank’s Commission as a body, in accordance with Article 27 of the Statute of the European Central Bank and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the Statement of Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Statement of Accounts sufficient to give reasonable assurance that the Statement of Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Bank’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commission Members; and the overall presentation of the financial statements. We are not required to form an opinion on the effectiveness of the Bank’s system of internal financial controls. We read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Statement of Accounts. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report. Our responsibilities do not extend to other information.

Opinion on the Statement of Accounts

In our opinion the Statement of Accounts:

– give a true and fair view in accordance with the Guideline of the European Central Bank on the legal framework for the accounting and financial reporting in the European System of Central Banks, and where the Guideline of the European Central Bank does not provide specific direction or its application is not mandatory, Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the Bank as at 31 December 2014 and of the surplus for the year then ended; and

– have been properly prepared in accordance with the financial reporting framework.

Floating Rate Notes

– Due to the continued significance of the Floating Rate Notes included on the Balance Sheet, the reader’s attention is drawn to Note 15. Our opinion is not modified in respect of this matter.
Other matters on which we are required to report

– We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

– In our opinion proper accounting records have been kept by the Bank.

– The Statement of Accounts are in agreement with the accounting records.

– We have nothing to report in respect of best practice which would indicate we report to you if, in our opinion the disclosures of the commission members’ remuneration and transactions are not made.

RSM Farrell Grant Sparks
Chartered Accountants and Registered Auditors
Dublin

13 April 2015