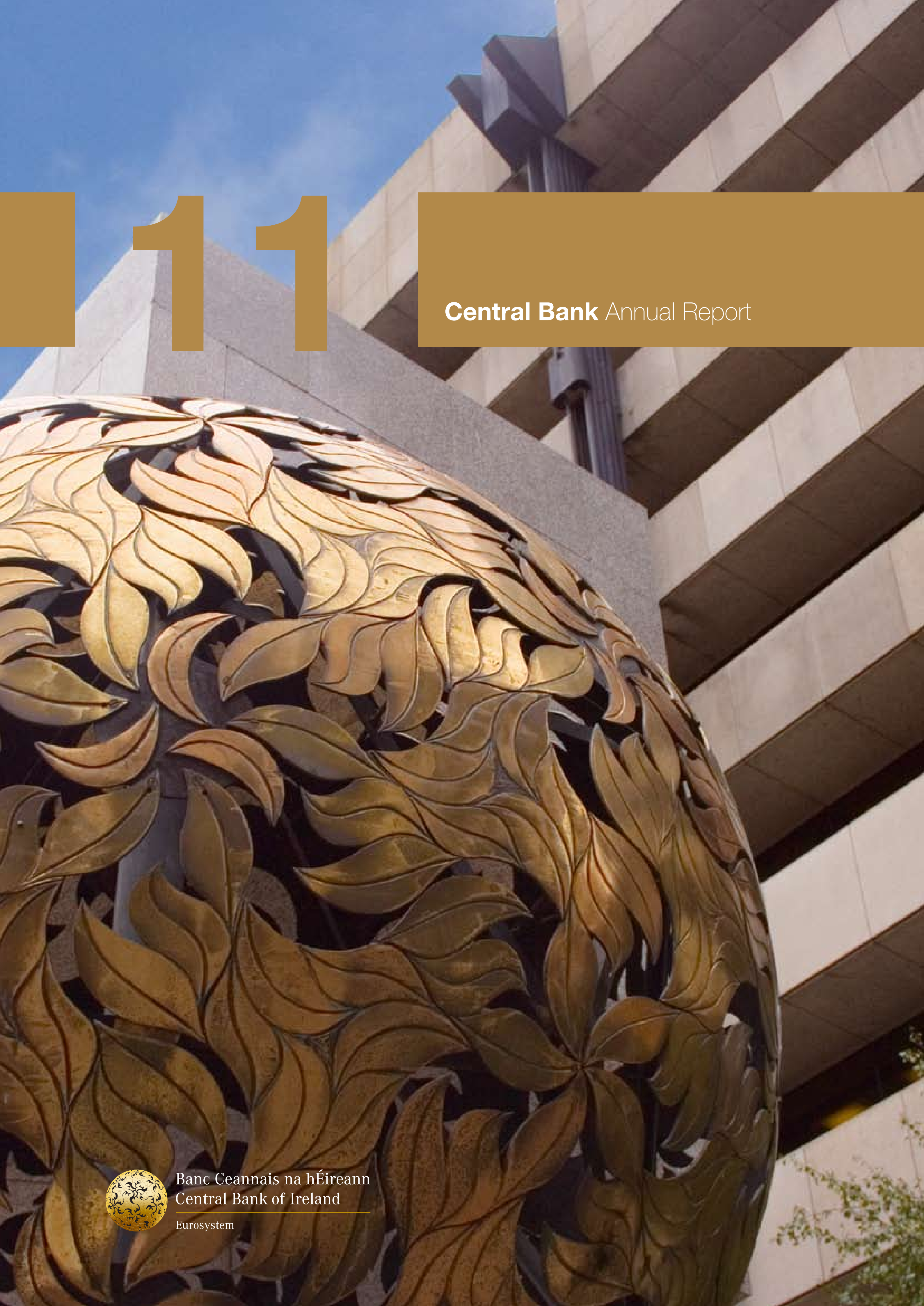


11

Central Bank Annual Report

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Central Bank of Ireland

25 April 2012

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.

The Annual Report also includes the Annual Reports required under the Unit Trust Act 1990, Consumer Credit Act 1995, Prospectus Regulations 2005 and Market Abuse Regulations 2005.

I have the honour to enclose herewith the Activities and Annual Accounts of the Bank for the year ended 31 December 2011.

Yours faithfully

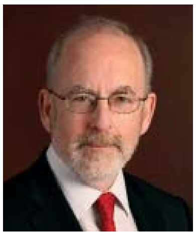
Patrick Honohan
Governor

Contents

Part 1

The Central Bank Commission

as at 31 March 2012



Patrick Honohan, Governor*

Matthew Elderfield, Deputy Governor (Financial Regulation)*

Stéfan Gerlach, Deputy Governor (Central Banking)*

John Moran, Secretary General of the Department of Finance*

Alan Ahearne

Blanaid Clarke

John FitzGerald

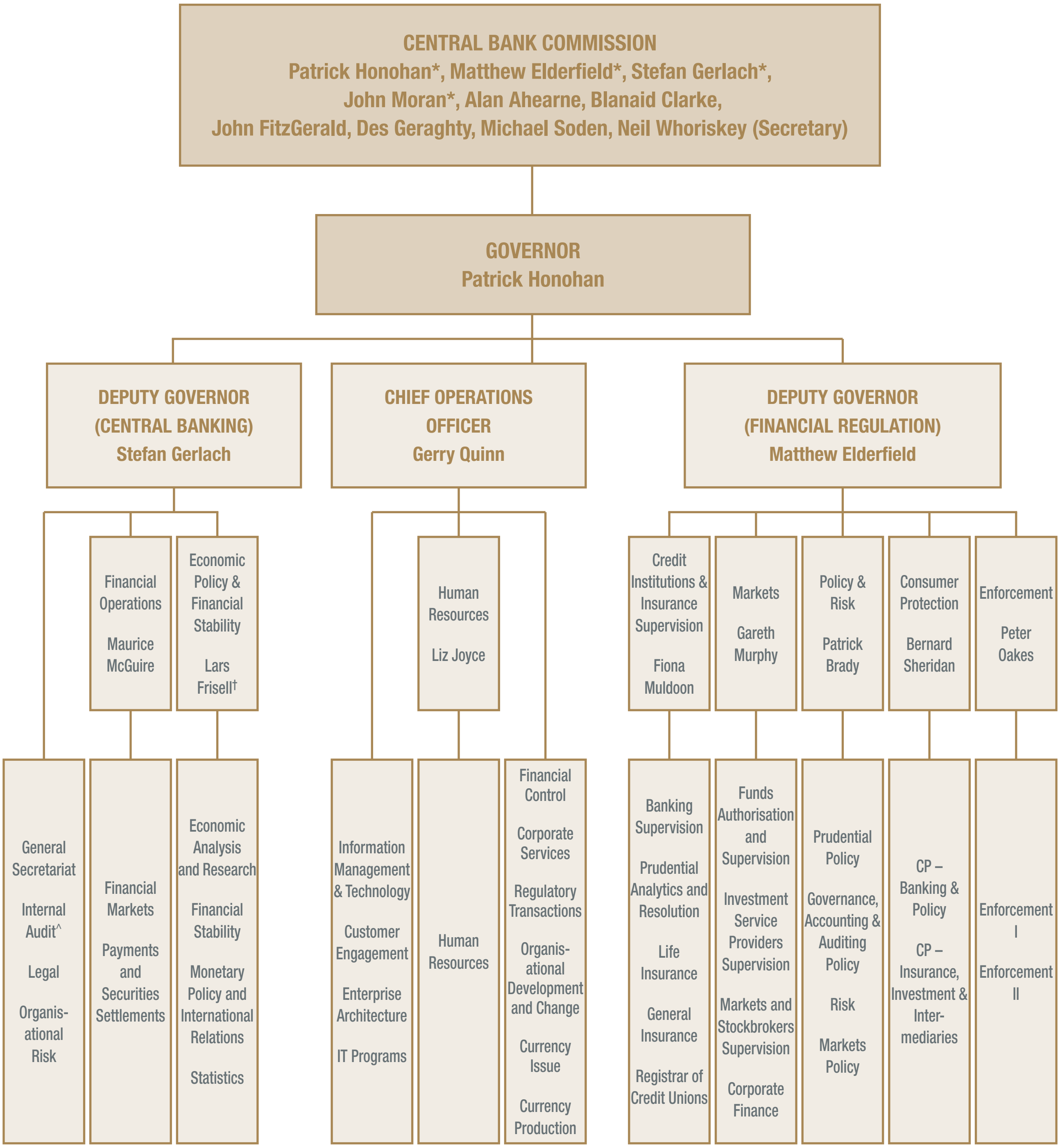
Des Geraghty

Michael Soden

Neil Whoriskey, Secretary

* Ex-officio members

Organisation



* Ex-officio

† Effective 1 June 2012

^ Internal Audit Division reports directly to Governor and only reports to the Deputy Governor for matters of an administrative or budgetary nature

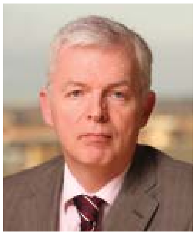
Senior Management

as at 31 March 2012[1]

Patrick Honohan,
Governor

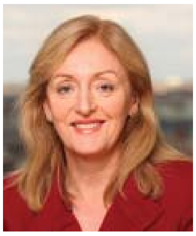
Matthew Elderfield,
Deputy Governor
(Financial Regulation)

Stéfan Gerlach,
Deputy Governor
(Central Banking)

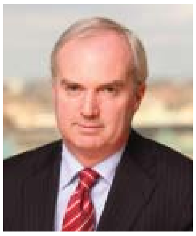


Gerry Quinn,
Chief Operations
Officer

Patrick Brady,
Director
Policy & Risk

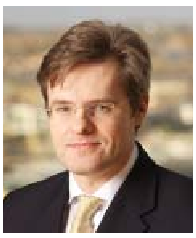


Liz Joyce,
Director
Human Resources

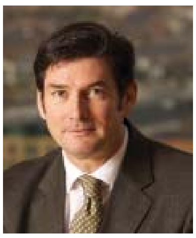


Maurice McGuire,
Director
Financial Operations

Fiona Muldoon
Director
Credit Institutions &
Insurance Supervision



Gareth Murphy,
Director
Markets



Peter Oakes,
Director
Enforcement

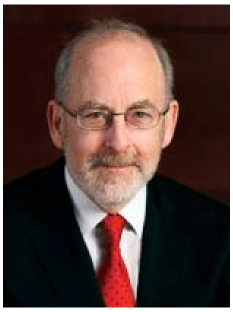
Bernard Sheridan,
Director
Consumer Protection

1 Jonathan McMahon served as Director Credit Institutions Supervision until 24 April 2012. Lars Frisell will take up his position as Director Economic Policy & Financial Stability on 1 June 2012.

Management

as at 31 March 2012

Directorate	Division	Head of Division
	General Secretariat Internal Audit Legal Organisational Risk Advisor to the Governor	Neil Whoriskey Patrick Treanor Joseph Gavin AnneMarie McKiernan Frank Browne
Financial Operations	Financial Markets Payments and Securities Settlements	Michael Maher Paul Molumby
Economic Policy & Financial Stability	Economic Analysis and Research Financial Stability Monetary Policy and International Relations Statistics	John Flynn Vacancy Mark Cassidy Joe McNeill
Information Management and Technology	Information Management & Technology Customer Engagement	Michael Power Carina McArdle
Operations	Corporate Services Regulatory Transactions Currency Issue Currency Production Financial Control Organisational Development and Change	Michael Enright Alan Briscoe Daragh Cronin Harry Murphy Vacancy Vacancy
Human Resources	Human Resources	Lucy O'Donoghue
Credit Institutions & Insurance Supervision	Banking Supervision Prudential Analytics and Resolution Registrar of Credit Unions Life Insurance General Insurance	Shane O'Neill Anthony McKeon James O'Brien Fiona McMahon Vacancy
Markets	Funds Authorisation and Supervision Investment Service Providers Supervision Markets and Stockbrokers Supervision Corporate Finance Advisor to Director Markets	Vacancy Vacancy Vacancy Rosemary Hanna Colette Drinan
Policy & Risk	Prudential Policy Governance, Auditing and Accounting Policy Risk Markets Policy	Mary Burke Máiréad Devine William Mason Martin Moloney
Consumer Protection	Consumer Protection – Banking and Policy Consumer Protection - Insurance, Investment and Intermediaries	Sharon Donnery Patricia Moloney
Enforcement	Enforcement I Enforcement II	Derville Rowland Hilary Griffey



Governor's Opening Statement

The key focus of the Central Bank in 2011 was continuing resolution of Ireland's financial crisis. Against a backdrop of heightened international uncertainty, the Bank continued to act vigorously in its engagement with financial institutions and external partners in an effort to promote recovery in the financial system and the economy as a whole. These actions are ultimately aimed at building greater confidence and increasing the prospects for growth to levels that will allow unemployment to reduce and living standards to rise again at modest, but sustainable, rates.

During the year there were a number of major reforms introduced to the domestic banking sector concerning restructuring, recapitalising and deleveraging. The Bank and the Eurosystem continued to provide substantial liquidity support to the Irish financial system. The supervisory approach was further enhanced and significant new consumer protection initiatives were introduced and advanced.

The domestic economy saw some modest gains in GDP terms in 2011, but the positive impulse to growth came exclusively from the external side and was largely offset by a continuing drag on domestic demand. GNP declined once more.

Progress continues to be made on the major policy issues. Under the EU-ECB-IMF Financial Assistance Programme, important elements of Ireland's economic and financial policy framework have been agreed and set out in some detail. This Programme does not, however, represent a different course from that which Irish policymakers should and would otherwise have chosen. Consistent compliance with the Programme objectives by Ireland, as has been confirmed by the External Partners during the course of 2011 and into 2012, is not only the key to restoring confidence, but signals important steps towards rebalancing and strengthening the economy towards a recovery of activity and especially employment. Under all reviews to date Ireland has been deemed to be on track in relation to all the quantitative macroeconomic targets and the structural benchmarks. In particular, the banking strategy is proceeding as scheduled.

On the wider European front, a number of measures were taken during the year to contain the sovereign debt crisis and to improve financial and economic conditions in the euro area. A sequence of agreements has articulated and effectively cemented fiscal principles and strengthened economic cooperation. Enhanced funding facilities under the EFSF and ESM arrangements were announced and longer term liquidity support from the ECB was made available. Cumulatively, these various policy measures have played some role in bringing about greater stability; however it is clear that uncertainty still remains and the momentum behind these initiatives needs to be maintained.

The Bank has taken decisive actions throughout 2011 and into 2012 to underpin its focus on promoting recovery and growth. The Financial Measures Programme Report, published in March 2011, provided a detailed assessment of the capital and liquidity conditions and needs of the domestic banks, guiding recapitalisation and restructuring decisions. Burden sharing with holders of subordinated bank debt helped reduce the cost to the Exchequer of the bank recapitalisation. As part of its supervisory work, the Bank developed and launched a new systematic risk assessment framework which establishes an adaptive approach for supervisory engagement with regulated firms. The Bank also continued to work towards bringing about an enhanced legislative and regulatory framework for credit unions.

New regulations and standards on fitness and probity, which have set statutory standards for the financial services industry and which have given the Bank certain powers including that of pre-approval for the more significant positions, were published. Major legislative projects progressed in 2011 included the Central Bank (Supervision and Enforcement) Bill 2011 and the Central Bank and Credit Institutions (Resolution) Act 2011.

A revised Consumer Protection Code was published representing the most significant strengthening of protections for consumers of financial institutions in recent years. A significant programme of work was advanced in relation to enterprises and households facing financial difficulties. A revised Code of Conduct for Business Lending to Small and Medium Enterprises was published and various steps were taken to encourage banks to develop strategies for dealing with mortgage arrears.

Increased analysis and research work was undertaken which mirrors the wider European focus on financial stability related research. In 2011, the Bank further improved the communication of its research work with the launch of a new Economic Letters series and also continued to enhance its statistical outputs throughout 2011.

Details on how the Bank carried out these and other activities for 2011 are contained in this Annual Report and in the Annual Performance Statement for Financial Regulation which is also published with this report.

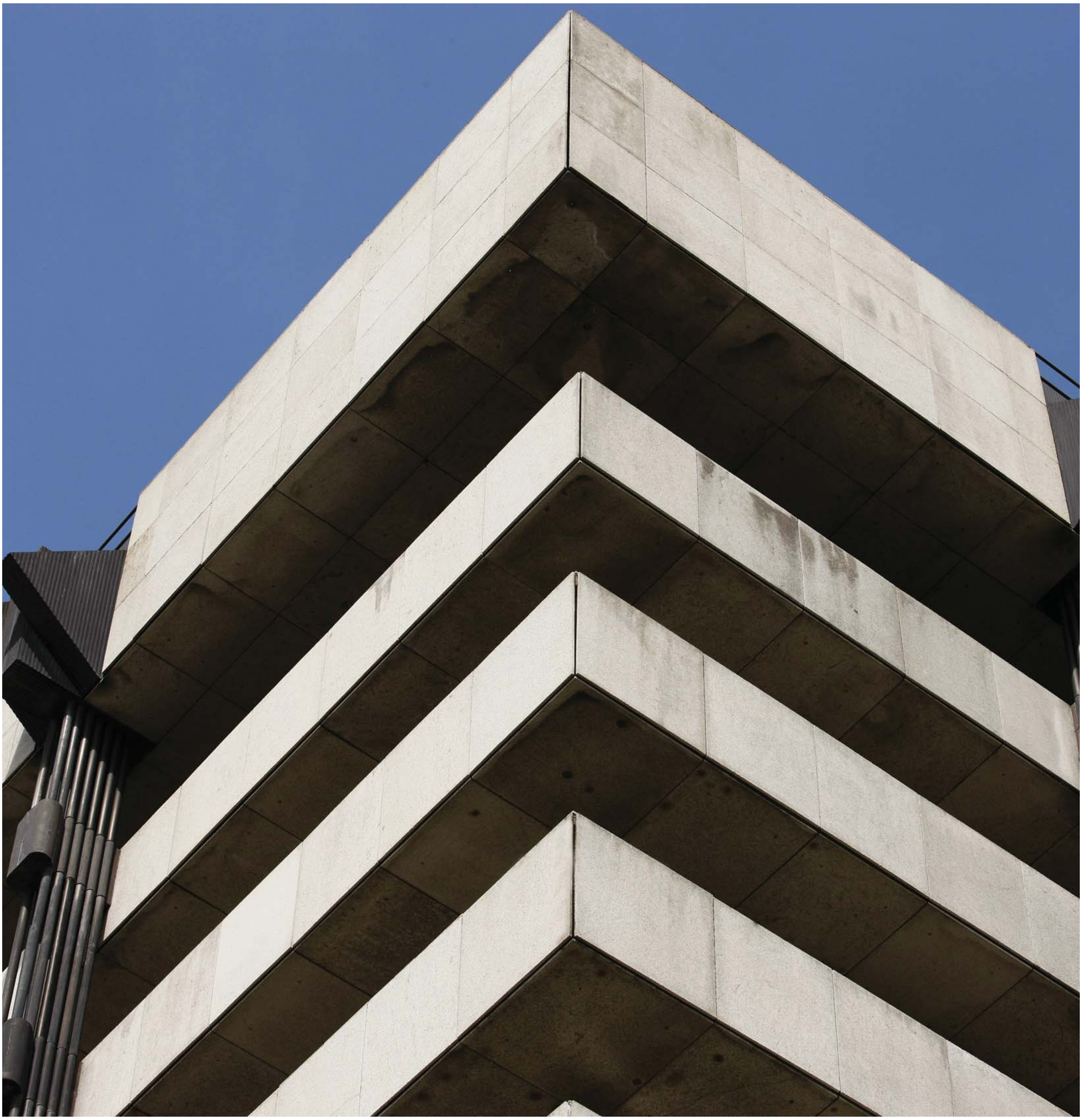
The Bank's profit for the year to 31 December 2011 amounted to €1.2 billion. After retained earnings, surplus income of €958 million will be paid over to the Exchequer.

I would like to thank the members of the Commission for their valuable contributions and advice throughout the year. I wish to acknowledge the contributions made by Max Watson who retired on 31 December 2011 and Kevin Cardiff who retired on 3 February 2012.

I wish to thank management and staff for their hard work and professionalism throughout the year as the Bank continued to focus on resolving Ireland's financial crisis and restoring confidence.

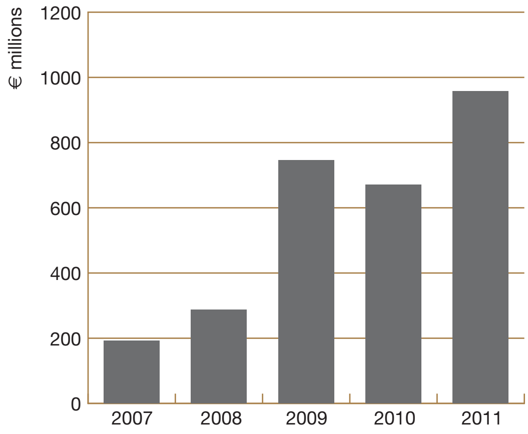
Patrick Honohan
Governor

2011 **at a Glance**



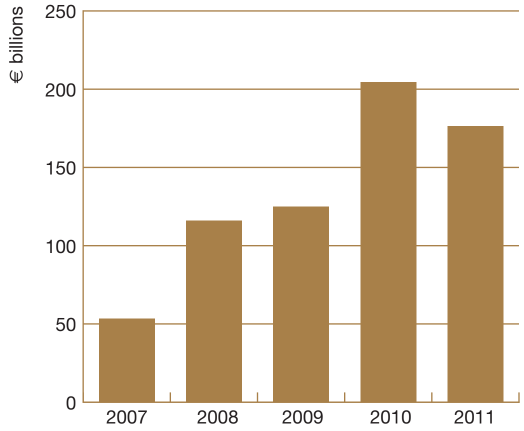
2011: The Bank at a Glance

Surplus Income Paid to Exchequer



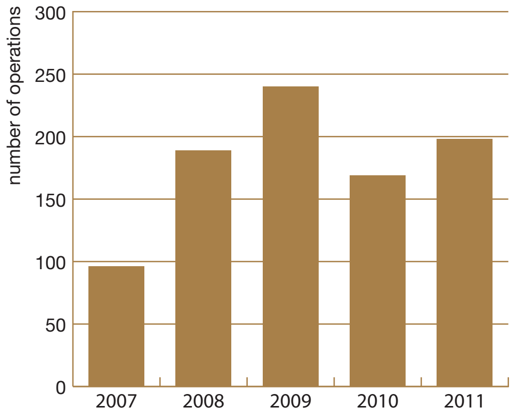
Surplus income paid to the Exchequer increased to €958.3 million (€671.0 million in 2010).

Total Assets



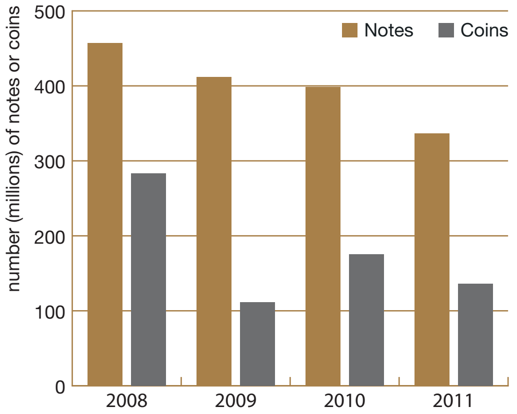
Total Assets decreased to €176.3 billion (€204.5 billion in 2010).

Number of Open Market Operations



There were approximately 198 operations conducted by the Bank on behalf of the Eurosystem (169 in 2010).

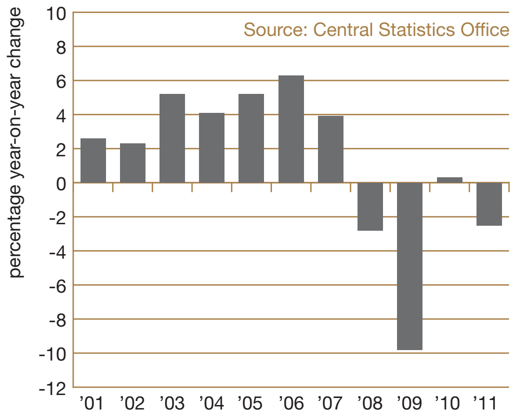
Issuance of Banknotes and Coins



The number of banknotes issued fell (337 million in 2011 from 399 million in 2010) and the number of coins issued fell (176 million in 2010 to 136 million in 2011)

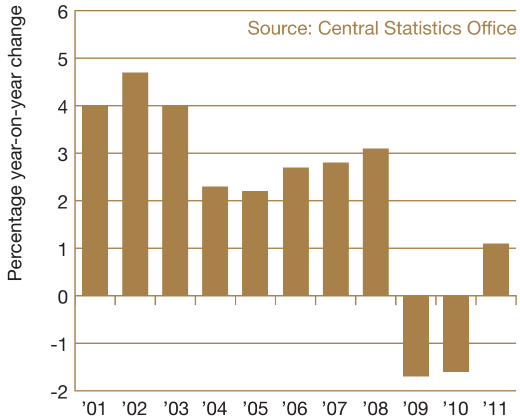
2011: The Economy at a Glance

Real GNP



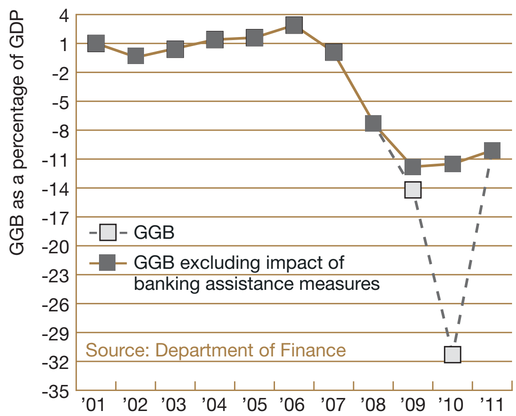
The economy contracted in 2011, in real GNP terms, falling by 2.5 per cent.

Inflation (HICP)



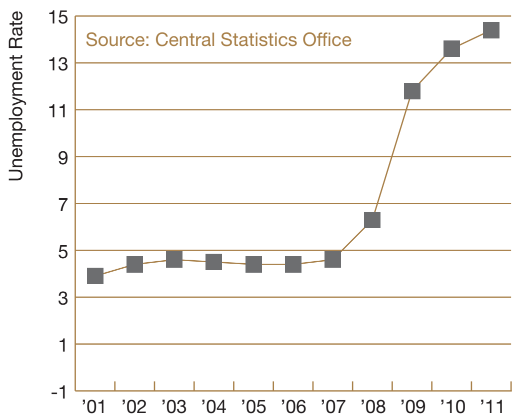
The HICP measure of inflation averaged 1.1 per cent in 2011.

General Government Balance (GGB) as a % of GDP



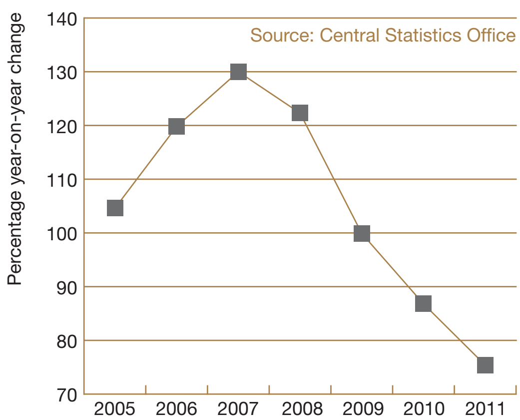
The General Government Deficit is estimated to have been 10.1 per cent of GDP in 2011. This compares to 31.3 per cent in 2010 (11.5 per cent of GDP when bank assistance measures are excluded). Note: Figures for 2011 are based on Department of Finance estimates at time of Budget 2012 and are subject to revision when EDP figures are published by Eurostat at end-April 2012.

Unemployment Rate



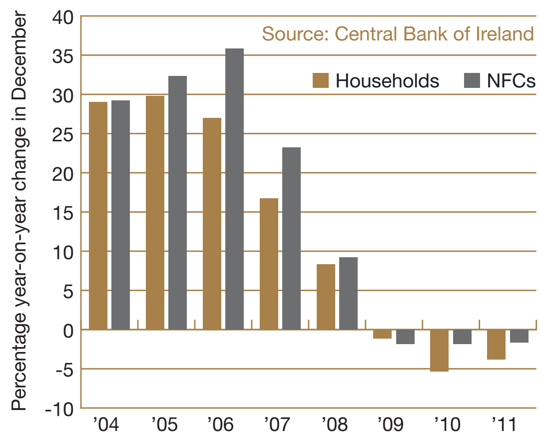
The unemployment rate increased to an average of 14.4 per cent in 2011.

National Residential Property Prices



National residential property price declines remained strong in 2011, with prices falling by 13.2 per cent year-on-year in annual average terms.

End-Year Annual Rates of Change in Lending



Lending to Irish Households and Non-Financial Corporations (NFCs) fell by 3.8 per cent and by 1.6 per cent, respectively, year-on-year by end-2011. Note: Growth rates are based on underlying transactions, i.e., after adjusting for write-downs, securitisations, and transfers to NAMA, etc.

List of Common Abbreviations

ABS	Asset Backed Securities
AIFMD	Alternative Investment Fund Managers Directive
AML	Anti Money Laundering
AML-CTF	Anti Money Laundering-Counter Terrorism Financing
AMLTF	Anti Money Laundering Task Force
ASP	Administrative Sanctions Procedures
BCBS	Basel Committee of Banking Supervisors
BCM	Business Continuity Management
BIS	Bank for International Settlements
BLS	Bank Lending Survey
BSC	Balanced Scorecard
CAR	Client Asset Requirements
CCBM	Correspondent Central Banking Model
CCMA	Code of Conduct on Mortgage Arrears
CEBS	Committee of European Banking Supervisors
CFs	Controlled Functions
CFDs	Contracts for Difference
CG Code	Corporate Governance Code for Credit Institutions and Insurance Undertakings
CNAC	Coin National Analysis Centre
CRD	Capital Requirements Directive
CSDs	Central Securities Depositories
CSO	Central Statistics Office
CTF	Counter Terrorism Financing
DGS	Deposit Guarantee Scheme
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EFC	Economic and Financial Committee
EFF	Extended Fund Facility

EFSF	European Financial Stability Facility
EFSM	European Financial Stability Mechanism
EIOPA	European Insurance and Occupational Pensions Authority
ELA	Exceptional Liquidity Assistance
ELG	Eligible Liabilities Guarantee
EMD	Electronic Money Directive
ERC	Executive Risk Committee
ESA	European Supervisory Authority
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
FMP	Financial Measures Programme
FVCs	Financial Vehicle Corporations
GGD	General Government Deficit
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICCL	Investor Compensation Company Limited
IFSC	International Financial Services Centre
IGS	Insurance Guarantee Schemes
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IPSO	Irish Payment Services Organisation
ISE	Irish Stock Exchange
JRADs	Joint Risk Assessments and Capital Decisions
KFDs	Key Features Documents
LDR	Loan-to-deposit ratio
LRP Code	Code of Practice on Lending to Related Parties
LTRO	Longer Term Refinancing Operation

MABS	Money Advice and Budgeting Service
MARP	Mortgage Arrears Resolution Process
MARS	Mortgage Arrears Resolution Strategy
MEFP	Memorandum of Economic and Financial Policies
MiFID	Markets in Financial Instruments Directive
MRO	Main Refinancing Operation
NAB	New Arrangements to Borrow
NAC	National Analysis Centre
NCB	National Central Bank
NPP	National Payments Plan
ODCE	Office of the Director of Corporate Enforcement
OIS	Overnight Indexed Swap
PCAR	Prudential Capital Assessment Review
PCFs	Pre-Approval Controlled Functions
PLAR	Prudential Liquidity Assessment Review
PLL	Precautionary and Liquidity Line
PMDP	Performance Management Development Programme
PMO	Project Management Office
PPI	Payment Protection Insurance
PRISM	Probability Risk and Impact SysteM
PSD	Payment Services Directive
PSSC	Payments and Settlements Systems Committee
RFI	Rapid Financing Instrument
RMPs	Risk Mitigation Programmes
QFA	Quarterly Financial Accounts
QIS	Quantitative Impact Assessment
SCR	Solvency Capital Requirement
SDR	Special Drawing Rights
SEPA	Single Euro Payments area

SIFIs	Systemically Important Financial Institutions
SMEs	Small and Medium Size Enterprises
SMP	Securities Markets Programme
SREP	Supervisory Review and Evaluation Process
SRR	Special Resolution Regime
TMoU	Technical Memorandum of Understanding
TREM	Transaction Reporting Exchange Mechanism
UCITS	Undertakings for Collective Investment in Transferable Securities
VA	Variable Annuity
VaR	Value at Risk

Chapter 1:
Key Activities and Developments in 2011

Executive Summary

Legislative Background

The Central Bank of Ireland was established by the Central Bank Act 1942 (as amended). On 1 October 2010, the Central Bank Reform Act 2010 abolished the previously related bodies, the Central Bank and Financial Services Authority of Ireland and the Irish Financial Services Regulatory Authority and replaced them with a single unitary body, the Central Bank of Ireland (the Bank).

The Bank is Ireland's central bank and a member of the European System of Central Banks (ESCB) and the Eurosystem. The functions of the Bank are set out in the Central Bank Reform Act 2010. The primary objective is to maintain price stability. The Bank also has the following objectives:

» The stability of the financial system;

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

» The efficient and effective operation of payment and settlement systems; and

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

Main Issues

During 2011, the Bank maintained a major role in the continuing resolution of Ireland's financial crisis. Important reforms were advanced in the domestic banking sector in addressing the capital needs, asset management and restructuring of the Covered Institutions. The Bank continued to provide substantial liquidity supports to the financial system. In its regulatory role, there was progressive development and deployment of supervisory resources and systems; a revised Consumer Code was published and focussed consumer protection initiatives advanced.

In the wider economy, Ireland maintained, despite heightened international uncertainty, strong policy implementation in 2011. Under the Financial Assistance Programme, a number of fiscal and structural reform targets were achieved ahead of schedule and ambitious fiscal consolidation plans had been announced for 2012-15.

The Governing Council of the European Central Bank (ECB) took rate decisions during 2011 against a background of developing uncertainty regarding price stability earlier in the year, followed by a sharpening deterioration in the financial markets and slower growth during the second half of the year. Key interest rates ended the year at low levels. In addition to changes to its policy rates, the ECB adopted new non-standard monetary policy measures, including the provision of liquidity for three years, as well as the continuation of existing measures. These actions have supported liquidity in the European financial markets.

Banking Reorganisation

The Financial Measures Programme Report was published in March 2011. This report provided a key assessment of the capital and liquidity conditions and needs of domestic banks and comprised three key elements: (i) an independent Loan Loss Exercise; (ii) Prudential Capital Assessment Review (PCAR) 2011; and (iii) Prudential Liquidity Assessment Review (PLAR) 2011. Restructuring of the Covered Institutions included the combination of Allied Irish Bank (AIB) and EBS Building Society and the identification of core and non-core assets in the two largest banks (AIB and Bank of Ireland) and Irish Life and Permanent. The recapitalisation of the banks was achieved at a lower cost to the Exchequer than expected. During 2011, the banks commenced the process of reducing their balance sheets through asset disposals.

Liquidity Support

The Bank, on behalf of the Eurosystem, continued to supply substantial liquidity support to the Irish banking system during 2011. Total Eurosystem monetary policy lending stood at €913 billion at end-December 2011, of which €108 billion was provided to Irish domiciled financial institutions (including the Irish Financial Services Centre (IFSC)). The Bank also provided Exceptional Liquidity Assistance (ELA), which was deemed necessary for financial stability purposes and amounted to €42 billion at year-end.

Regulatory Developments

During 2011, the Bank updated its action plan for strengthening supervision of credit institutions across a comprehensive range of areas. As part of its supervisory work, the Bank launched PRISM (Probability Risk and Impact SysteM), its new risk assessment framework which establishes a new adaptive approach for supervisory engagement with regulated firms. The new system has been implemented for all banks and insurance firms and will be introduced in all Bank supervised firms by June 2012. This gives the Bank a systemic and structured methodology for assessing different types of risk which focuses on high impact firms to make significant failure materially less likely. The Bank published its regulations and standards on fitness and probity in September 2011, which have set statutory standards of fitness and probity for the financial services industry and which gave the Bank certain powers including that of pre-approval for the more significant positions in the financial services industry. Major legislative projects progressed in 2011 included the Central Bank (Supervision and Enforcement) Bill 2011 and the Central Bank and Credit Institutions (Resolution) Act 2011. The Bank continued to work towards bringing about an enhanced legislative and regulatory framework for credit unions. The publication of the recommendations contained in the Interim Report of the Commission on Credit Unions, which was published in October 2011, represented a significant step in this development.

Consumer Protection

The Bank published a revised Consumer Protection Code in October 2011. The review of the Code, which came into effect on 1 January 2012, represents the most significant strengthening of protections for consumers of financial institutions since the launch of the initial Code in August 2006. The Bank continued a programme of work in relation to enterprises and households facing financial difficulties. A revised Code of Conduct for Business Lending to Small and Medium Enterprises was published in November 2011. In relation household financial difficulties, the Bank took steps in 2011 to encourage banks to develop strategies for dealing with mortgage arrears.

Financial Stability

During the year, the Bank's Financial Stability Committee, which is chaired by the Governor, met regularly. Increased analysis and research work was undertaken which mirrors the wider European focus on financial stability related research. The Bank hosted a conference on the mortgage market in late 2011, which highlighted research work carried out by the Bank in the area of mortgage arrears. Over the year, the Bank continued to actively participate in the European System of Central Banks' (ESCB) Macroprudential Research Network. Since the establishment of the European Systemic Risk Board (ESRB), the Bank has been an active participant through its attendance at meetings of the General Board as well as the Board's Advisory Technical Committee.

Economic Policy and Statistics

The Bank plays an important role in influencing national economic policy through the provision of economic analysis and research and financial statistics. At Eurosystem/ESCB and EU levels as well as domestically, the Bank contributes to economic forecasting, analysis and policy development. In 2011, the Bank further improved the communication of its research work with the launch of a new Economic Letters series, designed to address topical issues, and the publication of its fourth annual Research Bulletin. The Bank also continued to enhance its statistical outputs throughout 2011. The first national statistics on Financial Vehicle Corporations (FVCs) were launched and new data series for the banking and external sectors were developed.

Payments and Currency

The Bank is responsible for the oversight of payments and security settlement systems in order to ensure their safety and effectiveness. TARGET2 is the single pan-European system used by each of the national payment systems to ensure a uniform wholesale payment infrastructure, thus promoting further efficiency and integration in European financial markets.

The TARGET system functioned smoothly in 2011 and settled a large number of euro payments, maintaining a stable market share.

In 2011, the Bank was requested by Government to take the lead in preparing a National Payments Plan (NPP). The NPP is expected to be published in 2012, with implementation to run up to end-2014. The Bank is also responsible for the administration of the Irish Deposit Guarantee Scheme (DGS) which compensates depositors in the event of a credit institution failing. In the event of liquidation, a pay-out of 20 working days would apply. The Bank continues to work with the credit institutions to prepare for new requirements arising from a draft EU Directive on Deposit Guarantee Schemes which is expected to come into effect from 1 January 2013. During 2011, enhanced procedures concerning the authenticity and fitness checking and recirculation of euro banknotes and euro coins were implemented. A new automated high-security system for storing and handling banknotes was also introduced during the year.

Investments

At the end of 2011, the Bank's investment portfolio comprised assets worth €18.7 billion. The total represents an increase of €0.5 billion on 2010. The Bank's investment portfolio is managed in line with parameters approved by the Central Bank Commission.

Staffing

At the end of 2011, the Bank employed 1,372 staff from an approved complement of 1,559. Of this number, 278 were assigned to Central Banking functions, 622 were assigned to Regulatory areas and 472 to Operations. This is an increase of 11.9 per cent on 2010 staffing levels and relates principally to progressive implementation of the post-crisis decision to increase resourcing levels in the Regulatory Directorates substantially.

Profits

The Bank's profit for the year to 31 December 2011 amounts to €1.2 billion. After retained earnings, €958.3 million will be paid to the Exchequer.

EU-IMF Financial Assistance Package for Ireland

Ireland secured the three year EU-IMF Financial Assistance Programme (2010-2013) on 28 November 2010. The Programme establishes important elements of Ireland's economic and financial policy framework with the objective of addressing financial sector weaknesses and putting the economy on a path of sustainable growth, sound public finances, and increased employment. As part of the Programme requirements, the IMF, the European Commission (EC) and the European Central Bank (ECB) conducted a number of reviews during 2011. The first and second reviews were completed in April 2011[2], the third review took place in July 2011, and the fourth occurred in October 2011. After each review the IMF and the EC published their staff assessments on Ireland's performance against agreed structural benchmarks and performance criteria. Following IMF Executive Board and European Council approval of these reports, agreed loan tranches were disbursed.

Summary of Programme Achievements/ Targets Reached in 2011

According to the IMF and EC assessments, Ireland maintained, despite the backdrop of heightened international uncertainty, strong policy implementation in 2011, with a number of targets achieved ahead of schedule, including in the financial sector. The External Partners[3] noted that fiscal targets were met, ambitious fiscal consolidation plans had been announced for 2012-15, and important reforms were advanced in the banking sector (e.g. the domestic bank recapitalisation has been substantively completed) and other areas (e.g. the publication of draft legislation to increase competition in the medical and legal professions and to strengthen the enforcement of competition law).

The Bank and the Department of Finance are responsible for implementing financial sector reforms, which are mainly centred on enhancing supervision and on downsizing and reorganising the domestic banking system.

Financial Sector Reforms

The first phase of the financial sector reform strategy was successfully completed with the publication of the Financial Measures Programme (FMP) Report on 31 March 2011. This included the details of the outcomes of rigorous solvency stress tests[4], funding assessments[5] and the resulting restructuring, recapitalisation and de-leveraging requirements of the Covered Institutions. To underscore a stressed loan-loss estimate that was fully credible to the market, the Bank engaged an external consultant, BlackRock Solutions (BlackRock), a leading specialist in analysing potential loan losses under stressed conditions. It applied its international experience to the portfolios of the banks and established stress loan loss scenarios. Boston Consulting Group was appointed to carry out an independent assessment of the work carried out by BlackRock. The Bank made its decision on required bank recapitalisation on the loan-loss projections of Blackrock, along with further calculations concerning the prospective income, expenditure, and deleveraging plans of the banks. Restructuring of the Covered Institutions included the combination of AIB and EBS and the identification of core and non-core assets in the two largest banks (AIB and Bank of Ireland) and Irish Life and Permanent. The cost to the Exchequer of bank recapitalisation was reduced by the greater than expected private sector investor participation and burden-sharing with the holders of bank subordinated debt. The banks started the process of deleveraging their balance sheets through both asset disposal and run-off of non-core assets. The objective of these actions is to facilitate banks access to market funding at reasonable cost and to undertake lending which will contribute to the recovery in the broader economy.

The Bank, in line with the Programme benchmarks, produced provisioning and disclosure guidelines for the Covered Institutions. A new risk probability and impact focused system for financial supervision was introduced called PRISM. A memorandum of understanding between the Bank and the Department of Finance was published on banking sector oversight; and an update to the Code of Conduct for Business Lending to Small

2 The first review was postponed due to the general election which took place on Friday 25 February, 2011.

3 External Partners comprise the European Commission, the International Monetary Fund and the European Central Bank.

4 The Prudential Capital Assessment Review (PCAR) 2011.

5 The Prudential Liquidity Assessment Review (PLAR) 2011.

and Medium Enterprises (SMEs) was published, which deals with lenders' requirements with respect to Small and Medium Enterprises. In addition, employing powers under new legislation, the Bank took its first resolution action to deal with a credit union experiencing difficulties. The Bank was also represented on the Commission on Credit Unions (the Credit Union Commission), which is assessing the necessary restructuring of the credit union sector with the aim of addressing weaknesses and improving the regulation and governance in the sector. In order to help resolve problem loans and improve the quality of future lending, amendments are being made to the personal insolvency and bankruptcy regime and a new credit register will be introduced.

Fiscal and Budgetary Actions

In terms of the fiscal and budgetary performance, the fiscal consolidation targets for 2011 were achieved with all the criteria and benchmarks being met. In relation to the structural benchmarks, the Government established the Fiscal Advisory Council in July and introduced a Medium-Term Fiscal Framework which sets out the path to reduce the deficit below 3 per cent of GDP in 2015. This framework also incorporates binding multi-annual current expenditure ceilings. The 2011 general government deficit (GGD) is now expected to be below 10 per cent of GDP, comfortably within the 10.6 per cent target. As part of the quantitative performance criteria of the Technical Memorandum of Understanding (TMoU), the target for the end-December 2011 Exchequer primary balance (i.e. the Exchequer balance excluding Exchequer debt interest payments) and the net central government debt were both met with a margin. To date, all of the quarterly Exchequer primary balance and net central government debt targets set as part of the Programme have been achieved.

Structural Reforms

Structural reforms to enhance the economy's competitiveness and to support increased employment and growth were significantly advanced in 2011. A number of sectors in the economy, such as the legal and medical professions, are being opened up with several reform bills published in 2011. Steps were also taken to raise caps on the size of retail premises and to strengthen the enforcement of competition law. An action plan is in place which will help to modernise the framework for sectoral wage-setting arrangements and work has started on identifying state assets suitable for privatisation. These structural reform actions, combined with strong underlying demographics and continued human capital deepening, will help to underpin Ireland's competitive position in the period ahead.

EU-IMF Disbursements

The total EU-IMF financial package amounts to about €67.5 billion, of which €45 billion is from the European Union and bilateral European lenders (the United Kingdom, Sweden and Denmark), and the remainder from the IMF (amounting to €22.5 billion at Programme inception)[6]. At end 2011, Ireland had received a net euro amount of €34.5 billion[7], that is, approximately half of the total external funds available under the Programme, of which €12.6 billion came from the IMF and €21.9 billion from European Partners - with the latter comprising €13.8 billion from the European Financial Stability Mechanism (EFSM), €7.6 billion from the European Financial Stability Facility (EFSF), and €0.5 billion from the UK bilateral loan. On 21 July 2011, the Euro Area Heads of State and Government agreed to reduce the cost of the EFSF to Ireland, Greece and Portugal. It was also agreed at that meeting to reduce the interest rate and extend the maturities on EFSM facilities. In line with these changes, the UK agreed to reduce the interest rate charged on the bilateral loan to Ireland. On 4 March 2011, Ireland's quota at the IMF increased from SDR 838.4 million to SDR 1,257.6 million - this has the effect of reducing the Extended Fund Facility (EFF) interest rate by a small amount.

6 The IMF package is SDR 19.5 billion, which amounted to €22.5 billion at end November 2010.

7 Total liabilities under the Programme at end-December 2011 are €35.15 billion, net euro receipts of €35.4 billion include adjustments for below par issuance and deduction of a prepaid margin of €0.53 billion on the first EFSF disbursement.

Box 1 – Ireland's Financial Sector Commitments under the External EU-IMF Programme of Financial Support

The EU-IMF Programme (the Programme) aims to restore Irish sovereign credit worthiness by the end of 2013. The main objectives of the Programme are to restore the domestic banking system to health, to create jobs, restore economic growth and place the public finances on a sustainable path. Under the terms of agreement of the Programme, Ireland has committed to taking the necessary actions to achieve recapitalisation, downsizing, and reorganisation of the banking system. The conditions and targets relevant to the restoration of the domestic financial sector achieved to end 2011, including structural benchmarks, are listed below:

Financial Sector Structural Benchmarks Achieved Under the EU-IMF Programme up to end Q4 2011

Deadline 2010	Structural Benchmarks Achieved
December	The Bank defined the criteria to run stringent stress tests scenarios.
December	The Bank agreed the terms of reference for the due diligence of bank assets by internationally recognised consulting firms. This involved finalising the design of the prudential capital and liquidity assessments to plan for the deleveraging, reorganisation and recapitalisation of the banks (i.e. the PCAR and the PLAR).
Deadline 2011	**Structural Benchmarks Achieved**
February	Draft legislation on special resolution regime was submitted to the Seanad[8].
March	The Bank completed the assessment of the banks' restructuring plans.
March	The diagnostic evaluation of banks' assets was completed and stress tests were completed (PCAR) for Allied Irish Banks plc, Bank of Ireland, EBS Building Society and Irish Life & Permanent plc. The 2011 PCAR assessed the capital adequacy of all credit institutions over the period 2011 – 2013 under a base and stressed macro-economic scenario. Details can be found in the Bank's Financial Measures Programme Report[9].
April	A full assessment of credit unions' loan portfolios was completed.
May	A plan to recapitalise Irish Life and Permanent was finalised.
July	Irish owned banks were recapitalised in line with PCAR–specified requirements[10].
July	The Supervision and Enforcement Bill was submitted to the Oireachtas.
September	The legal merger of Allied Irish Bank and EBS Building Society was completed, ahead of schedule, on 1 July 2011.
October	A memorandum of understanding on the roles and responsibilities in relation to banking sector oversight between the Department of Finance and the Bank was agreed on 28 October and published on 8 November 2011.
December	The merger of Irish Nationwide Building Society and Anglo-Irish bank was completed, ahead of schedule, on 1 July 2011.
End-December	The Bank issued guidance to banks for accounting losses incurred in their loan book, under the Impairment Provisioning and Disclosure Guidelines which were published on 20 December 2011.
End-December 2011	A strategy was finalised to guide the development of broader legal reforms around personal insolvency, including significant amendments to the Bankruptcy Act 1998 and the creation of a new structured non-judicial debt settlement and enforcement system.

8 This would have been submitted to the Dáil, but at the time the Dáil was dissolved due to the General Election.

9 The Financial Measures Programme Report was published in March 2011. This was a comprehensive assessment of the capital and liquidity conditions and needs of domestic banks. The report comprises three key elements: (i) an independent Loan Loss Exercise conducted on behalf of the Bank by BlackRock Solutions; (ii) the PCAR 2011; and (iii) PLAR 2011. The Bank also appointed Boston Consulting Group to carry out an independent assessment of the work performed by BlackRock– including their work on loan loss assessments, data integrity and validation, and asset quality review. Barclay's Capital assisted in the assessment of funding and de-leveraging.

10 Net of the liability management exercises (LMEs) conducted to date and remaining LMEs in Bank of Ireland and the then planned disposal of ILP's insurance arm.

In addition to delivering on the structural benchmarks set out in Box 1, the following is a summary of the key measures and actions that were undertaken in order to comply with the financial sector commitments under the Programme for 2011. These were agreed with the External Partners and set out in the Programme documentation – the Memorandum of Understanding on Specific Economic Policy Conditionality and the Memorandum of Economic and Financial Policies (MEFP).

Re-capitalisation, Reorganisation and Restructuring of the Banking Sector

The Irish domestic banks were recapitalised by 31 July 2011, as set out in the Financial Measures Programme, with the exception of an extension granted to Bank of Ireland to generate the remaining core tier 1 capital requirement of €0.5 billion by 31 December 2011 (this deadline was achieved). The recapitalisation of the Irish banks was also net of a portion of Irish Life and Permanent plc's recapitalisation which will be completed after the planned sale of Irish Life and Permanent's insurance business[11]. On the basis of the rigorous analysis of the assessment of the capital and liquidity conditions and needs of domestic banks (PCAR 2011 and PLAR 2011) a comprehensive banking strategy was announced by the Government on 31 March 2011, which outlined plans to recapitalise and reorganise the Irish Covered Institutions. The Irish Covered Institutions' restructuring plans were finalised in July 2011 (apart from Irish Life and Permanent which required further planning). The domestic authorities reported on the reorganisation of the banking system in September and December 2011. Bank of Ireland's revised restructuring plan was approved on 20 December 2011.

Irish Bank Resolution Corporation

The Bank appointed BlackRock Solutions to validate the methodology used in the estimation of future credit losses of Anglo Irish Bank (now Irish Bank Resolution Corporation - IBRC) and to perform a three year lifetime loan loss exercise (a bottom-up loss forecasting analysis) for Irish Nationwide Building Society (INBS). The results were published as an addendum to the Financial Measures Programme Report on 31 May 2011.

Deleveraging Measures

The PLAR 2011 established a target loan-to-deposit ratio (LDR) of 122.5 per cent to be achieved by end 2013 for AIB, Bank of Ireland, EBS and Irish Life and Permanent. Following the PLAR assessment, the Bank's monitoring, oversight and enforcement framework for prudential liquidity targets was finalised and implemented in June 2011.

Action Plan for Strengthening Supervision of Credit Institutions

The Bank updated its action plan for strengthening supervision of credit institutions on 30 June 2011. This provided an update to the action plan published in June 2010, which set out the Bank's strategy for the banking sector. The updated paper Banking Supervision: Our Approach, 2011 Update included progress made on the actions established in 2010 and detailed the main areas for focus for the next period.

The action plan covered the following areas: provisioning and public disclosure requirements; capital requirements and internal models; credit risk assessment approach and credit risk standards; supervisory themed reviews; recruitment, training and development initiatives; new operational structures; risk assessment framework; performance management; change management; deleveraging (monitoring of targets and sanctions); enhancing credit intelligence in Ireland; arrears handling under the Code of Conduct for Business Lending to SMEs; stress testing; and the special resolution regime.

The Bank submitted two comprehensive reports to the External Partners on progress made on implementation of its action plan for strengthening supervision of credit institutions: the first up to end-September 2011, and the second up to end-December 2011.

11 The Government announced its intention to purchase Irish Life Assurance plc on 28 March 2012.

PRISM

As part of its supervisory work, the Bank launched PRISM on 1 December 2011. The framework establishes a new approach for supervisory engagement with regulated firms. The new system has been implemented for all banks and insurance firms and will be introduced in all Bank supervised firms by June 2012.

Enhancing the Quality and Transparency of Banks' Balance Sheets

The Bank published the Impairment Provisioning and Disclosure Guidelines on 20 December 2011. These guidelines set out the policies, procedures and disclosures which the Covered Institutions (AIB, Bank of Ireland, Irish Life and Permanent, EBS and Irish Bank Resolution Corporation) should adopt for their loan asset portfolios which are subject to impairment review in accordance with International Accounting Standards (IAS) 39.

The Bank published a guidance document entitled Valuation Processes in the Banking Crisis – Lessons Learned – Guiding the Future, on 30 December 2011, which complements the paper Impairment Provisioning and Disclosure Guidelines, as the valuation of collateral is a key consideration in determining impairment provisions.

Strengthening the Governance Framework for Banks

The Department of Finance strengthened its capacity in the area of banking policy through the creation of a dedicated banking unit. In 2011, the following governance measures were introduced for banks:

» The Bank published its regulations and standards on fitness and probity on 1 September 2011, which were introduced on a gradual basis from 1 December 2011 until December 2012; and

» In December 2011, the Minister for Finance prepared relationship frameworks for each Covered Institution to establish the commercial basis for each bank's operations under Government ownership.

Reform of the Credit Union Sector

In 2011, the following measures regarding the reform of the credit union sector were advanced:

» The Bank completed a full assessment of the loan portfolios of the credit union sector in April 2011; and

» Measures to enhance the viability of the credit union sector were approved by the Minister for Finance.

The Bank is represented on the Credit Union Commission. This was established by the Government in May 2011 to review the future of the credit union movement and make recommendations in relation to the most effective regulatory structure for credit unions. The Credit Union Commission published its interim report on credit unions on 14 October 2011. The interim report deals with Phase 1 of the Credit Union Commission's work regarding the strengthening of the regulatory framework of credit unions including more effective governance and regulatory requirements. The work of the Credit Union Commission will inform Government policy on the future of the credit union sector and the recommendations of the interim report will be taken into account in the preparation of the legislation on strengthening the regulatory framework which is due to be published by end-June 2012. The Credit Union Commission submitted its final report to the Minister for Finance at end-March 2012.

The European Commission approved the establishment by the Minister for Finance of the Credit Union Resolution Scheme in December 2011. This scheme will facilitate the resolution of credit unions under the Central Bank and Credit Institutions (Resolution) Act 2011.

Steps to Establish a Credit Register

The Bank submitted proposals to enhance the quality and availability of credit information to the Minister for Finance in September 2011. The plan is to draft and submit legislation for the establishment of a statutory credit register to the Oireachtas by end-September 2012, pending clarification of data protection issues.

Protection of Borrowers In or Facing Arrears

The Code of Conduct for Business Lending to Small and Medium Enterprises (SMEs), relating to the process of dealing with those facing financial difficulties, was reviewed and published on 4 November 2011. The SME Code revisions build on the Bank's ongoing programme of work for protecting the interests of borrowers in or facing arrears.

Work was undertaken in relation to addressing household debt distress. An Inter-Departmental Mortgage Arrears Working Group, which published its report in October 2011[12], recommended a number of possible approaches, which could be considered on a case-by-case basis for those borrowers in difficulties. The Bank has increased its work in this area, making use of its supervisory powers, by encouraging talks between banks and borrowers. The Bank required banks to submit strategies for engaging with borrowers facing mortgage arrears by the end of November 2011.

Reform of the Personal Insolvency Regime

A strategy to amend the Bankruptcy Act and to create a new structured non-judicial debt settlement and enforcement mechanism was finalised by the end of 2011. Draft legislation was published in early 2012. In addition to the legislation, the intention was also to prepare plans to implement the institutional infrastructure which would be needed to support out-of-court settlements.

Provision of Data

Under the terms of the Memorandum of Understanding (MoU) on Specific Economic Policy Conditionality, the Bank is responsible for the provision of certain data and indictors to the External Partners on an agreed calendar basis. The type of data required has been amended since the inception of the Programme. The latest MoU, dated 28 November 2011, contains the current requirements listed below:

- The Central Bank of Ireland's balance sheet;
- Individual maturity profiles (amortisation only) for each of the domestic banks;
- Detailed financial and regulatory information (consolidated data) on domestic individual Irish banks and the banking sector in total especially regarding profitability, balance sheet, asset quality, regulatory capital and PLAR funding plan forecasts;
- Detailed information on deposits for the last Friday of each month;
- Data on liabilities covered under the Eligible Liabilities Guarantee (ELG) Scheme for each of the Covered Institutions; and
- Deleveraging committee minutes and deleveraging sales progress sheets, detailing pricing, quantum, and other relevant result metrics.

12 Report of the Inter-Departmental Mortgage Arrears Working Group, known as The Keane Report.

Monetary Policy Stance and Implementation

The Bank is part of the Eurosystem which comprises the European Central Bank (ECB) and the 17 National Central Banks (NCBs) of the euro area. The Governor of the Bank is a member of the Governing Council of the ECB. The Governing Council continued to respond to euro area economic and financial market developments during 2011 by announcing a number of changes to its key interest rates and to its non-standard monetary policy measures.

ECB Monetary Policy Decisions

In arriving at its monetary policy decisions, the Governing Council assesses the economic situation in the euro area as a whole in order to determine whether current key ECB interest rates remain appropriate for achieving the primary objective of maintaining price stability in the euro area.

The Governing Council announced two interest rate increases of 25 basis points during the year, on 7 April and 7 July 2011. These decisions were taken against a backdrop of high annual euro area HICP inflation, actual and projected, as well as upside risks to price stability and positive projected underlying momentum to euro area economic growth. Uncertainty surrounding the economic and inflation outlook increased considerably during the second half of 2011, amid a further intensification of the euro area sovereign debt crisis and deteriorating financial market conditions. In response to these developments, the Governing Council announced two interest rate decreases of 25 basis points, on 3 November and 8 December, bringing the main refinancing rate back to 1 per cent. The rates on the deposit facility and the marginal lending facility moved in line with changes to the main refinancing rate, standing at 0.25 per cent and 1.75 per cent, respectively, at the end of 2011.

In addition to changes to its policy rates, the ECB continued to respond to developments with the adoption of new non-standard monetary policy measures, as well as the continuation, to date, of existing measures. These measures are designed to support liquidity in financial markets and to ensure that financial market tensions do not lead to impairment of the monetary policy transmission mechanism.

A number of the non-standard monetary policy measures relate to the provision of liquidity to Eurosystem counterparties. Regarding its open market operations, the ECB maintained its fixed-rate full allotment policy during 2011. Under this policy, which was originally introduced in late 2008, the ECB satisfies all demand for liquidity at its regular operations, subject to provision of adequate eligible collateral. On 6 October, the ECB announced that it would maintain the fixed-rate full allotment policy at least until the end of the sixth maintenance period of 2012, on 10 July 2012. In addition to maintaining full allotment, the ECB extended the maturity of its longer-term refinancing operations during 2011, with the introduction of 6-month, 12-month and 36-month operations.[13] The decision to offer 36-month operations was included in a range of measures announced on 8 December. These measures included an increase in collateral availability and a reduction in reserve requirements, from 2 per cent to 1 per cent. It was also announced that the liquidity-absorbing fine-tuning operations carried out on the last day of each maintenance period would be discontinued. Further details on these announcements are provided in Box 2.

The ECB also continued to provide foreign currency to the euro area banking system during 2011 through bilateral agreements with other central banks. On 30 November, the ECB was one of six central banks[14] that announced coordinated action to address pressure in global money markets by lowering the cost of existing US Dollar-providing operations and agreeing bilateral swap arrangements so that liquidity can be provided in each jurisdiction in any of the six currencies, should market conditions so warrant.

In response to the further deterioration in financial market conditions during the summer of 2011, the ECB resumed purchases of euro area public debt securities through the Securities Markets Programme (SMP), which had been relatively inactive in early 2011. The SMP was originally introduced in May 2010 in

13 The ECB also announced a 13-month operation that was to take place on 21 December. This operation was subsequently replaced by a 36-month operation.

14 The six central banks were: the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve and the Swiss National Bank.

order to address the severe tensions that had arisen in certain financial market segments and that were hampering the monetary policy transmission mechanism and thereby the effective conduct of monetary policy. The additional liquidity provided through these operations is re-absorbed by the ECB on a weekly basis. The Bank has actively participated in this programme. In addition to purchases of public debt securities under the SMP, the ECB announced on 6 October the launch of a second covered bond purchase programme (CBPP2), with an intended purchase amount of €40 billion. These purchases are expected to be completed by the end of October 2012.

Monetary Policy Operations

In response to the ongoing financial market turmoil, the Bank, on behalf of the Eurosystem, continued to provide substantial liquidity support to the Irish banking system in 2011. Total Eurosystem monetary policy lending stood at €913 billion at end December 2011 (including US dollar operations), up from €547 billion at the start of the year, of which €108 billion was being provided, via the Bank, to Irish domiciled institutions.

This increase in liquidity support was facilitated by the continuation of the ECB's fixed rate full allotment policy in ECB operations and also by the significant amount of liquidity allotted in the December 36-month Longer Term Refinancing Operation (LTRO). The continuation of the fixed rate full allotment policy combined with a breakdown in the money market distribution function led to a continued high use of the deposit facility by Eurosystem counterparties during 2011, peaking at €477 billion in December following the 36-month LTRO, with an average daily recourse of €53 billion during Q1-Q3, rising to €249 billion in Q4. Over the year, the Euro OverNight Index Average (EONIA) fell, with levels fixing closer to the overnight deposit facility than the ECB policy rate, reflecting the increased recourse to the deposit facility.

At the start of 2011, LTROs accounted for 57 per cent of Eurosystem lending, with Main

Box 2 – Non-Standard Monetary Policy Announcements 2011

On 4 August, the ECB announced that, in response to renewed financial market tensions, it would conduct a 6-month LTRO and also announced the retention of the fixed rate full allotment policy in its MROs and LTROs, with the rate on the latter remaining indexed to the average of the MRO rates over the lifetime of the operation. Later in August the ECB announced the prolongation of its euro – sterling swap facility with the Bank of England up to 28 September 2012, allowing up to £10 billion to be made available to the Bank as a precautionary measure, for the purpose of meeting any temporary liquidity needs of the banking system in that currency.

On 7 August, the ECB President made a statement welcoming the announcement by the governments of Italy and Spain concerning new measures and reforms in the areas of fiscal and structural policies. In this statement the President said that on the basis of a number of assessments, the ECB would actively implement its SMP.

On 15 September, the ECB announced that it would begin to conduct 84-day US dollar liquidity providing operations, covering the end of the year. These operations would be conducted in addition to the on-going weekly seven-day operations announced on 10 May 2010.

On 6 October, the ECB announced that it would retain its fixed rate full allotment policy until for as long as necessary and at least until July 2012 and decided to conduct two LTROs, one with a maturity of approximately 12 months, to be conducted in October 2011, and the other with a maturity of approximately 13 months, to be conducted in December 2011. In addition, it also announced that it would launch a new covered bond purchase programme to begin in November, with an intended amount of €40 billion, while on 30 November the ECB announced co-ordinated actions with other major central banks to enhance their capacity to provide liquidity support to the global financial system. Among the changes was the decision to lower the pricing of the existing temporary US dollar liquidity swap arrangements by 50 basis points from Overnight Indexed Swap (OIS) plus 100 basis points to OIS plus 50 basis points and to reduce the initial margin for 84-day US dollar operations from 20 per cent to 12 per cent. The new arrangements also allowed for the ECB to provide euro to other central banks when required.

Box 2 – Non-Standard Monetary Policy Announcements 2011

On 8 December, the ECB announced further significant measures which included:

(i) The introduction of two 36-month operations, which counterparties would have the option of opting out of after 12 months. In addition, those counterparties who had participated in the October 12-month LTRO had the option of shifting out of that operation and entering into the 36-month LTRO;

(ii) To temporarily reduce the reserve ratio, which is currently 2 per cent to 1 per cent of the reserve maintenance period starting on 18 January 2012. In its press release the ECB stated that as a consequence of the full allotment policy applied in its main refinancing operations and the way banks are using this option, the system of reserve requirements is not needed to the same extent as under normal circumstances to steer money market conditions;

(iii) To increase the collateral availability by reducing the rating threshold for certain Asset Backed Securities (ABS) and allowing NCBs, as a temporary solution, to accept as collateral additional performing credit claims (i.e. bank loans) that satisfy specific eligibility criteria. These measures will take effect as soon as the relevant legal acts have been published in each individual euro area country. On 9 February 2012, the Governing Council approved, for the seven NCBs that put forward relevant proposals, specific national eligibility criteria and risk control measures for the temporary acceptance of additional credit claims as collateral in Eurosystem credit operations. The Bank was one of the seven NCBs, and on the same day it announced that, under this programme, it would accept pools of secured (including mortgages) and unsecured credit claims (other loans) as collateral against Eurosystem operations. The Bank intends to phase-in the various collateral types which it will accept under this initiative over several months; and

(iv) To discontinue for the time being, as of the maintenance period starting on 14 December 2011, the liquidity absorbing fine-tuning operations carried out on the last day of each maintenance period.

Refinancing Operations (MROs) making up the remaining 43 per cent. By year-end, following the first 36-month LTRO the balance shifted dramatically with LTROs accounting for 77 per cent of Eurosystem lending, while MROs accounted for 16 per cent and USD operations made up the remaining 7 per cent.

The number of operations which the Bank conducted on behalf of the Eurosystem, increased from 169 in 2010 to 198 in 2011. This included 54 US dollar operations. The number of counterparties eligible to participate in operations at the end of 2011 was 41, down from 42 in 2010. Total monetary policy lending provided by the Bank to Irish domiciled institutions was at a high for the year at €126 billion in January, down from €132 billion at the end of 2010, while at the end of 2011 it stood at €108 billion.

The Bank also provided Exceptional Liquidity Assistance (ELA) to the banking system. This is one of the ways that the Bank has responded to the financial crisis, and is distinct and separate from regular funding operations carried out for monetary policy implementation purposes through the ECB. A loan provided to a credit institution under ELA is granted against suitable collateral in line with criteria defined by the Bank. As with procedures for ECB eligible collateral, appropriate haircuts/discounts are applied with a view to ensuring that the Bank would not suffer any loss in the event of default on the loan assistance. The Bank has received formal comfort from the Minister for Finance such that any shortfall on the liquidation of the collateral is made good. At end-December 2011, the Bank had extended ELA of €42 billion down from €49 billion in 2010.

Irish Results for the Bank Lending Survey in 2011

The Euro Area Bank Lending Survey (BLS) is conducted on a quarterly basis by NCBs and provides qualitative data regarding changes in credit market conditions throughout the euro area. The survey questionnaire distinguishes between enterprises and households due to the differences in financing patterns and transmission channels of monetary policy associated with these sectors. A further distinction is also made between lending to households for house purchases, along with consumer credit and other household lending. The four rounds of the BLS completed during 2011 document changes in credit market conditions between the Q4 2010 and Q3 2011. In addition, the survey questionnaire was supplemented with a number of ad-hoc questions examining the ongoing financial market uncertainty.

Throughout 2011, credit standards[15] were mostly reported as unchanged on loans to enterprises and households although a mild tightening of standards was reported in the case of mortgage lending during the third quarter of 2011. Loan demand[16] was more volatile during 2011 with a decrease in demand recorded during the third quarter of 2011 for both enterprises and mortgage lending. In contrast, loan demand from enterprises was unchanged during the final quarter of 2010 and the first quarter of 2011.

During 2011, four different ad-hoc questions were included in the BLS with one of these questions examining banks' ability to access wholesale funding markets across the maturity spectrum, featuring in all four rounds. Throughout 2011, a deterioration in access to funding markets was reported although this result was more pronounced in the earlier rounds of the survey. The impact of Basel III on banks' lending policies was examined for the first time during the July 2011 round of the survey with a tightening of credit standards forecast on loans to enterprises during the second half of 2011, as well as 2012. However, no impact was anticipated in the case of lending to households.

The ongoing restructuring of the Irish banking sector necessitated a change to the sample of Irish banks participating in the BLS during 2011 in order to fully capture developments in credit markets in Ireland.

15 Banks were asked to report using a five point scale how credit standards changed on loans to enterprises as well as households. A response less than three denotes a tightening of credit standards, a response equal to three indicates unchanged credit standards and a response greater than three represents a loosening of credit standards.

16 Banks were also asked to report how the demand for loans from enterprises as well as households change with a response less than three indicating a decrease in loan demand, a response equal to three corresponding to unchanged loan demand, and a response greater than three implying an increase in loan demand.

Financial Institutions Supervision

Supervision of Credit Institutions

During 2011, the Bank merged its retail and wholesale bank supervision divisions into a combined Banking Supervision Division (BSD) with the key objective of enhancing prudential supervision[17].

The Bank played a central role in delivering the Financial Measures Programme 2011 (FMP), particularly coordinating the work of the independent advisor (BlackRock) in its review of banks' loan portfolios and developing the PLAR.

Supervisory Reviews

The Bank continued its thematic supervisory reviews during 2011 across a number of selected credit institutions. These reviews followed key supervisory themes set out in the Bank's Strategy for the banking sector, and covered:

- An assessment of the effectiveness of internal audit functions;
- A follow up review of remuneration policies;
- An assessment of the role and effectiveness of risk committees; and
- A trading risk review.

Table 1 – Regulated Financial Service Providers

	2010	2011
Credit Institutions (including branches of overseas credit institutions)	78	77
Life Insurance Companies	70	72
Non-Life Insurance Companies	152	151
Reinsurance Companies	115	101
MiFID Investment Firms (MiFID) (including branches of overseas firms)	168	153
Non-Retail Investment Business Firms	13	13
Retail Intermediaries		
– Multi Agency Intermediaries	2,026	1,900
– Authorised Advisors	439	421
– Insurance/Reinsurance Intermediaries	3,774	3,555
Mortgage Intermediaries	1,829	1,237
Collective Investment Schemes (including sub funds)	4,743	5,062
Fund Service Providers	253	242
Credit Unions	409	404
Money Transmitters and Bureaux de Change	27	13
Moneylenders[18]	46	48
Regulated Market/Market Operator	1	1
Moneybrokers	6	5
Retail Credit Firms	18	16
Home Reversion Firms	2	2
Payment Institutions	10	11

The total number of entities regulated by the Bank is less than the total number of the categories outlined above as a number of regulated financial service providers may hold dual or several authorisations.

17 As part of the Bank's strengthening of prudential supervision, a number of technical areas were drawn from the reorganised Banking Supervision Division and formed the Bank's Prudential Analytics Division (PAR), which combines a range of specialist professional skills in one place. The division provides specialised technical services and analysis within the Bank primarily to the Banking and Insurance directorates. During 2011, PAR provided a range of supports and expertise to the Bank's supervisory directorates in relation to the PCAR and PLAR stress tests, financial sector reform and progress on the strengthening of credit institutions supervision.

18 Subject to annual renewal of licence.

Table 2 – Number of Authorisations Granted

	2010	2011
Credit Institutions (including branches of overseas credit institutions)	0	4
Life Insurance Companies	2	4
Non-Life Insurance Companies	2[19]	7
Reinsurance Companies	3	1
MiFID Investment Firms (MiFID) (including branches of overseas firms)	4	7
Retail Intermediaries		
– Multi Agency Intermediaries	71	30
– Authorised Advisors	15	6
– Insurance/Reinsurance Intermediaries	925	271
Mortgage Intermediaries	41	89[20]
Collective Investment Schemes (including sub funds)	701	778
Fund Service Providers	18	16
Money Transmitters and Bureaux de Change	3	0
Moneylenders[21]	46	48
Retail Credit Firms	5	0
Home Reversion Firms	4	0
Payment Institutions	2	2
Total	**1,842**	**1,263**
Authorisations Revoked		
– Insurance Sector	14	26
– Banking Sector	6	5
– Collective Investment Schemes (including sub funds)	583	459
– Fund Service Providers	6	12
– MiFID Investment Firms (including branches of overseas investment firms)	8	15
– Money Transmitters[22]/Bureaux de Change	4	1
– Payment Institutions	0	1
– Moneybrokers	0	1
– Retail Credit Firms	0	2
– Payment Institutions	0	1
Total	**621**	**523**

19 Figure for 2010 and previous years included branches established. From 2011 onwards, data will not include branches.

20 Mortgage intermediary authorisations are granted for either a 5 year or 10 year term. The relatively high number of authorisations granted in 2011 reflect the renewal of some of these authorisations during the period.

21 Subject to annual renewal of licence.

22 The authorisation of 14 money transmitters lapsed on 30 April 2011 when the activity of money remittance no longer fell for authorisation and supervision under the Central Bank Act 1997.

Table 3 – Number of Prudential On-site Inspections and Review Meetings

	2010	2011
Banking Supervision		
• On-site presence/observation at board and committee meetings	422.5 person days	128
• Review Meetings with Credit Institutions	120	298
• SREP Process	15	402
Insurance		
• Inspections & Review Meetings	191	779
Other Financial Service Providers		
• Investment/Stockbroking Firms		
- Inspections & Review Meetings	74	143
- Other Supervisory Meetings/SREP Process	0	148
• Fund Service Providers		
- Inspection/Review Meetings	58	25
• Bureaux de Change/Money Transmitters		
- Inspection/Review Meetings	4	0
• Payment Institutions		
- Inspection/Review Meetings/Other Meetings	1	8
• Regulated Markets (Irish Stock Exchange)		
- Inspections	0	1
Total	**137**	**325**
Credit Unions		
• Inspections	7	21
• Outsourced Inspections	200	202
• Meetings	84	88
• Year-end Reviews	286	351
Total	**577**	**662**
Anti-Money Laundering and Counter Terrorism Financing		
• Inspections	6	37
Unauthorised Activity		
• Inspections	0	8

Overall, the findings from the thematic reviews demonstrated various levels of compliance and resulted in additional risk mitigation actions being imposed on banks reflecting their particular weaknesses or risks arising from the review.

Impairment Provision and Disclosure and Collateral Valuation

In December 2011 the Bank published two papers setting out good practice for banks. In the paper entitled Impairment Provisioning and Disclosure Guidelines, which applies to all Covered Institutions, three principal objectives were detailed. Covered Institutions should:

- Recognise their incurred loan losses as early as possible within the context of International Financial Reporting Standards;
- Adopt a more conservative approach to the measurement of impairment provisions across all loan portfolios; and
- Significantly improve the number and granularity of their asset quality and credit risk management disclosures which will enhance users' understanding of their asset quality profiles and credit risk management practices.

The Bank considers that the combination of a more conservative approach to impairment provisioning together with significantly enhanced asset quality and credit risk disclosures will assist in the restoration of investor confidence in the Irish banking sector. Covered Institutions are expected to implement these guidelines as early as possible with the result that the number and quality of disclosures in the 2011 annual reports should be significantly enhanced.

In the second paper entitled Valuation Processes in the Banking Crisis – Lessons Learned, Guiding the Future, recommended practice for the banks in the area of collateral valuation was set out.

Mortgage Arrears

The mortgage arrears issue is one of the biggest remaining challenges for Ireland from the financial crisis, raising complex consumer protection and prudential banking issues. In 2011, the Bank updated its statutory Code of Conduct on Mortgage Arrears (CCMA) following recommendations made by the Mortgage Arrears and Personal Debt Group (Cooney Group) and in the light of the Bank's experience in the operation of the Code. The revised Code provides important protections for consumers in dealings with mortgage lenders in arrears situations.

During 2011, the Bank placed a significant focus on mortgage arrears where:

- A series of non-regulatory engagement sessions were undertaken with banks to gauge their views on the scale of the debt problem. This included consultations with BlackRock, Genworth and a number of other outsourced service providers to build a picture of local and international trends and best practices.
- The Bank invited the 21 mortgage lenders to each submit a comprehensive board approved Mortgage Arrears Resolution Strategy (MARS), including details on how they were to implement this strategy. The purpose is to ensure that all mortgage lenders have a robust framework in place to deliver appropriate solutions to consumers in mortgage arrears and pre-arrears. This framework must be sustainable from the lenders perspective in terms of cost and capital but must also treat consumers fairly and in accordance with the CCMA. Following an in-depth review of these strategies and plans, the Bank reverted to each lender with specific feedback, actions and timelines during Q1 2012.

The Bank will be working closely with all mortgage lenders throughout 2012 to ensure the effective management of the mortgage arrears problem.

Restructuring of the Banking Sector

As part of the restructuring of the domestic banking system which was announced following the Financial Measures Programme (FMP) in March 2011, AIB and EBS were merged to form one of two Pillar banks operating in the State. The Bank approved this merger, which included the conversion of EBS from a building society to a bank, on 1 July 2011.

In February 2011, deposits and matching assets were transferred from Anglo Irish Bank to AIB and from Irish Nationwide Building Society (INBS) to Irish Life & Permanent plc.

In July 2011, the remaining assets and liabilities of INBS transferred to Anglo leaving INBS as a shell. INBS will continue to exist as a building society and is subject to the duties and obligations imposed on it under the Building Societies Act until its registration is cancelled. In October 2011, Anglo's name was changed to Irish Bank Resolution Corporation (IBRC).

Risk Assessments/SREPs/RMPs/ Engagement with Institutions

The Bank engages in annual supervisory programmes for banks based on their scale and overall risk profile. The intensity of supervisory engagement plans and allocation of supervisory resources has been further refined with the introduction of the Bank's risk assessment system, PRISM, in late 2011. PRISM categorises institutions based on systemic impact and risk profile. During 2011, the Bank carried out 25 risk assessments and Supervisory Review and Evaluation Process (SREP) reviews. Risk Mitigation Programmes (RMPs) were issued to these banks during 2011.

As part of the consolidated supervision of banking groups which have operations in multiple jurisdictions, the Bank is obliged to participate in Regulatory/Supervisory Colleges which are bilateral and multilateral fora for the exchange of supervisory information. Within the EU, Colleges are required to agree Joint Risk Assessments and Capital Decisions (JRADs) in relation to banking groups. The Bank is a member of 16 Regulatory Colleges. During 2011, the Bank participated in 36 Supervisory College fora including hosting two Supervisory College meetings in respect of Irish banking groups.

The colleges for AIB and Bank of Ireland were held on consecutive days in early November with JRADs being signed by all relevant regulators prior to 31 December 2011 in accordance with prescribed rules. The colleges involved input from the Financial Services Authority (UK), Financial Services Commission (Isle of Man), Jersey Financial Services Commission (JFSC), the Federal Reserve Bank of New York (US) and the Connecticut Department of Banking (US). The colleges were held in line with the European Banking Authority guidelines on supervisory colleges.

Supervision of Insurance Entities

The Bank carried out general inspections of specific firms in addition to themed inspections in the areas of claims, underwriting, variable annuities, corporate governance, the role and effectiveness of board risk committees and internal audit functions. In the latter part of 2011, a separate review of the Risk Appetite Statements of a sample of firms was undertaken and a letter was issued to the insurance industry setting out the general findings.

Following internal risk governance panel recommendations, RMPs were issued to a number of insurance firms. The Bank monitored firms' exposures to different asset classes, including sovereign and bank credit exposures, and carried out a number of stress tests on insurers' assets and liabilities under different scenarios.

Insurance Compensation Fund

The Bank assisted the Department of Finance in relation to the drafting of the Insurance (Amendment) Act 2011. This legislation amended the Insurance Act 1964, under which the Insurance Compensation Fund was established. The Fund is designed 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, determining an appropriate contribution to be paid to the Fund by non-life insurance companies, delivering a notice to each non-life insurance company specifying the contribution to be paid to the Fund and publishing a notice on the Bank's website. On 4 November 2011, the Bank gave notice to insurers that a contribution of 2 per cent of Gross Written Premium would be required from 1 January 2012 (and until further notice).

Solvency II

The Bank has been preparing for the implementation of Solvency II. Work has focussed on a European Economic Area (EEA) project to determine the quantitative and qualitative impact of the current Solvency II proposals on the insurance industry. The participation of the Irish Insurance industry was considerable and the rate was above that of the European average. The Bank was responsible for coordinating the responses and analysing them. To this end, the Insurance Directorate held a number of informative seminars discussing practical issues on completion of the templates. Once submissions were made by the Irish insurance industry, quantitative and qualitative responses were analysed by the Bank and reports submitted to the European Insurance and Occupational Pensions Authority (EIOPA). There has also been significant regulator-to-regulator interaction regarding the assessment of group internal models under the impending Solvency II regime.

The Internal Model pre-application process is a very substantial exercise, with Ireland expected to be responsible for the approval of the second highest number of internal models, after the United Kingdom. Over 50 insurance companies applied to join the pre-application process. During 2011, the Bank met with most insurance companies committed to the Internal Model approach and conducted preliminary analysis of the models.

Variable Annuities

The Bank participated in the Variable Annuity Task Force which reported to EIOPA in Q2 2011. This Task Force recommended factors and risks that should be examined carefully by companies transacting variable annuity (VA) business and by Member State supervisory authorities. The Bank also participated in an EIOPA Expert Group established in May 2011 with the aim of establishing good selling and disclosure practices for variable annuities. A report will be finalised in Q2 2012.

Consultation/Guidance & Other Work

In April 2011, the Bank wrote to all insurers clarifying its position on lending by insurance companies. The Bank clarified that insurers should not engage in any commercial lending and that intercompany loan balances were only admissible for solvency purposes above applicable solvency requirements applying to firms.

During the first half of 2011, the Bank published a discussion paper on Economic Scenario Generators & Market Consistency. The paper set out some of the challenges that arise in achieving market consistency for contracts with long term investment guarantees.

In October 2011, the Bank held a briefing for Independent Non-Executive Directors of insurance/reinsurance companies subject to the Corporate Governance Code for Credit Institutions and Insurance Undertakings, 2010. This briefing discussed aspects of Corporate Governance, Fitness & Probity, PRISM and the Bank's expectations of Independent Non-Executive Directors.

Following on from the 2010 Corporate Governance Code for Credit Institutions and Insurance Undertakings, the Bank issued the Corporate Governance Code for Captive Insurance and Captive Reinsurance Undertakings. The Code came into effect on 1 September 2011 following earlier consultation. Captives have until 31 May 2012 to implement the necessary changes to be compliant with the requirements.

Supervision of Credit Unions

The credit union sector continued to face significant challenges in 2011. Falling income, a rising cost base (which includes provisions for bad and doubtful debts) and continuing downward pressure on dividends are all indicators that the sector remains under significant financial stress. The continuing upward trends in the level of reported arrears remain a cause for concern, with the total arrears (over nine weeks) amounting to €1.02bn at 31 December 2011, representing 19.3 per cent of the loan book (31 December 2010 - 17.3 per cent).

Over the last 12 months the Bank has carried out a significant level of analysis on the financial position of the sector. This included the Strategic Review of the Credit Union Sector reported on by Grant Thornton in January 2011, the 2011 Prudential Capital Assessment Review (CU PCAR) for credit unions and the loan book review programme for all credit unions, together with on-going supervisory work. All of this work has indicated that the sector faces structural challenges that require to be addressed.

Strategic Review

The overall objective of the Strategic Review undertaken by Grant Thornton was to make an assessment of the risk profile of the credit union sector and to provide specific proposals to strengthen the prudential soundness of the sector. The report identified significant financial weaknesses within the sector, with a number of credit unions facing possible viability concerns over the short term. The report also highlighted significant deficiencies in the regulatory framework in place, in particular the lack of governance and competency requirements, the lack of powers available to the Bank for preventative intervention in cases where credit unions were showing signs of financial difficulty, and the limitations of the external support mechanisms to facilitate credit union access to liquidity and capital.

Prudential Capital Assessment Review (CU PCAR)

Arising from the findings of the strategic review in relation to the prospective financial risks in the sector, the Bank carried out the 2011 CU PCAR. Its purpose was to assess the capital adequacy of the credit union sector for 2011 – 2013 under base and stress macro-economic scenarios and was carried out under the present day structure of the sector. The CU PCAR was performed on data provided by credit unions. It identified a significant capital short-fall for the sector.

Loan Book Reviews

The objective of the 2010-2011 loan book review programme for all credit unions was to establish the adequacy of provisions for bad and doubtful debts at the time of the inspection and to identify levels of additional provisions required. The total additional provisions identified represented 30 per cent of the provisions that were in place at the time. The Bank required all credit unions to include the additional provisions identified in their year-end accounts.

The Bank continued to focus on building reserves and provisions in the sector through various regulatory interventions such as withholding dividend payments in 2011 and placing restrictions on the business of individual credit unions on a case by case basis. The Bank imposed lending restrictions on about 50 per cent of credit unions on the basis of deterioration in their financial positions. The factors that are taken into account in determining the need for such restrictions include the following: increasing levels of arrears, concentration risk, inadequate liquidity, inappropriate lending practices and/or solvency difficulties.

The restrictions on lending can include maximum individual loan size as well as overall maximum monthly lending limits. The Bank is of the view that it is prudent to impose such restrictions on those credit unions that have demonstrated poor loan underwriting capabilities. The restrictions are designed to ensure that these credit unions do not put the savings of their members at additional risk. The restrictions are reviewed on a regular basis and if a credit union can demonstrate an improvement in its financial position, the restrictions may be eased as appropriate.

In 2011, the Bank also worked with individual credit unions to ensure that appropriate RMPs were developed and implemented to address the risks identified from the loan book review programme and other ongoing supervisory work.

Table 4 – Credit Unions Approved to Provide Additional Services and Longer Term Lending

Approval	2010	2011
Additional Services – Mortgages	21	21
Additional Services – Life & Pensions	7	7
Additional Services – PRSAs	47	48
Longer Term Lending Approvals	35	11
Total	**110**	**87**

Commission on Credit Unions

Following on from the Strategic Review of the Credit Union Sector by Grant Thornton, in May 2011 the Government established a Commission on Credit Unions (the Credit Union Commission), to review the future of the credit union movement and make recommendations in relation to the most effective regulatory structure for credit unions. This involved taking into account their not-for-profit mandate, their volunteer ethos and community focus, while paying due regard to the need to fully protect depositors' savings and financial stability. The terms of reference for the Credit Union Commission included making recommendations on options for restructuring of the sector, legislative changes to strengthen the regulatory framework and defining the role of credit unions in a restructured financial services sector.

The Credit Union Commission completed its interim report in September 2011. This report set out initial recommendations intended to strengthen the credit union regulatory framework and provide for more effective governance and regulation. These included recommendations for the introduction of requirements in the areas of governance, internal audit, risk management and fitness and probity. The Credit Union Commission also recommended that the legislative framework should provide the Bank with the powers to make regulations that set prudential controls, limits, standards and requirements for credit unions and that a Prudential Rule Book should be introduced setting out the detailed requirements. The statutory basis of the Prudential Rule Book should give the necessary authorisation to the rules while the detailed contents would remain a matter for the Bank, following consultation by the Bank with sector stakeholders.

The recommendations contained in the interim report will, when implemented, improve the regulatory and operational framework for individual credit unions and help to underpin the financial soundness and development of the sector. The recommendations relating to fitness and probity for directors and managers and the establishment of a statutory governance framework are particularly important in the context of future credit union development. The Bank is actively engaged in the work of the Credit Union Commission in relation to its final report which was completed in Q1 2012. The recommendations from the interim and final reports will inform the proposed credit union legislation to be brought before the Oireachtas by end-June 2012. It is vital that all of these recommendations are implemented in full in as short a timeframe as possible and the Bank is working with the Department of Finance on the development of the legislation to give effect to these recommendations.

Credit Union Regulatory Forum

The Bank held seven Credit Union Regulatory Forum meetings during the period May/June. These meetings provided the Bank with the opportunity to build on the positive discussions held directly with individual credit unions at the inaugural 2010 Forum meetings. The Regulatory Forum is now a key part of the Bank's regulatory engagement model for the sector. The Forum offers an opportunity to engage directly with individual credit unions and discuss the Bank's regulatory approach to implementing the necessary regulatory changes required to put the credit union sector on a sound footing.

Box 3 – Credit Union Strategy

The Bank's regulatory strategy for the credit union sector is founded on the belief that strong, well-governed credit unions should remain an important part of the financial landscape of Ireland. The following three key objectives underpin this strategy:

(i) Resolve weak and non-viable credit unions to protect members' savings and maintain the financial stability of the sector;

(ii) Develop and implement an appropriate legislative and regulatory framework to protect the financial stability of individual credit unions and allow the sector to develop; and

(iii) Bring about longer term restructuring of the sector to ensure its long-term sustainability.

During 2011, the Bank progressed work on all of the above strategic objectives and substantial progress was made particularly in relation to the first two.

Year-End Process

In order to be proactive in ensuring a prudent, smooth and timely process for consideration of issues arising in relation to the 2011 year-end financial position, the Bank issued a circular to all credit unions regarding the required approach to the year-end. Credit unions were reminded of the circumstances in which they were required to make a regulatory submission in relation to proposals to pay a dividend together with the details to be contained in such submissions. The process worked well in providing a structured framework for credit unions regarding the proposals to be submitted to the Bank and enabled it to make informed and timely decisions. Almost 85 per cent of credit unions paid only nominal dividends of one per cent or less in 2011.

Given the reliance the Bank place on audited accounts in making an assessment of the financial condition and performance of individual credit unions, a circular was also issued to all credit union external auditors reminding them of their obligations in relation to the year-end audit and the particular areas for focus. This ensured that auditors were in a position to be fully informed of the matters to which the Bank attached particular importance as part of the year-end process.

Resolution

The Bank has designed its supervisory regime to allow for the early identification of weak or non-viable credit unions. A framework has also been established to allow for pre-emptive intervention in such cases. The Central Bank and Credit Institutions (Resolution) Act 2011 provides the Bank with new powers to resolve individual credit institutions, including credit unions, that are failing, or likely to fail. These powers include provisions to allow the Bank to make a proposed transfer order or to appoint a special manager. These powers and the funding made available for resolution by the Government are important in the context of maintaining confidence in the credit union sector.

On 13 January 2012, the Bank applied to have a special manager appointed to Newbridge Credit Union. The credit union's regulatory reserves were below the required level and there were concerns about its financial position. The order was approved by the High Court. The special manager was tasked with managing the day-to-day running of the credit union and developing a plan to restore its financial position. This was the first action by the Bank under the Central Bank and Credit Institutions (Resolution) Act 2011.

The Bank will continue to take the necessary actions to resolve weak and non-viable credit unions which it identifies in order to protect members' savings and maintain the financial stability of the sector.

Markets Supervision

Markets and Stockbrokers Supervision

Transaction Reporting

The quality of transaction reports received from MiFID[23] firms is continuing to improve. There has been a heightened focus on initiatives to improve the quality of transaction reporting data. This has included: educating market participants on accurate transaction reporting; the enhancement of the Bank's audit programme of reporting quality; the introduction of new systems involving routine inspections of reporting data; the introduction of an internal grading system and satisfaction rating system in respect of reporting firms and the conduct of bilateral transaction reporting workshops with reporting firms. A similar programme of work is planned for 2012 with an increased focus on the worst performing reporting firms and greater scrutiny of complex transactions.

The Bank's work to develop high quality market monitoring processes to analyse reported data continued in 2011. The Bank has strengthened its market surveillance activities and now has significant processes in place in order to detect instances of suspicious market behaviour. This work will continue during 2012 as the Bank continues to develop order book monitoring as well as developing the monitoring of derivative transactions.

Within the European Securities and Markets Authority (ESMA), the Bank's initiative to develop a more structured dialogue on market monitoring methodologies resulted in the Bank hosting an ESMA conference entitled Securities Market Monitoring Methodologies in September 2011. The conference was attended by more than 40 participants from over 20 different countries. Presentations were made by France, UK, Italy, Netherlands and Ireland. The attendees were able to gain an insight into the market surveillance techniques employed in other European countries.

Market Abuse

The Bank's work in this area has included a significant number of investigations closed after initial investigation and a small number of cases where on-going investigations have revealed matters of concern. The Bank will continue to progress those cases in 2012. On 31 January 2012, the Bank unwound the delegation agreement in place with the Irish Stock Exchange that provided for certain monitoring and investigative functions pursuant to the Market Abuse Directive 2003/6/EC since the implementation of the Directive in July 2005.

The Bank has begun themed inspection work to benchmark how issuers handle inside information and a significant piece of analysis was carried out by the Bank in 2011 regarding the maintenance of insider lists. In 2012, the Bank proposes to build on this work and will issue a Consultation Paper on resulting proposals to update its relevant Market Abuse Rules and Guidance.

Table 5 – Market Monitoring Reports

	2010	2011
Transaction reports received from entities located in Ireland	18,513,091	22,372,791
Transaction reports sent to other competent authorities via TREM*	15,204,474	18,975,700
Transaction reports received from other competent authorities via TREM*	10,720,854	12,829,415
Administrative Sanctions Cases Opened	1	4
Administrative Sanctions Cases Closed	1	2
Audits conducted on firms' transaction reports	17	48

* Transaction Reporting Exchange Mechanism

23 Markets in Financial Instruments Directive.

Table 6 – Investigations under Securities Law

	2010	2011
Enquiries initiated regarding possible contraventions	15	30
Enquiries completed regarding possible contraventions	9	37
Suspicious Transaction Reports submitted to the Bank by persons professionally arranging transactions	8	3
Suspicious Transaction Reports submitted to the Bank by other EU Competent Authorities.	4	6
Suspicious Transaction Reports transmitted by the Bank to EU Competent Authorities.	7	1
Assistance rendered to other EU Competent Authorities	13	19
Stabilisation Notifications submitted to the Bank	0	1
Securities Law Settlement Agreements (concluded)	1	0
Securities Law Formal Private Cautions Issued	4	2

The Bank will work with the Department of Jobs, Enterprise and Innovation to adopt the changes to the Market Abuse Directive when finalised by the European Commission. It will also be considered if it is necessary to seek additional changes in Irish market abuse law to enhance the regulatory framework. The Bank will continue to work with the relevant Government Departments in relation to the European Commission's Regulation on auctioning of greenhouse gas allowances.

Irish Stock Exchange & Market Infrastructure

During 2011 the Bank continued its supervisory engagement with the trading venues falling within its regulatory remit. The Bank developed a new approach to the capital requirement of the Irish Stock Exchange (ISE) in its capacity as a market operator of a regulated market. This approach defines a capital requirement for the ISE based on analysis of the particular risks the ISE faces and puts in place a framework to recalculate those requirements over time. The Bank also conducted an on-site inspection of the ISE in accordance with its plan to conduct one on-site inspection during the year.

The Bank conducted substantial work on authorising a clearing member firm in 2011. Work to develop an appropriate supervisory and reporting regime in respect of derivatives clearing activity has been important to enhancing the Bank's operational and policy making capacity in this increasingly important area.

Corporate Finance

Prospectus Directive

On 12 December 2011, the Bank successfully concluded a joint project with the ISE to unwind the delegation of prospectus scrutiny tasks which had been carried out by the ISE on behalf of the Bank since 2005. Under European law, responsibility for the review of prospectuses had to be returned to the Bank by 31 December 2011. The project's early implementation date, along with the new document review infrastructure and the skills and experience of the seven employees from the Irish Stock Exchange who transferred to the Bank to assist with the review function, all effectively combined to deliver on the project's over-arching objective to ensure that the business of prospectus review and approval continued as usual.

The successful completion of a project of this scale and significance to the market has delivered a firm platform for the Bank to cement and further build on Ireland's reputation as a jurisdiction for prospectus approval. 2012 will see the implementation of the amendments to the Prospectus Directive 2003/71/EC pursuant to the Amending Directive 2010/73/EU. The amendments are aimed at making securities issuance more efficient by adding greater legal clarity; reducing administrative burdens for issuers and intermediaries; giving issuers' employees access to a full range of investment opportunities; and helping retail investors more effectively analyse the prospects and risks posed by a security before investing.

Table 7 – Prospectus Approval Process

	2010	2011
Number of Documents Approved	610	665
Number of Documents/Notifications published	2,518	2,608
Passport Certificates prepared	104	92
Inward Passporting Notifications processed	565	749
Number of Issuers whose securities were suspended from trading by the ISE at the request of the Bank	1	2

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.

Table 8 – Company Information Disclosures[24]

	2010	2011
Annual Financial Reports published	174	147
Half-yearly Financial Reports published	144	131
Interim Management Statements published	129	120
Major shareholding submitted	423	316
Number of Issuers whose securities were suspended from trading on the ISE by the Bank	16	11

Transparency Directive

Since the implementation of the provisions of the Transparency Directive 2004/109/EC in June 2007, the Bank has had an agreement in place to delegate the performance of certain tasks relating to monitoring compliance with disclosure and filing requirements under the Directive to the ISE. As a consequence of EU legislation, this delegation arrangement must end no later than 19 January 2013.

A significant project was commenced in 2011 to unwind the delegation arrangement with the ISE and it is anticipated that this project will be concluded by 31 December 2012 and, in any event, not later than 19 January 2013. The Bank is working closely with the ISE to ensure that the work carried out pursuant to the Transparency Directive continues to operate as usual with minimal disruption to the market during and after the project.

The Transparency Directive establishes minimum requirements in relation to the disclosure of certain information by issuers and shareholders to market. Ensuring that the information disseminated to the market pursuant to the Transparency Directive is of a high quality and published in a timely manner will be a key area of focus in 2012.

Supervision of Investment Firms

Returns and Receipts Project 2011

An online reporting system was introduced in 2011 to enable investment firms and payment institutions to submit the bulk of their regulatory returns electronically. In total 29 regulatory returns for investment firms and payment institutions were made available on the online reporting system. This creates administration efficiencies for both supervisors and firms and also enhances the Bank's data analysis capabilities.

24 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.

Inspection Programme 2011

During 2011, investment firms were subjected to themed and general inspections. While general inspections were tailored to individual firms, the themed inspection series identified aspects of regulation common to the investment firm population. Entities were inspected and evaluated against the relevant regulatory requirements. Areas examined included compliance with client asset requirements, the operations of financial control functions and examinations of the workings of compliance functions within investment firms.

A number of special inspection assignments were also undertaken during the year in response to concerns which arose during the regular supervisory process. In addition, the project established in June 2010 to intensively scrutinise investment firms with poor compliance records progressed during 2011 and work also continued relating to the Madoff fraud.

Appointment of Inspectors by High Court

Following the disclosure of new and serious allegations of misconduct within Custom House Capital Limited and pursuant to Regulation 166(1) of the European Communities (Markets in Financial Instruments) Regulations 2007, the Bank applied to the High Court for the appointment of Inspectors to investigate, and report on, the affairs of that firm. On 15 July 2011 the High Court appointed two Inspectors. The High Court appointed a liquidator to Custom House Capital Limited on 21 October 2011, following consideration of the Inspectors' Final Report, and ordered that the Inspectors' Report should be published on the Bank's website (redacted to remove the names of individual clients). The High Court also gave liberty to the Inspectors to forward the un-redacted final report including all exhibits thereto to the Minister for Justice and Equality, the Director of Public Prosecutions, the Director of Corporate Enforcement, the Revenue Commissioners and the Garda Commissioner.

Establishment of Client Asset Task Force

The Bank established a Client Asset Task Force in August 2011 to review and make recommendations in relation to the following key areas:

- The scope of the regulatory regime as regards safeguarding client assets by reference to (a) asset types, (b) investment activities and (c) types of firms;
- The current supervisory approach to assessing compliance with existing requirements, including the linkages to the arrangements for the supervision of conduct of business rules;
- The adequacy of the existing arrangements and guidelines for independent client asset audits and the potential for the use of 'skilled persons' reports; and
- The sufficiency of the current rules and regulations that are in place for client asset protection taking account of the forthcoming changes to MiFID and the UCITS directives.

The task force was co-chaired and led by Andrea Pack and James Bagge, both Risk Advisors to the Bank. The Risk Advisors contributed extensive financial industry experience external to the Bank in completing this review and in proposing their recommendations. They were assisted by the other members of the Task Force who were drawn from the relevant divisions in the Markets Directorate that supervise institutions which hold client assets. The Risk Advisors and members of the Task Force met with both internal and external parties, including regulated firms and auditors over the course of its review.

The Risk Advisors submitted a report to the Commission on 24 February 2012. The report was published together with the Bank's response on 23 March 2012. The Bank has commenced a project to consider the appropriate actions to implement the recommendations.

Electronic Money Institutions

Following the transposition of the European Communities (Electronic Money) Regulations by way of the European Communities (Electronic Money) Regulations on 30 April 2011, the Bank has finalised authorisation and supervision requirements in respect of the authorisation and supervision of Electronic Money Institutions.

Payment Institutions

As part of the ongoing prudential supervisory regime established for payment institutions, analysis of the regular reports required under the prudential requirements issued to authorised firms was carried out. A series of review meetings was developed and conducted in the second half of 2011.

A Home/Host protocol for supervision of agents of payment institutions has recently been finalised by the Anti-Money Laundering Task Force (AMLTF) Working Group which meets at the European Banking Authority. The Bank is represented on that Working Group. Bilateral engagement took place during the second half of 2011 between the Bank and other host regulators to enhance supervisory co-operation.

Investor Compensation Company Limited

The Bank is responsible for approving certain policies developed by, and actions carried out by, the Investor Compensation Company Limited e.g. approval of its investment policy. A schedule of quarterly meetings was undertaken during 2011 to ensure proper lines of communication between the two organisations.

Supervision of Funds

The supervision of Irish investment funds is carried out through direct and indirect supervisory models. This is achieved through the supervision of Irish authorised managers, trustees and administrators who provide services to the funds. In addition, each fund must submit monthly statistical data, an interim report and audited financial statements to the Bank. In 2011, the Bank had 25 review meetings (both on and off-site) with fund service providers which focussed on capital, financial standing, organisational structure, staffing, systems and processes, risk management and compliance with regulatory conditions. The Bank also had 80 ad-hoc meetings addressing specific issues such as derogation requests, investment breaches and compensation arrangements on funds, and corporate governance matters.

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 €1,055.3 billion as at 31 December 2011 represented by 5,062 funds, including sub-funds. The number of revocations (all voluntary) of existing funds, including sub-funds, in 2011 was 459. 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 2011 was 177 funds (778 including sub-funds)[25].

Undertakings for Collective Investment in Transferable Securities (UCITS) IV Directive

The UCITS IV Directive was transposed into Irish law by way of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 (SI 352 of 2011), with effect from 1 July 2011. The Bank issued revised versions of its UCITS Notices and related Guidance Notes, also with effect from 1 July 2011, which incorporated the amendments required to reflect the UCITS IV regime. Since then the Bank continues to work to resolve issues arising from the new legislation, for example in relation to the cross-border UCITS notification process and cross-border merger proposals.

25 This data meets the Bank's reporting requirements under Section 3(6) of the Unit Trust Act 1990.

Alternative Investment Fund Managers Directive

The Alternative Investment Fund Managers Directive (AIFMD) (Directive 2011/61/EU) was adopted on 8 June 2011. The Directive must be transposed into the national law of EU Member States by 22 July 2013.

A number of implementing measures are required in relation to which European Securities and Markets Authority (ESMA) provided its advice to the European Commission on 16 November 2011. The Bank will assist the Department of Finance in a review of the proposed Level 2 legislation which is expected to issue from the European Commission during Q2 2012. The Bank will also participate in an AIFMD transposition workshop to be organised by the European Commission.

European Venture Capital and European Social Entrepreneurship Funds

Proposals for Regulations to provide for European Venture Capital Funds and European Social Entrepreneurship Funds were published by the European Commission in December 2011. The proposals followed a public consultation on these initiatives in June 2011. The Bank will continue to be involved in the development of the proposed legislation.

Consumer Protection

Mortgage Arrears

As part of the Bank's strategic focus on consumer protection, a key area of its work in 2011 continued to be the impact of the economic crisis on indebted households.

Revised Consumer Code on Mortgage Arrears (CCMA)

The revised CCMA came in to effect on 1 January 2011 and sets out the Mortgage Arrears Resolution Process (MARP) framework which lenders must adopt when dealing with people experiencing difficulties with their mortgage arrears.

The Development of Data on Mortgage Arrears

The Bank published quarterly statistical information from all lenders, including non-deposit taking lenders, covering residential mortgage arrears and repossessions. During 2011, the Bank also commenced collecting information on the number of mortgage accounts which have been restructured, for example, those on interest only. This data has helped to bring greater transparency to the nature and level of standard forbearance being offered to borrowers.

Ensuring Lenders Compliance with the Revised CCMA

A comprehensive review of mortgage lenders' compliance with the revised CCMA and Bank Directions examined issues specifically relating to charges on mortgage accounts in arrears.

This review resulted in the refund of €70,000 of overcharges to 3,100 mortgage arrears accounts. The review also identified that the mortgage account charges prohibited in the Direction were not applied in the majority of accounts reviewed. In addition, and as a result of the Bank's investigations, certain charges will no longer apply to mortgage accounts in arrears including 'duplicate statement' charges. These enhanced provisions will protect the most vulnerable consumers.

Box 4 – Key Features of Mortgage Arrears Resolution Process (MARP)

Under the MARP framework, a lender must explore all options for alternative repayment arrangements such as interest-only arrangement for a period of time, extending the term of the mortgage, capitalising the arrears and interest or availing of any voluntary scheme to which a lender has signed up to e.g. Deferred Interest Scheme, in order to determine which options are viable on a case-by-case basis. Where an alternative repayment arrangement is offered by a lender, the lender must provide the borrower with a clear explanation in writing of the alternative repayment arrangement, including information on how the alternative repayment arrangement will be reported by the lender to the Irish Credit Bureau and the impact of this on the borrower's credit rating.

In addition, the CCMA provides that, where a borrower co-operates with their lender, the lender must wait at least 12 months from the date the borrower enters the MARP process before applying to the courts to commence legal action for repossession. The twelve month period cannot include any time period during which the borrower is complying with the terms of any alternative repayment arrangement agreed with the lender. Once the borrower has entered the MARP process, the lender is not allowed to impose any additional charges on the mortgage account relating to the arrears situation.

Table 9 – Residential Mortgage Arrears and Repossessions Statistics - Trend Data

	Mar-11			Jun-11			Sep-11			Dec-11		
Particulars	Number	Balance '000	Arrears '000	Number	Balance '000	Arrears '000	Number	Balance '000	Arrears '000	Number	Balance '000	Arrears '000
Outstanding:												
Total residential mortgage loan accounts outstanding - at end of quarter	782,429	115,957,640	–	777,321	115,088,537	–	773,420	114,412,371	–	768,917	113,477,283	–
Arrears:												
Total mortgage arrears cases outstanding - at end of quarter which are:												
- In arrears 91 to 180 days	14,268	2,563,539	73,817	15,723	2,852,565	87,488	16,599	3,058,984	81,009	17,825	3,273,772	89,146
- In arrears over 180 days	35,341	7,035,684	753,357	40,040	7,985,161	859,877	46,371	9,310,970	993,932	53,086	10,667,015	1,027,975
Total arrears cases over 90 days outstanding	49,609	9,599,223	827,174	55,763	10,837,726	947,365	62,970	12,369,954	1,074,941	70,911	13,940,787	1,117,121
% of loan accounts in arrears for more than 90 days	6.3%	–	–	7.2%	–	–	8.1%	–	–	9.2%	–	–
Repossessions:												
Residential properties in possession - at end of quarter	692	–	–	809	–	–	884	–	–	895	–	–
Restructured Mortgages:												
Total outstanding classified as restructured – at end of quarter	62,936	11,076,088	169,812	66,732	11,659,116	213,861	69,735	12,228,308	240,428	74,379	13,290,957	316,250
- of which are not in arrears	36,662	6,175,036	–	36,855	6,041,961	–	36,376	5,926,189	–	36,797	6,100,786	–

Enhancing the Bank's Compliance Framework

Following a comprehensive consultation process, work was completed on the review and publication of:

» The revised Consumer Protection Code (the Code) (effective 1 January 2012);

» The Minimum Competency Code 2011 (effective 1 December 2011);

» The revised Code of Conduct on Mortgage Arrears (CCMA) (effective 1 January 2011); and

» The revised Code of Conduct for Business Lending to Small and Medium Enterprises (effective 1 January 2012).

The review of the Code represents the most significant strengthening of protections for consumers of financial institutions since the launch of the initial Code in August 2006, and ensures that the Bank continues to deliver on its objective to ensure that financial services work in the best interests of all consumers. This will ensure a robust and sustainable framework, which the Bank believes is the most effective approach to protecting consumers in the current market.

The new Consumer Protection Code came into effect on 1 January 2012.

Box 5 – Key Consumer Protection Elements of New/Revised Codes

Consumer Protection Code (revised)

- Special protections for vulnerable consumers.
- Requirements for more clear and accessible information on complex products.
- Greater clarity on how errors and complaints should be resolved.
- Protection for consumers in non-mortgage arrears.
- More specific requirements relating to suitability of products for customers.
- Protect consumers from harassment – during sales process/in arrears.

Minimum Competency Code

- An annual requirement of 15 formal hours of Continuing Professional Development (CPD) for all persons, including grandfathered persons, to replace the existing 3 year CPD cycle requirements.
- Inclusion of an Ethics module in CPD programme.
- Detailed supervision requirements for all new entrants.
- Clarification on activities included within the scope of the requirements including restructuring and rescheduling of loans, amendments to insurance policies and services provided over the internet.
- Restructuring of the categories of retail financial products.

The new Code is issued, in part, under Section 50 of the Central Bank Reform Act 2010 and is closely linked to the new Fitness and Probity regime which also came into effect on 1 December 2011.

Code of Conduct on Mortgage Arrears (revised)

- More detailed requirements for lenders when dealing with borrowers experiencing arrears and financial difficulty.
- The Standard Financial Statement (SFS) is now required to be used by all lenders when gathering information from consumers to assess their financial position.
- Published Consumer Guide to the CCMA and the protections available to consumers.
- Published Consumer Guide on the completion of the SFS.

Details of both of these Guides can be found on the Bank's website.

Code of Conduct for Business Lending to SMEs (revised)

- Lenders must confirm to the SME the information that must be provided by them for an alternative repayment arrangement assessment to be undertaken.
- A lender must complete its SME alternative repayment assessment and inform the SME of its decision within 15 business days of receiving all information required from the SME.
- A lender must have procedures in place to allow an SME to appeal its decision on an alternative repayment arrangement.
- Where an SME is concerned about meeting repayments and approaches the lender, a lender must offer the SME an immediate review meeting to discuss its circumstances and assess the potential for the SME to be offered an alternative repayment arrangement.

Table 10 – Themed Consumer Focused Inspections

	2010 Activity	2011 Activity
Number of Themes	6	10
Number of Inspections	102	118
Number of Non-Inspection Meetings	162	89

Details of 2011 Activity on Consumer Focused Inspections

Themes (On-site and Off-site)	Entity Type	Number Inspected/ Examined
Review of Tracker Bonds' Key Features Documents*	Credit Institutions	8
Inspection of Banks' Promotional Interest Rates*	Credit Institutions	6
Review of Implementation of Code of Conduct on Switching of Current Accounts with Credit Institutions	Credit Institutions	
- Onsite		4
- Mystery Shopping (60 branches of 4 credit institutions)		60
Review of Certain Out of Order Activity Fees on Current Accounts	Credit Institutions	5
Payment Services Directive**	Credit Institutions	8
Complaints Handling by Insurance Firms*	Insurance	12
Themed Inspection into Third Party Personal Injury Claims	Insurance	25 desk based of which 11 also were inspected onsite
Findings of Inspection of Licensed Moneylenders*	Moneylenders	11
Review of Lenders' Compliance with the Code of Conduct on Mortgage Arrears	Mortgage Lenders	6
Complaints Handling by Investment & Stockbroking Firms	MiFID Firms	6
Review of Contract for Difference (CFD)/Financial Spread Betting Firms' Compliance with MiFID Regulations	MiFID Firms	4
Total Themes:		**10**
Total Entities included in Themes		**118**
Other Inspections (On-Site)	Intermediaries	37
	MiFID Firms	2
	Insurance	3
Total Inspections		**42**
Other Meetings	MiFID Firms	7
	Insurance	24
	Intermediaries	16
	Credit Institutions	30
	IMD Firm/Government Department UK Regulator/Auditor	1
	Various	2
	Moneylenders	2
	Retail Credit Firm	1
	Government Department	8
Total Non-Inspection Meetings		**91**
Overall Total		**251**

* 2010 Annual Report stated that these issues would be reported on in 2011.

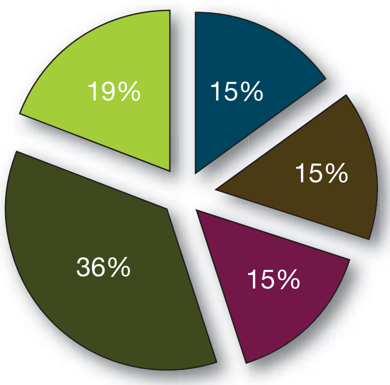
** This issue will be reported on in 2012.

Supervision and Enforcement Activity

The Bank uses a number of hands on methods to monitor compliance with its various conduct of business rules. These include themed inspections, general reviews on a particular topic, mystery shopping and monitoring the advertising of financial services.

Over the last three years, inspections have been targeted at banking, insurance, moneylending and investment firms with a strategic focus on specific areas such as ensuring compliance with statutory requirements, 'fair treatment' of consumers, mortgage arrears, product design and selling. As a result of the Bank's supervisory approach, it has managed to identify poor practices and respond immediately through regulatory and enforcement action with non-compliant firms resulting in over €20 million refunded to consumers and over €6 million in settlement agreements with firms from enforcement action through the Bank's Administrative Sanctions Process over that period.

Themed Consumer Inspections Conducted by the Bank 2009 - 2011



Priority Areas

- Code Compliance
- Fairness
- Product Design/Selling
- Mortgages/Arrears
- Openness Transparency

Themed Inspections Conducted during 2011

The Bank's inspection of moneylenders found a high level of compliance with the requirements of the Moneylender's Code and consumers were charged in accordance with moneylenders' authorised Annualised Percentage Rates (APRs) and costs of credit. Compliance with licence display requirements and with the cost of loans and documentation, were also high.

An inspection of the Key Features Documents (KFDs) found it was evident that the KFD and any other required documentation was provided to the consumer in the correct manner. However, there were some delays in issuing some of the documentation to customers.

An inspection of complaints handling in insurance firms found that compliance in this area was low, particularly for acknowledging complaints in writing and providing information on a point of contact in both the firm and the Financial Services Ombudsman. Breaches were followed up with individual firms and recommendations on best practice were made, based on observations made during the course of the inspection.

The findings from an inspection of complaints handling in investment and stockbroking firms were overall positive with firms having appropriate written complaints procedures in place, covering all requirements. However, some concerns were identified in relation to failure to provide a definition of a complaint, acknowledging complaints in a timely manner, keeping a complainant updated on the status of a complaint and advising of the right to refer matters to the Financial Services Ombudsman.

An inspection of banks' promotional interest rates was undertaken during 2011. Of the six banks reviewed, the main issues identified were interest rate errors, misleading advertising and the requirement to retain application forms. An instruction was issued to firms to consider the findings and a notice was issued to consumers urging them to consider any restrictions that apply on rates they are offered.

Following a review of Contract for Difference (CFD)/spread betting firms' compliance with MiFID Regulations, the main findings identified included a lack of sufficient information gathered by firms, inadequate assessment of appropriateness of the product for the client, misleading marketing material and inadequate risk disclosures. Firms were requested to take

Table 11 – Advertising Issues Investigated

	2010	2011
Central Bank Monitoring	70	44
Complaints	15	46
Total	**85**	**90**

Outcome of Advertising Issues Investigated 2011

Advertisements Amended	Advertisements Withdrawn	No Action Required	Ongoing
53	20	11	6

immediate action and review their existing processes and procedures to ensure they were in compliance with MIFID regulations.

The key findings from the inspection into third party personal injury claims found that overall, third party personal injury claims are being handled appropriately by insurance firms and in compliance with the Code. Insurance firms are settling claims across the range of amounts outlined in the Injuries Board's 'Book of Quantum' which the Bank uses as a guide when assessing claims settled by the insurance firms.

An inspection on how banks are imposing 'out of order' charges on current accounts found that all charges were within limits approved by the Bank. However, a number of concerns were identified with the way certain charges were applied. The inspection examined three out-of-order charges i.e. surcharge interest, referral/over limit fees and unpaid item fees, across 300 customer accounts in five banks. The inspection also included an examination of 100 customer complaints files. The key outcomes from the inspection included a prohibition on charging a minimum amount of surcharge interest, a prohibition on applying referral fees and unpaid item fees jointly for the same item and a requirement to base referral fees on close of day account balances. All banks were encouraged to enhance the ways in which they assist customers to avoid incurring out of order activity fees, particularly in the current economic climate.

Advertising Monitoring

The Bank actively investigated a total of 90 advertising issues during 2011. As a result, 20 advertisements were required to be withdrawn with a further 53 requiring amendment.

Review of Implementation of Code of Conduct on Switching of Current Accounts with Credit Institutions

The objective of this inspection was to assess how well the switching process worked for consumers and the extent to which frontline bank staff provided information to consumers, and were aware of and understood the Bank's Switching Code. The inspection was conducted both through on-site work and by using external mystery shoppers. The mystery shopping exercise identified concerns about the level of awareness and understanding of the Switching Code by branch staff, and the quality of information provided to consumers when making enquiries about switching. However, the on-site inspection found that the switching process is generally working well and within the statutory timeframes allowed, although consumers continue to experience problems when moving direct debits when switching.

Retail Intermediaries Supervision

A system for Online Reporting has been developed for retail intermediaries. This was introduced to all retail intermediaries on a phased basis from July 2011 and will assist the Bank in its overall supervision of the sector.

Box 6 – Consumer Advisory Group (CAG)

The Commission approved the appointment of Anthony Walsh, Bill Knight, Dermot Jewell, Elaine Kempson and Michael Culloty to the CAG in January 2011. The CAG's role is to advise the Bank in relation to (i) the effects of the Bank's Strategic Plans on consumers of financial services; (ii) initiatives aimed at further enhancing the protection of consumers of financial services and (iii) if the Bank so requests, advice on documents, consultation papers or other materials prepared by the Bank. The first meeting was held on 8 February 2011. Five meetings of the CAG were held during 2011, including one meeting dealing exclusively with the Consumer Protection Strategy over the next three years. The CAG has provided valuable advice, opinions and input on a total of eleven topics in 2011.

Charging Issues

The Consumer Credit Act 1995, requires financial service providers (credit institutions, bureaux de change and money transmission businesses) to notify the Bank of any proposal to introduce new or increased charges, for certain financial services. In 2011, the Bank issued letters of direction on foot of 22 notifications from financial service providers in this area. The notifications received from these financial service providers ranged from an individual charge, charges in respect of new products launched and entire suites of charges for credit institutions. The Bank is required under the legislation to consider each notification using a range of criteria, which include the commercial justification, impact on the relevant consumers and on competition in the sector. Of the 22 notifications, 11 were approved in full, 11 were partially approved and none were rejected.

Research on Current Account Charges

On 20 December 2011, the Bank published the findings of research into charges applied by the main retail banks to personal current accounts. The research found that customers whose accounts go into an unauthorised overdraft position pay the highest fees. The research also compared charges with similar charges applied by a selection of banks in the UK and Northern Ireland. The structure for charging fees in Ireland differs from that in the UK and Northern Ireland, with customers whose accounts stay in credit paying slightly higher fees than the UK and Northern Ireland but customers whose accounts go out-of-order paying much lower fees than the UK and Northern Ireland. Four individual consumer profiles were developed to reflect different current account holders' behaviours and usage patterns and this identified that 60 per cent of scenarios in the Irish banks would incur fees of less than €50 per annum for day-to-day transactions charges only compared to 94 per cent of scenarios in the UK and Northern Ireland. The research found that high bank charges result from out-of-order activity such as unpaid direct debits, surcharge interest and over-limit or referral fees and manual transactions tend to incur higher fees than electronic transactions.

Enforcement and Regulatory Actions

Settlement Agreements

During 2011, the Bank entered into 10 settlement agreements with regulated entities under the Administrative Sanctions Procedure (ASP).

The sanctions imposed include two disqualifications, nine fines, totalling €5,050,000, and nine reprimands. The fines ranged from €10,000 to €3.35m and related to various breaches, including breaches of the Consumer Protection Code, the Consumer Credit Act 1995, the Central Bank Act 1971, the Licensing & Supervision Regulations, the European Communities (Insurance Mediation) Regulations, the MiFID Regulations, the Minimum Competency Requirements, the Handbook for Authorised Advisors and the Client Asset Requirements.

Public statements were released in relation to these settlements and published on the Bank's website. These contained detailed information about the prescribed contraventions. They explained the nature, volume, frequency and cause(s) of the breach(es), the penalties imposed and the factors considered by the Bank in determining appropriate sanctions. Each public statement released was accompanied by a general market commentary (laterally issued as a statement from the Director of Enforcement) which supports

Table 12 – Regulatory Actions Taken

Type	Number of Actions	
	2010	2011
Administrative Sanction Settlement Agreements	7	10
Securities Law Settlement Agreements	1	0
Securities Law Formal Private Cautions Issued	4	2
Directions Imposed under Transparency Directive[26]	21	16
Directions Imposed under Prospectus Directive	1	0
Warning Notices Issued Regarding Unauthorised Activity	5	6
Supervisory Warnings	0	14
Issue of Post Inspection or other Regulatory Finding to be Addressed or Corrected (including Risk Mitigation Plan letters issued)	297	925
Request for External Reviews - Credit Unions	126	173
Authorisation / Licence / Registration Refused	4	1
Appointment of Administrator	1	0
Firms Recapitalised due to Solvency Issues	29	7
Direction / Requirement Imposed on Credit Unions	16	20
Appointment of Independent Auditor / Inspector Required	4	1
Advertising Issues Investigated	85	90
Appointment of Court Appointed Inspector	0	1
Direction / Requirement Imposed under Other Legislation	41	40
Disclosure of Information to other Enforcement Authorities	155	111
Involuntary Revocation/Withdrawal of Authorisation	0	2
Total	**797**	**1,419**

26 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 2011, a total of 286 Directions were issued under the Transparency Directive (334 in 2010). However, adjusted for the re-issue of Directions previously issued, the number of Directions issued pursuant to the Regulations falls to 16 (21 in 2010).

deterrence, signals the Bank's enforcement appetite, promotes compliance by regulated entities and educates stakeholders on the standards of behaviour the Bank expects from those it regulates. The cases which were settled in 2011 related to regulated entities with risk ratings across the spectrum of PRISM.

Significant issues which arose in these cases related to:

» Failure to provide accurate and complete reports of transactions in financial instruments;

» Failure to manage, monitor and report accurately on risk capital requirements;

» Liquidity ratios and/or to identify calculation errors;

» Failure to monitor the activities of tied agents;

» Failure to efficiently and fairly handle and adjudicate on customer complaints and claims; and

» Failure to have in place and/or implement adequate systems and controls to ensure compliance with the various Codes and Regulations.

Supervisory warnings[27] were issued in 14 cases.

Update on Progress in Certain Significant Cases

Irish Bank Resolution Corporation (IBRC)

The investigation into issues in relation to Anglo Irish Bank (IBRC) continued into 2011. At an early stage in this investigation, the Bank notified the Gardaí and the Office of the Director of Corporate Enforcement (ODCE) of certain matters. In May 2011, the Gardaí informed the Bank, following consultation with the Director of Public Prosecutions, that to proceed with the Bank's examinations at this time may prejudice any future criminal prosecutions. Accordingly, the Bank decided to defer its examination but will keep this decision under review. Given the seriousness and sensitivity of criminal proceedings and the strength of the sanctions available to the Gardaí and the ODCE, this is the most appropriate approach to take where there is a reasonable possibility of multiple proceedings. Regular liaison with these agencies is continuing.

Consultation Paper on Inquiry Guidelines

Consultation Paper 57, on draft Inquiry Guidelines to be prescribed pursuant to section 33BD of the Central Bank Act 1942 (as amended), was published on 25 November 2011.

The aim of the draft Inquiry Guidelines is to provide a framework for the Bank to conduct, in appropriate cases, an Inquiry as part of the ASP under Part IIIC of the Central Bank Act 1942 (as amended).

The draft Inquiry Guidelines provide significant detail in terms of the practice and procedure to be adopted during an Inquiry. It is intended that, once finalised, the Inquiry Guidelines will replace the existing Administrative Sanctions Guidelines published by the Bank in 2005.

Banks' Boards Review

The Bank announced in February 2011 that it would review the fitness and probity of all directors of state-supported credit institutions.

From June 2011, the Bank wrote to all 55 sitting executive and non-executive directors of the six Covered Institutions seeking information from them in relation to their future intentions and giving notice that those who would remain in place following 1 January 2012 would be subject of a review in relation to the new powers available to the Bank in the Central Bank Reform Act 2010, which came into practical effect on 1 December 2011.

The Bank received confirmation that 26 of the 55 directors of Covered Institutions would either:

» Resign as a director prior to 1 January 2012; or

» Resign as a director at the next AGM of the relevant institution.

27 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.

No non-executive directors who were in place prior to the State guarantee remained on the banks' boards beyond 1 January 2012. The Bank is assessing whether any directors who plan to remain in post should be subject to a review of their conduct where a bank needed to receive State support.

Box 7 – The Fitness and Probity Regime

In March 2011, the Bank issued Consultation Paper 51 on the Fit and Proper regime provided for in the Central Bank Reform Act 2010 (the Act). A Feedback Statement to the consultation was published in October 2011. Final Regulations, Standards and Guidance were published on 1 December 2011 following a further short consultation process. A Frequently Asked Questions document on the Fitness and Probity Regime was published on the Bank's website on 27 March 2012.

The Act gives the Bank wide-ranging powers across the financial services industry to:

- Approve or veto the appointment of people to certain positions;
- Investigate and, where appropriate, remove or prohibit holders; and
- Set statutory standards of fitness and probity across the financial services industry.

The Regulations apply to staff carrying out the following functions – Pre-Approval Controlled Functions (PCFs) and Controlled Functions (CFs). The Regulations identify 41 senior positions as PCFs which require the Bank's approval before people can take up those positions. The Regulations also prescribe specific categories of staff as CFs; these are positions which individuals can be temporarily or permanently removed from or prohibited from taking up in the future. PCFs are a subset of CFs.

The Standards set out conditions that CFs must satisfy to perform the function assigned to them. These include the obligation to be competent and capable to carry out the controlled function, to act honestly, ethically and with integrity and to be financially sound.

The Act also requires employers to satisfy themselves that staff meet the Standards, both on entry to their employment and on an on-going basis. In doing so, employers are required to carry out due diligence to ensure the Standards are met.

The new regime will be introduced on a phased basis to allow institutions adequate time to introduce the necessary internal controls and procedures to comply with the Regulations and Standards.

From 1 December 2011, existing and new staff in PCF roles became subject to the Regulations and Standards. New appointments to less senior positions (CFs) become subject to the Regulations and Standards from 1 March 2012. From 1 December 2012, the Regulations and Standards will apply to all staff in existing CF roles.

Non Statutory Guidance on the Fitness and Probity Regime

The purpose of this Guidance, published on 1 December 2011, is to assist financial service providers in complying with their obligations under Section 21 of the Central Bank Reform Act 2010 in relation to the Fitness and Probity Standards. The Guidance sets out the steps which the Bank would expect a financial service provider to take in order to satisfy itself on reasonable grounds that persons performing CFs or PCFs are compliant with the Fitness and Probity Standards. It also includes guidance on other issues including, for example, the process for approval by the Bank of appointments to PCFs.

Central Bank Information Sessions and Presentations on the new Fitness and Probity Regime

In November 2011, the Bank hosted two industry Information Sessions on the Fitness and Probity Regime. In addition to these information sessions, Bank staff spoke at a number of conferences during 2011 to provide updates and information on the new Regime.

Anti-Money Laundering, Counter Terrorism Financing

The Bank has responsibility for the monitoring and inspection of Anti-Money Laundering, Counter Terrorism Financing (AML-CTF) and EU Financial Sanctions activities and is also responsible for investigation of unauthorised business activity.

The Bank also has enforcement powers in relation to alleged breaches of AML-CTF, EU Financial Sanctions legislation and the Regulations implementing the Market Abuse, Transparency and Prospectus Directives.

The Bank conducted 19 AML-CTF on-site and 19 off-site inspections of financial institutions in order to assess compliance with the requirements of the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010. The Bank also contributed to the development of AML-CTF legislation at EU and domestic level and to AML-CTF supervision policy on cross border entities. Assistance was also given to an industry group in its drafting of AML-CTF core guidance notes and the Department of Finance in relation to its engagement with the Financial Action Task Force.

In 2011, the Bank received and responded to 313 queries in relation to alleged unauthorised activity, published six warning notices in relation to nine firms and made 61 reports to the Gardaí under Section 33AK of the Central Bank Act 1942 (as amended). The Bank also undertook inspections of five firms that were suspected of engaging in unauthorised activity. The Bank went live with an automated email alert system in 2011 to replace the previous hardcopy letters system that was used to disseminate information in relation to EU financial sanctions developments. There was also extensive engagement with industry in relation to the implementation of EU Regulations containing measures against Iran and Libya particularly in the early part of 2011.

Bill Pay & Debt Management Firms

Following the collapse of the bill payment firm Home Payments Limited, a review of 15 firms that provide a bill pay and debt management service to customers was undertaken by the Bank in 2011. The purpose of these investigations was to establish, in the absence of a specific regulatory regime, whether the activities of these firms fell to be regulated by the Bank. The Bank took a decision that firms, which fell within the scope of the EC Payment Services Regulations 2009, must immediately put safeguards in place to protect client funds and required these firms to either apply for authorisation or wind down this part of their business. Future legislation in this area is expected to provide for the regulation of all activities provided by these types of firms.

Policy and Risk

Delivering Risk Based Supervision through PRISM

PRISM

In November 2011, the Bank launched PRISM (Probability Risk and Impact SysteM) to enhance the Bank's ability to deliver judgement-based, outcome-focused regulation. PRISM gives the Bank a unified and much more systematic risk-based framework – making it easier for banking and insurance supervisors to challenge the financial firms they regulate, judge risks and take action to mitigate those risks – securing meaningful change on behalf of consumers, citizens and the State.

Under PRISM, the most significant firms - those with the ability to have the greatest impact on financial stability and the consumer - will receive a high level of supervision under structured engagement plans, leading to early interventions to mitigate potential risks. Those firms which have the lowest potential adverse impact will be supervised reactively or through thematic assessments, with the Bank taking targeted enforcement action against firms across all impact categories whose poor behaviour risks jeopardising the Bank's statutory objectives including financial stability and consumer protection.

Central Bank (Supervision and Enforcement) Bill 2011

In July 2011, the Central Bank (Supervision and Enforcement) Bill 2011 was published and commenced Second Stage in the Dáil during October 2011. The Bill's purpose is to strengthen and expand the powers of the Bank and allow the Bank conduct its role in a more

Box 8 – What is Risk-Based Supervision?

Risk-based supervision starts with the premise that not all firms are equally important to the economy and that a regulator can deliver most value through focusing its energies on the firms which are most significant and on the risks that pose the greatest threat to financial stability and consumers. A risk-based system will also provide a systematic and structured means of assessing different types of risk, ensuring that idiosyncratic approaches to firm supervision are avoided and that potential risks are analysed for the higher impact firms using a common framework. This will allow judgements about potential risk in different firms to be made using a common risk typology on a common scale.

PRISM is the vehicle that the Bank has developed to put the theory of risk-based supervision into practice. It is designed to be implemented by a few hundred supervisors on several thousand regulated firms. PRISM is both a supervisory tool and a software application.

PRISM is designed to allow the Bank to:

» Adopt a consistent way of thinking about risk across all supervised firms;

» Allocate resources based on impact and probability;

» Undertake a sufficient level of engagement with all higher impact firms;

» Assess firm risks in a systematic and structured fashion;

» Ensure that action is taken to mitigate unacceptable risks in firms;

» Provide firms with clarity around the Bank's view of the risks they pose;

» Operate a risk-based supervisory framework similar to that operated by significant financial regulators such as the Office of the Superintendent of Financial Institutions in Canada, the Australian Prudential Regulation Authority in Australia, the US Federal Reserve, De Nederlandsche Bank in The Netherlands, and the new Prudential Regulation Authority in the UK;

» Use quality control mechanisms to encourage challenge and sharpen the Bank's supervisory approach; and

» Analyse better management information about the risk profiles of the firms and sectors the Bank supervises.

effective manner, learning from the lessons of the financial crisis.

The Bill enhances and consolidates the Bank's powers with respect to appointment of authorised officers, introduces a new regime for requiring skilled persons' reports to be produced, gives a cross-sectoral power for issuing binding directions, and enhances the Bank's framework for cooperating with overseas supervisors. The Bill also provides for the Bank to make generally applicable regulations, protections to those making protected disclosures to the Bank and increases fines which may be levied where contraventions are found to have occurred. The Bill also allows the Bank to both impose new penalties and apply to court for restitution to be made by a financial services provider.

The Bank worked closely with the Department of Finance and the Office of the Attorney General on the formulation and drafting of the Bill's provisions. Since publication, the Bank has been in active engagement with the Department of Finance on a range of further matters which are to be addressed through amendment to the Bill prior to its enactment. This work is ongoing and the swift enactment and commencement of this Bill remains key to giving the Bank the powers it needs to properly and effectively regulate financial service providers and markets, while ensuring the best interests of consumers are protected.

When the Bill has been enacted by the Oireachtas, the Bank will initiate a project to implement the various provisions of the legislation, including appropriate consultation.

Corporate Governance

Credit Institutions & Insurance Undertakings

In February 2011, the Bank hosted a stakeholder roundtable on Corporate Governance, with attendees including industry representatives, accountancy bodies, legal representatives and academics. The Roundtable focused on the challenges and opportunities of implementing the Code. In May 2011, the Bank published an FAQ document on the Corporate Governance Code as a mechanism to provide guidance and to ensure consistency of application of the Code by industry. In August 2011, additional guidance was issued to industry to assist institutions and directors in preparing the Annual Compliance Statement which institutions are required to provide to the Bank under Section 25 of the Corporate Governance Code for Credit Institutions and Insurance Undertakings.

Captive Insurance and Reinsurance Undertakings

In August 2011, the Corporate Governance Code for Captive Insurance and Captive Reinsurance Undertakings was issued after extensive consultation with industry bodies which sets out the minimum statutory requirements on how captives should organise the governance of their institutions. A Feedback Statement, an FAQ document and guidance for the Annual Compliance Statement under Section 18 of the Corporate Governance Code for Captive Insurance and Captive Reinsurance Undertakings were also published.

Funds

The funds industry produced a voluntary Corporate Governance Code for the sector, in consultation with the Bank, which was published in December 2011.

Internal Governance

In May 2011, the Bank advised industry that it would be implementing EBA and EIOPA guidelines in the area of Internal Governance. Further guidance on internal governance may be developed if appropriate. The EBA and EIOPA guidelines will form the basis for auditor assurance over internal governance.

The Auditor Protocol

In December 2011, the Bank issued the Auditor Protocol between the Bank and auditors of regulated financial service providers. This followed a consultation period including a roundtable with auditing representative bodies in May 2011. The Auditor Protocol provides a framework which allows the Bank and the auditors to exchange relevant information on a timely basis with the aim of enhancing both the regulatory and statutory audit processes. The Auditor Protocol, which in the first instance applies to those firms which are rated High

Box 9 – Capital Requirements Directive IV

In July 2011, the European Commission published the proposal for CRD IV via two legislative instruments - a Directive and a Regulation. This proposal is currently under negotiation at European level. CRD IV proposes, *inter alia*, the following amendments:

- Narrowing the definition of regulatory capital;
- Introducing two new liquidity ratios (i.e. the Liquidity Coverage Ratio and the Net Stable Funding Ratio);
- Enhancing risk coverage by amending requirements for counterparty credit risk;
- Reducing procyclicality by introducing both a conservation and countercyclical capital buffer;
- Supplementing the risk-based capital requirements with a non-risk based leverage ratio; and
- The first phase of a single rule book which will remove many of the national discretions currently available to Member States.

Impact under the Bank's new regulatory risk model PRISM, becomes effective in 2012.

Auditor Assurance over Internal Governance

In June 2011, the Bank established a working group comprising representatives of the auditing profession and the Irish Auditing and Accounting Supervisory Authority, to develop guidance for auditors on the provision of assurance over internal governance. The objective of this group is to bring forward the recommendation of the Comptroller and Auditor General as set out in its report in December 2009 regarding the provision of positive assurance by auditors on the internal governance of financial institutions.

Participation in the European Supervisory Authorities

Three new European Supervisory Authorities (ESAs)[28]– covering banking, insurance/occupational pensions and securities/markets – were established in January 2011. The Bank is a member of each authority. The responsibilities assigned to these authorities, in terms of developing the regulatory framework, combined with responding to the on-going financial crisis has required increased member commitment and participation. Staff across regulatory and policy divisions participate in key committees and working groups. During 2011, the Deputy Governor (Financial Regulation) was elected to the Management Board of EIOPA and has also been appointed as Alternate Chair of the EBA.

EU Capital Requirements Directives (CRD)

The CRD is being amended significantly and these amendments are being enacted on a phased basis via CRD II, III and IV. CRD II and III (transposed into Irish law[29] in December 2010) were implemented in 2011. Among the more significant amendments were the strengthening of capital requirements for the trading book and re-securitisations, the introduction of regulations on remuneration policies and enhanced disclosure requirements. Requirements on remuneration came into force on 1 January 2011 and changes relating to the trading book and re-securitisations became effective on 31 December 2011.

During 2011, significant input was required on the proposed transposition of Basel III into EU law through further amendments to the CRD IV.

Together with attending EU Council meetings on the proposal, the Bank attended the Oireachtas Committee on Finance, Public Expenditure and Reform in November 2011 to discuss CRD IV and presented on the topic at the Irish Banking Federation Conference in December 2011.

On the domestic policy front the Bank issued a Discussion Paper Review of the Requirements for the Management of Liquidity Risk in October 2011. A feedback statement was issued in Q1 2012.

During 2011, the Bank assisted the Department of Finance in drafting the Statutory Instruments

28 European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities & Markets Authority (ESMA) which were formed from the extant Committee of European Banking Supervisors (CEBS), Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR).

29 Statutory Instruments 625 and 627 of 2010, respectively, in December 2010.

Box 10 – Solvency II Preparations in 2011

The Bank maintained a close engagement with industry and representative bodies throughout the year. In particular the Bank:

- Hosted two industry forums on Solvency II in May and November 2011 focusing on qualitative and quantitative aspects respectively;
- Conducted a survey of undertakings' progress of their preparations towards Solvency II implementation;
- Published newsletter Solvency II Matters quarterly, which keeps relevant stakeholders up-to-date with important news;
- Contributed as a member of the IFSC Subgroup on Solvency II – which includes representatives from the insurance industry, industry bodies and the Department of Finance; and
- Presented at a number of externally organised seminars, including the Society of Actuaries in Ireland, the Association of Chartered Certified Accountants in Ireland, the Irish Insurance Federation and University of Limerick.

which implemented the Omnibus Directive. Implementation of EU legislation will continue to be a focus for Prudential Banking Policy in 2012 in the context of CRD IV.

Prudential Insurance Policy

Solvency II

The Bank's main focus continues to be on preparation for the implementation of the Solvency II Directive. While the original intention was that this Directive would be fully implemented from 1 January 2013, there have been delays in ratifying the related Omnibus II[30] Directive. It now appears that implementation will be on a phased basis, with legislation to be transposed by each Member State from 1 January 2013; certain provisions to apply during 2013 and application of all requirements from 1 January 2014. Greater clarity on implementation is expected during 2012.

Throughout 2011, the Bank continued to work with the Department of Finance providing input to Omnibus II negotiations, advising on national transposition and submitting contributions to all consultation phases in the development of delegated acts (formerly implementing measures).

Work continues to progress on developing enhanced supervisory processes to meet the extensive Solvency II requirements, new systems to deal with substantially increased reporting requirements and a programme for staff training on Solvency II has been developed.

International Association of Insurance Supervisors (IAIS)

Throughout the year, there was regular engagement with the IAIS, including contributions to its consultation on the development of its proposed Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). The development phase of this important initiative is due to be completed by July 2013.

EIOPA Peer Review Panel

The Bank is a member of the EIOPA Peer Review Panel which was originally established under Committee of European Insurance and Occupational Pensions Supervisors in August 2008. This is a permanent group comprising high-level representatives of the National Supervisory Authorities with the necessary independence, objectivity, seniority, knowledge and expertise to guarantee the credibility and the effectiveness of the peer review mechanism. The Review Panel is mandated to help monitor the implementation of supervisory provisions set out in Community legislation and to monitor convergence in supervisory practices. In accordance with this mandate, it conducts panel peer reviews based on self-assessments provided by its members. The

30 Omnibus II is designed to make Solvency II consistent with the new European regulatory architecture for financial supervision.

Bank participated in two working groups of the Panel on Internal Models and Branch Supervision. These Reviews will take place during 2012 using templates agreed (with active participation from the Bank) in 2011. Reports on these Reviews are expected to be completed before the end of 2012.

International Organisation of Securities Commissions (IOSCO)

The Bank is a participant in the IOSCO Standing Committee 5 (SC5) – Investment Management. SC5 met on three occasions during 2011 when, *inter alia,* issues in relation to the regulation of exchange-traded funds and money market funds, valuation of assets of investment funds, suspensions of redemptions and liquidity risk management by investment funds were discussed.

Memorandum of Understanding

On 29 August 2011, the Bank signed a Memorandum of Understanding with the Insurance Authority of the Hong Kong Special Administrative Region of the People's Republic of China. This will facilitate mutual cooperation and exchange of information between the two regulators.

Economic Analysis Research and Statistics

Economic Analysis and Commentary

The Bank has played an important role in influencing economic policy through its frequent commentaries, forecasts, research and provision of financial statistics. These are communicated through regular publications and research papers, other domestic and international journals, statements by the Governor and other senior management, and contributions to conferences and seminars. Internally, economic analysis and research are inputs into ongoing financial stability assessments and the prudential capital adequacy reviews.

In the area of macroeconomic forecasting, the Bank continued to produce macroeconomic projections for the Quarterly Bulletin and prepare projections and analysis for the Eurosystem Broad Macroeconomic Projections, as well as participate in other Eurosystem-wide macroeconomic analysis. Six forecasting exercises were completed during the year, with two of these conducted within the context of the Eurosystem's Broad Macroeconomic Projection Exercise and the remaining four for publication in the Bank's Quarterly Bulletin. The more formal approaches to economic forecasting were supplemented by assessments of business sentiment based on contacts with key firms in various sectors across the economy. The Bank also 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.

The Bank continued to monitor developments in inflation and competitiveness during the year. In addition to the regular forecasts and assessments published in the Quarterly Bulletin, work on competitiveness indicators continued, culminating in the compilation of some new measures of labour cost competitiveness, adjusting for compositional effects as a result of structural shifts in the economy in recent years.

Research

The Bank further enhanced the communication of its research work in 2011 with the publication of the fourth annual Research Bulletin. This bulletin contains non-technical summaries of the Bank's published technical papers. In addition to the Bank's commentary, macroeconomic projections and policy advice, the Bank's published research in 2011 dealt with subjects such as the mortgage market, impairment and negative equity, the relationship between credit and GDP, access to credit for small and medium enterprises, economic forecasting, export performance, the economic impact of external shocks, uncertainty and the fiscal outlook and issues in financial markets. This research is available in the Bank's Technical Paper series. As in previous years, staff continued to publish much of this research in leading domestic and international economic journals. A detailed listing of recent and forthcoming publications by Bank staff in peer reviewed external journals and books is provided in the Research Bulletin.

In April 2011, the Bank also launched a new Economic Letters series, published on the Bank's website. The series, which is modelled on similar publications released by some of the regional banks of the US Federal Reserve system, comprises short notes on particular domestic economic considerations. The aim of these notes is to use standard economic approaches to address relevant policy issues pertinent to the Irish economy in a concise and accessible manner. In 2011, issues covered in the Economic Letters series included the outlook for credit, scenarios for house prices, the distribution of mortgage arrears, unemployment and labour supply and longer-term considerations in relation to the public finances.

Financial Stability

Throughout 2011, financial stability work focused on the resolution of the Irish banking and sovereign financial difficulties. The Bank provided analysis and advice to the Government on salient decisions.

During the year, the Bank's Financial Stability Committee, which is chaired by the Governor met regularly. Issues examined included the prudential capital and liquidity reviews of Irish credit institutions, deleveraging of banks, sovereign risk, and mortgage indebtedness.

In 2011, the Bank held a conference on the Irish Mortgage Market. This conference highlighted research work undertaken within the Bank and such research was used in the formulation of the Keane Report on mortgage arrears.

The Bank is represented on the ECB's Financial Stability Committee. From early 2011, with the establishment of the European Systemic Risk Board (ESRB), the Bank has been an active participant through attendance at meetings of the General Board as well as through the Advisory Technical Committee and associated Working Groups such as the Working Group on Macroprudential Analysis and Instruments. The Bank's increased emphasis on research mirrors the wider European focus on financial stability related research. Over 2011, the Bank continued to actively participate in the ESCB's Macroprudential Research Network (MaRS), which is designed to produce policy directed research.

Statistics

The Bank continued to enhance its statistical outputs throughout 2011, both for domestic-policy purposes and to meet statutory ECB requirements. Two new series on credit advanced to, and deposits from, the Irish private sector were launched in June 2011. The first series includes lending and deposits vis-à-vis domestic business, with data disaggregated by sector of economic activity. Lending to SMEs is separately identified for each sector. The need for data on SME lending had been identified as a key policy requirement, and the new published series allows policy makers to monitor developments in SME credit across various categories of economic activity. The second new series covers developments in credit to, and deposits from, resident households. Detailed breakdowns are provided for housing loans where the data are disaggregated by the type (e.g. variable rate, tracker rate or fixed rate) and purpose of the loan (principal dwelling, buy-to-let, holiday/ second home).

The regular monthly money and banking data was further expanded in 2011 with the introduction of a balance sheet for the resident offices of credit institutions covered under the Irish Government Eligible Liabilities Guarantee Scheme. A quarterly consolidated group balance sheet, covering the global activities of these institutions was also initiated in 2011. This is in addition to the series on the consolidated foreign claims of these banks, introduced in 2010. The latter series is compiled on the same basis as the Consolidated Banking Statistics published by the Bank for International Settlements (BIS) but is restricted to the Irish-owned banks, thereby addressing common misunderstandings about the size of domestic banks' foreign exposures.

The first national statistics on Financial Vehicle Corporations (FVCs) were launched with the publication of an article in the Quarterly Bulletin in July 2011, and the introduction of a new quarterly series in November. These vehicles comprise approximately 15 per cent of the financial sector in Ireland and undertake a wide range of securitisation-type activities, with Ireland one of the prime locations in the euro area.

Other regular statistical outputs were maintained and enhanced in 2011. These include Quarterly Financial Accounts (QFA) which present the financial transactions and positions of the domestic economic sectors and the rest of the world, and are central to understanding the linkages between the real and financial economies. The quarterly Investment Funds statistics provide detailed balance sheets and transactions for a number of fund categories, classified according to their investment strategy. The monthly Securities Issues Statistics contain information on the outstanding amount of debt and equity securities issued by Irish-resident entities by sector of issuer. In addition, significant work has been ongoing on developing security holdings statistics as part of a wider ESCB project.

Other developments in 2011 included the development of new data series for the banking and external sectors which are required to monitor Ireland's compliance with the EU/IMF financial assistance programme for Ireland. The Bank also continued to participate in a range of statistical activities, both as a member of the

ESCB and other international bodies. Recent statistical initiatives internationally have focussed largely on addressing the statistical gaps identified in the aftermath of the financial crisis. As part of this work, the Bank, in conjunction with the Irving Fisher Committee, hosted an international conference on Bridging Data Gaps …the Way Forward in August 2011.

The Bank's close working relationship with the Central Statistics Office (CSO) was further expanded in 2011. This co-operation now covers most institutional sector statistics, including balance of payments, financial accounts, insurance, and government finance statistics. A formal co-operation agreement exists in the field of balance of payments and international investment position statistics, and working groups have been established for the other areas. In 2011, both institutions continued joint work to agree the complex methodological issues on how to record government supports to the banking sector within the statistical framework. The close co-operation ensures that, as far as possible, duplication of work is eliminated, and the reporting burden on the financial sector is minimised.

Payment Systems and Currency Services

TARGET2

TARGET2 is the single pan-European system used by each of the national payment systems to ensure a uniform wholesale payment infrastructure, thus promoting further efficiency and integration in European financial markets.

The TARGET2 system functioned smoothly in 2011 and settled a large number of euro payments. The system's market share remained stable, with 91% of the total value of payments in euro large-value payment systems being executed via TARGET2. In 2011, the system processed a total of 89,565,697 transactions, with a daily average of 348,505 transactions.

Compared with the previous year, the overall volume of transactions increased slightly, rising by 1.1%. The total value of TARGET2 traffic in 2011 was €612,936 billion, with an average daily value of €2,385 billion. Compared with 2010, the overall value of the transactions processed by the system increased by 3.3%.

TARGET2 Securities

TARGET2 Securities (T2S) is a pan-European settlement system for securities which is being developed by the Eurosystem. The project is currently in the development phase and is due to go live in June 2015. In 2011, the Bank continued its participation in the T2S Advisory Group and liaised with the Irish market through the National User Group of which the Bank is chair. A formal decision on Irish market participation in T2S is expected in the near future.

Eurosystem Collateral Management Services

Since its implementation in 1999, the Correspondent Central Banking Model (CCBM) has fostered financial market integration, by enabling all euro area counterparties to use the common set of eligible marketable assets as collateral in Eurosystem credit operations, regardless of the country in which the security has been issued. In line with the introduction of non-marketable assets to the common set of eligible assets in 2007, specific procedures for the cross-border use of such assets under the CCBM were developed.

CCBM is the main channel for the cross-border use of collateral in Eurosystem credit operations. In December 2011 it accounted for 17.8 per cent of the total collateral provided to the Eurosystem. This model was initially set up as an interim solution and, since it builds upon the principle of minimum harmonisation, market participants have called for some improvements.

In particular, market participants have requested that the requirement to repatriate (marketable) assets from investor Central Securities Depositories (CSDs) to issuer CSDs before mobilisation as collateral through the CCBM be removed and that tri-party collateral management services which are today only used domestically could be used also on a cross-border basis. The Eurosystem supports the inclusion of these enhancements to the CCBM and is currently working on their incorporation within the framework.

Single Euro Payments Area (SEPA)

The Bank has continued to promote and oversee the implementation of the Single Euro Payments Area (SEPA) initiative by the Irish Payment Services Organisation (IPSO) and the Irish banking industry. IPSO, through its SEPA Implementation Task Force (SITF), is the body with primary responsibility for the implementation of SEPA in Ireland. The Bank, however, is represented on the SITF in its capacity as payment systems overseer.

In December 2011, the European Commission reached agreement on a Regulation establishing technical requirements for credit transfers and direct debits in euro which amends Regulation (EC) No 924/2009 on cross-border payments in the Community. The new Regulation sets an end-date of 1 February 2014 for completion of the migration of retail electronic payments to SEPA standards. The legislation was formally adopted by the European Parliament on 14 February 2012 and by the Council on 28 February, and published in the Official Journal of the European Union on 30 March 2012.

National Payments Plan

The efficiency of Ireland's payment systems infrastructure could be improved if reliance on cash and paper payment instruments were reduced and greater use made of secure and more efficient electronic alternatives.

In Q2 2011, the Bank was requested by the Minister for Finance to take a leading role in preparing a National Payments Plan (NPP). The Bank has carried out coordinating work. Key stakeholders were consulted and a senior level steering committee has been established, which is chaired by the Bank. The committee is composed of representatives of the Bank, Government, business, consumers and the retail banks. The NPP is expected to be published in 2012, with its recommendations to be implemented by end 2014.

Oversight Activities

The Bank's payments oversight role of promoting the safety and efficiency of the payment systems under its regulatory remit remained unchanged in 2011. A new settlement service for the settlement of domestic retail electronic payments, known as the STEP2 Irish Service, was launched in October 2011. The new service is operated by EBA CLEARING and includes next day value for payment transactions. The Bank was also closely involved in the updating of payment default procedures by the domestic retail clearing companies. In addition, the Bank contributed to the development of relevant Eurosystem oversight policy, standards and requirements through participation in international fora, particularly in the ESCB's Payments and Settlements Systems Committee (PSSC) and in its associated subgroups.

Deposit Guarantee Scheme

The Bank is responsible for the administration of the Irish Deposit Guarantee Scheme (DGS) which compensates depositors in the event of a credit institution failing. The implementation of the DGS for banks, building societies and credit unions was included in the Bank's Strategic Plan for 2010-2012 as a key strategy to ensure that the best interests of consumers of financial services are protected. The Bank has a project in progress to ensure that a fast pay-out can be facilitated in the event of liquidation. The Bank continues to work with the credit institutions to prepare for new requirements arising from a draft EU Directive on Deposit Guarantee Schemes which is expected to come into effect from 1 January 2013.

Currency Issue and Production

The issuing of cash into circulation is the responsibility of the Bank. The Bank is tasked with maintaining strategic stocks of banknotes and coin; processing and distributing banknotes and coin; and withdrawing and destroying currency that is unfit for circulation. In 2011, the Bank supplied a total of 337 million new and re-issuable banknotes. Table 13 – Banknote Issues - provides further information

Table 13 – Banknote Issues

	No. of Banknotes (million)		Value € million	
Denomination	**2010**	**2011**	**2010**	**2011**
€5	59	54	297	273
€10	50	47	502	475
€20	114	99	2,279	1,971
€50	174	135	8,681	6,749
€100	2	1.5	157	154
€200	0	0	6	3
€500	0	0	34	10
Total	**399**	**337**	**11,956**	**9,634**

Note: Figures may not sum due to rounding

During processing, the banknote processing machines count, authenticate and sort the banknotes into fit and unfit. The unfit banknotes are destroyed while the fit banknotes are re-packaged for re-issue into circulation. The processing target is largely based on lodgements received from the commercial banks and An Post. In 2011, 334 million banknotes were processed. This is a decrease from 2010 when 370 million banknotes were processed.

During 2011, an ECB Decision on the authenticity and fitness checking and recirculation of euro banknotes was implemented. This states that all euro banknotes received by certain authorities that are intended for re-circulation must be checked for authenticity within the defined procedures. The EU Regulation concerning authentication of euro coins and handling of euro coins unfit for circulation, was also implemented during 2011.

Under the ECB pooled production arrangements, the Bank printed 110 million €5 banknotes in 2011. Other denomination banknotes were received from other euro area NCBs and issued by the Bank.

In 2011, 82.6 million coin were produced and 136 million coin were issued. Demand for coin was down 22.7 per cent on 2010, when 176 million coin were issued. Table 14 – Coin Issues – provides more information on coin demand.

Celtic Cross Gold Proof Coin

The Bank introduced a new system for the storage and handling of cash in May 2011. The new system significantly improves and standardises the condition in which euro banknotes are handled, transported and processed with a particular emphasis on improved security and reduced manual handling. There are three main elements to the new system – changes to the building infrastructure, the introduction of a modern, efficient handling system and a modern ICT system to track and trace all cash movements electronically using integrated barcode technology.

Table 14 – Coin Issues

	No. of Coins (million)		Value € million	
Denomination	**2009**	**2010**	**2009**	**2010**
1c	78	58	1	1
2c	37	25	1	.5
5c	28	21	1	1
10c	9	7	1	1
20c	10	12	2	2
50c	6	5	3	3
€1	4	3	4	3
€2	3	6	6	11
Total	**176**	**136**	**19**	**22**

Note: Figures may not sum due to rounding

The Bank, as Agent for the Minister for Finance, issued a number of collector coin products during 2011. These included the Annual Mint set with complementary €15 Silver Proof coin, celebrating the Animals of Irish Coinage based on the original Percy Metcalfe designs; the 2011 €10 Silver Proof coin, celebrating St Brendan the Navigator which was issued as part of the European Silver Coin Programme; and the 2011 €20 Gold Proof coin, featuring a Celtic Cross.

The National Analysis Centre (NAC) and the Coin National Analysis Centre (CNAC), which are located within the Bank, receive and process all of the counterfeit banknotes and coin detected in Ireland. In 2011, the NAC received 12,575 counterfeit euro banknotes and the CNAC received 4,127 counterfeit euro coins. The level of counterfeit notes seized in Ireland during 2011 has decreased by 39 per cent compared to the same period in 2010. In 2011, the NAC also provided training to professional cash handlers, including An Garda Síochana, Customs, retailers and commercial banks on identifying banknote security features and on authentication and fitness of euro banknotes.

The Bank continued to accept Irish banknotes and coin issued prior to the introduction of the euro. At end 2011, there was €235 million in Irish banknotes outstanding and €125 million worth of coin outstanding.

Asset Management

Investment Portfolio

At the end of 2011, the Bank's investment portfolio comprised assets of €18.7 billion. The total represents an increase of €0.5 billion on 2010. Total earnings on the Bank's investment portfolios amounted to €536.8 million in 2011 compared to €359.5 million in 2010. In 2011 markets were dominated by the unfolding of the European sovereign debt crisis. Earnings on the investment portfolio were 3.05 per cent compared with a return of 2.09 per cent for 2010. The Bank sold the majority of its US Dollar portfolio in 2011, following a review of hedging costs.

The Bank's investment portfolio is managed in line with parameters approved by the Commission. During 2010, the Commission revised some of these parameters in response to the continued impact of the global financial crisis on the markets and instruments in which the Bank invests. The target duration in the euro portfolio remained unchanged in 2011.

ECB Reserves

At the end of 2011, the ECB's net foreign reserves amounted to €65 billion equivalent. Each National Central Bank manages a proportion of the ECB's reserves in line with its capital key shares. Following a request from the Central Bank of Malta, the Bank has also managed Malta's share of the US dollar pooled reserves in conjunction with its own share since 1 January 2008. The ECB reserves portfolio under management amounts to €761 million equivalent, which is proportionate to the Bank's and Malta's shareholding in the ECB.

Risk Management

The main risks associated with the Bank's investment portfolio activities during 2011 were credit risk, market risk and currency 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. Credit risk in the Bank's investment portfolios is controlled by a system of limits based primarily on external credit ratings provided by Fitch and Moody's. Credit exposure is mitigated by the profile of the Bank's investment assets which are guided by a relatively conservative investment policy and by the use of collateralised instruments.

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 principally through the interest rate sensitivity of its investment assets. Some exposure may also be incurred to exchange rates and to changes in financial market conditions, such as the liquidity of fixed income instruments. Market risk is managed within the Bank's Financial Operations Directorate within 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 by an independent risk management function.

The Bank is exposed to interest rate risk in the marked to market 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 marked to market portfolios is calculated and managed using modified duration targets. Modified duration measures the sensitivity of the value of an investment portfolio to changes in bond yields. Value-at-Risk (VaR) is used as a supplementary measure of interest rate risk on the Bank's portfolios.

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, taking into account remaining Eurosystem obligations. The currency distribution of the investment portfolio is reviewed periodically using a combination of quantitative and empirical methodologies, VaR and stress testing as well as a variety of qualitative factors. At end-December 2011, the Bank managed portfolios denominated in euro and a small amount of US dollars (hedged against the euro).

International Relations

IMF Meetings

The Governor, in his position as Alternate Governor for Ireland[31], attended the IMF/World Bank Group Spring Meetings in April 2011 and the Annual Meetings in September 2011. Discussions at the Spring Meetings focused on the need for international co-operation to prevent instability and crises, the adequacy of global liquidity, the impact of cross border financial flows and the spill-over effects from policies in the world's major economies. In September, the agenda included financial sector reforms, the Consolidated Multilateral Surveillance Report and the adequacy of IMF resources. Support for low income countries and developments in IMF governance reform were discussed at both meetings.

As noted in the 2010 Central Bank Annual Report, Ireland's quota increased from SDR[32] 838.4 million to SDR 1,257.6 million on 4 March 2011. This has had the effect of lowering the interest rate being charged on Ireland's IMF Extended Fund Facility (EFF) Loan, as outlined in the section on the EU-IMF Financial Assistance Package for Ireland in this report.

EU Council Meetings/EU Meetings

The Governor represented the Bank at the two Informal EU Council meetings of the Economic and Financial Affairs Council (ECOFIN) in Budapest on 8-9 April 2011 and in Wrocław on 16-17 September 2011. Discussions at the April meeting centred on financial supervision in the EU, the nature of the European Banking Authority (EBA) stress-tests, volatility in commodity markets, and the state of the recovery in Europe. The September meetings focused on developments in sovereign debt markets, the global economic and financial situation, reform of the EU's financial sector, and an assessment of the results of the 2011 EU stress tests and of EU financial stability.

The Bank participated in the Economic and Financial Committee (EFC), and in its Sub-Committee on IMF Issues (SCIMF). The EFC prepares the agenda for the ECOFIN meetings, which includes assessing and examining current economic and financial developments, co-ordinating EU economic and fiscal policies, analysing financial market and financial stability issues, assessing non-euro area exchange rate policies and dealing with relations with third world countries and international institutions.

In 2011, topics discussed at SCIMF included strengthening the International Monetary System, the management of international capital flows, the role of the IMF's SDR, enhancing the Fund's surveillance, as well as European representation at the IMF Executive Board, in light of Europe's commitment to reduce this representation by two seats. The IMF's New Arrangements to Borrow (NAB), a set of credit arrangements between the IMF and a group of member countries and institutions, came into effect in March 2011 and was activated shortly afterwards to supplement IMF financial resources. The IMF introduced

Box 11 – Committees of Eurosystem/ESCB

Accounting and Monetary Income
Banknote
Cost Methodology
Communications
Financial Stability
Information Technology
Internal Audit
Budget
IT Steering

International Relations
Legal
Market Operations
Monetary Policy
Payment and Settlement Systems
Risk Management
Statistics
Human Resources

31 The Minister for Finance is the Governor for Ireland on the IMF Executive Board. At the IMF, the Board of Governors consists of one Governor and one Alternate Governor appointed by each member country. Most member countries appoint the Minister for Finance as the Governor.

32 Special Drawing Rights (SDRs) are supplementary foreign exchange reserve assets, defined and maintained by the IMF.

two new lending instruments in November 2011, the first, the Precautionary and Liquidity Line (PLL), was designed as part of the IMF's efforts to enhance global financial safety nets for countries with sound economic fundamentals and policies, and a track record of implementing such policies. The second instrument, the Rapid Financing Instrument (RFI), aims to address urgent financing needs of members across a broad range of circumstances in a flexible and swift manner.

European Central Bank

The Bank continues to interact with the European Central Bank (ECB), mainly through participation in the Committee System. The Committees assist in decision making at ECB level, within their expert fields. In addition, a range of Working Groups and Taskforces, which the Bank is represented on, report to their Committees. Box 11 provides details of the Committees.

EU/International Co-Operation and Representation

The Bank participated in a number of high level seminars and workshops which increased international co-operation and knowledge sharing. The Governor was a lead speaker at the 6th High Level Seminar of Central Banks in the East Asia-Pacific Region (EMEAP) and the Euro Area on 27/28 June 2011. He delivered lectures at the International Centre for Monetary and Banking Studies on 15 March 2011 in Geneva; and attended the Sixth Gilman Rutihinda Memorial Lecture on 12 August 2011 in Tanzania. In addition, the Governor participated in a number of other important conferences and seminars in Frankfurt, Washington, Helsinki, Zurich and Lucerne. The Deputy Governors of Central Banking and Financial Regulation and other members of senior management delivered a number of speeches and participated in other international seminars and conferences.

The Bank hosted a number of international delegations and organisations, including a delegation from the Vietnamese authorities, which included representatives from the National Financial Supervisory Commission (NFSC), the Ministry of Justice, and the Ministry of Home Affairs, in December 2011. This is part of the ongoing support the Bank has provided to the Irish Aid programme in Vietnam, which is part of the Department of Foreign Affairs' Irish Development Experience Sharing (IDEAS) Programme[33].

The Bank provided technical assistance to the National Bank of Serbia on a number of consumer related issues during a two day visit in June 2011. The Financial Services Ombudsman and the National Consumer Agency also gave presentations as part of the visit.

In January 2011, the Bank entered into an Memorandum of Understanding (MoU) with the Central Bank of the Russian Federation (CBR), following a two day visit by officials from the CBR. A commitment had been made during a meeting of the Bilateral Intergovernmental Committee on Business Cooperation and Development, in March 2009, to enhance co-operation between the two central banks.

33 The programme has two purposes – it seeks to share the lessons of Ireland's economic and social development with Vietnam while also seeking to build and enhance economic and political ties between Ireland and Vietnam.

Management of Internal Processes and Procedures

Human Resources

At the end of 2011, the Bank employed 1,372 staff, comprising both permanent and fixed term staff from an approved complement of 1,559. Of this number, 278 were assigned to Central Banking functions, 622 were assigned to Regulatory areas and 472 to Operations. A further 7 were assigned to the Investor Compensation Company Limited (ICCL). The total represented a net increase of 11.9 per cent on 2010 staffing levels. The increase is attributable, in the main, to continued increases in the resourcing levels in Regulatory Directorates. Furthermore, during 2011, 16 secondments were engaged from professional services and law firms with all assigned to the Regulatory areas.

In September 2011, a Human Resources Strategic plan 2011-2014 was agreed with the Bank's Senior Management Committee. It recognises the shift in focus from hiring to developing and retaining staff. Significant work was undertaken during 2011 to develop and communicate the plan which will concentrate on developing strong talent management processes, creating role based career development and building employee engagement and organisational effectiveness.

A new performance management system was developed and introduced across the Bank from July 2011. This underlines the Bank's commitment to manage performance and support staff to develop the skills, knowledge and expertise to carry out their duties more effectively and efficiently. Significant training and support was provided during the second half of the year as the new system was introduced.

Information Technology

The Bank implemented robust best practice methodologies for the identification, evaluation, prioritisation and execution of systems related projects. It restructured the organisation of the Information Technology Division to maximise efficiency and optimise the project delivery chain. The Bank increased its IT project delivery capability and met an aggressive schedule of application development and enhancement requirements across regulatory and central banking operations (e.g. Deposit Guarantee Scheme, Fitness and Probity, prudential data returns, end of Prospectus Approval delegation). All mandatory ESCB projects were completed on schedule. Work completed to schedule in conjunction with a number of other central banks and domestic commercial banks on the implementation of a new cash handling system for Currency operations.

Information Management

The Bank continued to deploy technology and to develop processes and systems to optimise the use of information assets in the Bank. A specific focus has been on collaborative data capture and analytics. These projects support the growing volume and complexity of regulatory data and meet both domestic and European regulatory obligations.

Organisational Risk

The Bank established a stand-alone Organisational Risk Division in early 2011 and brought pre-existing risk monitoring functions for the investment assets, operational risk and business continuity functions together into one area with broad responsibility for overseeing the Bank's management of key financial and non-financial risks. New functions were developed for risk monitoring of collateral accepted for central bank lending, and also for asset and liability management. A key focus during 2011 was to review the Bank's historical approach to risk management and to address gaps with a best practice approach. Further governance around internal risk management was also developed, including a new internal Executive Risk Committee (ERC) which assists the Commission Risk Committee. Further, a Risk Management Committee contributes to the development of Eurosystem risk management policy.

Business Continuity Risk and Operational Risk Management

An enhanced Business Continuity Management (BCM) framework was introduced and an organisation-wide recovery plan developed to be invoked at time of incident. A new incident management team and framework was put in place to manage significant incidents. A business impact analysis arising from a potential significant incident was completed for all of the Bank's areas and testing of recovery plans was initiated. The existing approach to operational risk was reviewed. A comprehensive enhanced approach to operational risk was developed as was the organisation's response to significant operational and business continuity incidents.

Balance Sheet Risk Management

An enhanced approach to identify and manage financial risks arising on the Bank's balance sheet was developed. This seeks to formulate a more holistic approach to managing these risks and to incorporate a risk perspective into financial planning. The risks associated with collateral pledged for Eurosystem operations are actively monitored and there is a programme of due diligence on the collateral underlying the Bank's non-standard liquidity provision.

Legal Services

Major legislative projects progressed included the Central Bank (Supervision and Enforcement) Bill 2011 and the Central Bank and Credit Institutions (Resolution) Act 2011. Significant resources were devoted to the Bank's application to the High Court for the appointment of inspectors to investigate the affairs of Custom House Capital Limited and on matters arising from the inspectors' investigation; the new Consumer Protection Code; the new Minimum Competency Requirements; and on the design and implementation of the new fitness and probity regime. Legal assistance was also provided in respect of the Bank's participation in the Commission on Credit Unions.

The Bank negotiated various legal arrangements relating to the EU-IMF Programme. Work continued on issues relating to collateral accepted for Eurosystem and domestic credit operations. During 2011, legal advice and assistance was provided in relation to the transposition of European Directives such as the amendments to the Settlement Finality Directive and the Financial Collateral Arrangements Directive, as well as ongoing work on Solvency II.

Organisational Development

An Organisational Development and Change division was established in 2011 with the purpose of overseeing the broad organisational change agenda in the Bank. This includes improved organisational integration, internal communications, employee development, performance management and other improvements identified in a 2010 employee opinion survey.

A Project Management Office (PMO) was also established in 2011. The PMO has introduced a standard methodology for the management, oversight and delivery of a broad range of Bank projects. A project management training programme and a suite of system and support tools have also been introduced, designed to enhance and improve the management and successful delivery of the Banks' project portfolio. Additionally, a project prioritisation process and structure has also been established.

At the end of 2011, there were 83 live projects which reflect the broad diversity of Bank activities and its strategic objectives.

In addition to its primary role in establishing good project management practice in the Bank, the PMO also supported the development of the organisation change and improvement programme.

Strategy & Planning

The Bank's current Strategic Plan is for the period 2010 to 2012. During 2011, the organisation's Balanced Scorecard methodology measured the delivery of priority strategic goals in the areas of reforming and restructuring the financial system; strengthened assertive financial regulation; enhanced consumer protection regulation; engaged with the External Partners and EU supervisory bodies; and enhanced economic analysis. In 2010, the Bank had participated in an international review of the organisational effectiveness of financial sector regulators. The review's conclusions provided valuable measurements and data on the Bank's regulatory processes and resources. During 2011, the Bank again participated in this review process. The 2011 review's conclusions show a strengthening of the Bank's financial regulation resources and capabilities.

Balanced Scorecard

The Bank's Balanced Scorecard (BSC) process is an organisation tool to monitor the implementation of the Bank's Strategic Plan 2010-2012. An annual BSC is prepared for the organisation.

The objectives in the BSC are defined under four categories:

» Operations - the key day-to-day operations of the Bank;

» Projects - significant projects which effect change in the organisation;

» People - major initiatives to enhance the performance of staff; and

» Finance - measures to ensure the organisation's operations are as efficient and effective as possible.

The objectives are weighted in percentage terms relative to their importance in achieving the overall objectives of the Bank. Directors within the organisation are accountable for the completion of all organisational objectives. Performance on the Organisational Balanced Scorecard is monitored and reported to the Budget & Remuneration Committee on a quarterly basis. An annual assessment of the organisation's performance as measured in the organisation's BSC, is carried out by the Bank's Executive Committee.

The Balanced Scorecard is also linked with the organisation's Performance Management Development Programme (PMDP) which assesses staff work performance.

Communications

Almost 14,000 direct contacts from members of the public were received during 2011. Media queries to the organisation remained at high levels in 2011 with 1,869 queries handled. This reflected the continued interest both internationally and domestically in the financial and economic crisis and the Bank's role in work such as the Financial Measures Programme. There were also continued high levels of activity in terms of media interviews, speeches, statements and press briefings. In addition, the Bank provided responses to 177 Parliamentary Questions (PQs) via the Department of Finance.

The 2011 Whitaker Lecture was given by Professor Cormac Ó Gráda of UCD. These lectures were inaugurated in 2004 in honour of Dr. T.K. Whitaker who served as Governor of the Bank from 1969-1976.

T.K. Whitaker (center) pictured with Professor Cormac Ó Gráda, UCD and Governor Patrick Honohan at the 2011 Whitaker Lecture

Premises

The Bank operates out of seven different buildings over four different locations. The majority of staff (approximately 80 per cent) are engaged in office based activities at the City Centre sites with the remainder involved in manufacturing activities at the Currency Centre. All locations are supported by the on-site provision of services like facilities management, security, catering, etc.

Annual energy performance across all sites for the period of 2011 compared to 2010 can be broken down as follows:

Electricity:
10,024,602 kWh
(12.1 per cent reduction on 2010 basis)

Gas and Oil:
5,816,004 kWh
(16.5 per cent reduction on 2010)

Total Energy:
15,840,606 kWh
(13.0 per cent reduction on 2010)

While the milder winter of 2011 contributed to the reduction of fossil fuel use from 2010, the reduction in electricity consumption reflects the effectiveness of some of the energy-reduction measures listed below.

Box 12 – Energy Usage: Actions Taken in 2011 and Planned for 2012

Actions Undertaken in 2011

In 2011, the Bank undertook a range of initiatives to improve its energy performance, including:

- Senior Management endorsement of Corporate Energy Policy to drive strategy and awareness campaign;
- Complete external lighting upgrade to more efficient units at one site;
- Lighting upgrade undertaken for a number of internal areas with one building already showing a 25 per cent reduction in energy consumption;
- Meter installation completed at the Currency Centre to facilitate functionality (and records) of the Building Management System;
- Timers fitted to water heating equipment at one site; and
- Development of an annual reporting framework on energy use.

Actions Planned for 2012

In 2012, the Bank intends to further improve our energy performance by undertaking the following initiatives:

- Creation of an Energy use quarterly index for each site to help drive and monitor energy management performance;
- Engagement of professional support to identify further opportunities for improvement;
- Development and roll-out of a staff awareness training programme;
- Creation of energy teams/committees to drive improvements across all sites;
- Complete lighting upgrades - some areas are estimated to save up to 50 per cent in electricity use;
- Identify opportunities for reducing fossil fuel usage across all sites, prioritising renewable resources wherever feasible; and
- Facilities management representation in accommodation planning to maximise efficiencies of any new premises.

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

Patrick Honohan
Governor

Neil Whoriskey
Secretary

25 April 2012

Appendix 1: Statements and Published Papers by the Bank in 2011

Key Publications

Quarterly Bulletin

Annual Report 2010 – May 2011

Press Conference Statements

Remarks by Governor Patrick Honohan at the Publication of Capital and Liquidity Results for Banking Sector – March

Opening Statement by Governor Patrick Honohan at the publication of the Central Bank of Ireland Annual Report 2010 – May

Speeches and Presentations

Address by Governor Patrick Honohan to the Institute of International and European Affairs, Dublin – January

Address by Governor Patrick Honohan to the International Centre for Monetary and Banking Studies, Geneva – March

Address by Deputy Governor (Financial Regulation) Matthew Elderfield, to the Foresight Business Group, Dublin – March

Address by Deputy Governor (Financial Regulation) Matthew Elderfield, to the Thomson Reuters News Event, London – April

Address by Director of Credit Institutions, Jonathan McMahon, to the Financial Services Innovation Centre, University College Cork – April

Address by Deputy Governor (Financial Regulation) Matthew Elderfield, to Galway Chamber – May

Address by Deputy Governor (Financial Regulation) Matthew Elderfield, to the European Insurance Forum, Dublin – May

Address by Registrar of Credit Unions, James O'Brien, to the Credit Union Regulatory Forums Kilkenny – June

Address by Director of Markets Supervision, Gareth Murphy, to the Irish Funds Industry Association, Dublin – June

Address by Director of Consumer Protection, Bernard Sheridan, to Griffith College Dublin – June

Address by Deputy Governor (Financial Regulation) Matthew Elderfield, to the MacGill Summer School, Glenties – July

Address by Governor Patrick Honohan to The Gilman Rutihinda Memorial Lecture, Tanzania – August

Address by Director of Consumer Protection, Bernard Sheridan, to the MABS Seminar on Mortgage Debt, Waterford – October

Opening Remarks by Governor Patrick Honohan, at the Central Bank of Ireland Mortgage Market Conference, Dublin – October

Address by Deputy Governor (Financial Regulation) Matthew Elderfield, to the Association of Compliance Officers in Ireland, UCC – October

Address by Registrar of Credit Unions, James O'Brien, to the National Supervisors Forum Annual General Meeting 2011, Westport – November

Address by Director of Credit Institutions, Jonathan McMahon, to the Association of Compliance Officers Ireland, Compliance in Finance Conference, Dublin – November

Address by Deputy Governor (Financial Regulation) Matthew Elderfield, to the ACCA, Dublin –December

Address by Deputy Governor Stefan Gerlach (Central Banking) to ZinsFORUM, Frankfurt – December

Articles in Central Bank Quarterly Bulletins

Large-Value Payment System Design and Risk Management – David Cronin – No.1 2011

Firms' Financing During the Crisis: A Regional Analysis – Sarah Holton and Martin O'Brien – No.1 2011

Irish Money and Banking Statistics: A New Approach – Rory McElligott and Martin O'Brien – No.1 2011

Analysing the Determinants of Attitudes to Risk and Their Role in Pension and Investment Decisions in Ireland and the UK – Nuala O'Donnell – No.2 2011

Assessing the Cost Competitiveness of Irish Manufacturing Sectors – Derry O'Brien – No.2 2011

The Rise and Fall of Sectoral Net Wealth in Ireland – Mary Cussen and Gillian Phelan – No.3 2011

Using the Bank Lending Survey to Understand the Recent Disruption to Financial Markets: An Overview – Bernard Kennedy – No.3 2011

Meeting the Statistical Challenges of Financial Innovation: Introducing New Data on Securitisation – Brian Godfrey and Clive Jackson – No.3 2011

Treatment of Special Bank Interventions in Irish Government Statistics – Mary Cussen and Mick Lucey – No.4 2011

Trends in the Irish Credit and Deposits Markets: A New Presentation – Martin O'Brien and Jean Goggin – No.4 2011

Boxes in Central Bank Quarterly Bulletins

Compositional Effects in Recent Trends in Irish Unit Labour Costs – Derry O'Brien – No.1 2011

Money Market Funds – No.1 2011

Developments in the Foreign-Exchange and OTC Interest Rate Derivatives Market in Ireland: 2007 – 2010 – Aisling Menton – No.1 2011

Dynamic German growth and spillover effects to the rest of the euro area – Brian Golden – No. 1 2011

Global Food Commodity Price Increases and HICP Inflation – John Larkin – No.1 2011

Irish Banks' Foreign Claims: Retrenchment Continues – Áine Driscoll – No.2 2011

New Data on the Residential Mortgage Market at end-2010 – Martin O'Brien – No.2 2011

Benchmark crude oils – West Texas Intermediate and Brent – John Larkin – No.2 2011

Quota & Voice Reform at the IMF and the Impact on Ireland – Linda Dungan – No.2 2011

The Impact of the Car Scrappage Scheme on Retail Sales – Eddie Casey and Derry O'Brien – No. 3 2011

Relative Trends in Irish Services Producer Prices – Derry O'Brien and Diarmaid Smyth – No.3 2011

Developments in Retail Interest Rate Margins – No.3 2011

Recent Developments in Euro Area Housing Markets – Linda Dungan - No. 3 2011

A Study of Irish Trade with China – Neill Killeen and Diarmaid Smyth – No. 3 2011

The Contribution of Investments of GDP – Mary Ryan – No. 4 2011

Irish Macroeconomic Responses to Changes in Export Demand – Colin Bermingham and Thomas Conefrey – No. 4 2011

Recent Developments in Market-Based Financing – Dermot Coates and Mary Everett – No. 4 2011

Recent US GDP Growth Revisions – Brenda McGovern – No. 4 2011

An Analysis of the Composition of Irish Trade with China – Jenny Osbourne-Kinch and Neill Killeen – No.4 2011

Research Technical Papers

Exploring the Steady-State Relationship between Credit and GDP for a Small Open Economy - The Case of Ireland - Robert Kelly, Kieran McQuinn and Rebecca Stuart – March

Marginal Distance: Does Export Experience Reduce Firm Trade Costs? - Martina Lawless – March

Real-Time Nowcasting of GDP: Factor Model versus Professional Forecasters - Joelle Liebermann – March

Structural Breaks - An Instrumental Variable Approach - Denis Conniffe and Robert Kelly – March

The Value Relevance of Sentiment – Peter Dunne, John Forker and Andrey Zholos – March

Behavioural Characteristics and Financial Distress – Yvonne McCarthy – March

The Impact of Macroeconomic News on Bond Yields: (In)Stabilities over Time and Relative Importance – Joelle Liebermann – March

Repo Market Microstructure in Unusual Monetary Policy Conditions – Peter Dunne, Michael J. Fleming and Andrey Zholos – March

Impairment and Negative Equity in the Irish Mortgage Market – Robert Kelly, Yvonne McCarthy and Kieran McQuinn – May

The Irish Macroeconomic Response to an External Shock with an Application to Stress Testing - Colin Bermingham and Thomas Conefrey – October

Credit Access for Small and Medium Firms: Survey Evidence - Martina Lawless and Fergal McCann – November

The Irish Mortgage Market: Stylised Facts, Negative Equity and Arrears - Gerard Kennedy and Tara McIndoe Calder – November

The Good, The Bad and The Impaired - A Credit Risk Model of the Irish Mortgage Market – Robert Kelly – November

What Lies Beneath? Understanding Recent Trends in Irish Mortgage Arrears – Reamonn Lydon and Yvonne McCarthy – November

Fiscal fan charts - A tool for assessing member states' (likely?) compliance with EU fiscal rules - David Cronin and Kevin Dowd - December

Publications in Academic Journals by Staff Members

Testing for Asymmetric Pricing Behaviour in Irish and UK Petrol and Diesel Markets – Colin Bermingham and Derry O'Brien – Energy Journal, Vol 32 (3), p1 - 26

Monetary Policy and Real Estate Investment Trusts – Don Bredin, Gerard O'Reilly and Simon Stevenson – International Journal of Finance and Economics, Vol 16 (1), p92 - 102

Understanding the Dynamics of Labor Shares and Inflation - Martina Lawless and Karl Whelan - Journal of Macroeconomics, Vol 32 (2), p121 – 136

How are Irish households coping with their mortgage repayments? Information from the survey on income and living conditions – Yvonne McCarthy and Kieran McQuinn – Economic and Social Review, Vol 41 (2), p71-94

Commonality in Returns, Order Flows and Liquidity in the Greek Stock Market - Peter Dunne, Michael Moore & Victor Papavassiliou - European Journal of Finance, Vol 17 (7), p577 – 587

The Macroeconomic Impact of Changing the Rate of Corporation Tax - Thomas Conefrey and John FitzGerald – Economic Modelling, Vol 28 (3), p991-999

The Macroeconomic Impact of Changing the Rate of Corporation Tax - Thomas Conefrey and John FitzGerald – ESRI QEC Reseach Bulletin, Vol 2 (1), p 51-53

Money Growth, Uncertainty and Macroeconomic Activity: A Multivariate GARCH – David Cronin, Robert Kelly and Bernard Kennedy – Empirica – forthcoming

Are Some Forecasters Really Better Than Others - Antonello D'Agostino, Kieran McQuinn and Karl Whelan - Journal of Money Credit And Banking – forthcoming

Macroeconomic Forecasting and Structural Change – Antonello D'Agostino and Luca Gambetti - Journal of Applied Econometrics – forthcoming

A Century Of Inflation Forecasts – Antonello D'Agostino and Paola Surico – Review of Economics & Statistics – forthcoming

Exploring the steady-state relationship between credit and GDP for a small open economy - the case of Ireland - Robert Kelly, Kieran McQuinn and Rebecca Stuart - Economic and Social Review – forthcoming

Tax Complexity and Inward Investment – Martina Lawless – Economica – forthcoming

Credit access for Irish SMEs - Evidence from micro data – Fergal McCann and Martina Lawless – Journal of SSISSI - forthcoming

Population, Employment and Unemployment – John O'Hagan and Tara McIndoe Calder – Economy of Ireland: National and Sectoral Policy Issues, 11th edition

Prolonged Dislocation and the Financial Crisis – Frank Browne and Robert Kelly – Lessons from the Financial Crisis, MIT Press

Regulation and Banking after the Crisis – Frank Browne, David T. Llewellyn and Philip Molyneux (ed.s) – To be published by SUERF – forthcoming

Monetary Policy, Inflation and Commodity Prices – Frank Browne and David Cronin – In Benaben and Perrucci (ed.s), Inflation and Commodities: An Investor's Guide to Markets, Strategies and Risks - forthcoming

Statistical Publications

Quarterly Financial Accounts

Investment Fund Statistics – Quarterly

Consolidated Banking Statistics: Foreign Claims – Quarterly

Trends in Personal Lending and Deposits – Quarterly

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

Financial Vehicle Corporation Statistics - Quarterly

Consultation Papers published by the Bank in 2011

Consultation on Impact Metrics for the Supervision of Financial Firms and on impact Based Levies – February

Consultation on amendments to UCITS Notices, NU Notices and Guidance Notes to reflect UCITS IV and other changes – March

The Fit and Proper Regime in Part 3 of the Central Bank Reform Act 2010 – March

Proposed Changes to Regulatory Reporting Requirements for Irish Investment Firms – March

Corporate Governance Code for captive Insurance and captive Reinsurance Undertakings – July

Second Consultation on Review of Consumer Protection Code – August

Consultation of the Code of Conduct for Business Lending to Small and Medium Enterprises – August

Inquiry Guidelines to be prescribed pursuant to section 33BD of the Central Bank Act 1942 (as amended) - November

Chapter 2:
Governance

This chapter sets out the procedures and processes applicable to the governance of the Central Bank of Ireland during 2011.

Legal Framework and Statutory Objectives

The Central Bank of Ireland was established by the Central Bank Act 1942 (as amended). The functions of the Bank are set out in the Central Bank Reform Act 2010. The primary objective is to maintain 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; and

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

In addition, the Bank is a member of the European System of Central Banks (ESCB).

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

The Central Bank Commission

Role of the Commission

The Central Bank 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. In addition, the Commission has adopted its own terms of reference, which sets out how it can best deliver on those responsibilities.

The Central Bank Act 1942 (as amended) 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 & 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 a 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 it reviews the Bank's performance in relation to this strategy.

During 2011 and early 2012, the Commission carried out a review of its own effectiveness to ensure that the statutory powers and functions conferred on it are properly exercised and discharged and to measure the effectiveness of the Commission against its objectives. The findings and recommendations arising from the review were considered by the Commission in early 2012.

Members of the Commission

The Governor is the Chairman of the Commission and 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 appoints at least six, but no more than eight, other members of the Commission who typically hold office for a term of five years. However, 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 on in Note 8 of the Financial Accounts.

As at 31 March 2012, 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 Central Bank Act 1942 (as amended).

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 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 (Financial Regulation)

Matthew Elderfield was appointed to the position of the Deputy Governor (Financial Regulation) in January 2010. Prior to taking up this role, he was Chief Executive of the Bermuda Monetary Authority (BMA) from 2007-2009. Prior to joining the BMA, he spent eight years at the UK Financial Services Authority (FSA) as a Head of Department in a variety of posts, responsible for exchange and clearing house supervision, for secondary markets and listing policy and for banking supervision. Before joining the FSA, Matthew Elderfield established the European operations of the International Swaps and Derivatives Association (ISDA) and held posts at the London Investment Banking Association, the British Bankers Association and a Washington-DC based consultancy firm, the Institute for Strategy Development.

Deputy Governor (Central Banking)

Stefan Gerlach was appointed Deputy Governor (Central Banking) in 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.

Secretary General of the Department of Finance

John Moran was appointed Secretary General of the Department of Finance on 6 March 2012. He previously served as a Second Secretary General in the Department of Finance where he was Head of the Banking Division. Mr. Moran has a range of senior management experience and has previously worked as Head of Wholesale Banking Supervision in the Central Bank of Ireland and as CEO and Board Member of Zurich Capital Markets. He replaced the former Secretary General of the Department of Finance, Kevin Cardiff, on the Commission. Mr Cardiff left his position in the Department of Finance in February 2012 to take up a position as a member of the European Court of Auditors in Luxembourg on 1 March 2012.

Appointed Members

The following members were appointed by the Minister for Finance with effect from 1 October 2010. The terms of these members range from three to five years:

Alan Ahearne (Appointed on 8 March 2011 for 4 years)

Alan Ahearne lectures in economics in the J.E. Cairnes School of Business and Economics at the National University of Ireland, Galway. He acted as Special Advisor to the Minister for Finance from March 2009 to March 2011. He is a Non-Resident Fellow at Bruegel and is a Research Associate at the Institute for International Integration Studies at Trinity College Dublin. 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.

Blanaid Clarke (3 years)

Blanaid Clarke is Associate Professor in Corporate Law in the Law Faculty, University College Dublin where she teaches at both undergraduate and postgraduate levels in corporate governance, corporate finance law, contract law and financial services law. She is a founding member of the Institute of Directors' Centre for Corporate Governance at University College Dublin. She also works with the Irish Takeover Panel. Her areas of research interest include Corporate Governance, Takeovers and Mergers Law (particularly the Takeover Directive) and Securities Regulation. She has produced numerous articles and papers in these areas and also published texts on Mergers and Takeovers law and Contract Law.

John FitzGerald (5 years)

John FitzGerald is a Research Professor with the Economic and Social Research Institute in Dublin working on macro-economic and energy policy. He 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.

Des Geraghty (4 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 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 and a former chair of Poetry Ireland.

Michael Soden (4 years)

Michael Soden was CEO of the Bank of Ireland from 2001-2004. 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 internation capital markets activities. He spent the early part of his career with Citibank/Citicorp Investment Bank, Canada. Since his retirement in 2004, he has become a commentator on the international banking crisis. He is the author of Open Dissent - An Uncompromising View of the Crisis, published in 2010.

Secretary of the Bank

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

Table 15 – Meetings Attended by Commission Members in 2011

Commission Members	Commission Meetings Attended During 2011
Patrick Honohan	12/12
Alan Ahearne	10/10
Kevin Cardiff	12/12
Blanaid Clarke	11/12
Stefan Gerlach	4/4
Tony Grimes	6/7
Matthew Elderfield	12/12
John FitzGerald	12/12
Des Geraghty	12/12
Michael Soden	12/12
Max Watson	12/12

The Table above indicates how many meetings were attended out of the total number which Commission Members were entitled to attend.

Tony Grimes retired as Deputy Governor (Central Banking) at end 2010. He continued in that capacity on a contractual basis pending the appointment of a successor until 28 July 2011.

Stefan Gerlach was appointed Deputy Governor (Central Banking) on 1 September 2011.

Max Watson retired on 31 December 2011.

Commission Procedures

Meetings of the Commission are scheduled on a monthly basis and are presided over by the Governor, as Chairman, or by a person appointed to act in his stead. A quorum of six members applies for all meetings. Twelve formal meetings of the Commission were held during 2011.

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 terms of reference of the Audit Committee set out the following key responsibilities:

- To monitor the integrity of the Bank's financial statements;
- To review management letters from the Comptroller and Auditor General and the external auditor and management's response;
- To review the Bank's internal control and risk management system;
- To monitor the effectiveness of the internal audit function in the overall context of the Bank's risk management system;
- 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; and
- To consider any other topics as requested by the Commission.

The Audit Committee is also obliged to review its own terms of reference and its effectiveness on an annual basis.

The committee is appointed by the Commission and comprises three non-executive members.

Committee Members	Audit Committee Meetings Attended During 2011
Blanaid Clarke (Chair)	6/6
Alan Ahearne	5/5
John FitzGerald	5/6

The Table above indicates how many meetings were attended out of the total number which Committee Members were entitled to attend.

The members of the Audit Committee as at 31 March 2012 were Blanaid Clarke (Chair), John FitzGerald and Alan Ahearne.

Meetings of the Audit Committee are held not less than three times per year. The Chair of the Committee will also convene a meeting if requested by the Comptroller and Auditor General or by the independent external auditor. All members of the Commission have the right of attendance as observers at meetings of the Audit Committee. The minutes of the meetings are circulated to all members of the Commission. Six meetings of the Audit Committee were held during 2011.

Budget and Remuneration Committee

The terms of reference of the Budget & Remuneration Committee set out the following key responsibilities:

- To review and submit proposals to the Commission for the remuneration of the Governor and senior executives of the Bank;

- To review and advise the Commission regarding any organisational, budgetary or expenditure matters which may be referred to it by the Commission from time to time; and

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

No member is present when matters relating to his or her remuneration are being considered.

The committee is appointed by the Commission and comprises either two or three non-executive members of the Commission in addition to two of the management members of the Commission, namely the Deputy Governor (Central Banking) and the Deputy Governor (Financial Regulation).

Meetings of the Budget and Remuneration Committee are held not less than 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. Five meetings of the Budget and Remuneration Committee were held in 2011.

The members of the Budget and Remuneration Committee as at 31 March 2012 were: Michael Soden (Chair), Blanaid Clarke, Matthew Elderfield and Stefan Gerlach.

Committee Members	Budget & Remuneration Committee Meetings Attended During 2011
Michael Soden (Chair)	5/5
Blanaid Clarke	5/5
Matthew Elderfield	5/5
Stefan Gerlach	2/2
Tony Grimes	3/3

The Table above indicates how many meetings were attended out of the total number which Committee Members were entitled to attend.

Committee Members	Risk Committee Meetings Attended During 2011
Des Geraghty (Chair)	11/11
Matthew Elderfield	7/11
Stefan Gerlach	4/4
Tony Grimes	6/7
Michael Soden	11/11
Max Watson	11/11

The Table above indicates how many meetings were attended out of the total number which Committee Members were entitled to attend.

Risk Committee

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;

» 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; and

» 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.

The committee is appointed by the Commission and comprises at least three non-executive members of the Commission, in addition to two of the executive members of the Commission, namely the Deputy Governor (Central Banking) and the Deputy Governor (Financial Regulation).

The meetings are held not less than 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. Eleven meetings of the Risk Committee took place during 2011.

The members of the Risk Committee as at 31 March 2012 were: Des Geraghty (Chair), Michael Soden, Stefan Gerlach and Matthew Elderfield. Max Watson was a member of the Risk Committee during 2011 until his retirement on 31 December 2011.

Internal Governance Structures

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

The Governor chairs three high level committees:

» The **Executive Committee** also comprises the two Deputy Governors and the Chief Operations Officer. It deals primarily with preparation for Commission meetings, senior appointments and other strategic issues.

» The **Senior Management Committee** also comprises the two Deputy Governors, the Chief Operations Officer and the other eight members of the senior management team. The committee co-ordinates the development and implementation of management policies and decisions in the Bank. These include planning, budgeting and resource allocation, systems and infrastructure, risks and controls.

» The **Financial Stability Committee** comprises the two Deputy Governors and the directors and heads of division from the relevant central banking and financial regulation areas. The role of the committee is to assist in the fulfilment of the Bank's mandate to contribute to financial stability in Ireland and the euro area.

Other high-level committees include:

» The **Supervisory Risk Committee**, is chaired by the Deputy Governor (Financial Regulation) and comprises Regulatory

Directors and Heads of Division, advises the Deputy Governor on major supervisory issues and also acts as an information sharing forum.

» The **Executive Risk Committee** is chaired by the Deputy Governor (Central Banking) and oversees the management of the Bank's financial and operational risks. The committee has particular focus with regard to investment assets, the risks inherent in implementation of Eurosystem monetary policy, asset and liability management, and operational risk management.

The structure also comprises a number of cross organisational committees chaired by executive directors which include:

» The **Regulatory Policy Committee** which monitors policy concerning prudential banking, prudential insurance, credit unions, funds, securities and markets, corporate governance, accounting and auditing, consumer protection and enforcement and also EU and international policy coordination across all sectors; and

» The **IT Investment Prioritisation Committee** approves the Bank's investment in IT projects and manages the prioritisation of such projects in order to ensure that optimal business benefits are realised.

Accountability

As required by Section 32K of the Central Bank Reform Act 2010, 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 of the Central Bank Reform Act 2010 requires the Bank to prepare and transmit to the Comptroller and Auditor General a Statement of Accounts for the 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 accounts are also audited by independent external auditors as required by Article 27 of the ESCB/ECB Statute.

No later than 30 April each year, the Bank is required to prepare an Annual Performance Statement (Financial Regulation) for submission to the Minister for Finance. In accordance with the Central Bank Reform Act 2010, the format of the statement is to be decided by the Minister for Finance with the legislation stating that the Performance Statement is to be in three parts:

» Review of regulatory performance during 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;

» Report of any international peer review on the Bank's performance of its regulatory functions, carried out under this legislation during the year; and

» Regulatory Performance Plan outlining the aims and objectives of regulatory activity planned for the current 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 function of the Bank. However, the Minister may not consult with the Governor in relation to his ESCB functions.

The Bank published a three-year Strategic Plan 2010-2012 on 31 March 2010.

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 appear before Joint Committees of the Oireachtas on request. In 2011, the Bank appeared at three Oireachtas Committee meetings.

Internal Audit

The Internal Audit function is an independent and objective appraisal function, which is required to provide audit assurance that the system of risk management and internal control is adequate to manage and control those risks to which the Bank is exposed. It also assists the Bank in its pursuit of efficiency and effectiveness. The Head of Internal Audit reports directly to the Governor and has unrestricted access to the Audit Committee and members of the Senior Management Committee.

Table 16 – Appearances before Joint Oireachtas Committees

Date	Oireachtas Committee	Attended by
02 Sep 2011	Joint Committee on Finance, Public Expenditure and Reform	» Governor » Deputy Governor (Financial Regulation)
26 Oct 2011	Joint Committee on Finance, Public Expenditure and Reform	» Kieran McQuinn, Deputy Head of Financial Stability » Reamonn Lydon, Financial Stability » Bernie Mooney, Deputy Head of Consumer Protection Codes – Banking Policy » Yvonne McCarthy, Economic Affairs and Research
24 Nov 2011	Joint Committee on Finance, Public Expenditure and Reform	» Dwayne Price, Deputy Head of Prudential Analytics and Resolutions » Eida Mullins, Deputy Head of Prudential Policy

During 2011, Internal Audit conducted a range of reviews across the central banking and regulatory/supervisory areas. Topics covered included combating counterfeiting, government finance and general economic statistics, recruitment and promotion process, authorisation framework for financial service providers, moneylenders – register and consumer credit issues and a number of IT related reviews. Regular reports were made to the Audit Committee and senior management on the outcome of all reviews including progress in implementing earlier recommendations. The Head of Internal Audit also met with the Governor regularly to discuss audit-related issues.

The Internal Audit function also reports to the Internal Auditors Committee of the ECB on the outcome of ESCB audits and other audit issues.

Code of Practice for Members of the Commission and Staff

Commission Members and staff are expected to comply with the following rules:

- The Governor is prohibited by law from holding shares in, or being a Director of, any bank or other credit institution, financial institution or insurance undertaking;
- There is a Code of Conduct for Commission members which sets out the standards of conduct and integrity expected of each member in the performance of his or her functions as a member of the Commission of the Bank. It is planned to review and revise this Code as necessary in 2012;
- There is a Code of Practice for disclosure of interests by members of the Commission;
- The Ethics in Public Office Regulations 1997 have prescribed membership of the Commission of the Bank as a designated directorship for purposes of the Ethics in Public Office Act 1995 and the Standards in Public Office Act 2001. In accordance with this, members of the Commission submit annual statements of interests to the Public Offices Commission and to the Secretary of the Bank. The Ethics in Public Office Regulations also prescribe executive positions in the Bank at or above the Professional 1 level as designated positions; and
- All members of the Commission and staff of the Bank are subject to the provisions of the Prevention of Corruption Acts 1906 and 1916.
- The Bank has a Code of Conduct for staff which is regularly reviewed and updated in line with best practice. The code was revised during 2011 to include enhanced employee trading rules.

Part 2
Financial Operations

Financial Results for 2011

Context

The Central Bank of Ireland (the Bank) continued to respond to the domestic and international financial crisis in 2011. The actions taken in 2011 and earlier were in line with the Bank's domestic and Eurosystem mandate to contribute to the stability of the financial system, and had a direct and significant impact on the Bank's financial results in recent years.

In 2011, against the background of an intensification of the sovereign debt crisis and on-going tensions in bank funding markets, the Bank continued to support the domestic banking sector and also participated in Eurosystem-level operations. The key actions undertaken were:

» financial support for the domestic banking sector through the provision of exceptional liquidity, as the sector followed a deleveraging programme and sought to improve loan-to-value ratios;

» the continuation of the "fixed-rate full-allotment" approach and the introduction of longer-maturity operations in Eurosystem activities, to support liquidity provision and bank lending in the euro area; and

» the reactivation of the Eurosystem's Securities Market Programme and the launch of a second Covered Bond Purchase Programme, with the aim of ensuring depth and liquidity in dysfunctional segments of the euro area debt securities markets, thereby aiming to restore an appropriate monetary policy transmission mechanism.

The Bank's current balance sheet reflects both the Eurosystem and the domestic exposures which have arisen from policy actions taken to address the crisis. In common with many Central Banks around the world which deployed policy responses in reaction to the crisis, the Bank's balance sheet has grown significantly in size since the crisis started, although the overall size declined in 2011. The Bank's profits are at historically high levels. These historically high profits reflect the Bank's crisis-related exposures and, by extension, are associated with heightened risks to the Bank arising from its exposure to monetary policy counterparties and holdings of securities. The outlook for the Bank's balance sheet and profitability in 2012 is therefore inextricably linked to the evolution of the financial crisis, both domestic and international.

Financial Results

Profit for the year to 31 December 2011 amounted to €1,200.2 million compared with a corresponding amount of €840.9 million in 2010. Both the interest income and interest expense of the Bank increased in 2011. Interest income increased by €1,567.3 million to €3.7 billion while interest expense increased by €937.0 million to €2.0 billion. As a result, in 2011, the net interest income of the Bank increased by €630.3 million to €1.6 billion.

Interest Income

The increase in interest income was primarily attributable to a significantly higher amount of interest earned on exceptional liquidity facilities (2011:€1,627.8 million as compared to 2010: €516.4 million) advanced to domestic credit institutions outside of the Eurosystem's monetary policy operations. In addition, there was an increase of €309.2 million in the income earned on monetary policy operations conducted by the Bank as part of the Eurosystem, which arose as a result of increases in average ECB interest rates[1] while income earned on securities held under the Eurosystem Securities Market Programme (which had commenced in May 2010 and was reactivated in August 2011) increased to €156.1 million in 2011 from €61.4 million in 2010. The actual income/expense 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 (see below). Income earned on the Bank's own investment portfolio increased by €50.1 million as maturing funds were reinvested in short-dated instruments throughout the year.

1 The key ECB minimum bid rate rose from an average of 1 per cent in 2010 to 1.25 per cent in 2011.

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 increased by €887.5 million and €49.1 million respectively. The increases in both expense categories reflects the rise in the average MRO rate detailed in footnote 1 and higher average balances in these liabilities in 2011. Interest paid on Government deposits increased by €10.3 million while interest paid on Credit Institution deposits fell by €9.9 million in 2011. The increase in the expense on Government deposits resulted from a higher average remuneration rate (EONIA)[2] over the 12 months despite lower average Government deposit balances over the period. The fall in interest paid on Credit Institution deposits was attributable to lower average balances held on deposit over the period.

Financial Operations, Write-Downs and Provisions

The net result of financial operations, write-downs and provisions was a charge of €327.0 million in 2011 compared to a charge of €70.8 million for the previous year. The substantial increase in this category in 2011 reflects the creation of a provision of €300.0 million in respect of risks stemming from securities held for monetary policy purposes which have grown significantly in the wake of the sovereign debt crisis. The category also includes realised capital gains and unrealised price and exchange rate losses on the investment portfolio. The 2011 figure incorporates realised capital gains of €1.5 million representing a decrease of €8.8 million from the previous year. Unrealised price losses on the Bank's investment portfolio decreased by €42.4 million to €28.8 million at end-2011, a strategy of reinvesting maturing funds in short-dated instruments.

Net Result of Pooling of Monetary Income

The result of the net pooling of Eurosystem monetary income gave rise to a charge of €30.8 million in 2011, compared to €15.5 million in 2010. This charge mainly comprises two elements:

(i) the refund to the Eurosystem of monetary income earned by the Bank above our capital key share of total system income which amounted to €46.8 million in 2011, an increase of €8.3 million over 2010.

(ii) a decrease of €16.0 million[3] in the Bank's share of the provision against counterparty risks in monetary policy operations of the Eurosystem.

Operating Costs

The Bank has focused on strengthening its capabilities and capacity, including recruitment of additional staff and investment in new systems. Significant external resources were also required to assist the Bank's own experts in addressing the many issues of national importance that emerged during the financial crisis, such as stress-testing exercises. This increased investment is reflected in a higher level of operating costs in 2011. Total operating costs, which are charged against profit, amounted to €183.6 million (2010: €130.9 million). These comprise pay, non-pay, banknote raw materials and depreciation. Staff costs, including pay, increased by €16.8 million (19.6 per cent), while other operating expenses and banknote raw materials increased by €34.6 million and €0.4 million respectively. 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 Financial Reporting Standard 17, the Bank's Surplus Income amounted to €958.3 million (2010: €671.0 million), which is payable to the Exchequer.

Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2011 were €176.2 billion, which despite continued turmoil in money markets, was €28.2 billion less than the corresponding figure of €204.5 billion as at 31 December 2010.

At 31 December 2011, lending to credit institutions through the main refinancing operations (MRO) had decreased by €33.1 billion to €30.5 billion, while lending through the longer term refinancing operations (LTRO) increased by €20.3 billion to €76.3 billion in the same period. On 8 December 2011, the ECB announced further non-standard measures and

2 Euro Overnight Index Average

3 In 2011 the ECB Governing Council reviewed the appropriateness of the provision and decided to reduce the aggregate amount from €2.20 billion at 31 December 2010 to €0.95 billion at 31 December 2011.

introduced 3 year LTRO operations, to be fully allotted at a fixed rate equal to the average MRO rate over the life of the operation.

Other assets decreased by €7.0 billion to €43.3 billion, reflecting a decrease in the provision of exceptional liquidity facilities advanced to domestic credit institutions outside of the Eurosystem's monetary policy operations. The reduction was primarily attributable to the programme of deleveraging currently being undertaken by the Credit Institutions.

In respect of liabilities, at end year, the Bank's proportional share of total euro banknotes in circulation amounted to €13.0 billion, which represented an increase of almost €0.7 billion on the previous year. Credit Institutions' (commercial banks) deposits and Government deposits decreased by €5.4 billion and €0.3 billion respectively. Intra-Eurosystem net liabilities, which amounted to €135.9 billion as at 31 December 2011, were €24.3 billion lower than at end-2010. This includes a decrease of €24.8 billion in the Bank's liability to other member central banks of the Eurosystem in respect of cross-border transfers via the TARGET2[4] payment system offset by a €0.4 billion increase in the value of euro banknotes issued by the Bank over and above its capital key share of the total Eurosystem issuance. Provisions increased by €281.6 million and primarily reflect the creation of a provision of €300.0 million in respect of the risks stemming from securities held for monetary policy purposes.

Redemption of Irish Banknotes

Irish banknotes ceased to be legal tender with effect from 9 February 2002. As at 31 December 2002, notes to the value of €299.7 million were outstanding, at which point the proceeds were transferred to the Exchequer less a provision of €60.0 million to meet obligations in respect of unredeemed Irish notes. In November 2010, the Commission approved a further transfer of €10.0 million to the provision which had been depleted by end-2010. An amount of €2.4 million was redeemed during 2011 (2010: €2.8 million) leaving €235.3 million in Irish banknotes still outstanding and a balance of €5.7 million in the provision.

Proceeds of Coin

During 2011, the value of euro coin issued was €21.6 million (2010: redemption of €1.6 million). After deduction of expenses, seigniorage of €20.7 million was paid to the Exchequer in December 2011 compared with a payment from the Exchequer to the Bank of €8.5 million in 2010. The Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2011, Irish coin redeemed totalled €0.4 million (2010: €0.4 million). Full details are incorporated in Note 24 of the Statement of Accounts.

Prompt Payment of Accounts 2011

The Bank is obliged to comply with the provisions of the European Communities (Late Payment in Commercial Transactions) Regulations, 2002, 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 regulations do not apply where the interest penalty is less than €5. The rate of interest applicable to late payments is the ECB main refinancing rate plus 7 percentage points, with the relevant rate at 1 January and 1 July each year applying for the six-month period after these dates. In 2011, interest was payable at a rate of between 8 and 8.25 per cent per annum.

The following is a summary of interest payments made to suppliers during 2011, with corresponding figures for 2010, in accordance with the provisions of the Regulations referred to above.

	2011	2010
Total Number of Late Payments	317	124
Total Value of All Late Payments (A)	€5,400,718	€1,265,363
Total Value of All Payments (B)	€88,827,814	€44,629,140
A as a % of B	6.08%	2.84%
Total Amount of Interest Paid on Late Payments	€20,205	€3,914

4 Trans-European Automated Real-time Gross settlement Express Transfer system

Statement of Accounts

for the year ended 31 December 2011

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 of the Commission 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

25 April 2012

Statement on Internal Financial Control

On behalf of the Commission, I acknowledge the Commission's responsibility for ensuring that the Bank maintains an effective system of internal financial control and reviews its effectiveness on an on-going basis. The Commission has formally adopted a code of conduct, which requires each Director to ensure that the Bank has in place an effective system of internal controls including financial controls, operational controls, risk management and fraud prevention.

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 include:

- 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 which 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 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 clear internal risk policies and with reference to Eurosystem risk-management policies where relevant.

The Internal Audit Department independently and systematically reviews the controls in place and reports to the Commission Audit Committee on a regular basis. The Audit Committee approves the Internal Audit Plan and work programme. In addition, the Audit Committee meets with and receives reports from the Comptroller and Auditor General and the external auditors, Deloitte. The Chairman of the Audit Committee reports to the Commission on all significant issues considered by the Committee and the minutes of meetings of the Audit Committee are circulated to the Commission for consideration at subsequent meetings of the Commission.

We can confirm that the Commission reviewed the effectiveness of the system of internal financial controls for the year ended 31 December 2011.

Patrick Honohan, Governor

Des Geraghty, Member of the Commission

25 April 2012

Profit and Loss and Appropriation Account for year ended 31 December 2011

	Note	2011 €000	2010 €000
Interest income	1	*3,666,824*	*2,099,555*
Interest expense	2	*(2,026,312)*	*(1,089,343)*
Net interest income		**1,640,512**	**1,010,212**
Net realised gains/(losses) arising from financial operations	3	*1,852*	*10,503*
Write-downs on financial assets and positions	3	*(28,837)*	*(71,301)*
Provisions	3	*(300,000)*	*(10,000)*
Net result of financial operations, write-downs and provisions		**(326,985)**	**(70,798)**
Income from fees and commissions	4	**2,633**	**2,011**
Income from equity shares and participating interests	5	**13,147**	**9,688**
Net result of pooling of monetary income	6	**(30,784)**	**(15,486)**
Other income – net	7	**85,298**	**36,120**
TOTAL NET INCOME		**1,383,821**	**971,747**
Staff expenses	8	**(102,753)**	**(85,937)**
Other operating expenses	8	**(68,146)**	**(33,529)**
Depreciation	8	**(9,272)**	**(8,393)**
Banknote raw materials	8	**(3,403)**	**(3,003)**
TOTAL EXPENSES		**(183,574)**	**(130,862)**
PROFIT FOR THE YEAR BEFORE UNREALISED GAINS AND APPROPRIATION OF PROFIT		**1,200,247**	**840,885**
Net movement in unrealised gains	32	**72,380**	**25,078**
Transfers to revaluation accounts	32	**(72,380)**	**(25,078)**
Actuarial (loss)/gain on pension scheme	35	**(71,868)**	**21,705**
Transfer to general reserve	33	**(170,036)**	**(191,561)**
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	9, 30	**958,343**	**671,029**

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

25 April 2012

Balance Sheet as at 31 December 2011

ASSETS	Note	2011 €000	2010 €000
Gold and gold receivables	10	234,967	203,792
Claims on non-euro area residents in foreign currency	11	1,081,160	1,381,542
Claims on euro area residents in foreign currency	12	1,174,197	141,146
Claims on non-euro area residents in euro	13	1,230,830	883,209
Lending to euro area credit institutions related to monetary policy operations in euro	14	107,236,000	132,010,000
Other claims on euro area credit institutions in euro	15	449,373	513,579
Securities of euro area residents in euro	16	20,731,081	18,236,174
Intra-Eurosystem claims		807,854	778,992
Participating interest in ECB	17	*157,668*	*139,156*
Claims equivalent to the transfer of foreign reserves	18	*639,836*	*639,836*
Other claims within the Eurosystem	5	*10,350*	*–*
Items in course of settlement	19	13,428	3,076
Other assets	20	43,287,753	50,286,190
Pension Asset	35	–	51,261
TOTAL ASSETS		176,246,643	204,488,961

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

25 April 2012

Balance Sheet as at 31 December 2011

LIABILITIES	Note	2011 €000	2010 €000
Banknotes in circulation	22	12,978,412	12,293,237
Liabilities to euro area credit institutions related to monetary policy operations in euro	23	6,028,961	11,414,077
Liabilities to other euro area residents in euro	24	15,573,753	15,889,825
Liabilities to non-euro area residents in euro	25	22,508	10,245
Liabilities to euro residents in foreign currency	26	178	–
Counterpart of special drawing rights allocated by the IMF	27	920,197	897,323
Intra-Eurosystem liabilities (net)		135,869,664	160,180,915
Liabilities related to the allocation of euro banknotes within the Eurosystem	28	*15,435,806*	*14,995,733*
Other liabilities within the Eurosystem (net)	29	*120,433,858*	*145,185,182*
Other liabilities	30	2,318,302	1,813,850
Pension liability	35	21,176	–
Provisions	31	317,765	36,178
Revaluation accounts	32	302,651	230,271
Capital and Reserves	33	1,893,076	1,723,040
TOTAL LIABILITIES		176,246,643	204,488,961

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

25 April 2012

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 (CBI).

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 ESCB[1] 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 11 December 2011 Guideline[2]. The guideline establishes in particular the accounting rules applicable to refinancing operations for the banking sector, securities, foreign currency transactions and the issue of banknotes. The Bank's Statement of Accounts for 2011 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 (i.e. Financial Reporting Standards) for recognition and measurement and relevant statutory provisions[3] 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 Accounting[4]

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 TARGET2[5] 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. At end-2011, six non-participating countries (Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania) were members of TARGET2 and, therefore, included in the multilateral netting process.

1 Throughout this document the use of the term European System of Central Banks (ESCB) refers to the twenty-seven national central banks (NCBs) of the Member States of the European Union as at 31 December 2011 together with the European Central Bank (ECB). The term 'Eurosystem' refers to the seventeen NCBs of the Member States participating in the Monetary Union, plus the ECB, on the same date.

2 Guideline of 11 November 2010 on the legal framework for the accounting and financial reporting in the European System of Central Banks (recast), ECB/2010/20, as amended by Guideline ECB/2011/27.

3 The principal statutory provisions are: *Treaty on European Union*, 1992, *Central Bank Acts* 1942–2010, *Central Bank of Ireland (Surplus Income) Regulations*, 1943, *Coinage Act*, 1950, *Decimal Currency Acts* 1969–1990, the *Economic and Monetary Union Act*, 1998 and the *Statute of the ESCB and the ECB*.

4 Defined in the Guideline of the European Central Bank (5 December 2002) on the legal framework for accounting and financial reporting in the ESCB (ECB/2002/10), as amended by Guideline ECB/2011/27.

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'. (Accounting Policy (c)(iv) and Note 28).

(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. The Bank's share of the ECB's subscribed capital remained at 1.1107 per cent in 2011. The ECB increased its subscribed capital by €5,000 million from €5,761 million to €10,761 million with effect from 29 December 2010. The NCBs of the euro area countries are required to pay up their increased capital in three equal annual instalments. The second instalment of €18.5 million was paid by the Bank on 28 December 2011 and the remaining instalment will be paid at the end of 2012 (Note 17).

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. The Eurosystem capital key is the capital key expressed as a percentage of the aggregate capital keys held by the Eurosystem NCBs.

On 1 January 2011, following the accession of Estonia into the Eurosystem the Bank's share in the Eurosystem capital key decreased from 1.5915 per cent to 1.5874 per cent.

(iv) Banknotes in Circulation

The ECB and the 17 participating NCBs, which together comprise the Eurosystem, issue euro banknotes[6,7]. 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[8].

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 1.5874 per cent (2010: 1.5915 per cent) share in the fully paid-up capital of the ECB (Accounting Policy (c)(iii)) and therefore a 1.460 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[9], are presented on the Balance Sheet under "Intra-Eurosystem: net claim/liability related to the allocation of euro banknotes within the Eurosystem" (Accounting Policy (c)(ii) and Note 28). The interest expense (Note 2(ii)) on these balances are cleared through the accounts of the ECB and included in 'Net interest income' in the Profit and Loss and Appropriation Account.

6 ECB decision of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35, 9.2.2011, p. 26.

7 Estonia joined the Eurosystem on 1 January 2011.

8 The banknote allocation key refers to the percentages that result from taking into account the ECB's share of the total euro banknote issue (8 per cent) and applying the Eurosystem capital key to the participating NCBs' share (92 per cent).

9 ECB decision of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2010/23), OJ L 35, 9.2.2011, p. 17.

(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 (net) income arising from securities purchased under the Securities Market Programme (SMP) shall be due to the NCBs in the same financial year it accrues. The ECB shall distribute this income in January of the following year in the form of an interim distribution of profit[10]. The amount of the ECB's income on euro banknotes in circulation may be reduced in accordance with any decision by the Governing Council in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. Before the end of the year, the Governing Council decides whether all or part of the ECB's income arising from SMP securities and, if necessary, all or part of the ECB's income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB's net profit for that year.

The Governing Council may also decide to retain all or part of the ECB's income arising from SMP securities and if necessary, all or part of the ECB's income on euro banknotes in circulation for transfer to a provision for foreign exchange rate, interest rate, credit and gold price risks. The amount distributed to the Bank is disclosed in the Profit and Loss and Appropriation Account under "Income from equity shares and participating interest" (Note 5(i)). The final distribution of ECB profits is recognised on the second working day after the approval of the ECB annual accounts by the Governing Council.

(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; net 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.

Where the value of a 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.

The net monetary income pooled by the Eurosystem is allocated between NCBs according to the subscribed capital key. The difference between the monetary income pooled by the Bank and that reallocated to the Bank, together with the movement in the provision against counterparty risks in monetary policy operations of the Eurosystem constitutes the "Net result of pooling of monetary income" recorded in the Profit and Loss and Appropriation Account (Note 6(i)).

10 ECB decision of 25 November 2010 on the interim distribution of the income of the ECB on euro banknotes in circulation and arising from securities purchased under the securities markets programme (ECB/2010/24) OJ L 6, 11.1.2011, p. 35.

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 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 subsequent capital key changes, an additional €87.9 million was transferred on 1 January 2004, €0.3 million on 1 May 2004, a reduction of €1.2 million on 1 January 2007 and an increase of €128.0 million on 1 January 2009. 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(iv) and 18, 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. Unrealised (valuation) gains are not recognised as income but are accounted for through the Profit and Loss and Appropriation Account and transferred therefrom to Revaluation Accounts. Unrealised (valuation) losses are taken to the Profit and Loss and Appropriation Account when exceeding previous revaluation gains registered 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 forwards 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 Bonds[11] (CBPP1 and CBPP2), and public debt securities acquired in the scope of the Securities Markets Programme[12] (SMP). The securities are classified as held-to-maturity, measured at amortised cost and are subject to impairment (Notes 1(i), 16 and 31).

(d) Income Recognition

Income is recognised on an accruals basis.

(e) Fixed Assets

(i) Measurement

Fixed assets are stated at cost less accumulated depreciation and are not revalued.

11 ECB decision of 2 July 2009 on the implementation of the Covered Bond Purchase Programme (ECB/2009/16), OJ L 175, 4.7.2009, p. 18 and ECB Decision of 3 November 2011 on the implementation of the second Covered Bond Purchase Programme (ECB/2011/17), OJ L 297, 16.11.2011, p. 70.

12 ECB decision of 14 May 2010 establishing a Securities Markets Programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

(ii) Depreciation

All fixed assets are depreciated on a straight-line basis over their anticipated useful lives as follows:

Freehold Premises	–	20 - 50 years
Plant and Machinery	–	5 - 15 years
Furniture, Fixtures and Fittings	–	5 years
Computer Equipment	–	5 years
Other Equipment	–	5 years

(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 Willis, was transferred from the Bank's resources to the fund to purchase pension fund assets. 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 (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 2011 liabilities and pension costs are set out in Note 35.

(g) Coin Provision and Issue

The Bank is involved in 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.

(j) Valuation Policy

(i) Assets and liabilities denominated in foreign currency, unmatured investment and foreign currency contracts outstanding and shares in the Bank for International Settlements are valued at mid-market closing exchange rates at year-end (Note 32). The exchange rate valuation of assets and liabilities is performed on a currency-by-currency basis.

(ii) Marketable securities classified as mark-to-market (MTM) are valued at mid-market closing prices at year-end. The valuation of securities is performed on a security-by-security basis. Marketable securities classified as held-to-maturity (HTM) are carried at amortised cost and are subject to impairment.

(iii) Gold is valued at the closing market price.

(iv) The exceptional liquidity assistance provided to domestic credit institutions covered by guarantee is classified as Loans and Receivables. In accordance with FRS 26 Financial Instruments: Recognition and Measurement, Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and that the Bank has no intention of trading. Loans and Receivables, subsequent to initial recognition, are held at amortised cost less allowance for any incurred impairment losses. Such impairment losses are recorded in a separate liability account (Accounting Policy (m)).

The Bank assesses at the balance sheet date whether there was objective evidence that the loans and receivables have been impaired. Objective evidence that this financial asset is impaired includes a breach of contract, such as a default or delinquency in interest or principal payment (Note 20 (iii)).

(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 therefrom to the Revaluation Accounts.

Unrealised losses 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 (Note 2). 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 (Notes 13 and 15) 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

All provisions are reviewed annually (Note 31). Where created, in respect of 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 held for monetary policy purposes, 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:

(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; and

(v) external rating downgrade below an acceptable level.

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.

Notes to the Accounts

Note 1: Interest Income

	2011	2010
	€000	€000
Deposit Income	1,124	1,615
Interest on Securities - MTM	215,381	168,709
Interest on Securities - HTM	276,810	281,472
Interest on Securities for Monetary Policy Purposes (i)	193,831	94,781
Reverse Repurchase Agreements (ii)	3,832	1,747
Monetary Policy Operations (iii)	1,337,815	1,028,630
Income from Transfer of Foreign Reserve Assets to ECB (iv)	6,889	5,514
Other (v)	1,631,142	517,087
Total	**3,666,824**	**2,099,555**

(i) This item incorporates income of €37.7 million (2010: €33.4 million), €0.1 million (2010: nil) and €156.1 million (2010: €61.4 million) on the securities purchased by the Bank under the CBPP1, CBPP2 and the SMP respectively. Accounting Policy (c)(ix) and Note 16.

(ii) There were Reverse Repurchase Agreements of €299.0 million outstanding at 31 December 2011 (2010: €456.0 million). Accounting Policy (l) and Notes 13 and 15.

(iii) This relates to lending to credit institutions by the Bank as part of the Eurosystem's monetary policy operations (Note 14).

(iv) This relates to the remuneration of Foreign Reserve Assets transferred to the ECB. Accounting Policy (c)(vii) and Note 18.

(v) This includes an amount of €1,627.8 million (2010: €516.4 million) in relation to interest earned on exceptional liquidity assistance (ELA) advanced to credit institutions outside of the Eurosystem's monetary policy operations (Note 20(iii)).

Note 2: Interest Expense

	2011	2010
	€000	€000
Government Deposits	123,075	112,748
Credit Institutions' Deposits	100,240	110,177
Intra-Eurosystem Balances (net) (i)	1,614,775	727,315
Remuneration of Liability in respect of allocation of Euro Banknotes in Circulation (ii)	188,222	139,103
Total	**2,026,312**	**1,089,343**

(i) 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. Accounting Policy (c)(ii).

(ii) 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 it actually puts into circulation. Accounting Policies (c)(ii) and (c)(iv).

Note 3: Net Result of Financial Operations, Write Downs and Provisions

Net Realised Gains/(Losses) arising from Financial Operations	2011	2010
	€000	€000
Net Realised Price Gains/(Losses) on Securities	1,522	10,340
Net Realised Exchange Rate Gains/(Losses)	330	163
Total	**1,852**	**10,503**

Write Downs on Financial Assets and Positions	2011	2010
	€000	€000
Unrealised Price Losses on Securities	(28,837)	(71,247)
Unrealised Exchange Rate Losses	–	(54)
Total	**(28,837)**	**(71,301)**

Provisions	2011	2010
	€000	€000
Charge for the year (Note 31)	(300,000)	(10,000)
Total	**(300,000)**	**(10,000)**

Note 4: Income from Fees and Commissions

	2011	2010
	€000	€000
Service Fees and Charges	618	664
Securities Lending	1,463	795
TARGET2 Distribution of Pooled Income	552	552
Total	**2,633**	**2,011**

Note 5: Income from Equity Shares and Participating Interests

	2011	2010
	€000	€000
Share of ECB Profits (i)	10,350	2,719
BIS Dividend (ii)	2,797	6,969
Total	**13,147**	**9,688**

Note 5: Income from Equity Shares and Participating Interests (continued)

(i) This item represents the Bank's share of the ECB's partial distribution of seigniorage income for 2011. Accounting Policy (c)(v). The Governing Council decided to transfer from the ECB's profits, as at 31 December 2011, an amount of €1,166 million (which represents the ECB's income on SMP securities and part of its income earned on euro banknotes in circulation) to the ECB risk provision, thereby increasing it to the level of its present ceiling of €6,363 million. As a result an amount of €652 million was paid to the Eurosystem NCBs on 3 January 2012 in accordance with their Eurosystem capital key as a partial distribution of the ECB's seigniorage income for the year. The Bank's share amounted to €10.4 million. The Bank has revised the accounting treatment of the final distribution of profits receivable from the ECB, which is now recognised two working days after the approval of the ECB's annual accounts by the Governing Council.

(ii) This item represents dividends received on shares held in the Bank for International Settlements (Note 20(i)).

Note 6: Net Result of Pooling of Monetary Income

	2011	2010
	€000	€000
Net Result of Pooling of Monetary Income (i)	(46,821)	(38,484)
Share of Provision Against Counterpart Risks (ii)	16,037	22,998
Total	**(30,784)**	**(15,486)**

(i) This represents the difference between the monetary income pooled by the Bank of €296.4 million (2010: €203.7 million) and that reallocated to the Bank of €249.0 million (2010: €166.5 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 €0.6 million (2010: €1.3 million). Accounting Policy (c)(vi).

(ii) A reduction in the Bank's share of the provision against counterparty risks on monetary policy operations of the Eurosystem, amounted to €16.0 million at year-end (2010: €23.0 million). 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 accordance with the Eurosystem accounting principles and in consideration of the general principle of prudence, the ECB Governing Council has reviewed the appropriateness of the provision and decided to reduce the total amount from €2,207 million at 31 December 2010 to €949 million at 31 December 2011. The respective adjustments are reflected in the Profit and Loss and Appropriation Accounts of the NCBs.

Note 7: Other Income

	2011	2010
	€000	€000
Financial Regulation Net Industry Funding (Note 42 (i))	78,466	40,897
Financial Regulation Miscellaneous Income (Note 42 (v))	42	199
Financial Regulation Monetary Penalties (i)	5,050	2,249
Interest on Pension Scheme Liabilities (Note 35 (i))	(21,956)	(21,910)
Return on Pension Fund Assets (Note 35 (v))	22,346	13,586
Other	1,350	1,099
Total	**85,298**	**36,120**

(i) Monetary penalties represent amounts payable to the Bank by a number of financial services providers following the conclusion of Settlement Agreements with those entities in relation to breaches of regulatory requirements.

Note 8: Expenses

€000	Head Office*		Printworks		Total Head Office & Printworks		Mint (i)		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Salaries/ Allowances (ii)	73,075	60,646	10,083	10,280	83,158	70,926	663	801	83,821	71,727
PRSI	5,700	4,257	676	687	6,375	4,944	41	50	6,416	4,994
Pensions (Note 35 (i))	13,220	10,067	–	–	13,220	10,067	79	85	13,299	10,152
Staff Expenses	**91,995**	**74,970**	**10,759**	**10,967**	**102,753**	**85,937**	**783**	**936**	**103,536**	**86,873**
Training, Recruitment & Other Staff Costs	4,240	3,889	310	378	4,550	4,267	10	8	4,560	4,275
Maintenance of Premises	2,093	2,435	2,844	2,037	4,937	4,472	6	1	4,943	4,473
Energy	932	741	568	475	1,501	1,216	–	–	1,501	1,216
Rent & Rates	6,280	4,239	476	477	6,756	4,716	–	–	6,756	4,716
Equipment, Stationery & Requisites	2,724	1,836	136	162	2,860	1,998	9	12	2,869	2,010
Post & Telecommunications	864	512	6	30	870	542	42	48	912	590
Investment Services & Bank Charges	2,437	2,681	4	4	2,441	2,685	12	12	2,453	2,697
Business Travel	1,795	1,481	193	174	1,987	1,655	24	24	2,011	1,679
Publishing & Consumer Advertising	344	939	10	9	354	948	–	2	354	950
Professional Fees (iii)	36,251	7,392	161	204	36,412	7,596	6	4	36,418	7,600
Works Machine Maintenance	–	–	987	1,155	987	1,155	74	134	1,061	1,289
System Costs	2,934	1,042	230	–	3,165	1,042	–	–	3,165	1,042
Miscellaneous (iv)	1,310	1,218	16	20	1,326	1,238	41	6	1,367	1,244
Other Operating Expenses	**62,204**	**28,405**	**5,941**	**5,125**	**68,146**	**33,529**	**224**	**251**	**68,370**	**33,781**
Depreciation	**4,746**	**4,521**	**4,526**	**3,872**	**9,272**	**8,393**	**33**	**32**	**9,306**	**8,425**
Raw Materials	**–**	**–**	**3,403**	**3,002**	**3,403**	**3,003**	**1,835**	**8,074**	**5,238**	**11,076**
Total Expenses	**158,945**	**107,896**	**24,629**	**22,966**	**183,574**	**130,862**	**2,875**	**9,293**	**186,450**	**140,155**

Components may not add to the totals shown due to rounding.

* Head Office expenses comprise all expenses (including financial regulatory expenses) other than those of the Printworks and Mint. Details of financial regulatory income and expenditure in 2011 are shown in Note 42.

(i) Expenses incurred at the Mint relating to the provision and issue of coin are charged 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 and not to the Profit and Loss and Appropriation Account. Accounting Policy (g).

Note 8: Expenses (continued)

(ii) Remuneration of Executive and non-Executive Directors in 2011

Name	Period	Salary and Fees	Other Remuneration
Patrick Honohan			
Governor	1 Jan - 31 Dec	€276,324	–
Tony Grimes			
Deputy Governor (Central Banking)	1 Jan – 28 July	€64,356	€2,362[13]
Stefan Gerlach			
Deputy Governor (Central Banking)	1 Sept – 31 Dec	€83,333	€827[13]
Matthew Elderfield			
Deputy Governor (Financial Regulation)	1 Jan - 31 Dec	€340,000	–
Total fees paid to other Members of the Central Bank Commission	1 Jan - 31 Dec	€86,916	€5,247

Governor Patrick Honohan gifted €41,740 under section 483 of the Taxes Consolidation Act 1997 to the Minister for Finance from his 2011 emoluments, which resulted in a net remuneration of €234,584 for 2011. In 2012, the Governor will gift a total of €63,324 resulting in a net remuneration of €213,000. Patrick Honohan's pension entitlements do not extend beyond the standard entitlements in the model public sector defined benefit superannuation scheme.

Tony Grimes retired as Deputy Governor at end 2010, however he continued on a contractual basis until a replacement was appointed. Stefan Gerlach was appointed Deputy Governor on 1st September 2011 with an annual salary of €250,000.

The annual fee for members of the Commission is €14,936. Alan Ahearne was paid €12,236 for the period 8 March to 31 December 2011.

Other remuneration paid in relation to members of the Central Bank Commission relate to Directors' fees of Professor John FitzGerald for the period 1 October 2010 to 31 December 2010, and accommodation and travel expenses of €1,513 incurred by Max Watson and Alan Ahearne. Ex officio members of the Commission do not receive a fee in respect of their membership of the Commission.

(iii) The increase is largely due to expenses incurred (€29.1 million) in relation to the Prudential Capital Assessment Review and Prudential Liquidity Assessment Review of certain financial institutions that took place in 2011. These costs were fully recouped from the relevant financial institutions during the year (Note 42 (ii)).

13 Relates to Delegates Allowance.

Note 8: Expenses (continued)

Auditors' remuneration to both the Comptroller and Auditor General and Deloitte & Touche for the years 2011/2010 amounted to:

	2011	2010
	€000	€000
Audit of Individual Accounts	**203**	**191**
Deloitte & Touche	*107*	*107*
Comptroller and Auditor General	*96*	*84*
Other Assurance Services	**33**	**32**
Deloitte & Touche	*33*	*32*
Other Non-Audit Work	**2,331**	**172**
Deloitte & Touche	*2,331*	*172*
Total	**2,567**	**395**

Other non-audit work in 2011 mainly relates to work undertaken by Deloitte as part of the Prudential Capital Assessment Review (PCAR) and Prudential Liquidity Assessment Review (PLAR), together with secondment fees charged during the year. The Bank has adopted the disclosure requirements of S.I. No. 220/2010 – European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 in respect of auditors' remuneration for the year ended 31 December 2011 and comparative.

(iv) Included in miscellaneous are the expenses of the Financial Services Appeals Tribunal which the Bank discharges, in accordance with the provisions of Section 57AX(4) of the *Central Bank Act*, 1942, as amended.

(v) An amount of €5.6 million (2010: €4.9 million) was paid to the Department of Finance in respect of the Pension Levy. This figure is not shown separately in the table but is included within the figure for Salaries.

Note 9: Surplus Income

Surplus Income of €958.3 million is payable to the Exchequer in respect of the year ended 31 December 2011 (2010: €671.0 million).

Under Section 6J of the *Central Bank Act*, 1942 (as amended), the Bank is exempt from Corporation Tax, Income Tax and Capital Gains Tax.

Note 10: Gold and Gold Receivables

Gold and gold receivables represent coin stocks held in the Bank, together with gold bars held at the Bank of England. The increase in the balance in 2011 is due to the change in the market value of gold year-on-year.

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

	2011	2010
	€000	€000
Receivables from the IMF (i)	1,060,953	1,007,550
Balances with Banks and Security Investments, External Loans and other External Assets (iv)	20,207	373,992
Total	**1,081,160**	**1,381,542**

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

(i) Receivables from the International Monetary Fund (IMF).

	2011	2010
	€000	€000
Quota	1,522,588	970,202
Less IMF Holdings of euro	(1,215,808)	(792,374)
Reserve Position in IMF (ii)	**306,780**	**177,828**
SDR Holdings (iii)	**754,173**	**829,722**
Total	**1,060,953**	**1,007,550**

(ii) Reserve Position in the IMF:

This asset represents the difference between Ireland's Quota in the IMF and the IMF's holdings of euro. 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. On 28 April 2008, a large-scale quota increase was approved by the IMF's Board of Governors and implemented on 3 March 2011. As a result Ireland's IMF quota increased by SDR 419.2 million, from SDR 838.4 million to SDR 1,257.6 million.

(iii) Special Drawing Rights (SDRs):

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).

(iv) Balances with Banks and Security Investments, External Loans and Other External Assets

	2011	2010
	€000	€000
Balances with Banks	3,070	4,460
Security Investments – MTM (v)	17,137	369,532
Total	**20,207**	**373,992**

Maturity Profile	2011	2010
	€000	€000
0 - 3 months	20,195	146,678
3 months - 1 year	12	187,578
1 - 5 years	–	39,736
Total	**20,207**	**373,992**

(v) Accounting Policy (j).

Note 12: Claims on Euro Area Residents in Foreign Currency

	2011	2010
	€000	€000
Balances with Banks (i)	1,142,632	81,487
Security Investments – MTM (ii)	31,565	59,659
Total	**1,174,197**	**141,146**

Maturity Profile	2011	2010
	€000	€000
0 - 3 months	1,142,632	81,487
3 months - 1 year	18,921	29,585
1 - 5 years	12,644	30,074
Total	**1,174,197**	**141,146**

(i) This item consists of a claim arising from reverse operations with Eurosystem counterparties amounting to €1,143 million (2010: nil), in connection with the reactivation of the short-term US dollar liquidity providing programme. Under this programme, US dollars were provided by the Federal Reserve to the ECB by means of a temporary reciprocal currency arrangement (swap line) with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct liquidity-providing operations with the Eurosystem counterparties (Note 38).

(ii) Accounting Policy (j).

Note 13: Claims on Non-Euro Area Residents in Euro

	2011	2010
	€000	€000
Balances with Banks	366,976	2,091
Security Investments – MTM (i)	309,298	196,270
Security Investments – HTM (i)	554,556	527,858
Reverse Repurchase Agreements	–	156,990
Total	**1,230,830**	**883,209**

Maturity Profile	2011	2010
	€000	€000
0 - 3 months	366,976	159,081
3 months – 1 year	143,241	176,727
1 – 5 years	495,476	267,470
5 – 10 years	225,137	279,931
Total	**1,230,830**	**883,209**

(i) Accounting Policy (j).

Note 14: Lending to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

	2011	2010
	€000	€000
Main Refinancing Operations (i)	30,520,000	63,655,000
Longer Term Refinancing Operations (ii)	76,286,000	56,025,000
Marginal Lending Facility (iii)	430,000	–
Fine Tuning Reverse Operations (iv)	–	12,330,000
Total	**107,236,000**	**132,010,000**

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 significant decrease in the level of Main Refinancing Operations (MRO) and an increase in Longer Term Refinancing Operations (LTRO) advances during 2011. As at 31 December 2011 total Eurosystem monetary policy related advances amounted to €863.6 billion (2010: €546.7 billion), of which the Bank held €107.2 billion (2010: €132.0 billion). In accordance with Article 32.4 of the Statute, any risks 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 own use bonds, that is bonds issued by the counterparties concerned and guaranteed by Government, the risks are borne by the Bank (Note 36).

(i) The MROs generally comprise weekly tenders for funds with a maturity of one week at fixed rates with full allotment (from October 2008).

(ii) The LTROs comprise mainly monthly tenders with a maturity of three months, at fixed rates, with full allotment (from October 2008). In August and October 2011, the ECB introduced supplementary LTROs with a maturity of six months and twelve months respectively. Also, in December 2011 two LTROs with a maturity of thirty six months were announced, allowing counterparties the option of early repayment after one year. The first such operation was allotted on 21 December 2011.

(iii) The Marginal Lending Facility (MLF) is a standing facility which counterparties may use to receive overnight liquidity from the Bank at a pre-specified interest rate against eligible assets.

(iv) A thirteen-day Fine Tuning Operation took place on 23 December 2010, when the December 2009 twelve-month LTRO matured. There were no Fine Tuning Operations outstanding at year-end 2011.

Note 15: Other Claims on Euro Area Credit Institutions in Euro

	2011	2010
	€000	€000
Balances with Banks	150,373	214,579
Reverse Repurchase Agreements	299,000	299,000
Total	**449,373**	**513,579**

These balances above have a maturity of less than one year.

Note 16: Securities of Euro Area Residents in Euro

This item comprises two portfolios: (i) 'Securities held for monetary policy purposes', that was introduced in order to reflect the euro-denominated covered bond portfolios, the first which commenced in July 2009 and second in November 2011, together with the euro-denominated securities markets portfolio, 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.

	2011	2010
	€000	€000
Securities Held for Monetary Policy Purposes (i)	4,789,749	3,003,005
Other Securities (ii)	15,941,332	15,233,169
Total	**20,731,081**	**18,236,174**

(i) Securities Held for Monetary Policy Purposes

	2011	2010
	€000	€000
Covered Bonds Purchase Programme 1 (CBPP1) - HTM	869,127	865,944
Covered Bonds Purchase Programme 2 (CBPP2) - HTM	17,177	–
Securities Markets Programme (SMP) - HTM	3,903,445	2,137,061
Total	**4,789,749**	**3,003,005**

Maturity Profile	2011	2010
	€000	€000
0 - 3 months	452,915	49,464
3 months - 1 year	345,219	160,811
1 - 5 years	2,332,748	2,074,963
5 - 10 years	1,658,867	625,253
10-15 years	–	92,514
Total	**4,789,749**	**3,003,005**

This Balance Sheet category contains securities acquired by the Bank within the scope of the purchase programmes for covered bonds[14], and public debt securities acquired in the scope of the SMP[15]. The securities are classified as held-to-maturity (HTM). The total Eurosystem NCB's (including the ECB) holding of SMP, CBPP1 and CBPP2 securities, respectively, amounts to €211.9 billion, €58.8 billion and €3.1 billion at end December, of which the Bank held €3,903 million, €869 million and €17 million. In accordance with Article 32.4 of the Statute, any risks from holdings of SMP securities, if they were to materialise, would be shared in full by the Eurosystem NCBs, in proportion to the prevailing Eurosystem capital key shares. In the case of the CBPP1 and CBPP2, the risks are borne by individual NCBs. Accounting Policies (c)(iii), (c)(ix) and Note 1(i).

Securities purchased under the SMP and the CBPPs are classified as held-to-maturity and reported on an amortised cost basis subject to impairment. Annual impairments tests are conducted on the basis of information available and recoverable amounts estimated as at the reporting date.

14 ECB Decision of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L 175, 4.7.2009, p. 18 and ECB Decision of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17), OJ L 297, 16.11.2011, p. 70.

15 ECB Decision of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

(ii) Other Securities

	2011	2010
	€000	€000
Security Investments - MTM	9,379,825	8,941,696
Security Investments - HTM	6,561,507	6,291,473
Total	**15,941,332**	**15,233,169**

These securities comprise debt issued by euro area issuers. Accounting Policy (j).

Maturity Profile	2011	2010
	€000	€000
0 - 3 months	3,074,877	2,647,515
3 months - 1 year	5,090,143	4,120,180
1 - 5 years	4,686,575	4,951,916
5 - 10 years	3,089,737	3,513,558
Total	**15,941,332**	**15,233,169**

Note 17: 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. Subscriptions depend 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 2011, a change to the ECB's capital key occurred as a result of the accession of Estonia to the Eurosystem. This change did not result in an adjustment to the Bank's contribution to the capital of the ECB. However, the Bank's share in subscribed capital of the ECB decreased from 1.5915 per cent to 1.5874 per cent on that date. Accounting Policy (c) (iii).

The Bank's participating interest in the ECB increased by €18.5 million to €157.7 million reflecting the decision of the Governing Council in December 2010 to increase the ECB's subscribed capital by €5,000 million to €10,761 million. As a result, Eurosystem NCBs were required to pay up an amount of €3,490 million in respect of their increased contributions in three equal annual instalments beginning in 2010. Consequently, the Bank paid its second instalment of €18.5 million on 28 December 2011, with the last instalment payable in 2012. Accounting Policy (c)(iii).

Note 18: 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. Accounting Policy (c)(vii) and Note 1 (iv).

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

	2011	2010
	€000	€000
Shares in the Bank for International Settlements (i)	19,515	18,997
Stocks of Materials for Banknote Production	2,756	2,229
AIB plc/ ICAROM Interest Bearing Loan (ii)	302,527	366,371
Accrued Interest Income	433,535	351,905
Prepayments	1,224	689
Fixed Assets (Note 21)	77,230	70,401
Other (iii)	42,450,966	49,475,598
Total	**43,287,753**	**50,286,190**

(i) The Bank holds 8,564 shares (2,564 paid up) in the Bank for International Settlements, the euro equivalent of which is €19.5 million (2010: €19.0 million) (Notes 5 (ii) and 34 (i)).

(ii) Under arrangements, which commenced in 1993 for the financing of the administration of ICAROM plc (formerly Insurance Corporation of Ireland plc), €11.1 million per annum is being collected from AIB plc until 2012, and passed on to the administrator of ICAROM plc. The mechanisms used to collect these funds are (i) a back-to-back loan and deposit arrangement (€4.1 million) between AIB plc and the Bank and (ii) a payment of interest (€7.0 million) by AIB plc. The matching back-to-back deposit is shown in Other Liabilities (Note 30). The amount of the deposit is determined by the one month Euro Interbank Offered Rate (Euribor).

(iii) This includes an amount of €42.4 billion (2010: €49.5 billion) in relation to ELA advanced outside of the Eurosystem's monetary policy operations to domestic credit institutions covered by guarantee (Note 1(v)). These facilities are carried on the Balance Sheet at amortised cost using the effective interest rate method. All facilities are fully collateralised and include sovereign collateral as well as a broad range of security pledged by the counterparties involved.

The Bank has in place specific legal instruments in respect of each type of collateral accepted. These comprise: (i) Promissory Notes issued by the Minister for Finance to specific credit institutions and transferrable by deed, (ii) Master Loan Repurchase Deeds covering investment/development loans, (iii) Special Master Repurchase Agreements covering collateral no longer eligible for ECB-related operations and (iv) Facility Deeds providing a Government Guarantee. In addition, the Bank received formal comfort from the Minister for Finance such that any shortfall on the liquidation of collateral is made good. Where appropriate, haircuts (ranging from 1.5 per cent to 58 per cent) have been applied to the collateral. Credit risk is mitigated by the level of the haircuts and the Government Guarantee. At the Balance Sheet date no provision for impairment was recognised (2010: nil).

Note 21: Fixed Assets

€000	Premises		Plant and Machinery		Computer Equipment		Other Equipment		Furniture, Fixtures & Fittings		Total Fixed Assets	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
At Cost – 1 January	66,198	65,570	47,837	47,226	23,556	20,437	15,028	14,715	12,994	10,471	165,613	158,419
Acquisitions	956	628	2,285	611	9,850	3,119	787	313	2,257	2,523	16,135	7,194
At Cost – 31 December	67,154	66,198	50,122	47,837	33,406	23,556	15,815	15,028	15,251	12,994	181,748	165,613
Accumulated Depreciation at 1 January	16,656	15,122	41,448	39,197	16,125	13,786	11,104	9,355	9,879	9,327	95,212	86,787
Depreciation for the year (i)	1,565	1,534	2,240	2,251	2,774	2,339	1,733	1,749	994	552	9,306	8,425
Accumulated Depreciation at 31 December	18,221	16,656	43,688	41,448	18,899	16,125	12,837	11,104	10,873	9,879	104,518	95,212
Net Book Value at 31 December	**48,933**	**49,542**	**6,434**	**6,389**	**14,507**	**7,431**	**2,978**	**3,924**	**4,378**	**3,115**	**77,230**	**70,401**

(i) Of the total of €9.3 million depreciation charge (2010: €8.4 million), €0.03 million in respect of Mint machinery was charged to the Currency Reserve (2010: €0.03 million).

Note 22: Banknotes in Circulation

This item consists of the Bank's share of 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. Accounting Policy (c)(iv).

Note 23: Liabilities to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

	2011	2010
	€000	€000
Minimum Reserve Deposits (i)	3,733,961	8,264,077
Overnight Deposits (ii)	2,295,000	3,150,000
Total	**6,028,961**	**11,414,077**

(i) Credit institutions in the euro area are required to hold minimum average reserve deposits with their respective NCBs. The purpose of these reserve requirements is to maintain a structural liquidity shortage. In 2011 interest was paid on these deposits at the ECB's main refinancing operations fixed interest rate.

(ii) The deposit facility is available to counterparties to place deposits with the Bank on an overnight basis.

Note 24: Liabilities to Other Euro Area Residents in Euro

	2011	2010
	€000	€000
General Government Deposits (i)	15,572,051	15,887,911
Currency Reserve Relating to Net Proceeds of Coin (ii)	1,702	1,914
Total	**15,573,753**	**15,889,825**

These items have a maturity of less than one year.

(i) Included in the General Government Deposits are credits totalling €0.4 million (2010: €0.5 million) held by the Official Assignee in Bankruptcy under the provisions of the *Bankruptcy Act*, 1988.

(ii) Under the provisions of the *Coinage Act*, 1950, the *Decimal Currency Acts*, 1969-1990 and the *Economic and Monetary Union Act*, 1998, 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) and Note 8. Details of net proceeds for the year are included in the table below:

	2011	2010
	€000	€000
Coin issued into/(redeemed from) Circulation	21,642	(1,564)
Specimen Coin Sets	2,225	1,547
Withdrawn Irish Coin	(360)	(364)
Proceeds from Smelted Coin	77	–
Sub-Total	**23,584**	**(381)**
Less Operating Costs (Note 8)	**(2,875)**	**(9,293)**
Net Proceeds of Coin Issue	**20,709**	**(9,674)**
Interest on Pension Liability	(163)	(175)
Superannuation Employer Contribution	(100)	(126)
Transfer (to)/from the Exchequer	(20,658)	8,500
Opening Balance	1,914	3,389
Closing Balance	**1,702**	**1,914**

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 from the Bank to the commercial banks in 2011. As a result of this net issuance, offset to some extent by the coin related operating costs, a transfer of €20.7 million was paid to the Exchequer in December 2011 (2010: transfer received from the Exchequer of €8.5 million).

Note 25: Liabilities to Non-Euro Area Residents in Euro

	2011	2010
	€000	€000
International Financial Institutions	95	93
EU Agencies	22,413	10,152
Total	**22,508**	**10,245**

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 made by the National Treasury Management Agency to fund a minimum balance requirement in a Federal Reserve Account 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, 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).

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. Accounting Policies (c)(ii) and (c)(iv) and Note 22

Note 29: Other Liabilities within the Eurosystem

This item 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. Accounting Policy (c)(ii).

Note 30: Other Liabilities

	2011	2010
	€000	€000
AIB plc/ ICAROM Deposit (Note 20)	302,527	366,371
Profit & Loss Appropriation (i)	958,343	671,029
Deposit Protection Accounts (ii)	434,741	537,900
Interest Accruals	194,495	201,001
Other Accruals	11,705	9,603
Credit Resolution Fund (iii)	250,000	–
Other	166,491	27,946
Total	**2,318,302**	**1,813,850**

Note 30: Other Liabilities (continued)

(i) This represents the balance of surplus income payable to the Exchequer (Note 9).

(ii) These are balances placed by credit institutions with the Bank as part of the Irish Deposit Protection Scheme (IDPS) under the *European Communities (Deposit Guarantee Schemes) Regulations*, 1995. The IDPS is funded by credit institutions, which are authorised by the Bank.

(iii) A Credit Institution 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.

Note 31: Provisions

The following provisions were maintained at 31 December 2011:

	2011	2010
	€000	€000
Eurosystem Monetary Policy Operations Counterparty Risk (i)	12,098	28,135
Provision for securities held for monetary policy purposes (ii)	300,000	-
Unredeemed Irish Pound Banknotes (iii)	5,667	8,043
Total	**317,765**	**36,178**

(i) In 2008, the ECB Governing Council decided to establish a provision against counterparty risk in monetary policy operations. In accordance with Article 32.4 of the ESCB Statute, the provision is allocated between the NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in the year when defaults have occurred. In accordance with Eurosystem accounting principles and in consideration of the general principle of prudence, the ECB Governing Council has reviewed the appropriateness of the provision and decided to reduce the total amount from €2,207 million at 31 December 2010 to €949 million at 31 December 2011. The Bank's share in this provision amounts to €12.1 million (2010: €28.1 million), equivalent to 1.2748 per cent of the total provision. In accordance with Article 32.4 of the Statute, the adjustment of the provision is reflected in the profit and loss account of the NCBs in proportion to their subscribed capital key shares in the ECB prevailing in 2008. In the case of the Bank, the resulting adjustment amounted to €16.0 million in 2011. Accounting Policy (m) and Note 6(ii).

(ii) The Bank has created a provision in the amount of €300.0 million (2010: nil) in respect of risks stemming from central bank monetary policy operations which have grown significantly in the wake of the sovereign debt crisis. The provision reflects an estimated allowance for risks arising in respect of the securities held for monetary policy purposes. The estimation of the impairment charge is subject to considerable uncertainty, which has increased in the current economic environment. It is sensitive to factors such as the market perception of debt sustainability. The assumptions underlying this judgement are subjective and are based on management's assessment in the context of market conditions at 31 December 2011. Accounting Policy (m).

(iii) Irish banknotes formerly issued by the Bank ceased to be legal tender with effect from 9 February 2002. As at 31 December 2002, notes to the value of €299.7 million were outstanding, at which point a provision of €60.0 million was created to meet obligations in respect of unredeemed Irish pound banknotes. At 31 December 2011, the provision stood at €5.7 million (2010: €8.0 million) following a transfer of €10.0 million from the Bank's profits for 2010 to the provision, which had been depleted during the course of the year. Accounting Policy (m) and Note 34 (iii).

Note 32: Revaluation Accounts

	2011	2010	Net Movement
	€000	€000	€000
Gold	187,406	156,231	31,175
Foreign Currency	24,275	19,603	4,672
Securities and Other Instruments	90,970	54,437	36,533
At 31 December	**302,651**	**230,271**	**72,380**

The foreign exchange rates used *vis-à-vis* the euro for the end-year valuations are as follows:

	2011	2010
Currency	**Rate**	**Rate**
US dollar	1.2939	1.3362
Japanese yen	100.2000	108.6500
Sterling	0.8353	0.8608
Swiss franc	1.2156	1.2504
Danish krone	7.4342	7.4535
Swedish krona	8.9120	8.9655
Canadian dollar	1.3215	1.3322
SDR	0.8427	0.8642
The gold prices used were:		
Euro per fine ounce	1,216.8640	1,055.4180

Note 33: Capital and Reserves

	Capital (i)	General Reserve	Currency Reserve	Total
	€000	€000	€000	€000
At 31 December 2010	**30**	**1,371,362**	**351,648**	**1,723,040**
Retained profit for the year (ii)	–	170,036	–	170,036
At 31 December 2011	**30**	**1,541,398**	**351,648**	**1,893,076**

(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 €170.0 million to the General Reserve, after adjusting for a net actuarial loss of €71.9 million, which was recognised in the Profit and Loss and Appropriation Account (Note 35 (ii)).

Note 34: Contingent Liabilities and Commitments

Contingent Liabilities

(i) Bank for International Settlements

The Bank holds 8,564 shares in the Bank for International Settlements, 2,564 of which are paid up. The Bank has a contingent liability in respect of the balance (Notes 5(ii) and 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 (€299.7 million was outstanding at 31 December 2002). At 31 December 2011, there was €235.3 million of Irish pound banknotes still outstanding (Note 31 (iii)).

Commitments

(i) Operating Leases

In July 2008, the Bank entered into a 25 year lease agreement in respect of office accommodation at Spencer Dock, Dublin 1. The annual rental payment under this operating lease is €2.3 million.

The Bank also entered into a 4 year lease in November 2010, on accomodation at Iveagh Court, Harcourt Road, Dublin 2. The annual rental payment under this operating lease is €1.5 million.

(ii) Subscribed Capital of the ECB

The ECB increased its subscribed capital by €5,000 million from €5,761 million to €10,761 million with effect from 29 December 2010. The NCBs of the euro area countries are required to pay up their increased capital in three equal annual instalments. The Bank paid the second instalment of €18.5 million on 28 December 2011 and has a commitment to pay the final instalment in 2012.

Note 35: 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 Children's 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 the current revenues. On 1 October 2008, a funded pension scheme was established (as provided for under the *Cental 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 2011 is detailed in section (v) of this note.

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 by Willis, the Bank's actuaries, to comply with disclosure requirements under FRS 17 on 31 December 2010. An update of the actuarial review was completed as at 31 December 2011.

Note 35: Superannuation Liabilities (continued)

(i) Amount charged to Profit and Loss and Appropriation Account/Currency Reserve

	Profit and Loss 2011	Currency Reserve 2011	Total 2011	2010
	€000	€000	€000	€000
Expected Return on Assets	**22,346**	**–**	**22,346**	**13,586**
Interest on Pension Scheme Liabilities	**(21,956)**	**(163)**	**(22,119)**	**(22,085)**
Current Service Cost	(11,251)	(79)	(11,330)	(9,432)
Past Service Cost	(1,969)	–	(1,969)	(720)
Sub-Total	**(13,220)**	**(79)**	**(13,299)**	**(10,152)**
Total Pension Cost of Defined Benefit Scheme	**(12,830)**	**(242)**	**(13,072)**	**(18,651)**

As at 31 December 2011, there was no previously unrecognised surplus deducted from past service cost or from settlements or curtailments, and no gains or losses on any settlements or curtailments.

(ii) Actuarial Gain/(Loss) on Pension Scheme

Year Ended 31 December	2011	2010	2009
	€000	€000	€000
Actuarial Gain/(Loss) on Pension Liability	(34,288)	8,811	28,666
Actuarial Gain/(Loss) on Plan Assets	(37,580)	12,894	(678)
Total	**(71,868)**	**21,705**	**27,988**

As at 31 December 2011 the cumulative actuarial loss recognised in the Appropriation Account was €76.2 million (2010: €4.3 million) for accounting periods ending on or after 31 December 2004. During 2011, the Government introduced a 0.6% levy on pension fund assets for a period of four years. For this financial year, the levy had been included in the actuarial loss on the plan assets. For the financial year 2012, the levy is accounted for by reducing the expected return on assets by 0.6% (Note 35 (viii)).

(iii) Balance Sheet Recognition

The amounts recognised in the Balance Sheet are as follows:

Year Ended 31 December	2011	2010	2009
	€000	€000	€000
Present Value of Wholly or Partly Funded Obligations	(455,336)	(392,615)	(377,004)
Fair Value of Plan Assets	434,160	443,876	414,611
Net Asset/(Liability)	**(21,176)**	**51,261**	**37,607**

Note 35: Superannuation Liabilities (continued)

(iv) Movement in Scheme Obligations

	2011	2010	2009
	€000	€000	€000
Opening Present Value of Scheme Obligations	(392,615)	(377,004)	(382,927)
Current Service Cost	(11,330)	(9,432)	(9,575)
Past Service Cost	(1,969)	(720)	–
Pensions Paid	10,746	11,387	11,830
Employee Contributions	(3,509)	(2,809)	(2,545)
Transfers Received	(252)	(763)	–
Interest on Pension Scheme Liabilities	(22,119)	(22,085)	(22,453)
Actuarial Gain/(Loss) from Experience Adjustments	9,492	27,460	28,666
Actuarial Gain/(Loss) from Liability Valuation Adjustments	(43,780)	(18,649)	–
Closing Present Value of Scheme Obligations	**(455,336)**	**(392,615)**	**(377,004)**

(v) Movement in Fair Value of Plan Assets

	2011	2010	2009
	€000	€000	€000
Opening Fair Value of Plan Assets (Bid Value)	443,876	414,611	404,657
Expected Return	22,346	13,586	10,089
Actuarial Gain/(Loss)	(37,580)	12,894	(678)
Employer Contribution	12,503	10,600	9,828
Employee Contributions	3,509	2,809	2,545
Pensions Paid	(10,746)	(11,387)	(11,830)
Transfers Received	252	763	-
Closing Fair Value of Plan Assets (Bid Value)*	**434,160**	**443,876**	**414,611**

* Included in the fair value of plan assets are two bank accounts - a Superannuation Capital Account and Working Account held with the Bank. The balance on the Superannuation Capital Account and Supperannuation Working Account at 31 December 2011 amounted to €151.4 million (2010: €16.0 million) and €5.6 million (2010: €4.8 million) respectively.

(vi) Financial Assumptions

	2011	2010
	%	%
Discount Rate	5.00	5.50
Expected Return on Assets	3.23	5.00
Rate of Increase in Pensionable Salaries	3.50	3.50
Rate of Increase in Pensions	3.50	3.50
Rate of Price Inflation	2.00	2.00

The impact of a 0.5% increase/decrease in the discount rate would be a decrease/increase of approximately 10.6% in liabilities.

Note 35: Superannuation Liabilities (continued)

(vii) Demographic Assumptions

	2011	2010
Mortality Pre Retirement*	62% PNML00 (males) 70% PNFL00 (females)	62% PNML00 (males) 70% PNFL00 (females)
Mortality Post Retirement*	62% PNML00 (males) 70% PNFL00 (females)	62% PNML00 (males) 70% PNFL00 (females)
Allowance for future improvements in mortality	Yes	Yes
Retirements	Evenly spread over age 60 to 65 (for those with option to retire at 60)	Evenly spread over age 60 to 65 (for those with option to retire at 60)
Ill Health Retirement	Allowance made	Allowance made
Early Retirement	No allowance	No allowance
Withdrawals	No allowance	No allowance
Percentage married	90%	90%
Age difference between spouses	A male is assumed to be 3 years older than his spouse	A male is assumed to be 3 years older than his spouse

* 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.

(viii) Plan Assets of the Scheme

The expected return on assets and asset distribution as at 31 December 2011 were as follows:

Class	Expected Return	Distribution	Long Term Distribution
	%	%	%
Equities	7.25	46.0	50.0
Fixed Interest/Cash	0.40	54.0	50.0
Total	**3.83**	**100.0**	**100.0**
Pension Levy	(0.6)		
Overall Expected Return	**3.23**		

The assets were rebalanced to 50%/50% distribution in early 2012. The expected return on plan assets is determined based on the weighted average expected return of the underlying asset classes. The actual return on plan assets for the year 2011 was a loss of €15.2 million (2010: +€26.5 million).

Note 35: Superannuation Liabilities (continued)

(ix) Prior Year Comparatives

Amounts for the current and previous two periods are as follows:

Year Ended 31 December	2011	2010	2009
	€000	€000	€000
Defined Benefit Obligation	455,336	(392,615)	(377,004)
Fair Value of Plan Assets	434,160	443,876	414,611
Surplus/(Deficit) in the Plan	(21,176)	51,261	37,607
Experience Adjustment Arising On			
- the plan liabilities	9,492	27,460	28,666
As a percentage of the scheme liabilities	*2.1%*	*7.0%*	*7.6%*
- the plan assets	(37,580)	12,894	(678)
As a percentage of the scheme assets	*(8.7%)*	*2.9%*	*(0.2%)*

(x) Expected Contributions to the Plan for the Period Ending 31 December 2012

The following estimates of expected contributions are based on the current membership and pensionable salary roll of the plan participants.

	31 December 2012
	€000
Contributions by the Employer	13,700
Contributions by Plan Participants	3,800
Total	**17,500**

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 directly to the Deputy Governor (Central Banking) who also chairs the Executive Risk Committee.

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, in the monetary policy operations conducted on behalf of the Eurosystem, and in connection with ongoing liquidity support to the national banking sector.

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. Credit exposure is mitigated by the profile of the Bank's investment assets which are guided by a relatively conservative investment policy and by the use of collateralised instruments.

Note 36: Financial Risk Management (continued)

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 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 own-use government guaranteed bank bonds or Additional Credit Claims, the risk is borne by the respective NCB.

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. Potential losses on securities held in the Covered Bond Purchase Programmes are borne by the respective NCB.

Credit risk in relation to the provision of exceptional liquidity support to the domestic banking sector, is managed through the application of a similar collateralised approach as that employed for Eurosystem monetary policy operations, broadly, a requirement for collateral which is typically subject to valuation haircuts and a programme of due diligence which seeks to verify the availability and suitability of collateral. This risk is further mitigated by indemnities from the State.

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 principally through the interest rate sensitivity of its investment assets. Some exposure may also arise due to exchange rate fluctuations, gold prices and to changes in financial market conditions.

Market risk 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 by the Organisational Risk Division.

The Bank is exposed to interest rate risk in the mark–to-market 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 VaR measures the potential loss arising from interest rate and exchange rate risk exposure at a specific confidence level (e.g. 99 per cent) over a certain period of time (e.g. 1-year). The VaR of the traded mark-to-market portfolio, taking a one-year horizon and a 99 per cent confidence level, has increased from €116.4 million (on holdings of €10.4 billion) at end-2010 to €184.6 million at end-2011 on holdings of €10.6 billion. The change in the VaR figure is reflective of increases in the volatility of bond prices as a result of the sovereign debt crisis[16].

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, taking into account remaining Eurosystem obligations. 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 2011, the Bank managed portfolios denominated in euro and a small amount of US dollars (hedged against the euro). The Bank is also exposed to currency risk through a net-liability position in Special Drawing Rights (Note 11 and Note 26).

16 The assumptions on which the VaR is based give rise to a number of limitations, including the following. A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 1% probability that losses could exceed the VaR. The model is calibrated using historical data as a basis for determining the possible ranges of outcomes and may not always cover all possible scenarios, especially those of an exceptional nature.

Note 37: Investor Compensation Act, 1998

Under Section 10 of the *Investor Compensation Act*, 1998, the Bank has formed and registered 'The Investor Compensation Company Limited' (ICCL), a company limited by guarantee. The ICCL administers the investor compensation scheme to reimburse the clients of failed investment firms. The Bank provides administrative and other services to the ICCL, the costs of which are recovered from the ICCL. The ICCL prepares its own Annual Report and audited Statement of Accounts.

Note 38: Unmatured Contracts in Foreign Exchange

Unmatured Foreign Exchange Contracts at year end were as follows:

	31 December 2011		31 December 2010	
	EUR	**US Dollar**	**EUR**	**US Dollar**
		'000s of currency units		
Unmatured Purchases	1,191,024	–	484,282	–
Unmatured Sales	–	(1,578,787) (i)	–	(671,000)
Unmatured Purchases and Sales	1,191,024	(1,578,787)	484,282	(671,000)

(i) Forward liabilities to the ECB with an equivalent value of €1,143 million remained outstanding as at 31 December 2011. These are matched by equivalent liquidity operations with counterparties and arose in connection with the reactivation of the short-term US dollar liquidity providing programme (Note 12).

All foreign exchange contracts matured by 1 March 2012.

Note 39: Unmatured Contracts in Securities

Unmatured contracts in securities at year end were as follows:

	31 December 2011		31 December 2010	
	EUR	**US Dollar**	**EUR**	**US Dollar**
		'000s of currency units		
Unmatured Purchases (i)	149,974	–	685,625	54,263
Unmatured Sales (ii)	(299,005)	–	(456,064)	–
Unmatured Purchases and Sales	(149,031)	–	229,561	54,263

(i) Unmatured Purchases relate to securities held for monetary policy purposes and for the Bank's investment portfolio.

(ii) Unmatured Sales relate to Reverse Repurchase Agreements, all of which matured by 5 January 2012.

Note 40: 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 2011 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 ongoing relationships with other NCBs and the ECB.

Note 41: Post-Balance Sheet Events

Greek Government Bond Exchange

In February 2012, the Eurosystem central banks exchanged their holdings of Greek government bonds purchased under the SMP for new securities issued by the Hellenic Republic. The newly acquired securities have the same characteristics as those purchased under the SMP in terms of their nominal values, coupon rates, interest payment dates and redemption dates. The new securities were not included on the list of eligible securities that were subject to restructuring in the context of the PSI initiative.

Additional Credit Claims

In February 2012, the Governing Council of the ECB approved the temporary acceptance of additional credit claims as collateral in Eurosystem credit operations, subject to specific eligibility criteria and risk control measures[17].

Under this programme, the Bank will accept pools of secured (including mortgages) and unsecured credit claims (other loans) as collateral against Eurosystem operations. Such credit claims will be subject to the Bank's valuation and risk control criteria and will be accepted by the Bank under contractual arrangements with individual counterparties. The Bank intends to phase-in the various collateral types which it will accept under this initiative over several months.

Risks from lending to credit institutions where such credit claims are used as collateral, should they materialise, are borne by the Bank (i.e. the loss sharing mechanism in place for other Eurosystem operations does not apply).

ECB Final Distribution of Profits

The Governing Council of the ECB decided on 8 March 2012 to distribute its remaining profit for 2011, amounting to €76.1 million, to the euro area NCBs, in proportion to their paid-up shares. The Bank's share of this final distribution of profits was €1.2 million and was recognised in March 2012 (Note 5).

17 In its press release of 9 February 2012, the Governing Council approved, following proposals put forward by seven national central banks (Central Bank of Ireland, Banco de España, Banque de France, Banca d'Italia, Central Bank of Cyprus, Oesterreichische Nationalbank and Banco de Portugal), specific national eligibility criteria and risk control measures for the temporary acceptance of additional credit claims as collateral in Eurosystem credit operations.

Note 42: Financial Regulation Activities

The following is a summary of the income and expenditure in respect of financial regulation activities for the year ended 31 December 2011 together with comparatives for the year ended 31 December 2010.

Financial Regulation Activities - Statement of Income and Expenditure for 2011

		2011	2010
		€000	€000
Industry Funding			
Credit Institutions		53,913	21,152
Insurance Undertakings		9,711	7,595
Intermediaries		2,633	2,489
Securities and Investment Firms		5,101	3,213
Collective Investment Schemes and Service Providers		4,932	4,165
Credit Unions		1,442	1,439
Moneylenders		352	298
Approved Professional Bodies		44	35
Exchanges		196	150
Bureau de Change/Moneytransmitters		155	136
Home Reversion & Retail Credit Firms		145	236
Payment Services Institutions		830	676
Total Funding		**79,454**	**41,584**
Provision/Write-Offs	**(i)**	(1,045)	(1,126)
Write-back of Provision for Repayments to Revoked Entities	**(ii)**	57	145
Write-back of Provision for Overpayments		–	294
Net Industry Funding	**(i)**	**78,466**	**40,897**
Excess/(Shortfall) of Income over Expenditure from Previous Year		3,380	1,295
Subvention from Central Bank of Ireland	**(iii)**	42,204	32,709
		124,050	**74,901**
Prospectus Approval Fees	**(iv)**	12	-
Miscellaneous	**(v)**	42	199
Other Income	**(vi)**	749	735
Total Income		**124,853**	**75,835**
Expenses			
Direct Expenses	**(vii)**	(83,902)	(43,955)
Support Services	**(viii)**	(34,206)	(27,765)
		(118,108)	(71,720)
Other Expenses	**(vi)**	(749)	(735)
Total Expenses		**(118,857)**	**(72,455)**
Excess/(Shortfall) of Income over Expenditure Carried Forward	**(ix)**	**5,996**	**3,380**

Note 42: Financial Regulation Activities (continued)

(i) Net Industry Funding and Provisioning

Net Industry Funding income is included in Note 7: Other Income. This figure comprises income from levies imposed upon the above industry categories (net of appeals and adjustments) under the Section 32D of the *Central Bank Act*, 1942 (as amended) and other income in respect of fees and charges. An amount of €1.0 million in respect of provisions/write-offs has been offset against total funding income to arrive at Net Industry Funding for 2011. Outstanding levy amounts are being pursued as part of the ongoing debt recovery process.

The provisions/write-offs are as follows:

	2011	2010
	€000	€000
Opening Provision for Unpaid Levy Notices	1,438	481
Write-back of Previous Year's Provisions	(231)	(169)
Increase in Provision for 2011	1,045	1,126
Closing Provision for Unpaid Levy Notices	**2,252**	**1,438**

(ii) Provision for Repayments to Revoked Entities

As part of a broad consideration of funding issues undertaken in 2007 and 2008, it was noted that, historically, the Annual Funding Regulations were stated as applying to "regulated" entities. Accordingly, an entity whose authorisation was revoked during the period prior to the date on which the regulations came into force in any year could have reasonably argued that it was not subject to the levy for the full year in question on the basis that it ceased to be a regulated entity on the date on which its authorisation was revoked. In the interests of fairness and transparency, it was decided that such entities be invited to apply for a pro-rata refund of the levy paid in their final year of authorisation. All affected entities were invited to apply to have their case considered. Requests for refunds from revoked entities have been processed and interest applied to repayments made. The write-back of the provision for repayments to revoked entities represents the excess of the provision at 31 December 2010 as compared with the total refunds (including interest) to such entities in 2011.

(iii) Subvention from Central Bank of Ireland

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 borne the full cost of certain securities market supervision activities carried out within the organisation. These costs totalling €6.1 million were excluded from the Net Industry Funding levies issued to the industry in 2011. In addition, under the provisions of the *Central Bank Act*, 1942 (Section 33J) Regulations 2011, a supplementary levy was imposed on credit institutions covered by the Credit Institutions (Financial Support) Scheme 2008 which is designed to recoup from the relevant covered credit institutions 100 per cent of the costs of the more intensive level of supervision necessary to ensure compliance by the relevant credit institutions with the provisions of the Scheme. In that context the 2011 levies incorporate the full recoupment of the cost of the Prudential Capital Assessment Review (PCAR) and Prudential Liquidity Assesment Review (PLAR) excercises conducted during the year.

(iv) Prospectus Approval Fees

Following the unwinding, on 9 December 2011, of the delegation agreement with the Irish Stock Exchange in relation to the performance of certain functions under the *Prospectus (Directive 2003/71/EC) Regulations*, 2005 prospectus and related document approval fees payable to the Bank but which were previously retained by the Irish Stock Exchange (see note (vi) below) are now retained by the Bank.

Note 42: Financial Regulation Activities (continued)

(v) Miscellaneous

Section 61H of the *Central Bank Act*, 1942, as amended provides that the Bank may enter into an arrangement with a prescribed body in relation to the collection of a levy and the costs associated with the collection of the levy concerned are to be met by the entity entitled to receive the levy. In 2011 the Central Bank entered into such an arrangement with the National Consumer Agency (the Agency). This item represents the recoupment, from the Agency, of the costs associated with the collection of these levies in accordance with the provisions of the legislation.

(vi) Other Income/Other Expenses

In 2011 the Irish Stock Exchange collected €0.749 million in fees payable to the Bank in accordance with Regulation 109 of the *Prospectus (Directive 2003/71/EC) Regulations*, 2005, and Regulation 78 of the *Transparency (Directive 2004/109/EC) Regulations*, 2007. In accordance with Part 17(h) of the Prospectus Directive and Market Abuse Directive delegation agreements entered into by the Bank with the Irish Stock Exchange, the Bank confirmed to the Irish Stock Exchange that it could retain the sum of €0.749 million to put towards the costs that it had incurred in undertaking the delegated functions under the delegation agreements.

(vii) Direct Expenses

	2011	2010
	€000	€000
Salaries/Allowances	39,246	29,954
PRSI	3,218	2,114
	42,464	**32,068**
Pension Provision	6,315	3,937
Staff Expenses	**48,779**	**36,005**
Training, Recruitment & Other Staff Costs	543	383
Equipment, Stationery & Requisites	271	329
Business Travel	919	669
Publishing & Consumer Advertising	117	690
Professional Fees	32,297	4,979
Miscellaneous	976	900
Non-Pay Operating Expenses	**35,123**	**7,950**
Direct Expenses	**83,902**	**43,955**

The total amount of professional fees incurred in relation to the PCAR/PLAR of the covered financial institutions was €29.1 million. These costs were fully recouped from the relevant financial institutions and are accounted for under Credit Institutions Industry Funding.

Note 42: Financial Regulation Activities (continued)

(viii) Support Services

Costs in respect of support services are included in Note 8.

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 2011 was €34.2 million (2010: €27.8 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:

	2011	2010
	€000	€000
Corporate Services incl. Premises	11,923	11,853
Information Technology Services	8,054	6,586
Human Resources	4,236	3,313
Other Services*	9,993	6,013
Total	**34,206**	**27,765**

*Other services include legal, accounting and other administrative services.

(ix) Excess/(Shortfall) of Income as Compared with Expenditure

This represents the excess in the amount of levies collected from industry in 2011 as compared with the 2011 funding requirement. In accordance with established practice, the excess of income as compared with expenditure has been carried forward and the calculation of the amount of industry levies for 2012 will be adjusted to take account of this excess.

Note 43: Approval of Accounts

The Commission approved the Statement of Accounts on 25 April 2012.

Report of the Comptroller and Auditor General for presentation to the House of the Oireachtas

I have audited the Statement of Accounts of the Central Bank of Ireland for the year ended 31 December 2011 under the *Central Bank Act*, 1942, as amended by the *Central Bank Reform Act*, 2010. The Statement of Accounts, which have been prepared under the accounting policies set out therein, comprise 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 they give 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 the 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 Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements 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 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 all the financial and non-financial information in the Annual Report to identify 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 Financial Statements

In my opinion, the Statement of Accounts, which have 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 2011 and of its income and expenditure for the year then ended.

In my opinion, proper books of account have been kept by the Bank. The Statement of Accounts are in agreement with the books of account.

Matters on Which I am Required to Report by Exception

I report by exception if:

– there was any material instance where moneys have not been applied for the purposes intended or where the transactions did not conform to the authorities governing them; or

– I have not received all the information and explanations I required for my audit; or

– the information given in Bank's Annual Report for the year for which the Statement of Accounts are prepared is not consistent with the 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.

I have nothing to report in regard to those matters upon which reporting is by exception.

Gerard Smyth
For and on behalf of the Comptroller and Auditor General

25 April 2012

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 2011 which comprise the Profit and Loss and Appropriation Account, the Balance Sheet and the related notes 1 to 43. This Statement of Accounts has been prepared under the accounting policies set out therein.

Respective responsibilities of the Commission members and auditors

The Commission members are responsible for preparing the Annual Report, including as set out in the Statement of Commission Members' Responsibilities, the preparation of the Statement of Accounts 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 applicable to the Bank, accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

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 responsibilities, as independent auditors, are established by Article 27 of the Statute of the European Central Bank and International Standards on Auditing (UK and Ireland). 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.

We report to you our opinion as to whether the Statement of Accounts gives 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 for recognition and measurement. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the Statement of Accounts is in agreement with the accounting records. We also report to you our opinion as to whether the Bank has maintained proper accounting records. We are not required to form an opinion on the effectiveness of the Bank's system of internal financial controls.

We read the other information contained in the Financial Operations chapter of the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the Statement of Accounts. Our responsibilities do not extend to other information.

Basis of audit opinion

We conducted our audit in accordance with Article 27 of the Statute of the European Central Bank and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement of Accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the Statement of Accounts.

Opinion

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 Guidline of the European Central Bank does not provide specific direction or its application is not mandatory, Generally Accepted Accounting Practice in Ireland for recognition and measurement, of the state of the affairs of the Bank as at 31 December 2011 and of the profit for the year then ended.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper accounting records have been kept by the Bank. The Bank's Balance Sheet and its Profit and Loss and Appropriation Account are in agreement with the accounting records.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

25 April 2012

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