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Central Bank Annual Report



Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Central Bank of Ireland

5 April 2013

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 2012.

Yours faithfully



Patrick Honohan
Governor

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Part 1



The Central Bank Commission

as at 31 March 2013



**Patrick Honohan,
Governor***



**Stefan Gerlach,
Deputy Governor
(Central Banking)***



**Matthew Elderfield,
Deputy Governor
(Financial Regulation)***



**John Moran,
Secretary General of
the Department of
Finance***



John FitzGerald



Blanaid Clarke



Des Geraghty



Michael Soden



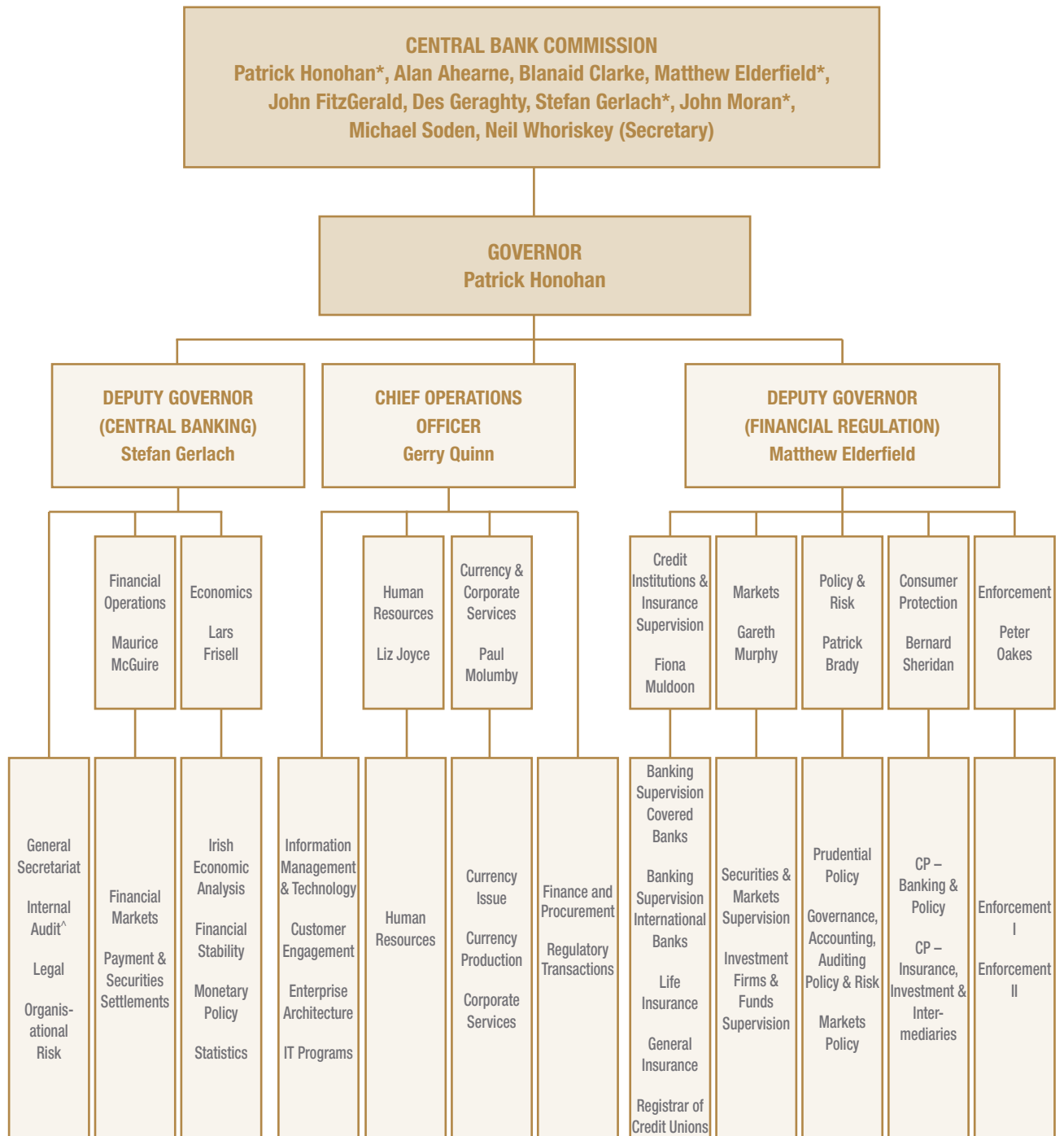
Alan Ahearne



**Neil Whoriskey,
Secretary**

* Ex-officio members

Organisation



* Ex-officio

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

Senior Management

as at 31 March 2013¹



**Patrick Honohan,
Governor**



**Matthew Elderfield,
Deputy Governor
(Financial Regulation)**



**Stefan Gerlach,
Deputy Governor
(Central Banking)**



**Gerry Quinn,
Chief Operations
Officer**



**Patrick Brady,
Director
Policy & Risk**



**Lars Frisell,
Director
Economics**



**Liz Joyce,
Director
Human Resources**



**Maurice McGuire,
Director
Financial Operations**



**Paul Molumby,
Director
Currency & Corporate
Services**



**Fiona Muldoon
Director
Credit Institutions &
Insurance Supervision**



**Gareth Murphy,
Director
Markets**



**Peter Oakes
Director
Enforcement**



**Bernard Sheridan,
Director
Consumer Protection**

¹ Peter Oakes served as Director Enforcement until 10 April 2013.

Management

as at 31 March 2013

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 Daragh Cronin
Economics	Irish Economic Analysis Financial Stability Monetary Policy Statistics Head of Research and Cross-Directorate Projects	John Flynn Vacancy Mark Cassidy Joe McNeill Gerard O' Reilly
Information Management and Technology	Information Management and Technology Customer Engagement Enterprise Architecture	Michael Power Karina McArdle Paul Tully
Currency and Corporate Services	Currency Issue Currency Production Corporate Services	Lucy O' Donoghue Harry Murphy Michael Enright
Human Resources	Human Resources	Vacancy
Operations	Finance and Procurement Regulatory Transactions	Fergal Power Alan Briscoe
Credit Institutions & Insurance Supervision	Banking Supervision – Covered Banks Banking Supervision – International Banks General Insurance Life Insurance Registrar of Credit Unions	Shane O'Neill Fiona McMahon Domhnall Cullinan Mark Burke Sharon Donnelly
Markets	Securities and Markets Supervision Investment Firms and Funds Supervision	Michael Hodson Andy Coulson
Policy & Risk	Prudential Policy Governance, Accounting, Auditing Policy and Risk Markets Policy	Mary Burke Máiréad Devine ² Martin Moloney
Consumer Protection	Consumer Protection – Banking and Policy Consumer Protection – Insurance, Investment and Intermediaries	Vacancy Patricia Moloney
Enforcement	Enforcement I Enforcement II	Derville Rowland Hilary Griffey

² With effect from 7 April.



Governor's Opening Statement

The task of restoring financial stability to the Irish economy continued to dominate Central Bank priorities during 2012. Despite the scale of this challenge, especially in regard to the processing and rectification of the many cases of mortgage arrears, and despite the weak external economic environment, concrete indications of improved financial market confidence, combined with a better trend in most macroeconomic indicators than has been evident for several years, suggest that the overall policy stance is moving things in the right direction. In parallel, the Bank has maintained its programme of process improvements to its capacity to deliver in the future on its regulatory, advisory and operational responsibilities.

The Bank's contribution to this recovery during the past year has included further steps towards deleveraging the banking sector, the design and introduction of new prudential regulatory initiatives, the provision of ongoing necessary liquidity support to the banking system, the introduction of enhanced consumer protection measures and the provision of economic policy advice. Two major elements of the Bank's work during 2012 came to decisive junctures in early 2013 – the liquidation of IBRC and related replacement of the promissory notes with marketable government bonds; and the introduction of an enhanced mortgage arrears framework.

All of these measures are ultimately concerned with creating the environment for sustainable economic growth and reduction in unemployment.

The gradual recovery of the Irish economy continues, despite the challenging external environment, which deteriorated in the second half of 2012 with a slowdown in growth at the international level and, particularly, among Ireland's main trading partners. Despite this

slowdown, export growth, particularly in services, remained strong and, while domestic demand continued to remain weak, there has been a notable easing in the pace of decline.

During the year, Ireland continued to deliver on its commitments under the EU-IMF Programme. At the end of 2012, more than two-thirds of the way into the Programme, progress on policy implementation and reform remained strong and this continued into 2013. For its part the Bank met all of its various benchmarks for financial sector reform, while the Government continued with its implementation of legislative and structural reforms. The continued adherence to the targets helped Ireland to re-enter international capital markets in mid-2012 and increased the prospect of a successful exiting of the Programme at the end of 2013. Full implementation of the Government's announced budgetary measures remains essential to preserve market confidence.

On the broader European front, the Eurosystem conducted monetary policy in a challenging environment. The Governing Council of the ECB further reduced interest rates in 2012 while adopting a number of further non-standard monetary policy measures, notably the design of a programme of outright monetary transactions intended to remove any perception of redenomination risk. All of this was done to support liquidity in financial markets and to ensure that market tensions did not lead to the impairment of monetary policy transmission. A significant development in 2012 was the agreement to establish Banking Union and a Single Supervisory Mechanism, preparations for which need to continue and intensify throughout 2013. The move towards a systemic approach to supervision, resolution and deposit protection is part of what is needed to place the euro area institutional framework onto a more robust basis, building market and public confidence.

In 2012, the Bank published its new three-year Strategic Plan. The Plan sets out how the Bank intends to deliver on its mission of *Safeguarding Stability, Protecting Consumers* and details the key strategic priorities over the coming years, all of which are closely aligned to the Bank's statutory objectives. Based on this strategic approach, the Bank will continue to work towards furthering the progress already made in restoring financial stability and supporting economic recovery.

The Bank's profit for the year to 31 December 2012 amounted to €1.4 billion. After retained earnings, surplus income of €1.1 billion will be paid over to the Exchequer.

A full account of how the Bank has carried out its activities during 2012 is set out in this Annual Report and in the Annual Performance Statement for Financial Regulation which is also being published at this time.

I wish to thank the members of the Central Bank Commission for their advice and valuable contributions during the year.

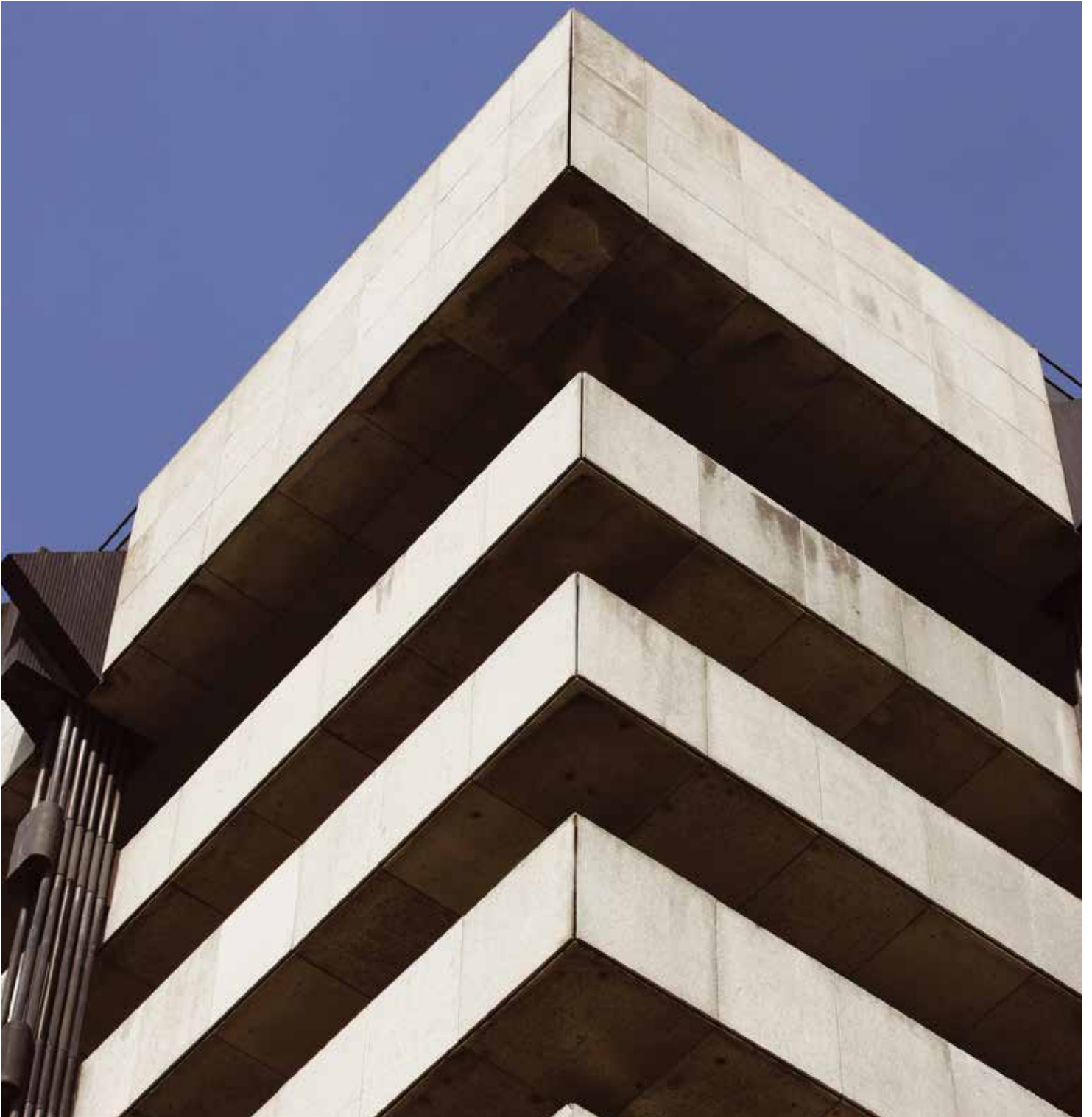
As this report was being finalised, Deputy Governor, Matthew Elderfield, announced his intention to step down later in 2013. I would like to pay tribute to Matthew for the enormous contribution he has made to the Bank and to the reform of our regulatory and supervisory system.

I would like to thank all the management and staff of the Bank for their continued professionalism, dedication, and hard work during 2012.

Patrick Honohan
Governor

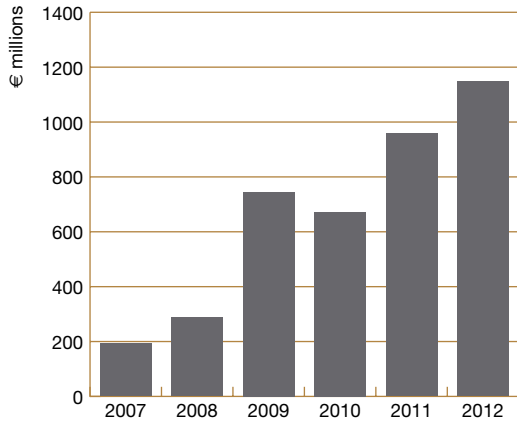
April 2013

2012 at a Glance



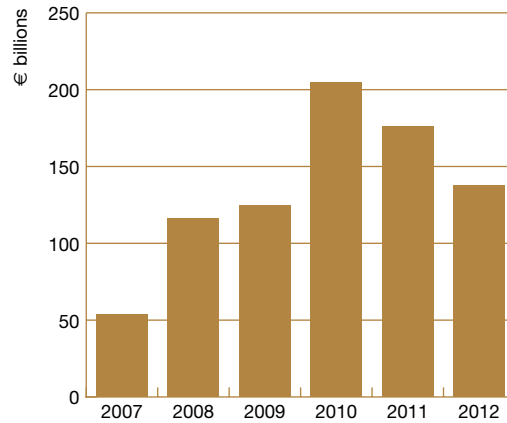
2012: The Bank at a Glance

Surplus Income Paid to Exchequer



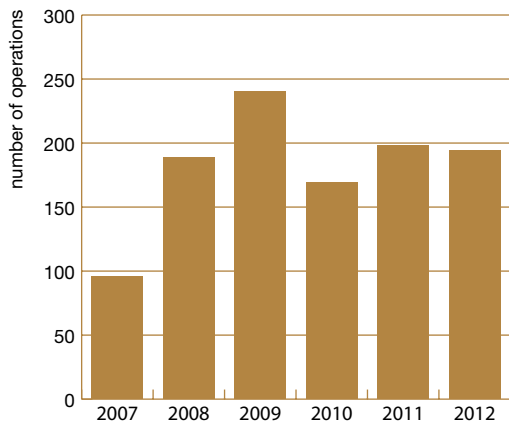
Surplus income paid to the Exchequer increased to €1,147.6 million (€958.3 million in 2011).

Total Assets



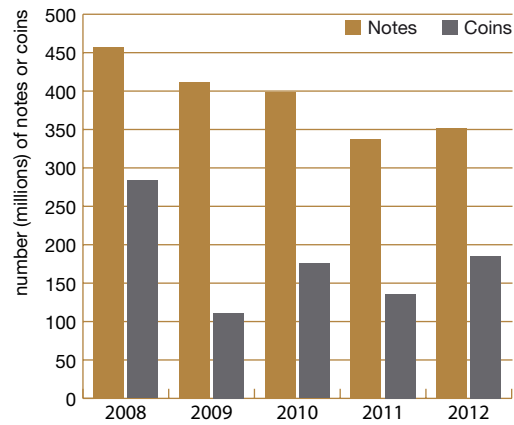
Total Assets decreased to €137.5 billion (€176.2 billion in 2011).

Number of Open Market Operations



There were approximately 194 operations conducted by the Bank on behalf of the Eurosystem (198 in 2011).

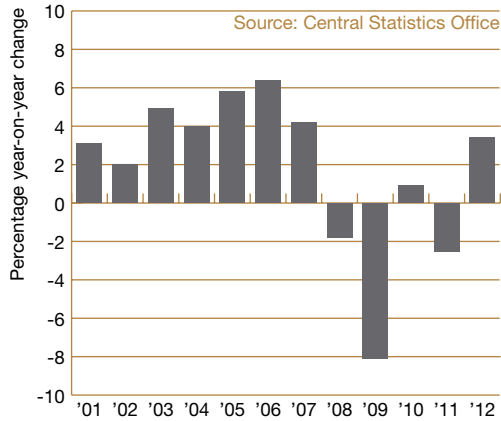
Issuance of Banknotes and Coin



The number of banknotes issued increased (352 million in 2012 from 337 million in 2011) and the number of coins issued increased (185 million in 2012 from 136 million in 2011).

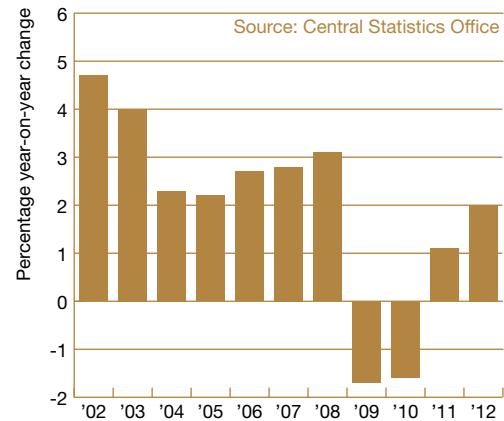
2012: The Economy at a Glance

Real GNP



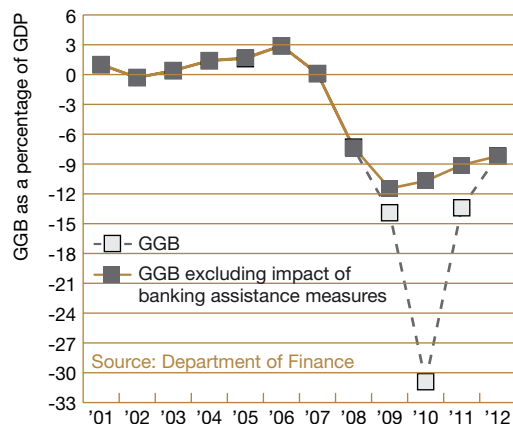
The economy expanded in 2012, growing in real GNP terms, by an estimated 3.4 per cent.

Inflation (HICP)



The HICP measure of inflation averaged 2.0 per cent in 2012.

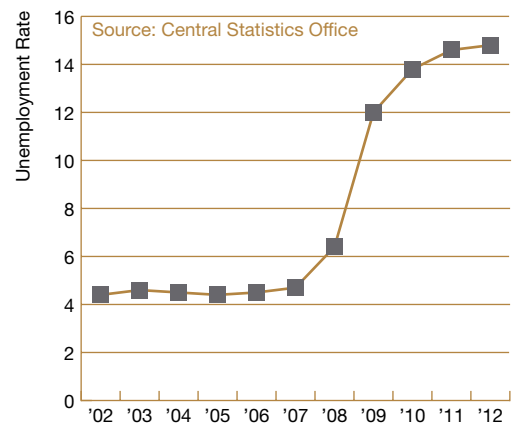
General Government Balance (GGB) as a % of GDP



The 2012 General Government Deficit comfortably outperformed its ECOFIN Excessive Deficit Procedure target of -8.6% of GDP.

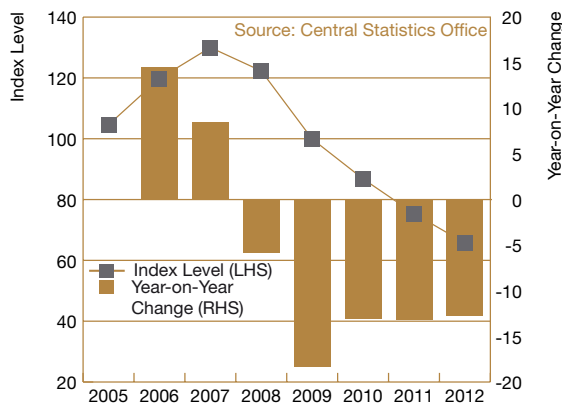
Note: Figures for 2012 are based on Department of Finance estimates at time of Budget 2013 and are subject to revision once EDP figures are published by Eurostat at end-April 2013.

Unemployment Rate



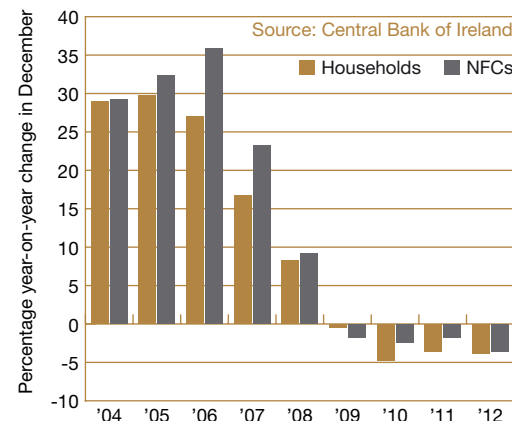
The unemployment rate increased to an average of 14.8 per cent in 2012.

National Residential Property Prices



National residential property price declines remained strong in 2012, with prices falling by 12.8 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 3.9 per cent and by 3.6 per cent, respectively, year-on-year by end-2012.

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 2012



Executive Summary



Legislative Background

The Central Bank of Ireland was established by the Central Bank Act 1942 and, under the Central Bank Reform Act 2010, became the single integrated structure for both central banking and regulatory activities. The Bank, as the central bank for Ireland, is a member of the European System of Central Banks (ESCB) and has the primary objective of maintaining price stability. The Bank's other key statutory objectives are:

- » The stability of the financial system;
- » Proper and effective regulation of financial institutions and markets, while ensuring that consumers of financial services are protected;
- » Resolution of the financial difficulties in credit institutions in Ireland;
- » The efficient and effective operation of payment and settlement systems; and
- » Provision of analysis and comment to support national economic policy development.

Main Issues

The Bank's key activities in 2012 were conducted against a backdrop of continuing financial stability concerns; difficult economic conditions for consumers, businesses and

regulated firms, and stress in international financial markets which had spillover effects on domestic markets and financing conditions. The Bank's priorities were to contribute to the restoration of financial stability and economic recovery, through completion of EU-IMF commitments, liquidity support operations, financial sector restructuring, deleveraging and consumer protection initiatives.

Ireland completed its second year of the three-year EU-IMF Programme, the successful delivery of which is central to the country's economic and financial stabilisation and revival. The Bank continued to play a key role in the steps being taken to recover financial sector stability and to restore the normal supply of credit to households and businesses. The background of a weaker international economy and financial market tensions made these roles more challenging.

On the European front, the Bank has two key fields of operation. As a member of the Eurosystem, the Bank is part of the collective design, analysis, decision-making and implementation of monetary policy and part of the broader European response to the financial crisis. On the regulatory front, it is involved in the design and development of regulatory framework changes, including the frameworks for banking, insurance, financial markets and products, as well as the design of the new EU-wide Single Supervisory Mechanism (SSM).

As part of the Bank's Eurosystem role, the Governor is a member of the ECB Governing Council, which has responsibility for setting monetary policy (interest rates and provision of liquidity), which is then implemented on a decentralised basis by each member state's National Central Bank (NCB). Since the onset of the financial crisis, the ECB has reduced interest rates close to zero per cent and has adopted a number of non-standard monetary policy measures, which include asset purchases, very long term and foreign currency liquidity-providing operations, in response to the malfunctioning in interbank markets and the increased reliance on Eurosystem funding. The signs are that the impact of these non-standard measures have contributed to a reduction in financial markets tensions and a nascent recovery in funding opportunities for sovereigns and corporates in financial markets.

Financial Sector Reorganisation

At the end of 2012, Ireland was just over two years into the three-year EU-IMF Financial Assistance Programme. The Bank continued to make significant progress in restoring the financial sector through the 2012 Financial Measures Programme (FMP) which included a forward looking assessment of the domestic banks' capital needs. This wide-ranging assessment evaluated the banks' capacity to manage mortgage and SME arrears and the results of the analysis informed the Bank's supervisory risk modelling capabilities. During 2012, the banks continued to reduce their balance sheets through asset disposal and sale of non-core assets. In March 2012, the Government approved the acquisition of Irish Life from Irish Life and Permanent (ILP). A restructuring plan for permanent tsb (PTSB) was submitted to the European Commission in June 2012 and AIB submitted a revised restructuring plan to the European Commission in September 2012.

Liquidity Support

Total monetary policy lending in the Eurosystem amounted to €1,133 billion at 31 December 2012, of which €72 billion was provided by the Bank, on behalf of the Eurosystem, to the Irish banking system (including the Irish Financial Services Centre (IFSC)). The Bank also provided Exceptional Liquidity Assistance (ELA) to the

banking system, which was necessary for financial stability purposes. At end-December 2012, the Bank had extended ELA of €40 billion. In February 2013, on the liquidation of IBRC, the Bank's ELA operations ceased.

Regulatory Developments

The Bank's risk-based approach to supervision – PRISM - is a challenging and proportionate system of supervision for all financial institutions operating in Ireland. Applied to banks and insurers in 2011, PRISM was extended in 2012 to investment firms and credit unions. Its key objectives include having a consistent way of reviewing risk across all supervised firms; facilitating the allocation of resources based on impact of firm failure; and requiring a systematic method of assessing risks in firms. The Bank engages in cyclical supervisory programmes for banks, with the frequency of the engagement tasks based on the scale and overall impact categorisation of the institution. During 2012, the Bank carried out Full Risk Assessments for banks rated as High Impact under PRISM. The key components of the Bank's 2012 engagement plan for (re)insurance undertakings included continued preparatory work for the implementation of the Solvency II Directive and the new fitness and probity regime for the industry. The Bank continued to focus on building reserves and provisions in the credit union sector through various regulatory interventions such as withholding dividend payments in 2012 and placing restrictions on the business of individual credit unions. The Commission on Credit Unions (CCU) reported in March 2012 and recommended a number of measures to strengthen the credit union regulatory framework which included providing the Bank with the legislative powers to make regulations that set prudential controls, limits, standards and requirements for credit unions. Where regulated entities fail to comply with their regulatory requirements, enforcement is an important tool to effect deterrence, achieve compliance and promote the behaviours the Bank expects. The Bank continues to ensure that the results of enforcement actions are publicly available.

Consumer Protection

During 2012, a key strand of the Bank's consumer protection work focussed on ensuring that lenders develop effective Mortgage Arrears Resolution Strategies (MARS) for dealing with borrowers in arrears. Guidance was issued to all lenders in April 2012 clarifying the protections and limits on contact with consumers in arrears, as set out in the Consumer Protection Code 2012 and the Code of Conduct on Mortgage Arrears (CCMA). The work undertaken in this area throughout 2012 was followed through in early 2013, with the announcement of a series of measures to address mortgage arrears, including the publication of performance targets for the main mortgage banks and proposed changes to the CCMA. The Bank continued its investigation into the sale of Payment Protection Insurance (PPI) and released findings of its latest inspection in June 2012. The Bank was centrally involved in ensuring that Ulster Bank managed its major IT issues and endeavoured to limit the negative impact on customers. It also required Ulster Bank to put in place a comprehensive restitution plan for impacted customers. Engagement with the retail intermediary sector was enhanced during the year which included the hosting of a series of roadshows around the country.

Financial Stability

The Bank contributes to financial stability through its work on system-wide issues (macro-prudential approach) and at the firm level (micro-prudential approach). Throughout 2012, the Bank's Financial Stability resources made significant contributions to work on loan loss forecasting, mortgage arrears, SME lending and the eligible liabilities guarantee, as well as providing macro-financial analyses and advice to the Bank's senior management. Two editions of the Bank's Macro-Financial Review were produced, to provide systematic overviews of macro-financial conditions in Ireland. The Review is published to help financial market participants, other authorities and the public evaluate financial risks.

Economic Policy and Statistics

The Bank plays an important role in influencing national economic policy, by acting as an

independent commentator on the economy and as advisor to the government on policy initiatives. This role is performed through the provision of economic analysis, 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 contributions to conferences and seminars. Internally, economic analysis and research are inputs into ongoing financial stability assessments. The Bank also contributes to the formation of macroeconomic forecasting and economic policy advice and research at Eurosystem level. The Bank continued to enhance its statistical outputs and analysis throughout 2012 for domestic-policy purposes and international legal requirements, both for the ECB and the External Partners for monitoring Ireland's compliance with the EU-IMF Programme. A number of initiatives undertaken during the year included a new statistical release on mortgage arrears which also included information on buy-to-let mortgages for the first time.

Payments and Currency

The Bank ensures that there is an efficient and secure cash supply infrastructure in place, thus safeguarding the availability, integrity, security and quality of the euro. In 2012, the Bank supplied a total of 351 million new and re-issuable banknotes. Preparations continued for the launch of the second series of euro banknotes (ES2), which seek to improve the quality and security of euro banknotes. The first banknotes in the new series are due to be issued in 2013. The Bank is responsible for the oversight of payment and settlement systems. TARGET2, is the platform for payment settlement services to all Eurosystem banks. It provides immediate (real time) settlement on a transaction-by-transaction basis and operates to the highest standards of reliability. During 2011, the Bank was requested by the Minister for Finance to take the lead in preparing the National Payments Plan (NPP) which was submitted to the Government in October 2012. The role of the Bank is to drive a number of the initiatives and to track the implementation of the overall plan. There will be particular focus on ensuring that the benefits of payments reform flow to consumers and businesses. A key tool of financial stability is the Deposit

Guarantee Scheme (DGS), which provides that deposits are backed-up, to a certain level, by a government guarantee. Under EU obligations, the Bank is required to have systems in place to support Ireland's DGS, which would compensate depositors in the event of the failure of a domestic deposit-taking institution.

Investments

At the end of 2012, the Bank's investment portfolios comprised assets of €19.4 billion, an increase of €0.7 billion on 2011. Total earnings on the portfolios amounted to €552.7 million in 2012 compared to €536.8 million in 2011. In 2012, markets were dominated by risks regarding the ongoing European sovereign debt crisis and uncertainty surrounding the global economic situation. The returns on the investment portfolio averaged 3.00 per cent, compared with 3.05 per cent for 2011. The Bank's investment portfolio is managed in line with parameters approved by the Commission and is kept under constant review.

The ECB's net foreign reserves, which amounted to €64.8 billion equivalent at end-2012, are managed by NCBs in line with their capital key share. Since 1 January 2008, the Bank has also managed the Central Bank of Malta's share of the US dollar pooled reserves as well as the Bank's own share. The ECB reserves portfolio under management in the Bank amounts to €748 million-equivalent, which is proportionate to the two countries' shareholdings in the ECB.

Staffing

The Bank employed 1,394 staff at end-2012, comprising both permanent and fixed term contract staff. Of this, 293.5 were assigned to Central Banking functions, 622 were assigned to Regulatory areas and 478.5 to Operations. A further 9 were assigned to the Investor Compensation Company Limited (ICCL).

Profits

The Bank's profits for the year to 31 December 2012 amounted to €1.4 billion. After retained earnings, €1.1 billion will be paid to the Exchequer.

EU-IMF Financial Assistance Programme for Ireland

At the end of 2012, Ireland was just over two years into the three-year EU-IMF Financial Assistance Programme secured on 28 December 2010. The Programme, which covers important elements of Ireland's economic and financial policy framework, is aimed at addressing financial sector weaknesses and placing the economy on a path of sustainable growth, with sound public finances. As part of the requirements under the Programme, the External Partners (the IMF, European Commission and European Central Bank) conducted quarterly reviews during 2012, to assess Ireland's performance against agreed structural benchmarks and performance criteria. The IMF and European Commission published staff reports after each review and, following IMF Executive Board and European Council approval of these, further loan tranches were released.

The Bank, in conjunction with the Department of Finance, is responsible for delivering the financial sector commitments under Ireland's Programme. The Bank is also involved in the operational, financial and strategic aspects of the Programme, including taking an overarching view of Programme-related developments, monitoring compliance, co-ordinating review missions, processing external funds that are transferred via the Bank and preparing quarterly reports on the Programme for the public.

Summary of Programme Achievements/ Targets Reached in 2012

Ireland continued to deliver on its Programme commitments in 2012, with all conditions met. These included fiscal targets, further measures to restore the financial sector to health (e.g. restructuring of the banking system and credit unions), and legislative reforms in a number of areas, including the personal insolvency and competition frameworks. Reflecting these developments, the External Partners stated in January 2013 that 'Ireland's strong track record of programme implementation has been maintained'. This progress, together with market expectations of supportive European policy action, has led to a notable decline in Irish sovereign yields, enabling Ireland to

re-enter international capital markets in July 2012 and access significant market funding since then.

Fiscal and Budgetary Actions

On the fiscal front, the consolidation targets for 2012 were achieved and all the individual criteria and benchmarks were met. The General Government Deficit for 2012 is expected to be below 8 per cent of GDP and therefore comfortably within the programme ceiling of 8.6 per cent. While overspending was evident in two sectors during 2012 (health and social welfare), this was offset by better than expected tax revenues and expenditure restraint in a number of other areas. The quarterly targets to end-December 2012 for the exchequer balance and net central government debt were also achieved by a margin, as they have been since the start of the Programme. In addition, a key piece of legislation, the Fiscal Responsibility Act was published in July 2012 and signed into law in November. This established the Irish Fiscal Advisory Council as a statutory body and transposed the EU Stability Treaty into national legislation. Legislation was published in September 2012 to put existing multi-annual expenditure limits on a statutory basis.

Structural Reforms

Further progress was made on the structural reform agenda during 2012, which aims to boost growth in Ireland, create jobs and enhance competition. Key measures taken included strengthening the competitive legal framework, increasing the staffing resources of the Competition Authority, raising caps on retail premises, and the advancement of plans to introduce water charges and establish a new water utility (Irish Water). A number of state assets were also identified for future disposal, and work began on the steps needed to bring these to market. Moreover, as part of the reform of the job activation system, a new initiative - Pathways to Work - was rolled out in 2012. Steps were also taken to strengthen training and education services, while work on reforming sectoral wage setting mechanisms continued.

Financial Sector Reforms

The main structural benchmarks for financial sector reform are set out in Box 1.

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 and place the economy and public finances on a sustainable path. Under the terms of agreement of the Programme, Ireland has committed to taking the necessary actions to achieve a recapitalisation, downsizing and reorganisation of its banking system. The key actions delivered under the Programme in 2012, including structural benchmarks, are listed below.

Structural Benchmarks Achieved

No.	Area	Action/Measure	Month
1	Permanent TSB Restructuring Plan	An updated restructuring plan for permanent tsb detailing the actions needed to ensure viability of its core businesses was submitted to the European Commission.	June
2	Credit Union Legislation	The authorities published legislation to strengthen the regulatory framework for credit unions, including making legislative provision for effective governance standards and prudential requirements.	September
3	Credit Institution Levy	Regulations were established to charge a levy across credit institutions to recoup over time the costs of resolving vulnerable institutions.	September

Key Programme Actions Completed by end-Quarter 1 2012

No.	Area	Action/Measure	Month
1	Recapitalisation	The Bank completed a comprehensive report on the evolution of capital within the banks covered by the Prudential Capital Assessment Review (PCAR), up to the end of December 2011.	February
2	Reorganisation	The Irish authorities reported on progress in implementing the strategy for the reorganisation of Irish credit institutions.	March

Key Programme Actions Completed by end-Quarter 2 2012

No.	Area	Action/Measure	Month
3	Financial Supervision	The Bank issued guidance to all lenders on 30 April clarifying the protections and limits on contact with consumers in arrears set out in both the Consumer Protection Code 2012 (2012 Code) and the Code of Conduct on Mortgage Arrears (CCMA).	April
4	Financial Supervision	The Bank finalised its review of all incumbent directors of the State-supported banks to see if there were issues with the fitness and probity of any such directors arising out of their tenure leading up to the banking crisis.	June
5	Financial Measures Programme	An independent asset quality review (AQR) to assess the quality of aggregate and individual loan portfolios and the processes employed for establishing and monitoring asset quality was completed.	June
6	Financial Measures Programme	A distressed credit operations review (DCOR) to assess the operational capability and effectiveness of distressed loan portfolio management in the banks including arrears management and workout practices in curing NPLs and reducing loan losses was completed.	June

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

No.	Area	Action/Measure	Month
7	Financial Measures Programme	A data integrity validation (DIV) exercise to assess the reliability of banks’ data was completed.	June
8	Financial Measures Programme	An income recognition and re-ageing project to review existing practices against IFRS and relevant regulatory guidance was completed.	June
9	Enhancing Asset Quality	The authorities assessed banks’ progress with the work-out of their non-performing portfolios in line with milestones established by the Bank and reported to the External Partners.	June
10	Deleveraging	The Bank provided an update on progress of the banks’ implementation of their deleveraging plans under the Prudential Liquidity Assessment Review (PLAR) 2011.	June
11	Loan to Deposit Ratio	It was agreed with the External Partners to remove the Loan-to-Deposit Ratios (LDR) target and replace it with an <i>advanced monitoring framework</i> , focusing on banks’ Net Stable Funding Ratios.	June

Key Programme Actions Completed by end-Quarter 3 2012

No.	Area	Action/Measure	Month
12	Deleveraging	The Bank assessed banks’ deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme.	September
13	Funding and liquidity monitoring	The Bank carried out an assessment of banks’ progress towards the relevant Basel III requirements using the advanced monitoring framework.	September
14	Asset Quality	The Bank provided the External Partners with their assessment of banks’ performance with the work-out of their non-performing mortgage portfolios in accordance with the agreed key performance indicators.	September
15	Reorganisation	Regulations were signed to introduce the requirement, under the terms of the Deposit Guarantee Scheme, for credit unions to maintain an amount in the Deposit Protection account at the Bank. Announced on 21 September and came into effect from 30 November 2012.	September
16	Financial Supervision	The Bank reported on banks’ progress with the implementation of strategies to address loan arrears and unsustainable debts in banks’ mortgage and SME loan portfolios.	September
17	Financial Supervision	The Credit Reporting Bill was published which will establish a statutory central credit register.	September
18	Financial supervision	The Bank agreed detailed credit data and documentation remediation plans with each of the PCAR banks.	September

Box 1 – Ireland's Financial Sector Commitments under the External EU-IMF Programme of Financial Support**Key Programme Actions completed by end-Quarter 4 2012**

No.	Area	Action/Measure	Month
19	Capital Assessment	The Bank provided the staff of the European Commission, the ECB and the IMF with a review of developments in the PCAR banks relative to PCAR 2011.	December
20	Asset Quality	The Bank developed a set of key performance indicators to monitor SME distressed credits.	December
21	Financial Supervision	The Bank provided a comprehensive report on progress in implementing the Bank's action plan for strengthening supervision of credit institutions.	December
22	Financial Supervision	The Bank continued to enhance its approach to credit risk, risk weighted asset (RWA) supervision including conducting annual model performance reviews, assessing RWA calculations and reviewing banks' approaches to RWA forecasting and stress testing in advance of PCAR 2013. The Bank completed the reviews of the banks' RWA models and issued mitigating actions to the banks concerned.	December
23	Financial Supervision	The Bank revised the Collateral Valuation Guidelines originally published in December 2011.	December

Financial Measures Programme 2012 (FMP)

The FMP for 2012 included components to support a forward looking assessment of capital needs (stress test). These activities included an Asset Quality Review, a Distressed Credit Operations Review (to assess the Irish Government-guaranteed banks' resources and operational capacity to manage mortgage and SME arrears) and a Data Integrity and Validation Review (in conjunction with the banks' external auditors). The results of these thematic reviews were used to inform Risk Mitigation Programmes, which are part of the Supervisory Review Process, which specifically focused on improvements to arrears management, credit processes, data analysis and reporting and loan loss modelling.

The 2012 stress test of capital needs was originally planned to align with the European Banking Authority (EBA) EU-wide stress test but was postponed following the deferment of the EBA 2012 exercise until 2013. The Bank renewed its focus on data remediation/

integration programmes within the banks, which have resulted in more detailed and granular reporting to the Bank - thus enhancing supervisory capability for risk modelling. Utilising the enhanced data received, the Bank has continued to build in-house stress testing capability. Specifically, it has engaged BlackRock Solutions to advise on the validation of internal loan loss forecasting models to be used in future stress testing.

Mortgage Arrears

In the first quarter of 2012, feedback was provided to institutions on their 2011 MARS, and focused on (i) the need for more detailed and assertive Buy-to-Let strategies, (ii) guidelines on assessment of sustainability, and (iii) timelines for designing modification options, piloting and roll out of these options. Significant efforts in 2012 were centred on engaging with banks on the ongoing design, piloting and rollout of modification options, including on-site reviews of operations in action. The Bank also developed a set of key performance indicators (KPIs) to track the banks' implementation of

MARS. Analysed data was first published in December 2012 and will be published on a quarterly basis thereafter.

The Bank issued guidance to all lenders in April 2012 clarifying the protections and limits on contact with consumers in arrears, as set out in the Consumer Protection Code 2012 and the Code of Conduct on Mortgage Arrears (CCMA). A further information release was published in May 2012. Separately, a Mortgage Advisory Service was established by the Department of Social Protection to provide professional financial advisory services to distressed borrowers.

The work undertaken by the Bank in 2012 was followed through in early 2013 with the announcement of new measures to address mortgage arrears, including the publication of performance targets for the main mortgage banks and proposed changes to the CCMA. This approach is designed to ensure that banks offer and conclude sustainable solutions for their customers in arrears by setting specific performance targets and proposing revisions to provisioning standards. The proposed changes to the CCMA are being made so that it continues to provide protection to customers who cooperate with their bank while facilitating and promoting the resolution of arrears cases.

SME Arrears

In 2012, the Bank instigated an SME arrears project, to ensure the largest SME lenders (domestic and international banks) address a number of key issues it had identified, particularly:

- » Insufficient arrears management experience in some of the workout teams;
- » Insufficient availability of central specialist resources (legal, collateral valuers, etc.);
- » Excessive and inappropriate use of short-term forbearance, with insufficient consideration given to long-term business and debt restructuring options; and
- » Lack of performance monitoring or use of KPIs to track workout progress.

The Bank has also put in place KPIs to monitor progress of the in-scope domestic banks. These will be rolled out to the international banks in the first quarter of 2013.

Work to revise the corporate sector insolvency framework for SMEs also began in 2012, to improve the efficacy of the process and reduce key costs for companies seeking examinership. Amendments were prepared in December 2012 by the Department of Justice to designate the Circuit Courts, rather than the High Court, as competent for the examinership of companies that come within the EU small company thresholds.

Risk Modelling & Mortgage Provisioning

The focus in 2012 was on designing a supervisory review framework for credit risk weighted assets (RWA) calculations under Basel II's internal ratings based (IRB) approach. The framework was shared with the External Partners through the course of the year and, on completion of the review of the PCAR banks, findings and mitigating actions were issued. Also, as part of the wider MARS initiative, detailed analytical work was undertaken on mortgage provisioning data as at the end of the third quarter of 2012, to identify areas of concern / highest risk.

Deleveraging

An output from the 2011 FMP was the restructuring of bank balance sheets. During 2012, the banks continued to deleverage their balance sheets through asset disposal and sale of non-core assets. In addition, the Bank established an advanced monitoring framework covering all factors affecting banks' Net Stable Funding Ratio, to enable closer monitoring of progress towards meeting these Basel III requirements. The establishment of this framework allowed the Bank to remove the previously imposed Loan-to-Deposit Ratio target.

Restructuring

In March 2012, the Government approved the acquisition of Irish Life from Irish Life and Permanent (ILP), which paved the way for the separation of the life company from the rest of the ILP Group. A restructuring plan for

permanent tsb (PTSB) was submitted to the European Commission in June 2012. Under the plan, PTSB was reorganised into three distinct units: (i) a core retail bank; (ii) an asset management unit to house certain legacy assets; and (iii) a UK residential mortgage operation, which will be divested as soon as conditions permit. In addition, AIB submitted a revised restructuring plan to the European Commission in September 2012.

Provisioning and Disclosure Requirements

The Bank published its revised guidance - *Valuation Processes in the Banking Crisis: Lessons Learned Guiding the Future* - in December 2012. These guidelines support the Impairment Provisioning and Disclosure Guidelines published in 2011.

Personal Insolvency Reforms

The Personal Insolvency Bill was published in June 2012 and was subsequently enacted in January 2013. A Director designate for the Insolvency Service of Ireland was appointed in September 2012, and the new service is expected to be operational from Q2 2013. Together with the revised personal insolvency law, the Insolvency Service will provide a more effective way of resolving unsustainable debt positions.

Credit Unions

A report by the Commission on Credit Unions, published in April 2012, made a number of recommendations to address the challenges facing the credit union sector and help secure its long term sustainability. Following consultations with key stakeholders, a Credit Union Bill strengthening the regulatory framework for credit unions was published in September 2012 and enacted in December 2012. Prudential and governance requirements along with regulation-making powers that support the introduction of a strengthened regulatory framework for the credit union sector are set out in this Act. It also provides for the sector's restructuring on a voluntary basis. Regulations were issued under the Deposit Guarantee Scheme (DGS) in September 2012, requiring credit unions to maintain a balance in the Bank's Deposit Protection Account (DPA)³.

Regulations supporting a Resolution Fund levy were also issued that month. All authorised credit institutions will be required to contribute to this fund, including credit unions. In addition, €250 million was transferred to the Credit Union Fund in December, while the Restructuring Board (ReBo), which will lead the restructuring process, was placed on a statutory basis in January 2013.

Credit Register

The Bank assisted the Department of Finance in developing a Credit Reporting Bill, published in September 2012, which gave responsibility to the Bank for the establishment, maintenance and operation of a national credit register (the Central Credit Register). The Bank also contributed to the Regulatory Impact Assessment and associated consultation undertaken under the stewardship of the Department.

Action Plan for Strengthening Supervision of Credit Institutions

The Bank submitted four comprehensive reports to the External Partners in 2012 outlining progress on the implementation of its action plan for strengthening the supervision of credit institutions.

Regulatory Performance Review 2012 - Report on the Observance of Standards and Codes

As part of the FMP, the Irish Authorities agreed that an assessment of the Bank's compliance with the Basel Core Principles for Effective Banking Supervision (the Core Principles) will be carried out by the IMF in the second half of 2013. In November 2012, the Bank completed an initial assessment of its compliance with the Core Principles. The outcome of this assessment has been reflected in a draft self-assessment document and a remediation plan for areas that require strengthening.

Provision of Data

Under the terms of the MoU on Specific Economic Policy Conditionality, the Bank is responsible for the provision of certain data and indicators to the External Partners on an agreed

³ With effect from 30 November 2012, credit unions are required to contribute an amount equal to 0.2% of the deposits and shares held on behalf of members.

calendar basis. The type of data required has been amended since the inception of the Programme. The latest MoU, dated March 2013, sets out current requirements including details of the Bank's balance sheet, a range of financial and regulatory information and an update on progress achieved under the FMP Programme.

EU-IMF Disbursements

The 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), with the remainder (amounting to €22.5 billion at Programme inception⁴) from the IMF. By the end of 2012, Ireland had received a total net euro amount of €55.8 billion⁵, almost 83 per cent of the total funds available under the Programme. Of this, over €19 billion originated from the IMF, with the remainder from European Partners (€21.7 billion from the European Financial Stability Mechanism (EFSM), €12.7 billion from the European Financial Stability Facility (EFSF), €2.45 billion from the UK Bilateral loans, and €0.3 billion and €0.2 billion from the Swedish and Danish Bilateral loans respectively).

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

5 Total liabilities under the Programme at end-December 2012 were €56.44 billion. The net euro amount received by the Exchequer was €55.8 billion after adjustment for below par issuance, deduction of a prepaid margin, and the effect of foreign exchange transactions.

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 is a member of the Governing Council of the ECB which has responsibility for monetary policy decisions, for the measures being taken by the Eurosystem to deal with the ongoing tensions in financial markets, and for enhancing institutional frameworks to facilitate a return to normal market functioning.

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 2012, the Eurosystem conducted monetary policy in a very challenging environment. Weak economic confidence, rising commodity prices, high unemployment, a tighter fiscal stance and subdued foreign demand, alongside stress in financial markets generally and funding stress in the banking sector in particular, contributed to a subdued economic activity in the euro area. The Governing Council eased monetary policy with an interest rate reduction of 25 basis points on 5 July 2012, against the background of a dampening of inflationary pressures over the policy-relevant horizon as well as the materialisation of downside risks to the euro area growth outlook. The rates on the deposit facility and the marginal lending facility moved in line with changes to the main refinancing rate. There were no other changes to interest rates during 2012 and the deposit facility rate, main refinancing rate and marginal lending facility rate stood at 0 per cent, 0.75 per cent and 1.5 per cent, respectively, at the end of the year.

In addition to changes to its policy rates, the ECB continued to respond to developments in the euro area economy and financial markets, with the adoption of new non-standard monetary policy measures, as well as the

continuation 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 these non-standard monetary policy measures relate to the provision of liquidity to Eurosystem counterparties. In addition to its normal open market operations, the ECB undertook a 3-year Longer Term Refinancing Operation (LTRO) on 29 February 2012. This was the second 3-year LTRO undertaken by the ECB, with the first held on 21 December 2011⁶. These operations provided an opportunity for eligible counterparties to access funding at unusually long maturities and were met by a significant uptake from counterparties and, alongside other measures, contributed to an easing in money market strains throughout the year. The ECB also signalled that its fixed-rate full allotment policy, originally introduced in late 2008 to ensure that all demands for liquidity are met subject to adequate eligible collateral, will be extended until at least mid-2013.

The ECB also introduced a number of measures to extend the availability of collateral during 2012 (see Box 2). These included the acceptance, on a temporary basis, of some categories of credit claims as collateral for Eurosystem credit operations; a number of NCBs including the Bank adopted such schemes during 2012. The ECB also continued to provide foreign currency liquidity to euro area banks during 2012 through bilateral agreements with other central banks. The reserve requirement for Eurosystem counterparties was maintained at 1 per cent during 2012, following the announcement on 8 December 2011 that it would be reduced from 2 per cent on 18 January 2012.

Targeted measures were also undertaken to address malfunctioning in some euro area bond markets, following a worsening in conditions towards the middle of 2012. On 2 August, the Governing Council announced that it would design a facility for undertaking outright open market operations in secondary markets for sovereign bonds. Such operations would be aimed at reducing risk premia related to fears of the reversibility of the euro, which have

⁶ Counterparties that accessed these operations have the option after one year of repaying part or all of the amount on any day that coincides with the settlement day of a main refinancing operation (MRO), with the first such date being 30 January 2013.

hindered the effective working of monetary policy. Further technical details of these Outright Monetary Transactions (OMTs) were published by the ECB on 6 September 2012. At the same time, the ECB announced that it would terminate the Securities Market Programme (SMP) introduced in May 2010. It also ended its Covered Bond Purchase Programme (CBPP2), as scheduled, on 31 October 2012, with total purchases less than the intended amount due to a decline in supply and rise in demand for covered bonds during the lifetime of the programme.

The OMT programme has not yet been activated but the conditions under which it will operate have been agreed and are designed to ensure that fiscal discipline is not undermined by OMT support. The decisions on OMT contributed to a significant improvement in financial market conditions in the second half of 2012, evidenced by declines in yields in several euro area sovereign bond markets and renewed securities issuance by banks, companies and sovereigns.

Box 2 – Non-Standard Monetary Policy Announcements 2012

During the financial crisis, as liquidity shortages among financial institutions became more acute, the ECB and other global central banks undertook a number of non-standard measures to encourage lending to the real economy and restore an appropriate monetary policy transmission mechanism to certain markets. This box summarises some of the main non-standard measures (announced on 8 December 2011) introduced by the ECB throughout 2012.

On **9 February**, the Governing Council approved, for seven NCBs, including the Central Bank of Ireland, measures for the temporary acceptance of additional credit claims as collateral in Eurosystem credit operations. This development followed the decision of the Governing Council of 8 December 2011 to increase collateral availability by allowing Eurosystem NCBs, as a temporary solution, to accept additional performing credit claims as collateral.

On **20 June**, the Governing Council decided on additional measures to improve the access of the banking sector to Eurosystem operations in order to further support the provision of credit to households and non-financial corporations. The Governing Council reduced the rating threshold and amended the eligibility requirements for certain asset-backed securities (ABSs). This broadened the scope of the measures to increase collateral availability which were introduced on 8 December 2011 and which remain applicable.

Consequently, in addition to the ABSs that are eligible already for use as collateral, the Eurosystem will now consider certain ABSs with lower ECAI⁷ ratings as eligible, including auto loan, leasing and consumer finance ABS, ABS backed by commercial mortgages (CMBSSs), residential mortgage-backed securities (RMBSs), and securities backed by loans to small and medium-sized enterprises (SMEs), subject to the newly eligible ABS satisfying additional requirements. The risk control framework applies higher haircuts to the newly eligible ABSs, which aims to ensure risk equalisation across asset classes and to control the risk profile of the Eurosystem.

On **2 August**, the ECB announced that the Governing Council may undertake outright market operations within its mandate to maintain price stability over the medium term. On **6 September**, the Governing Council announced a number of technical features regarding the Eurosystem's outright transactions in secondary sovereign bond markets. These would be known as Outright Monetary Transactions (OMTs) and would be conducted within the following framework:

- (i) Conditionality - A necessary condition for OMTs is strict and effective conditionality attached to an appropriate European Financial Stability Facility/European Stability Mechanism (EFSF/ESM) programme;

⁷ In the assessment of the credit standard of certain eligible assets pledged as collateral for monetary operations, the Eurosystem takes into account credit assessment information belonging to External Credit Assessment Institutions (ECAIs). ECAIs currently recognised by the Eurosystem include DBRS, FitchRatings, Moodys and Standard & Pours.

Box 2 – Non-Standard Monetary Policy Announcements 2012

- (ii) Coverage - OMTs will be considered for future cases of EFSF/ESM macroeconomic adjustment programmes or precautionary programmes. They may also be considered for the Member States currently under a macroeconomic adjustment programme when they will be regaining bond market access. Transactions will be focused on the shorter part of the yield curve, and in particular on sovereign bonds with a maturity of between one and three years;
- (iii) Creditor treatment - The Eurosystem intends to clarify in the legal act concerning OMTs that it accepts the same (*pari passu*) treatment as private or other creditors with respect to bonds issued by euro area countries and purchased by the Eurosystem through OMTs, in accordance with the terms of such bonds;
- (iv) Sterilisation - The liquidity created through OMTs will be fully sterilised; and
- (v) Transparency - Aggregate OMT holdings and their market values will be published on a weekly basis.

Following the decision on OMTs, the SMP was terminated. The liquidity injected through the SMP will continue to be absorbed as in the past, and the existing securities in the SMP portfolio will be held to maturity.

On **6 September**, the Governing Council expanded the collateral framework to include also eligible marketable debt instruments denominated in currencies other than the euro, namely the US dollar, the pound sterling and the Japanese yen, which are issued and held in the euro area. This measure came into effect on 9 November 2012, until further notice, and reintroduces a similar measure that was applicable between October 2008 and December 2010. Appropriate valuation markdowns are applied to the collateral.

On **6 September**, the Governing Council also suspended the application of the minimum credit rating threshold in the collateral eligibility requirements for marketable debt instruments issued or guaranteed by the central government, and credit claims granted to or guaranteed by the central government, of countries that are eligible for OMTs or are under an EU-IMF programme and comply with the related conditionality as assessed by the Governing Council.

On **12 September**, the Governing Council decided, in agreement with the Bank of England, to extend the liquidity swap arrangement with the Bank of England up to 30 September 2013.

On **31 October**, the second Covered Bond Purchase Programme (CBPP2) ended as scheduled. The purchases of covered bonds commenced in November 2011. The initially targeted total nominal amount of purchases was €40 billion, and the purchases were expected to have been carried out in full by 31 October 2012. As announced at the press conference of 4 April 2012, the ECB had slowed down the pace of purchases in response both to investors' increasing demand for euro area covered bonds and to the decline in the supply of covered bonds. Accordingly, a nominal amount of €16.4 billion was purchased on the primary and secondary markets between November 2011 and October 2012.

On **6 December**, the Governing Council decided to continue conducting its main refinancing and one maintenance period operations as fixed rate tender procedures with full allotment for as long as necessary, and at least until 9 July 2013.

On **13 December**, the ECB announced the extension of the existing swap arrangements with other central banks. The Bank of Canada, the Bank of England, the ECB, the US Federal Reserve and the Swiss National Bank announced an extension of the existing temporary US dollar liquidity swap arrangements until 1 February 2014. Previously, these swap arrangements had been authorised until 1 February 2013. These central banks also extended until 1 February 2014 the network of temporary bilateral liquidity swap arrangements that enable the provision of liquidity in each jurisdiction in any of their currencies, should market conditions so warrant. Previously, these bilateral liquidity swap arrangements had been authorised until 1 February 2013.

The Governing Council also decided, until further notice, to continue to conduct regular US dollar liquidity-providing operations with maturities of approximately one week and three months.

Monetary Policy Operations

The monetary policy instruments used by the Eurosystem in 2012 comprised open market operations, such as main refinancing operations (MROs), longer-term refinancing operations (LTROs) and fine-tuning operations, as well as standing facilities and minimum reserve requirements. The implementation of monetary policy during 2012 was driven by the Eurosystem's efforts to address tensions in financial markets and the impact on the monetary transmission mechanism. The banking system's demand for liquidity from the Eurosystem increased sharply, particularly in the two three-year LTROs in which a combined amount of more than €1,000 billion was allotted to c.800 counterparties. The banking system's demand for liquidity increased from €913 billion on 31 December 2011 to €1,133 billion on 31 December 2012; having peaked in the first half of the year and stabilised in the second half, it then declined marginally towards year-end, reflecting some easing in financial market tensions.

The continuation of the fixed rate full allotment policy led to continuous excess liquidity, and this factor, combined with the continued impairment in the money markets, led to high use of the deposit facility by Eurosystem counterparties during the first half of 2012. Deposit facility usage peaked at just above €828 billion in March, while the average daily recourse was €675 billion in the first half of 2012, falling to €314 billion in the second half. The reduction in deposit facility usage in the second half of the year reflected the Governing Council's decision to cut the key ECB interest rates by 25 basis points in July 2012, which brought the deposit facility rate from 0.25 per cent to 0.0 per cent and removed the financial incentive for banks to place excess liquidity on the deposit facility rather than leave it in their reserve accounts. While many banks still use the deposit facility, a significant number opt to leave excess liquidity on their reserve accounts. Taken together (i.e. deposit facility usage and excess reserves), the liquidity surplus averaged €689 billion in 2012 (€673 billion in the first half of 2012, and €705 billion in the second half).

The ECB also conducts weekly liquidity-absorbing fine tuning operations (FTO) in order to absorb the liquidity created through the purchase of bonds under the SMP. As at end-2012, the amount to be absorbed in this SMP-related FTO stood at €208.5 billion. 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 policy rate cut in July and significant excess liquidity in the system.

The number of operations which the Bank conducted, on behalf of the Eurosystem, decreased from 198 in 2011 to 194 in 2012. This included 64 US dollar operations. The number of counterparties eligible to participate in operations at the end of 2012 was 40 (41 in 2011).

There was a decline in Eurosystem borrowings for the Irish Government-guaranteed (covered) banks from €67 billion to €49 billion, a decrease of 27 per cent, and for non-covered banks (from €41 billion to €23 billion). This decrease reflected continuing deleveraging efforts, deposit gathering and increases in other sources of wholesale market funding.

Exceptional Liquidity Assistance (ELA)

The Bank also provided ELA to the banking system. This is one of the ways that the Bank has responded to the financial crisis, and is separate from regular funding operations carried out for monetary policy implementation purposes through the ECB. Liquidity 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 discounts (haircuts) are applied with a view to ensuring that the Bank would not suffer any loss in the event of default. The Bank had received formal comfort from the Minister for Finance that any shortfall on the liquidation of the collateral would be made good. At end-December 2012, the Bank had extended ELA of €40 billion, down from €42 billion in 2011. However, in February 2013, on the liquidation of IBRC, the Bank's ELA operations ceased (see Box 3).

Box 3 – The Liquidation of Irish Bank Resolution Corporation and the Exchange of the Promissory Note for Marketable Government Bonds

This box provides a description of the transactions entered into by the Bank following the appointment of Special Liquidators to Irish Bank Resolution Corporation (IBRC), including the replacement of promissory notes that had been issued by the Minister for Finance to the two entities that merged to form IBRC with long term floating rate government bonds.

The Irish Bank Resolution Corporation Act 2013, which was signed into law by the President of Ireland on 7 February 2013, provides for the winding up of IBRC under a special liquidation regime. Following the appointment of Special Liquidators to IBRC under this Act, the Bank acquired collateral that had been provided by IBRC as security for ELA of €39.45 billion, consisting of ministerial promissory notes, National Asset Management Agency (NAMA) bonds and other assets. As additional security for the ELA provided by the Bank, IBRC had created a floating charge over its assets in favour of the Bank and some of the ELA also benefitted from a guarantee from the Minister for Finance. The Government offered to exchange the ministerial promissory notes (which were non-tradable) for a portfolio of marketable Irish Government bonds, an exchange which the Bank considered to be advantageous and which it accepted. The bonds received by the Bank are floating rate bonds, with maturity dates ranging from 2038 to 2053. In addition, NAMA, through a newly established special purpose vehicle, acquired the ELA loans that had been secured by the floating charge over IBRC's assets and by the Ministerial guarantee (along with the security for these loans) from the Bank and issued government guaranteed NAMA bonds to the Bank in exchange. As a result of these transactions, the Bank was made whole in respect of all of the ELA it had provided to IBRC. In addition, following the termination of IBRC's market repo of the 5.4% Irish 2025 bond, this bond was acquired by the Bank.

The bonds acquired by the Bank as a result of the above transactions have been placed in the Bank's trading portfolio and will be sold as soon as possible, provided that conditions of financial stability permit. The appointment of Special Liquidators to IBRC also resulted in the Bank acquiring, on behalf of the Eurosystem, the collateral provided to secure standard Eurosystem borrowing by IBRC.

Irish Results for the Euro Area Bank Lending Survey in 2012

Eurosystem NCBs conduct a quarterly Euro Area Bank Lending Survey (BLS) to gather data regarding changes in credit standards throughout the euro area.

In Ireland, with the exception of the first quarter of 2012, when a tightening of credit standards was reported, credit standards were unchanged on loans to enterprises during 2012. Credit standards continued to tighten between the fourth quarter of 2011 and the third quarter of 2012 in respect of loans to households for house purchases. Regarding consumer credit and other lending to households, credit standards were unchanged up to the third quarter of 2012 when a mild tightening in credit standards was reported. Loan demand from enterprises as well as households changed direction during 2012. After decreasing across both categories during the first quarter of 2012, an increase in loan demand in respect of enterprises as well as households for house purchases was reported during the third quarter. Demand for consumer credit and other lending remained unchanged during 2012.

After some deterioration in access to retail and wholesale funding markets between the fourth quarter of 2011 and the second quarter of 2012, an easing in access to retail deposits was reported during the third quarter of 2012, with access to wholesale funding mostly unchanged. A similar picture emerges in terms of the impact of the sovereign debt crisis on banks' funding conditions. Throughout 2012, the sovereign debt crisis was reported to have no direct impact on banks' credit standards.

The BLS also examined: (i) the impact and expected impact of regulatory requirements including Basel III on banks' risk weighted assets and capital positions, and (ii) the impact and expected impact of Basel III and other regulatory requirements on banks' credit standards. A decrease in banks' risk weighted assets and capital positions was reported for the first half of 2012 and this preceded an earlier decrease in risk weighted assets during the second half of 2011. Also, a tightening of credit standards on loans to small and medium sized enterprises as well as loans to households for house purchases was reported for the first half of 2012 as a result of new regulatory requirements including Basel III.

Financial Institutions Supervision

The Bank's Risk-Based Approach to Supervision - PRISM

The Bank has adopted a risk-based approach to supervision underpinned by a credible enforcement deterrent. The Probability Risk and Impact System (PRISM) represents a challenging and proportionate risk-based system of supervision for all financial institutions operating in Ireland. Initially applied to banks and insurers in 2011, in 2012 PRISM was extended to investment firms and credit unions. Its key objectives include having a consistent way of reviewing risk across all supervised firms; facilitating allocation of resources based on impact of firm failure; and requiring a systematic method of assessing risks in firms. PRISM facilitates detailed probability-risk assessments, prescribes a specific level of engagement per firm impact types, and provides supervisors with guidance

and a means to document their actions and judgements on individual firms, and develop risk mitigation programmes to reduce unacceptable risks to an acceptable level.

Under PRISM, the most significant firms - those having the greatest potential adverse impact on financial stability and the consumer - receive the highest level of supervision. Conversely, those firms which have the lowest potential adverse impact are supervised reactively or through thematic assessments. The Bank takes enforcement action against firms, across all impact categories, whose actions affect the achievement of statutory objectives including financial stability and consumer protection.

Level of Engagement with Firms

Each firm is assigned to one of four possible impact categories; high⁸, medium-high, medium-low, and low. Each category has a defined minimum level of engagement which can be summarised as follows:

High Impact Firms	Medium Low Impact Firms
<ul style="list-style-type: none"> • Business model analysis • Governance reviews • Financial risk reviews • Regular meetings with key firm officers and directors • Regular returns analysis • Annual risk governance panel 	<ul style="list-style-type: none"> • Summary risk assessment on 10% sample each year • Regular meetings with key firm officers • Semi-automated returns analysis • Skilled persons deployed to deal with problematic firms with supervision oversight
Medium High Impact Firms	Low Impact Firms
<ul style="list-style-type: none"> • Full risk assessment incorporating analysis of business model, governance and finances • Regular meetings with key firm officers and directors • Regulatory return analysis • Risk governance panels 	<ul style="list-style-type: none"> • Reactive supervision • Skilled sector focussed teams • High appetite for enforcement to deter poor behaviour • Regular consumer focussed thematic work (as with other impact categories)

⁸ Incorporates ultra-high with respect to engagement tasks. The minimum engagement requirements are the same for ultra-high and high impact firms under PRISM.

Principal Engagement Tasks

Business Model Analysis	Supervisors gain an understanding of how the firm organises itself, manages itself, manufactures and delivers its product to market on a profitable basis while minimising the risk of business failure. A firm should understand how it makes money and the risks it takes to do so.
Governance	Supervisors seek an understanding of how the firm is governed. Good corporate governance acts as a control mechanism providing confidence to stakeholders that the institution is managed in a sound and prudent manner. Supervisors look at both the governance structure, the quality of the individuals and how the structures operate in practice.
Financial Risk Reviews	Each firm has major risks that it encounters in carrying out its business. These vary between sectors e.g. banks face credit risk, market risk, liquidity risk etc. as its main risks while insurance companies face underwriting risk, reserving, reinsurance risk etc. These risks are reviewed to ensure that the firm is not taking excessive risks, that these risks are understood and that there are appropriate policies and systems in place to actively manage and control the risks.
Stress Tests	Benign market conditions can mask latent problems in the nature of a firm's business which only become apparent in a downturn. It is important that firms understand what changes would destabilise their business. Supervisors want to be satisfied that realistic stress testing scenarios are used appropriately by firms and that boards are mitigating unacceptable risks which stress tests highlight.
Review of Firms Capital Adequacy Assessment (SREP or ORSA) ⁹	Regulated firms have an obligation to maintain adequate levels of capital to support their activities. Supervisors undertake reviews to ensure that the capital amount, as determined by the firm, is adequate, taking into account findings from the other engagement tasks undertaken.
Full Risk Assessment	Supervisors, following a desk based review of information requested from a firm to better understand key issues, hold a series of meetings with key personnel at different levels within a firm to obtain an overview of governance, strategy and key financial risks. They also undertake an in-depth examination of key aspects of a firm which give rise to concern. Where appropriate, such full risk assessments incorporate the SREP/ORSA reviews discussed above.
Risk Governance Panels	Risk Governance Panels bring together a wide variety of experienced resources such as risk specialists, technical experts and senior staff to challenge supervision teams on undertaking-specific risks and their judgements in relation to those risks.
Regular meetings with:	Meetings are an integral part of the programme and often take place in the course of other engagement tasks. Meetings are likely to cover matters such as the strategic direction of the firm, strengths and vulnerabilities, issues of governance, and risk profile. They also provide supervisors with a view on the suitability and competence of a firm's leadership. In the case of the external auditor, they provide an opportunity to share information about areas of concern.
<ul style="list-style-type: none"> • Chairman • Non-Executive Directors • Chief Executive Officer • Chief Financial Officer • Chief Risk Officer • Credit Risk Officer • External Auditors 	

The engagement required in each impact category is sub-divided into tasks with varying degrees of frequency and intensity. A different set of supervisory activities applies to firms in each impact category, as detailed above.

Thematic Work

The Bank also undertakes both consumer conduct and prudentially-focused thematic work across firms in all impact categories. Thematic work is used to determine whether

overall standards in an industry are at or near the level where the Bank would expect them to be or whether there appears to be an industry-wide issue which may require policy changes, widespread moral suasion or an intense enforcement action to secure appropriate change.

Under PRISM, the Bank will continue to use thematic visits as its principal tool for understanding consumer conduct risk.

⁹ Supervisory Review and Evaluation Process (banks and investment funds) and Own Risk and Solvency Assessment (insurers).

Table 1 – Prudential Supervision Engagement Process 2012

PRISM ENGAGEMENTS	Banking	Insurance	Investment Firms & Fund Service Providers	Payment Institutions	Credit Unions
Full Risk Assessment (SREP)	10	30	6 ¹⁰	1 ¹¹	14
Risk Governance Panels	7	38	9		12
Meeting with Chief Executive Officer (CEO)	52	141	43	1	
Meeting with Chief Financial Officer (CFO)	41	96	21	1	
Meeting with Chief Risk Officer (CRO)	44	97	23		
Meetings with Chairman	25	75	11		
Meetings with Senior Non-Executive Directors (NEDs)	28	180			
Meetings with Internal Auditor	22	26	7	1	
Meetings with External Auditor	17	80	7		
Board Meeting Attendance	16				
Attendance at Board Committees	34		1		
Meetings with other Senior Management	84		7		
Meetings with Actuary		68			
Other On-Site Meetings	43				
Meetings with Board Independent Non-Executive Directors (INEDs)	20		13		
Meetings with Group NEDs	10				
Meetings with Compliance Officer	8	10			
Other Reviews – non-PRISM	4				49
Financial Risk Review (FRR)	20	45			
Other (not incl. FRR meetings)	102				
Reviews/Inspections			2	5	
Meetings with Supervisory Committee			2		
Thematic Review		2	2		
Authorisation Team Meetings			25		
Other Meetings (not as part of engagement model)			87		101
1-day engagements					70 ¹²
TOTAL	587	888	266	9	246

10 At end year, there were 3 FRA engagement tasks that had been to an RGP but were not closed off as the final sign-off letter had not been sent to the firm.

11 FRA started in 2012 and scheduled to conclude in 2013.

12 Credit union 1-day engagements include meetings with CEOs, Chairman, Boards of Directors and External Auditors.

PRE-PRISM ENGAGEMENTS

January to June 2012

Inspections

• Investment Firms (incl. Stockbrokers)	34
• Fund Service Providers	6
• Payment Institutions	1
• AML-CTF ¹³	28
• Unauthorised Activity ¹⁴	15

Review Meetings

• Investment Firms	6
• Irish Stock Exchange	8
• Fund Service Providers	2
• Payment Institutions	2

Other Meetings

• Investment Firms	52
• Irish Stock Exchange	1
• Fund Service Providers	45
• Payment Institutions	2

Supervision of Credit Institutions

The key supervisory activities around credit institutions are covered above under the section EU-IMF Financial Assistance Programme for Ireland. In addition to that work, the Bank also carried out the following:

- **Business Model Analytics**

Key trends affecting bank business models and strategy are communicated regularly, while tools to better identify industry trends and threats to the business models and/or strategy of supervised credit institutions have been developed.

- **Risk Assessments/RMPs/Supervisory Colleges**

Under PRISM, the Bank engages in cyclical supervisory programmes for banks, with the frequency of the engagement tasks based on the scale and overall impact categorisation of the institution. During 2012, the Bank carried out 10 Full Risk Assessments (FRAs) for institutions rated as High Impact under PRISM. Risk Governance Panels (RGPs) were also held for 7 credit institutions in 2012. The outcome of the risk assessments and RGPs is the compilation of Risk

Mitigation Programmes (RMPs) which set out the work to be undertaken by institutions to remediate identified weaknesses. Those institutions which were not subject to an FRA were subject to oversight, in line with the risk based approach to supervision.

As part of the consolidated supervision of banking groups which have operations in multiple jurisdictions, the Bank participates in Supervisory Colleges, i.e. bilateral and multilateral fora for the exchange of supervisory information, coordination of supervisory oversight and, to the extent possible, undertaking joint supervisory work. The Bank is a member of 15 Supervisory Colleges and during 2012 participated in 20 Supervisory College fora including hosting two Supervisory College meetings in respect of Irish banking groups. Within the EU, Colleges are required to agree Joint Risk Assessments Decisions (JRADs) on the adequacy of capital for banking groups and in this regard the Bank was party to 9 JRADs¹⁵.

The Colleges for AIB and Bank of Ireland were held in October 2012, with JRADs being signed by all relevant regulators. The Colleges were held in line with the European Banking Authority guidelines on Supervisory Colleges and

¹³ Non-PRISM engagements full year.

¹⁴ Non-PRISM engagements full year.

¹⁵ It should be noted that the Bank is a member of a number of non-EU colleges which are not required to have a Joint Risk Assessment Decision. In addition, a number of Supervisory Colleges have not yet completed the process for agreeing the JRAD.

involved input from the Financial Services Authority (UK), Financial Services Commission (Isle of Man), Jersey Financial Services Commission, the Federal Reserve Bank of New York (US) and the Connecticut Department of Banking (US).

Supervision of Insurance Entities

In addition to the implementation of PRISM, the key components of the Bank's 2012 engagement plan for (re)insurance undertakings included:

- » Continued preparatory work for the implementation of the Solvency II Directive; and
- » A focus on governance framework for (re) insurance undertakings in the form of the Corporate Governance Codes for (re) insurance and Captive Undertakings - (the Codes) - and a new fitness and probity regime.

While the delay in the implementation of Solvency II at EU Level allowed (re)insurance undertakings as well as the Bank more scope to make some modifications to their implementation plans, Solvency II will again be a key component of the Bank's engagement plan for 2013.

Ongoing Supervision

During 2012, the Bank carried out eight business model analysis reviews in the insurance sector. A business model analysis review assesses the long term viability of the fundamentals of the business and its structure. There were 45 financial risk reviews, in accordance with PRISM requirements and frequency. These reviews enabled the supervisory teams to obtain sufficient information and understanding of the risks and put in place appropriate risk mitigating measures.

Following assessments by Risk Governance Panels, Risk Mitigation Plans were issued to a number of undertakings. During 2012, there was at least one Panel held in respect of each of the High Impact undertakings. In addition there were 38 Risk Governance Panels held for Undertakings with designated impact ratings below High Impact.

In light of market developments, the Bank completed two themed reviews within this sector during 2012. The first themed review related to

the use of stock lending among High and Medium High Impact insurance undertakings. The focus of the stock lending themed review was internal controls in relation to stock lending, including the adequacy of investment policies and procedures, effectiveness of outsourcing arrangements, quantitative parameters and quality of information received, and governance structure to manage and monitor the stock lending activity in a way that is appropriate to the undertakings' balance sheets. The Bank took appropriate actions, including enforcement actions, where deemed appropriate.

The second themed review related to the robustness of the High Impact (re)insurance undertakings' payment and settlement systems from a business continuity perspective. This review was carried out after a failure of payment and settlement systems in Ulster Bank. As part of the review, the Bank received confirmations from the High Impact undertakings that they had put in place adequate contingency plans for any potential system failures.

Insurance Compensation Fund

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

In November 2011, the Bank notified insurers that a contribution of 2 per cent of gross written premium would be required from 1 January 2012 and until further notice to the Fund. In the fourth quarter of 2012, the Bank carried out its annual assessment of the Fund and determined that the contribution to the Fund be maintained at 2 per cent.

Regulator-to-Regulator Engagement

Bilateral and multilateral supervisory co-operation with other regulators plays a key role in effective supervision of regulated insurance undertakings and European and global financial stability. The Bank signed memoranda of understanding (MoU) with the Office of the Superintendent of Financial Institutions Canada

and with the Monetary Authority of Singapore in 2012. The Bank also signed a number of specific MoUs with finite terms with the Bermuda Monetary Authority.

Solvency II

The Bank's key focus during 2012 for the implementation of Solvency II was the Pre-Application process for Internal Models and the Long Term Guarantee Impact Assessment exercise. 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 in the EEA, after the United Kingdom.

Since 2010 the Bank has been working with the insurance companies that have internal models to gain mutual understanding and to ensure that models meet the demanding criteria for approval imposed by Solvency II. In addition, the Bank has worked with other National Supervisory Authorities (NSAs) to develop the technical standards necessary.

During 2012, the review of models within the process advanced significantly, with a number of Decision Committee meetings taking place and giving formal decisions on the suitability of aspects of the models. These Decision Committees are a key part of the governance of the process ensuring that the final decisions are taken by staff not involved in the detailed examination. Due to continuing uncertainties surrounding certain calibration issues in relation to long term guarantees and the timing of a final quantitative impact assessment, the envisaged Solvency II implementation date of 1 January 2014 will not now be met.

Stress Testing

The strategies undertaken by (re)insurance undertakings to manage their business in the current external economic environment and current low interest rate environment provided a key focus to the supervision and assessment of undertakings by the Bank in 2012. During 2012, the Bank carried out stress tests concerning the sovereign and banking exposures relating to the Irish insurance industry. A total of 77 domestic insurers and reinsurers were requested to report on their sovereign and banking exposures to the Bank. The aim of the survey was to cover over 90 per cent of total assets under management in the Irish insurance sector and analyse

developments in undertakings' investment exposures since the last survey. The main finding from the survey was that insurers are continuing to follow risk-averse strategies and are reducing their exposures in the distressed economies.

Variable Annuities

The Bank participated in an EIOPA Expert Group established in 2011 with the aim of establishing good practices for insurance undertakings for the disclosure and selling of variable annuities. The Group issued its final report in April 2012. The Bank continued its close engagement with insurance undertakings carrying out variable annuities business throughout 2012 principally through detailed quarterly hedge profit & loss attribution meetings. The Bank also presented at an EIOPA VA Supervision seminar in September 2012.

Consultation/Guidance & Other Work

In October 2012, the Bank held its second briefing for Independent Non-Executive Directors (INED) of (re)insurance undertakings. The briefing focused on the role of Enterprise Risk Management (ERM) in (re)insurance undertakings and the contribution of the INED to the ERM in (re)insurance undertakings. The Bank updated a number of its requirements for insurance undertakings during 2012. It is not envisaged that the changes made will require material changes in existing systems or business practices.

Supervision of Credit Unions

Ongoing Supervision of Credit Unions - Risk Identification & Mitigation

The credit union sector continued to face significant challenges in 2012, evidenced by decreases in loan books, high levels of loan arrears and an increasing reliance on investment income. The Bank continued to focus on building reserves and provisions in the sector through various regulatory interventions such as withholding dividend payments in 2012 and placing restrictions on the business of individual credit unions.

Ahead of the 2012 year-end financial reporting requirements, the Bank issued a circular to all credit unions reminding them of the circumstances in which they were required to make a regulatory submission regarding payment of dividends. In early 2013, 75 per

cent of credit unions proposed only nominal dividends of one per cent or less for the year to 30 September 2012.

A circular was also issued to all credit union external auditors reminding them of their obligations in relation to the year-end audit and particular areas for focus, including assessment of adequacy of bad debt provisions, maintenance of regulatory reserves and liquidity and impairment of fixed assets. The Bank has now imposed lending restrictions on about 57 per cent of credit unions on the basis of deterioration in their financial positions. Factors that are taken into account in determining the need for such restrictions include: 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 restrictions are designed to ensure that those credit unions do not put the savings of their members at additional risk and are reviewed on a regular basis.

Full risk assessments were undertaken for six Medium-High and eight Medium-Low Impact credit unions. In addition, visits were conducted for 10 Medium-High Impact credit unions and 62 Medium-Low Impact credit unions. Risk mitigation plans identifying key risks and outcomes required to mitigate these risks were provided to 68 credit unions.

Commission on Credit Unions

In May 2011, the Government established a Commission on Credit Unions (CCU), to review the future of the credit union movement and make recommendations in relation to the most effective regulatory structure. The terms of reference included making recommendations on options for restructuring of the sector. These included legislative changes to strengthen the regulatory framework and defining the role of credit unions in a restructured financial services sector. The Registrar of Credit Unions represented the Bank on the CCU.

The CCU reported in March 2012 and recommended a number of measures to strengthen the credit union regulatory framework and provide for more effective governance and regulation. These included requirements on governance, internal audit, risk

management and fitness and probity, and providing the Bank with the legislative powers to make regulations that set prudential controls, limits, standards and requirements for credit unions. The Minister for Finance established an implementation group to advise on progress on implementation of the Report's recommendations. The Registrar of Credit Unions is the Bank's nominated representative on the implementation group, which held seven meetings during 2012.

Development of Legislation

The Bank worked with the Department of Finance on the drafting of the new credit union legislation to ensure that the Bank's key requirements on governance and prudential requirements were included. The resultant legislation - the Credit Union and Cooperation with Overseas Regulators Act 2012 - was enacted on 19 December 2012 and will, when fully commenced, introduce a stronger regulatory framework for credit unions and provide the Bank with regulation-making powers and an enhanced governance framework.

Fitness & Probity

The Minister for Finance signed an Order, effective from 24 September 2012, to provide the Bank with the powers to set out Regulations and Standards of Fitness and Probity for the credit union sector. The Bank issued a Consultation Paper on the Fitness and Probity regime in December 2012, aimed at improving governance standards at board and management level by ensuring that individuals who exercise significant influence in a credit union are capable, competent and financially sound individuals with the appropriate skills, experience, knowledge and integrity to manage and govern the credit union.

Credit Union Regulatory Forum

The Credit Union Regulatory Forum is 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. The Bank held seven Regulatory Forum meetings in September and October 2012 and topics covered included the new legislative and regulatory framework, the fitness and probity regime and the use of PRISM for the sector.

Consultation Protocol

The Bank issued a Consultation Protocol for credit unions in November 2012, regarding how the Bank proposes to consult formally with credit unions, their representative bodies and other relevant stakeholders¹⁶ prior to the introduction of new regulations for the sector.

Pre-Emptive Actions / Resolution

The Bank has designed its supervisory regime to allow for the early identification of weak or non-viable credit unions. During 2012, pre-emptive actions to resolve identified weak credit unions took place, including directing credit unions to seek private sector support, transfers of engagement of credit unions and dissolution of credit unions.

Resolution Cases

Using its powers under the Resolution Act legislation, the Bank took formal resolution action in Newbridge Credit Union Limited, under which the High Court appointed a special manager in January 2012. This action was taken to protect members' savings and to ensure that Newbridge Credit Union Limited could continue to operate effectively. Following further extension applications, the Special Management Order remained in place at year-end. The Special Manager is overseeing the day to day management of the credit union.

Credit Union Restructuring Board (ReBo)

A core recommendation of the CCU was that the credit union sector should be restructured on a voluntary, incentivised and time-bound basis and that the restructuring should be overseen by a Credit Union Restructuring Board (ReBo). ReBo was established by the Minister for Finance on a statutory basis from 1 January 2013. The Bank is represented on the board of ReBo as a non-voting member. ReBo will facilitate and oversee the restructuring of credit unions to support financial stability and long term sustainability of credit unions. This includes considering and assessing restructuring plans submitted to it, recommending the restructuring plans to the

Minister and advising the Bank of its recommendations, and overseeing the implementation of restructuring plans.

The Bank has developed a policy on resolution and restructuring which sets out the timeframes and required actions by credit unions, including their interaction with ReBo, to address capital shortfalls identified by the Bank.

A Credit Union Fund has been established under the 2012 Act to provide a source of financial support for the restructuring of credit unions. In December 2012, the Minister for Finance contributed an amount of €250 million to the Fund from the Exchequer. The Minister is entitled to be reimbursed for all contributions to the Fund. The Act provides for regulations to be made by the Minister for credit unions to contribute to the fund by means of a credit union levy.

¹⁶ Representative bodies and other relevant stakeholders includes the Irish League of Credit Unions, the Credit Union Development Association, the Credit Union Managers Association, the National Supervisors Forum, the Department of Finance and the Credit Union Advisory Committee.

Markets Supervision

Supervision of Investment Firms, Fund Service Providers and Investment Funds

The Markets Supervision Directorate implemented PRISM in May 2012. A series of full risk assessments and risk governance panels were conducted for selected Medium-High and Medium-Low impact firms. Consistent with the frequencies set out in the PRISM engagement model, other firms will be subject to full risk assessments in 2013.

Given the large number of low impact entities supervised by the Markets Directorate, a specific framework was developed to monitor this population drawing on (i) various market intelligence and (ii) data gathered via the on-line regulatory returns platform.

In 2012, the Bank developed and implemented (primarily for investment funds) a low impact supervisory strategy which is based on reactive supervision and includes three key elements:

- » Triage trigger based supervision;
- » Thematic reviews; and
- » Enforcement.

Thematic reviews focus on risks which have been identified via supervisory triggers and will also be forward looking and examine emerging risks. Thematic reviews were carried out in 2012 in relation to:

- » Corporate Governance (MiFID firms);
- » Remuneration Policies (MiFID firms); and
- » Outsourcing (MiFID firms and fund administration companies).

In 2012, a consultation was issued to funds, fund management companies and their delegates seeking feedback on both proposed changes to their regulatory reporting requirements and on reporting through the Bank's electronic Online Reporting System (ONR System).

Safeguarding of Client Assets

Following the Review of the Regulatory Regime for the Safeguarding of Client Assets which was published by the Bank in March 2012, resources were established to ensure a consistent and comprehensive approach to supervising client asset risks. A new monthly client asset return was introduced to provide for systematic trigger based supervision. The Bank engaged intensively with a number of firms to address supervisory concerns and completed a programme of thematic inspections to assess compliance with the requirements.

Having accepted the recommendations as set out in the Review of the Regulatory Regime for the Safeguarding of Client Assets, the Bank engaged with industry through a number of working groups during 2012 to develop a revised set of Client Money Rules. An enhanced set of regulations and attaching guidance will be issued for consultation once the Central Bank (Supervisory and Enforcement) Bill has been enacted in 2013.

Following the recommendations of this review, a focussed supervisory team – the Client Assets Supervisory Team – dedicated to the supervision of firms holding client assets under the MiFID was set up. This team works closely with (but independently of) the PRISM supervisory teams to identify areas of concern arising from firms' approaches to the holding of client assets. Areas of particular risk were escalated to the Client Asset Review Committee which determined that a number of directions be imposed on firms in a number of instances.

Supervision of the 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 regular meetings was undertaken during 2012 to ensure proper lines of communication between the two organisations. The Investor Compensation Company Limited

Table 2 – Market Monitoring Reports

	2011	2012
Transaction reports received from entities located in Ireland	22,372,791	58,448,226
Transaction reports sent to other competent authorities via TREM*	18,975,700	50,027,215
Transaction reports received from other competent authorities via TREM*	12,829,415	13,141,967
Administrative Sanctions/Supervisory Warnings - Cases Opened	4	8
Administrative Sanctions/Supervisory Warnings - Cases Closed	2	4
Audits conducted on firms' transaction reports	48	82

* Transaction Reporting Exchange Mechanism

issued a consultation paper in late 2012 relating to funding arrangements and included proposals for the three-year period commencing 1 August 2013.

Transaction Reporting and Monitoring

During the year, the Bank continued to focus strongly on data imported from other EEA members through the European Securities and Markets Authority's (ESMA) Transaction Reporting Exchange Mechanism (TREM) which allows the Bank to receive details of Irish instrument trades executed outside of Ireland but within the EEA.

The Bank continued to enhance its market surveillance activities and significantly increased the scope of its order book surveillance with the introduction of new alert tools. During 2012, a new process was also introduced to monitor derivative trades.

Market Abuse

The Bank ended the delegation to the Irish Stock Exchange of certain monitoring and investigation functions relating to the detection of market abuse on 31 January 2012. During 2012, a total of 76 enquiries were initiated regarding possible contraventions of the Market Abuse Regulations, resulting in a number of cases referred to the Enforcement Division and the completion and publication of two settlement agreements for breaches of the Regulations. The Bank's continued commitment to protecting market integrity by preventing market abuse is executed via appropriate enforcement action when breaches occur.

Following completion of themed inspection work on the maintenance of insider lists by issuers, the Bank published a Consultation Paper in April 2012. Responses to this Consultation Paper will help inform a review of rules and guidelines on insiders' lists among European regulators. Further engagement with market participants, focussing on the requirement to notify the Bank when market abuse is suspected, is planned for 2013.

The Bank engaged actively with various government departments throughout 2012, providing technical advice on matters relating to new market abuse legislation (Market Abuse Directive/Market Abuse Regulation), currently being progressed through the European Parliament. The Bank oversaw the introduction in Ireland of the European Regulation on Short Selling which came into force in November 2012. An active engagement with other European regulators in the area of market abuse legislation was maintained through the Bank's participation in the Market Integrity Standing Committee of ESMA.

Irish Stock Exchange & Markets Infrastructure

During 2012, the Bank continued its supervisory engagement with the trading venues and market facing infrastructure falling under its remit. Work in 2012 included an ongoing review of the Irish Stock Exchange under MiFID.

In 2012, the Bank authorised its first High Frequency Trading (HFT) firm. In this regard substantial work was undertaken with regard to

Table 3 – Investigations under Securities Law

	2011	2012
Enquiries initiated regarding possible contraventions	30	76
Enquiries completed regarding possible contraventions	37	79
Suspicious Transaction Reports submitted to the Bank by persons professionally arranging transactions	3	19
Suspicious Transaction Reports submitted to the Bank by other EU Competent Authorities.	6	5
Suspicious Transaction Reports transmitted by the Bank to EU Competent Authorities.	1	16
Assistance rendered to other EU Competent Authorities	19	19
Stabilisation Notifications submitted to the Bank	1	n/a
Securities Law Settlement Agreements (concluded)	0	2
Securities Law Formal Private Cautions Issued	2	n/a

the consideration of the associated risks of HFTs and the development of an appropriate supervisory regime for HFT firms. This work remains ongoing and will allow the Bank to gain a full understanding of HFT trading strategies, these firms' business models and associated risks.

Stockbroking Supervision

During 2012, as part of ongoing supervision, the Bank reviewed the balance sheet strength of all stockbrokers. As a result of a definite line of enquiry by the Bank, the management of Bloxham informed the Bank of financial irregularities at the firm. A direction was imposed on Bloxham to cease all regulated activity due to inadequate regulatory capital. Davy Stockbrokers (Davy) and Bloxham subsequently concluded an agreement to:

- » Accelerate the transfer of the private client business to Davy; and

- » Transfer the fund management mandates to Davy.

The Bank will continue its investigation of matters that led to Bloxham entering liquidation.

During 2012, two stockbroking firms were acquired by international firms.

Prospectus Directive

The Prospectus Directive 2003/71/EC (the Prospectus Directive) was amended by Directive 2010/73/EU (The Amending Directive) on 1 July 2012, which aimed to simplify and improve the application of the Prospectus Directive across Member States. The Bank took over responsibility for the review of prospectuses from the Irish Stock Exchange and has reviewed and approved 670 prospectuses in 2012, a small increase on 2011.

Table 4 – Prospectus Approval Process

	2011	2012
Number of Documents approved	665	670
Number of Documents/Notifications published	2,608	2,633
Passport Certificates prepared	92	91
Inward Passporting Notifications processed	749	739
Number of Issuers whose securities were suspended from trading by the ISE at the request of the Bank	2	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 5 – Company Information Disclosures¹⁷

	2011	2012
Annual Financial Reports published	147	143
Half-yearly Financial Reports published	131	121
Interim Management Statements published	120	100
Major shareholding submitted	316	379
Number of Issuers whose securities were suspended from trading on the ISE by the Bank	11	8

Transparency Regulations

On 5 November 2012, the Bank unwound the delegation under the Transparency (Directive 2004/109/EC) Regulations 2007 (the Transparency Regulations) of tasks carried out by the ISE on behalf of the Bank since 2007. European law required any delegation of tasks relating to the obligations provided for in the Transparency Regulations to end in January 2013. The unwinding of the delegation necessitated a number of amendments to the way issuers and holders of major holdings of voting rights comply with their filing obligations under the Transparency Regulations. Revised Transparency Rules were issued in October 2012.

Short Selling Regulations

The EU Regulation (No 236/2012) on short selling and certain aspects of credit default swaps (the Short Selling Regulations) came into operation on 1 November 2012. The purpose of the Short Selling Regulations is to increase transparency of short positions held by investors in certain EU securities, reduce settlement and other risks associated with short selling and create a harmonised framework for coordinated action at the European level.

Significant work was carried out by the Bank in 2012 to implement the Short Selling Regulations. The submission of notifications of net short positions held in shares and sovereign debt commenced on 2 November 2012 and details of significant net short position in shares were made public on the Bank's website.

Collective Investment Schemes

The net asset value of Irish authorised investment funds, represented by 5,305 funds, including sub-funds, amounted to €932.1 billion on 31 December 2012. The number of revocations (all voluntary) of existing funds, including sub-funds, in 2012 was 485. The total number of funds authorised under Investment Fund Legislation was 132 funds (743 including sub-funds).

Undertakings for Collective Investment in Transferable Securities (UCITS)

Since the introduction of European Communities (UCITS) Regulations in 2011, the Bank continues to resolve issues arising from the UCITS IV legislation, specifically in relation to cross border merger proposals and UCITS management company passporting arrangements. On 3 July 2012, the European Commission published a proposal for amendments to the UCITS Directive, in the form of a Draft Directive (UCITS V). The purpose is to align provisions on management company remuneration and depositary eligibility, role and liability in the UCITS Directive with the Alternative Investment Fund Managers Directive. The other proposals of UCITS V relate to a harmonised sanctions regime for UCITS. UCITS V remains under consideration by the European Parliament and Council of Ministers.

¹⁷ 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.

Alternative Investment Fund Managers Directive (AIFMD)

The EU Directive (No. 2011/61/EU) on Alternative Investment Fund Managers (AIFMD) sets out rules for all alternative investment fund managers (AIFMs) and will come into effect on 22 July 2013. It will be supplemented by detailed Level 2 measures and regulatory technical standards and guidelines issued by ESMA. In Ireland, the AIFMD will be transposed into national law by means of secondary legislation. AIFMD includes in its scope all investment funds which are not UCITS.

During 2012 the Bank, the Irish Funds Industry Association and the Department of Finance worked closely on the development of a regulatory regime for Alternative Investment Funds (AIFs) and AIFMs in Ireland. On 30 October 2012, the Bank issued a public consultation on its draft revised framework for the regulation of AIFs and AIFMs which fall to be regulated under domestic legislation. This consultation closed on 11 December 2012.

Consumer Protection

The Bank's overarching aim in consumer protection is *to get it right for consumers*. This is underpinned in the 5Cs framework – Confidence, Compliance, Challenge, Culture and Consumers. This drives the Bank's consumer protection work to ensure that it continues to prioritise the interests of consumers of financial services. In order to achieve this, work is focused on setting standards for firms and monitoring and enforcing those standards.

Mortgage Arrears

During 2012, a key strand of the Bank's work was on how lenders are dealing with borrowers in mortgage arrears. A range of inspections, policy work and reviews were undertaken to ensure that lenders are dealing effectively with consumers and delivering appropriate solutions. The key activities around mortgage arrears is covered above under the section EU – IMF Financial Assistance Programme for Ireland.

Payment Protection Insurance

In June 2012, the Bank released the findings of its latest inspection as part of the ongoing investigation of the sale of Payment Protection Insurance (PPI). The inspection raised concerns in relation to the sale of PPI and, as a result, the Bank required that the firms inspected conduct a comprehensive review of all their PPI sales from July 2007 to July 2012. As more than 80 per cent of policies were sold by banks and other credit institutions, the Bank concentrated its inspection on sales through these channels. The key findings of the inspection include:

- » Firms were not gathering sufficient information to enable them to determine whether the product sold was suitable for the consumer;
- » Firms were treating certain sales as *execution only* without complying with the relevant requirements of the 2006 Code;
- » There were issues regarding the timing of the provision of key information to consumers by firms when deciding on purchasing PPI;
- » In some instances, there was failure to bring key information on policies explicitly to the attention of individual consumers; and

- » There were issues regarding poor record keeping and incomplete files.

The Bank requested the inspected firms to conduct comprehensive reviews of their PPI sales, to be independently overseen by a third party and to write to their customers advising them of the review. Arising from the reviews, each firm will determine what action is required, including contacting consumers and making refunds where necessary. The Bank is closely monitoring the progress of these reviews.

Ulster Bank Remediation Plan for Consumers

The failure of Ulster Bank to provide its customers with basic banking services, due to an issue with its internal IT systems, caused major inconvenience and disruption to affected customers. The Bank was heavily involved in ensuring Ulster Bank managed the crisis and endeavoured at each stage of the process to limit the negative impact on customers. During the incident, the Bank was in daily contact with Ulster Bank and its parent, Royal Bank of Scotland (RBS). The Bank also required Ulster Bank and RBS to ensure customers had alternative options during the incident to conduct their daily banking business.

Following resolution of the IT incident, the Bank required Ulster Bank to put in place a comprehensive restitution plan for impacted customers. The Bank engaged proactively with other key stakeholders on the issue including the Financial Services Ombudsman (FSO), the National Consumer Agency (NCA), the Irish Payments Services Organisation (IPSO), the Consumer Association of Ireland (CAI) and Money Advice and Budgeting Services (MABS) in monitoring the level and type of complaints, and other issues.

Implementation of the redress plan was actively monitored by the Bank via submission of weekly reports from Ulster Bank checking the level and type of complaints. Two on-site visits were carried out in September and November 2012 to ensure that the redress plan was being followed and that customers' interests were being protected. These concluded that Ulster Bank was dealing with claims in accordance with the redress plan.

The Bank continues to work with the Financial Services Authority (UK) (FSA) in the investigation into the matter at RBS including its impact on Ulster Bank. The Bank has written

to banks reiterating the need to test the resilience of their IT environment and business continuity planning framework and to report to the Bank on the level of assurance that they can provide in this regard. In parallel with this work, the Bank has been overseeing an independent review of how the Clearing Banks¹⁸ risk assess the national payments system. This review, which was commissioned by IPSO is due to conclude in early 2013.

Retail Intermediaries

A policy has been developed for the authorisation and ongoing supervision of almost 3,500 retail intermediaries. Retail intermediaries comprise investment, insurance and mortgage intermediaries. The Bank's key priorities for this sector in 2012 were to:

- » Seek to ensure that retail intermediaries act fairly; and
- » Improve compliance through a credible threat of supervisory action/enforcement.

All regulated retail intermediaries are obliged to submit key information on an annual basis via a secure web-based electronic reporting system. The compliance rate for submission of the Annual Return in 2012 was approximately 74 per cent.

Engagement was enhanced with this sector in 2012 in order to offer helpful and timely compliance support and assistance. An industry newsletter - Intermediary Times - was published four times during the year and a series of regional road shows were hosted by the Bank in Cork, Sligo, Limerick, Dublin and Galway and attended by almost 800 people.

In line with its strategy, the Bank conducted two themed inspections to assess whether or not insurance intermediaries held the required level of Professional Indemnity Insurance (PII). PII is a key prudential and consumer protection tool in that it provides an additional resource from which a firm can pay justified claims by consumers, relating to professional negligence. A total of 46 per cent of the 128 reviewed were found to be compliant with PII requirements. Prompted by the inspections, 27 per cent of the firms voluntarily cancelled their IMR registration

(European Communities (Insurance Mediation) Regulations 2005) and no longer operate as insurance intermediaries. All breaches of the PII requirements were followed up directly with individual firms and a number of enforcement actions also resulted in 2012.

A further themed inspection of retail intermediaries (34 firms) was undertaken in 2012 to monitor compliance with prudential and/or conduct of business rules. Prompted by this inspection, 11 firms voluntarily cancelled their IIA authorisation (Investment Intermediary Act 1995) and/or IMR registration and no longer operate as retail intermediaries. All breaches were followed up directly with individual firms.

Debt Management and Bill Paying Sector

In 2012, the Bank undertook a review of the debt management and bill paying sector in order to determine whether certain services provided by these firms required an authorisation from the Bank and to determine whether customers' funds deposited with firms in this sector were at risk. Inspections of firms operating in this area were carried out and certain firms were directed to put customer safeguards in place and advised that their services required them to hold an authorisation from the Bank. Arising from the inspection work in this area:

- » Some firms decided to cease operating and not to apply for authorisation; and
- » A small number of firms that wished to continue in business decided to submit applications for authorisation.

Depending on the exact business model adopted by a firm, it may or may not be subject to regulation by the Bank. Debt management firms which process payments on behalf of clients are subject to regulation. It is intended that upcoming legislation will provide for the regulation of all firms that provide debt management services, to include firms who provide advice to consumers who are in financial difficulty and who negotiate reduced payments with customer creditors.

18 AIB Bank, Bank of Ireland, Danske Bank, permanent tsb and Ulster Bank Ireland.

Developing and Strengthening Policy

Throughout 2012, the Bank advocated for high standards of consumer protection in financial services and fair treatment of consumers at local, EU and international levels.

At EU and local levels, the Bank attended meetings and responded to queries, surveys and questionnaires relating to the EU's proposals in a number of areas, including:

- » Directives governing Packaged Retail Investment Products (PRIPs);
- » Credit Agreements Relating to Residential Property - significant progress was made in 2012;
- » Insurance Mediation Directive; and
- » Markets in Financial Instruments Directive.

During 2012, the Bank participated in the Working Group established by the Department of Finance to look at the development of a Standard Bank Account for people who currently do not have access to such accounts. This work involved contributing to discussions on, among other things, the functionality which such accounts should offer and how best to identify and encourage people to open such accounts.

Some of the policy initiatives undertaken in 2012 involved enhancing consumer protection by increasing stakeholder knowledge of the Bank's 2012 Consumer Protection Code, the Minimum Competency Code and the Code of Conduct on Mortgage Arrears through a series of presentations and meetings and providing extensive clarification for lenders in relation to their obligations under the Code of Conduct on Mortgage Arrears.

In June 2012, the Bank published a discussion paper on the Code of Conduct on the Switching of Current Accounts with Credit Institutions, which invited interested parties to respond to a range of questions about the operation and possible enhancement of the Code. Consideration of amendments to this Code will be considered further in 2013 as a result of responses received and anticipated EU proposals in this area.

Other Themes

Implementation of the Revised Consumer Protection Code

The Bank reviewed and inspected banks and insurance companies' plans to ensure full implementation of the revised Consumer Protection Code. Overall, the Bank found that most firms inspected had prioritised the full and effective implementation of the revised Code, had committed the necessary resources and training and confirmed that they would have all revised Code provisions in place by 30 June 2012. However, some areas for improvement were identified, including the provision of clear and accurate information in plain English, identification of the needs of vulnerable consumers and provision of reasonable arrangements and assistance to vulnerable consumers.

Best Execution in MiFID Firms

An examination of best execution practices in MiFID firms was also undertaken in 2012. Best execution rules aim to ensure that investment and stockbroking firms obtain the best possible result for their customers when handling customer orders to buy or sell financial instruments such as shares or bonds. This themed inspection identified a number of shortcomings in the compliance by investment and stockbroking firms with applicable best execution rules. The Bank required that every firm review and, where necessary, amend their practices and procedures to take into account the findings from the themed inspection.

Payment Services Directive

The findings from the Bank's review of compliance by eight retail banks in Ireland with certain conduct of business requirements of the European Communities (Payment Services) Regulations, 2009 were published in March 2012. The findings and recommendations have relevance for all payment service providers in Ireland.

The key findings included issues in relation to inconsistencies across retail banks in relation to cut-off times for receipt of payment, charges for information, monthly statements and the manner in which transactions were being executed. Letters were issued to each of the banks outlining the findings in detail and requiring that breaches and inconsistencies be addressed immediately to ensure compliance.

Table 6 – Themed Consumer Focused Inspections in 2012

	2011 Activity	2012 Activity
Number of Themes	10	9
Number of Inspections	118	251
Number of Non-Inspection Meetings	89	56

Details of 2012 Activity on Consumer Focused Inspections		
Themes (On-site and Off-site)	Entity Type	Number Inspected/ Examined
Payment Services Directive*	Credit Institutions	8
Sales Incentives in Insurance Firms**	Insurance	5
Review of Compliance with CCMA**	Credit Institutions	3
Monitoring and Enforcing Compliance with Prudential and/or Conduct of Business Rules and resolution of issues in further firms	Retail Intermediaries	34
Target non-compliant Retail Intermediaries-Professional Indemnity Insurance (PII) theme targeting firms who failed to submit their annual return	Retail Intermediaries	50
Risks identified from Annual Return submissions. Professional Indemnity Insurance, Self-Reported Breaches	Retail Intermediaries	78
Payment Protection Insurance	Credit Institutions	7
Review of preparedness by firms for implementation of revised Consumer Protection code	Insurance, Credit Institutions and Payment Institutions	12
Examination of Best Execution in MiFID Firms	Investment & Stockbroking	49
Mortgage Arrears Resolution Strategy	Credit Institutions	21
Total Themes		10
Total Entities included in Themes		251
Other Inspections (On-Site)	Intermediaries	5
	MiFID Firms	3
	Retail Credit Firm	1
	Moneylenders	1
	Payment Institutions	1
	Insurance	4
Total Inspections		15
Other Meetings	MiFID Firms	10
	Insurance	21
	Intermediaries	38
	Credit Institutions	59
	UK Regulator/Auditor	11
	Various	84
	Moneylenders	4
	Payment Institutions	5
	Retail Credit Firm	7
	Home Reversion Firm	1
	Government Department	48
Total Non-Inspection Meetings		288
Overall Total		554

* 2011-2012 Annual Performance Statement stated that these issues would be reported on in 2012.

** This issue will be reported on in 2013.

Table 7 – Advertising Issues Investigated

	2011	2012
Central Bank Monitoring	44	126
Complaints	46	62
Total	90	188

Outcome of Advertising Issues Investigated 2012

Advertisements Amended	Advertisements Withdrawn	No Action Required	Ongoing
86	60	28	14

Advertising Monitoring

The Bank actively investigated a total of 188 advertising issues during 2012. As a result, 60 advertisements were required to be withdrawn with a further 86 requiring amendment.

The Development of Market Intelligence and Research

During 2012, a new market intelligence function was established to support the Bank's resources in identifying potential conduct risks which could result in consumer detriment. Work in this area included commissioning research projects, collating firm data and analysing existing research and market intelligence. This information is being used to inform themed inspections, policy developments and communications within the Bank's Consumer Protection Directorate.

Stakeholder Engagement

The Bank implemented an engagement process with its stakeholders, both internally and externally during 2012, in developing its consumer protection strategy. This engagement allows the Bank to develop more comprehensive, consumer and risk-focused evidence based approach to support and inform policy development, decision-making and risk management processes. As part of the engagement process during 2012, the Bank hosted three meetings of the Consumer Advisory Group, which was established in 2011 to advise the Bank on its performance in

relation to protecting consumers of financial services.

Quarterly meetings were held with the National Consumer Agency to facilitate co-operation between the Agency and the Bank. Meetings were also held with the Financial Services Ombudsman (FSO), Money and Budgeting Service (MABS), Free Legal Aid Centre (FLAC), European Consumer Centre (ECC), Competition Authority, Credit Review Office and the Consumers Association of Ireland.

Meetings were also held with Industry bodies such as the Irish Banking Federation (IBF), Professional Irish Brokers Association (PIBA), Irish Small & Medium Enterprise Board (ISMED), Insurance Industry Federation (IIF) and the Irish Bankers Association (IBA) throughout the year.

Authorised Financial Service Providers

The Bank is the regulator for most financial service providers including funds in Ireland. Set out below is a table outlining the number of regulated financial service providers by activity type at end-December 2012. Also set out are details of the number of authorisations and revocations during the year.

Table 8 – Regulated Financial Service Providers

	2012
Credit Institutions (including branches of overseas credit institutions)	70
Life Insurance Companies	55
Non-Life Insurance Companies	112
Reinsurance Companies	87
MiFID Investment Firms (MiFID) (including branches of overseas firms)	119
Non-Retail Investment Business Firms	11
Fund Service Providers	217
Retail Intermediaries, <i>including</i>	3,238 ¹⁹
• Investment Intermediaries (authorised advisors, multi-agency intermediaries, mortgage intermediaries)	
• Insurance/Reinsurance Intermediaries	
Collective Investment Schemes (including sub funds)	5,305
Credit Unions	399
Money Transmitters and Bureaux de Change	12
Moneylenders ²⁰	43
Regulated Market/Market Operator	1
Moneybrokers	5
Retail Credit Firms & Home Reversion Firms	18
Payment Institutions	10

Table 9 – Authorisations/Revocations

	Authorisations	Revocations
	2012	2012
Credit Institutions (including branches of overseas credit institutions)	3	7
Life Insurance Companies	0	7
Non-Life Insurance Companies	4	13
Reinsurance Companies	0	14
MiFID Investment Firms (MiFID) (including branches of overseas firms)	5	14
Non-Retail Investment Business Firms	0	0
Fund Service Providers	16	15
Retail Intermediaries, <i>including</i>	253 ²¹	797 ²²
• Investment Intermediaries (authorised advisors, multi-agency intermediaries, mortgage intermediaries)		
• Insurance/Reinsurance Intermediaries		
Collective Investment Schemes (including sub funds)	743	485
Credit Unions	0	5 ²³
Money Transmitters and Bureaux de Change	0	1
Moneylenders ²⁴	43	0
Regulated Market/Market Operator	0	0
Moneybrokers	0	0
Retail Credit Firms & Home Reversion Firms	0	0
Payment Institutions	0	1
	1,067	1,359

19 Figure excludes firms such as credit institutions, credit unions, etc. which also hold a retail intermediary authorisation.

20 Subject to annual renewal of licence.

21 During 2012, 253 retail intermediaries were authorised. This accounted for 300 individual authorisations as a number of firms seek authorisation under more than one retail intermediary authorisation type. (The figures do not include 86 tied insurance intermediaries which were authorised in 2012.)

22 During 2012, 797 retail intermediaries (including 191 tied insurance intermediaries) let their authorisations expire, had their authorisations voluntarily revoked or were otherwise involuntarily removed from the Bank's statutory registers. This accounted for 972 individual authorisations.

23 One credit union was dissolved, 4 credit unions transferred their engagements to another credit union.

24 Subject to annual renewal of licence.

Enforcement and Regulatory Actions

Settlement Agreements

During 2012, the Bank entered into 16 settlement agreements. Fourteen of the settlements were entered into under the Administrative Sanctions Procedure under Part IIIC of the Central Bank Act 1942 (as amended); while the other two were entered into under the separate administrative procedure provided for under the securities markets legislation.

The sanctions imposed include 16 fines, totalling €8.5m, and 16 reprimands. The fines ranged from €800 to €3.2m and related to various contraventions of Irish Financial Services law, contraventions of the European Communities (Non-Life Insurance) Framework Regulations 1994; the European Communities (Life Assurance) Framework Regulations 1994; the requirements for the Management of Liquidity Risk (June 2009); the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006; the Consumer Protection Code; the Minimum Competency Requirements; the Asset Covered Securities Act 2001; the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992; the Insurance Act 1989; the European Communities (Markets in Financial Instruments) Regulations 2007; the Market Abuse Rules 2009; and the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010.

Public statements were released in relation to each settlement. These public statements contained detailed information about the contraventions, including the nature, volume, frequency and cause(s) of the contraventions, the penalties imposed and the factors considered by the Bank in determining appropriate sanctions. Each public statement released emphasised the Bank's enforcement appetite, promoted compliance by regulated entities and informed stakeholders on the standards of behaviour the Bank expects from those it regulates.

Significant issues identified in the above cases related to:

- » Failure to have in place adequate systems and controls to ensure that activity outsourced to group companies is adequately monitored and controlled;
- » Failure to provide accurate and complete reports of transactions in financial instruments;
- » Failure to manage, monitor and report accurately on risk capital requirements;
- » Failure to establish and maintain effective internal controls for the management of liquidity risk;
- » Failure to handle customer complaints in accordance with the Consumer Protection Code;
- » Failure to maintain a life insurance business account in accordance with the legislation;
- » Failure to maintain credit transactions assets in accordance with the legislation;
- » Failure to hold sufficient assets to meet the required solvency margin;
- » Failure to have in place and/or implement adequate systems and controls to ensure compliance with the various Codes and Regulations;
- » Failure by a publicly listed company to make market announcements within the prescribed timelines;
- » Failure to have in place adequate written policies and procedures to prevent and detect the commission of money laundering and terrorist financing;
- » Failure to hold satisfactory professional indemnity insurance; and
- » Failure to file a suspicious transaction report of a client transaction which may have constituted market abuse.

Supervisory warnings²⁵ were issued in 16 other cases.

²⁵ A Supervisory Warning is a non-statutory device that is available where a Supervisory Division has reasonable cause to suspect that a prescribed contravention has occurred and where it is considered that an ASP sanction is not warranted.

Table 10 – Regulatory Actions Taken

Type	Number of Actions	
	2011	2012
Administrative Sanction Settlement Agreements	10	14
Securities Law Settlement Agreements	0	2
Securities Law Formal Private Cautions Issued	2	0
Directions Imposed under Transparency Directive ²⁶	16	11
Warning Notices Issued Regarding Unauthorised Activity	6	34
Supervisory Warnings	14	16
Request for External Reviews - Credit Unions	173	248
Authorisation / Licence / Registration Refused	1	2
Appointment of Administrator	0	0
Firms Recapitalised due to Solvency Issues	7	0
Direction / Requirement Imposed on Credit Unions	20	42
Appointment of Independent Auditor / Inspector Required	1	4
Advertising Issues Investigated	90	188
Appointment of Court Appointed Inspector	1	0
Direction/Requirement Imposed under Other Legislation	40	168
Disclosure of Information to other Enforcement Authorities	111	105
Involuntary Revocation/Withdrawal of Authorisation	2	6
Securities Law Decision to refer to Assessor	0	1
Total	494	841

Significant Financial Cases

Irish Bank Resolution Corporation (IBRC)

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 that time could 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 Office of the Director of Corporate Enforcement (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.

Irish Nationwide Building Society (INBS)

An investigation into historical lending practices at the INBS is at an advanced stage and, once concluded, decisions regarding any possible future enforcement proceedings will be made.

Quinn Insurance Limited

An investigation into certain matters within Quinn Insurance Limited continued in 2012.

Other Enforcement Cases

During 2012, the Bank made a decision to appoint an Assessor, under Regulation 35 of the Market Abuse (Directive 2003/6/EC) Regulations 2005, to conduct an assessment of a possible breach of these Regulations.

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 2012, a total of 306 Directions were issued under the Transparency Directive (286 in 2011). However, adjusted for the re-issue of Directions previously issued, the number of Directions issued pursuant to the Regulations falls to 11 (16 in 2011).

Central Bank (Supervision and Enforcement) Bill 2011

The Central Bank (Supervision and Enforcement) Bill 2011 (the Bill) was published on 28 June 2011. The Committee Stage amendments were published in April 2012. During the course of the year the Bank engaged directly with the Department of Finance in relation to provisions of the Bill and the Committee Stage amendments.

Part 3 of the Bill as originally published, relating to Authorised Officers, has now been included in the Credit Union and Cooperation with Overseas Regulators Act 2012 (the Credit Union Act) and will be Part 5 of the Central Bank Reform Act 2010. A number of other ancillary matters have also been moved from the Bill to the Credit Union Act, including provision for co-operation with overseas regulators. It is currently anticipated that the Bill will be enacted during 2013.

Enforcement Conference and Other Public Engagements

The Bank hosted an Enforcement Conference on 11 December 2012. The event forms part of the Bank's wider stakeholder engagement programme. It provided a platform for speakers and attendees to exchange views in an open and productive dialogue. In addition to the Enforcement Conference, the Bank has presented on its enforcement work at 10 public events both in Ireland and the United Kingdom.

Regulators' Forum

On 7 June and 21 November 2012, the Bank held a forum for enforcement regulators. Among the 20 regulatory agencies represented were attendees from the Garda Bureau of Fraud Investigation, the ODCE and the Competition Authority. The forum was intended to facilitate the sharing of experience and learning between enforcement regulators on matters of common interest.

Fitness and Probity - Review of the Banks' Boards

In the 2011-2012 Annual Performance Statement, the Bank stated that it would continue to assess whether any directors on the boards of State-supported credit institutions, who planned to remain in their posts beyond 1 January 2012, should be subject to a review of their conduct in the period leading up to the provision of State-support. As part of this exercise the Bank wrote to these directors in 2011 to determine their intention to remain in their posts beyond 2012.

In June 2012, the Bank announced that the fitness and probity review had concluded. During the period of the review, many of the long-standing directors of the six State-supported credit institutions resigned. In respect of remaining directors of these credit institutions, the Bank will continue to carry out its role in respect of the supervision of the fitness and probity of those directors.

New applications to sit on the boards of any of these institutions which remain under the Bank's active supervision will require the applicants to establish, to the satisfaction of the Bank, that proposed directors meet the Bank's minimum standards of fitness and probity.

Box 4 – Bank's Enforcement Strategy

The Bank's approach to regulating financial service providers and markets, whilst ensuring the protection of consumers, is based on a model of assertive risk-based supervision underpinned by a credible threat of enforcement. Where regulated entities fail to comply with their regulatory requirements, enforcement is an important tool to effect deterrence, achieve compliance and promote the behaviours the Bank expects. The Bank will continue to ensure that the results of enforcement actions are publicly available.

Enforcement actions fall into two broad categories – Pre-defined and Reactive. Pre-defined enforcement derives from the work priorities of the supervisory divisions. Reactive enforcement will entail taking decisive enforcement action where regulatory breaches become apparent from the supervisory work of the Bank and other sources.

The Bank will take enforcement action against regulated entities across the full spectrum of impact ratings under the Bank's PRISM supervisory model (i.e. High, Medium High, Medium Low and Low). Where the Bank does not have an active supervisory relationship with a regulated financial service provider and where circumstances warrant it, the Bank will take enforcement action against lower impact entities as an effective means of promoting compliance, educating regulated entities and deterring similar entities from non-compliance.

The Bank will continue to ensure that persons holding important functions in regulated entities are held to the high standards set out in the fitness and probity regime. Where the Bank is of the view that the standards or requirements are not being met, it will investigate in a thorough and comprehensive manner and take any action that may be warranted using the powers available to it.

Anti-Money Laundering, Counter Terrorism Financing

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

During 2012, the Bank conducted 28 AML-CTF inspections of 26 financial institutions, bringing the total number of inspections completed pursuant to the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (CJA2010) to 72. The key controls failures identified from this inspection activity together with an overview of the state of compliance by firms were communicated to industry in October 2012 via letters to the CEOs. Other significant milestones aimed at increasing awareness within industry of AML-CTF and FS obligations were delivered in 2012 including publication of core guidelines in February 2012, publication of sectoral guidelines for the insurance sector in November 2012, presentation at conferences

hosted by industry bodies including Association of Compliance Officers in Ireland (ACOI), and Credit Union Development Association (CUDA). Assistance continues to be provided to the Department of Finance in its engagement with the Financial Action Task Force, a particular focus of 2012 being input into the drafting of a Bill of Amendment.

In 2012, the Bank received and responded to 393 queries in relation to alleged unauthorised activity, published warning notices in relation to 34 firms and made 84 reports to the Gardaí under Section 33AK of the Central Bank Act 1942 (as amended). The Bank also undertook inspections of 15 firms that were suspected of engaging in unauthorised activity.

In 2012, 88 EU Financial Sanctions regulations were published which were communicated to industry and the public via the Bank's website and an automated email alert subscription system. There has also been continual engagement with industry and government in relation to the upcoming implementation of SEPA and its impact on processes for screening for sanctioned transactions.

Box 5 – Resource Enhancement Initiatives Undertaken in 2012

Supervision Support Team

The aim of Supervisory Support is to ensure the successful embedding of the PRISM system and improving the underlying quality of supervision. The Supervisory Support team became fully functional in July 2012 and undertook a number of significant pieces of work, including:

- » Two in depth reviews of High Impact banks examining the quality of engagement, risk identification and risk mitigation;
- » A 360 degree review of the functioning of Risk Governance Panels;
- » A review of the engagement tasks undertaken for those firms brought to a Risk Governance Panel to establish best practice and areas for further training; and
- » The provision of a range of master class/seminars to supervisors on topics such as Effective Engagement Planning and Preparing for Risk Governance Panels.

Cross Sector Team

The Cross Sector team analyses emerging trends across different financial sectors with a view to aiding supervisors in understanding key risks emerging in their sectors. This resulted in:

- » The publication of Environmental Risk Assessments;
- » Research papers and the provision of a range of emerging risk seminars to supervisors on topics including Environmental Risks, Non-Life Insurance Reserving Trends and Low Interest Rate Implications.

Policy and Risk

The Bank's policy and risk resources ensure that it is positioned to act efficiently in its supervision of the wide range of financial institutions in Ireland. Analysis and support resources are provided to ensure that the Bank's risk-based supervision responds effectively and decisively to changing developments across the different financial sectors.

Corporate Governance

Credit Institutions & Insurance Undertakings

In 2012, the Bank continued to review the implementation of the Corporate Governance Code for Credit Institutions and Insurance Undertakings (the Code). The Code set out minimum statutory requirements on how undertakings should organise the governance of their institutions and was introduced on a phased basis. All provisions of the Corporate Governance Code for Credit Institutions and Insurance Undertakings came into force during 2012. The Bank presented on the topic to the Corporate Governance Association of Ireland and to the Irish Banking Federation on the Annual Compliance Statement requirement.

Governance and compliance with the Code was a key area of focus for the Bank during

2012 and 11 Governance Reviews of insurance firms were carried out, targeting High Impact undertakings in particular. Where non-compliance with the Code or other governance related issues were identified, the Bank is taking appropriate measures including enforcement actions.

Fitness and Probity Regime for Financial Service Providers

The Bank issued an FAQ document in March 2012 to address commonly asked questions on the operation of the Fitness and Probity Regime. A series of meetings were held between the Bank and various industry bodies.

The new Fitness and Probity Regime was fully implemented by 1 December 2012. The regime applies to Pre-Approval Controlled Functions such as Chief Executive Officer, Director or Heads of Compliance, Risk, and Internal Audit and other Controlled Functions such as the staff who exercise a significant influence on conduct of the affairs of the financial service provider, monitor compliance or perform functions in a customer-facing role.

Financial service providers are responsible for ensuring that staff performing Pre-Approval Controlled Functions / Controlled Functions meet the Fitness and Probity Standards, both on appointment to such functions and on an

ongoing basis. Compliance with the new requirements of the regime was a key element of the Bank's engagement plan during 2012. Proposals submitted by undertakings are reviewed in detail, particularly for High and Medium High Impact undertakings and, where supervision teams deem necessary, interviews are held with proposed appointees.

Impairment Provisioning and Disclosure

In addition to working closely with banks on implementing robust provisioning practices for loan arrears, the Bank contributed to various European taskforces focussing on ways to improve provisioning practices and financial disclosures. Following the publication of Impairment Provisioning and Disclosure Guidelines to banks in late 2011, during 2012 an exercise was completed to assess the level of compliance of the Covered Banking Institutions with these guidelines.

Auditor Assurance over Internal Governance

The Bank continues to engage with representatives of the auditing profession and the Irish Auditing and Accounting Supervisory Authority (IAASA), 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 regarding the provision of positive assurance by auditors on the internal governance of financial institutions.

Proposed Amendments to the European Audit Directive and Regulations

Together with the Department of Jobs, Enterprise and Innovation, the Bank is working on the proposal for an amended Audit Directive and Regulations within Europe²⁷. These proposals deal with issues such as the definition of Public Interest Entities, International Standards of Auditing, rotation of audit firms and reporting requirements.

Auditing and Accounting Matters

The Bank is a member of the Irish Sub-Committee of the Financial Reporting Council (FRC) and frequently engages with it on matters of mutual interest. In October 2012, the Bank

presented to the Chartered Institute of Internal Auditors on the role of Internal Audit Functions in banks and the Bank's expectations on Internal Audit Functions as envisaged under the Basel Committee on Banking Supervision paper on Internal Audit Functions. The Bank also engages with IAASA on other projects.

EU & International

Participation in the European Supervisory Authorities (ESAs) and International Financial Regulatory Bodies

In 2012, the Bank continued its full engagement in the work of the three ESAs²⁸ covering banking, insurance/occupational pensions and securities/markets. The responsibilities assigned to these authorities, in terms of developing the regulatory framework combined with responding to the ongoing financial crisis, has required continued high levels of commitment of time and manpower. The Deputy Governor of Financial Regulation, Matthew Elderfield, served as Alternate Chair of the EBA in addition to his membership of EIOPA and ESMA.

The Bank increased its representation in the International Organisation of Securities Commissions (IOSCO), taking part in four IOSCO Standing Committee meetings. The Bank also became a signatory of the IOSCO Multi-lateral Memorandum of Understanding (MMoU) towards the end of the year following a lengthy process. The MMoU sets an international benchmark for cross-border co-operation for securities regulatory enforcement purposes.

The Bank also became a signatory to the International Association of Insurance Supervisors (IAIS) MMoU during 2012. The IAIS MMoU sets an international benchmark for cross-border co-operation between insurance supervisors. Following the introduction of legislation in late 2012 our membership of the IAIS MMoU was finalised shortly after year-end.

Engagement with EBA

Representatives of the Bank participated in all four Standing Committees of the EBA which

²⁷ The proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and the consolidated accounts (the Audit Directive).

²⁸ European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities & Markets Authority (ESMA).

reports directly to the Board of Supervisors: Regulation and Policy, Oversight and Practices, Consumer Protection and Financial Innovation and Accounting, Reporting and Auditing. Each Standing Committee has responsibility for a significant number of sub-groups which are mandated with specific areas of responsibility for contributing to the EBA's work programme. Bank representatives from the areas of Banking, Policy and Consumer Protection actively participated as members of these sub-groups. The Bank also chaired the sub-group on Liquidity and the sub-group on Consumer Protection.

Separately, the Bank participated in the Review Panel of the EBA. The main objective of the Panel is to conduct peer reviews of the activities of competent authorities and to develop methods to allow for objective assessment and comparison. The Review Panel is chaired by Matthew Elderfield, Deputy Governor, Financial Regulation. Bank participants were also involved in the EBA's Impact Study Group which conducts quantitative impact studies regarding developments in the regulatory framework.

The Deputy Governor, also acted as alternate chair of the EBA's Board of Supervisors and participated in the EBA's Management Board which has responsibility for the operational management of the EBA.

Engagement with EIOPA

EIOPA has the following eight permanent Working Groups: Financial Stability, Financial Requirements, Insurance Groups Supervision, Internal Models, Equivalence, Consumer Protection, IT & Data and Internal Governance, Supervisory Review & Reporting (IGSRR)

The Bank played an active part at EIOPA Working Group level and during 2012 chaired the IGSRR Sub-Group. The Bank also participated in a number of sub-groups of the permanent working groups referenced above. Additionally, the Bank participated in the EIOPA Review Panel.

The Bank is represented on EIOPA's Management Board and Board of Supervisors by Matthew Elderfield, Deputy Governor, Financial Regulation.

Engagement with ESMA

The Bank has representatives on each of the Standing Committees of ESMA, which deal with such subjects as market structure, investor protection, investment management, market integrity, financial innovation, corporate reporting and corporate finance. The Bank also has two employees seconded to ESMA in the areas of investor protection and corporate finance. Like with other ESAs, ESMA has a number of sub-groups and Task Forces that work on particular issues under each of the Standing Committees. The Bank participates on a wide selection of these sub-groups, many of whom are responsible for the initial drafting of delegated acts and technical standards in relation to forthcoming securities legislation.

This increased involvement of the Bank in ESMA's Standing Committees and working groups culminated in the election of the Markets Director, Gareth Murphy, as Chair of the Investment Management Standing Committee for a two-year term. The Bank is represented on ESMA's Management Board and Board of Supervisors by the Deputy Governor, Financial Regulation.

Joint Committee of the ESAs

The Bank participated in the work of the Joint Committee of the ESAs which promotes cooperation and cross-sectoral consistency between the ESAs. The Joint Committee (JC) carries out its work through a number of sub-committees, dedicated to key areas of cross-sectoral concern. The Bank was represented in, and provided technical input to:

- » Risk Sub-Committee which produced reports on the risks and vulnerabilities in the EU financial system;
- » Consumer Protection and Financial Innovation Sub-Committee which initiated work in relation to the proposed Packaged Retail Investment Products (PRIIPs);
- » Anti-Money Laundering Sub-Committee which published a number of reports in support of the European Commission's review of the Money Laundering Directive; and

- » Financial Conglomerates Sub-Committee, which provided advice to the European Commission on the review of the Financial Conglomerates Directive (FICOD).

Technical Advice to the Department of Finance and International bodies

In addition to its input into the development and negotiation of the CRDIV, SSM and Solvency II proposals (see below) the Bank provided technical advice to the Department of Finance on EMIR, the Central Security Depository Regulation, UCITS V, the Alternative Investment Fund Managers Directive (AIFMD), MiFID, during the year and attended a number of Council Working Groups. This engagement will continue during 2013 and, in particular, in the first half of the year as Ireland holds the rotating Presidency of the Council of the EU.

The Bank provided input into the European Commission's policy-making on Insurance Guarantee Schemes.

The Bank was represented on the EU Government Expert Group on Retail Financial Services and OECD Task Force on Consumer Protection.

Stakeholder Engagement

The increased range, detail and pace of EU and international regulatory proposals require that supervisors, industry and other stakeholders are in a position to respond quickly and effectively to consultations and proposals. The Bank continued its programme to further develop stakeholder engagement and dialogue on EU and international policy developments. During 2012, the Bank:

- » Hosted a major international stakeholder conference in April on Financial Regulation – Thinking about the Future. Speakers included the Minister for Finance, the Chairmen of each of the ESAs and the Chair of the FSA (UK). There was a strong participation by Irish and European financial services industry and consumer stakeholder representatives;
- » Hosted a high level Stakeholder Roundtable in December to hear the views of Irish and European stakeholder representatives on the financial services regulatory agenda for the forthcoming Irish Presidency of the Council of Ministers;

- » Produced a quarterly High Level Regulatory Roadmap, outlining EU and international regulatory proposals, for distribution to internal and external stakeholders;
- » Launched a dedicated EU and international portal on the Bank's website; and
- » Hosted a series of quarterly meetings with stakeholders from insurance, banking and markets.

Preparation for the Irish Presidency

During 2012, significant resources were devoted to preparing for the Irish Presidency of the Council of the EU, to enable Bank staff to provide technical support and advice on proposed financial services legislation and to participate as technical experts in teams leading negotiations in the Council and with the European Parliament. The programme included:

- » Regular preparatory meetings with the Department of Finance including joint meetings with the European Commission, Council and Parliament officials as well as with Danish and Cypriot Presidency officials;
- » Monthly internal coordination and planning meetings with all Bank Divisions involved with the Presidency;
- » In November, Bank officials involved with priority Presidency dossiers met with officials from the Commission, Parliament and Council and a group of Bank officials participated in a dedicated Presidency study visit to the EU institutions;
- » The Governor and Deputy Governor (Financial Regulation) met to discuss the Presidency with the Economic and Monetary Affairs (ECON) Committee of the European Parliament.

Box 6 – Capital Requirements Directive IV/CRR

The Directive's main proposals are:

- » Enhancement of the quality and quantity of capital, including the introduction of a conservation and countercyclical buffer;
- » Introduction of two new liquidity ratios (i.e. the Liquidity Coverage Ratio and Net Stable Funding Ratio);
- » Enhancement of risk coverage by amending requirements for counterparty credit risk;
- » Supplementing the risk-based capital requirements with a non-risk based leverage ratio; and
- » Removal of certain national discretions in pursuit of a single rule book.

Prudential Supervision Policy

Banking

EU Capital Requirements Directive/Regulation (CRD IV/CRR)²⁹

The CRD is being amended significantly with the development of CRD IV/CRR. During 2012, the proposal was under negotiation at a European level, with the three EU institutions, (European Commission, European Parliament and European Council) working to agree a compromise text.

The Bank attended EU Council meetings, provided technical advice to the Department of Finance, and attended EBA Working Group meetings assisting in the drafting of Binding Technical Standards (BTSs) proposed in CRD IV/CRR. In 2012, the EBA launched public consultations on five batches of draft Regulatory Technical Standards (Own Funds, Credit Valuation Adjustment Risk, Credit Risk Adjustments, Cooperative/Mutual and Prudent Valuation) and on four Implementing Technical Standards (Large Exposures, Own Funds Disclosures, Liquidity Ratio and Leverage Ratio) in relation to the CRDIV/CRR. In addition, the Bank was also nominated to chair the EBA Subgroup on Liquidity which, inter alia, is tasked with producing the liquidity BTSs.

Single Supervisory Mechanism (SSM)

At the EU Summit on 18 October 2012, the 27 Heads of State and the EU agreed on steps needed to complete Europe's Economic and Monetary Union to ensure economic and social

welfare as well as stability and sustained prosperity. The Summit agreed on the need to move towards an integrated financial framework, one of the main components being the establishment of an SSM. The SSM will be based on the highest standards for prudential bank supervision and will allow the ECB to carry out direct supervision. The intention is to break the link between sovereign risk and banks, thereby strengthening confidence and allaying concerns regarding the future of the euro. The establishment of a single rule book underpinning centralised supervision will be of paramount importance in the new supervisory regime. Other aspects of supervision such as conduct of business or anti-money laundering remain at national level.

Political agreement on the SSM was reached in Ecofin on 12 December and subsequently endorsed by EU Heads of State at their Summit on 14 December. Trilogue negotiations with the European Parliament, the Council and the Commission will commence during the Irish Presidency. SSM will be composed of the ECB and National Supervisory Authorities (NSAs). The arrangement agreed for supervision recognises the need for differentiated approaches with the ECB responsible for the direct supervision of significant credit institutions and national supervisory authorities charged with the supervision of *less significant* institutions.

The ECB will have the power to issue regulations or guidelines on the performance of functions and will oversee the SSM. In addition, it will have the power to step in and take over supervision from NSAs in certain circumstances. The SSM should become

²⁹ The Capital Requirements Directive is being amended by two legislative instruments - a Directive (CRD IV) and Regulation (CRR). Once finalised, the Directive will be transposed nationally and the Regulation will have direct effect.

Box 7 – Solvency II Preparations in 2012

The Bank continued to maintain close engagement with industry and representative bodies throughout the year. In particular, the Bank:

- » Presented its proposals for a reporting framework for Own Risk and Solvency Assessment (ORSA) applicable to Medium Low and Low Impact undertakings;
- » Published the Solvency II Matters newsletter on the Bank's website, which provides regular updates on significant Solvency II developments;
- » 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 and other stakeholders.

operational during 2014. In the interim, the ECB and NSAs will work to agree practical modalities for the implementation of SSM.

It is too early to say what the impact might be on national banking supervisory regimes. While it is expected that there would be some centralisation of functions and decision making at the ECB, the scale and timing of this remains to be decided. However, the Bank will adapt its approach in line with any change in the European context.

Insurance

Solvency II

Throughout 2012, the Bank continued to actively contribute to EIOPA working groups and committees on Solvency II. Due to ongoing delays in ratifying Omnibus II³⁰, the revised implementation date of 1 January 2014 will not be met and a new date is yet to be agreed. The delays relate primarily to issues relating to products providing long term guarantees. In December 2012, the co-legislators (the European Parliament, the Council of the EU and the European Commission) agreed Terms of Reference for an Impact Assessment to be carried out in relation to these products. This assessment will be carried out by EIOPA based on results submitted by insurance undertakings

in each Member State. It is hoped that this Impact Assessment will smooth the way for final agreement of Omnibus II. Throughout 2012, the Bank continued to work with the Department of Finance, advising on national transposition of the Solvency II Directive and providing input into Omnibus II negotiations. Significant progress was made in 2012 in developing enhanced supervisory processes to meet the requirements which Solvency II will impose on the Bank.

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

Regulatory Transactions

In 2012, the Bank established its Regulatory Transactions Strategy. The primary goals of the strategy are to:

- 1) Improve effectiveness and efficiency of processes;
- 2) Improve the quality of regulatory information; and
- 3) Improve the quality of service.

Service Standards relating to the target turnaround times for the assessment of the fitness and probity of proposed senior positions in financial service providers were published in June 2012. Under the Central Bank Reform Act

2010, such persons require the pre-approval of the Bank before taking up their appointment. An online application system is used by the applicant to submit an Individual Questionnaire which gathers information on the applicant's experience, education, compliance with the Minimum Competency Code 2011 (if applicable), reputation and character, shareholdings, business interests and board memberships. Table 11 below outlines the number of applications received by sector and the status of the applications at end-year, while Table 12 reports on the Bank's performance against the Service Standards.

In addition, 3,572 queries relating to fitness and probity were dealt with during 2012 and 29 applicants were interviewed as part of the process for assessing their fitness and probity

Table 11 – Fitness and Probity Applications – by Sector and Status

Totals applications received by industry sector - 2012	No of Applications	% of total
Funds & Fund Service Providers	1,314	42
Retail Intermediaries	713	23
Insurance/Reinsurance Undertakings	561	18
Investment Firms (MiFID & IIA)	295	10
Credit Institutions	138	4
Other Sectors	84	3
Total	3,105	100

Status of Applications - 2012	No of Applications	% of total
Completed		
Approved	2,234	72
Returned as incomplete	331	11
Withdrawn by applicant ³¹	93	3
Sub Total	2,658	86
In Progress at year end		
Awaiting decision on entity's application for authorisation	239	8
Being processed	158	5
Additional information requested	43	1
External regulator / reference check pending	7	0
Sub Total	447	14
TOTAL	3,105	100

³¹ In some cases, withdrawal of applications followed the Bank giving its preliminary view that it was minded to refuse approval or the Applicant failed to demonstrate how they met the Fitness and Probity Standards.

to hold Pre-Approval Controlled Functions (directors and senior managers).

The Bank requires financial service providers to submit financial data relevant to their businesses, at specified intervals. This information is used as a way of monitoring the operations of financial service providers and their compliance with relevant legislation as well as regulatory requirements. It is also used for statistical purposes and mandatory reporting to the European System of Central Banks. This information is submitted via the Online Reporting System which was enhanced in November 2012. The main improvements

introduced were: (a) introduction for regulatory returns of pre-filing reminders, late filing reminders and acknowledgment of receipt of returns; (b) submission of online queries and requests and (c) self-service password reset facility. Handling of Online Reporting queries was centralised within the Bank in November 2012 – with 771 queries handled in December 2012, the first month of operation. The percentage of regulated financial service providers submitting their returns online in 2012 was 64 per cent.

Table 12 – Performance against Fitness and Probity Service Standards for period 1 July 2012 to 31 December 2012

Category	Turnaround Time (business days)	Target %	Actual %	2011
Incomplete IQ Response	5	85	95.83	30
Qualifying Investor Fund IQ	5	85	92.25	37
Previously Approved Individual	12	85	87.82	6
Standard IQ	15	85	86.60	2

Economic Analysis Research and Statistics

Economic Analysis and Commentary

The Bank plays an important role in influencing national economic policy, by acting as an independent and authoritative commentator on the economy and as advisor to the Government on policy initiatives. This role is performed through the provision of economic analysis, 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 contributions to conferences and seminars. Internally, economic analysis and research are inputs into ongoing financial stability assessments. The Bank also contributes to the formation of macroeconomic forecasting and economic policy advice and research at Eurosystem level.

Six macroeconomic 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 Partners' missions, rating agencies and others.

In addition to the forecasting exercises, significant analytical work on key issues in relation to the Irish economy is undertaken and results published. In 2012, this included work on SME lending and access to bank finance, the implications of the Fiscal Compact, a study of comparative euro area fiscal consolidations, further work on cost competitiveness and export performance, labour market flows and unemployment and job creation and job destruction in the labour market. In addition, articles on current topics in economics published in the Quarterly Bulletin included articles on the impact of the financial crisis on

Irish households, an examination of the scale of the crisis in comparative terms, the mortgage market, negative equity and arrears, the role of SMEs, competitiveness, shadow banking, inflation and new approaches to economic forecasting.

In the European context, the Bank continues to respond to the evolving economic and monetary environment by providing advice and analysis to the Governor in his capacity as a member of the Governing Council of the ECB, and contributing to policy development at many Eurosystem committees on issues including:

- » The challenges to monetary policy setting when nominal interest rates reach very low levels;
- » Assessing and improving the functioning of the monetary transmission mechanism;
- » Implications of financial market instability on the real economy;
- » Implications of the design and implementation of non-standard monetary policy measures; and
- » Econometric modelling and forecasting of Eurosystem economic growth and inflation.

Research

The Bank's research function was restructured in 2012 with a move away from a standalone research area to individual researchers assigned to divisions within the Bank's Economics Directorate. The motivation for such a move was to ensure a closer connection between policy relevance and research topicality and to ensure research expertise could be seamlessly applied to policy issues that confront the Bank.

The main area of research continued to focus on the financial crisis. This included an examination of the determinants of mortgage interest rates during the financial crisis, factors influencing SME access to credit, the determinants of SME loan default, the variables most relevant to sovereign default and the importance of domestic economic conditions in explaining the behaviour of Irish inflation during the crisis. This research is available in the Bank's *Technical Paper* series. The Bank

continued its communication of its research work in 2012 with the publication of the fifth annual *Research Bulletin*. This Bulletin contains non-technical summaries of the Bank's published technical papers. As in previous years, staff continued to publish much of this research in leading domestic and international economic journals.

In addition, policy-focussed research output is made available through the *Economic Letters* series. 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 total, 13 Economic Letters were published in 2012. These were published on a wide variety of topics including fiscal policy, access to credit for Irish SMEs, the housing market, banking behaviour, inflation, external debt and economic forecasting³².

Financial Stability

The Bank has a mandate, in both domestic legislation and under the Maastricht Treaty, to contribute to financial stability in both Ireland and across the euro area. The Bank's role in contributing to financial stability reflects the critical role a well-functioning financial sector plays in facilitating economic growth and the importance of the banking sector to the transmission of monetary policy actions to the real economy.

The Bank contributes to financial stability through its work on system-wide issues (macroprudential approach) and at the firm level (microprudential approach). The Bank's high-level Financial Stability Committee (FSC) oversees the monitoring, assessing and highlighting of areas of concern relevant to the Irish financial system, and identifying actions that can be taken to mitigate risks to financial stability.

Throughout 2012, the Bank's Financial Stability resources continued to make significant contributions in relation to work on loan loss forecasting, mortgage arrears, SME lending, the eligible liabilities guarantee as well as providing

macro-financial analyses and advice to the Bank's senior management. Two editions of the Bank's Macro-Financial Review were produced, to provide systematic overviews of macro-financial conditions in Ireland. The Review surveys the current condition of the domestic financial system and the environment in which it operates, and identifies potential sources of systemic risks, both within and outside the financial system. In doing this, the Review assembles some of the material which is kept under surveillance by the FSC of the Bank. The Review is published to help financial market participants, other authorities and the public evaluate financial risks.

In terms of outreach to domestic and international academic and policy communities, the Bank's 2012 conference on the Irish SME lending market highlighted the central role of SME financing for economic recovery. This followed on from the success of the Bank's previous conference on mortgage arrears, and a conference on distressed property markets is planned for early 2013. The aim of this conference is to examine the policy options – fiscal, monetary and regulatory – which can contribute to the recovery of housing markets. The Bank also participated at seminars in Irish universities, at the Economic and Social Research Institute and the national conference of the Irish Economic Association.

In April 2012, an income survey of mortgage holders was undertaken. This survey was designed to capture detailed information on affordability factors, such as a mortgage holder's current income and labour market status. The results from this research will be used to supplement data collected as part of the Bank's FMP and to conduct economic research on the likely developments in the Irish mortgage market. This survey represents one element of the strategic approach taken on the issue of mortgage arrears, which is a top priority for the Bank. A survey of property professionals was carried out in the third quarter of the year. The aim of this survey was to provide an illustration of national and regional dynamics and to gauge views from within industry in respect of property prices.

A key part of the Bank's macroprudential contribution relates to the EU-IMF Programme deliverables. In the initial part of the

³² A detailed listing of recent and forthcoming publications by Bank staff in peer reviewed external journals and books is provided in Appendix 1.

Programme, there was a reliance on external resources to supplement the Bank's analytics. In 2012, the focus moved to build internal capability to develop an accurate picture of risks facing the banking system. Specifically, a loan-loss forecasting (LLF) model commenced in the latter half of 2012, to deliver improved capability to forecast loan losses. Models are being developed for asset classes such as Mortgages, Commercial Real Estate, Corporate, SME, Micro-SME and Non-Mortgage Retail. Specifically, the LLF project aims to deliver a robust model development framework which:

- » Is capable of providing an independent and credible estimate of future loan losses, under various scenarios;
- » Is capable of being used as the key input to the Prudential Capital Assessment Review (PCAR) process;
- » Can incorporate those areas of specific importance to the Bank and key stakeholders, including overlays, assumptions and policy changes; and
- » Is ultimately capable of being maintained and updated by the Bank, independent of third party support.

The Bank's macroprudential analysis and policy guidance role also extends to European responsibilities. As a member of the European Systemic Risk Board (ESRB), the Bank contributes to macroprudential oversight of the EU financial system. In carrying out this role, the Bank monitors and assesses risks and issues warnings and recommendations for remedial action in response to the risks identified. The Bank is represented on EU and ESCB Committees such as the ECB's Financial Stability Committee. In 2012, 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 is the key compiler of financial sector statistics in Ireland and works closely with the Central Statistics Office (CSO) in developing this statistical framework. The compilation of statistics has two main purposes:

- » Providing key information for domestic policymakers and for the compilation of Ireland's macro-economic statistics; and
- » Meeting the Bank's reporting obligations to the ECB and other international organisations.

The Bank continued to enhance its statistical outputs and analysis throughout 2012 for domestic-policy purposes and international legal requirements, both for the ECB and the External Partners for monitoring Ireland's compliance with the EU-IMF Programme. A number of initiatives undertaken in 2012 were driven by domestic policy demands. These included a new statistical release on mortgage arrears, providing greater detail and transparency on the volume and value of arrears and restructures, and the scale of repossessions of principal dwellings. It also included information on buy-to-let mortgages for the first time. Statistics on interest rates applicable to household and non-financial corporate loans and deposits were also published for the first time in 2012. These help monitor developments in loan and deposit rates for particular categories of activity, e.g. variable rate mortgages and lending to small and medium-sized enterprises (SMEs). The Bank also worked closely with the Department of Finance during the year to harmonise data sources on the supply of credit to these firms.

A statistical chart pack was launched in 2012 providing a visual summary of the key financial statistics. This provides users with an overview of the available data, accompanied by links to the complete datasets.

A number of information technology projects were also completed during the year, to support the Bank's ability to meet statistical demands emanating from the Eurosystem and domestic responsibilities. These will facilitate the introduction of on-line reporting for balance of payments returns by credit institutions and for monthly reporting by investment funds from the start of 2013. Development of national securities holding statistics, as part of a wider ESCB project, is also close to completion.

In addition to developmental work, other regular statistical outputs and analysis were maintained and enhanced in 2012. These include regular monthly and quarterly money and banking data covering the balance sheets and transactions of the resident offices of credit institutions operating in Ireland. Separate data are provided for institutions covered under the Irish Government Eligible Liabilities Guarantee Scheme. A series on the consolidated foreign exposures of the guaranteed credit institutions is also published. Money and banking statistics also provide detailed information on lending and deposits for households and other economic sectors. These include breakdowns by category of deposits and loans and by type of business activity (e.g. agriculture). In particular, comprehensive information is published on housing loans which are disaggregated by type (e.g. tracker or variable) and purpose of loan (e.g. principal dwelling or buy-to-let).

Other regular outputs include statistics on the balance sheets of Money Market Funds, Investment Funds and Financial Vehicle Corporations (FVCs). Irish data are particularly significant within euro area totals for funds and FVCs, as Ireland's International Financial Services Centre (IFSC) is a prime location for these types of entities. Securities statistics, which provide information on debt and equity issuance by Irish residents and on holdings of Irish Government securities, were also expanded during 2012. Enhancements included the publication of a time-series on the holders of Irish Government bonds from 1969 onwards. A longer-time series for Quarterly Financial Accounts (QFA) which present the financial transactions and positions of the domestic economic sectors and the rest of the world was also developed. These accounts are central to understanding the linkages between economic sectors and between the real and financial economies.

The Bank continued to participate in international activities on statistical issues. As well as regular data transmission to the ECB and other bodies³³, the Bank has actively participated in a number of projects initiated in response to the financial crisis. These include

efforts to measure the shadow banking sector and the development of statistics on inter-connectedness and cross-border exposures. In addition, the Bank actively participates in a significant volume of preparatory work at a European level concerning the introduction of the new statistical manuals³⁴ in 2014, and the further development of the ESCB statistical framework.

The Bank's close working relationship with the CSO was further enhanced in 2012. Formal co-operation agreements exist for certain statistical areas and a number of working groups meet on an ongoing basis. The co-operation now covers most institutional sector statistics, including balance of payments, financial accounts, insurance, and government finance statistics.

33 e.g. Bank for International Settlements (BIS), IMF, OECD etc.

34 European System of Accounts 2010 and Balance of Payments Manual –Version 6.

Payment Systems and Currency Services

The Bank has the statutory objective of ensuring the efficient and effective operation of payments and settlement systems. These systems are the necessary infrastructures for ensuring the efficient flow of payments across the economy and, in so doing, contributing to the smooth functioning of the monetary transmission mechanism and the stability of the financial system. As a member of the Eurosystem, the Bank also contributes to the smooth operation of payments, securities clearing and settlement systems in support of the Eurosystem's objectives. The Bank carries out these responsibilities via operational, oversight and influencing roles.

TARGET2 Real Time Gross Settlement System (RTGS)

This is the single IT platform for payment settlement services to all Eurosystem banks, provided via the ECB. It provides immediate (real time) settlement on a transaction-by-transaction basis. TARGET2 offers the highest standards of reliability and resilience and plays a key role in ensuring the smooth conduct of monetary policy throughout the euro area. The TARGET2 system continued to function smoothly in 2012, with 91.63 per cent of the total value of payments in euro large-value payment systems being executed via TARGET2. In 2012, the system processed a total of 90,671,378 transactions, with a total value of €634.1 billion (a daily average value of €2.477 billion), up 3.45 per cent on 2011. The overall availability of the single shared platform of TARGET2 was 100 per cent.

TARGET2 Securities

TARGET2 Securities (T2S) is a project being implemented by the Eurosystem with the aim of creating a pan-European settlement system for securities. T2S will provide European central securities depositories (CSDs) with a centralised service for delivery-versus-payment (DvP) settlement of securities transactions in central bank money. It is due to go live in June 2015 and virtually all traded securities in Europe will be settled in T2S. By removing the distinction between cross-border and domestic settlement, T2S will contribute significantly to

the creation of an integrated capital market for Europe. In 2012, the Bank continued its participation in the T2S Advisory Group and liaised with the Irish market through its chairmanship of the National User Group. To date, none of the Bank's counterparties have requested account facilities at the Bank in order to access T2S services. This is largely due to the fact that there is no domestic CSD providing services in respect of Irish securities; all settlement services are currently provided by infrastructures located outside of Ireland.

Eurosystem Collateral Management Services

Eligible assets may be used as collateral for all of the Eurosystem's liquidity-providing operations and may be accepted across borders. Therefore, the cross-border mobilisation of collateral requires a cross-border system – the Correspondent Central Banking Model (CCBM) of the Eurosystem. Assets held in custody through the CCBM decreased from €434 billion at the end of 2011 to €354 billion at the end of 2012. In 2012, the focus was also on improvements to this system, including working towards the removal of necessity to repatriate (marketable) assets from investor CSDs to issuer CSDs before they are mobilised as collateral through the CCBM, and offering tri-party collateral management services, which are currently only used domestically, on a cross-border basis. The Eurosystem is currently incorporating these elements into the framework in 2014. The Bank will change its collateralisation technique from earmarking to pooling in order to be in a position to offer tri-party collateral management services to its counterparties and bring about greater efficiencies in the area of collateral management in general. Such a change requires new infrastructure being put in place, a process which is currently underway.

National Payments Plan

Ireland continues to rely heavily on cash and other paper payment instruments, and lags significantly behind our European peers in the use of more efficient electronic payment instruments. This has significant implications for cost competitiveness, security and consumer choice in Ireland. The efficiency of Ireland's payment systems infrastructure could be improved if greater use were made of secure

and efficient electronic payments, leading to a reduction in the proportion of transactions involving cash and cheques.

In keeping with its role as overseer of Ireland's payment systems infrastructure, the Bank was requested by the Minister for Finance to take the lead in preparing a National Payments Plan (NPP). The NPP was submitted to the Government in October 2012. The plan has three principal targets:

- » Double the number of e-Payments such as debit cards or standing orders by 2015, leading to a reduction in cash and cheque usage to the EU average;
- » Greatly improve the efficiency of the Irish cash cycle; and
- » Ensure the successful transition of retail electronic payments to SEPA standards by 1 February 2014.

The role of the Bank is to drive a number of the initiatives and to track the implementation of the overall plan. There will be particular focus on ensuring that the benefits of payments reform flow to consumers and businesses.

Single Euro Payments Area (SEPA)

The SEPA initiative aims to create a single market for euro-denominated retail payments, to enable consumers and businesses to make and receive payments in euro anywhere within the EU³⁵ in the same way as they do within their own country. SEPA will have at least some impact on every citizen, merchant, public administration and corporate entity (regardless of size) currently holding a payment account with a bank. The design of SEPA is complete, and the date for migration of all national schemes to the new SEPA standards is 1 February 2014. As such, it is a legal requirement for Ireland to have migrated its domestic electronic clearing systems to SEPA by that date. The implementation of SEPA within Ireland is overseen by a subgroup of the NPP, which has been formed by the Bank, and reflects the Bank's Eurosystem role and overall responsibility for payment systems policy and oversight in Ireland. The Bank is also responsible for liaison with and reporting to the ECB and the EU Commission on SEPA matters.

The next phase will see a gradual migration to the SEPA technical standards throughout 2013. In addition, the Bank – via its role in NPP and in conjunction with relevant stakeholders – will lead a comprehensive communications programme to raise SEPA awareness, particularly in the consumer and SME communities. The Bank will also continue to monitor Ireland's progress to full migration throughout 2013.

Oversight Activities

The Bank continued to promote the safety and efficiency of payment systems during 2012. This included pro-active engagement in the finalisation of payment default procedures for the domestic retail clearing companies and in a review of the operation of payments settlement through the STEP2 Irish Service. The Bank also contributed to the development of relevant Eurosystem oversight policy, standards and requirements through participation in international fora.

In addition, the Bank was closely involved in the oversight and resolution of payment incidents, most notably concerning the substantial payment processing failure at Ulster Bank that, in turn, required the taking of important initiatives to limit its impact on the domestic economy and to prevent recurrence. The latter included the implementation of contingency settlement arrangements to allow the receipt and settlement of industry payment files outside of the STEP2 Irish Service, the conduct of follow-up investigations into the incident and the establishment, in cooperation with the Irish Payments Services Organisation, of an independent review of the payment risk assessment methodology of participant banks within the retail payment system.

As noted above, all infrastructures settling Irish securities are located offshore; in terms of related oversight activity, the Bank has Memoranda of Understanding in place with the lead overseer in the respective jurisdictions.

Deposit Guarantee Scheme (DGS)

A key tool of financial stability is the DGS, which limits the potential for a run on bank deposits by providing comfort to depositors that their funds are backed-up, to a certain level, by a government guarantee. Under EU

35 SEPA also includes Iceland, Norway, Switzerland, Liechtenstein and Monaco.

obligations, the Bank is required to have systems in place to support Ireland's DGS, which would compensate depositors in the event of the failure of a domestic deposit-taking institution.

The Bank is responsible for the administration of the Irish DGS and has, in recent years, undertaken a major project to ensure that the fast pay-out required by legislation can be facilitated in the event of liquidation. Credit institutions are required to maintain funds in Deposit Protection Accounts (DPAs) with the Bank to cover potential failure. The Bank collected all funds due in 2012; since 2012, credit unions are required to make contributions and all such contributions were paid in 2012. The Bank continues to work with the credit institutions – banks, building societies and credit unions – to prepare for new requirements arising from a draft EU Directive on Deposit Guarantee Schemes. This draft Directive is an integral part of the EU package of proposals to deal with the banking crisis. Following the liquidation of IBRC in February 2013, the first ever payment on the Irish DGS was triggered.

Currency Issue and Production

A key component of the Bank's role in relation to payments is the provision of high quality banknotes and coin and other related currency services to the public. The Bank issues cash into circulation, holding strategic stocks of banknotes and coin to enable it to do so; processes and distributes banknotes and coin, and withdraws and destroys currency that is unfit for circulation. The Bank also ensures that there is an efficient and secure cash supply infrastructure in place, thus safeguarding the availability, integrity, security and quality of the euro.

In 2012, the Bank supplied a total of 351 million new and re-issuable banknotes. Table 13 provides further information on banknotes issued. The Bank's banknote processing operations count, authenticate and sort the banknotes into fit and unfit; the unfit notes are destroyed while the fit banknotes are re-packaged for re-issue into circulation. Processing targets are based on lodgements received from the commercial banks and An Post. In 2012, 333 million banknotes were processed, marginally less than the 2011 total.

The Bank continued to monitor compliance of professional cash-handlers with the ECB

Decision (ECB 2010/14) and EC Regulation (1210/10) in relation to the authentication and fitness sorting of euro banknotes and euro coins prior to recirculation. In 2012, monitoring inspections of 27 cash centres were conducted and compliance checks of 28 professional cash-handlers in 4 regional towns (Thurles, Galway, Cavan and Wexford) were completed.

Under the ECB pooled production arrangements, the Bank printed 152 million €10 banknotes in 2012. Other denomination banknotes were received from other euro area NCBs and issued by the Bank. Preparations continued for the launch of the second series of euro banknotes (ES2), which seek to improve the quality and security of euro banknotes. The first banknotes in the new series are due to be issued in 2013 and will be introduced on a phased basis over the coming years. As the ES2 series has a number of new print applied features, the Bank invested in new print machinery during 2012.

In 2012, 83.1 million coins were produced and 185 million coin was issued, representing a significant volume increase – 36 per cent - in demand for coin since 2011 (Table 14).

The Bank, as agent for the Minister for Finance, issued a number of collector coin products during 2012 to mark significant events in Irish history, heritage or culture. 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 2012 €10 Silver Proof coin celebrating Jack B. Yeats which was issued as part of the European Silver Programme; and the €10 Silver Proof, €20 Gold Proof coins commemorating the 90th anniversary of the death of Michael Collins and the 2012 Proof coin set.



The Bank launched a limited edition €20 gold proof collector coin celebrating Irish monastic art, at Kells, Co. Meath.

Table 13 – Banknote Issues

Denomination	No. of Banknotes (million)		Value € million	
	2011	2012	2011	2012
€5	54	56	273	283
€10	47	51	475	514
€20	99	100	1,971	1,998
€50	135	143	6,749	7,129
€100	1.5	1	154	142
€200	0	0	3	2
€500	0	0	10	16
Total	337	351	9,634	10,084

Note: Figures may not sum due to rounding

Table 14 – Coin Issues

Denomination	No. of Coins (million)		Value € million	
	2011	2012	2011	2012
1c	58	70	1	0.7
2c	25	35	0.5	0.7
5c	21	30	1	1.5
10c	7	9	1	1
20c	12	19	2	4
50c	5	5	3	2
€1	3	7	3	7
€2	6	10	11	20
Total	136	185	22	37

Note: Figures may not sum due to rounding

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 2012, a total of 9,022 counterfeit euro banknotes and 386 counterfeit euro coins were withdrawn from circulation in Ireland. The level of counterfeit notes withdrawn during 2012 decreased by 28 per cent compared to 2011. In Europe, the overall quantity of counterfeits withdrawn from circulation in 2012 was 12.4 per cent lower than

in 2011. In 2012, the NAC also provided training to professional cash handlers and An Garda Síochána on identifying banknotes security features and on authentication and fitness checking of euro banknotes.

The Bank continues to accept Irish banknotes and coin issued prior to the introduction of the euro. At end-2012, there was €233 million in Irish banknotes outstanding and €125 million worth of coin outstanding.

Investment Asset Management

Investment Portfolio

At the end of 2012, the Bank's investment portfolios comprised assets of €19.4 billion, an increase of €0.7 billion on 2011. Total earnings on the portfolios amounted to €552.7 million in 2012 compared to €536.8 million in 2011. In 2012, markets were dominated by a low/negative-yield environment in G5 markets and vulnerable to risks regarding the ongoing European sovereign debt crisis and uncertainty surrounding the global economic situation.

The returns on the investment portfolio averaged 3.00 per cent, compared with 3.05 per cent for 2011. The Bank sold the majority of its US dollar portfolio in 2011 (US dollar holdings were €0.5bn at end 2010), following a review of hedging costs.

The Bank's investment portfolio is managed in line with parameters approved by the Commission which are kept under constant review. During 2012, 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 of the euro portfolio remained unchanged in 2012.

ECB Reserves

The ECB's net foreign reserves, which amounted to €64.8 billion equivalent at end-2012, are managed by National Central Banks in line with their capital key share. Since 1 January 2008, the Bank has also managed the Central Bank of Malta's share of the US dollar pooled reserves as well as the Bank's own share. The ECB reserves portfolio under management in the Bank amounts to €748 million-equivalent, which is proportionate to the two countries' shareholdings in the ECB.

Risk Management

The main risks associated with the Bank's investment portfolio activities during 2012 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 appetite in the Bank's investment portfolios is captured by external credit ratings, while credit risk is controlled by assigning cash limits to issuers and counterparties, based on an approved methodology that incorporates external credit ratings and other economic-based indicators. 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 risk management parameters, governance and control frameworks approved by the Commission. Compliance and performance relative to these policies is verified and reported by the Organisational Risk Division, an independent risk management function.

Risk management preferences in relation to the investment assets are expressed through an externally compiled benchmark. The market (interest rate) risk of the Bank's marked-to-market portfolios is calculated and managed using modified duration targets, which measure 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.

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 2012, the Bank managed portfolios denominated in euro, a small gold holding, and one US dollar instrument (hedged against the euro) following the 2011 decision to reduce the US dollar portfolio after a review of currency hedging costs.

International Relations

IMF Meetings

As a member country of the International Monetary Fund (IMF), the Governor holds the position of Alternate Governor for Ireland on the IMF's Board of Governors. In that capacity, the Governor attended the IMF/World Bank Group Spring Meetings in Washington in April 2012 and the Annual Meetings, held in Tokyo, in October 2012. Discussions at the Spring Meetings focused on the global outlook, including economic and financial challenges and policy responses, and on enhancing IMF resources for crisis prevention and resolution. In October the agenda also covered global prospects and policies, along with the IMF's surveillance framework including its new Integrated Surveillance Decision, and developments in IMF quota and governance reform.

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 Copenhagen on 30-31 March 2012 and in Nicosia on 14-15 September 2012. Discussions at the April meeting centred on the EU strategy for solving the economic crisis, the resolution of failing banks and the EU multiannual budgetary framework. The September meetings focused on the creation of a Banking Union and in particular the establishment of a Single Supervisory Mechanism as well as the strengthening of the shadow banking sector.

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.

SCIMF considered a range of IMF-related policy and institutional issues in 2012, including strengthening the global financial architecture, the management of international capital flows and enhancements to the IMF's Programme and surveillance toolkit. The Fund adopted a number of important initiatives in these areas in the course of 2012, among them an Integrated Surveillance Decision and a Financial Surveillance Strategy. In addition, SCIMF discussed IMF resources, including the new bilateral loan agreements to help with crisis prevention and resolution. The implementation of the quota and governance reforms agreed by the Fund in 2010 was also a focus of SCIMF discussions, as was ongoing work on further quota reform.

European Central Bank (ECB)

The Bank's main interaction with the ECB is through participation in the Committee System, whereby expert Committees provide policy direction and technical advice to assist in decision making at ECB level (see Box 8 for a list of the main Committees). These Committees are supported by a range of Working Groups and Taskforces, at which the Bank also participates. The Bank also supports secondments to the ECB, both short and long term.

Box 8 – Committees of Eurosystem/ESCB

Accounting and Monetary Income

- Banknote
- Controlling
- 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

EU/International Co-operation and Representation

In 2012, the Governor, Deputy Governors and other members of senior management participated in a number of high level EU and international seminars and conferences. The Governor attended a high-level Eurosystem seminar with central banks and monetary agencies of the Gulf Cooperation Council (GCC) jointly organised by the ECB and the Central Bank of the United Arab Emirates in Abu Dhabi on 19 January 2012. He also contributed to the Sixth High-level Seminar of the Eurosystem and Latin American Central Banks, on *Current and Past Determinants of Sovereign Distress*, hosted by Banco Central de Chile in Santiago on 7-8 December 2012.

The Bank hosted a number of international delegations and organisations, including a delegation from the Vietnamese authorities in July 2012, headed by the Chairman of the National Financial Supervisory Commission (NFSC) and including further representatives from the NFSC, the Ministry of Planning and Investment, and the Office of the Government. Furthermore, a Bank representative visited Vietnam in August 2012 to give a keynote talk on *Capital Flows into Ireland: Recent Experience and Policy Lessons*. This relationship 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) Programme³⁶.

The Bank is providing technical assistance to the National Bank of the Republic of Macedonia (NBRM) on Human Resource issues. This assistance is being provided as part of a Eurosystem Needs Analysis Project in relation to Macedonia's status as an EU candidate country. The first meeting took place between EU, ESCB and NBRM representatives in December 2012.

In accordance with the Bank's Memorandum of Understanding (MoU) with the Central Bank of the Russian Federation (CBR), representatives from the Bank visited Moscow in May 2012. The delegation consisted of members from the Bank's Monetary Policy Division, Financial Stability Division, and Payments and Securities Settlements Division. Issues discussed included the economic situation in Ireland, payment operations and the Irish response to payment fraud.

³⁶ 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

The role of the Bank in assisting in the resolution of the financial crisis in Ireland as well as fulfilling its other statutory objectives led to significant change in the organisation, particularly in the areas responsible for financial regulation and the functions which provide internal support to the business areas, over a number of years. This was accompanied by a broadening in the skills base and knowledge profile of staff, achieved through recruitment and an increased focus on training and development.

Human Resources

At the end of 2012, the Bank employed 1,394 staff, comprising both permanent and fixed term contract staff. Of this, 293.5 were assigned to Central Banking functions, 622 were assigned to Regulatory areas and 478.5 to Operations. A further 9 were assigned to the Investor Compensation Company Limited (ICCL). The total represented a net increase of 1.6 per cent on 2011 staffing levels - a stabilisation after a period of significant growth.

The Bank's Human Resources Strategic Plan for 2011-2014 provided the framework for activities in 2012 including a restructuring of the HR Division, which introduced a new Human Resources operating model to better support the delivery of the Bank's objectives and to maximise service and efficiency across the organisation. Key deliverables included the development of a talent management strategy, succession planning activities, development of a behavioural competency framework, enhanced performance management and a focussed learning & development programme that addresses both immediate skill gaps and the building of organisational capabilities in the medium to long-term.

Organisational Development

The Bank continued to focus on increasing organisational effectiveness and performance along a number of different dimensions in 2012, including an emphasis on the establishment of an Organisation Development capability to support the broad organisational and cultural change agenda in the Bank. In advance of the European Presidency in 2013, as well as the need to plan for Banking Union, initiatives were

developed to increase the Bank's influence in Europe and promote international experience as a desirable requirement for leadership roles in the future. Many initiatives have been undertaken within this remit including programmes to support leadership development, use of employee engagement metrics, establishment of networks for collaboration and knowledge sharing and best practice internal communications.

Project Management

The Bank has a dedicated Project Management Office (PMO) tasked with ensuring a best practice project management methodology at a time of increased investment in systems and processes necessary to increase the organisation's capability to deal with Eurosystem requirements, challenges emanating from the financial crisis and the changing regulatory environment. Important developments in 2012 were the introduction of a project prioritisation process, enhanced governance of investment prioritisation and return on investment, introduction of a project register and portfolio performance tracking. In 2012, 54 projects were completed including both ECB mandated and operational improvement projects. The Bank continues to manage a large and complex project portfolio with 88 projects under development. Investment in skills and competency development continued, with over a hundred staff attending in-house managed training courses, while a programme to support international professional accreditation in project management was initiated.

Information Technology

A demanding portfolio of IT projects was successfully delivered in 2012. This included the next phases of PRISM; an e-Discovery system to support the processing, review and analysis of data for progression of Enforcement cases; and the consolidation of the regulatory data collection platform to facilitate data processing into a centralised operations area.

The Bank continued to optimise collaborative data capture and analytics to support the growing volume and complexity of regulatory data and meet both domestic and European regulatory obligations. All projects to deliver mandatory ESCB requirements were successfully completed to schedule. Significant

preparations for the replacement of the Bank's collateral management and market operations IT platforms took place. Cost efficiency and process improvement projects were delivered and the Bank entered an agreement with a specialist data centre operator to provide and host scalable and secure IT infrastructure in line with best practice. This will allow the Bank to efficiently match IT processing and storage requirements to project demands, while further enhancing disaster recovery capabilities. The Bank continued to increase its IT project delivery capability and implemented best practice IT maturity development models.

Risk Management

The Bank's Organisational Risk Division has responsibility for ensuring the development and management of effective risk management frameworks for the financial risks on the Bank's balance sheet, and the non-financial risks arising from its activities. Financial risks emanate from the Bank's investment portfolio and its standard and non-standard liquidity providing operations. Non-financial risks focus on operational risk and business continuity management. The Bank also contributes to the development of Eurosystem risk management policy through its participation in the Eurosystem Risk Management Committee.

The key focus during 2012 was on embedding new approaches to Balance Sheet risk management, and new organisational frameworks for Business Continuity and Operational Risk management. The enhanced approach to identifying and managing the financial risks on the Bank's balance sheet included developing a more formal model to deliver a holistic view of the risks and the associated buffers; including a more risk-focused perspective in financial planning, and enhanced oversight of collateral quality including due diligence assessments.

With regarding to Business Continuity Management, the increased dependence of financial sector participants on the Bank's liquidity-providing operations and the increasing complexity of monetary policy operational requirements merited a review of the criticality of the Bank's activities and the adequacy of the associated back-up arrangements and continuity plans. Business

Continuity is governed by a BCM Committee and supported by a Business Continuity Incident Management Team.

Legal Services

The Bank was engaged in a number of legislative development projects including the Credit Union and Co-operation with Overseas Regulators Act 2012, the publication of the Credit Reporting Bill 2012, and continued progress on the enhancements to the Central Bank (Supervision and Enforcement) Bill 2011. It also provided technical assistance with respect to the Personal Insolvency Bill 2012 and European law initiatives such as the Single Supervisory Mechanism, Solvency II, the Alternative Investment Fund Managers' Directive (AIFMD) and the Bank's preparations for the IMF *Report on Observed Standards and Codes* review in 2013.

Significant internal legal resources were devoted to the Bank's work on credit unions (including applications to the High Court for a special management order for Newbridge Credit Union) and interventions in various investment firms (including Marketspreads Limited and Bloxham Stockbrokers).

The Bank prepared and executed framework agreements for Special Mortgage-Backed Promissory Notes (SMBPNs), and documentation on monetary policy instruments and procedures was amended to reflect relevant ECB guidelines. Legal audits were conducted of residential mortgage pools backing SMBPNs and legal assessments were also conducted on the compliance of asset backed securities with Eurosystem eligibility criteria.

Central Bank Strategy 2013-2015

In November 2012, the Bank published its three-year Strategic Plan for the period 2013-2015. The Plan outlines how the Bank intends to deliver on its mission of *Safeguarding Stability, Protecting Consumers* and sets out the Bank's key strategic priorities over the coming years under eight High Level Goals, which are closely aligned to the Bank's statutory objectives. Over the period, the Bank will continue to ensure that considerable further progress is made in restoring banking and

general financial stability and supporting the economic recovery. The Bank will also deepen the reform of its regulatory supervisory framework to ensure that future risks to stability and consumer protection are minimised, while continuing to promote a better functioning financial sector and contributing to wider economic policy formulation.

The High Level Goals of the Strategic Plan are:

- » **Eurosystem effectiveness and price stability**
The Bank is responsible for maintaining price stability through monetary policy formulation at Eurosystem level.
- » **Stability of the financial system**
Financial stability in Ireland and across the euro area is a key priority for the Bank.
- » **Proper and effective regulation of financial institutions and markets**
Regulation of institutions and markets is undertaken through assertive risk-based supervision which is underpinned by credible enforcement deterrents.
- » **Resolution of financial difficulties in credit institutions**
To bring about sustained economic recovery in Ireland, embedding recovery and resolution plans in banks, credit unions and other financial institutions is a vital component.
- » **Protection of consumers of financial services**
Consumer protection strategic priorities strengthen and maintain protection for consumers.
- » **Independent economic advice and high quality financial statistics**
The quality and relevance of economic analysis, research and financial statistics assists the provision of assessments and advice on domestic economic related issues for policy-makers, the media, the public and the markets.
- » **Efficient and effective payment and settlement systems and currency services**
The Bank's role in the operations and oversight of payment and securities settlement systems is aimed at ensuring that they are safe, resilient, efficient and effective. The Bank is leading the development of the National Payments Plan.

» **Operational efficiency and cost effectiveness**

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

Organisational Effectiveness

The Bank participated in an international review of the organisational effectiveness of financial sector regulators. Based on 2011 and 2012 staffing figures, the review found that the supervisory resources in the majority of the supervisory areas were broadly in line with the Bank's international peers. The review's conclusions provided valuable input into the organisation's manpower planning process for 2013.

Balanced Scorecard

The Bank's Balanced Scorecard (BSC) process is an organisation tool to monitor the implementation of the Bank's Strategic Plan. 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.

Directors within the organisation are accountable for the completion of all objectives. Performance on the BSC is monitored and reported to the Budget and Remuneration Committee on a quarterly basis. An annual assessment of performance is conducted by the Bank's Executive. The BSC is also linked with the organisation's Performance Management Development Programme (PMDP) which assesses staff work performance.

Communications

During 2012, the Bank handled 1,531 media queries, reflecting the continued interest both internationally and domestically in financial and economic issues and the role of the Bank. There was increased activity in terms of media interviews, speeches, statements and press briefings. In addition, the Bank provided responses to 270 parliamentary questions (PQs) via the Department of Finance. There were 12,473 direct contacts received from the public during the year.

In 2012, the Bank introduced the Generation Euro Students' Award competition for Transition Year students. Over 230 teams entered the inaugural competition which invited students to take on the role of the ECB's Governing Council to determine the most appropriate interest rate for the euro area. The national winners were from Marian College, Dublin. The winning team travelled to the ECB to meet President Mario Draghi along with winning teams from 11 participating countries. Separately, a number of schools visits to the Bank were facilitated throughout the year.



Marian College Dublin, National winners of the inaugural Generation Euro student's award.

Premises

The Bank is currently operating out of four locations, including three in Dublin city centre. In 2012, the Bank agreed to the purchase of a site at North Wall Quay, Dublin as the location for the new Central Bank Headquarters, subject to an extensive due diligence exercise being undertaken. In parallel, the Bank acquired the services of a design team for the provision of Architectural, Engineering and Planning Services for the design and construction of the new headquarters.

Environment, Health and Safety

The majority of staff (approximately 86%) is engaged in office based activities at the City Centre sites with the remainder involved in manufacturing activities at the Currency Centre. Appropriate health & safety, fire, environmental and energy policies are in place, supported by underlying management systems.

The Environmental, Health and Safety (EHS) function continues to develop communications and awareness within the organisation, through the use of management systems, a quarterly review process, intranet, safety committees and working directly with Divisions. In this way, the EHS function helps to facilitate effective discharge of its responsibilities, demonstrate ongoing compliance with statutory training requirements and help managers to identify or anticipate potential issues or exposures under their control. As a result of actions undertaken in 2010-11, more accurate analysis is now available for energy usage at the Currency Centre. Changes planned for 2013 will increase the quality of analysis possible on the City Centre energy usage data.

2012 energy use for the Currency Centre and City Centre sites and the relative change against the 2011 figures are set out in the table below:

Table 15 – Energy Usage

	Currency Centre		City Centre Sites		Overall	
	2012 kWh	% change against actual 2011	2012 kWh	% change against actual 2011	2012 kWh	% change against actual 2011
Electricity	3,730,132	-1.56	5,859,148	+3.65	9,589,280	+1.56
Gas	2,407,900	+11.98	3,292,758	-3.15	5,700,658	+2.71
Oil	269,472	-16.67	220,000	0	489,472	-9.92
Total Energy	6,407,504	+2.31	9,371,906	+1.07	15,779,410	+1.57

Note: 2012 figures include an additional site for the full year and increased activities at the Currency Centre. Oil usage is based on contracted annual deliveries.

Box 9 – Energy Usage: Actions Undertaken in 2012 and Planned for 2013

Actions Undertaken in 2012

The Bank undertook a range of initiatives to improve its energy performance in 2012, including:

- » Energy efficient lighting and water usage initiatives implemented in the Tower Block and in the Currency Centre which have resulted in positive reductions in usage;
- » Fitment of variable speed drives on all supply and extract fans in the Tower Block resulting in more efficient power utilisation;
- » Currency Centre oil usage was reduced in favour of natural gas;
- » All Building Management System schedules were reviewed to reduce 'ON' times;
- » During 2012, the level of EHS awareness was further developed with the creation and introduction of mandatory EHS induction training via an eLearning platform. A total of 971 staff successfully completed the training online between June and December 2012; and
- » Overall EHS KPI compliance has been raised from a baseline of 42.7% in Q4 2011 to 91.9% in Q4 2012.

Actions Planned for 2013

The Bank intends to further improve its EHS performance in 2013 by undertaking the following initiatives:

- » Progress towards certification to the OHSAS 18001:2007 (Safety), ISO 14001:2004 (Environmental) and ISO 50001:2011 (Energy) Management System standards;
- » Review lighting schemes with a view to achieving further energy savings;
- » Develop an EHS management package to help improve efficiency in planning, managing and recording of EHS events across all sites;
- » Develop and launch a Display Screen Equipment training programme on our eLearning platform; and
- » Develop a *driving for work* policy to deliver an overall risk reduction.

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

Patrick Honohan
Governor

Neil Whoriskey
Secretary

5 April 2013

Appendix 1: Statements and Published Papers by the Bank in 2012

Key Publications

Quarterly Bulletin

Annual Report 2011 – May 2012

Annual Performance Statement 2011 – 2012

Strategic Plan 2013 – 2015

Speeches and Presentations

Address by Gareth Murphy Director of Markets Supervision to the InvestoRegulation Conference - January

Address by Governor Patrick Honohan at launch of book '*Miraculous Plenty: Irish Religious Folktales and Legends*' - January

Address by Governor Patrick Honohan at launch of book 'Bank Architecture in Dublin, A History to c.1940' - February

Opening Statement by Joe McNeill, Head of Statistics Division, to the Joint Committee on Finance, Public Expenditure and Reform - February

Address by James O'Brien to CUMA Spring Conference, Athlone - February

Address by Deputy Governor Stefan Gerlach to the ESRI 'Macro Prudential Policy in Ireland' - February

Speech by Deputy Governor Central Bank of Ireland to Harvard Business School Alumni Club of Ireland - March

Opening Address by Governor Patrick Honohan to the Central Bank Conference on the SME Lending Market - March

Opening Remarks by Joe McNeill, Central Bank and Michael Connolly, Central Statistics Office to Joint Committee on Finance, Public Expenditure and Reform - March

Address by Governor Honohan to University of Limerick Law Society - March

Address by Matthew Elderfield, Alternate Chairman, European Banking Authority and Deputy Governor, Central Bank of Ireland to the 4th CDU/CSU Congress - March

Opening statement by Governor Patrick Honohan to the Joint Committee on Finance, Public Expenditure and Reform - March

Speech by Deputy Governor Stefan Gerlach on Housing Markets and Financial Stability - April

Closing remarks by Governor Honohan at the Annual Meeting of the Irish Economic Association - April

Closing remarks by Governor Honohan, at the Central Bank of Ireland Stakeholder Conference - April

Address by Director of Consumer Protection, Bernard Sheridan, at the Central Bank of Ireland Stakeholder Conference - April

Opening remarks by Deputy Governor, Matthew Elderfield, at the Central Bank of Ireland Stakeholder Conference - April

Address by Peter Oakes, Director of Enforcement, to the ACOI - May

Governor Honohan presents Mais lecture at Cass Business School, London - May

Address by Governor Honohan for the OMFIF Golden Series on World Money - May

Address by Director of Consumer Protection, Bernard Sheridan at the IBF Seminar - May

Address by Deputy Governor Matthew Elderfield to the Insurance Day Summit - June

Address by Governor Honohan to the Institute for International and European Affairs - June

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

Address by Registrar of Credit Unions, James O'Brien, to the CUMA Autumn Conference - September

Address by Governor Patrick Honohan at the 44th Annual Money, Macro and Finance Conference, Trinity College, Dublin - September

Address by Deputy Governor Stefan Gerlach at the 44th Annual Money, Macro and Finance Conference, Trinity College, Dublin - September

Address by Deputy Governor Matthew Elderfield, to the IFIA Conference, Dublin - September

Address by Gareth Murphy, Director of Markets Supervision, at the Euromoney 3rd Prospectus Directive Conference - September

Address by Governor Patrick Honohan to the Corporate Restructuring Summit, Dublin - September

Address by Deputy Governor Stefan Gerlach to the German-Irish Chamber of Industry and Commerce, Dublin - September

Address by Martin Moloney, Head of Markets Policy, Central Bank of Ireland to the International Bar Association - October

Address by Registrar of Credit Unions, James O'Brien to the Credit Union Regulatory Forum, Limerick - October

Opening Statement by Domhnall Cullinan, Head of General Insurance Supervision, Central Bank of Ireland, to the Joint Committee on Finance, Public Expenditure and Reform - October

Address by Director of Credit Institutions and Insurance Supervision Fiona Muldoon to the Irish Banking Federation National Conference 2012 - October

Speech by Matthew Elderfield, Deputy Governor Central Bank of Ireland to Association of Compliance Officers in Ireland, UCC - October

Address by Registrar of Credit Unions James O'Brien to the LIA Credit Union Awards - November

Address by Lars Frisell, Chief Economist, to the European Court of Justice conference - November

Address by Governor Patrick Honohan to the David Hume Institute and the Scottish Institute for Research in Economics, Edinburgh - November

Address by Gareth Murphy to Irish Funds Industry Association - November

Address by Matthew Elderfield, Deputy Governor Central Bank of Ireland and Alternate Chairman European Banking Authority to Bloomberg Business Breakfast - November

Chief Economist, Lars Frisell delivers the 5th Paddy Ryan Memorial Lecture - December

Address by Director of Enforcement, Peter Oakes to Central Bank Enforcement Conference - December

Opening Remarks by Deputy Governor Matthew Elderfield to Central Bank Enforcement Conference - December

Articles in Central Bank Quarterly Bulletins

Short-Term Forecasting of Quarterly Gross Domestic Product Growth – Joëlle Liebermann – No.1 2012

The Irish Mortgage Market: Stylised Facts, Negative Equity and Arrears – Gerard Kennedy and Tara McIndoe-Calder – No.1 2012

The Impact of the Financial Turmoil on Households: A Cross Country Comparison – Mary Cussen, Brídín O'Leary and Donal Smith – No.2 2012

SMEs in Ireland: Stylised Facts from the Real Economy and Credit Market – Martina Lawless, Fergal McCann and Tara McIndoe-Calder – No.2 2012

Cost Competitiveness and Export Performance of the Irish Economy – Derry O'Brien and John Scally – No.3 2012

Recent Trends in Irish Expenditure and Prices – Colin Bermingham – No.3 2012

Analysis of Recent Monetary Operations & TARGET2 Developments – Patrick Haran and Samuel Bailey – No.3 2012

Ireland's Financial Crisis: A Comparative Context – Maria Woods and Siobhán O'Connell – No.4 2012

Measuring Shadow Banking in Ireland using Granular Data – Brian Godfrey and Brian Golden – No.4 2012

Boxes in Central Bank Quarterly Bulletins

Boston or Berlin: how has the Irish labour market responded to the Great Recession? – Mary Ryan and Geraldine Slevin – No.1 2012

Geographical and Sector Analysis of Consolidated External Claims of Domestic Banks – Aisling Mention – No.1 2012

How Investment Funds Performed Amid the Intense Volatility of Q3 2011 – Brian Golden – No.1 2012

Estimating the impact of base effects from energy on euro area HICP inflation in 2012 – John Larkin – No.1 2012

Long-Term Unemployment and the Vacancy Rate – Suzanne Linehan and Mary Ryan – No.2 2012

Irish Results of the Euro Area Bank Lending Survey – Bernard Kennedy – No.2 2012

Analysis of Collateral Debt Obligations – Brian Godfrey – No.2 2012

The Statistical Implications of Multinational Companies' Corporate Structures – Mary Everett – No.2 2012

Financial Support Package for Greece & Private Sector Involvement – Linda Dungan – No.2 2012

Monetary and Supervisory Presentations of Deposit Trends in Irish-Owned Credit Institutions – Martin O'Brien and Christine Reen – No.3 2012

The Increasing Financial Nature of the Current Account – Mary Everett – No.3 2012

The Role of Euro Area Survey Indicators – Jenny Osbourne-Kinch and Neill Killeen – No.3 2012

Heterogeneity in Lending Rates and the Recent Effects of Indebtedness in the Euro Area – Sarah Holton and David Purdue – No.3 2012

Labour input in Ireland: a focus on average hours worked – Mary Ryan – No.4 2012

Irish Sovereign Bond Yields and Non-Resident Holdings – Dermot Coates and Mary Everett – No.4 2012

Sovereign Annuities – No.4 2012

Tracking Developments in SME Credit – Martin O'Brien – No.4 2012

Euro Area Unemployment – Mary Keeney – No.4 2012

Research Technical Papers 2012

The Financial Crisis and the Pricing of Interest Rates in the Irish Mortgage Market: 2003-2011 - Jean Goggin, Sarah Holton, Jane Kelly, Reamonn Lydon and Kieran McQuinn – March

Modelling the Corporate Deposits of Irish Financial Institutions: 2009 - 2010 - Kieran McQuinn and Maria Woods - March

Determinants of Default: Evidence from a Sector-Level Panel of Irish SME Loans - Martina Lawless and Fergal McCann - July

Firm Credit in Europe: A Tale of Three Crises - Sarah Holton, Martina Lawless and Fergal McCann - July

Housing Equity Withdrawal, Property Bubbles and Consumption - Reamonn Lydon and Niall O'Hanlon - August

Determinants of SME Loan Default: The Importance of Borrower-Level Heterogeneity - Fergal McCann and Tara McIndoe-Calder - September

Real-Time Forecasting in a Data-Rich Environment - Joelle Liebermann - December

Supply, Demand and Prices in the US Housing Market - Thomas Conefrey and Karl Whelan - December

Explaining Irish Inflation During the Financial Crisis - Colin Bermingham, Dermot Coates, John Larkin, Derry O' Brien and Gerard O'Reilly - December

Sovereign Default and Macroeconomic Tipping Points - Mark Joy - December

Peer Reviewed Articles and Chapters in Books

Browne Frank and David Cronin (2012) "Monetary Policy, Inflation and Commodity Prices." in Perrucci S. and Benaben B. (ed.s), *Inflation Sensitive Assets: Instruments and Strategies*, London: Riskbooks, 255-276.

Browne Frank and David Cronin (2012) "The New Dynamic between US Stock Prices and Money Holdings", *World Economics*, 13(1), 137-156.

Cronin David (2012) "The New Monetary Economics Revisited", *Cato Journal*, 32(3), 581-94.

D'Agostino Antonello, Kieran McQuinn and Karl Whelan (2012) "Are some forecasters really better than others", *Journal of Money, Credit and Banking*, 41(4), 715-732.

Kelly Robert, Yvonne McCarthy and Kieran McQuinn, "Impairment and Negative Equity in the Irish Mortgage Market", *Journal of Housing Economics*, 21, 256-281.

Moloney Kitty and Srinivas Raghavendra (2012) "A Linear and Nonlinear Review of the Arbitrage-Free Parity Theory for the CDS and Bond Markets" in Cummins M, Murphy F and Miler JH (eds), *Topics in Numerical Methods for Finance*, New York, Springer Proceedings in Mathematics & Statistics, Volume 19, 177-200.

D'Agostino Antonello, Kieran McQuinn and Derry O'Brien, "Nowcasting Irish GDP", *Journal of Business Cycle Measurement and Analysis*. <http://www.oecd-ilibrary.org/economics/nowcasting-irish-gdpjbcma-2012-5k92n2pwccwb> - forthcoming

Babecky Jan, Philip du Caju, Theodora Kosma, Martina Lawless, Julian Messina and Tairi Room, "The Margins of Labour Cost Adjustment: Survey Evidence from European Firms", *Labour Economics* - forthcoming

Bermingham Colin and Antonello D'Agostino "Understanding and Forecasting Aggregate and Disaggregate Price Dynamics", *Empirical Economics* - forthcoming

Browne Frank and Robert Kelly "Prolonged Dislocation and Financial Crisis" in Jacob Brauer et al (editors), *The Great Recession: Lessons for Central Bankers*, MIT Press - forthcoming

Clancy Daragh "Output Gap Estimation Uncertainty: Extracting the TFP Cycle Using an Aggregated PMI Series", *Economic and Social Review* - forthcoming

Galuscak Kamil, Mary Keeney, Daphne Nicolitsas, Frank Smets, Pawel Strzelecki and Matija Vodopivec, "The determination of wages of newly hired employees: Survey evidence on internal versus external factors", *Labour Economics* - forthcoming

Lawless Martina, "Tax Complexity and Inward Investment", *Economica* - forthcoming

Lawless Martina and Fergal McCann, "Credit access for Irish SMEs - Evidence from micro data", *Journal of the Statistical and Social Inquiry Society of Ireland* - forthcoming

McCann Fergal, "Indirect exporters", *Journal of International Competition and Trade* - 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 2012**

The Handling of Inside Information under the
Market Abuse (Directive 2003/6/EC)
Regulations 2005 – April

Consultation Paper on Reporting Requirements
for Collective Investment Schemes - May

Consultation on implementation of Alternative
Investment Fund Manager Directive – October

Consultation on Impact Based Levies and Other
Levy Related Matters – November

Fitness and Probity Regime for Credit Unions -
December

Chapter 2: Governance



This chapter sets out the procedures and processes applicable to the governance of the Bank during 2012.

Legal Framework and Statutory Objectives

The Central Bank of Ireland was established by the Central Bank Act 1942. The Bank has essentially two functions. Firstly, it is Ireland's central bank and a member of the European System of Central Banks (ESCB). Secondly the Bank is responsible for the regulation of Ireland's financial services sector. The functions of the Bank are set out in the Central Bank Reform Act 2010 (Act). The primary objective of the Bank is that of price stability. The Bank also has the following objectives:

- » Stability of the financial system;
- » Proper and effective regulation of financial institutions and markets, while ensuring that consumers of financial services are protected;
- » Efficient and effective operation of payment and settlement systems;
- » Resolution of financial difficulties in credit institutions.
- » Provision of analysis and comment to support national economic policy development.

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

The Central Bank Commission

The Act amends the Central Bank Act 1942 to provide that the activities and affairs of the Bank (other than ESCB functions) are managed and controlled by the Central Bank Commission.

Role of the Commission

The Central Bank Commission (Commission) has the following statutory functions: management and control of the affairs and activities of the Bank; ensuring that the Bank's financial regulation and central banking functions are coordinated and integrated; and ensuring that the statutory powers and functions conferred on the Bank are properly exercised and discharged. The

Commission has adopted its own terms of reference which sets out how it can best deliver on those responsibilities.

The Central Bank Act 1942 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 decision, the Commission ensures that the Bank is acting in an appropriate manner consistent with its statutory functions and powers.

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

During 2011/2012 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 and a plan of implementation was effected. An update on the implementation of recommendations was provided to the Commission at its meeting in September 2012.

Members of the Commission

The Governor is the Chairman of the Commission. The other ex-officio members comprise the Deputy Governor (Central Banking), the Deputy Governor (Financial Regulation) and the Secretary General of the Department of Finance. The Minister for

Finance 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 in Note 8 of the Statement of Accounts.

As at 31 March 2013, 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.

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 Bank for International Settlements.

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.

Appointed Members

The following non-executive members were appointed by the Minister for Finance. 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 (NUIG). He was 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 (Appointed on 1 October 2010 for 3 years)

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

John FitzGerald (Appointed on 1 October 2010 for 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 (Appointed on 1 October 2010 for 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 (Appointed on 1 October 2010 for 4 years)

Michael Soden was CEO of the Bank of Ireland from 2001 to 2004. Prior to returning to Ireland to take up this post, he spent more than 30 years with several different major international financial institutions, primarily involved in all aspects of capital markets. In that time, he served on the Executive Committee of National Australia Bank, with responsibility for Global Wholesale Banking and, latterly, for Global Retail Banking. He was also responsible for the development of Security Pacific Bank's international capital markets activities. He spent the early part of his career with Citibank/Citicorp Investment Bank, Canada. 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 Head of the General Secretariat Division of the Bank and was appointed Secretary of the Bank on 1 January 2011.

Table 16 – Meetings attended by Commission members during 2012

Commission Members	Commission Meetings attended during 2012
Patrick Honohan	11/11
Matthew Elderfield	11/11
Stefan Gerlach	11/11
John Moran	7/9
Alan Ahearne	11/11
Blanaid Clarke	11/11
John FitzGerald	11/11
Des Geraghty	11/11
Michael Soden	11/11

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

John Moran was appointed Secretary General of the Department of Finance on 6 March 2012.

Kevin Cardiff, former Secretary General of the Department of Finance, resigned from the Commission on 3 February 2012.

Commission Procedures

Meetings of the Commission are scheduled on a monthly basis (except August) and are presided over by the Governor, as Chairman. A quorum of six members applies for all meetings. Eleven meetings of the Commission were held during 2012. The meeting of 12 December 2012 was held in NUI Galway.



Members of the Central Bank Commission

Back: Michael Soden, Stéfan Gerlach, Neil Whoriskey (Secretary), John FitzGerald, Matthew Elderfield, Des Geraghty
Front: Alan Ahearne, Governor Patrick Honohan, President of NUI Galway, James Browne who hosted the Commission meeting in December 2012 and Blanaid Clarke.

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 were reviewed during 2012 and approved by the Commission in January 2013. The key responsibilities are:

- » To review and make recommendations to the Commission on the integrity of the Bank's financial statements including the significant accounting judgements made in the preparation of these statements.
- » To review and approve the statement to be included in the annual report concerning internal controls.
- » To review the annual audit plans of the Comptroller and Auditor General and the external auditor and ensure that they are consistent with the scope of the audit engagement letter. Review management letters from the Comptroller and Auditor General and the External Auditor before the management response is issued.
- » To review the Bank's internal control systems.

Table 17

Committee Members	Audit Committee Meetings attended during 2012
Blanaid Clarke (Chair)	5/5
Alan Ahearne	5/5
John FitzGerald	4/5

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

- » To review and approve the charter and annual work plan of the internal audit function, monitor the effectiveness and independence of the function in the overall context of the Bank's financial risk management systems and, where appropriate, review and ensure follow up of the reports of the function.
- » To advise on the appointment and reappointment of external auditors, on their remuneration, and on questions of resignation or dismissal.
- » To monitor policy on the engagement of the external auditors to supply non-audit services.
- » To review the findings arising from the audits by the Comptroller and Auditor General and the external auditors.
- » To consider other topics as requested by the Commission.

The Audit Committee, appointed by the Commission, comprises three non-executive members. The members of the Audit Committee as at 31 March 2013 were Blanaid Clarke (Chair), John FitzGerald and Alan Ahearne.

Meetings of the Audit Committee are held at least four times per year. All members of the Commission have the right of attendance as observers at meetings of the Audit Committee. The Chair of the Committee will also convene a meeting if requested by the Comptroller and Auditor General or by the independent external auditor. The minutes of the meetings are circulated to all members of the Commission.

Four meetings of the Audit Committee were held during 2012. In addition, a joint meeting of the Risk Committee and the Audit Committee was held in October 2012.

Budget and Remuneration Committee

The terms of reference of the Budget and 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.
- » 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 in addition to the two Deputy Governors.

The members of the Budget and Remuneration Committee as at 31 March 2013 were Michael Soden (Chair), Blanaid Clarke, Matthew Elderfield and Stefan Gerlach.

Meetings of the Budget and Remuneration Committee are held not less than quarterly. All

Table 18

Committee Members	Budget and Remuneration Committee Meetings attended during 2012
Michael Soden (Chair)	5/5
Blanaid Clarke	5/5
Matthew Elderfield	5/5
Stefan Gerlach	5/5

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

Table 19

Committee Members	Risk Committee Meetings attended during 2012
Des Geraghty (Chair)	10/10
Michael Soden	10/10
Alan Ahearne	2/2
Matthew Elderfield	9/10
Stefan Gerlach	10/10

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

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 2012.

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.
- » 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 in addition to the two Deputy Governors.

The members of the Risk Committee as at 31 March 2013 were Des Geraghty (Chair), Michael Soden, Alan Ahearne, Stefan Gerlach and Matthew Elderfield. Mr. Ahearne was appointed to the Risk Committee in October 2012.

Meetings are held at least quarterly. All members of the Commission have the right of attendance as observers at meetings of the

Committee. The minutes of the meetings are circulated to all members of the Commission. Nine meetings of the Risk Committee took place during 2012. In addition a joint meeting of the Risk Committee and Audit Committee was held in October 2012.

Code of Conduct for Members of the Central Bank Commission

A new Code of Conduct for Members of the Central Bank Commission was approved by the Commission at its meeting in October 2012 and became effective from 1 January 2013. It is published on the Bank's website.

Internal Governance Structures

In 2012 a review of the high-level internal governance structure of the Bank was undertaken. While the Commission has overall responsibility for the management and control of the Bank, there are a number of internal committees with responsibility to co-ordinate the development and implementation of policies and to advise and inform on major issues. The review examined the structure, relevance, responsibilities, effectiveness and terms of reference of each committee and a new internal governance model was agreed.

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

- » The **Governor's Committee** deals primarily with preparation for Commission meetings, follow-up actions, senior appointments and other strategic issues.
- » The **Senior Leadership Committee** ensures alignment of all activities and the successful execution of the Bank's strategy through the development and review of the organisational Balanced Scorecard. The Committee also oversees the implementation of policies having broad organisational impacts.

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

Other high-level committees include:

- » The **Operations Committee** (chaired by the Chief Operations Officer) is responsible for formulating and delivering the plans that relate to the efficient functioning of the Bank and ensuring that the organisation conducts its business and utilizes its resources, including technology and human resource capability in an efficient and cost effective manner.
- » The **Executive Risk Committee** (chaired by the Deputy Governor (Central Banking)) oversees the management of the Bank's financial risks including the risk management of the Bank's investment assets and risks relating to the implementation of Eurosystem monetary policy. Its role is to discuss, review and manage risk issues, and formulate proposals on to the Risk Committee of the Commission.
- » The **Supervisory Risk Committee** (chaired by Deputy Governor (Financial Regulation)) considers risk reports escalated to it. The committee also functions as a forum to give input and advice on major supervisory issues and to share information on significant supervisory issues.
- » The **Policy Committee** (chaired by Deputy Governor (Financial Regulation)) considers policy issues and monitors EU and international developments relating to financial regulation.

Accountability

As required by Section 32K of the Act, the Bank prepares a report of its activities during the year and presents this report to the Minister for Finance within six months after the end of each financial year. Section 32J of the Act 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 financial accounts are also audited by independent external auditors as required by Article 27 of the ESCB/ECB Statute.

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

- » Review of regulatory performance during the preceding year having regard to the Regulatory Performance Plan for that year, including activities carried out by the Internal Audit function and the Registrar of Credit Unions and any other relevant matters;
- » Report of any international peer review on the Bank's performance of its regulatory functions carried out under this legislation during the year; 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 for the period 2013-2015 in November 2012.

Subject to the requirements of the Maastricht Treaty and the confidentiality provisions imposed by law, the Governor or the Deputy Governors of Central Banking and Financial Regulation will appear before Joint Committees of the Oireachtas on request. In 2012, representatives of the Bank appeared at six Oireachtas Committee meetings.

Table 20 – Appearances before Joint Oireachtas Committees

Date	Oireachtas Committee	Attended by
08 Feb 2012	Joint Committee on Finance, Public Expenditure and Reform	Joe McNeill, Head of Statistics Division
07 March 2012	Joint Committee on Finance, Public Expenditure and Reform	Joe McNeill, Head of Statistics Division
27 March 2012	Joint Committee on Finance, Public Expenditure and Reform	Patrick Honohan, Governor
04 July 2012	Joint Committee on Finance, Public Expenditure and Reform	Bernard Sheridan, Director of Consumer Protection
10 Oct 2012	Joint Committee on Finance, Public Expenditure and Reform	Domhnall Cullinan, Head of General Insurance Supervision
20 Dec 2012	Joint Committee on Finance, Public Expenditure and Reform	Mary Burke, Head of Prudential Policy Division

Internal Audit

The Internal Audit function is an independent and objective appraisal function which is required to provide audit assurance that the systems of risk management and internal control are 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.

Internal Audit reports on the outcome of audits conducted to the Governor and the Audit Committee every four months. Additionally, reports on the status of open audit issues are prepared twice yearly; these are circulated to both the Audit Committee and the Operations Committee for consideration. A three year plan is prepared on a rolling basis which is approved by the Audit Committee annually.

During the year Internal Audit conducted a range of audits across central banking, regulatory and operations areas. Topics covered included: Deposit Guarantee Scheme; a series of audits covering currency processing and production; PRISM; enforcement and fitness & probity regimes; corporate governance structures and a number of IT related audits. In addition, ESCB related audits covered currency production, IT networks, payments systems, statistics and risk management. Regular reports were submitted to the Audit Committee and the Operations Committee on the outcome of all audits including progress in implementing recommendations from previous audits. The Head of Internal Audit also met with the Governor regularly to discuss audit-related issues.

As part of its intelligence gathering and to ensure that Internal Audit keeps abreast of developments and risks within the organisation, Internal Audit regularly attends a number of internal senior management meetings and also held meetings with a large number of divisions across the organisation.

The Internal Audit function also reports to the Internal Auditors Committee (IAC) of the ECB on the outcome of ESCB audits noted above and other audit issues. Reports from the IAC are submitted to the ECB Governing Council and also relevant ESCB Committees.

During the year, Internal Audit coordinated the selection of RSM Farrell Grant Sparks as external auditors for the period covering the financial years 2012-2016 following the expiration of the contract with Deloitte in 2012.

In accordance with the Institute of Internal Auditors standards an external review of the internal audit function is required to be performed every five years. This review commenced in Quarter 4 2012. The report will be completed in early 2013 and presented to the Audit Committee. In addition, as part of the benchmarking process, Internal Audit visited a number of other internal audit functions – both in Ireland and abroad.

Part 2

Financial Operations



Financial Results for 2012

Context

The Central Bank of Ireland (the Bank) continued to respond to the domestic and international financial crisis in 2012. The actions taken in 2012 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 2012, the Bank continued to support the domestic banking sector and also participated in Eurosystem-level operations. The key developments have been:

- » financial support for the domestic banking sector through the provision of exceptional liquidity;
- » the continuation of the "fixed-rate full-allotment" approach to support liquidity provision and bank lending in the euro area; and
- » the Eurosystem continues to hold securities purchased under the Securities Markets Programme and Covered Bond Purchase Programmes, which had the aim of ensuring depth and liquidity in dysfunctional segments of the euro area debt securities markets, and of restoring an appropriate monetary policy transmission mechanism.

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 had grown significantly in size as a result of the crisis, although the overall size continued to decline in 2012. 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.

The outlook for the Bank's balance sheet and profitability in 2013 is linked to the Irish Government announcement of an end to the

Irish Bank Resolution Corporation's reliance on exceptional liquidity arrangements (ELA). The Government replaced the related non-standard promissory notes with long dated government bonds. The Bank has taken ownership of the collateral held against ELA borrowing and exchanged these for marketable sovereign bonds and government-guaranteed NAMA bonds. The bonds will be placed in the Bank's trading portfolio and sold as allowable under the agreed schedule, provided that conditions of financial stability permit. The disposal strategy will maintain full compliance with the Treaty prohibition on monetary financing.

Financial Results

Profit for the year to 31 December 2012 amounted to €1,437.4 million compared with a corresponding amount of €1,200.2 million in 2011. Both the interest income and interest expense of the Bank decreased in 2012. Interest income decreased by €1,069.7 million to €2,597.1 million while interest expense decreased by €983.5 million to €1,042.8 million. As a result, in 2012, the net interest income of the Bank decreased by €86.2 million to €1,554.3 million.

Interest Income

The decrease in interest income was primarily attributable to a significantly lower amount of interest earned on both lending conducted by the Bank as part of the Eurosystem's monetary policy operations (2012: €758.1 million, 2011: €1,337.8 million) and on ELA (2012: €1,105.2 million, 2011: €1,627.8 million) advanced to domestic credit institutions outside of the Eurosystem's monetary policy operations. The decrease in income earned on these operations during 2012 resulted from lower volumes of lending to credit institutions and a reduction in the average ECB interest rates¹. Income earned on securities held under the Eurosystem Securities Market Programme (SMP) increased to €207.2 million in 2012 from €156.1 million in 2011. This increase is attributable to purchases following the reactivation of the programme late in 2011. 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. Income earned

¹ The key ECB minimum bid rate fell from an average of 1.25 per cent in 2011 to 0.88 per cent in 2012.

on the Bank's own investment portfolio decreased by €16.1 million reflecting lower returns earned on core euro-area issued securities.

Interest Expense

Interest incurred on Intra-Eurosystem balances and the Bank's euro banknote issue over and above its capital key share of total Eurosystem circulation decreased by €785.5 million and €51.7 million respectively. The decreases in both expense categories reflects the fall in the average ECB minimum bid rate (as detailed in footnote 1) together with a significantly lower average balance in Intra-Eurosystem Liabilities in 2012 of €91.5 billion (2011: €128.9 billion). Interest paid on Government deposits decreased by €79.8 million while interest paid on Credit Institutions' deposits fell by €66.9 million in 2012. The decrease in the expense related to Government deposits resulted from a significantly lower average remuneration rate (EONIA)² paid during the year despite higher average Government deposit balances maintained over the period. The fall in interest paid on Credit Institutions' deposits was attributable to both lower interest rates and lower average balances held in minimum reserve accounts over the period due, in the main, to the decision of the Governing Council to reduce the reserve requirement from 2 per cent to 1 per cent, effective from January 2012.

Financial Operations, Write-Downs and Provisions

The net result of financial operations, write-downs and provisions was a charge of €101.6 million which is €225.3 million lower than the amount charged for 2011. This category includes provisions for risks relating to securities held for monetary policy purposes and investment, a provision relating to unredeemed Irish Pound (IEP) banknotes as well as realised capital gains and unrealised price and exchange rate losses on the Bank's investment portfolio.

Following the annual impairment review on the Bank's holdings in its investment (Hold to Maturity) and Eurosystem monetary policy-related portfolios (the SMP and two Covered Bond Purchase Programmes 1 and 2), a provision of €400 million was retained in respect

of the risks associated with these securities in the context of the continued sovereign debt market crisis. This figure compares with a corresponding amount of €300 million at end-2011 when the provision was created. Arising from a review of the provision in respect of outstanding IEP banknotes, an amount of €10 million was transferred from profit to facilitate the continued redemption, by the public, of Irish pound banknotes, bringing the balance to €13.2 million. Realised capital gains on the Bank's investment portfolio amounted to €8.6 million, representing an increase of €7.1 million from the previous year. Unrealised price losses decreased by €28.5 million to €0.3 million at end-2012 reflecting lower yields on peripheral sovereign bonds held at year end.

Net Result of Pooling of Monetary Income

The result of the net pooling of Eurosystem monetary income gave rise to a refund of €68.7 million in 2012, compared with a charge of €30.8 million in 2011. This refund mainly comprises two elements:

- (i) the refund of monetary income to the Bank of €60.6 million, following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares. In 2012, the Bank earned less than its capital key share of Eurosystem monetary income compared to 2011, when a net monetary income charge of €46.8 million was incurred.
- (ii) a decrease of €8.1 million³ in the Bank's share of the provision against counterparty risks related to monetary policy operations of the Eurosystem.

Operating Costs

In recent years the Bank has focused on strengthening its capabilities and capacity, including recruitment of additional staff and investment in new systems. This continued investment is reflected in the total operating costs for 2012 of €177.8 million (2011: €183.6 million). These comprise pay, non-pay, banknote raw materials and depreciation. Staff costs, including pay, increased by €2.7 million (2.6 per cent), while other operating expenses and banknote raw materials decreased by €10.7 million. Depreciation charges amounted

² The average Euro Overnight Index Average (EONIA) rate fell from 0.87 per cent in 2011 to 0.23 per cent in 2012.

³ In 2012 the ECB Governing Council reviewed the appropriateness of the provision and decided to reduce the aggregate amount from €949 million at 31 December 2011 to €310 million at 31 December 2012.

to €11.4 million (2011: €9.3 million). A detailed analysis of the Bank's operating costs is provided in Note 8 to the Statement of Accounts.

After transfers to reserves and adjustments related to the recognition of a net actuarial loss on the Bank's pension scheme, as required under Financial Reporting Standard 17, the Bank's Surplus Income amounted to €1,147.6 million (2011: €958.3 million), which is payable to the Exchequer.

Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2012 were €137.5 billion, a decrease of €38.7 billion (22 per cent) over the corresponding figure for end-2011 (€176.2 billion). The decrease was mainly driven by a reduction in monetary policy advances to credit institutions.

At 31 December 2012, lending to credit institutions through the main refinancing operations (MRO) had decreased by €22.6 billion from the previous year-end to €7.9 billion, while lending through the longer term refinancing operations (LTRO) decreased by €13.2 billion to €63.1 billion in the same period.

ELA advanced to domestic credit institutions outside of the Eurosystem's monetary policy operations decreased from €42.4 billion in 2011 to €40.4 billion in 2012. This facility was previously reported in Other Assets but was reclassified under Other Claims on Euro Area Credit Institutions in Euro in April 2012.

In respect of liabilities, at end year, the Bank's proportional share of total euro banknotes in circulation amounted to €13.3 billion, which represented an increase of almost €0.3 billion on the previous year. Government deposits increased by €4.1 billion while Credit Institutions' (commercial banks) deposits decreased by €2.5 billion in 2012. Intra-Eurosystem net liabilities, which amounted to €95.2 billion as at 31 December 2012, were €40.7 billion lower than at end-2011. This includes a decrease of €41.2 billion in the Bank's liability to other member central banks

of the Eurosystem in respect of cross-border transfers via the TARGET2⁴ payment system offset by a €0.5 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 €99.4 million reflecting the increase in the provision maintained for risks on securities portfolios by €100 million. The remaining €0.6 million decrease reflects the increase in the provision for the redemption of IEP banknotes (€10 million) offset by redemptions of Irish pound banknotes during 2012 of €2.5 million as well as the reduction in the Bank's share of the Eurosystem provision against counterparty risks in monetary policy operations of the Eurosystem (€8.1 million).

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. During 2012, an amount of €2.5 million was redeemed (2011: €2.4 million) leaving €232.9 million in Irish banknotes outstanding at end-2012 and a balance of €13.2 million in the provision which reflects the transfer from profits to the provision at year end.

Proceeds of Coin

During 2012, the net value of euro coin redeemed was €24.3 million (2011: net issue of €21.6 million) reflecting a significant fall in demand from the public. To offset this and coin production expenses incurred, a payment of €26.7 million was received from the Exchequer in December 2012 compared with a net seigniorage payment to the Exchequer by the Bank in 2011 of €20.7 million. The Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2012, Irish coin redeemed totalled €0.3 million (2011: €0.4 million). Full details are incorporated in Note 25 of the Statement of Accounts.

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

Prompt Payment of Accounts 2012

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 2012, interest was payable at a rate of between 7.75 and 8 per cent per annum.

The following is a summary of interest payments made to suppliers during 2012, with corresponding figures for 2011, in accordance with the provisions of the Regulations referred to above.

	2012	2011
Total Number of Late Payments	230	317
Total Value of All Late Payments (A)	€5,860,715	€5,400,718
Total Value of All Payments (B)	€72,578,967	€88,827,814
A as a % of B	8.07%	6.08%
Total Amount of Interest Paid on Late Payments	€8,776	€20,205

Statement of Accounts

for the year ended 31 December 2012

Presented to Dáil Éireann pursuant to section 32J of the Central Bank Act, 1942 (as amended)



Statement of Commission Members' Responsibilities

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

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

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

Patrick Honohan, Governor

Blanaid Clarke, Member of the Commission

5 April 2013

Statement on Internal Financial Control

On behalf of the Commission, we acknowledge the Commission's responsibility for ensuring that the Bank maintains an effective system of internal financial controls and reviews its effectiveness on an on-going basis. The 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 project/capital expenditure;
- Detailed policies and procedures relating to financial controls;
- An operational risk framework which is the entire process of systematically facilitating the identification, analysis, response, monitoring and reporting of valid operational incidents and risks in a consistent manner whilst simultaneously assessing the strength of internal controls for each identified risk and incident to mitigate the risk of reoccurrence; and
- A risk control framework to manage the Bank's key financial risks within clear internal risk policies and with reference to Eurosystem risk-management policies where relevant.

The Internal Audit Division independently and systematically reviews the controls in place and reports to the Audit Committee on a regular basis. The Audit Committee approves the Internal Audit Plan and work programme. In addition, the Audit Committee meets with and receives reports from the Office of the Comptroller and Auditor General and the external auditors, RSM Farrell Grant Sparks. The Chair 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 2012.

Patrick Honohan, Governor

Blanaid Clarke, Member of the Commission

5 April 2013

Profit and Loss and Appropriation Account for year ended 31 December 2012

		2012	2011
	Note	€000	€000
<i>Interest income</i>	1	2,597,061	3,666,814
<i>Interest expense</i>	2	(1,042,779)	(2,026,312)
Net interest income		1,554,282	1,640,502
<i>Net realised gains arising from financial operations</i>	3	8,690	1,852
<i>Write-downs on financial assets and positions</i>	3	(337)	(28,837)
<i>Provisions</i>	3	(110,000)	(300,000)
Net result of financial operations, write-downs and provisions		(101,647)	(326,985)
Income from fees and commissions	4	3,472	2,633
Income from equity shares and participating interests	5	13,499	13,147
Net result of pooling of monetary income	6	68,732	(30,784)
Other income	7, 43	76,815	85,308
TOTAL NET INCOME		1,615,153	1,383,821
Staff expenses	8	(105,435)	(102,753)
Other operating expenses	8	(57,220)	(68,146)
Depreciation	8	(11,430)	(9,272)
Banknote raw materials	8	(3,676)	(3,403)
TOTAL EXPENSES		(177,761)	(183,574)
PROFIT FOR THE YEAR BEFORE UNREALISED GAINS AND APPROPRIATION OF PROFIT		1,437,392	1,200,247
Net movement in unrealised gains	34	32,147	72,380
Transfers to revaluation accounts	34	(32,147)	(72,380)
Actuarial loss on pension scheme	32	(73,340)	(71,868)
Transfer to general reserve	35	(216,424)	(170,036)
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	9, 31	1,147,628	958,343

The accounting policies together with Notes 1 to 45 form part of these accounts.

Banc Ceannais na hÉireann

Patrick Honohan, Governor

Stefan Gerlach, Deputy Governor

5 April 2013

Balance Sheet as at 31 December 2012

ASSETS		2012	2011
	Note	€000	€000
Gold and gold receivables	10	243,522	234,967
Claims on non-euro area residents in foreign currency	11	1,051,462	1,081,160
Claims on euro area residents in foreign currency	12	495,597	1,174,197
Claims on non-euro area residents in euro	13	1,228,596	1,230,830
Lending to euro area credit institutions related to monetary policy operations in euro	14	70,936,000	107,236,000
Other claims on euro area credit institutions in euro	15	40,425,500	42,849,373
Securities of euro area residents in euro	16	21,264,128	20,731,081
Intra-Eurosystem claims		885,762	807,854
<i>Participating interest in ECB</i>	17	176,179	157,668
<i>Claims equivalent to the transfer of foreign reserves</i>	18	639,836	639,836
<i>Other claims within the Eurosystem</i>	19	69,747	10,350
Items in course of settlement	20	13,853	13,428
Other assets	21	941,396	887,753
TOTAL ASSETS		137,485,816	176,246,643

The accounting policies together with Notes 1 to 45 form part of these accounts.

Banc Ceannais na hÉireann

Patrick Honohan, Governor
Stefan Gerlach, Deputy Governor

5 April 2013

Balance Sheet as at 31 December 2012

LIABILITIES		2012	2011
	Note	€000	€000
Banknotes in circulation	23	13,328,406	12,978,412
Liabilities to euro area credit institutions related to monetary policy operations in euro	24	3,518,115	6,028,961
Liabilities to other euro area residents in euro	25	19,638,624	15,573,753
Liabilities to non-euro area residents in euro	26	22,245	22,508
Liabilities to euro area residents in foreign currency	27	191	178
Counterpart of special drawing rights allocated by the IMF	28	903,913	920,197
Intra-Eurosystem liabilities (net)		95,199,863	135,869,664
<i>Liabilities related to the allocation of euro banknotes within the Eurosystem</i>	29	15,940,680	15,435,806
<i>Other liabilities within the Eurosystem (net)</i>	30	79,259,183	120,433,858
Other liabilities	31	1,915,595	2,318,302
Pension liability	32	97,425	21,176
Provisions	33	417,141	317,765
Revaluation accounts	34	334,798	302,651
Capital and Reserves	35	2,109,500	1,893,076
TOTAL LIABILITIES		137,485,816	176,246,643

The accounting policies together with Notes 1 to 45 form part of these accounts.

Banc Ceannais na hÉireann

Patrick Honohan, Governor

Stefan Gerlach, Deputy Governor

5 April 2013

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 ESCB¹ and its diverse range of activities.

(b) Accounting Principles

The Bank, as a participating member of the ESCB, complies with the accounting policies laid down by the Governing Council of the ECB in its Guideline². 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 2012 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) and relevant statutory provisions³ which apply to the Bank are followed.

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

(c) Eurosystem Accounting Guideline

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

(i) Trade Date Accounting⁴

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

(ii) Intra-ESCB balances

All NCBs of the Eurosystem maintain accounts with each other for the purpose of making bilateral payments including cross-border payments through the TARGET2⁵ system (Note 30). 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-2012, six non-participating countries (Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania) were members of TARGET2 and, therefore, included in the multilateral netting process.

1 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 2012 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/2012/29.

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/2012/29.

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'. (See Accounting Policy (c)(iv) and Note 29).

Intra-Eurosystem claims arising from the Bank's participating interest in the ECB are reported under 'Participating Interest in the ECB' (Note 17) Accounting Policy (c)(iii).

Intra-Eurosystem balances arising from the transfer of foreign reserve assets to the ECB by the NCBs joining the Eurosystem are denominated in euro and reported under 'Claims equivalent to the Transfer of Foreign Reserves' (Note 18).

(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 2012. 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 third and final instalment of €18.5 million was paid by the Bank on 27 December 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.

The Bank's share in the Eurosystem capital key remained at 1.5874 per cent in 2012.

(iv) Banknotes in Circulation

The ECB and the 17 participating NCBs, which together comprise the Eurosystem, issue euro banknotes⁶. 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 key⁷.

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 (2011: 1.5874 per cent) share in the fully paid-up capital of the ECB (Accounting Policy (c)(iii)) and therefore a 1.4605 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 23).

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

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 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).

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 interest⁸, 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 29). 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.

(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 Markets Programme (SMP) shall be due in full to the NCBs in the same financial year it accrues unless otherwise decided by the Governing Council. The ECB shall distribute this income in January of the following year in the form of an interim distribution of profit⁹. 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 and OMT 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 and OMT 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)).

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

⁸ 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.

⁹ 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 (as amended by (ECB/2012/33) OJ L 6, 11.1.2011, p. 35).

The net monetary income pooled by the Eurosystem is allocated between NCBs according to the subscribed Eurosystem capital key. The difference between the monetary income pooled by the Bank and that reallocated to the Bank, 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)).

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

(vii) Claims Equivalent to the Transfer of Foreign Reserves

The *Treaty on the Functioning of the European Union*, 1992 and Section 5(A) of the *Central Bank Act*, 1942 (as amended) provides that the Bank has the power to “transfer assets, income or liabilities to the European Central Bank where required under the ESCB Statute”. Accordingly, the Bank transferred an amount equivalent to €424.8 million to the ECB in January 1999, at the commencement of the European Monetary Union, and received in turn a corresponding claim on the ECB equivalent to this amount. As a result of 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 at year end 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 forward contracts and the techniques covering the most significant off-balance sheet financial instruments which have been identified for possible use by the ESCB are set out in the ECB accounting guideline, i.e. foreign exchange forwards, foreign exchange swaps, future contracts, interest rate swaps, forward rate agreements, forward transactions in securities and options.

(ix) Securities Held for Monetary Policy Purposes

These securities were acquired by the Bank within the scope of the purchase programmes for Covered Bonds¹⁰ (CBPP1 and CBPP2), and public debt securities acquired in the scope of the Securities Markets Programme¹¹ (SMP). The securities are classified as held-to-maturity, measured at amortised cost and are subject to impairment (Notes 1(i), 16 and 33).

(d) Income Recognition

Income is recognised on an accruals basis.

¹⁰ 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.

¹¹ ECB decision of 14 May 2010 establishing a Securities Markets Programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

(e) Fixed Assets**(i) Measurement**

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

(ii) Depreciation

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

Premises	–	20 - 50 years
Plant and Machinery	–	5 - 15 years
Furniture, Fixtures and Fittings	–	5 years
Computer Equipment	–	3 - 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 at that time Willis, was transferred from the Bank's resources to the fund to purchase pension fund assets. The Scheme is operated on a non-contributory basis for staff employed before 6 April 1995, with the exception of contributions made to the Spouses' and 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. All pension benefits are paid out of this fund. The Bank discloses the cost of providing benefits in accordance with FRS 17 'Retirement Benefits'.

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

In determining the value of scheme liabilities, assumptions are made as to price inflation, pension increases, earnings growth and demographics. The assumptions underlying the 2012 liabilities and pension costs are set out in Note 32.

(g) Coin Provision and Issue

The Bank is involved in the production and issuance of coin on behalf of the Minister for Finance. Proceeds and expenses relating to the provision and issue of coin are transferred directly to the Currency Reserve under the provisions of the *Coinage Act, 1950*, the *Decimal Currency Acts, 1969-1990* and the *Economic and Monetary Union Act, 1998*. The cost of production of coin is charged to the Currency Reserve in the year in which it is incurred. Proceeds from the issue of coin are credited to the Currency Reserve in the year they are received (Note 25). 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 25(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 investments, foreign currency contracts outstanding and shares in the Bank for International Settlements are valued at mid-market closing exchange rates at year-end (Note 34). 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. An impairment review is completed on an annual basis.
- (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 a financial asset is impaired includes a breach of contract, such as a default or delinquency in interest or principal payment (Note 15 (ii)).

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

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

(l) Reverse Transactions

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

Under a reverse repurchase agreement, securities are bought for cash with a simultaneous agreement to sell them back to the counterparty at an agreed price on a set future date. Reverse repurchase agreements are recorded as collateralised loans on the asset side of the Balance Sheet (Note 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).

There were no reverse transactions outstanding at year end.

(m) Provisions

All provisions are reviewed annually (Note 33). Where created, in respect of investment assets, allowances for credit risks are recorded in separate liability accounts (i.e. there is no direct write-down of the carrying amount of individual assets).

In respect of provisions relating to securities, the Bank assesses at each balance sheet date whether there is objective evidence that a security or group of securities is impaired. A security or a group of securities is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the security (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the security or group of securities that can be reliably estimated.

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

- (i) delinquency in contractual payments of principal or interest;
- (ii) cash flow difficulties of the debtor;

- (iii) the initiation of a debt restructuring arrangement;
- (iv) a significant deterioration in the sustainability of sovereign debt;
- (v) external rating downgrade below an acceptable level;
- (vi) a deterioration in national or local economic conditions that correlate with defaults on the assets.

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

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

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

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

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

Notes to the Accounts

Note 1: Interest Income

	2012	2011
	€000	€000
Deposit Income	1,163	1,124
Interest on Securities - MTM	161,475	215,381
Interest on Securities - HTM	311,214	276,810
Interest on Securities for Monetary Policy Purposes (i)	254,525	193,831
Reverse Repurchase Agreements (ii)	279	3,832
Monetary Policy Operations (iii)	758,089	1,337,815
Income from Transfer of Foreign Reserve Assets to ECB (iv)	4,872	6,889
Exceptional Liquidity Assistance (v)	1,105,155	1,627,814
Other	289	3,318
Total	2,597,061	3,666,814

- (i) This item incorporates income of €37.1 million (2011: €37.6 million), €10.2 million (2011: €0.1 million) and €207.2 million (2011: €156.1 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 no Reverse Repurchase Agreements outstanding at 31 December 2012 (2011: €299.0 million). Accounting Policy (l) and Note 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) See Note 15 (ii).

Note 2: Interest Expense

	2012	2011
	€000	€000
Government Deposits	43,003	122,812
Credit Institutions' Deposits	33,377	100,240
Intra-Eurosystem Balances (net) (i)	829,240	1,614,775
Remuneration of Liability in respect of allocation of Euro Banknotes in Circulation (ii)	136,480	188,222
Other	679	263
Total	1,042,779	2,026,312

- (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) 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 arising from Financial Operations	2012	2011
	€000	€000
Net Realised Price Gains on Securities	8,614	1,522
Net Realised Exchange Rate Gains	76	330
Total	8,690	1,852

Write Downs on Financial Assets and Positions	2012	2011
	€000	€000
Unrealised Price Losses on Securities	(323)	(28,837)
Unrealised Exchange Rate Losses	(14)	-
Total	(337)	(28,837)

Provisions	2012	2011
	€000	€000
Provision for Unredeemed Irish Pound Banknotes (Note 33)	(10,000)	-
Provision for Securities (Note 33)	(100,000)	(300,000)
Total	(110,000)	(300,000)

Note 4: Income from Fees and Commissions

	2012	2011
	€000	€000
Service Fees and Charges	753	618
Securities Lending	2,165	1,463
TARGET2 Distribution of Pooled Income	554	552
Total	3,472	2,633

Note 5: Income from Equity Shares and Participating Interests

	2012	2011
	€000	€000
Share of ECB Profits (i)	10,330	10,350
BIS Dividend (ii)	3,169	2,797
Total	13,499	13,147

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

- (i) This item represents the Bank's share of the ECB's distribution of seigniorage income. Accounting Policy (c)(v). The Governing Council of the ECB decided to transfer from the ECB's profits, as at 31 December 2012, an amount of €1,166 million (which is distributed from the ECB's income on SMP securities and income earned on euro banknotes in circulation) to the ECB risk provision, thereby increasing it to the level of its present ceiling of €7,529 million. As a result an amount of €574.6 million was paid to the Eurosystem NCBs on 31 January 2013 in accordance with their Eurosystem capital key as a partial distribution of the ECB's profits for the year. The Bank's share amounted to €9.1 million (Note 19). The final distribution of profit for 2011, paid in March 2012, amounted to €1.2 million.
- (ii) This item represents dividends received on shares held in the Bank for International Settlements. Note 21(i).

Note 6: Net Result of Pooling of Monetary Income

	2012	2011
	€000	€000
Net Result of Pooling of Monetary Income (i)	60,586	(46,821)
Share of Eurosystem Provision Against Counterparty Risks (ii)	8,146	16,037
Total	68,732	(30,784)

- (i) This represents the difference between the monetary income pooled by the Bank of €312.1 million (2011: €296.4 million) and that reallocated to the Bank of €371.5 million (2011: €249.0 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 €1.2 million (2011: €0.6 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 €8.1 million at year-end (2011: €16.0 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 reviewed the appropriateness of the provision and decided to reduce the amount of the provision from €949 million at 31 December 2011 to €310 million at 31 December 2012. The respective adjustments are reflected in the Profit and Loss and Appropriation Accounts of the NCBs. Note 33 (i).

Note 7: Other Income

	2012	2011
	€000	€000
Financial Regulation Net Industry Funding (Note 43 (i))	74,893	78,466
Financial Regulation Miscellaneous Income (Note 43 (iv))	12	42
Financial Regulation Monetary Penalties (i)	8,493	5,050
Financial Regulation Prospectus Approval Fees (Note 43 (iii))	1,028	12
Interest on Pension Scheme Liabilities (Note 32 (i))	(23,230)	(21,956)
Expected Return on Pension Fund Assets (Note 32 (v))	14,120	22,346
Other	1,499	1,348
Total	76,815	85,308

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

Note 8: Expenses

€000	Head Office*		Printworks		Total Head Office & Printworks		Mint (i)		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Salaries/ Allowances (ii)	81,299	73,075	9,192	10,083	90,491	83,158	684	663	91,175	83,821
PRSI	6,849	5,700	692	675	7,541	6,375	46	41	7,587	6,416
Pensions (Note 32 (i))	7,403	13,220	–	–	7,403	13,220	95	79	7,498	13,299
Staff Expenses	95,551	91,995	9,884	10,758	105,435	102,753	825	783	106,260	103,536
Communications and IT	7,114	4,201	12	6	7,126	4,207	37	42	7,163	4,249
Business Travel	1,885	1,663	191	191	2,076	1,854	23	24	2,099	1,878
Office Administration Expense	840	911	179	212	1,019	1,123	11	13	1,030	1,136
Professional Fees (iii)	21,370	35,787	181	161	21,551	35,948	6	6	21,557	35,954
External Research and Corporate Subscriptions	1,776	1,236	49	10	1,825	1,246	2	3	1,827	1,249
Publishing & Public Relations	443	344	12	10	455	354	–	–	455	354
Payments & Asset Management Charges	3,559	4,146	8	4	3,567	4,150	31	12	3,598	4,162
Currency Supplies and Machine Maintenance	–	–	1,264	1,015	1,264	1,015	128	74	1,392	1,089
Training, Education & Conferences	2,386	2,195	61	60	2,447	2,255	12	5	2,459	2,260
Recruitment & Other Staff Costs	1,912	2,152	154	206	2,066	2,358	–	–	2,066	2,358
Facilities Management & Maintenance	2,842	1,792	2,667	2,936	5,509	4,728	7	7	5,516	4,735
Rent & Utilities	6,709	7,442	1,154	1,117	7,863	8,560	–	–	7,863	8,560
Miscellaneous (iv)	141	336	311	13	452	348	–	38	452	386
Other Operating Expenses	50,977	62,205	6,243	5,941	57,220	68,146	257	224	57,477	68,370
Depreciation	6,266	4,746	5,164	4,526	11,430	9,272	50	33	11,480	9,306
Currency Production Raw Materials	–	–	3,676	3,403	3,676	3,403	2,492	1,835	6,168	5,238
Total Expenses	152,794	158,946	24,967	24,628	177,761	183,574	3,624	2,875	181,385	186,450

* 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 2012 are shown in Note 43.

- (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 2012

Name	Period	Salary and Fees	Other
Patrick Honohan			
Governor	1 Jan - 31 Dec	€276,324	–
Stefan Gerlach			
Deputy Governor (Central Banking)	1 Jan - 31 Dec	€250,000	€2,731 ¹²
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	€74,680	€973 ¹³

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

The annual fee for members of the Commission is €14,936. Ex officio members of the Commission do not receive a fee in respect of their membership of the Commission.

(iii) The decrease in professional fees is largely due to reduced expenses incurred (€12.0 million) in relation to the Prudential Capital Assessment Review and Prudential Liquidity Assessment Review of certain financial institutions in 2012, when compared with the previous year (€29.1 million). These costs were fully recouped from the relevant financial institutions during the year (Note 43 (ii)).

During 2012, the term of the external auditors, Deloitte, expired. Following a competition, RSM Farrell Grant Sparks were appointed as external auditors for a period of 5 years and were approved by the EU Council, in accordance with Article 27 of the ESCB Statute, on 13 November 2012.

¹² Relates to Delegates Allowance.

¹³ Relates to accommodation and travel expenses incurred by Alan Ahearne.

Note 8: Expenses (continued)

Auditors' fees payable to RSM Farrell Grant Sparks (2011: Deloitte) and the Comptroller and Auditor General amounted to:

	2012	2011
	€000	€000
Audit of Individual Accounts	256	203
<i>RSM Farrell Grant Sparks</i>	150	-
<i>Comptroller and Auditor General</i>	106	96
<i>Deloitte</i>	-	107
Other Assurance Services	35	33
<i>RSM Farrell Grant Sparks</i>	35	-
<i>Deloitte</i>	-	33
Other Non-Audit Work	-	2,331
<i>Deloitte</i>	-	2,331
Total	291	2,567

Other Assurance Services for 2012 relate to audit services provided on behalf of the ECB and the Superannuation Fund.

Other non-audit work in 2011 mainly related 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 2012 and comparative.

- (iv) Included in miscellaneous are the expenses of the Financial Services Appeals Tribunal (of €0.1 million) 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 €6.3 million (2011: €5.6 million) was paid to the Department of Finance in respect of the pension-related deductions. This figure is not shown separately in the table but is included within the figure for Salaries.
- (vi) Compensation payments totalling €264,227 (2011: €107,270) and ranging from €9,000 to €96,988 (2011: €25,270 to €50,000) were paid in 7 employment related cases (3 in 2011).
- (vii) A payment of €0.5 million was made to the Revenue Commissioners in February 2013 in respect of outstanding liabilities arising from a Revenue Audit, of which interest and penalties are estimated at €0.07 million. A formal approval still remains to be made by the Revenue Commissioners.

Note 9: Surplus Income

Surplus Income of €1,147.6 million is payable to the Exchequer in respect of the year ended 31 December 2012 (2011: €958.3 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 consists of coin stocks held in the Bank, together with gold bars held at the Bank of England. The increase in the balance in 2012 is due to the change in the market value of gold holdings year-on-year.

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

	2012	2011
	€000	€000
Receivables from the IMF (i)	1,048,950	1,060,953
Balances with Banks and Security Investments, External Loans and other External Assets (iv)	2,512	20,207
Total	1,051,462	1,081,160

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

	2012	2011
	€000	€000
Quota	1,449,944	1,522,588
Less IMF Holdings of euro	(1,148,519)	(1,215,808)
Reserve Position in IMF (ii)	301,425	306,780
SDR Holdings (iii)	747,525	754,173
Total	1,048,950	1,060,953

(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.

(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 28).

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

	2012	2011
	€000	€000
Balances with Banks	2,512	3,070
Security Investments – MTM (v)	–	17,137
Total	2,512	20,207

Maturity Profile

	2012	2011
	€000	€000
0 - 3 months	2,512	20,195
3 months - 1 year	–	12
Total	2,512	20,207

(v) Accounting Policy (j).

Note 12: Claims on Euro Area Residents in Foreign Currency

	2012	2011
	€000	€000
Balances with Banks (i)	482,381	1,142,632
Security Investments – MTM (ii)	13,216	31,565
Total	495,597	1,174,197

Maturity Profile

	2012	2011
	€000	€000
0 - 3 months	495,597	1,142,632
3 months - 1 year	–	18,921
1 - 5 years	–	12,644
Total	495,597	1,174,197

(i) This item consists of a claim arising from reverse operations with Eurosystem counterparties amounting to €482.4 million (2011: €1,142.6 million), in connection with 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 39).

(ii) Accounting Policy (j).

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

	2012	2011
	€000	€000
Balances with Banks	144,231	366,976
Security Investments - MTM (i)	534,303	309,298
Security Investments - HTM (i)	550,062	554,556
Total	1,228,596	1,230,830

Maturity Profile

	2012	2011
	€000	€000
0 - 3 months	235,282	366,976
3 months – 1 year	164,033	143,241
1 – 5 years	735,593	495,476
5 – 10 years	93,688	225,137
Total	1,228,596	1,230,830

(i) Accounting Policy (j).

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

	2012	2011
	€000	€000
Main Refinancing Operations (i)	7,850,000	30,520,000
Longer Term Refinancing Operations (ii)	63,086,000	76,286,000
Marginal Lending Facility (iii)	–	430,000
Total	70,936,000	107,236,000

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 Longer Term Refinancing Operations (LTRO) advances during 2012. As at 31 December 2012 total Eurosystem monetary policy related advances amounted to €1,128.8 billion (2011: €863.6 billion), of which the Bank held €70.9 billion (2011: €107.2 billion). In accordance with Article 32.4 of the Statute, any losses from lending to euro area credit institutions related to monetary policy operations, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing Eurosystem capital key shares. For lending secured by own-use government guaranteed bank bonds and Additional Credit Claims, the risks are borne by the Bank (Note 37).

- (i) Main refinancing operations are executed through liquidity providing reverse transactions with a weekly frequency and a maturity of one week, normally by means of standard tenders. Since 2008, these operations were conducted as fixed rate tender procedures. These operations play a key role in achieving the aims of steering interest rates, managing market liquidity and signalling the monetary policy stance.
- (ii) Longer Term Refinancing Operations aim to provide counterparties with additional longer-term refinancing. In 2012, operations were conducted with maturities equal to the reserve maintenance period and with maturities of three and thirty-six months. These operations were conducted at fixed rate with allotment of the total amount bid.
- (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.

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

	2012	2011
	€000	€000
Balances with Banks (i)	500	150,373
Reverse Repurchase Agreements	–	299,000
Exceptional Liquidity Assistance (ELA) (ii)	40,425,000	42,400,000
Total	40,425,500	42,849,373

- (i) These balances have a maturity of less than one year.
- (ii) This item relates to ELA of €40.4 billion (2011: €42.4 billion) advanced outside of the Eurosystem's monetary policy operations to domestic credit institutions covered by Irish Government Guarantee. 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.

As at 31 December 2012, the Bank had in place specific legal instruments in respect of each type of collateral accepted. These comprised: (i) Promissory Notes issued by the Minister for Finance to specific credit institutions and transferrable by deed, (ii) Special Master Repurchase Agreements covering collateral no longer eligible for ECB-related operations, (iii) Facility Deeds providing a Government Guarantee and (iv) a Floating Charge over the related Credit Institution's balance sheet. In addition, the Bank received formal comfort from the Minister for Finance such that any shortfall on the liquidation of collateral would be made good. Where appropriate, haircuts (ranging from 1.5 per cent to 5.5 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 required (2011: nil).

ELA was previously reported under 'Other Assets' (Note 21) and reclassified to this category following harmonisation in the ECB Accounting Guideline (ECB/2012/29) as amended. As of 7 February 2013, all outstanding ELA was repaid (Note 42).

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.

	2012	2011
	€000	€000
Securities Held for Monetary Policy Purposes (i)	4,362,841	4,789,749
Other Securities (ii)	16,901,287	15,941,332
Total	21,264,128	20,731,081

(i) Securities Held for Monetary Policy Purposes

	2012	2011
	€000	€000
Covered Bonds Purchase Programme 1 (CBPP1) - HTM	696,316	869,127
Covered Bonds Purchase Programme 2 (CBPP2) - HTM	257,176	17,177
Securities Markets Programme (SMP) - HTM	3,409,349	3,903,445
Total	4,362,841	4,789,749

Maturity Profile

	2012	2011
	€000	€000
0 - 3 months	–	452,915
3 months - 1 year	821,316	345,219
1 - 5 years	1,949,411	2,332,748
5 - 10 years	1,498,050	1,658,867
10 - 15 years	94,064	–
Total	4,362,841	4,789,749

This Balance Sheet category contains securities acquired by the Bank within the scope of the purchase programmes for covered bonds¹⁴, and public debt securities acquired within the scope of the SMP¹⁵. Under the securities markets programme established in May 2010, the ECB and the NCBs may purchase euro area public and private debt securities in order to address the malfunctioning of certain segments of the euro area debt securities markets and to restore proper functioning of the monetary policy transmission mechanism.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under the securities markets programme and the two covered bond purchase programmes. The SMP was terminated in September 2012, following the announcement of a new programme called Outright Monetary Transactions (OMT), and the CBPP2 concluded on 31 October 2012.

The total Eurosystem NCB's (including the ECB) holding of SMP, CBPP1 and CBPP2 securities, respectively, amounts to €208.7 billion, €47.6 billion and €14.9 billion at end December, of which the Bank held €3,409 million, €696 million and €257 million. 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.

(ii) Other Securities

	2012	2011
	€000	€000
Security Investments - MTM	9,050,743	9,379,825
Security Investments - HTM	7,850,544	6,561,507
Total	16,901,287	15,941,332

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

Maturity Profile	2012	2011
	€000	€000
0 - 3 months	2,893,331	3,074,877
3 months - 1 year	4,073,584	5,090,143
1 - 5 years	5,250,149	4,686,575
5 - 10 years	4,684,223	3,089,737
Total	16,901,287	15,941,332

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.

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. The level of subscriptions is dependent on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which are adjusted every five years.

The Bank's share in subscribed capital of the ECB remained at 1.1107 per cent in 2012. Accounting Policy (c)(iii).

The Bank's participating interest in the ECB increased by €18.5 million to €176.2 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 third and final instalment of €18.5 million on 27 December 2012, bringing the level of its participating interest to €176.2 million. 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: Other Claims within the Eurosystem

	2012	2011
	€000	€000
Share of ECB Profits (i)	9,122	10,350
Net Result of Pooling Monetary Income (ii)	60,625	–
Total	69,747	10,350

(i) This represents the Bank's share of the ECB's partial distribution of seigniorage income. Accounting Policy (c)(v) and Note 5 (i).

(ii) This represents monetary income receivable following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares. Accounting Policy (c)(vi) and Note 6 (i). For 2011, monetary income payable is included in Note 29.

Note 20: 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 21: Other Assets

	2012	2011
	€000	€000
Shares in the Bank for International Settlements (i)	19,444	19,515
Stocks of Materials for Banknote Production	1,676	2,756
AIB plc/ICAROM Interest Bearing Loan (ii)	-	302,527
Accrued Interest Income	786,348	433,535
Prepayments	1,478	1,224
Fixed Assets (Note 22)	79,953	77,230
Other (iii)	52,497	50,966
Total	941,396	887,753

- (i) The Bank holds 8,564 shares (2,564 paid up) in the Bank for International Settlements, the euro equivalent of which is €19.4 million (2011: €19.5 million) (Notes 5 (ii) and 36 (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 was collected from AIB plc until 31 December 2012, and passed on to the administrator of ICAROM plc. The mechanisms used to collect these funds were (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 31). The amount of the deposit is determined by the one month Euro Interbank Offered Rate (Euribor). The arrangement ended on 31 December 2012 and all monies were transferred to the administrator.
- (iii) Amounts recorded in respect of ELA were reclassified to 'Other Claims on Euro Area Credit Institutions in Euro' (Note 15 (ii)) following its harmonisation in the ECB Accounting Guideline (ECB/2012/29) as amended. The comparative amounts were reclassified for consistency.

Note 22: Fixed Assets

€000	Premises		Plant and Machinery		Computer Equipment		Other Equipment		Furniture, Fixtures & Fittings		Assets Under Construction (iii)		Total Fixed Assets	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
At Cost - 1 January	67,154	66,198	50,122	47,837	33,406	23,556	15,815	15,028	15,251	12,994	-	-	181,748	165,613
Acquisitions	53	956	4,629	2,285	7,791	9,850	749	787	278	2,257	1,518	-	15,018	16,135
Disposals (i)	(358)	-	-	-	(582)	-	-	-	-	-	-	-	(940)	-
At Cost - 31 December	66,849	67,154	54,751	50,122	40,615	33,406	16,564	15,815	15,529	15,251	1,518	-	195,826	181,748
Accumulated Depreciation at 1 January	18,221	16,656	43,689	41,448	18,899	16,125	12,837	11,104	10,872	9,879	-	-	104,518	95,212
Depreciation for the year (ii)	1,579	1,565	2,527	2,240	4,454	2,774	1,767	1,733	1,153	994	-	-	11,480	9,306
Disposals	(57)	-	-	-	(68)	-	-	-	-	-	-	-	(125)	-
Accumulated Depreciation at 31 December	19,743	18,221	46,216	43,688	23,285	18,899	14,604	12,837	12,025	10,873	-	-	115,873	104,518
Net Book Value at 31 December	47,106	48,933	8,535	6,434	17,330	14,507	1,960	2,978	3,504	4,378	1,518	-	79,953	77,230

- (i) Following a review of the Fixed Assets Register during the year, assets deemed no longer in use, to the value of €0.8 million, were written off to Other Operating Expenditure (Note 8).
- (ii) Of the total of €11.4 million depreciation charge (2011: €9.3 million), €0.05 million in respect of Mint machinery was charged to the Currency Reserve (2011: €0.03 million).
- (iii) Assets under Construction relates to expenditure on the North Wall Quay site, including the deposit payment for the site of €0.7 million. (Note 36).

Note 23: Banknotes in Circulation

	2012	2011
	€000	€000
Total value of Euro Banknotes put into Circulation by the Bank	29,269,087	28,367,428
Liability resulting from the ECB's share of Euro Banknotes in Circulation	(1,158,907)	(1,128,475)
Liability according to the Bank's weighting in the ECB's capital key	(14,781,774)	(14,260,541)
Total	13,328,406	12,978,412

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.

During 2012, the total value of banknotes in circulation within the Eurosystem increased by 2.7%. According to the allocation key, the Central Bank of Ireland had euro banknotes in circulation worth €13.3 billion at the end of the year, compared to €13.0 billion at the end of 2011. The value of the euro banknotes actually issued by the Central Bank of Ireland in 2012 increased by 3.2% from €28.4 billion to €29.3 billion. As this was more than the allocated amount, the difference of €15.9 billion (compared to €15.4 billion in 2011) is shown in 'Liabilities related to the Allocation of euro banknotes within the Eurosystem' (Note 29). Accounting Policy (c)(iv).

Note 24: Liabilities to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

	2012	2011
	€000	€000
Minimum Reserve Deposits (i)	1,798,115	3,733,961
Overnight Deposits (ii)	1,720,000	2,295,000
Total	3,518,115	6,028,961

- (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 2012 interest was paid on these deposits at the ECB's main refinancing operations interest rate.
- (ii) The deposit facility is available to counterparties to place funds with the Bank on an overnight basis.

Note 25: Liabilities to Other Euro Area Residents in Euro

	2012	2011
	€000	€000
General Government Deposits (i)	19,635,529	15,572,051
Currency Reserve relating to Net Proceeds of Coin (ii)	3,095	1,702
Total	19,638,624	15,573,753

These items have a maturity of less than one year.

- (i) Included in the General Government Deposits are credits totalling €0.4 million (2011: €0.4 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:

	2012	2011
	€000	€000
Net Coin (redeemed from)/issued into Circulation	(24,282)	21,642
Specimen Coin Sets	3,178	2,225
Withdrawn Irish Coin	(318)	(360)
Proceeds from Smelted Coin	-	77
Sub-Total	(21,422)	23,584
Less Operating Costs (Note 8)	(3,624)	(2,875)
Net Proceeds of Coin Issue	(25,046)	20,709
Interest on Pension Liability	(178)	(163)
Superannuation Employer Contribution	(92)	(100)
Transfer from/(to) the Exchequer	26,709	(20,658)
Opening Balance	1,702	1,914
Closing Balance	3,095	1,702

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 return of coin to the Bank from the commercial banks in 2012. As a result of this net return and the coin related operating costs, a transfer of €26.7 million was received from the Exchequer in December 2012 (2011: transfer to the Exchequer of €20.7 million).

Note 26: Liabilities to Non-Euro Area Residents in Euro

	2012	2011
	€000	€000
International Financial Institutions	98	95
EU Agencies	22,147	22,413
Total	22,245	22,508

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

Note 27: 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 an account with the Federal Reserve Bank of New York used for the receipt of funds from the IMF Financing Programme for Ireland.

Note 28: 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 29: 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 23. (In 2011, monetary income payable to the Eurosystem, amounting to €46.8 million, was included under this category (Note 19)).

Note 30: 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 31: Other Liabilities

	2012	2011
	€000	€000
Profit & Loss & Appropriation (i)	1,147,628	958,343
Deposit Protection Accounts (ii)	403,024	434,741
Interest Accruals	87,223	194,495
Other Accruals	14,749	11,705
Credit Institutions Resolution Fund (iii)	249,442	250,000
AIB PLC/ICAROM Deposit (Note 21)	–	302,527
Other	13,529	166,491
Total	1,915,595	2,318,302

- (i) This represents the amount of surplus income payable to the Exchequer (Note 9).
- (ii) These are balances placed by credit institutions, including credit unions, with the Bank as part of the Irish Deposit Protection Scheme (IDPS) under the *European Communities (Deposit Guarantee Schemes) Regulations, 1995* and Section 4 of the *Financial Services (Deposit Guarantee Scheme) Act, 2009*, respectively. The IDPS is funded by credit institutions and credit unions, which are authorised by the Bank.
- (iii) A Credit Institutions Resolution Fund was established at the end of 2011 under the *Central Bank and Credit Institutions (Resolution) Act, 2011*. The Minister for Finance lodged €250 million into the fund account maintained at the Bank. The purpose of the Fund is to provide a source of funding for the resolution of financial instability in, or an imminent serious threat to the financial stability of, authorised credit institutions. On 28 September 2012, the Minister for Finance made regulations providing for contributions by authorised credit institutions to the Fund pursuant to Section 15 of the Act - the *Credit Institutions Resolution Fund Levy Regulations, 2012*. Levies payable under these Regulations are due and payable no later than 28 February 2013 and the first levy was received in January 2013. Levies received are lodged to an account maintained for the Fund. Interest of €613,937 was accrued on the Fund's account at the Central Bank at the end of December 2012 but had not been applied to the balance.

Note 32: 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 current revenues. On 1 October 2008, a funded pension scheme was established (as provided for under the *Central Bank and Financial Services Authority of Ireland Act, 2003*) and an amount of €400 million was transferred to purchase fund assets. The valuation of the fund assets at 31 December 2012 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 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 2012.

Note 32: Superannuation Liabilities (continued)**(i) Amount charged to Profit and Loss and Appropriation Account/Currency Reserve**

	Profit and Loss 2012	Currency Reserve 2012	Total 2012	Total 2011
	€000	€000	€000	€000
Expected Return on Assets	14,120	–	14,120	22,346
Interest on Pension Scheme Liabilities	(23,230)	(178)	(23,408)	(22,119)
Current Service Cost	(14,977)	(106)	(15,083)	(11,330)
Past Service Cost	7,574	11	7,585	(1,969)
Sub-Total	(7,403)	(95)	(7,498)	(13,299)
Total Pension Cost of Defined Benefit Scheme	(16,513)	(273)	(16,786)	(13,072)

As at 31 December 2012, there was no previously unrecognised surplus deducted from settlements or curtailments, and no gains or losses on any settlements or curtailments. The past service cost surplus for 2012 of €7.6 million comprises an amount of €8.8 million in respect of pensioner reductions offset by a cost of €1.2 million in respect of the transfer of pension service for new staff members.

(ii) Actuarial (Loss)/Gain on Pension Scheme

Year Ended 31 December	2012	2011	2010
	€000	€000	€000
Actuarial (loss)/gain on pension liability	(92,808)	(34,288)	8,811
Actuarial (loss)/gain on plan assets	19,468	(37,580)	12,894
Total	(73,340)	(71,868)	21,705

As at 31 December 2012 the cumulative actuarial loss recognised in the Profit and Loss and Appropriation Account was €149.5 million (2011: €76.2 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 the 2011 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 32 (viii)).

(iii) Balance Sheet Recognition

The amounts recognised in the Balance Sheet are as follows:

Year Ended 31 December	2012	2011	2010	2009	2008
	€000	€000	€000	€000	€000
Present value of Wholly or Partly Funded Obligations	(571,218)	(455,336)	(392,615)	(377,004)	(382,927)
Fair Value of Plan Assets	473,793	434,160	443,876	414,611	404,657
Net Pension (Liability)/Asset	(97,425)	(21,176)	51,261	37,607	21,730

Pension scheme assets are measured at fair value. Pension scheme liabilities are measured on an actuarial basis using the projected units method. An excess of scheme liabilities over scheme assets is presented on the Balance Sheet as a liability.

Note 32: Superannuation Liabilities (continued)**(iv) Movement in Scheme Obligations**

	2012	2011	2010	2009	2008
	€000	€000	€000	€000	€000
Opening Present Value of Scheme Obligations	(455,336)	(392,615)	(377,004)	(382,927)	(424,950)
Current Service Cost	(15,083)	(11,330)	(9,432)	(9,575)	(12,537)
Past Service Cost	7,585	(1,969)	(720)	-	-
Pensions Paid	12,337	10,746	11,387	11,830	8,250
Employee Contributions	(4,060)	(3,509)	(2,809)	(2,545)	(2,582)
Transfers Received	(445)	(252)	(763)	-	-
Interest on Pension Scheme Liabilities	(23,408)	(22,119)	(22,085)	(22,453)	(23,964)
Actuarial Gain/(Loss) from Experience Adjustments	21,522	9,492	27,460	28,666	(2,059)
Actuarial Gain/(Loss) from Liability Valuation Adjustments	(114,330)	(43,780)	(18,649)	-	74,915
Closing Present Value of Scheme Obligations	(571,218)	(455,336)	(392,615)	(377,004)	(382,927)

(v) Movement in Fair Value of Plan Assets

	2012	2011	2010	2009	2008
	€000	€000	€000	€000	€000
Opening Fair Value of Plan Assets (Bid Value)	434,160	443,876	414,611	404,657	400,000
Expected Return	14,120	22,346	13,586	10,089	-
Actuarial Gain/(Loss)	19,468	(37,580)	12,894	(678)	3,549
Employer Contribution	13,877	12,503	10,600	9,828	2,480
Employee Contributions	4,060	3,509	2,809	2,545	657
Pensions Paid	(12,337)	(10,746)	(11,387)	(11,830)	(2,029)
Transfers Received	445	252	763	-	-
Closing Fair Value of Plan Assets (Bid Value)*	473,793	434,160	443,876	414,611	404,657

* 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 Superannuation Working Account at 31 December 2012 amounted to €0.4 million (2011: €151.4 million) and €3.5 million (2011: €5.6 million) respectively.

Note 32: Superannuation Liabilities (continued)**(vi) Financial Assumptions**

	2012	2011
	%	%
Discount Rate	3.90	5.00
Expected Return on Assets	3.40	3.23
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 11.3% in scheme liabilities.

(vii) Demographic and Other Assumptions

	2012	2011
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
Life Expectancy At Age 65	Male: 86.8 Female: 88.5	Male: 86.7 Female: 88.4

* 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.

Note 32: Superannuation Liabilities (continued)**(viii) Plan Assets of the Scheme**

The expected return on assets and asset distribution as at 31 December 2012 were as follows:

Class	Expected Return	Distribution	Long Term Distribution
	%	%	%
Equities	7.00	51.7	50.0
Fixed Interest/Cash	1.00	48.3	50.0
Total	4.00	100.0	100.0
Pension Levy	(0.6)		
Overall Expected Return	3.40		

The assets were rebalanced to 50%/50% distribution in early 2013. The expected return on plan assets is set with regard to the expected long-term returns available on the different asset classes held by the Scheme. The actual return on plan assets for the year 2012 was a gain of €33.6 million (2011: loss of €15.2 million)

(ix) Prior Year Comparatives

Amounts for the current and previous four periods are as follows:

Year Ended 31 December	2012	2011	2010	2009	2008
	€000	€000	€000	€000	€000
Defined Benefit Obligation	(571,218)	(455,336)	(392,615)	(377,004)	(382,927)
Fair Value of Plan Assets	473,793	434,160	443,876	414,611	404,657
(Deficit)/Surplus in the Plan	(97,425)	(21,176)	51,261	37,607	21,730
Experience Adjustment Arising On					
- the plan liabilities	21,522	9,492	27,460	28,666	(2,059)
<i>As a percentage of the scheme liabilities</i>	3.8%	2.1%	7.0%	7.6%	(0.5%)
- the plan assets	19,468	(37,580)	12,894	(678)	3,549
<i>As a percentage of the scheme assets</i>	4.1%	(8.7%)	2.9%	(0.2%)	0.9%

(x) Expected Contributions to the Plan for the Period Ending 31 December 2013

The following estimates of expected contributions are based on the current membership and pensionable salary roll of the plan participants.

31 December 2013	
€000	
Contributions by the Employer	15,063
Contributions by Plan Participants	4,117
Total	19,180

Note 33: Provisions

The following provisions were maintained at 31 December 2012:

	2012	2011
	€000	€000
Eurosystem Monetary Policy Operations Counterparty Risk (i)	3,952	12,098
Provision for Securities (ii)	400,000	300,000
Unredeemed Irish Pound Banknotes (iii)	13,189	5,667
Total	417,141	317,765

- (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 €949 million at 31 December 2011 to €310 million at 31 December 2012. The Bank's share in this provision amounts to €4.0 million (2011: €12.1 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 €8.1 million in 2012. Accounting Policy (m) and Note 6 (ii).
- (ii) The Bank has retained a provision in the amount of €400 million (2011: €300 million) in respect of risks stemming from investments as well as central bank monetary policy operations which have grown significantly in the wake of the sovereign debt crisis. The collective provision reflects an estimated allowance for risks arising in respect of the securities held for monetary policy and investment 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 2012. Accounting Policy (m) and Note 3.
- (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 2012, the provision stood at €13.2 million (2011: €5.7 million) following an increase of €10.0 million during the year. Accounting Policy (m) and Notes 3 and 36 (iii).

Note 34: Revaluation Accounts

	2012	2011	Net Movement
	€000	€000	€000
Gold	195,961	187,406	8,555
Foreign Currency	21,378	24,275	(2,897)
Securities and Other Instruments	117,459	90,970	26,489
At 31 December	334,798	302,651	32,147

Note 34: Revaluation Accounts (continued)

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

	2012	2011
Currency	Rate	Rate
US Dollar	1.3194	1.2939
Japanese Yen	113.6100	100.2000
Sterling	0.8161	0.8353
Swiss Franc	1.2072	1.2156
Danish Krone	7.4610	7.4342
Swedish Krona	8.5820	8.9120
Canadian Dollar	1.3137	1.3215
SDR	0.8579	0.8427
The gold prices used were:		
Euro per fine ounce	1,261.1790	1,216.8640

Note 35: Capital and Reserves

	Capital (i)	General Reserve	Currency Reserve	Total
	€000	€000	€000	€000
At 31 December 2011	30	1,541,398	351,648	1,893,076
Retained profit for the year (ii)	–	216,424	–	216,424
At 31 December 2012	30	1,757,822	351,648	2,109,500

(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 €216.4 million to the General Reserve, after adjusting for a net actuarial loss of €73.3 million, which was recognised in the Profit and Loss and Appropriation Account (Note 32 (ii)).

Note 36: 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 21(ii)).

(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.

Note 36: Contingent Liabilities and Commitments (continued)**(iii) Irish Pound Banknotes**

The Bank has a contingent liability in relation to Irish pound banknotes that are no longer legal tender and that may be presented at a future date. At 31 December 2012, Irish pound banknotes to the value of €232.9 million were still outstanding (Note 33 (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 €3.3 million.

The Bank also entered into a 4 year lease in November 2010 in respect of office accommodation at Iveagh Court, Harcourt Road, Dublin 2. The annual rental payment under this operating lease is €1.5 million.

(ii) Purchase of North Wall Quay site

On 13 November 2012, the Bank entered into an unconditional agreement to purchase a 300 year leasehold interest in the North Wall Quay site for a total consideration of €7.0 million. A deposit of €0.7 million was paid during the year, with the remaining €6.3 million paid on 28 February 2013 when the purchase agreement was completed, and the deeds transferred to the Bank. As part of this transaction, additional levy payments in the region of €5.0 million will be payable to relevant agencies and authorities in the coming years. The project will involve further significant investment by the Bank for the design, construction and fit out of the existing building, prior to relocating to it as its headquarters.

Note 37: 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 Moody's and supplemented with internal scoring based on economic indicators. 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.

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.

Note 37: Financial Risk Management (continued)

To further control this risk, strict eligibility criteria for acceptable collateral are applied through the Eurosystem Credit Assessment Framework (ECAAF) and on-going risk control measures including valuation haircuts and 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.

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, which 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 decreased from €184.6 million (on holdings of €10.6 billion) at end-2011 to €65.1 million at end-2012 on holdings of €9.8 billion. The change in the VaR figure reflects decreases in the volatility of bond prices versus 2011 and tactical changes to the portfolio composition.

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 2012, the Bank managed portfolios denominated in euro, one US dollar instrument (hedged against the euro) and a small gold holding. The gold holding contributes to a small US dollar exposure, since gold is priced in US dollars. The Bank is also exposed to currency risk through a net-liability position in Special Drawing Rights (Notes 11 and 28).

Note 38: 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 39: Unmatured Contracts in Foreign Exchange

Unmatured Foreign Exchange Contracts at year end were as follows:

	31 December 2012		31 December 2011	
	EUR	US Dollar	EUR	US Dollar
'000s of currency units				
Unmatured Purchases	494,565	–	1,191,024	–
Unmatured Sales (i)	–	(641,943)	–	(1,578,787)
Unmatured Purchases and Sales	494,565	(641,943)	1,191,024	(1,578,787)

- (i) Forward liabilities to the ECB with an equivalent value of €482.4 million remained outstanding as at 31 December 2012 (2011: €1,142.6 million). These are matched by equivalent liquidity operations with counterparties and arose in connection with the short-term US dollar liquidity providing programme (Note 12).

All foreign exchange contracts matured by 28 February 2013.

Note 40: Unmatured Contracts in Securities

There were no unmatured contracts in securities outstanding at year end.

	31 December 2012		31 December 2011	
	EUR	US Dollar	EUR	US Dollar
'000s of currency units				
Unmatured Purchases	–	–	149,974	–
Unmatured Sales	–	–	(299,005)	–
Unmatured Purchases and Sales	–	–	(149,031)	–

Note 41: 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 2012 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 42: Post-Balance Sheet Events**(i) Irish Bank Resolution Corporation Limited (IBRC) Liquidation**

On 7 February 2013, the Minister for Finance made a Special Liquidation Order (SLO) appointing joint special liquidators, Kieran Wallace and Eamon Richardson of KPMG, to Irish Bank Resolution Corporation Limited (IBRC), the successor institution of Anglo Irish Bank and Irish Nationwide Building Society, revoking the institution's authorisation. As a consequence of the liquidation of IBRC, the Bank took outright ownership of the Promissory Notes and the Facility Deed which had been used as collateral for the exceptional liquidity assistance (ELA). The liquidation ended the extended provision of ELA to IBRC by the Bank which amounted to €39.45 billion as at 6 February 2013. Subsequently, the Government offered to exchange the existing non-standard and non-tradable Promissory Notes collateral with a long term non-amortising portfolio of standard marketable Irish Government bonds, an offer which the Bank accepted. In addition, following the termination of IBRC's market repo of the 5.4% Irish 2025 bond, this bond was acquired by the Bank. These bonds are held as part of the Bank's trading portfolio and will be sold as soon as possible, provided financial stability conditions permit. In respect of the Facility Deed, the outstanding balance was transferred to the National Asset Management Agency (NAMA) in exchange for marketable Irish Government-guaranteed NAMA bonds. There was no loss accruing to the Bank in respect of these transactions (Note 15 (ii)).

(ii) ECB Final Distribution of Profits

The Governing Council of the ECB decided on 21 February 2013 to distribute its remaining profit for 2012, amounting to €423 million, to the euro area NCBs, in proportion to their paid-up shares. The Bank's share of this final distribution of profits was €6.7 million and was recognised in February 2013.

Note 43: 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 2012 together with comparatives for the year ended 31 December 2011.

Financial Regulation Activities - Statement of Income and Expenditure for 2012

		2012	2011
		€000	€000
Industry Funding			
Credit Institutions		44,865	53,913
Insurance Undertakings		11,886	9,711
Intermediaries		2,766	2,633
Securities and Investment Firms		6,427	5,101
Collective Investment Schemes and Service Providers		5,578	4,932
Credit Unions		1,398	1,442
Moneylenders		300	352
Approved Professional Bodies		44	44
Exchanges		206	196
Bureau de Change		79	155
Home Reversion & Retail Credit Firms		107	145
Payment Services Institutions		902	830
Total Funding		74,558	79,454
Decrease/(Increase) in Provision	(i)	335	(1,045)
Write-back of Provision for Repayments to Revoked Entities		-	57
Net Industry Funding	(i)	74,893	78,466
Excess of Income over Expenditure from previous year		5,996	3,380
Subvention from Central Bank of Ireland	(ii)	44,096	42,204
		124,985	124,050
Prospectus Approval Fees	(iii)	1,028	12
Miscellaneous	(iv)	12	42
Other Income	(v)	37	749
Total Income		126,062	124,853
Expenses			
Direct Expenses	(vi)	(72,429)	(83,902)
Support Services	(vii)	(38,212)	(34,206)
		(110,641)	(118,108)
Other Expenses	(v)	(37)	(749)
Total Expenses		(110,678)	(118,857)
Excess of Income over Expenditure Carried Forward	(viii)	15,384	5,996

Note 43: 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 Section 32D of the *Central Bank Act, 1942* (as amended) and other income in respect of fees and charges. The Bank maintains provisions in respect of levies which remain unpaid at year end. Such levies are pursued as part of the on-going debt recovery process.

The provisions/write-offs are as follows:

	2012	2011
	€000	€000
Opening Provision for Unpaid Levy Notices	2,252	1,438
Levies Written Off	(397)	(231)
(Decrease)/Increase in Provision	(335)	1,045
Closing Provision for Unpaid Levy Notices	1,520	2,252

(ii) 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 incurred costs in respect of certain securities market supervision activities (relating to the Prospectus, Market Abuse and Transparency Directives) carried out within the organisation. These costs totalling €5.6 million in 2012 were excluded from the Net Industry Funding levies issued to the industry in 2012. Prospectus approval and associated fees (see (iii) below) are shown as income.

In addition, under the provisions of the *Central Bank Act, 1942* (Section 33J) Regulations 2012, a supplementary levy was imposed on credit institutions covered by the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 which is designed to recoup from the relevant covered credit institutions 100 per cent of consultancy costs associated with the Prudential Capital Assessment Review (PCAR) and Prudential Liquidity Assessment Review (PLAR) exercises conducted during the year.

(iii) 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 associated fees payable to the Bank but which were previously retained by the Irish Stock Exchange (see (v) below) are now retained by the Bank.

(iv) 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 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.

Note 43: Financial Regulation Activities (continued)**(v) Other Income/Other Expenses**

In 2012 the Irish Stock Exchange collected €37,000 in fees payable to the Bank in accordance with 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 €37,000 to put towards the costs that it had incurred in undertaking delegated functions relating to the Market Abuse and Transparency Directives under the delegation agreements.

(vi) Direct Expenses

	2012	2011
	€000	€000
Salaries/Allowances	44,497	39,246
PRSI	3,925	3,218
	48,422	42,464
Pension Provision	3,694	6,315
Staff Expenses	52,116	48,779
Training, Recruitment & Other Staff Costs	1,758	543
Equipment, Stationery & Requisites	252	271
Business Travel	1,089	919
Publishing & Consumer Advertising	129	117
Professional Fees	16,086	32,297
Miscellaneous	999	976
Non-Pay Operating Expenses	20,313	35,123
Direct Expenses	72,429	83,902

The total amount of professional fees incurred in 2012 in relation to the PCAR/PLAR of the covered financial institutions was €12.0 million (2011: €29.1 million). These costs were fully recouped from the relevant financial institutions and are accounted for under Credit Institutions Industry Funding.

Note 43: Financial Regulation Activities (continued)

(vii) 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 2012 was €38.2 million (2011: €34.2 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:

	2012	2011
	€000	€000
Corporate Services incl. Premises	11,969	11,923
Information Technology Services	10,386	8,054
Human Resources	5,240	4,236
Other Services *	10,617	9,993
Total	38,212	34,206

*Other services include legal, accounting and other administrative services.

(viii) Excess of Income as Compared with Expenditure

This represents the excess in the amount of levies collected from industry in 2012 as compared with the 2012 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 2013 will be adjusted to take account of this excess.

Note 44: Comparatives

Certain comparative information has been reclassified for consistency with current year disclosures.

Note 45: Approval of Accounts

The Commission approved the Statement of Accounts on 5 April 2013.

Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas

Central Bank of Ireland

I have audited the statement of accounts of the Central Bank of Ireland for the year ended 31 December 2012 under the Central Bank Act 1942, as amended by the Central Bank Reform Act 2010. The statement of accounts, which has been prepared under the accounting policies set out therein, comprises the accounting policies and related information, the profit and loss and appropriation account, the balance sheet and the related notes. The financial reporting framework that has been applied in the preparation of the statement of accounts is set out in paragraph (b) of the accounting policies and related information.

Responsibilities of the Central Bank Commission

The members of the Central Bank Commission are responsible for the preparation of the statement of accounts, for ensuring that it gives a true and fair view of the state of the Bank's affairs and of its income and expenditure, and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the statement of accounts and report on it in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of Audit of the 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 the Bank's annual report to identify if there are any material inconsistencies with the audited statement of accounts. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the Financial Statements

In my opinion, the statement of accounts, which has been properly prepared on the basis described in paragraph (b) of the accounting policies and related information, gives a true and fair view of the state of the Bank's affairs at 31 December 2012 and of its income and expenditure for the year then ended.

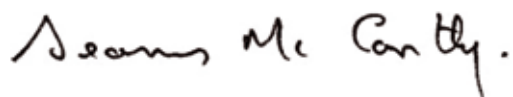
In my opinion, proper books of account have been kept by the Bank. The statement of accounts is in agreement with the books of account.

Matters on Which I am Required to Report by Exception

I report by exception if:

- I have not received all the information and explanations I required for my audit, or
- my audit noted any material instance where public money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the Bank's annual report is not consistent with the related statement of accounts, or
- the statement on internal financial control does not reflect the Bank's compliance with the Code of Practice for the Governance of State Bodies, or
- I find there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.



Seamus McCarthy
Comptroller and Auditor General

5 April 2013

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 2012 which comprise the Profit and Loss and Appropriation Account, the Balance Sheet and the related notes 1 to 45. 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. We state whether we have obtained all the information and explanations we consider necessary for the purpose 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 Commission Members in the preparation of the financial statements and of whether the accounting policies are appropriate to the Bank'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 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, of the state of the affairs of the Bank as at 31 December 2012 and of the surplus for the year then ended.

We have obtained all the information and explanations we consider 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.



RSM Farrell Grant Sparks
Chartered Accountants and Registered Auditors
Dublin

5 April 2013

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Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

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