

13

Central Bank Annual Report



Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Central Bank of Ireland

14 April 2014

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 2013.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Patrick Honohan', written in a cursive style.

Patrick Honohan
Governor

Contents

Part 1

The Central Bank Commission	4
Organisation Chart	5
Management	6
Governor's Foreword	8
2013 at a Glance – Bank and Economy	11
List of Common Abbreviations	14

Chapter 1: Key Activities and Developments in 2013

– Introduction	17
– Stability of the Financial System	23
– Proper and Effective Regulation of Financial Institutions and Markets	25
– Resolution of Financial Difficulties in Credit Institutions	44
– Protection of Consumers of Financial Services	46
– Independent Economic Advice and High Quality Financial Statistics	52
– Efficient and Effective Payment Systems and Currency Services	56
– Operational Efficiency and Cost Effectiveness	61
– Appendix 1: Ireland's Financial Sector Commitments under the External EU-IMF Programme of Financial Support	68
– Appendix 2: Energy, Safety and Environmental Developments	74
– Annex: Statements and Published Papers by the Bank in 2013	76

Chapter 2: Governance

Part 2

Financial Operations	91
Statement of Accounts for year ended 31 December 2013	96

Part 1



The Central Bank Commission

as at 31 March 2014



**Patrick Honohan,
Governor***



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



**Cyril Roux,
Deputy Governor
(Financial Regulation)***



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



Alan Ahearne



Patricia Byron



Blanaid Clarke



John FitzGerald



Des Geraghty



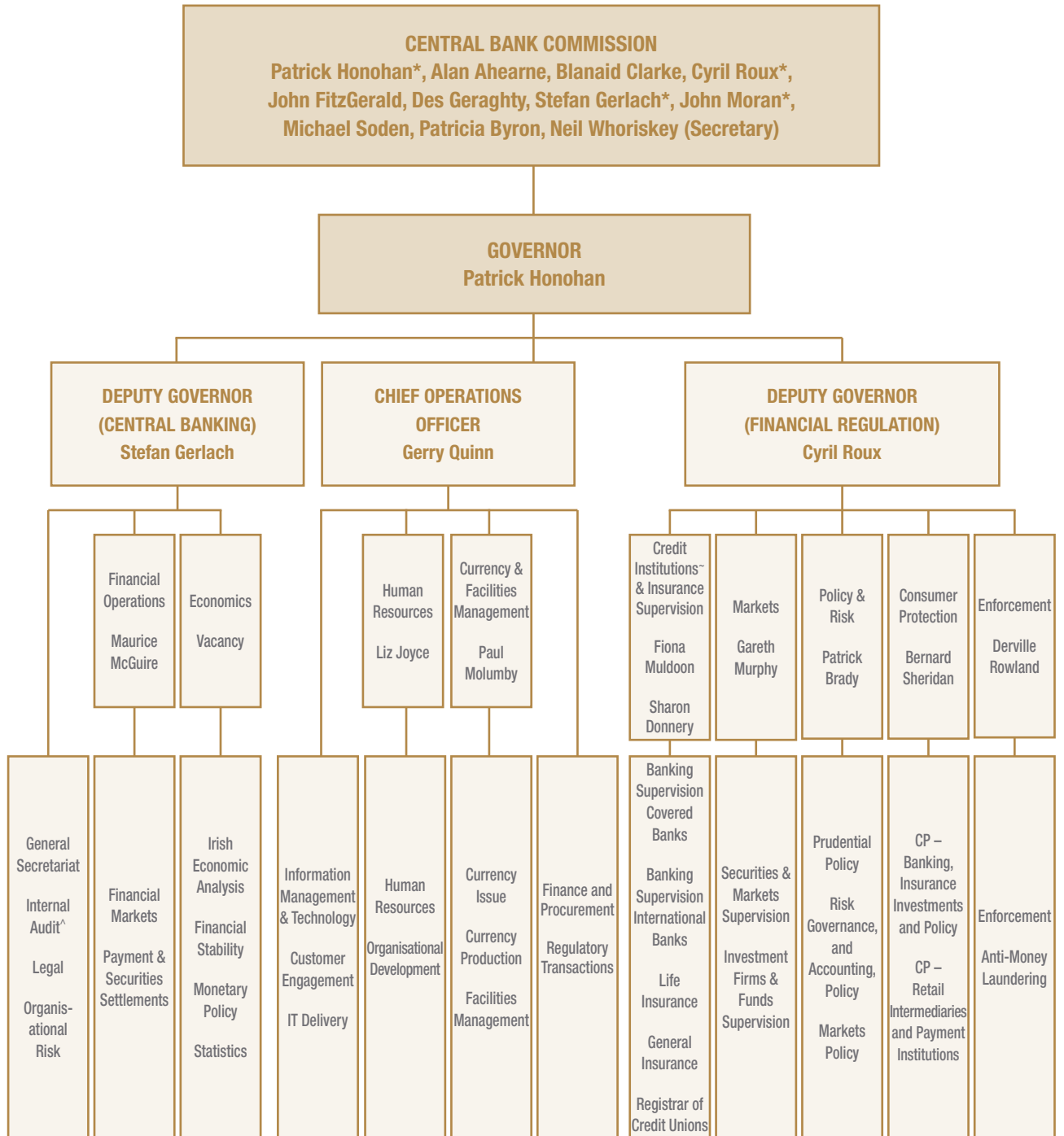
Michael Soden



**Neil Whoriskey,
Secretary**

* Ex-officio members

Organisation



* 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

~ Fiona Muldoon serves as Director of Credit Institutions and Insurance Supervision until 1 May 2014. Sharon Donnelly was appointed Director of Credit Institutions on 25 March 2014.

Senior Management

as at 31 March 2014¹



**Patrick Honohan,
Governor**



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



**Cyril Roux,
Deputy Governor
(Financial Regulation)**



**Gerry Quinn,
Chief Operations
Officer**



**Patrick Brady,
Director
Policy & Risk**



**Sharon Donnery,
Director
Credit Institutions**



**Liz Joyce,
Director
Human Resources**



**Maurice McGuire,
Director
Financial Operations**



**Paul Molumby,
Director
Currency & Facilities
Management**



**Fiona Muldoon²
Director
Credit Institutions &
Insurance Supervision**



**Gareth Murphy,
Director
Markets**



**Derville Rowland
Director
Enforcement**



**Bernard Sheridan,
Director
Consumer Protection**

¹ Lars Frisell served as Director Economics until 7 February 2014.

² Fiona Muldoon serves as Director of Credit Institutions & Insurance Supervision until 1 May 2014.

Management

as at 31 March 2014

Directorate	Division	Head of Division
	General Secretariat Internal Audit Legal Legal Compliance Organisational Risk Advisor to the Governor	Neil Whoriskey Joe Foy Joseph Gavin Hilary Griffey AnneMarie McKiernan Frank Browne
Financial Operations	Financial Markets Payment and Securities Settlement	Michael Maher Daragh Cronin
Economics	Irish Economic Analysis Financial Stability Monetary Policy Statistics Head of Research and Cross-Directorate Projects	John Flynn Mark Cassidy Gillian Phelan Joe McNeill Gerard O'Reilly
Information Management and Technology	Information Management and Technology Customer Engagement	Michael Power Karina McArdle
Currency and Facilities Management	Currency Issue Currency Production Facilities Management	Lucy O'Donoghue Harry Murphy Michael Enright
Human Resources	Human Resources Organisational Development	Vacancy Vacancy
Operations	Finance and Procurement Regulatory Transactions	Fergal Power Alan Briscoe
Credit Institutions and 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 Donnery
Markets	Securities and Markets Supervision Investment Firms and Funds Supervision	Grainne McEvoy Michael Hodson
Policy & Risk	Prudential Policy Risk Governance and Accounting, Policy Markets Policy	Mary Burke Máiréad Devine Martin Moloney
Consumer Protection	Consumer Protection – Banking, Insurance, Investments and Policy Consumer Protection –Retail Intermediaries and Payment Institutions	Colm Kincaid Patricia Moloney
Enforcement	Enforcement Anti-Money Laundering	Brenda O'Neill AJ McKeon



Governor's Foreword

In 2013, the Central Bank of Ireland remained focused on restoring financial stability and supporting the domestic economic recovery.

The Bank's key priorities included the ongoing repair of the banking system and achieving progress in the delivery of sustainable solutions for distressed borrowers. Significant progress was achieved on these fronts, though many tasks still remain to be completed. As in the previous two years, a large effort was devoted to satisfying the requirements of the EU/IMF Programme, thereby helping to ensure the creation of more favourable market conditions for Ireland allowing a successful exit from the Programme.

The recovery of the Irish economy is continuing. Strong, broadly-based, employment growth has been supported by positive developments around investments, external demand, and retail spending. Improving external conditions are projected to support stronger export growth in the coming year.

On the wider Eurosystem canvas, the Bank also continued to contribute to policy development and implementation; the accommodative monetary policy stance of the ECB further helped to create the conditions to allow for a sustained, if weak, recovery of the wider euro-area economy.

Significant resources were committed by the Bank to the preparation and execution of the Irish Presidency of the EU, which was held in the first half of 2013. During the Presidency very significant legislative progress was made on a range of financial services issues with agreement achieved on key Directives: Bank staff were closely involved at all levels in the complex design and debate on legislation.

Also on the European front, preparations began for the establishment of the new European

Single Supervisory Mechanism (SSM). The balance sheet assessment of the domestic banks (undertaken as part of the EU/IMF Programme) will now feed directly into the ECB's Comprehensive Assessment of banks within the SSM which will culminate with the European stress testing later in 2014.

Central Bank staff continued to apply diligent attention, on a daily basis and on many other fronts, to the twin elements of the Bank's mission, safeguarding stability and protecting consumers. The variety and complexity of the tasks undertaken is sketched in the body of this Annual Report. This year, the Report is organised along the lines suggested by the Bank's Strategic Plan for the period 2013-2015 which articulates the Bank's key strategic priorities under eight high level goals, based on the Bank's statutory mandate.

While much was achieved during the course of 2013 in the priority areas, including the liquidation of IBRC (with the associated exchange of the non-transferable Promissory Note collateral for marketable long-term Government bonds), and on-target progress in the development of sustainable solutions for both household and small business borrowers under stress, many challenges remain.

Debt levels, both public and private, remain elevated, and will continue to pose a significant test for all policymakers. Debt sustainability is essential to ensure a more durable recovery. At the macro level, the need for the public finances to remain on course for the announced path of fiscal consolidation is intensified by the Programme exit: there is no room for any doubt on this score to arise. Financial markets are right to assume that a disciplined approach will be maintained; it would be folly to allow any other supposition to gather credence.

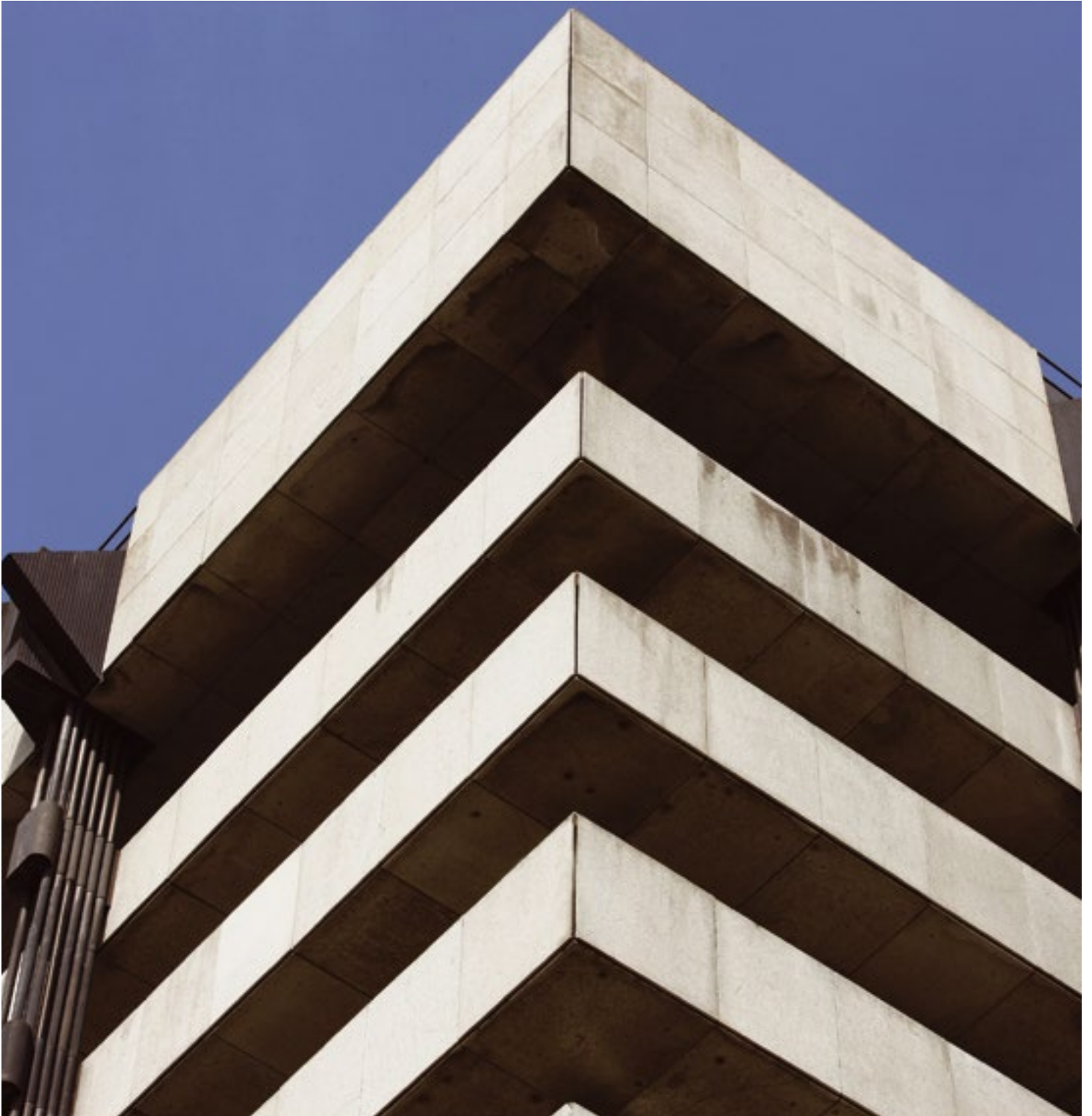
As has been the case in the previous four years of the crisis, careful financial management as well as favourable side-effects of the crisis have combined to result in a large financial profit for the Bank: this year reaching a total of €1.5 billion. After retained earnings, surplus income of €1.2 billion will be paid over to the Exchequer.

I wish to thank the members of the Central Bank Commission for their advice and valuable contributions throughout the year. But above all, the continued dedication, professionalism and hard work of staff and management in yet another taxing year of post-crisis repair demands acknowledgment. All the more so when it is recalled that, like their counterparts across the Irish public service, many Bank staff members were subject once again to pay cuts under Financial Emergency Measures in the Public Interest (FEMPI) legislation. I would like to pay tribute to their fortitude, which has indeed been paralleled in society at large during these past difficult years, following which a brighter future seems in sight.

Patrick Honohan
Governor

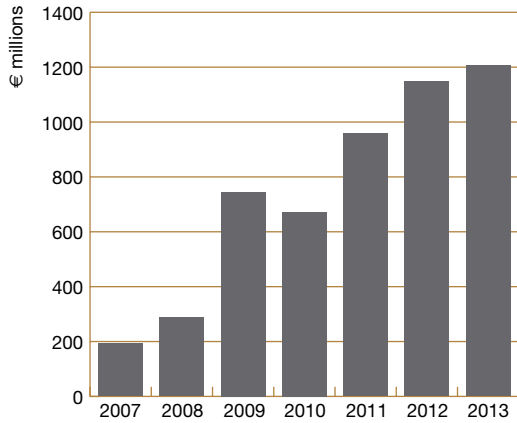
April 2014

2013 at a Glance



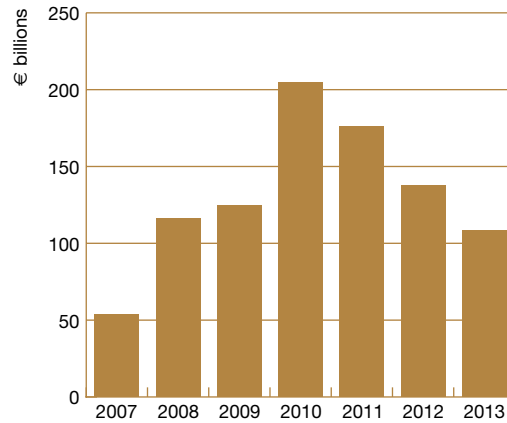
2013: The Bank at a Glance

Surplus Income Paid to Exchequer



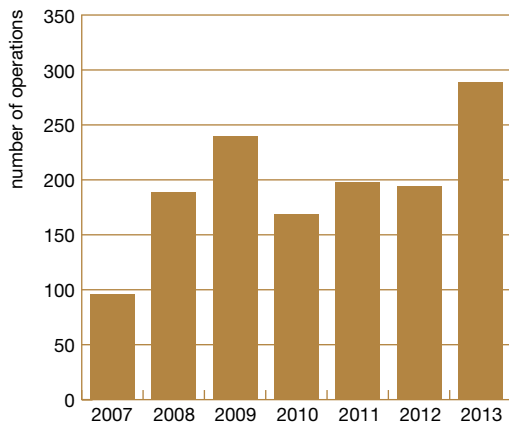
Surplus income paid to the Exchequer increased to €1,212.1 million (€1,147.6 million in 2012).

Total Assets



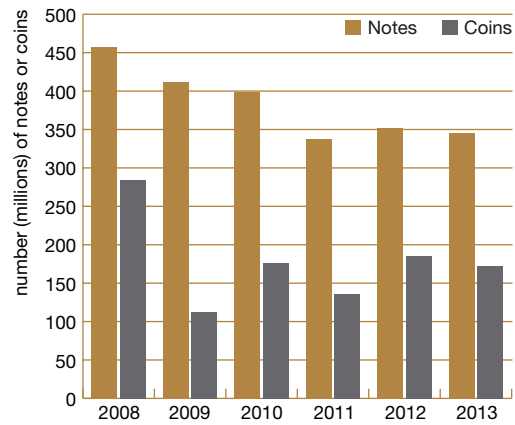
Total Assets decreased to €108.1 billion (€137.5 billion in 2012).

Number of Open Market Operations



There were approximately 289 operations conducted by the Bank on behalf of the Eurosystem (194 in 2012).

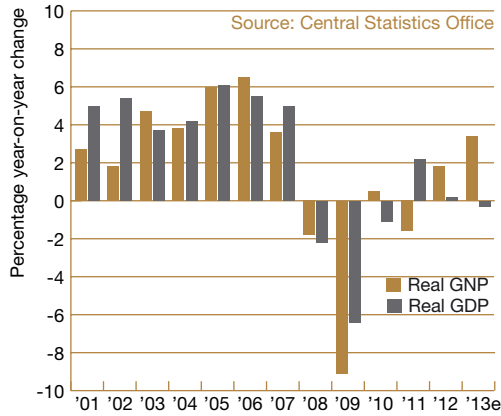
Issuance of Banknotes and Coin



The number of banknotes issued decreased (345 million in 2013 from 351 million in 2012) and the number of coins issued decreased (172 million in 2013 from 185 million in 2012).

2013: The Economy at a Glance

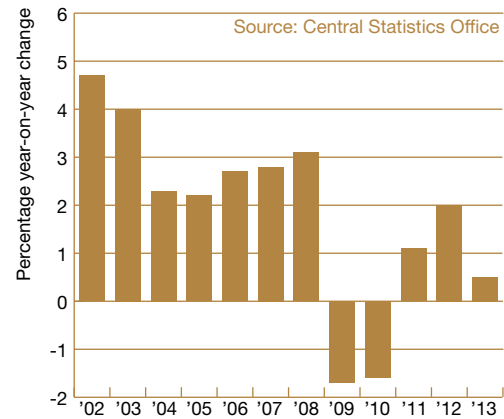
Real GNP and GDP



In 2013, Real GNP is estimated to have grown by 3.4 per cent while Real GDP is estimated to have fallen by 0.3 per cent.

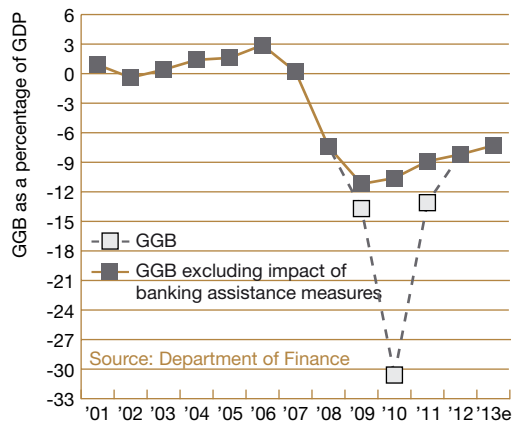
Note: These figures are preliminary estimates and are subject to revision.

Inflation (HICP)



The HICP measure of inflation averaged 0.5 per cent in 2013.

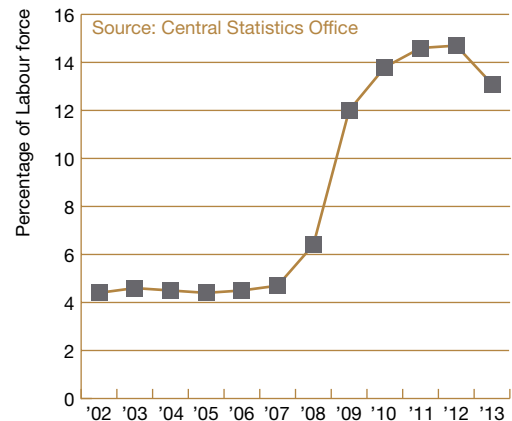
General Government Balance (GGB) as a % of GDP



The 2013 General Government deficit is estimated to have been -7.3 per cent of GDP.

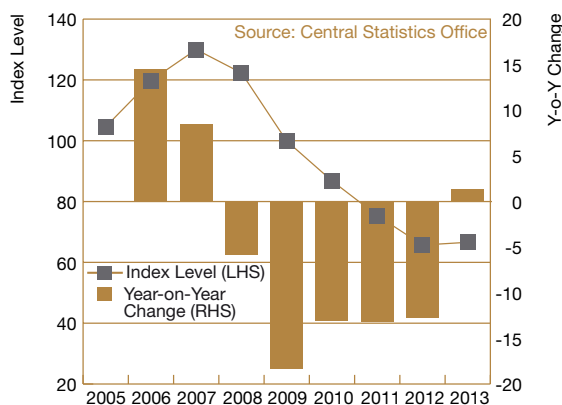
Note: Figures for 2013 are based on Department of Finance estimates at time of Budget 2014 and are subject to revision once EDP figures are published by Eurostat at end-April 2014.

Unemployment Rate



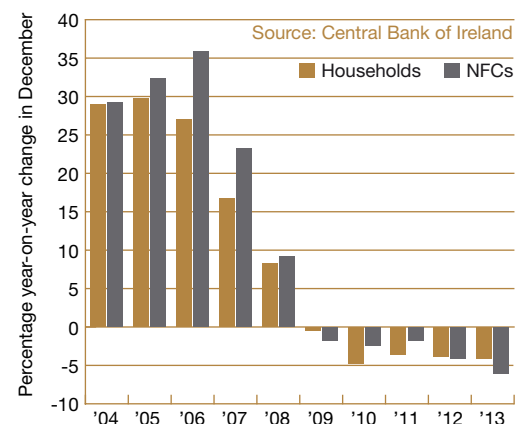
The unemployment rate decreased to an average of 13.1 per cent in 2013.

National Residential Property Prices



National residential property prices increased by 1.4 per cent in 2013.

End-Year Annual Rates of Change in Lending



Lending to Irish Households and Non-Financial Corporations (NFCs) fell by 4.1 per cent and by 6.0 per cent, respectively, year-on-year by end-2013.

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-CTF	Anti-Money Laundering-Counter Terrorism Financing
AMLTF	Anti-Money Laundering Task Force
APR	Annual Percentage Rates
AQR	Asset Quality Review
ASP	Administrative Sanctions Procedures
BCPs	Basel Core Principles
BICs	Bank Identifier Codes
BLS	Bank Lending Survey
BSA	Balance Sheet Assessment
BSC	Balanced Scorecard
CCMA	Code of Conduct on Mortgage Arrears
CRDIV	Capital Requirements Directive IV
CRO	Chief Risk Officer
CSO	Central Statistics Office
DCOR	Distressed Credit Operations Reviews
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
EIOPA	European Insurance and Occupational Pensions Authority
ELA	Exceptional Liquidity Assistance
ELG	Eligible Liabilities Guarantee
EONIA	Euro Overnight Index Average
EROs	Early Repayment Options
ESA	European Supervisory Authority
ESCB	European System of Central Banks
ESFs	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
FATF	Financial Action Task Force
FEMPI	Financial and Emerging Measures in the Public Interest
FMP	Financial Measures Programme
FOI	Freedom of Information
FRA	Full Risk Assessment
FRNs	Floating Rate Notes
FRR	Financial Risk Review
FSAP	Financial Sector Assessment Programme

FVCs	Financial Vehicle Corporations
IAASA	Irish Accounting & Auditing Supervisory Authority
IAIS	International Association of Insurance Supervisors
IBANs	International Bank Account Numbers
IBRC	Irish Bank Resolution Corporation
ICAAP	Internal Capital Adequacy Assessment Process
ICCL	Investor Compensation Company Limited
IFSC	International Financial Services Centre
IOSCO	International Organisation of Securities Commissions
IPSO	Irish Payment Services Organisation
IRB	Internal Ratings Based Approach
IRC	International Relations Committee
JRADs	Joint Risk Assessments and Capital Decisions
LTRO	Longer Term Refinancing Operation
MAR	Market Abuse Regulation
MART	Mortgage Arrears Resolution Target
MiFID	Markets in Financial Instruments Directive
MPC	Monetary Policy Committee
MRO	Main Refinancing Operation
NCB	National Central Bank
NPP	National Payments Plan
NSAs	National Supervisory Authorities
NSC	National Sort Codes
NSFR	Net Stable Funding Ratio
OECD	The Organisation for Economic Co-operation and Development
ONR	Online Reporting System
PCAR	Prudential Capital Assessment Review
PCFs	Pre-Approval Controlled Functions
PII	Professional Indemnity Insurance
PLAR	Prudential Liquidity Assessment Review
PPI	Payment Protection Insurance
PSSC	Payments and Settlements Systems Committee**
REITs	Real Estate Investment Trusts
RFSPs	Regulated Financial Service Providers
RGP	Risk Governance Panel
RMBD	Residential Mortgage Backed Debt
RMBS	Residential Mortgage-Backed Securities
RMPs	Risk Mitigation Programmes
ROSC	Report on the Observance of Standards and Codes
RWAs	Risk Weighted Assets
SCIMF	Sub Committee on IMF Issues
SEPA	Single Euro Payments area
SMBPNs	Special Mortgage Backed Promissory Notes
SMP	Securities Markets Programme
SREP	Supervisory Review and Evaluation Process
UCITS	Undertakings for Collective Investment in Transferable Securities
VA	Variable Annuity

Chapter 1:

Key Activities and Developments in 2013



Introduction



The Bank's three-year Strategic Plan for the period 2013-2015 was published in November 2012. 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 three year period under eight High Level Goals, which are closely aligned to the Bank's legal mandate.

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**
Embedding recovery and resolution plans in banks, credit unions and other financial institutions is a vital component of sustained economic recovery in Ireland.

- » **Protection of consumers of financial services**

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

- » **Independent economic advice and high quality financial statistics**

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

- » **Efficient and effective payment and settlement systems and currency services**

The operations and oversight of payment and securities settlement systems is aimed at ensuring that they are safe, resilient, efficient and effective. A key component of the payments systems is the provision of high quality banknotes and coin and other related currency services to the public.

- » **Operational efficiency and cost effectiveness**

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

The developments and activities of the Bank during 2013 are reported under each of the High Level Goals.

Eurosystem Effectiveness and Price Stability

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

Formulation of Monetary Policy

The Governor is a member of the European Central Bank (ECB) Governing Council which is responsible for the formulation of monetary policy (setting interest rates and the provision of liquidity) in the euro area.

During 2013, the Bank continued to support the formulation of Eurosystem-wide monetary policy through the effective contribution of the Governor on standard and non-standard monetary policy issues.

Monetary Policy

The Bank contributed to the work of the ECB's Monetary Policy Committee (MPC) and the Markets Operations Committee (MOC) during 2013. The MPC is charged with assessing strategic and other long-term issues relating to the conduct of euro area monetary policy with a view to providing feedback and policy advice to the ECB's Governing Council. The MPC also undertakes the important function of finalising the Eurosystem's quarterly economic projections and has played a key role in the development of non-standard monetary policy measures over the course of the financial market crisis. Through its participation on this committee, the Bank actively contributes to and influences key debate related to the monetary policy stance and its implementation.

The MOC assists in the implementation of euro area monetary policy including foreign exchange operations and the management of the ECB's foreign reserves. In addition, it is also involved in the implementation of ERM II and contributes to reporting, analysing, assessing and interpreting financial market developments within and outside the EU.

During 2013, the low inflationary environment persisted, with inflation running at 0.8 per cent at the end of the year. While the monetary policy stance should be sufficiently loose to

counter this subdued inflation outlook, the use of traditional monetary policy instruments has been weakened by a number of factors. Firstly, the transmission of monetary policy impulses remains diminished relative to pre-crisis levels. Impairments on banks' balance sheets and heightened perceptions of risks in certain countries and sectors have lessened the impact of standard interest rate cuts on the real economy. Secondly, as standard monetary policy is subject to the zero lower bound, policy makers have fewer options available to respond to weak inflation.

This environment, therefore, poses new challenges and requires new policy responses. For example, in order to loosen the policy stance in this environment, enhanced communication, or 'forward guidance', has been used to signal that rates will remain at or below current levels for an extended period of time. The Bank has increasingly devoted attention to analysing additional and novel policy options that could be used to loosen the stance of monetary policy in these challenging times.

Monetary Policy Operations

The Bank conducted and settled all monetary policy operations in a timely, efficient and effective manner in compliance with the Eurosystem operational framework during 2013. It also put the necessary procedures in place to allow for the early repayment (from January 2013) of the two 3-year Longer Term Refinancing Operations (maturing in January and February 2015). The Bank also monitored the minimum reserve requirements for credit institutions in compliance with ECB procedures and assessed debt instruments listed on the Irish Stock Exchange and the Global Exchange Market for eligibility in Eurosystem credit operations. In this way, the Bank ensured that Irish banks had continued access to Eurosystem liquidity to facilitate the orderly deleveraging of their balance sheets. Moreover, at the various Eurosystem Committees, the Bank ensured that the Eurosystem was aware of the impact of policy decisions on the liquidity position of Irish financial institutions through regular briefings and presentations.

The monetary policy instruments used by the Eurosystem in 2013 comprised open market

operations, such as Main Refinancing Operations (MROs), Longer-Term Refinancing Operations (LTROs), Fine-Tuning Operations (FTOs), and Early Repayment Operations (EROs) as well as standing facilities and minimum reserve requirements. The total amount of liquidity provided by the Eurosystem decreased by €376.8 billion (33.4 per cent) in 2013, from €1,128.8 billion on 31 December 2012, to €752 billion on 31 December 2013. The majority of this decrease occurred as banks began to repay 3-year LTRO borrowings through the weekly EROs, which began in January 2013. Banks throughout the Eurosystem repaid a total of €446 billion through the early repayment operations in 2013. As a result of these repayments, excess liquidity¹ fell significantly throughout the year, from €621 billion on 31 December 2012, to €265 billion on 31 December 2013. The end-December figure partially reflects tighter money market conditions and the average excess liquidity in Q4 2013 was €187 billion. The average excess liquidity for the full year of 2013 was €306 billion compared to €689 billion in 2012.

The ECB also conducts weekly liquidity absorbing FTOs in order to absorb the liquidity created through its previous purchase of bonds under the Securities Markets Programme (SMP). At the end of 2013, the amount to be absorbed in this SMP-related FTO stood at €179 billion, down from €209 billion, owing to redemptions of the bonds during 2013.

The number of operations which the Bank conducted on behalf of the Eurosystem, increased from 194 in 2012 to 289 in 2013, mainly owing to the introduction of the weekly early repayment operations associated with the 3-year LTROs. This included 66 US liquidity providing dollar operations. The number of counterparties eligible to participate in operations at the end of 2013 was 32, down from 39 in 2012.

The usage of the deposit facility continued to fall throughout the year. Since July 2012, when the rate on this facility was reduced to zero, banks have no financial incentive to place excess liquidity on the deposit facility rather than their reserve accounts, as neither is remunerated. Usage of the deposit facility averaged €100 billion over the year, with a notable decrease as the year went on (€136 billion average in the first half of 2013, and €65 billion average in the second half of 2013).

EONIA levels remained low throughout the year (averaging 9bps), fixing closer to the overnight deposit facility rate than the ECB policy rate, reflecting the generally high levels of excess liquidity in the system. The EONIA rate rose towards the end of the year as excess liquidity declined and averaged 17bps in December.

Following the liquidation of IBRC in February 2013, the Bank's Exceptional Liquidity Assistance operations ceased.

Box 1 – Selected Monetary Policy Announcements in 2013

On **22 March**, the Governing Council adopted Decision ECB/2013/6, which prevents, as of 1 March 2015, the use as collateral in Eurosystem monetary policy operations of uncovered government-guaranteed bank bonds that have been issued by the counterparty itself or an entity closely linked to that counterparty.

On **2 May**, the Governing Council reduced the main refinancing operation (MRO) rate by 25bps to 0.50 per cent, and cut the marginal lending facility rate by 50bps to 1.00 per cent. The deposit facility rate remained unchanged at 0.00 per cent.

On **2 May**, the Governing Council decided to continue conducting its MROs as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the 6th maintenance period of 2014 on 8 July 2014. The Governing Council also decided to conduct the three-month longer-term refinancing operations (LTROs) allotted every month from 31 July 2013 to 25 June 2014 as fixed rate tender procedures with full allotment.

On **4 July**, President Draghi outlined the Eurosystem's forward guidance by announcing that the Governing Council expected key rates to remain at present or lower levels for an extended period of time.

¹ Excess liquidity arises when the supply of liquidity provided via Eurosystem open market operations and the marginal lending facility exceeds the demand for liquidity (arising from reserve requirements and autonomous factors outside the direct control of individual NCBs).

Box 1 – Selected Monetary Policy Announcements in 2013

On **18 July**, the Governing Council decided to further strengthen its risk control framework, by adjusting the eligibility criteria and haircuts applied to collateral accepted in Eurosystem monetary policy operations and adopting certain additional measures to improve the overall consistency of the framework and its practical implementation.

On **5 September**, President Draghi confirmed that the monetary policy stance would remain accommodative for as long as necessary, in line with the forward guidance provided in July.

On **9 September**, the ECB announced that as of 16 October 2013, the Eurosystem may temporarily accept as eligible collateral non-compliant residential mortgage-backed securities (RMBS) and asset backed securities (ABSs) backed by small to medium sized enterprises on a case-by-case basis.

On **16 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 2014. The swap facility was established on 17 December 2010 as a precautionary measure.

On **19 September**, the Governing Council decided to introduce loan-level reporting requirements for ABSs backed by credit-card receivables, when these are used as collateral in the Eurosystem's monetary policy operations.

On **26 September**, the Governing Council adopted the Decision to adjust the eligibility criteria and haircuts applied by NCBs to pools of credit claims and certain types of the additional credit claims (ACCs) eligible under the temporary Eurosystem collateral framework.

On **10 October**, the ECB and the People's Bank of China established a bilateral currency swap agreement. Under the agreement, which will be valid for three years, the swap line will have a maximum size of 350 billion Chinese Yuan and €45 billion. This swap line will serve as a backstop facility.

On **31 October**, the ECB established standing swap arrangements with the Bank of Canada, the Bank of England, the Bank of Japan, the Federal Reserve, and the Swiss National Bank. The temporary bilateral liquidity swap arrangements which existed before this agreement were converted to standing arrangements, allowing for the provision of liquidity in any of the five currencies foreign to that jurisdiction.

On **7 November**, the Governing Council reduced the MRO rate by 25bps to 0.25 per cent, and cut the marginal lending facility rate by 25bps to 0.75 per cent. The deposit facility rate remained unchanged at 0.00 per cent.

On **8 November**, the Governing Council decided to continue conducting its MROs as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the 6th maintenance period of 2015 on 7 July 2015. The Governing Council also decided to conduct the three-month LTROs to be allotted every month from 30 July 2014 to 24 June 2015 as fixed rate tender procedures with full allotment.

Collateral Management

In 2013, a project was launched that would enable the Bank to comply with the Governing Council mandate of December 2011 to provide additional collateral management services to monetary policy counterparties. These services comprise the removal of the repatriation requirement of the Correspondent Central Banking Model with effect from May 2014, and the support of cross-border third party management services with effect from September 2014.

As a prerequisite to providing these new services, the Bank must change its collateralisation methodology from earmarking to pooling. This will bring efficiencies for both

the Bank and its counterparties as it will facilitate a quicker turnaround in collateral mobilisations/demobilisations and a faster access to credit lines used to access intraday liquidity to make payments via the TARGET system.

Improved collateral management processes will assist credit institutions by optimising the collateral available to them, not only for central banking lending purposes, but also for other regulator and market requirements.

ECB Reserves

At the end of 2013, the ECB's net foreign reserves amounted to €54.9 billion equivalent.

Each NCB manages a proportion of the ECB's reserves in line with its capital key share. Following a request from the Central Bank of Malta, since 1 January 2008 the Bank has also managed Malta's share of the US dollar pooled reserves in conjunction with its own share. The ECB reserves portfolio under management amounts to €697 million equivalent, which is proportionate to the two countries' shareholdings in the ECB.

Statistics

The Bank continued to meet all its statistical reporting obligations to the ECB in 2013. Information reported by the Bank feeds directly into euro area aggregates and the analysis of monetary developments in the currency union. These data cover a wide range of financial sector activities, and are used to inform monetary policy decision-making and the other tasks of the Eurosystem and the European System of Central Banks (ESCB). Data provided include detailed information on the operations of credit institutions (banks) and money market funds, broken down by economic sector and geography. Detailed data on interest rate developments for households and non-financial businesses are also compiled. Information on the non-bank financial sector is also provided, including statistics on the balance sheets and transactions of Investment Funds and Financial Vehicle Corporations (FVCs). The investment fund statistics are disaggregated by fund type – equity, bond, hedge, mixed, real estate and other. Irish data are particularly significant within euro area totals for funds and FVCs, as Ireland is a prime location for these types of entities. Statistics are also provided on the issuance of securities by Irish resident entities, while a project to collect information on the holders of securities is well advanced. In addition, the Bank works closely with the

Central Statistics Office (CSO) in the provision of balance of payments statistics for Ireland.

The Bank also provided extensive statistical information and analysis to the External Partners in the context of monitoring Ireland's compliance with the EU/IMF programme. Data compiled by the Bank also facilitates monitoring of funding and credit developments within the financial sector and across the wider domestic economy. Internationally, the Bank provides data to other international organisations² and participates in international fora on financial statistics, including initiatives to address data gaps arising from the crisis.

Bank Lending Survey

The Bank was also responsible for the Irish component of the euro area Bank Lending Survey (BLS). During 2013, four rounds of the euro area BLS were completed with a 100 per cent response rate from the five Irish banks that participate. The four rounds of the survey examined changes in credit market conditions between the fourth quarter of 2012 and the third quarter of 2013. Similar to previous years, the survey was supplemented with ad-hoc questions examining topical issues in financial markets. The Bank was represented at the annual ECB meeting of BLS representatives in November 2013. The annual meeting focuses on the long term effectiveness of the survey and how it often needs to be re-calibrated in response to ongoing changes in financial markets.

Eurosystem Committees

The Bank participates in a number of Eurosystem (ESCB) committees. An outline of the ESCB committee structure is set out below.

Box 2 – Eurosystem/ESCB Committees

The Committees assist the work of the decision-making bodies of the ECB, which can request them to provide any information in their fields of expertise in order to facilitate the decision-making process and the implementation of decisions.

Participation is usually restricted to experts of the Eurosystem central banks. However, the National Central Banks (NCBs) of the EU Member States which have not yet adopted the euro, take part in the meetings of a committee whenever appropriate.

2 Bank for International Settlements (BIS), IMF, OECD, etc.

Box 2 – Eurosystem/ESCB Committees

- » **Accounting and Monetary Income Committee (AMICO)**
Advises on all intra-Eurosystem issues relating to accounting, financial reporting and the allocation of monetary income
- » **Banknote Committee (BANCO)**
Advises on all banknote policy-related matters and assists in the strategic planning of banknote production and issuance
- » **Committee on Controlling (COMCO)**
Helps to apply and further develop the common Eurosystem-wide cost methodology
- » **Eurosystem/ESCB Communications Committee (ECCO)**
Assists in external and intra-system communication policy
- » **Eurosystem IT Steering Committee (EISC)**
Established with the mandate to steer continuous improvement in the use of IT within the Eurosystem
- » **Financial Stability Committee (FSC)**
Helps the decision-making bodies to fulfil their tasks in the field of prudential supervision of credit institutions and the stability of the financial system
- » **Information Technology Committee (ITC)**
Assists in the development, implementation and maintenance of IT networks and communications infrastructures which support the joint operational systems
- » **Internal Auditors Committee (IAC)**
Develops common standards for auditing Eurosystem operations and audits joint projects and joint operational systems at the Eurosystem ESCB level
- » **International Relations Committee (IRC)**
Assists in the performance of the ECB's statutory tasks with regard to international cooperation and acts as a forum for exchanging views on matters of common interest in the field of international relations
- » **Legal Committee (LEGCO)**
Provides legal advice for the fulfilment of the ECB's statutory task and prepares the legal acts for the operation of the Eurosystem
- » **Market Operations Committee (MOC)**
Assists in the execution of monetary policy operations and foreign exchange transactions, including those related to the operation of ERM II, and to the management of the ECB's foreign reserves
- » **Monetary Policy Committee (MPC)**
Advises on strategic and longer-term issues relating to the formulation of the monetary and exchange rate policy and is responsible for the Eurosystem staff projections
- » **Organisational Development Committee (ODC)**
Focuses on organisational analysis/development and advises on planning issues related to the Eurosystem, the Single Supervisory Mechanism and their functions
- » **Payment and Settlement Systems Committee (PSSC)**
Advises on the operation and maintenance of TARGET2, the definition and monitoring of collateral settlement procedures, the Eurosystem's catalyst role in achieving the Single Euro Payments Area (SEPA), general payment systems policy and oversight issues and issues of interest for central banks in the field of securities clearing and settlement
- » **Risk Management Committee (RMC)**
Helps the decision-making bodies to achieve an appropriate level of protection for the Eurosystem by managing and controlling the risks originating from its market operations
- » **Statistics Committee (STC)**
Advises on the design and compilation of statistical information collected by the ECB with the assistance of the NCBs
- » **Budget Committee (BUCOM)**
Assists and reports directly to the Governing Council in matters related to the ECB's budget
- » **Human Resources Conference (HRC)**
Includes the heads of personnel of all EU central banks

Stability of the Financial System

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

Financial Stability

The Bank contributes to financial stability through its work on system-wide financial issues (macro-prudential approach) and at the institution level (micro-prudential approach). Throughout 2013, a considerable analytical effort was devoted to projects related to the recovery of the Irish banking sector, including a modelling framework capable of assessing future loan-losses of the banks from their existing portfolios. Resources were also focused on mortgage arrears and the design of sustainable solutions. Relevant policy papers and research were published during the year and this output was supplemented by a conference on distressed mortgages organised in early 2013.

The Bank's work in delivering on its financial stability mandate is co-ordinated through the Financial Stability Committee, which advises the Governor on issues central to the fulfilment of the mandate to contribute to financial stability in Ireland and the euro area. Two editions of the Bank's Macro-Financial Review were produced in 2013 which 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.

The European Systemic Risk Board (ESRB) was established in December 2010. It is part of the European System of Financial Supervision (ESFS), the purpose of which is to ensure supervision of the EU's financial system. To aid national policy makers and to ensure limited disruptions to the Single Market, the ESRB has stipulated requirements and guidelines for the development of a national macro-prudential policy strategy to be established over

2014/2015. In line with these requirements, initial development of a macro-prudential implementation framework and development of tools to be used for risk assessment took place in 2013. The Bank contributed to the developing shadow banking debate in Europe via its participation in an ESRB Expert Group on the subject. The Bank has led a European task-force on shadow banking issues reporting to the Advisory Technical Committee and the Board of the ESRB in the first half of 2014.

Assets acquired as part of the liquidation of the IBRC

As part of the liquidation of the Irish Bank Resolution Corporation (IBRC) on 6 February 2013, the Bank acquired additional assets to the value of approximately €42.6 billion primarily in the form of long-dated €25.034 billion Irish Government Floating Rate Notes (FRNs), €13.724 billion NAMA bonds, and €3.461 billion of the Irish Government 2025 Fixed Rate Bond and €367 million acquired in respect of the MRO operation.

Financial Measures Programme 2013

The concluded Financial Measures Programme (FMP) implements some of the Bank's commitments under the agreements between Ireland, the European Commission (EC) and the International Monetary Fund (IMF) and undertakings with the European Central Bank (ECB) (the External Partners). A key achievement of FMP 2013 was the completion of a Balance Sheet Assessment (BSA) of the PCAR banks. This incorporated an Asset Quality Review (AQR), an evaluation of the calculation of risk weighted assets (RWAs) for credit risk, and a model performance review. A Data Integrity Verification (DIV) exercise was also carried out in respect of the AQR. In other work areas the banks continued to deleverage their balance sheets through asset disposals and sale of non-core assets and the Bank undertook a forward-looking analysis of operating profits for the PCAR banks. Regular reports on the progress made by the Bank in relation to its financial sector commitments under the FMP have been set out in the Bank's

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 IBRC, including the replacement with long term Floating Rate Government Bonds of Promissory Notes that had been issued by the Minister for Finance to the two entities that merged to form IBRC.

The Irish Bank Resolution Corporation Act 2013, which was signed into law by the President of Ireland on 7 February 2013, provided 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 (Exceptional Liquidity Assistance) 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 from the Bank 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) 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 appointment of Special Liquidators to IBRC also resulted in the Bank acquiring, on behalf of the Eurosystem, the nominal collateral provided to secure standard Eurosystem borrowing of €367 million by IBRC. The excess value of this collateral over the amount of Eurosystem lending extended to IBRC was returned to the Special Liquidator.

The Bank intends to sell the combined portfolio of the FRNs and the fixed rate bond as soon as possible, provided conditions of financial stability permit. As a minimum, the Bank will sell securities in accordance with the following schedule: to end 2014 (€0.5 billion), 2015-2018 (€0.5 billion per annum), 2019-2023 (€1 billion per annum), and 2024 on (€2 billion per annum until all bonds are sold). The disposal strategy will maintain full compliance with the prohibition on monetary financing enshrined in the EU's Treaty on the Functioning of the European Union.

As part of this strategy, the Bank sold €350 million of its holdings of the Government 2025 Fixed Rate Bond in 2013. In addition, €1.086 billion of the NAMA bonds were redeemed last year.

Quarterly Bulletin series. Details of the Bank's progress for the year 2013 are set out in **Appendix 1** to this Chapter.

Liquidity Support

Eurosystem liquidity provision to Irish domiciled counterparties decreased from €70.9 billion at end 2012, to €39 billion at end 2013, a decline of €31.9 billion (45 per cent). There was a decline in Eurosystem borrowings for both domestic banks³ (from €48.7 billion to €27.9 billion) and for non-domestic banks (from €22.2 billion to €11.1 billion).

The overall decline in Eurosystem borrowings for the domestic banks arose due to a number of factors, including continued deleveraging efforts. The domestic banks also continued to regain access to the wholesale funding markets, through secured funding (including Asset Covered Securities and Repurchase Agreements) in addition to unsecured bond issuance.

³ Domestic banks are defined here as those banks previously guaranteed by the Irish Government pursuant to the Credit Institutions ELG scheme.

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.

Risk-Based Supervision

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

Risk-Based Model of Supervision

Under PRISM, the most significant financial institutions and companies - those with the ability to have the greatest impact on financial stability and the consumer - receive a high level of supervision under structured engagement plans, leading to early interventions to mitigate potential risks. Conversely, those institutions which have the lowest potential adverse impact are supervised reactively or through thematic assessments, with the Bank taking targeted enforcement action against firms across all

impact categories whose poor behavioural risks jeopardise the Bank's statutory objectives including financial stability and consumer protection.

Supervisory Standards

Any system for evaluating risk has potential weaknesses. In order to lessen the risk that a firm could be exposed to inappropriate judgements by a single supervisor, PRISM incorporates a number of quality assurance processes. These ensure that high quality judgements are made and that appropriate outcome-focused Risk Mitigation Programme (RMP) actions are constructed based on those judgements. These include:

- » Risk Governance Panels (RGPs) – bring together senior staff and risk advisors outside the supervisory chain of command to scrutinise a supervision team's strategy, judgements and RMP for a given firm. Panels give the supervisor an opportunity to debate their findings with a wider audience who are likely to have had extensive experience of supervising similar firms.
- » Management oversight – any draft RMP action which is not scrutinised by a Risk Governance Panel is reviewed and approved by senior divisional management.

PRISM Licencing

During the course of 2013, the Bank licenced one supervisory authority to implement the PRISM framework within their jurisdiction, while a number of other jurisdictions are actively considering seeking similar licences.

Box 4 – The PRISM Supervision Framework

The Probability Risk and Impact System (PRISM) is the Bank's risk-based framework for the supervision of regulated firms. PRISM is designed to be implemented by a few hundred supervisors on several thousand regulated firms.

PRISM is designed to allow the Bank to:

- » Adopt a consistent way of thinking about risk across all supervised firms
- » Allocate resources based on impact and probability
- » Undertake a sufficient level of engagement with all High Impact firms
- » Assess firm risks in a systematic and structured fashion
- » Ensure that action is taken to mitigate unacceptable risks in firms
- » Provide firms with clarity around the Bank's view of the risks they pose
- » Operate a risk-based supervisory framework similar to that operated by other significant financial regulators
- » Use quality control mechanisms to encourage challenge and sharpen the supervisory approach
- » Analyse better management information about the risk profiles of the firms and sectors supervised.

Table 1 – Prudential Supervision Engagement Process 2013

PRISM ENGAGEMENTS	Banking	Insurance	Investment Firms & Fund Service Providers	Payment Institutions	Credit Unions
Full Risk Assessment (SREP)	7	13	26	1	21
Risk Governance Panels	13	25	29	1	25
Meeting with Chief Executive Officer (CEO)	72	164	94		
Meeting with Chief Financial Officer (CFO)	45	134	88		
Meeting with Chief Risk Officer (CRO)	82	129	57	1	
Meetings with Chairman	31	109	75	1	
Meetings with Senior Non-Executive Directors (NEDs)	21	166	80	1	
Meetings with Internal Auditor	37	42	19		
Meetings with External Auditor	25	103	82	1	
Board Meeting Attendance	7			1	
Attendance at Board Committees	9				
Meetings with other Senior Management	316	84	153		
Meetings with Actuary		115			
Other On-Site Meetings	31	24	33		
Meetings with Board Independent Non-Executive Directors (INEDs)	36	68	6	1	
Meetings with Group NEDs	10	30			
Meetings with Compliance Officer	54	74	58		
Financial Risk Review	24	44	2		
Other (not incl. FRR meetings)	13		11		
Reviews/Inspections	38		64		
Meetings with Supervisory Committee	1		1		
Thematic Review	12		5		
Authorisation Team Meetings		27			
Other Meetings (not as part of engagement model)	55	205		9	109
1-day engagements	1		6		90
Other Reviews – non-PRISM	87	134			9
Other –					
• ICAAP Review			45		
• Stress Test			3		
TOTAL	1,027	1,690	937	17	254

Table 2 – Regulated Financial Service Providers

	2013 ⁴
Credit Institutions (including branches of overseas credit institutions)	65
Life Insurance Companies	53
Non-Life Insurance Companies	104
Reinsurance Companies	77
MiFID	
• Investment Firms	117
• Branches of overseas firms	29
Non-Retail Investment Business Firms	10
Fund Service Providers	238
Retail Intermediaries, <i>including</i>	2,964
• Investment Intermediaries (authorised advisors, multi-agency intermediaries, mortgage intermediaries)	
• Insurance/Reinsurance Intermediaries	
Collective Investment Schemes (including sub funds)	5,599
Credit Unions	393
Money Transmitters and Bureaux de Change	14
Moneylenders ⁵	40
Regulated Market/Market Operator	1
Moneybrokers	5
Retail Credit Firms & Home Reversion Firms	20
Payment Institutions	11

⁴ Figures do not sum due to multiple authorisations

⁵ Subject to annual renewal of licence.

Table 3 – Authorisations/Revocations

	Authorisations 2013	Revocations 2013
Credit Institutions (including branches of overseas credit institutions)	1	8
Life Insurance Companies	2	4
Non-Life Insurance Companies	0	8
Reinsurance Companies	1	9
MiFID		
• Investment Firms	3	10
• Branches of overseas firms	0	0
Non-Retail Investment Business Firms	0	1
Fund Service Providers	14	30
Retail Intermediaries, <i>including</i>	179 ⁶	491 ⁷
• Investment Intermediaries (authorised advisors, multi-agency intermediaries, mortgage intermediaries)		
• Insurance/Reinsurance Intermediaries		
Collective Investment Schemes (including sub funds)	804	509
Credit Unions	0	6
Money Transmitters and Bureaux de Change	2	0
Moneylenders ⁸	1	4
Regulated Market/Market Operator	0	0
Moneybrokers	0	0
Retail Credit Firms & Home Reversion Firms	2	0
Payment Institutions	2	1
TOTAL	1,011	1,081

Banking Supervision

Banking supervision is responsible for the prudential supervision of domestic banks and foreign owned retail and wholesale banks. It also has supervisory responsibility in certain areas for branches of international banks which operate in Ireland.

As part of 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.

Key trends affecting bank business models and strategy are communicated regularly, while tools to better identify and communicate industry trends and threats to the business models and/or strategy of supervised credit institutions are utilised and enhanced. Business model reviews for High Impact banks were completed during 2013 in line with the PRISM engagement model.

Stress Testing of Credit Institutions

The Financial Measures Programme for 2013 included a point-in-time Balance Sheet

⁶ During 2013, 179 retail intermediaries were authorised. This accounted for 244 individual authorisations as a number of firms seek authorisation under more than one retail intermediary authorisation type. (The figures do not include 74 tied insurance intermediaries which were authorised in 2013.)

⁷ During 2013, 491 retail intermediaries (including 101 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 696 individual authorisations.

⁸ Subject to annual renewal of licence.

Assessment (BSA) and Asset Quality Review (AQR) of the three Covered Banks⁹. The AQR, conducted by Ernst & Young for AIB and PTSB, and KPMG for Bank of Ireland, comprised a quantitative assessment of the adequacy of provisions on an incurred loss basis and against the Bank's Impairment Provisioning and Disclosure Guidelines, a review of risk classifications with respect to impairment status and an evaluation of the calculation of risk weighted assets (RWAs) for credit risk. A Data Integrity Verification (DIV) exercise was also conducted to ensure the integrity of the data used in the AQR exercise. In addition, Boston Consulting Group (BCG) was appointed as the independent assessors of the overall exercise.

The *pro forma* results have been shared with the banks to help inform their financial planning and preparations for the Single Supervisory Mechanism (SSM). In addition, the results will also be used by the Bank to inform its Risk Mitigation Programmes as part of the Supervisory Review Process.

Restructuring and Deleveraging

A restructuring plan for AIB was submitted to the European Commission in September 2013. Under its 2012 plan, PTSB was reorganised into three distinct units: (i) the core retail bank; (ii) an asset management unit to house certain legacy assets; and (iii) the UK residential mortgage operation. Work is continuing to deliver on this plan. In 2013, Bank of Ireland agreed with the European Commission the substitution of the restructuring plan which envisaged the disposal of the New Ireland Assurance Company with other measures including the disposal of its ICS subsidiary. Work is ongoing to deliver against the revised targets.

Risk Modelling

The focus in 2013 was on completing the supervisory review framework for IRB models for the Covered Banks, as well as delivering key parts of the BSA work shared with external stakeholders at the end of November. As part of the BSA, RWA reviews were completed for portfolios that made up the AQR. Work was also completed in relation to the assessment of banks' mortgage provisioning models (including the design and application of a top-down

model upon which provision estimates were determined). In relation to both areas of work, the framework was shared with the External Partners, Independent Assessors and banks through the course of the process, with findings and mitigating actions determined as relevant. Also, as part of the wider supervisory review process, detailed work was undertaken in relation to supporting RGP work completed during the year.

Mortgage Arrears

The issue and scale of mortgage arrears has been to the forefront of the Bank's domestic policy agenda throughout 2013. The Bank has taken a strategic approach to arrears/distressed credit recognising that excessive forbearance and a lack of long-term sustainable solutions to the arrears problem is a drag on the economy, new lending and the future profitability of the banks.

In 2012, independent Distressed Credit Operations Reviews (DCORs) were undertaken across a number of the banks which produced significant findings and capacity shortfalls. The findings of the DCOR provided the basis for engagement with the CEOs of the banks. Despite considerable operational improvements, arrears levels continued to increase and the Bank determined that further action was necessary and, accordingly, introduced Mortgage Arrears Resolution Targets and Sustainability Guidelines. The first audits of these targets were completed in 2013 and will continue in 2014. While the level of mortgage arrears continues at an unsustainably high level, during 2013 there has been progress in addressing the significant mortgage arrears challenge and the total arrears fell in Q3 2013 for the first time since the financial crisis began.

In May 2013, the Bank published a 'Framework for a Pilot Approach to the Co-ordinated Resolution of Multiple Debts owed by a Distressed Borrower'. The aim of the framework is to enhance co-operation between lenders of secured and unsecured debt, in order to fairly resolve distressed debt for the borrower. A pilot of the framework, where a sample of multi-debt cases was referred to an independent debt advice service, was facilitated by the Bank in Q4 2013.

9 AIB, Bank of Ireland, PTSB.

Small and Medium Enterprises (SME) Arrears

In 2013, the Bank commenced operational on-site reviews and deep-dive loan file reviews to monitor progress in addressing distressed SME credit and introduce formal targets and a range of tracking performance indicators for the Covered Banks. Q3 target outcomes and other initiatives demonstrate that momentum is being achieved across relevant institutions in addressing distressed credit.

Risk Assessments/RMPs/Supervisory Colleges

All High Impact firms are subject to ongoing Financial Risk Reviews (FRRs) which cover areas such as market risk, credit risk, capital risk, etc. In 2013, 24 FRRs were conducted covering all relevant institutions. For banks rated below High Impact, seven FRAs were undertaken in the course of 2013 (10 in 2012). (Institutions that are not subject to an FRA were subject to oversight in line with PRISM.) The outcome of the FRRs and FRAs include the issuance of bank specific RMPs, which set out the work to be undertaken by institutions to remediate identified weaknesses. The Bank proactively monitors institutions' full and timely implementation of RMPs.

As part of the consolidated supervision of banking groups which have operations in multiple jurisdictions, the Bank participates in Supervisory Colleges which are bilateral and multilateral fora for the exchange of supervisory information, co-ordination of supervisory oversight and to the extent possible, undertaking joint supervisory work. The Bank is a member of 15 Supervisory Colleges. 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 contributed to JRADs where relevant.

The Bank hosted two Supervisory College meetings in respect of Irish banking groups. The colleges were held in line with the European Banking Authority Guidelines on Supervisory Colleges and involved input from the Prudential Regulatory Authority (UK), the Financial Conduct Authority (UK), the Federal

Reserve Bank of New York (US) and the Connecticut Department of Banking (US).

Implementation of CRD IV

The objective of the Capital Requirements Directive is to strengthen the regulatory framework for financial institutions by ensuring that firms hold sufficient financial resources to cover the risk associated with their business. The latest version of the Capital Requirements Directive – CRD IV – came into effect on 1 January 2014.

In 2012, the Bank established an advanced monitoring framework covering all factors affecting banks' Net Stable Funding Ratio (NSFR) which enabled it during 2013, to monitor Covered Banks' progress towards meeting CRD IV requirements. Supervisors have maintained close engagement with the banks to monitor their overall plans, progress and impacts in terms of CRD IV implementation in 2014. Extensive training has been provided to supervisors to support this engagement.

Central Credit Register

The Credit Reporting Act 2013, enacted in December 2013, provides for the establishment of a national Central Credit Register (CCR). In the course of the year the Bank assisted the Department of Finance in developing the legislation and engaged with credit institutions, industry representatives and other stakeholders in preparing for the implementation of this important financial sector reform. It also initiated a procurement process to select a partner to assist in establishing and operating the CCR.

Regulatory Performance Review 2013 - Report on the Observance of Standards and Codes

In February 2013, as per the EU-IMF Financial Support Programme, the Bank formally requested the IMF to conduct a detailed Report on the Observance of Standards and Codes which is an assessment of the extent of the Bank's compliance with the Basel Core Principles for Effective Banking Supervision (BCPs).

The 29 BCPs are the *de facto* minimum standard for sound prudential regulation and supervision of banks and banking systems, and are used as a worldwide benchmark for assessing the quality of supervisory systems. They are also used for identifying future work to achieve a standard for sound supervisory practice. The principles are updated regularly by the Basel Committee on Banking Supervision, with the most recent update occurring in September 2012.

In order to prepare for the IMF assessment, a comprehensive self-assessment exercise was undertaken by the Bank. The output of that assessment was provided to the IMF in advance of its on-site review.

During the on-site review, the IMF held a significant number of meetings with the Bank both to ensure that its understanding of Bank processes was correct and to challenge the information set out in the self-assessment document. The IMF team also met with, *inter alia*, the Department of Finance, banks, the Irish Banking Federation, and the Garda Síochána (Financial Intelligence Unit). There was extensive communication between the Bank and the IMF both before and after the review Mission.

It is expected that the IMF will publish its assessment in early 2014.

Insurance Supervision

The Bank supervises 235 insurance undertakings comprising life, non-life and reinsurance companies.

Non-Life Pricing and Claim Reserves

Under-reserving of claims and mispricing of insurance products are the two key reasons for failure of non-life (re)insurance companies. During 2013, a number of pricing, claims and reserving reviews were carried out by the Bank and where control weaknesses or a need to strengthen reserves was identified, the Bank engaged with the relevant companies to address the inadequacies.

Challenges Presented by a Low Interest Rate Environment

The asset quality of (re)insurance companies was an area of focus for the Bank due to the

continuing low interest rate risk environment. A key objective was to ensure that potential shifts in companies' strategic asset allocations into higher yielding, less liquid investments was undertaken in an integrated way with the overall risk framework. A number of (re)insurance companies' asset quality and the related controls were reviewed during 2013 and, where weaknesses were identified, entities were required to take mitigating actions.

Variable Annuities (VA)

In co-ordination with life (re)insurance companies, the Bank developed a framework for the quantitative assessment of the scope and scale of the risks posed by a prolonged low interest rate environment. This framework focuses on closer scrutiny of interest rate risk and critical assessments of firms' product offerings in the marketplace. Relevant institutions' responses were received by 31 December 2013.

Use of Derivatives

The Bank completed an analysis of derivatives by High and Medium-High Impact (re)insurance companies during 2013 to establish if the use of derivatives was for efficient investment portfolio management. Where inefficiencies were identified, companies were required to take risk mitigating actions.

Reserving and Pricing for Non-Life Insurers and Reinsurers

In September 2013, with a view to developing the regulatory framework for reserving and pricing, the Bank issued a Consultation Paper (CP73) which proposed a number of new and additional requirements. The impact on the undertaking would be dependent on its PRISM impact rating. The proposals include:

- » Prescribing the Signing Actuary Role as a Pre-Approved Control Function (PCF)
- » Requirements for peer reviews of Statement of Actuarial Opinions (SAO) and the reports underlying the SAO, to be conducted by a Reviewing Actuary
- » Requirements for Internal Audit to carry out an assessment of the company's reserving process

- » Setting up of Reserving Committees to include at least one Independent Non-Executive Director.

In addition, CP73 also includes guidance on best estimate, risk margin and peer review reports. The Bank has engaged with industry representatives on this matter and will publish the final requirements after completing the consultation process.

Internal Models

Since 2010, the Bank has been working with insurance companies seeking approval of internal models to gain mutual understanding and to ensure that models meet the criteria specified for approval by the Solvency II Directive. In addition, the Bank has worked with other National Supervisory Authorities (NSAs) to develop the required technical standards. The European Insurance and Occupational Pensions Authority (EIOPA)¹⁰ Peer Review Panel assessed the performance of all NSAs and its report was published in 2013.

Regulator-to-Regulator Engagement

Bilateral and multilateral co-operation with other regulators play a key role in the effective supervision of regulated (re)insurance companies, at both European and global levels. During 2013, the Bank signed three individual memoranda of understanding (MoUs) with the Florida Office of Insurance Regulation, the Indiana Department of Insurance and the Missouri Department of Insurance, Financial Institutions & Professional Registrations.

In February 2013, the Bank signed the International Association of Insurance Supervisors Multilateral Memorandum of Understanding (IAIS MMoU), which is a global framework for cooperation and information exchange between insurance supervisors. In addition, the Bank signed a bilateral agreement with the Board of Governors of the Federal Reserve System.

In December 2013, the Delaware Department of Insurance confirmed to the Bank their agreement to recognise Ireland as a qualified

jurisdiction under Delaware State law. (Re)insurance companies based in Delaware reinsuring to companies based in Ireland can now apply for relief from collateral requirements.

Engagement with Industry

Effective communication with industry remains a key priority and is an important aspect of the Bank's supervisory agenda. The Bank had ongoing regular interactions with industry throughout the year on a range of different topics. Key industry fora include: DIMA (Dublin International Insurance & Management Association), Insurance Ireland, and the Taoiseach's IFSC Insurance Working Group. A seminar for (re)insurance companies' Independent Non-Executive Directors was organised by the Bank in October 2013.

Markets Supervision

In 2013, the Bank continued to pursue its strategy of (a) embedding risk-based supervision via PRISM, (b) building its analytical supervisory capability through the collection of online regulatory returns and improvements in authorisation processes and (c) building its influence in European (and global) regulatory fora. Thirty FRAs and related RGPs for Medium High and Medium Low Impact investment firms as well as a series of thematic reviews on specific areas of risk were undertaken. The Low Impact firm supervisory strategy implemented during 2012 continued to deliver on the PRISM mandate through reactive supervisory alerts and triage events. Supervision of investment funds in particular was enhanced through the roll-out of the On-Line Reporting system. This work contributed to improved mitigation of risk in securities firms and a number of enforcement referrals.

The Bank's Markets and Consumer Protection Directorates also commenced a more active engagement in relation to Conduct Risk Assessment for investment firms. Recognising the frequent overlap between prudential and conduct risk, this initiative is bringing a fully holistic review of risk in investment firms.

¹⁰ EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union.

¹¹ The US State of Delaware is a significant base for international (re)insurance activities. As a jurisdiction, it ranks 10th in the United States in national written premium and its Insurance Commissioner regulates companies with US\$506 billion in assets.

Client Asset Regulations and Guidance

Following the review of the regulatory regime for safeguarding client assets published in March 2012, the Bank established a joint industry working group to develop detailed proposals to replace the existing Client Asset Requirements (issued November 2007). These proposals form the basis for the new client asset regime set out in Regulations, issued under the Central Bank (Supervision and Enforcement) Act 2013, and complemented by Guidance. The Regulations and Guidance were subject to a public consultation, which closed on 31 October 2013.

Proposed changes to the Client Asset regime include:

- » The proposed regime provides for a framework based on seven Client Asset Core Principles, with a once-off Transitional Regulation in respect of a firm's initial Client Asset Management Plan.
- » Firms will be required to provide clients with a simple 'plain language' standalone document known as the 'Client Asset Key Information Document' explaining the client asset regime.
- » Firms will be required to appoint an individual to a Client Asset Oversight Role which will be a Pre-Approved Controlled Function, appointed under Part 3 of the Central Bank Reform Act 2010.
- » Firms will be required to create, document and maintain a Client Asset Management Plan in order to safeguard client assets.
- » Firms will be required to arrange for an external auditor to prepare a report in relation to the safeguarding of client assets by a firm, on an annual basis.

The 26 responses received to the public consultation were broadly in agreement with the Bank's proposals and will be considered when finalising the Regulations and Guidance. Before publication, the final Regulations must be approved by the Commission, the Minister for Finance and EU Commission. It is envisaged that the Regulations will be effective in the latter half of 2014.

Authorisation of Investment Firms under MiFID

Following a review of the process for firms seeking authorisation to provide services under the Markets in Financial Instruments Directive (MiFID), the Bank is introducing a more efficient risk-based approach to processing these applications. A two-level process has been devised whereby, depending on the size of the applicant firm and complexity of its business model, an applicant will be deemed to be either a Level One or Level Two applicant. It is expected that Level One applications will be processed within three months from receipt of the original completed application while Level Two applications may take up to six months. Within these timeframes there are various checkpoints and timing deadlines for the exchange of correspondence.

As part of the new process, the Bank has reduced the complexity of the Authorisation Application Form and improved the quality of the accompanying Guidance Note for applicants.

Following a consultation process with industry during October and November 2013, which included workshops and presentations to industry stakeholders, the process became operational in January 2014. Following a period of 12 months in operation, the Bank will carry out a review of the effectiveness of the new process which will involve further engagement with industry stakeholders.

Effective Banking and Securities Regulation: Expectations, Challenges and Opportunities

On 11 October 2013, the Bank hosted a conference entitled 'Effective Banking and Securities Regulation: Expectations, Challenges and Opportunities'¹². The conference brought together a distinguished group of international and domestic speakers and considered developments covering issues such as:

- » Reform of prudential regulations for banks and investment firms
- » Supervisory architecture
- » Bank and non-bank resolution

¹² The proceedings of the conference can be found at: <http://www.centralbank.ie/regulation/marketsupdate/Documents/131011%20Central%20Bank%20of%20Ireland%20Conference%20-%20Effective%20Banking%20and%20Securities%20Regulation%20Conference.pdf>

- » Regulatory approaches to the alternative investment and shadow banking sector
- » The role of securitisation, repo and collateralised lending.



Conference on 'Effective Banking and Securities Regulation' chaired by Gareth Murphy, Director, Markets.

Pictured above are: Jonathan McMahon, Partner, Mazars; Dr Kay Swinburne, MEP; Gareth Murphy, Director, Markets Supervision, Central Bank; Tanis J MacLaren, Head of the Office of International Affairs, Ontario Securities Commission; Sally Dewar, Managing Director, JP Morgan.

During 2013, the Bank also hosted or supported 31 separate Industry meetings and presentations ranging across issues such as the current review of the MiFID to the recently proposed Alternative Investment Fund (AIF) Handbook, highlighting the importance the Bank gives to engaging with and educating industry on the developments in regulation within Europe.

Collective Investment Schemes

Collective Investment Schemes (funds) are established for the purpose of investing the pooled subscriptions of investors (held as units or shares in the scheme) in investment assets in accordance with investment objectives published in the prospectus. The net asset value of Irish authorised funds amounted to €1.344 billion as at 31 December 2013 represented by 5,599 funds, including sub

funds. The number of revocations (all voluntary) of existing funds, including sub funds, in 2013 was 509. In 2013, the total number of funds authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2003, Unit Trusts Act 1990, Part XIII of the Companies Act 1990, the Investment Funds, Companies and Miscellaneous Provisions Act 2005, and the Investment Limited Partnerships Act 1994 was 118 funds (804 including sub funds)¹³.

IMF Assessment of IOSCO Principles

In early 2013, the Bank formally requested the IMF to conduct an assessment of Ireland's level of compliance with the 'IOSCO Objectives and Principles of Securities Regulation' (the Principles). These Principles set out the broad framework for the regulation of securities and represent one of the key standards and codes highlighted by the Financial Stability Board as critical to the existence of sound financial systems. In terms of practical application, the Principles are used by the World Bank and the IMF in their Financial Sector Assessment Program (FSAP).

The Bank submitted a detailed self-assessment document to the IMF in July 2013, prior to the arrival of the IMF assessors in September 2013. The assessment-mission lasted almost three weeks and included in-depth interviews with many divisions across the Bank, as well as numerous external meetings with other regulatory and State bodies (for example the Office of the Director of Corporate Enforcement and the Irish Auditing & Accounting Supervisory Authority), and a number of regulated entities. Both before and after the assessment-mission, there was extensive communication between the Bank and the IMF. It is expected that the IMF will publish its assessment in early 2014.

Market Related Supervisory Activity

The tables below provide detail on the volumes of market related supervisory activity undertaken by the Bank during 2013.

¹³ This data meets the Bank's reporting requirements under Section 3(6) of the Unit Trust Act 1990.

Table 4 – Company Information Disclosures¹⁴

	2012	2013
Annual Financial Reports published	143	134
Half-yearly Financial Reports published	121	113
Interim Management Statements published	100	98
Major shareholding submitted	379	416
Number of Issuers whose securities were suspended from trading on the ISE by the Bank	8	14

Table 5 – Investigations under Securities Law

	2012	2013
Enquiries initiated regarding possible contraventions	76	52
Enquiries completed regarding possible contraventions	79	67
Suspicious Transaction Reports submitted to the Bank by persons professionally arranging transactions	19	27
Suspicious Transaction Reports submitted to the Bank by other EU Competent Authorities	5	8
Suspicious Transaction Reports transmitted by the Bank to EU Competent Authorities	16	21
Assistance rendered to other EU Competent Authorities	19	17
Stabilisation Notifications submitted to the Bank	0	1
Securities Law Settlement Agreements (concluded)	2	1
Securities Law Formal Private Cautions Issued	0	0

Table 6 – Market Monitoring Reports

	2012	2013
Transaction reports received from entities located in Ireland (millions)	58.5 ^r	142.8
Transaction reports sent to other competent authorities via TREM* (millions)	50.1 ^r	124.4
Transaction reports received from other competent authorities via TREM* (millions)	13.2 ^r	17.0
Administrative Sanctions/Supervisory Warnings - Cases Opened	8	3
Administrative Sanctions/Supervisory Warnings - Cases Closed	4	8 ¹⁵
Audits conducted on firms' transaction reports	82	60

* Transaction Reporting Exchange Mechanism

^r Revised to reflect corrections received post year-end

14 The Bank is the designated central competent authority for the purposes of the Regulations, except for the purposes of Article 24(4)(h) of the Transparency Directive in respect of which the Irish Auditing and Accounting Standards Authority (IAASA) has been appointed the relevant Competent Authority.

15 One case closed without resulting in any enforcement action

Table 7 – Prospectus Approval Process

	2012	2013
Number of Final Terms Filed	1223	1750
Number of Documents Approved	670	844
Number of Documents/Notifications published	2633	3124
Passport Certificates prepared	91	250
Inward Passporting Notifications processed	739	492
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.

Policy, Risk and Governance

Alternative Investment Fund Managers Directive (AIFMD)

The EU Directive (No. 2011/61/EU) on Alternative Investment Fund Managers (AIFMD) came into effect on 22 July 2013. It is supplemented by detailed Level II measures and also by guidelines issued by European Securities and Markets Authority (ESMA)¹⁶ in the areas of remuneration and scope. In Ireland, the AIFMD was transposed into national law by means of S.I. 257/2013.

During 2013, the Bank finalised its revised framework for the regulation of AIFs and AIFMs which fall to be regulated under domestic legislation. The AIF Rulebook was published in July 2013 and the Bank then issued a consultation paper on types of AIFs, including Exempt Unit Trusts and Real Estate Investment Trusts (REITs). This work resulted in the Bank being the first jurisdiction in Europe to have in place its framework for AIFMD.

European Union Regulations to allow for the promotion of investment funds which invest in venture capital (EuVECA) and investment funds with socially responsible investment objectives (EuSEF) were agreed between the Council and Parliament in April 2013 and came into effect on 22 July 2013.

Revision of the Impairment Provisioning and Disclosure Requirements

In May 2013, the Bank issued a set of revised 'Impairment Provisioning and Disclosure

Guidelines' (the Guidelines). The revisions were based on a review the Bank undertook regarding compliance with the disclosure requirements in the financial statements of the Covered Banks as at 31 December 2011 and 31 December 2012. The main changes to the revised Guidelines included the insertion of: (i) a definition of a 'Non-Performing Loan'; and (ii) a new section to clarify the concept of 'Cured Loans'.

Revision of the Code of Practice on Related Party Lending

During June 2013, the Bank revised the 'Code of Practice for Related Party Lending for Credit Institutions' (Code of Practice). The Code of Practice sets out requirements for banks in relation to the authorisation, amendment of, administration, monitoring and reporting to the Bank in respect of loans issued to related or connected parties, as defined in the Code of Practice, by banks. The changes introduced clarified certain aspects in relation to the practical operation of the Code of Practice.

Revision of the Corporate Governance Code for Credit Institutions and Insurance Undertakings

The Bank revised the 'Corporate Governance Code for Credit Institutions and Insurance Undertakings' (the Code) during December 2013. The Code sets out minimum statutory requirements on how credit institutions and insurance companies should organise the governance of their institutions and its key objective is to facilitate good corporate governance in those institutions which fall

¹⁶ European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the efficiency and orderly functioning of securities markets, as well as enhancing investor protection.

within its remit. The main changes to the Code include the requirement for institutions to appoint a Chief Risk Officer (CRO), a new section has been introduced which outlines the role and responsibilities of the CRO and other amendments aimed at enhancing the principle of proportionality throughout the Code. The revised Code comes into effect on 1 January 2015.

Revision of the Auditor Protocol between the Central Bank and the Auditors of Regulated Financial Service Providers

The 'Auditor Protocol between the Central Bank and the Auditors of Regulated Financial Service Providers' (the Auditor Protocol) provides a framework between the Bank and auditors for exchanging information on a timely basis with the aim of enhancing both the regulatory and

statutory audit processes. The revisions have the effect of extending the scope of the Auditor Protocol from applying only to firms rated as High Impact under PRISM to applying to all meetings between auditors and the Bank. The Auditor Protocol was also updated to reflect recent changes in legislation in the form of the provision in Section 58 of the Central Bank (Supervision and Enforcement) Act 2013, relating to the limitation of liability in the reporting of certain matters by auditors.

Engagement with the Irish Accounting and Auditing Supervisory Authority

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

Engagement with European Supervisory Authorities

Box 5 - Single Supervisory Mechanism

The Single Supervisory Mechanism (SSM) represents a new system of financial supervision in Europe comprising the European Central Bank (ECB) and the national competent authorities of participating EU countries. The principal objectives of the SSM are (i) to ensure the safety and soundness of the European banking system and (ii) to increase financial stability in Europe. Under the SSM, the ECB will supervise 'significant' credit institutions. Approximately 130 banks will be directly supervised which account for almost 85 per cent of the total banking assets in the euro area. The ECB will fully assume its new role as supervisor of euro area banks in November 2014.

On 23 October 2013, the ECB announced that it would perform a Comprehensive Assessment (Assessment) comprising:

- » A supervisory risk assessment to review, quantitatively and qualitatively, key risks, including liquidity, leverage and funding
- » An asset quality review (AQR) to enhance the transparency of bank exposures by reviewing the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions
- » A stress test to examine the resilience of banks' balance sheet to stress scenarios

These three elements are closely interlinked. The assessment will be based on a capital benchmark of 8% Common Equity Tier 1, drawing on the definition of the Capital Requirements Directive IV/Capital Requirements Regulation, including transitional arrangements, for both the AQR and the baseline stress test scenario. The details concerning the stress test will be announced at a later stage, in co-ordination with the European Banking Authority.

The assessment process commenced in November 2013 and is expected to be completed by October 2014, at which time the final outcome will be communicated publicly. The Irish banks included in the Assessment are:

- » AIB
- » Bank of Ireland
- » PTSB
- » Ulster Bank
- » Merrill Lynch

The Supervisory Board of the SSM was established in January 2014 and its first meeting took place on 30 January. Cyril Roux (Deputy Governor, Financial Regulation) is a member of the Supervisory Board of the SSM.

Further information and updates on the Single Supervisory Mechanism are available on the Bank's and ECB's websites.

European Supervisory Agencies

During 2013, the Bank continued to contribute to the work of the three European Supervisory Agencies (ESAs)¹⁷ covering banking, insurance/occupational pensions and securities/markets. It actively participates on a wide selection of the standing committees and sub groups within the ESAs, many of which are responsible for the initial drafting of delegated acts and technical standards in relation to forthcoming European legislation.

EBA

The Bank is a member of the European Banking Authority (EBA)¹⁸ Board of Supervisors. In 2013, the Bank continued to engage with and influence the direction of supervision at a European level through involvement with the EBA. The Bank was also represented on the Standing Committee on Operations and Practices, sub groups of this Committee and various other working groups.

The Bank also supported the development of the Single Supervisory Mechanism (SSM) and has commenced planning for the delivery of the required work, e.g. Comprehensive Assessment and organisational changes required to implement SSM within the Bank, both of which are strategic priorities for 2014.

EIOPA

As part of the European Insurance and Occupational Pensions Authority (EIOPA)¹⁹ programme for Groups Supervision, EIOPA recommends that Supervisory Colleges attended by other global regulators be held on an annual basis to discuss key aspects of the group's performance and to ensure a holistic view is obtained of the supervisory risks for such a group. A key output of this College is a work plan to ensure all key risk areas are addressed. It is the responsibility of the group supervisor to ensure this plan is executed effectively before the next college meeting.

The Bank was heavily involved in Regulatory Colleges during 2013. A total of 56 regulated entities were subject to Regulatory College

examination involving 38 separate college meetings. The Bank also held three supervisory colleges with other supervisory authorities, as part of the programme for groups' supervision.

The Bank chairs EIOPA's Internal Governance Supervisory Review and Reporting (IGSRR) Sub Group.

ESMA

The Bank is a member of the European Supervisory Markets Authority (ESMA) Board of Supervisors and it has representatives on each of the Standing Committees which deal with such subjects as market structure, investor protection, investment management, market integrity, financial innovation, corporate reporting and corporate finance. ESMA also has a number of sub groups and Task Forces that work on particular issues under each of the Standing Committees. The Bank actively participates in a wide selection of these sub groups, many of which are responsible for the initial drafting of delegated acts and technical standards in relation to forthcoming securities legislation.

The Director of Consumer Protection was appointed Chairman of FinCoNet, a new international organisation for financial consumer protection supervisory authorities whose aim is to promote sound market conduct and strong consumer protection.

Supervision of Credit Unions

Risk Identification & Mitigation

The credit union sector continued to face significant challenges in 2013. The aggregate loan to asset ratio declined to 33 per cent as new lending continued to trend downwards, albeit at a slower rate. As three out of four credit unions' ratios are now below 40 per cent, over-reliance on income from investing surplus funds continues to increase. The credit union current business model is further challenged with a high level of arrears with the added complication that the sector has still to work out troubled loans which are now subject to the impact of the personal insolvency regime and

¹⁷ European Banking Authority (EBA), European Insurance and Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA).

¹⁸ The European Banking Authority (EBA) is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.

¹⁹ EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union.

voluntary debt settlement agreements. As operating costs continue to rise, the pressure on net margins from falling loan interest income and declining investment yields is likely to continue into 2014 and beyond.

With a business model wholly dependent on revenues from unsecured consumer loans and surplus funds, credit unions are strategically challenged to reverse the decline in lending and address revenue diversification and operational efficiencies. From the Bank's ongoing dialogue process, there was concern that most credit unions were not engaging in effective strategic or business planning and in a number of cases the standard of risk assessment and management required significant improvement.

Consequently, the Bank continued to focus on credit unions building reserves and provisions, and maintaining a prudent dividend policy. In a number of cases, the Bank took regulatory action including imposing lending restrictions until certain material risks were appropriately mitigated. Such restrictions are designed to ensure that credit unions do not expose members' savings to inappropriate levels of risk, and are reviewed regularly.

At end 2013, the PRISM engagement programme was approaching completion of its first supervisory cycle with Medium High and Medium Low Impact credit unions. While sound risk governance and management practices were identified in some cases, substantial improvements were required in most cases. Particular areas of supervisory concern included capital, governance, strategy and business models and credit and operational risks. These risk areas accounted for over 90 per cent of the more than 1,600 risk mitigation issues identified during the course of the Bank's engagement programme during the year with credit unions.

With the strengthened regulatory framework largely in place, supervisory focus will continue on ensuring credit unions transition their governance, management and operational structures and systems to adapt to the higher

standards now required of them. The PRISM engagement programme has been a significant driver of positive change. Where credit unions have not embraced the need to change, the outcome will include more intense supervision to mitigate risks and where necessary enforcement action.

Engagement with Credit Union Sector

Improving the Domestic Regulatory Framework applying to Credit Unions

The Credit Union and Co-Operation with Overseas Regulators Act 2012 (the 2012 Act), which was enacted on 19 December 2012, includes new governance and prudential requirements for credit unions as recommended by the Commission on Credit Unions.

In October 2013, the Minister for Finance signed a commencement order which brought the majority of the new governance and prudential requirements contained in the 2012 Act into effect. These include requirements setting out the functions and operations of the key elements of the governance structure in a credit union including the board of directors, chair, manager, board oversight committee and the nomination committee; and requirements in relation to risk management, compliance, internal audit, and strategic planning.

The new governance and prudential requirements, together with the introduction of a Fitness and Probity regime for credit unions, provide a new strengthened regulatory framework that applies to all credit unions.

Information Seminars

A key part of the Bank's regulatory engagement model for the sector is to engage directly with individual credit unions and discuss the Bank's regulatory approach. The Bank undertook a series of 14 nationwide information seminars for credit unions during July 2013 to present details of the strengthened regulatory framework for the sector and to answer questions raised by credit unions.

Credit Union Handbook

In September 2013, the Bank issued all credit unions with a copy of 'the Credit Union Handbook' (the Handbook) that was developed during the first half of 2013. The Handbook has also been made available on the Bank's website. The purpose of the Handbook is to assist credit unions in implementing the new strengthened regulatory framework by bringing together in one place a number of legal and regulatory requirements and guidance that apply to credit unions. The scope of the Handbook includes the new governance and prudential requirements for credit unions, the Fitness and Probity regime as well as other existing requirements applying to credit unions.

Fitness and Probity Regime for Credit Unions

The first phase of a tailored Fitness and Probity regime for credit unions was introduced on 1 August 2013 for those credit unions with total assets of greater than €10 million. The regime designates the roles of chair of the board of directors and manager as Pre-Approval Controlled Functions in credit unions whereby the prior approval of the Bank is required before an individual can be appointed to either role. The second phase will commence on 1 August 2015 when all remaining credit unions will be brought within the scope of the regime.

Development of a Tiered Regulatory Approach for the Credit Unions

The Bank is currently considering the development of a tiered regulatory approach for credit unions taking account of the recommendations of the Commission on Credit Unions. An initial consultation paper was issued on 23 December 2013 seeking views from credit unions and other sector stakeholders on the proposed approach to tiering, the high level operation of the tiers, including the activities and services proposed for credit unions in each tier, proposals on a provisioning framework for credit unions and the appropriate timing for the introduction of a tiered regulatory approach. Further work on development of the tiered regulatory approach will take place in 2014 following review of the submissions received on the Consultation Paper.

Enforcement Actions

Settlement Agreements

During 2013, the Bank entered into 16 settlement agreements. Fifteen of these were entered into under the Administrative Sanctions Procedure under Part IIC of the Central Bank Act 1942; the remaining settlement was entered into under the separate administrative procedure provided for under securities markets legislation. The sanctions imposed include 16 fines ranging from €420 to €5 million and totalling circa €6.35 million²⁰, 16 reprimands and one disqualification. Details of the individual sanctions imposed and public statements in relation to each settlement were published on the Bank's website.

The cases settled in 2013 involved entities with risk ratings across the spectrum of the PRISM framework.

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

- » Put in place adequate procedures or controls to manage assets representing a firm's technical reserves.
- » Comply with its obligations in relation to the proper maintenance and updating of Insider Lists.
- » Maintain adequate solvency margins in accordance with the European Communities (Non-Life Insurance) Framework Regulations 1994.
- » Hold satisfactory professional indemnity insurance.
- » Ensure the accuracy of regulatory reporting to the Bank.
- » Carry out or retain monthly reconciliations of amounts due to regulated entities with the balance on each client premium account, in breach of the Consumer Protection Code.
- » Establish adequate policies and procedures sufficient to ensure compliance with the MIFID Regulations.
- » Comply with the Moneylenders' Code which provides that licensed moneylenders must

²⁰ This figure includes a €5m fine imposed in the Quinn Insurance Limited (Under Administration) case which was waived due to the exceptional circumstances of the case, namely that the firm is currently under administration and is entirely reliant on funding from the Insurance Compensation Fund.

Table 8 – Regulatory Actions Taken

Type	Number of Actions	
	2012	2013
Administrative Sanction Settlement Agreements	14	15
Securities Law Settlement Agreements	2	1
Securities Law Formal Private Cautions Issued	0	0
Directions Imposed under Transparency Directive ²²	11	18
Warning Notices Issued Regarding Unauthorised Activity	34	27
Supervisory Warnings	16	15
Request for External Reviews - Credit Unions	248	184
Authorisation/Licence/Registration Refused	2	0
Appointment of Administrator/Liquidator	0	1
Firms Recapitalised due to Solvency Issues	0	3
Direction/Requirement Imposed on Credit Unions	42	24
Appointment of Independent Auditor/Inspector Required	4	0
Advertising Issues Investigated	188	182
Appointment of Court Appointed Inspector	0	0
Direction/Requirement Imposed under Other Legislation	168	470
Disclosure of Information to other Enforcement Authorities	105	60
Involuntary Revocation/Withdrawal of Authorisation	6	27
Securities Law Decision to refer to Assessor	1	0
TOTAL	841	1,027

not offer unsolicited pre-approved credit facilities to consumers.

- » Comply with the premium rebate and overpayment handling and systems and control requirements of the Handbook for Authorised Advisors and the Consumer Protection Code.
- » Comply with customer due diligence requirements in relation to the identification and verification of customers.

Supervisory warnings²¹ were issued in 15 other cases.

Significant Financial Cases

Irish Bank Resolution Corporation (IBRC)

The Garda Síochána informed the Bank in May 2011, following consultation with the Director of Public Prosecutions, that to proceed with the

Bank's examinations at that time may prejudice any future criminal prosecutions. Accordingly, the Bank decided to defer its examination into IBRC. Given the seriousness and sensitivity of criminal proceedings and the strength of the sanctions available to the Garda Síochána and the Office of the Director of Corporate Enforcement (ODCE), this was the most appropriate approach to take where there is a reasonable possibility of multiple proceedings. The Bank continues to keep this decision under review and regular liaison with the Garda Síochána and ODCE is continuing.

Quinn Insurance Limited (Under Administration)

The Bank entered into a Settlement Agreement with Quinn Insurance Limited (Under Administration), pursuant to its Administrative Sanctions Procedure, on 18 February 2013. Although the Bank considered that the

21 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.

22 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 2013, a total of 376 Directions were issued under the Transparency Directive (306 in 2012). However, adjusted for the re-issue of Directions previously issued, the number of Directions issued pursuant to the Regulations falls to 18 (11 in 2012).

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

Entity Type	Inspections	Other
Retail Banks	3	21 Risk Evaluation Questionnaires
Credit Unions	7	10 Risk Evaluation Questionnaires
Markets		13 Risk Evaluation Questionnaires
Payment Institutions	2	
Moneylenders	5	
Bureaux de Change	3	
Investment Asset Managers	2	
Multi-agency Intermediary	1	

contraventions committed by the firm merited the maximum monetary penalty of €5 million, it decided that due to the firm's exceptional circumstances (firm under administration and entirely reliant on funding from the Insurance Compensation Fund), it would be in the public interest to waive the monetary penalty in its entirety.

The Bank confirms that its investigation against the firm is now closed; other related investigations by the Bank remain ongoing.

Irish Nationwide Building Society (INBS)

An investigation into historical lending practices at INBS is ongoing and is at an advanced stage. Once concluded, decisions regarding enforcement proceedings will be made.

Bloxham Stockbrokers

An extensive investigation into financial irregularities at Bloxham Stockbrokers is ongoing and, once concluded, decisions regarding any possible future enforcement proceedings will be made.

Other Enforcement Cases

During 2013, Assessors were appointed, under Regulation 35 of the Market Abuse (Directive 2003/6/EC) Regulations 2005, to conduct an assessment of a possible breach of these Regulations. The case is ongoing.

Administrative Sanctions Procedure

Following two public consultations (November 2011 and May 2013), the Bank issued new

Inquiry Guidelines pursuant to Section 33BD of Part IIIC of the Central Bank Act 1942, on 6 November 2013. The Inquiry Guidelines set out the procedures the Bank will ordinarily follow when holding an Inquiry under Part IIIC of the 1942 Act.

On 6 November 2013, the Bank also issued a revised Outline of the Administrative Sanctions Procedure which describes the structures and procedures of the Administrative Sanctions Procedure of the Bank under Part IIIC of the 1942 Act, including an outline of the investigation stage, the settlement policy and procedure, the conduct of an Inquiry and sanctions.

Anti-Money Laundering, Countering the Financing of Terrorism and Financial Sanctions

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

Inspections and Risk Evaluations

The Bank conducted 20 standard and 3 detailed inspections of financial institutions in 2013 pursuant to the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (CJA2010). In addition, the Bank conducted AML/CFT risk evaluations of 44 firms in the banking, markets and credit union sectors.

Policy/Technical Activities

Other work in the area of AML-CFT and FS in 2013 included assisting in the publication of sectoral guidelines for credit unions in January 2013; making presentations to a number of professional firms and industry bodies, including the Irish League of Credit Unions and the Irish Banking Federation; providing technical assistance to the Department of Finance on a series of technical working party meetings relating to the Commission's proposal for a fourth money laundering directive; providing technical assistance to the Department of Finance in key engagements with the Financial Action Task Force (FATF) (which led to Ireland's removal from the FATF enhanced follow-up procedure), and providing technical assistance and advice to departments and agencies involved in amending the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010.

Financial Sanctions

The Bank continued to send quarterly financial sanctions alerts to regulated entities and the public via the Bank's automated email alert subscription system. Developments in financial sanctions were also communicated via updates published on the financial sanctions pages of the Bank's website. In addition, the Bank carried out its administrative tasks in relation to the recording of freezing notifications and notifications in advance of certain funds transfers, the granting of prior authorisations, the processing of derogations and answering financial sanctions queries. Furthermore, the Bank formally included a financial sanctions element in its on-site inspections of regulated entities for the first time.

Policy/Technical Activities

In 2013, the Bank received and responded to 183 queries in relation to alleged unauthorised activity, published warning notices in relation to 24 firms and made 40 reports to the Garda Síochána under Section 33AK of the Central Bank Act 1942 (as amended).

Resolution of Financial Difficulties in Credit Institutions

Embedding recovery and resolution plans in banks, credit unions and other financial institutions is a vital component of sustained economic recovery in Ireland

Restructuring and Resolution of Credit Unions

During 2013, the Bank continued to take pre-emptive actions to resolve identified weak credit unions. Work continued on the asset review programme which assessed the financial position of credit unions to determine any potential asset impairments and the adequacy of their reserves. The Bank is working, on a case by case basis, with those credit unions where issues arose in relation to the adequacy of their reserve position and six credit unions transferred their engagements.

Howth Sutton Credit Union

Following an application by the Bank on 5 March 2014, the High Court approved the transfer of Howth Sutton Credit Union (HSCU) to Progressive Credit Union, which assumed ownership and management of the assets and liabilities of the credit union. The Bank sought the transfer, with the support of HSCU's Board, because HSCU was no longer viable as a standalone entity. The transfer was undertaken to protect members' savings and ensure continued access to credit union services within the community. The Board of HSCU worked closely with the Bank, co-operating throughout the resolution process and supporting the transfer as the most appropriate solution in the best interest of its members.

Box 6 – Resolution of Newbridge Credit Union

The Bank had been seeking to address both financial and governance issues at Newbridge Credit Union for a number of years, which ultimately led to the appointment of the Special Manager in January 2012. Following a thorough assessment, and in the context of the existing legislation, it was determined that the only viable resolution of the financial difficulties was a transfer to another entity.

The Bank undertook a process which involved the examination of possible credit union combinations, which resulted in an approach being made to a number of credit unions. Ultimately, however, no credit union considered that it was in the best interests of its members to undertake a transfer even in the context of extensive taxpayer support. This partly reflected the relative scale of Newbridge Credit Union within the sector and the exceptional nature of its financial difficulties. The Bank also considered proposed solutions put forward by various interested parties but none proved feasible.

On 10 November 2013, the Bank and PTSB entered into a financial incentives agreement (FIA) and the High Court approved a transfer order relating to the transfer of all of the assets (excluding the premises) and liabilities of Newbridge Credit Union to PTSB. Under the FIA, the Credit Institutions Resolution Fund (Resolution Fund) provided an upfront cash incentive of €23.0 million to PTSB, together with a possible further incentive of up to €30.9 million (to cover restructuring and integration costs and to protect PTSB against transferring liabilities and further loan losses).

The transfer to PTSB is the first time the Bank has undertaken a resolution action in relation to a credit institution. It was ultimately the only viable solution available, with the alternative option being a full-scale immediate liquidation of the credit union with interruptions to members' access to their funds as well as risks to depositors not covered by the Deposit Guarantee Scheme.

On 16 December 2013, the High Court approved a winding up order in relation to the remaining entity, Newbridge Credit Union Limited. The liquidator is in the process of arranging the disposal of the former credit union premises, with the proceeds, net of costs, to be remitted to the Resolution Fund.

Deposit Guarantee Scheme (DGS)

The Bank is responsible for operating the Deposit Guarantee Scheme (DGS) in accordance with the legislation. Systems and processes with financial institutions have been put in place to obtain depositor details, in order to generate compensation payments. The DGS will continue to work with financial institutions on an ongoing basis to ensure operational readiness to deal with situations where an institution is unable to repay depositors in the future.

The DGS made compensation payments to eligible depositors in IBRC following the appointment of Special Liquidators to IBRC in February 2013. Payments were made to duly verified, eligible depositors within the statutory deadline of 20 working days. Further verification of the status of some accounts by the Special Liquidators and the DGS was required prior to DGS payment resulting in further payments throughout 2013. Payments were made to 1,181 depositors, with a total value of €25.1 million, up to end December 2013.

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 companies. 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 Q4 2013, the Bank carried out its annual assessment of the Fund and determined that the contribution to the Fund be maintained at 2 per cent.

Box 7 – Deposit Guarantee Scheme

The Deposit Guarantee Scheme (DGS) provides protection to eligible depositors in banks or credit unions, and is a key part of the financial safety net for deposit holders. In the event that the deposit holding institution is unable to repay depositors, the DGS provides a guarantee of compensation in respect of deposits up to €100,000 per person, per institution. There is a legal requirement to provide this compensation to duly verified depositors within 20 working days of the bank or credit union being unable to repay deposits.

The funding of DGS compensation payments is financed by financial institutions. The scheme is operated by the Bank, under EU and Irish legislation. The main scheme conditions are harmonised across the EU, such as the €100,000 limit and the requirement to provide compensation within 20 working days.

If a bank or credit union becomes unable to repay depositors, such as if it is placed into liquidation, the depositors are provided with compensation up to €100,000 by the DGS without making an application to the DGS for compensation. The bank or credit union is required to provide the DGS with details of the eligible depositors in an agreed format, and the DGS issues cheque payments directly to each depositor. Most retail depositors are covered by DGS, but there are exclusions from DGS coverage, such as deposits by large companies, financial institutions and government authorities. Further details of DGS exclusions are set out in section 16 of the DGS Regulations²³.

Following the liquidation of IBRC in February 2013, the DGS made the first ever DGS compensation payments in Ireland, to eligible depositors.

Protection of Consumers of Financial Services

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

The Bank continued to deliver on its consumer protection mandate across the five key strategic areas of mortgage arrears, developing the protection framework, ensuring consumers are treated fairly, regulating the Low Impact firms and engaging with stakeholders. There was a focus on a number of key areas particularly in relation to indebtedness and arrears, the sale of payment protection insurance (PPI) and the establishment of a debt management supervisory framework and the regulation of retail intermediaries.

The Bank continued to supervise the banking, insurance, investment and payment institution sectors through the use of themed inspections, other risk assessments under the PRISM engagement model and through timely risk-based response on prudential or conduct of business issues as they arose. The Bank also continued to deliver on its strategy in identifying and responding to consumer risk issues, in addition to conducting inspections and sectoral market reports on Low Impact firms such as retail intermediaries and moneylenders.

The consumer protection market intelligence function was further developed and strengthened. The Bank derives risk-based evidence from various online and offline sources including firms, internal parties, key stakeholders and commissioned research. Key trends are used to inform the supervision of firms, policy developments, decision-making, public communications and work plans.

Mortgage Arrears Developments

In order to ensure that the Code of Conduct on Mortgage Arrears (CCMA) was facilitating the resolution of individual mortgage arrears cases in a fair, sustainable and transparent way, a review of the CCMA was conducted.

The Bank published the revised CCMA and Consumer Guide in June 2013 following

extensive public and stakeholder consultation and approval by the Commission and consultation with the Minister for Finance. Following this, the Bank requested all mortgage lenders to have implementation plans in place by 31 July 2013. The plans detailed the corporate governance surrounding the plan (including senior management oversight), changes to systems required to implement the revised CCMA and staff training required to ensure compliance with the revised CCMA by the end of the year.

As part of the financial institutions' delivery of full implementation of the revised CCMA, all mortgage lenders submitted monthly reports detailing their progress towards implementation. On-site assessments of implementation were carried out in several mortgage lenders. The boards of directors of all mortgage lenders were required by the Bank to sign-off that all of the provisions of the revised CCMA had been fully implemented and tested and that staff training had been completed. It had also requested the Internal Audit Functions of mortgage lenders' to include compliance with the revised CCMA in their 2014 audit plans. The Bank will conduct a review of compliance with the revised CCMA in 2014.

Review of the Sale of Payment Protection Insurance

The Bank instructed 11 credit institutions²⁴ to undertake a review of Payment Protection Insurance (PPI) sales made since July 2007. Credit institutions reviewed sales (overseen by independent third parties) to determine if the PPI was sold in compliance with the Consumer Protection Code 2006. These firms accounted for 74 per cent of all PPI sales in the period 1 July 2007 to 30 June 2012. This review was largely completed by end 2013. In March 2014, the Bank published a summary report of the review.

Where compliance could not be proven, consumers were offered a refund of all of the PPI premiums that they paid plus compensatory interest. Where policies were still active, consumers were offered the option to keep their policies open instead of getting refunds. Approximately €67 million was identified for refund to 77,000 policyholders.

²⁴ AIB, Bank of Ireland, Educational Building Society, Ulster Bank, PTSB, GE Money, Danske Bank, KBC Bank, RaboDirect, MBNA, Bank of Scotland (Ireland).

Debt Management Firms

The Central Bank (Supervision and Enforcement) Act 2013 provides for a regime for the regulation of debt management firms, i.e. firms who provide advice to consumers who are in financial difficulty and who negotiate with their creditors. The Bank assumed responsibility for the authorisation and supervision of these firms from August 2013.

The Bank issued a consultation paper on the 'Authorisation Requirements and Standards for Debt Management Firms' (CP70). The finalised standards were issued (including Q&A and feedback documents) and incorporated feedback from the Bank's public consultation. Applications are currently being processed for firms seeking authorisation as a debt management firm and this work will continue into 2014.

The Bank also issued a consultation paper on 'Additional Consumer Protection Requirements for Debt Management Firms' (CP75) setting out a series of proposed consumer protection requirements that will apply, in addition to the Consumer Protection Code provisions, where relevant. The additional requirements were developed based on an analysis of actual or potential consumer detriment associated with this particular sector and will be finalised in 2014.

Approval of Bank Charges under Section 149

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

As at December 2013, 21 notifications were processed, as outlined below.

The Bank's Director of Consumer Protection appeared before the Joint Oireachtas Committee on Finance, Public Expenditure and Reform in April 2013 to discuss bank charges and the Bank's statutory obligations under Section 149. The Director highlighted the need to ensure that the appropriate balance is struck between ensuring that such charges are reasonable for the consumer as well as reflecting the need for firms to recover their costs for providing such services.

Themes

The following themed inspections were undertaken in 2013:

- » **Mortgage arrears**
A review of practices by credit institutions, in particular, areas of the arrears process was carried out by the Bank to inform its ongoing supervision and review of the CCMA. The review focused on the current and proposed use of dialler technology²⁵ in respect of customer contact.
- » **Sales Incentives and Remuneration (life insurance & credit institutions)**
The themed inspection into sales incentives paid to direct employees of life insurance firms identified a number of risks that may encourage short term sales behaviours and that may not be in the best interest of consumers. As a result of this inspection, the Bank required all insurance firms to review their remuneration arrangements, and to take any remedial action necessary during 2014.
- » **Household Property Claims**
The Bank completed a themed inspection into the handling by insurers of household property claims resulting from water damage. A review of insurers' household

Table 10 – Bank Charge Increase Notifications Processed

Notifications	2013
Fully approved	12
Partially approved	5
Rejected	1
Exemptions approved	3
TOTAL	21

25 A dialler system is software used by firms to automatically generate calls. It is regarded as an efficiency tool where a large number of calls need to be made to specific groups of people, as it eliminates the time spent manually dialling numbers.

property claim processes was undertaken, and in particular, whether fair claim settlements had been made.

- » **Financial position and professional indemnity insurance (PII) requirements**
Inspections on both these indicators were carried out among retail intermediaries in 2013. The inspections on the financial position of firms has resulted in the majority of cases (97%) being closed out due to the firms addressing their financial position, meeting the directions imposed by the Bank or, in some cases, voluntarily seeking to revoke their authorisations/registrations. A second financial position theme commenced in September 2013 and engagement will continue with these firms in 2014. Following the themed inspection on PII, the Bank reprimanded and issued financial penalties to seven insurance intermediaries who had a gap in their PII cover.
- » **Pension Sales Processes**
Another themed inspection commenced in 2013 in relation to the sales process utilised by intermediaries when selling or providing advice to a consumer in relation to pension policies, where the consumer already held an existing policy. These onsite inspections focused on the sales advisors' compliance with the relevant provisions of the Consumer Protection Code 2012.
- » **Moneylender APR and Cost of Credit Review**
The Bank published the results of a themed inspection of licensed moneylenders, which focused on whether consumers were being charged in accordance with moneylenders' authorised Annual Percentage Rates (APR) and costs of credit as set out in the moneylenders' licences. In one case, the Bank entered into a Settlement Agreement with a firm who was reprimanded and required to pay a monetary penalty of €8,000 in relation to a breach of Common Rule 31 of the Consumer Protection Code for Licensed Moneylenders. This provides that licensed moneylenders must not offer unsolicited pre-approved credit facilities to customers.

Retail Intermediaries

The Bank's enhanced engagement with approximately 3,100 firms in the sector continued throughout the year. In February, the

Bank published its first 'Report on the Intermediary Sector in Ireland' which highlighted some key relevant issues and risks for the sector and consumers, e.g. 17 per cent of firms reported a loss in the previous financial year. This information was derived from data²⁶ submitted by retail intermediaries through their online Annual Return. A further six sector specific newsletters - Intermediary Times - were published and the Bank hosted three regional road shows in Letterkenny, Kilkenny and Wexford, which were attended by almost 300 firms. The Bank also finalised a review of the authorisation, post authorisation and revocation process for the sector, which aimed at making improvements to and streamlining the processes.

A risk-based approach has been developed to manage retail intermediary regulatory issues as they arise. These regulatory issues arose from information provided by both internal and external sources, e.g. members of the public, consumers, ex-employees of firms, other regulated entities and statutory bodies. In the course of the year, 46 such issues were assessed under this process and each issue was investigated and followed up with the individual firm as required. Two enforcement actions with firms were concluded on foot of such work.

The Bank issued a consultation paper on the review of the 'Handbook of Prudential Requirements for Authorised Advisors and Restricted Intermediaries' (CP72), which set out its proposed changes to existing prudential rules and provided some clarifications in relation to industry practice. The revised Handbook will be published in Q2 2014.

Moneylenders

To develop an evidence-based approach to this sector, the Bank published a report on the licensed moneylending industry in Ireland in November 2013. Since the previous research published in 2007, the number of licensed moneylenders has declined and overall rates of interest have remained largely at 2007 levels. The majority of customers in the research reported a high level of satisfaction with their moneylender, citing ease of availability and convenience as the main reasons. A majority of customers who partook in the research also knew the cost of credit on their loan and the amount of interest charged on their loans.

26 This information has not been independently verified by the Bank.

Box 8 – European Consumer Engagement

In its work at the European Supervisory Authorities (ESAs), the Bank also helped to achieve the following enhancements to the European framework for Consumer Protection:

- » The European Banking Authority's (EBA) Standing Committee on Consumer Protection and Financial Innovation produced a Consumer Trends report on Supervisory Concerns Regarding Consumer Protection Issues in 2012/13 in addition to two opinions relating to treatment of those in mortgage arrears and responsible mortgage lending practices.
- » The ESMA Investor Protection and Intermediaries Standing Committee worked extensively on investor protection measures under the proposed MIFID II regime. Work on related committees also involved providing input on various ESMA investor protection initiatives including ESMA Investor Warnings, Opinions and Guidelines.
- » The EIOPA Committee on Consumer Protection and Financial Innovation and Sub Group on Consumer Trends established a framework for the collection and analysis of consumer trends from the national supervisory authorities, produced Guidelines on complaint handling by insurance intermediaries and an opinion on beneficiary protection arrangements regarding life insurance contracts.
- » The ESA Joint Committee Sub-Committee on Consumer Protection and Financial Innovation continued its cross-sectoral work, including formulating and securing the approval (by the ESA Joint Committee), of a joint position on product oversight and governance.

Some issues identified (indicating potential breaches of current statutory moneylending requirements) included: non-payment of rebates on early loan repayment, refinancing (replacing an outstanding loan with a part of a new loan) and informal credit-worthiness assessment which may be based on insufficient information. The Bank will continue to monitor this sector closely and take action where necessary to protect borrowers' interests.

Payment Institutions²⁷

The Bank issued a consultation paper (CP64) on revised 'Authorisation Requirements and Standards for Money Transmission Businesses' (i.e. firms who provide money transmission services but who are not otherwise regulated by the Bank). The prudential requirements of the new regime (relating to capital and safeguarding of client funds) are similar to the requirements that apply to payment institutions under the European Communities Payment Services Regulations 2009.

The Bank also published revised Guidance Notes on completing an application for authorisation as a payment institution and as an electronic money institution.

Strengthening Policy through Proactive Engagement and Interaction

Throughout 2013, the Bank continued to advocate for high standards of consumer

protection in financial services and fair treatment of consumers at local, EU and international levels. This included contributing to several EU proposals, in addition to participation in the work below.

Domestic

In addition to consultation on the CCMA and debt managers, a number of initiatives were undertaken. The Bank issued Guidance on the Advertising Requirements of the Consumer Protection Code to assist firms in raising advertising standards and continued to participate on the Working Group (established by the Department of Finance) to look at the development of a Standard Bank Account. This Bank Account Scheme was piloted this year.

The Bank continued its engagement strategy with key stakeholders, ensuring a risk-focused evidence based approach, which informs decision-making, policy development and overall risk management.

The Bank's engagement process included hosting four meetings with the Consumer Advisory Group, who advise the Bank on its performance in relation to protection of consumers of financial services. In addition, regular meetings were held with key industry, trade and consumer groups.

²⁷ Including electronic money institutions, bureaux de change businesses and money transmission businesses.

Table 11 – Themed Consumer Focused Inspections and Meetings in 2013

Themed Inspections (On-Site and Off-Site)	Entity Type	Number Inspected/ Examined
Pensions Sales Process	Retail Intermediaries	36 ²⁸
Professional Indemnity Insurance	Retail Intermediaries	31
Financial Position Theme	Retail Intermediaries	208
Household Property Claims	Non-Life Insurers	10
Review to inform the CCMA Review	Credit Institutions	6
Implementation of the revised Code of Conduct on Mortgage Arrears	Credit institutions	5
Sales Incentives to direct employees of Insurance Companies	Life Insurance Companies	8
Desk based review of sales incentives	Credit Institutions	6
Sales Incentives to direct employees of Credit Institutions and Investment Firms	Credit Institutions and Investment Firms	9
PPI Review	Credit Institutions	11
Risk-Based Inspections		
	Retail Intermediaries	4
	MiFID Firm	1
	Insurer	1
Inspections as part of Full Risk Assessments under PRISM		
Full Risk Assessments prior to Risk Governance Panels	MiFID Firms	Conduct Risk Assessment carried out for Risk Governance Panels in 12 firms, 5 of these assessments involved on-site inspections.
Partial Risk Assessments prior to Risk Governance Panels	Retail Banks	Conduct risk assessment carried out for Risk Governance Panels in 7 Banks to include off-site meetings
Other Meetings (non-inspection, i.e. with firms, representative bodies, other regulators, etc.)		
Payment Institutions		10
Covered Banks , non-covered banks and related		63
Retail Intermediaries		18
MiFID firms		9
Insurance Section		74 (note 41 with sellers of PPI)
Moneylending and S149		17
Director - Meetings (CEOs, Boards, etc)		9

28 36 firms were required to complete a questionnaire relating to their pension sales activities. On-site visits were also conducted in 9 of these firms.

Table 12 – Advertising Issues

Advertising Issues Investigated

	2012	2013
Central Bank Monitoring	126	173
Complaints	62	9
Total	188	182

Outcome of Advertising Issues Investigated 2013

Advertisements Amended	Advertisements Withdrawn	No Action Required	Ongoing
126	24	27	5

Independent Economic Advice and High Quality Financial Statistics

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

Economic Analysis and Commentary

The Bank continued to play an important role in the formation of national economic policy through the provision of independent economic advice via regular commentaries, forecasts, research and the provision of high quality financial statistics. This was communicated through Bank publications and research papers, other domestic and international journals, statements and speeches by the Governor and the other members of senior management and in contributions to conferences and seminars. Internally, economic analysis and research are important inputs to ongoing financial stability assessments and macroprudential reviews. Within the Eurosystem, the Bank also contributed to macroeconomic forecasting exercises and in the provision of policy advice and conjunctural economic analysis.

Work also continued on the Macro-Modelling Project, whereby the Bank and the ESRI are working jointly to develop a suite of modern macroeconomic/econometric models of the Irish economy. The objectives of this project are to enable better analysis and forecasts of the medium term evolution of the Irish economy and to enhance the breadth and quality of economic advice to the Government.

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

Analytical work within the Bank covered a range of important topics in the Irish economy. Among

the projects completed were improvements to forecasting methodology including the development of a monthly business cycle indicator; labour market issues such as the determinants of re-employment probabilities in the Irish labour market; the functioning of the credit market for small and medium sized firms (SMEs); and the impact of household debt on private consumption patterns.

Research activities in the Bank continued to focus on issues germane to the financial crisis both domestically and internationally. The Bank participates in research networks examining macroprudential issues, wage formation, household finances and competitiveness. Staff economists had 21 peer reviewed articles accepted for publication in 2013 and presented extensively including at the American Economic Association, the European Economic Association, the Centre for Economic Policy and Research and the ECB. The Barrington Prize, which is awarded to the best paper written by an Irish economist under 33 years, was presented to Yvonne McCarthy for her paper 'Credit Conditions in a Boom and Bust Property Market'. A list of Research Technical Papers published in 2013 is included in the Annex to this Chapter.

The Bank hosted a conference in February 2013 examining potential solutions to fix distressed mortgage markets. The conference highlighted both internal Bank research as well as drawing on a number of speakers from the US. Two Bank authored papers delivered at the conference dealt with assessing the impact of the user cost of capital on housing developments, and examining to what extent a fiscal stimulus may help house prices, bank balance sheets and bank arrears.

Financial Statistics

The Bank is the key provider of financial statistics for Ireland and publishes detailed information and analysis on the financial sector and its sub-sectors. During 2013, new statistics were published on the cross-border positions and flows of domestic banks, and on the issuance and holdings of securities by domestic residents.

Data compiled by the Bank facilitates the analysis and monitoring of credit flows to the domestic economy. The availability of credit to SMEs, who are largely dependent on domestic

credit institutions for funding, is crucial for the re-generation of economic growth. The Bank provides detailed quarterly data on outstanding loan amounts and new credit issued to SMEs broken down by sector of economic activity. Similarly, detailed information on household savings and borrowings with domestic credit institutions, disaggregated by instrument, purpose and maturity are published monthly. This helps monitor household balance sheets, and particularly, developments in addressing the current high levels of indebtedness. Other outputs include quarterly financial accounts which present an overview of the financial transactions and positions of the domestic economic sectors with each other and with the rest of the world.

In addition, the Bank provides analysis of the data compiled through published articles, economic letters and commentary in the Quarterly Bulletin. Issues covered during 2013 included the indebtedness of Irish non-financial corporations, housing equity withdrawal and the value-added of the domestic financial sector. The Bank also holds regular meetings with stakeholders, including reporting agents, industry representatives and users of statistics, both in the public and private sectors.

The Bank's close working relationship with the Central Statistics Office (CSO) continued during 2013. Formal co-operation agreements exist, and a number of working groups have been established across a range of statistical domains. Areas of co-operation now cover most institutional sector statistics, balance of payments, financial accounts, insurance, and government finance statistics – the latter includes detailed methodological discussions on the statistical treatment of government supports to the banking sector. Both institutions are working closely on the introduction of the new international statistical manuals these will be implemented for Irish economic statistics in the second half of 2014. This close co-operation also ensures that, as far as possible, duplication of work is eliminated, and the reporting burden on the financial sector is minimised.

The Bank also participates in the statistical committees and working groups within the ESCB to maintain and develop the statistical framework. Current development work is

primarily focussed on the introduction of the new international manuals²⁹ and making preparations for the introduction of the SSM in 2014. SSM work includes the expansion of financial stability statistics and the provision of information to support the European Systemic Risk Board (ESRB). The work programme agreed will focus on the integration and reconciliation of statistical and supervisory data to provide a more holistic picture of the banking sector, and on compiling better information on the inter-connectedness and cross-border exposures of the financial sector.

Mortgage Arrears Statistics

The Bank enhanced its data collection and analysis of mortgage arrears during 2013 to provide greater detail on the types of restructuring offered by lenders and on the length of arrears. The methodology and first results from the expanded data series were explained in a Bulletin article published in Q3.

EU and International Economic Analysis

The Bank was represented at meetings of the Economic and Financial Committee (EFC) which is an EU Council committee set up to promote policy co-ordination among the Member States. The Committee prepares the agenda for the ECOFIN meetings which, inter alia, includes assessing and examining current economic and financial developments, co-ordinating EU economic and fiscal policies, analysing financial market and financial stability issues, and dealing with relations with third world countries and international institutions.

The Bank also participated in the EFC's Sub-Committee on IMF Issues (SCIMF). SCIMF considered a range of IMF-related policy and institutional issues in 2013, among them regional financing arrangements, the adequacy of reserves, IMF lending instruments and the Fund's resources. The implementation of the quota and governance reforms agreed by the IMF in 2010 was a focus of SCIMF discussions during 2013 meetings. Work on further quota reform, and the preparation of messages for international meetings on the global financial architecture, was also undertaken.

International Activities and Relations

Box 9 – Ireland's EU Presidency

During 2013, the Bank committed significant resources to the preparation and execution of the Irish Presidency of the Council of the European Union. Resources included technical support and advice on proposed financial services legislation and Bank staff participated as technical experts in the Presidency teams leading negotiations in the Council and with the European Parliament.

The Governor co-hosted the Informal EU Council meeting of the Economic and Financial Affairs Council (ECOFIN) in Dublin on 12-13 April 2013. At the meeting, Ministers and Central Bank Governors agreed in principle to lengthen the maturities of Ireland and Portugal's EU loans, and discussed the economic and financial situation in Europe, the shape of banking union and financing options to support long-term growth.

The Bank provided advice on the Central Security Depository Regulation, UCITS V, the AIFMD, EMIR, CRD IV/CRR, MiFID and the Market Abuse Regulation (MAR) during 2013, and attended a significant number of European Council Working Party meetings as well as Political and Technical Trilogue meetings with the European Parliament and European Commission. This work resulted in significant achievements in financial market developments such as MiFID and MAR. The Bank continues to provide expertise and advice to the Department of Finance on progress in these areas both at national and European levels.

During the Presidency, agreement was also successfully reached with the Parliament on the Directive governing Credit Agreements Relating to Residential Property (the Mortgage Credit Directive) and on the Directive governing Packaged Retail Investment products.

Under the Lithuanian Presidency, the Governor also represented the Bank at the Informal ECOFIN held in Vilnius on 13-14 September. Banking union and the economic outlook were discussed at the September meeting, together with improving access to finance for small and medium-sized enterprises and measures to tackle tax fraud and evasion.



EcoFin meeting held in Dublin in April 2013 as part of Irish Presidency of the EU.
(Source: MacInnes Photography)

IMF Policy and Constituency Issues

The Governor holds the position of Alternate Governor for Ireland on the IMF's Board of Governors and, in this capacity, attended the IMF/World Bank Group Annual Meetings held in Washington in October 2013. The Deputy Governor of Central Banking represented the Bank at the Spring Meetings which took place in April 2013. Discussions at the Spring

Meetings focused on the global outlook and the policies needed to restore the resilience of the world economy, along with IMF institutional issues, including quota and governance reform. Similarly, the agenda for the October meeting covered global prospects and policies, together with measures to strengthen the IMF. Given the growing interconnectedness among countries, policy coherence was also discussed.

Other International Activities and Relations

The Bank also engaged with the Organisation for Economic Co-operation and Development (OECD) as part of its 2013 Economic Review of Ireland. The Bank provides data and statistics on Ireland to the IMF (which it published on its website), including quarterly reports on financial soundness indicators. Papers from other international organisations were reviewed and commented on during the year, and surveys from the IMF, the European Commission, the OECD and the European Parliament were completed.

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

Engagement continued with international institutions such as the IMF, the World Bank and the OECD and, in partnership with the Department of Finance, the Bank helped formulate Ireland's national position on IMF policy and constituency issues. In addition, the Bank contributed to the EU-IMF Programme including four review missions and an Article IV mission. The Bank was also represented at the EFC's Sub Committee on IMF Issues (SCIMF).

During 2013, the Bank provided technical assistance to the National Bank of the Republic of Macedonia (NBRM) with the aim of progressing Macedonia's status as an EU candidate country. There were three stages to this assistance - benchmarking, stocktaking and a final needs analysis report. The report worked to distinguish the mandatory benchmarks from the optional benchmarks, those which apply as requirements for accession to the ESCB and which are required for accession to the Eurosystem. The final report was presented to Governor Bogov in July 2013.

Engagements by the Governor in 2013 included giving of the first of the National Bank of Poland's Biannual EU Presidency Lecture series in Warsaw on 19 March. The Governor also delivered addresses at international conferences and seminars in Basel, Jerusalem, London, Reykjavik, Vilnius, Washington D.C. and Zurich, as well as in Dublin. The Deputy Governors of Central Banking and Financial Regulation and other members of senior management delivered a number of speeches and participated in various international seminars and conferences, including the 11th Annual European Financial Services Conference on 31 January in Brussels, the Eurosystem Competitiveness Research Network meeting on 13 March in Dublin and the European Insurance Forum on 9 May in Dublin.

The Bank hosted a number of international delegations and organisations during 2013, among them a delegation from the Central Bank of Trinidad and Tobago led by Governor Jwala Rambarran in February, and a Japanese parliamentary delegation led by the Chairman of the House of Representatives Standing Committee on Budget Affairs in July. The Managing Director of the IMF also visited Dublin in March during Ireland's Presidency of the EU. Mme. Lagarde met with the Governor at the Bank's offices and discussed issues including the EU/IMF Programme and IMF policy and institutional issues impacting on Ireland.



Governor Honohan and Mme. Lagarde, Managing Director of the IMF, who visited Dublin in March 2013 during Ireland's Presidency of the EU.

Efficient and Effective Payment and Settlement Systems and Currency Services

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

Payments Oversight

The Bank continued to promote the safety and efficiency of the domestic payment systems under its statutory remit and, in this regard, to liaise closely with the Irish Payments Services Organisation (IPSO) – the representative body of the payments industry in Ireland. In response to the significant disruption to the national payment system in late 2012, a new annual payments risk assessment methodology was introduced and implemented covering the oversight of payments infrastructures and operational risk management procedures within the clearing banks. This enhanced process has moved from a self-assessment model to a process whereby the commercial banks' submissions require external validation. The banks are also required to present to a Payments Risk Governance Board comprising of senior representatives from the Payments Oversight, Banking Supervision and Organisational Risk areas of the Bank and IPSO.

At euro area level, the Bank was actively involved in the development of Eurosystem oversight policy, standards and requirements through its participation in international fora, particularly in the ESCB's Payments and Settlements Systems Committee (PSSC) and its associated subgroups.

TARGET2 RTGS

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

In 2013, 100 per cent of the payments settled on the payment module of TARGET2 were processed in less than five minutes (99.98 per cent in 2012). The system's market share remained stable, with 91 per cent of the total value of payments in euro large-value payment systems being executed via TARGET2. In 2013, the system processed a total of 92.59 million transactions, with a daily average of 363,099 transactions.

Compared with the previous year, the overall volume of transactions increased slightly, rising by 2.1 per cent. The total value of TARGET2 traffic in 2013 was €493.4 billion, with an average daily value of €1.935 billion. Compared with 2012, the overall value of the transactions processed by the system decreased by 22.2 per cent³⁰.

National Payments Plan

The National Payments Plan (NPP) was published in April 2013 and was the product of over a year of intensive consultation and research. It set out an ambitious plan to transform payments in Ireland with the aim of improving national competitiveness. The recommendations in the plan are now being implemented. As well as tracking the implementation of the plan, the Bank also implemented the recommendations in 2013:

- » A detailed review to ensure the efficiency, safety and effectiveness on the Irish cash cycle
- » A 'Rounding Trial' in Wexford in September-November to reduce the need for 1c/2c coins
- » A sectoral review of payments relating to primary and secondary schools.

³⁰ The sharp decrease in values between 2012 and 2013 is due to changes in the statistical methodology used. There were 256 operating days in 2012 and 255 in 2013.

Box 10 – National Payments Plan

Ireland continues to rely heavily on cash and other paper payment instruments, and lags significantly behind the Bank's 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. The preparation of the NPP was overseen by a Steering Committee consisting of representatives of consumers, retailers, banks, government and business, and was published in April 2013.

The NPP sets out an ambitious plan to transform payments in Ireland. A realisation of the goals of the plan offers the potential for huge benefits for the economy and society:

- » Improved competitiveness – it has been estimated that €1 billion per annum in unnecessary cost to the economy can be removed by payments reform, benefitting business, householders and the public sector
- » Tackling the shadow economy – there is a strong correlation between cash usage in an economy and the size of the shadow economy
- » Improving security – the circulation and storage of cash presents a major security risk and the number of Cash-in-Transit attacks in Ireland was five times greater than in the rest of Europe
- » Ending the late payments culture – there is a strong correlation between the extent of cheque usage in a country and the time it takes for businesses to receive payment for invoices.

The role of the Bank in 2014 will be to drive a number of specific NPP initiatives and to track the implementation of the overall plan. The Bank will also review the NPP's operation and recommend appropriate structures to ensure that Ireland's payment sector is run in a manner which is efficient, safe and effective, and that the benefits of payments reform flow to consumers and businesses.

advertising and a dedicated website) to raise awareness of the SEPA initiative. In January 2014, the EU Commission issued a proposal to amend the SEPA Regulation to give an extra transition period of six months, during which payments which differ from the SEPA format can still be accepted so as to minimise any possible risk of disruption to payments for consumers and businesses across the SEPA zone.

Single Euro Payments Area (SEPA)

The Bank was appointed to act as the Competent Authority in Ireland for ensuring compliance with the SEPA Regulation (EU Regulation 260/2012). In this regard, it has been working for several years with the national banking community and all other stakeholders to ensure a successful national migration to SEPA by 1 February 2014. This work continued throughout 2013 on a number of levels, with particular emphasis on a national communications campaign (in a number of phases, involving radio, newspaper and online

Box 11 – Single Euro Payments Area

People travelling between euro-area countries can easily pay for goods and services in cash using the single currency. However, making cross-border payments within the euro area by other means (e.g., by credit transfer or direct debit) can be more difficult, due to technical, legal and market barriers that remain from the period prior to the introduction of the euro. The Single Euro Payments Area initiative (SEPA) plans to overcome these barriers by creating a single market for euro-denominated retail payments. SEPA - a 33 country area comprising the 28 EU member states together with Iceland, Norway, Switzerland, Monaco and Liechtenstein - will allow payment systems users to make cashless, euro-denominated payments to payees located anywhere in the EU and EEA, using a single payment account and a single set of payment instruments. The goal of SEPA is to create an integrated, competitive and innovative retail payments market for non-cash euro payments.

EU Regulation 260/2012 set 1 February 2014 as the date by which all retail electronic payments in SEPA must migrate from 'domestic only' payment systems to a pan-European equivalent. As a consequence, Ireland's national payment scheme for credit transfers and direct debits will close for business once SEPA migration is completed and be replaced by two pan-European schemes, the SEPA credit transfer scheme (SCT) and the SEPA direct debit scheme (SDD). Ireland's National Sort Codes (NSCs) and bank account numbers will be replaced by Bank Identifier Codes (BICs) and international bank account numbers (IBANs). These changes will help standardise payment messaging across SEPA and lead to more efficient payment processing.

SEPA will have at least some impact on every merchant, public administration, corporate entity (regardless of size) and citizen currently holding a payment account with a bank. Holders of such accounts in all countries participating in the SEPA initiative, regardless of their own location, will be able to make and receive euro-denominated payments, whether within or across national borders, under the same basic terms and conditions.

For further information on SEPA please refer to <http://www.readyforsepa.ie/>.

Currency Issue and Production

The Bank produces, issues and processes banknotes and coin and withdraws and destroys currency that is unfit for circulation. 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 2013, the Bank supplied a total of 345 million new and re-issuable banknotes.

All used banknotes that have been lodged to the Bank are processed on high-speed machines which check for authenticity and fitness. Unfit banknotes are destroyed while fit banknotes are re-issued into circulation (re-issuable banknotes). In 2013, 323 million euro banknotes were processed. Mutilated euro banknotes and Irish banknotes are also processed. The Bank continues to accept Irish banknotes and coin issued prior to the introduction of the euro. At end 2012, €231 million worth of Irish banknotes remain

outstanding with €124 million worth of coin outstanding.

The Bank continued to monitor compliance of professional cash-handlers with the ECB Decision 2010/14 as amended by Decision ECB/2012/19 and EU Regulation 1210/10 in relation to the authentication and fitness sorting of euro banknotes and coin prior to recirculation. In 2013, a total of 66 monitoring inspections were carried out with testing of over 200 banknote handling devices completed. 2013 saw the extended roll-out of cash recycling machines in bank branches and the Bank adjusted its compliance procedures accordingly.

Under the ECB pooled production arrangements, the Bank was allocated the production of 134 million €10 banknotes in 2013. Other denomination banknotes were received from other euro area NCBs and issued by the Bank.

Table 13 – Banknote Issues

Denomination	No. of Banknotes (million)		Value € million	
	2012	2013	2012	2013
€5	56	59	283	293
€10	51	57	514	573
€20	100	94	1,998	1,873
€50	143	134	7,129	6,689
€100	1	1	142	135
€200	0	0	2	2
€500	0	0	16	16
Total	351	345	10,084	9,581

Note: Figures may not sum due to rounding

Table 14 – Coin Issues

Denomination	No. of Coin (million)		Value € million	
	2012	2013	2012	2013
1c	70	49	0.7	0.5
2c	35	40	0.7	0.8
5c	30	19	1.5	1
10c	9	15	1	1
20c	19	17	4	3
50c	5	11	2	5
€1	7	6	7	6
€2	10	15	20	29
Total	185	172	37	46

Note: Figures may not sum due to rounding

In 2013, 113 million coin was produced and 172 million coin was issued. Demand for coin was down 7 per cent on 2012, when 185 million coin was issued.

The National Analysis Centre (NAC) and the Coin National Analysis Centre (CNAC), which are located within the Bank, receives and processes all of the counterfeit banknotes and coin detected in Ireland. This team also provides training to professional cash-handlers and law enforcement agencies on identifying banknote security features and on authentication and fitness checking of euro banknotes. These training sessions complement the work of the monitoring team referenced above and are intended to enhance

the knowledge of professional cash-handlers leading to improvements in the quality of euro banknotes in circulation.

The Collector Coin Unit is actively involved in the issuance of Irish collector coin products to mark significant events in Irish history, heritage or culture. The Bank, as agent for the Minister for Finance, issued a number of collector coin products during 2013. The 2013 Coin Programme was very successful with all of the coins issued proving popular.

As part of the NPP, a review of the efficiency of the Irish cash cycle was undertaken. This project, known as Irish Cash Cycle Efficiency (ICCE) commenced in January 2013, with

Box 12 – The Europa Banknote Series

In January 2013, the president of the ECB, Mario Draghi unveiled a new €5 banknote, the first banknote in a new series of euro banknotes which seek to improve the quality and security of euro banknotes. This new series of euro banknotes is called the Europa series because two of the security features contain a portrait of Europa – a figure from Greek mythology and the origin of Europe's name. The Europa series will be introduced gradually over several years, in ascending order, and the denominations remain unchanged: €5, €10, €20, €50, €100, €200 and €500. The Europa series will be circulated in parallel with the first series of euro banknotes, which will remain legal tender. Advance notification will be given when the first series of euro banknotes will cease to be legal tender. However, the first series of euro banknotes will always retain their value and can be exchanged for an unlimited period of time at the Eurosystem NCBs.

On 2 May 2013, the Bank, and all other NCBs issued the Europa series €5 banknote into circulation. The Bank's preparations for the launch of the new €5 began several years ago and the Bank was one of three NCBs selected to carry out tests of different types of coating on the new banknote before the final materials were selected. In the run up to the launch, the Bank provided new banknotes to banks, CITs, banknote handling equipment suppliers and other third parties to facilitate the testing and updating of banknote handling equipment. The Bank liaised with stakeholders in the cash cycle and training was provided to professional cash handlers on the security features of the new banknote. Communication material (brochures, posters etc.) was also made available to retailers, banks, CITs credit unions and post offices to coincide with the launch date.

Preparations for the launch of the next denomination in the Europa series, the €10, are ongoing. The new €10 banknote was unveiled to the public on 13 January 2014 and circulation will commence in September 2014.

information gathering from stakeholders involved in the cash cycle including retail banks, Cash-In-Transit companies, retailers and the security authorities. Following an analysis exercise, a report, including a number of recommendations, was presented to the National Payments Plan Steering Committee in September 2013. The Bank is now evaluating these recommendations with a view to improving the efficiency and effectiveness of the cash cycle and also to strengthen its overall resilience.



The new Europa series €5 banknote.

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.

Central Bank Strategy 2013-2015

The Bank's Strategic Plan for the period 2013-2015 outlines how it 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 legal mandate.

Balanced Scorecard Process

Implementation of the Strategic Plan's objectives is overseen and measured by the Bank's Balanced Scorecard (BSC) process. An annual BSC is prepared for the Bank that assesses the organisation's performance.

The objectives in the BSC are defined under four categories:

- » Operations – the key day-to-day operations of the Bank
- » Improvement Projects – significant projects which effect change in the organisation
- » People and Learning – major initiatives to enhance the performance of staff
- » Finance and Compliance – measures to ensure the organisation's operations are as efficient, effective and compliant as possible.

Each objective within the BSC is specifically linked to one of the High-Level Goals within the Strategic Plan. The Bank's Directors are accountable for the completion of all objectives and performance on the BSC is monitored and reported to the Bank's senior management on a quarterly basis both to the Bank's Commission and the Budget and Remuneration Committee. An annual assessment of performance is

conducted by the Governor's Committee. The BSC is also closely linked with the organisation's Performance Management Development Programme (PMDP) which assesses staff work performance.

Staffing

At the end of 2013, the Bank employed 1,384 staff comprising both permanent and fixed term contract staff. Of this number, 284 were assigned to Central Banking functions, 612 were assigned to Regulatory areas and 488 to Operations. A further 8 were assigned to the Investor Compensation Company Limited (ICCL). The total represented a net decrease of 0.7 per cent on 2012 staffing levels, a stabilisation after a period of significant growth. Notwithstanding there was a slight decrease in staffing levels, resourcing activities continued apace and 130 new appointments were made in 2013. The staff turnover figure for the Bank in 2013 was 6.8 per cent.

HR Strategy Implementation

The Bank's HR strategy sets out objectives for the three years from 2012-2014. During 2013, progress continued on the implementation of the strategy which supports delivery of the Bank's mandate. Building organisational capability and effectiveness are core elements of the strategy.

There was continued focus on and investment in the capability of staff during 2013. A bespoke modular leadership programme was developed and was attended by over 200 staff. 122 centrally organised training programmes were delivered which included management development and personal effectiveness training; in total 2,500 training days were delivered. In addition, 145 technical training courses took place in 2013 involving 1,755 participants and 3,300 training days. A new Bank-wide staff mentoring scheme was also launched in November.

A number of supports for Bank staff taking up opportunities created by the establishment of

the SSM were put in place. These included secondment and career break policies, language training and career workshops to enable staff to apply for roles advertised within the SSM.

An independent Gender Audit was conducted to better understand female participation rates. This audit confirmed that 49 per cent of employees at middle management level and above are women, of which 33 per cent occupy senior management (Deputy Head or above) roles.

A pilot project to explore the feasibility and use of job families and career paths was completed and its findings will inform the planned Organisational Review of the Bank commencing in 2014.

The negotiation of a formal Collective Agreement ('the Foster Agreement') with the union representing Professional & Administrative staff which concluded in December 2013, enabled the Bank and its staff to meet the commitments set down for the wider public service envisaged by the Financial and Emergency Measures in the Public Interest (FEMPI) legislation which took effect on 1 July 2013. The implementation of the agreement and associated changes to terms and conditions of employment, including hours of work, will be embedded during 2014.

Management of Internal Processes and Procedures

Investment Portfolio

At end 2013, the Bank's investment portfolio comprised assets of €19.5 billion. This value represents an increase of €0.1 billion at end 2012 (€19.4bn). Total earnings on the Bank's investment portfolios amounted to €430.0 million in 2013 compared to €552.7 million in 2012. Returns on the investment portfolio were 2.25 per cent in 2013 compared with 3.06 per cent for 2012.

Fixed income markets continued to be dominated by a low yield environment, with some increase evident in bond yields from

mid-year as economic conditions improved and the US signalled its intention to gradually reduce some of its exceptional economic support measures. As volatility in markets continued to recede, greater stability was evident in Eurozone bond markets, allowing yields in peripheral markets to trade closer to German levels.

The Bank fully unwound its US dollar portfolio in 2013 having sold the majority of it in 2011-2012 (US dollar holdings were €13.2 million equivalent at end 2012). The Bank's investment portfolio is managed in line with parameters approved by the Commission which are kept under constant review.

Industry Funding Levy

Following a public consultation, the Bank introduced, in 2013, a number of changes to its levy calculation methodology and related processes. The most significant of these related to the introduction of a levy calculation process designed to more closely align the funding by regulated entities of the costs of financial regulation with the allocation of supervisory resources under PRISM.

The Bank also signalled its intention to:

- » Seek the phasing in of a move to 50 per cent funding of the cost of regulating the credit union sector over the five year period 2016 – 2020 by gradually increasing the cap from its current level of 0.01 per cent of total assets
- » Introduce application fees
- » Remit 100 per cent of monetary penalties to the Exchequer.

Expenditure and Procurement Policy Approval Frameworks

The Bank's Expenditure Approval Framework details the governance within which the approval authorities for investment and operational expenditure are framed for the organisation. The operating and investment expenditures of the Bank are monitored and

reported to senior management on a monthly and quarterly basis in accordance with that framework.

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

Organisational Risk Management

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

The Bank's tools for monitoring financial risk were further enhanced throughout 2013. These improvements included the development of financial models which delivered a more complete view of the Bank's risk exposures and associated buffers. The Bank also participated in Eurosystem-wide risk management initiatives and working groups. Following the liquidation of IBRC in early 2013, the Bank acquired a portfolio of Irish Government bonds and National Asset Management Agency (NAMA) bonds. These holdings continue to be monitored in line with the Bank's risk management framework.

Management of the Bank's investment portfolio was undertaken in accordance with the parameters prescribed by the Bank's Commission to control market, credit and

liquidity risk. During 2013, two major improvements were made to the parameters: firstly, an enhancement to the credit risk management model was implemented to control for counterparty risk; and, secondly, a new benchmark was introduced for the marked-to-market portfolio. The new benchmark incorporates GDP weighting rather than relying solely on the traditional market capitalisation approach to derive its composition. Furthermore, in 2013 work commenced on a holistic review of the asset allocation, incorporating improved quantitative analysis, to establish the strategic direction of the investment portfolio for the medium term.

The Bank contributes to the development of collateral policy through its participation in the Eurosystem Risk Management Committee and its various taskforces and it applies the wide ranging collateral risk management framework developed by the Eurosystem. Throughout 2013, the Bank has continued in its efforts to increase the availability of liquidity to counterparties through the ongoing implementation of the additional credit claims initiative (ACC). As part of the Bank's risk control framework, due diligence was carried out on all ACC collateral along with the due diligence carried out on Residential Mortgage Backed Debt (RMBD) instruments.

An enhanced Operational Risk Management Framework was embedded during 2013. It comprises three broad elements: (i) risk management process via Risk and Control Self-Assessment (RCSA) programme and quarterly reporting of the Bank's risk profile to the Board; (ii) incident management policy and process, together with monthly reporting of incidents requiring escalation to the Board; and (iii) an extensive training and education to improve risk awareness and the risk management culture.

With regard 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 resiliency continuity plans. The enhanced approach to managing business continuity risks included the enhancement of contingency plans for critical divisions; development of a testable alternative working area; a broader recovery capability for critical systems; and a significant increase in testing and exercising.

Legal Services

In the area of Financial Regulation, legal focus was on the Bank's work in taking action against firms in breach of regulatory requirements and litigation in connection with such actions (including an application to the High Court for a transfer order transferring the assets and liabilities of Newbridge Credit Union to PTSB). Major legislative projects included the enactment of the Central Bank (Supervision and Enforcement) Act 2013, the enactment of the Credit Reporting Act 2013 and the implementation and commencement of the Credit Union and Co-operation with Overseas Regulators Act 2013. Significant resources were also devoted to European law initiatives such as the Single Supervisory Mechanism, Solvency II, the transposition of the Alternative Investment Fund Managers' Directive, the transposition of the Capital Requirements Directive IV and the IMF 'Report on Observed Standards and Codes' review and IOSCO review.

In the areas of Central Banking and Operations, advice was given on a number of large projects including the acquisition of new premises for the Bank, the development of a new collateral management system and agreeing and entering into new contractual arrangements with a security settlement system that operates as an 'ancillary system' in TARGET2. In addition, measures were implemented to reflect the broadening of the range of collateral eligible for Eurosystem operations to provide for additional credit claims (including Special Mortgage-Backed Promissory Notes (SMBPNs)) and legal reviews were conducted of residential mortgage pools backing SMBPNs. The Bank's documentation on monetary policy instruments and procedures was amended to reflect

relevant ECB guidelines and legal assessments were also conducted on the compliance of asset-backed securities with Eurosystem eligibility criteria.

A Legal Compliance Function was set up in 2013 to co-ordinate compliance of the Bank's disclosure obligations. This will include obligations under Freedom of Information (FOI) legislation which is due to apply to the Bank in 2014, the forthcoming Oireachtas banking inquiry to be convened in 2014, legal proceedings to which the Bank is joined as a party, and data protection requests. Legal Compliance also provides legal support to the Bank's decision-making functions, including in connection with the grant/refusal of authorisations as regulated financial service providers.

Facilities Management

The Bank has premises across four locations in Dublin – three in the city centre and one at Sandyford, County Dublin. During the year, the Bank continued to maintain its premises and provide all facilities services to staff, contractors and visitors to the Bank. This included the relocation of the public office at its premises in Dame Street (for the exchange of notes and coins and the purchase of commemorative coins) to improve accessibility and create a more appropriate space.

Two major tenders were undertaken: a catering tender was awarded; and an invitation to tender was issued for a 'Total Facilities Management' service provider.

Project Management

In 2013, work continued to embed best practice Project Management (PM) and oversight across the Bank. Compliance levels were in excess of 90 per cent for the year and these levels of good PM practice are contributing to the Bank's strategic goal of maximising operational efficiency and effectiveness. During the year, the Bank's PM capabilities provided substantial support to a number of major business projects underway in the Bank including the Regulatory Transactions Programme. This operational experience has provided valuable input into the

Box 13 – Central Bank of Ireland: New Headquarters

The programme to relocate staff from the three city centre locations to one central location advanced further and the Bank purchased a site at North Wall Quay, Dublin, as the location for a new Headquarters.

In February 2013, the Bank completed the acquisition of the new building and implemented various boundary and security arrangements on the site. The building design team was completed with the appointment of Quantity Surveyors, Fire Safety Engineers, Acoustic and Catering design consultants.

During 2013, the Feasibility Design phase of the new building programme was completed which included engagement with staff, the statutory authorities, and other stakeholders to enable the team propose the high level design of the building. The Feasibility Stage Report was agreed in September 2013.

Also during the year, the Scheme Design phase of the programme was completed. This phase included extensive consultation with the planning authorities and further developed the plans, sections and elevations of the NWQ Building with emphasis on the design of the Façade and Public Realm, the revisions to the building Core and Floor Plan usage proposals.

In January 2014, the Bank submitted an application for an amendment to the Planning Permission for the building to enable it achieve its targets for building sustainability, revise the internal layout that meets the Bank's requirements, and develop an exterior to the building that will enhance the architectural character of the city quays.



Bank's New Headquarters, North Wall Quay, Dublin 1.

development of a Programme Management Methodology, which the Bank intends to introduce as an organisational standard during 2014.

The Bank was awarded the ISO 21500 Project Management Standard in Q1 2014 and was the first public sector organisation and the first NCB to be so certified.

Information Technology Management

In 2013, continued progress was made on enterprise architecture with detailed plans prepared for IT applications and for technology. A Regulatory Transactions Strategy featuring a new systems architecture and technology platform was defined during the year and implementation began in early 2014. Enhanced capability in processing and transmitting

returns was also acquired to support the implementation of CRD IV returns for banks and investments as required by the EBA. Plans were developed during 2013 to replace the Bank's collateral management system and its market operations IT platforms; implementation and transition to the new systems will commence during the first half of 2014. The Bank completed most of the transition of its server side technical infrastructure to a specialist data centre with full completion to take place in Q1 2014. This undertaking provides secure IT infrastructure with comprehensive disaster recovery capability. During 2013, a programme of work was commenced to enhance and maintain the Bank's key IT infrastructure and this programme is aligned with IT support required for the Bank's new building programme.

Box 14 – Regulatory Transactions Strategy (RTS) Update – 2013

The Bank's Strategic Plan sets out the goal to implement a Regulatory Transactions Strategy (RTS) in order to:

- » Improve effectiveness and efficiency of regulatory processes
- » Improve the quality of regulatory information
- » Improve the quality of service.

The Bank has initiated a programme of process re-engineering and automation designed to improve efficiency and cost effectiveness relating to key supervisory processes. This programme has already centralised responsibility for on-line reporting and for processing pre-approval controlled function (Fitness and Probity) applications.

The next phase of this work programme is to streamline and automate further processes for Low Impact firms. These processes include:

- » Authorisation/renewal of authorisation of entity
- » Passporting inwards and outwards to other European jurisdictions
- » Acquiring transactions
- » Administrative changes
- » Voluntary Revocations.

The Bank's approach is to improve operational efficiency and cost control without reducing the level of scrutiny required in line with its statutory objectives.

Work commenced on delivering a solution that will improve the efficiency and effectiveness of the Funds and Retail Intermediaries authorisation processes in 2014 by delivering an Online Portal which will allow Regulated Financial Service Providers (RFSPs) to securely exchange information with the Bank including authorisations information.

The RTS will deliver the following new online based processes in 2014:

- » Quarter 2 2014 – Authorisation of Qualifying Investor Alternative Investment Funds
- » Quarter 3 2014 – Authorisation of Funds, Fund Service Providers and Retail Intermediaries.

External Communications

During 2013, the Bank processed 1,459 media queries, from both domestic and international media. Queries were focused generally on supervisory, financial and economic issues and the role of the Bank. The Bank's programme of media engagement continued with regular publication of speeches, media releases and statements with a number of media interviews and press briefings provided. In addition, the Bank provided responses to 491 parliamentary questions (PQs) via the Department of Finance, which represented almost double the number from 2012. There were 8,965 direct contacts received from the public during the year.



The 2013 Whitaker Lecture was given by Professor Harold James, Princeton University. These lectures were inaugurated in 2004 in honour of Dr. T.K. Whitaker who served as Governor of the Bank from 1969-1976.

Social Media

The Bank expanded its social media presence in July 2013 with the launch of a news and information service on the social networking site, Twitter. The Bank also maintains a presence on Facebook for the purpose of promoting the Generation Euro Students' Award and other initiatives to schools.



The Bank's news and information service on Twitter.

Generation Euro

The Generation Euro Students' Award entered its second cycle in 2013. The national competition challenges Transition Year students to act out the role of the Governing Council of the ECB to determine the interest rate for the euro area, and comprises three rounds including an online quiz, a group assignment and the National Final where teams present to a senior panel at the Bank. Over 260 entries were received from schools across Ireland with Marian College in Dublin named National Winners for 2013. The winning team travelled to the ECB in April 2013 to meet President Mario Draghi along with students from across the euro area. Separately, a number of school visits to the Bank were facilitated throughout the year and a new education section for schools on the Bank's website was launched.



Marian College Dublin – National winners of the Generation Euro Students' Award.

Environment, Health and Safety

The Bank operates from four locations. The majority of staff (approximately 86 per cent) is engaged in office based activities at the city centre sites with the remainder involved in manufacturing activities at the Currency Centre. Appropriate health & safety, fire, environmental and energy policies are in place, supported by up-to-date management systems.

Quarterly divisional health and safety reviews continue to develop environmental, health and safety awareness and deliver compliance across all activities, with the overall divisional compliance of 96.4 per cent by end 2013. A key focus for improvement in 2013 was the Bank's contractor control procedures and processes.

The systems and procedures demonstrated by the Bank in its management of health and safety across its four locations were rated with a Distinction from the National Irish Safety Organisation (NISO) which presented the Bank with a national award at NISO's 22nd Annual Occupational Safety Awards in October 2013.

Energy Usage

The Bank's annual statement on energy usage is included at Appendix 2 of the Chapter.

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

The EU-IMF Programme (the Programme) aimed to restore Irish sovereign credit worthiness by the end of 2013. The main objectives of the Programme were to restore the domestic banking system to health, to create jobs, restore economic growth and place the public finances on a sustainable path. Under the terms of agreement of the Programme, Ireland committed to taking the necessary actions to achieve recapitalisation, downsizing and reorganisation of the banking system. The key items delivered under the Programme by the Bank to end 2013, including structural benchmarks, are listed below.

Actions Completed by End-Q1 2013			
No.	Area	Action/Measure	Month
1	Capital Assessment	The Bank provided the External Partners with a review of developments in the PCAR banks relative to PCAR 2011. Overall results of this work were published in early March 2013. The Bank agreed with the External Partners on the specific details of the review.	Feb-13
2	Deleveraging	The Bank, in consultation with the External Partners, 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.	Mar-13
3	Funding and Liquidity Monitoring	The Bank provided the External Partners with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.	Mar-13
4	Asset Quality	The Bank provided the External Partners with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. The Bank monitored each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans.	Mar-13
5	Asset Quality	The Bank published banks' reported data on loan modifications, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.	Mar-13
6	Asset Quality	The Bank established a public target requiring the principal mortgage banks to offer durable restructuring arrangements for a substantial share of problem mortgage loans during 2013. (Structural Benchmark)	Mar-13
7	Financial Supervision	The Bank provided a comprehensive report on progress in implementing its action plan for strengthening supervision of credit institutions.	Mar-13

No.	Area	Action/Measure	Month
8	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.	Mar-13
9	Financial Supervision	The Bank engaged with each bank to ensure appropriately prudent provisioning, including on key inputs, such as for estimating cure rates for originally performing, forborne, and modified loans, to ensure these cures reflect durable modifications.	Mar-13
10	Financial Supervision	Following completion of annual model performance reviews assessing banks' risk-weighted asset calculations, forecasting and stress testing in advance of PCAR 2013, the Bank reported to the External Partners on progress with implementation of the findings from the credit regulatory capital review process and with the specific mitigating actions communicated to the banks. (Structural Benchmark)	Mar-13
11	Financial Supervision	Banking supervision and securities regulation: The Bank began an internal self-assessment of Ireland's observance of the recently revised Basel Core Principles (BCP) for Effective Banking Supervision. The Bank requested an external BCP assessment, with the aim of completing it by end-December 2013.	Mar-13
Actions Completed by End-Q2 2013			
No.	Area	Action/Measure	Month
12	Asset Quality	In consultation with the External Partners, the Bank updated, where necessary, by end-May 2013 the 2011 Impairment Provisioning and Disclosure Guidelines. (Structural Benchmark)	May-13
13	Capital Assessment	The Bank reported to the External Partners on the evolution of regulatory capital within the PCAR banks up to the end of December 2012.	May-13
14	Asset Quality	The Bank issued guidance to the credit institutions on the definition of a sustainable restructuring arrangement.	Jun-13
15	Funding and Liquidity Monitoring	The Bank provided the External Partners with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.	Jun-13
16	Asset Quality	The Bank published banks' reported data on loan modifications, including re-defaults of modified loans, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.	Jun-13

Key Programme Actions Completed by end-Quarter 4 2013

No.	Area	Action/Measure	Month
17	Asset Quality	The Bank provided the External Partners with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. The Bank monitored each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.	Jun-13
18	Asset Quality	The Bank proposed a public target requiring the principal mortgage banks to complete durable restructuring arrangements on a substantial share of problem mortgage loans during 2013.	Jun-13
19	Asset Quality	While ensuring that balanced incentives and debtors' sustainability are maintained, the Bank completed a review of the Code of Conduct on Mortgage Arrears (CCMA), and published a revised Code.	Jun-13
20	Financial Supervision	The Bank provided a comprehensive report on progress in implementing the action plan for strengthening supervision of credit institutions.	Jun-13
21	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.	Jun-13
22	Financial Supervision	The Bank reviewed the implementation of the 2011 Central Bank Provisioning and Disclosure Guidelines by the Covered Banks with reference to the end-2012 published financial statements.	Jun-13
23	Financial Supervision	As a stock-taking of progress in addressing mortgage arrears, the authorities prepared a comprehensive review. (Structural Benchmark)	Jun-13
24	Financial Supervision	The Bank reported on the exploration of options to lower the funding cost of banks' tracker mortgage portfolios.	Jun-13
Actions Completed by End-Q3 2013			
25	Capital Assessment	Taking into account progress in developing the relevant SSM methodology, the Bank agreed with the External Partners other methodological aspects of the asset quality review on an incurred loss basis.	Jul-13
26	Capital Assessment	With regards to the assessment of balance sheets, the Bank agreed with the External Partners the engagement of independent third parties to, respectively: (i) contribute to the implementation of the exercise including through on-site loan file reviews, and (ii) to validate the exercise.	Jul-13

27	Capital Assessment	The Bank agreed with the External Partners a detailed roadmap for the completion of the exercise specifying regular engagement with the External Partners on an ongoing basis on progress, methodology, inputs, outputs and findings.	Jul-13
28	Asset Quality	Based on consultations with the External Partners, the Bank published a target for the conclusion by end-2013 of sustainable solutions of no less than 15% of mortgage loans in arrears for more than 90 days, consistent with largely completing sustainable solutions by end-2014 (prior action). The Bank announced Q1 2014 targets for proposed solutions of 70% and for concluded solutions of no less than 25%.	Mid-Sept 2013
29	Capital Assessment	The Bank agreed with the External Partners to test Parameters for benchmarking provisioning.	Sep-13
30	Deleveraging	The authorities, in consultation with the External Partners, 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.	Sep-13
31	Funding and Liquidity Monitoring	The Bank provided the External Partners with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.	Sep-13
32	Profitability	The Bank conducted a forward looking analysis of the operating profit for each of the PCAR banks, including sensitivity analysis to funding costs, to end 2015. (Structural Benchmark).	Sep-13
33	Profitability	The Bank reported on the exploration of options to lower the funding cost of banks' tracker mortgage portfolios.	Sep-13
34	Asset Quality	(i) The Bank provided the External Partners with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. (ii) The Bank monitored each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.	Sep-13
35	Asset Quality	The Bank published banks' reported data on loan modifications, including re-defaults of modified loans, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.	Sep-13
36	Financial Supervision	The Registrar of Credit Unions issued new supervisory guidance to credit unions on new requirements contained in the Credit Union and Co-Operation with Overseas Regulators Act 2012, which included governance, internal audit, operational risk, outsourcing and strategic planning.	Sep-13

37	Financial Supervision	The Bank presented a comprehensive report on progress in implementing its action plan for strengthening supervision of credit institutions and discussed it with the External Partners.	Sep-13
38	Financial Supervision	The Bank reported on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage and SME loan portfolios.	Sep-13
Actions Completed by End-Q4 2013			
39	Capital Assessment	The Bank prepared a preliminary assessment of the balance sheets of the PCAR banks by end-October. (Structural Benchmark).	Oct-13
40	Capital Assessment	The Bank analysed current eligible regulatory capital under Basel III/CRD IV by end October.	Oct-13
41	Asset Quality	The Bank reported to the External Partners by early-November on the number and nature of mortgage solutions proposed in Q3 with a preliminary assessment of sustainability issues.	Early- Nov
42	Asset Quality	The Bank reported on the outcome of the audit of banks' proposed mortgage solutions for Q2, which included an assessment of the sustainability of banks' solutions.	Mid-Nov
43	Capital Assessment	The balance sheet assessment was finalised and the pro forma results were communicated to the banks.	Nov-13
44	Deleveraging	The authorities produced a final report of the banks' implementation of their deleveraging plans under the PLAR 2011.	Nov-13
45	Financial Supervision	The authorities prepared a final comprehensive report on the remaining steps towards the full and timely implementation of the Central Credit Register.	Nov-13
46	Asset Quality	The Bank devised a system for lenders to report on legal proceedings with a view to ensuring progress towards achieving sustainable solutions.	Nov-13
47	Asset Quality	The Bank will require lenders to have in place a strategy to address any potential shortfall from the repossession of the property.	Nov-13
48	Funding and Liquidity Monitoring	The Bank provided the External Partners with a detailed assessment of banks' progress towards the relevant Basel III liquidity and funding requirements using the advanced monitoring framework, along with a final report on progress towards compliance with Basel III liquidity and funding requirements by the relevant dates.	Nov-13

49	Asset Quality	The Bank published banks' reported data on loan modifications, including re-defaults of modified loans, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.	Dec-13
50	Asset Quality	The Bank announced Q2 2014 targets for the principal mortgage banks to propose and conclude restructuring solutions for mortgage loans in arrears for more than 90 days.	Dec-13
51	Asset Quality	The Bank provided the External Partners with its assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. The Bank also monitored each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.	Dec-13
52	Financial Supervision	The Bank presented a final comprehensive report on progress in implementing its action plan for strengthening supervision of credit institutions and discussed it with the External Partners.	Dec-13
53	Financial Supervision	The Bank completed an International Organisation of Securities Commissions, (IOSCO) Objectives and Principles of Securities Regulation self-assessment and requested an external assessment by the IMF with the aim to be completed by end-December 2013. The Bank also completed a BCP assessment and requested an external assessment by the IMF, with the aim to be completed by end-December 2013.	Dec-13

Appendix 2: Energy, Safety and Environmental Developments

Actions Undertaken in 2013

The Bank undertook a range of initiatives to improve its energy, safety and environmental performance in 2013, including:

- » Lighting upgrade works in Sandyford, Dame Street and Spencer Dock
- » Signed up to SEAI partnership programme for effective energy management
- » Compressed air leakage survey in Sandyford reduced running energy use by 50 per cent
- » Air quality sensors installed in Dame Street to help reduce fan speeds and operating hours
- » Implementation of eLearning-based Display Screen Equipment training and assessment programmes for all staff
- » An organisation wide review of all health and safety risk assessments
- » Achieving a Distinction in a national safety management competition.

Actions Planned for 2014

The Bank intends to further improve its energy, safety and environmental performance in 2014 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 and upgrade lighting schemes with a view to achieve further energy savings
- » Evaluate an upgrade of insulation and glazing at Sandyford to reduce heating and cooling requirements
- » Advance the Sustainability Agenda to help reduce the Bank's environmental impact through operational initiatives and promoting awareness
- » Review of plant and equipment performance across all sites to improve efficiency
- » Implementing an internal programme of safety management performance audits across all sites
- » Creating a central record of health and safety risk assessment reviews for all staff.

Notwithstanding an increase in the number of people working in its buildings in 2013 and the additional electrical cooling required during a protracted warm period between May and September, the energy reducing actions taken during the year allowed the Bank to record an overall energy reduction of 2.54 per cent for 2013 compared with 2012.

Energy Usage

	Currency Centre		City Centre Sites		Overall	
	2013 kWh	% change against actual 2012	2013 kWh	% change against actual 2012	2013 kWh	% change against actual 2012
Electricity	3,610,538	-3.21	5,907,779	+0.83	9,518,317	-0.74
Gas	2,273,604	-5.58	3,179,375	-3.44	5,452,979	-4.34
Oil*	187,000	-30.61	220,000	0	407,000	-16.85
Total Energy	6,071,142	-5.25	9,307,154	-0.69	15,378,296	-2.54

*Oil usage is based on contracted annual deliveries

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

Patrick Honohan
Governor

Neil Whoriskey
Secretary

14 April 2014

Annex: Statements and Published Papers by the Bank in 2013

Key Publications

Quarterly Bulletin

Annual Report 2012 – April 2013

Annual Performance Statement 2012 – 2013

Speeches and Presentations 2013

Panel comments by Governor Patrick Honohan at the BIS Conference on 'Sovereign Risk: A World without Risk-free Assets', January

Address by Deputy Governor Stefan Gerlach at the Berlin Finance Lecture entitled 'Ireland: From Crisis to Recovery', January

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

Address by Director of Markets Gareth Murphy at an industry briefing hosted by the Irish Funds Industry Association entitled 'Irish funds regulation after the implementation of AIFMD', January

Introductory remarks on Banking Union by Deputy Governor Stefan Gerlach, January

Address by Mark Burke, Head of Life Insurance Supervision, to 'A future for the Life & Pensions Industry' conference, January

Introductory remarks by Deputy Governor Matthew Elderfield's at the 11th Annual European Financial Services Conference, Brussels, January

Introductory remarks by Governor Patrick Honohan at the T.K. Whitaker Lecture, February

Whitaker Lecture 2013 delivered by Prof. Harold James, Princeton University entitled: 'Design flaws of the euro', February

Address by Governor Honohan to the 2nd Annual UCD Garret FitzGerald Spring School, February

Introductory remarks by Governor Patrick Honohan at the Central Bank Conference 'How to Fix Distressed Property Markets?', February

Address by Deputy Governor Matthew Elderfield to the Institute of Directors in Ireland Spring Lunch, February

Address by Director of Financial Operations Maurice McGuire at the Colmcille Winter School, February

Address by Head of Markets Policy, Martin Moloney to the 4th AIFM Directive Conference, February

Address by Director of Economics and Chief Economist, Lars Frisell to Institute of International and European Affairs, February

Opening remarks by Deputy Governor Stefan Gerlach at the Eurosystem Competitiveness Network Meeting, March

Address by Governor Honohan to the National Bank of Poland Bi-annual EU Presidency Lecture in Warsaw, March

Address by Director of Markets Supervision Gareth Murphy to the Alternative Investment Management Association Global Policy and Regulatory Forum in Guildhall, London, March

Address by Director of Economics and Chief Economist Lars Frisell to the Bank of Finland in Helsinki, Finland, March

Address by Director Credit Institutions & Insurance Supervision Fiona Muldoon to Cantillon Economy & Entrepreneurship Forum, April

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

Address by Director of Markets Supervision Gareth Murphy to the Funds Congress 2013, April

Address by Registrar of Credit Unions Sharon Donnery to the Irish League of Credit Unions AGM, April

Opening Statement by Governor Patrick Honohan to Joint Oireachtas Committee on EU Affairs April

Address by Deputy Governor Matthew Elderfield to the European Insurance Forum 2013 in Dublin, May

Remarks prepared by Governor Patrick Honohan for the FMC2 Conference on sustainable mortgage modification, May

Address by Director of Enforcement Derville Rowland at a Byrne Wallace Briefing Seminar on Central Bank Enforcement, May

Address by Sharon Donnery Registrar of Credit Unions at the Credit Union Managers Association Seminar 'The New Debt, Investment and Payments Environment', June

Address by Director of Policy and Risk Patrick Brady to the International Funds Industry Association Annual Global Funds Conference, June

Opening Statement by Deputy Governor Matthew Elderfield to the Public Accounts Committee in relation to Special Report No. 72 of the Controller and Auditor General, June

Address by Director of Consumer Protection, Bernard Sheridan, to IBF/Certus Best Practice in Mortgage Arrears Management, June

Address by Martin Moloney, Head of Markets Policy Division, to the Irish Funds Industry Association, July

Address by Head of Markets Policy Martin Moloney to the Institute for International and European Affairs, July

Address by Director of Credit Institutions and Insurance Supervision Fiona Muldoon to the MacGill Summer School entitled 'Restoring confidence in the financial system', August

Address by Sharon Donnery, Registrar of Credit Unions, Central Bank of Ireland, to the Credit Union Managers' Association Autumn Conference, September

Address by Deputy Governor Central Banking to the University of Limerick entitled 'Macprudential Policy in Ireland', September

Address by Director Credit Institutions & Insurance Supervision Fiona Muldoon to the University of Limerick entitled 'Financial Sector Reform – A regulatory perspective', September

Introductory statement by Governor Patrick Honohan at the Joint Oireachtas Committee on Finance, Public Expenditure and Reform, September

Address by Director of Policy and Risk Patrick Brady to the Society of Actuaries conference on 'ERM: Insights for Insurers', September

Address by Head of Life Insurance Mark Burke to the 3rd Annual Best Practice in Managing Insurance Assets entitled 'A regulatory perspective on the challenges posed by a changing interest rate environment', September

Address by Colm Kincaid, Head of Consumer Protection (Banking, Insurance, Investments and Policy), to the Griffith College Property Law Update, October

Adverse selection and moral hazard in forecasting and limiting arrears and loan losses on mortgages - based on an address by Patrick Honohan to the Society of Actuaries in Ireland, on the occasion of his being conferred with an Honorary Fellowship of the Society, Dublin, October

Closing remarks by Director of Markets Supervision Gareth Murphy at the Central Bank of Ireland Conference on Effective Banking and Securities Regulation, October

Opening address by Deputy Governor of Financial Regulation, Cyril Roux at the Central Bank of Ireland conference on Effective Banking and Securities Regulation, October

Address by Registrar of Credit Unions Sharon Donnery to the National Supervisors Forum Annual General Meeting AGM, November

Address by Registrar of Credit Unions Sharon Donnery to the LIA Credit Union Awards, November

Address by Governor Patrick Honohan to a conference organised by the Central Bank of Iceland, Reykjavík, November

Address by Governor Patrick Honohan at the IIEA conference 'The Future of Banking in Europe' entitled 'The Future Shape of Banking', December

Address by Deputy Governor Cyril Roux to the Financial Services Ireland Annual Dinner, December

Articles in Central Bank Quarterly Bulletins

Housing Equity Withdrawal Trends in Ireland – Reamonn Lydon and Brídín O'Leary – No.1 2013

Why are Irish Non-Financial Corporations so Indebted? – Mary Cussen and Brídín O'Leary – No.1 2013

The Usage, Cost and Pricing of Retail Payments in Ireland – Ronnie O’Toole – No.2 2013

Measuring the Value Added of the Financial Sector in Ireland – Mary Everett, Joe McNeill and Gillian Phelan – No.2 2013

Analysis of Recent Monetary Operations & Financial Market Developments – Eoin McCabe and Donal Hayes – No.3 2013

Mortgage Arrears in Ireland: Introducing the Enhanced Quarterly Statistics – Jean Goggin – No.4 2013

Policy Measures to Improve Access to Credit for SMEs: A Survey – Sarah Holton, Fergal McCann, Kathryn Prendergast and David Purdue – No.4 2013

Boxes in Central Bank Quarterly Bulletins

Understanding Revisions to Short-Term Economic Forecasts – Thomas Conefrey – No.1 2013

Trends in Farm Output, Input and Income – Thomas Conefrey – No.1 2013

Migration in Ireland: Recent Trends in Historical Context – Thomas Conefrey – No.1 2013

Residential Mortgage Arrears – Jean Goggin and Martin O’Brien – No.1 2013

Recent Developments in World Trade – Neil Killeen – No.1 2013

The US Federal Reserve’s Forward Guidance and Quantitative Easing – León Fernández Brennan – No.1 2013

Assessing the Usefulness of Soft Data in Projecting Irish GDP – Joelle Liebermann – No.2 2013

Unemployment by Education, Age Group and Duration – Thomas Conefrey – No.2 2013

Liquidation of IBRC and Exchange of Promissory Notes for Government Bonds – No.2 2013

Money Market and Investment Fund Flows in Q4 2012 – Brian Godfrey – No.2 2013

The Euro Area House Price Index and the Ongoing Adjustment in Euro Area Housing Markets – Bernard Kennedy – No.2 2013

A Monthly Business Cycle Indicator for Ireland – Thomas Conefrey and Joelle Liebermann – No.3 2013

The Impact of Re-domiciled PLCs on GNP and the Current Account – Thomas Conefrey – No.3 2013

Focus on Long-Term Unemployment – Thomas Conefrey – No.3 2013

The Changing Composition of the Irish Banking System 2003–2012 – Sarah Frost – No.3 2013

Overview of Recent Growth in the Irish Investment Fund Industry – Patrick Hughes – No.3 2013

Correction of Current Account Imbalances: How are the Periphery Economies Progressing? – Bernard Kennedy and Mary Ryan – No.3 2013

Comparing Household Saving Patterns in the Euro Area Periphery against those in the Rest of the Euro Area – David Purdue – No.3 2013

Part-time Underemployment – Suzanne Linehan – No.4 2013

The Stock of Vacant Dwellings and Recent House Price Movements – Thomas Conefrey – No.4 2013

The European Semester – Ronán Hickey – No.4 2013

The Irish Banking System and its International Holdings of Debt Securities – Dermot Coates and Jenny Osborne Kinch – No.4 2013

The Impact of the Prospective ‘Tapering’ of Quantitative Easing by the US Federal Reserve on the Funds Industry in Ireland – Brian Golden – No.4 2013

Methodological Changes in the Measurement of US GDP – Nicolas Gobaraja – No.4 2013

Research Technical Papers 2013

On the Hook for Impaired Bank Lending: Do Sovereign-Bank Inter-Linkages Affect the Fiscal Multiplier? – Robert Kelly and Kieran McQuinn – March

Age or Size? Determinants of Job Creation –
Martina Lawless – April

Why Firms Avoid Cutting Wages: Survey
Evidence from European Firms – Philip Du Caju,
Theodora Kosma, Martina Lawless, Julián
Messina and Tairi Room – June

Understanding Irish House Price Movements: A
User Cost of Capital Approach – Frank Browne,
Thomas Conefrey and Gerard Kennedy - June

Spillover in Euro Area Sovereign Bond Markets
– Thomas Conefrey and David Cronin – July

Price Expectations, Distressed Mortgage
Markets and the Housing Wealth Effect –
Yvonne McCarthy and Kieran McQuinn –
August

Was the Securities Markets Programme
Effective in Stabilizing Irish Yields? – David
Doran, Peter Dunne, Allen Monks and Gerard
O'Reilly – September

Credit Conditions in a Boom and Bust Property
Market – Yvonne McCarthy and Kieran
McQuinn – October

Peer Reviewed Articles and Chapters in Books –

Journal Articles

Clancy, Daragh, “Output Gap Estimation
Uncertainty: Extracting the TFP Cycle Using an
Aggregated PMI Series,” *Economic and Social
Review*, 2013, 44 (1), 1–18.

Cronin, David and Kevin Dowd, “Fiscal Fan
Charts: A Tool for Assessing Member States’
(Likely?) Compliance with EU Fiscal Rules,”
Fiscal Studies, 2013, 34(4), 517–534.

Gerlach, Stefan, “Monetary policy after the
crisis,” *Manchester School: Money, Macro
Finance Conference Issue*, 2013, 81, 14–34.

Gerlach, Stefan and John Lewis, “Zero lower
bound, ECB interest rate policy and the
financial crisis,” *Empirical Economics*, 2013.

Holton, Sarah, Martina Lawless, and Fergal
McCann, “SME Financing Conditions in Europe:
Credit Crunch or Fundamentals?,” *National
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Lawless, Martina, “Tax Complexity and Inward
Investment,” *Economica*, 2013, 80 (317), 1–22.

Lawless Martina and Fergal McCann,
“Determinants of default: Evidence from a
sector level panel of Irish SME loans,”
Economic and Social Review, 2013, 44(4),
473–488.

Lydon, Reamonn and Yvonne McCarthy, “What
lies beneath? Understanding recent trends in
Irish mortgage arrears,” *Economic and Social
Review*, 2013, 44 (1), 217–250.

Moloney, Kitty and Gareth Murphy, “The
spectrum of regulatory engagement,” *Law and
Financial Markets Review*, 2013, 7 (3), 138–143.

Book Chapters

Browne, Frank and Robert Kelly, “Prolonged
Dislocation and Financial Crisis,” in Jacob
Braude, Zvi Eckstein, Stanley Fischer, and Karnit
Flug, eds., *The Great Recession: Lessons for
Central Bankers*, MIT Press, 2013, pp. 267–313.

Forthcoming

Bermingham, Colin and Antonello D’Agostino,
“Understanding and Forecasting Aggregate and
Disaggregate Price Dynamics,” *Empirical
Economics*.

Bermingham, Colin and Thomas Conefrey, “The
Irish Macroeconomic Response to an External
Shock with an Application to Stress Testing,”
Journal of Policy Modelling.

Cronin, David, “The Interaction between Money
and Asset Markets: A Spillover Index
Approach,” *Journal of Macroeconomics*.

Gerlach, Stefan and John Lewis, “ECB reaction
functions and the crisis of 2008,” *International
Journal of Central Banking*.

Holton, Sarah, Martina Lawless, and Fergal
McCann, “Credit demand, supply and
conditions: A tale of three crises,” *Applied
Economics*.

Kelly, Robert and Kieran McQuinn, “On the
hook for impaired bank lending: Do sovereign
bank inter-linkages affect the net cost of a fiscal
stimulus?,” *International Journal of Central
Banking*.

Lawless, Martina, “Age or Size: Contributions to
Job Creation,” *Small Business Economics*.

Lawless, Martina, “Marginal distance: Does
export experience reduce firm trade costs?,”
Open Economy Review.

Lawless Martina, Tara McIndoe-Calder, and Fergal McCann, "SMEs in Ireland: Contributions, Credit and Economic Crisis," Policy Studies.

Liebermann, Joëlle, "Real-time Nowcasting of GDP: A Factor Model versus Professional Forecasters," Oxford Bulletin of Economics and Statistics.

McCann, Fergal, "Indirect Exporters," Journal of International Competition and Trade.

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

Locational Banking Statistics - Quarterly

Mortgage Arrears Statistics – Quarterly

Financial Statistics Summary Chart Pack

Consultation Papers published by the Bank in 2013

Review of the Code of Conduct on Mortgage Arrears – March

Consultation on Revisions to the Regulatory Framework for Money Transmission Businesses – April

Inquiry Guidelines to be Prescribed Pursuant to Section 33BD of the Central Bank Act 1942 (as amended) – May

Policy on Management of Country Risk by Credit Institutions – July

Consultation on Authorisation of Regulated Firms, Funds and Intermediaries: Process Improvements and Service Standards – July

Consultation on Types of Alternative Investment Funds under AIFMD and Unit Trust Schemes under the Unit Trust Act 1990 (including EUTs, REITs etc.) – July

Consultation on the Authorisation Requirements and Standards for Debt Management Firms – July

Consultation on the Review of the Corporate Governance Code for Credit Institutions and Insurance Undertakings – August

Client Asset Regulations & Guidelines – August

Consultation on the Review of the Handbook of Prudential Requirements for Authorised Advisors and Restricted Intermediaries – August

Consultation on Competent Authority Discretions and Options in CRD IV and CRR – September

Consultation on Requirements for Reserving and Pricing for Non-Life Insurers and Reinsurers – September

Consultation on Additional Consumer Protection Requirements for Debt Management Firms - November Requirements for Debt Management Firms

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

Chapter 2: Governance



This chapter sets out the procedures and processes applicable to the governance of the Bank during 2013.

Legal Framework and Statutory Objectives

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

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

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

The Central Bank Commission

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

Role of the Commission

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

are properly exercised and discharged. The Commission has adopted its own terms of reference which sets out how it can best deliver on those responsibilities.

Delegation of Powers and Functions

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

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

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

Members of the Commission

The Governor is the Chairman of the Commission. The other ex-officio members comprise the Deputy Governor (Central Banking), the Deputy Governor (Financial Regulation) and the Secretary General of the Department of Finance. The Minister for Finance appoints at least six, but no more than eight, other members of the Commission who typically hold office for a term of five years. The terms of the initial members of the Commission range from three to five years to ensure continuity of knowledge. Ex-officio members of the Commission remain members for as long as 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 2014, the following were members of the Commission:

Ex-Officio Members

Governor

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

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

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

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

Deputy Governor (Central Banking)

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

Deputy Governor (Financial Regulation)

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

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

Secretary General of the Department of Finance

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.

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

Patricia Byron is the Chief Executive Officer of the Injuries Board, an independent state body established in 2004 to reform a costly personal injuries claims model that caused excessive insurance premiums for consumers and businesses. Over recent years she has also been involved in a number of efficiency initiatives in support of public reform.

Ms Byron previously worked in the insurance sector for the major part of her career, leading the executive team in Aviva directly before taking up her current role. She is a graduate of University College Dublin, a Chartered Insurer, a former Chairperson of the Motor Insurers Bureau of Ireland and was the first female president of the Insurance Institute of Dublin. She has served on the board of the Institute of Public Administration and is a past chairperson of the Association of Chief Executives of State Agencies.

Blanaid Clarke (Appointed on 1 October 2010 for 3 years and re-appointed on 1 October 2013 for 5 years)

Blanaid Clarke holds the McCann Fitzgerald Chair in Corporate Law at Trinity College Dublin. Her research interests include corporate governance, financial services law,

securities law and takeover law and she has published extensively in these areas. She works with the Irish Takeover Panel and is a member of the European Securities and Markets Authority Takeover Bids Network. She was 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 and has published widely in these fields. He is a past President of the Irish Economic Association and of the EUROFRAME group of European economic research institutes. He is a former member of the National Economic and Social Council, of the Northern Ireland Authority for Energy Regulation and of the EU 'Group for Economic Analysis' advising the President of the European Commission. He studied at University College Dublin and he holds Masters degrees in both history and economics. He began his career in the Department of Finance in 1972 and he moved to the Economic and Social Research Institute in 1984.

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 member of the ESB Networks and TG4 boards. He is a former member of the RTÉ Authority, the board of FÁS, the National Competitiveness Council, the Affordable Homes Partnership and the National Economic and Social Council.

Michael Soden (Appointed on 1 October 2010 for 4 years)

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

Table 15 – Meetings attended by Commission members during 2013

Commission Members	Commission meetings attended during 2013
Patrick Honohan	13/13
Matthew Elderfield	9/10
Stefan Gerlach	11/13
Cyril Roux	3/3
John Moran	12/13
Alan Ahearne	13/13
Blanaid Clarke	13/13
John FitzGerald	13/13
Des Geraghty	13/13
Michael Soden	13/13

The table above shows that 13 meetings of the Commission were held during 2013 and the total number of meetings attended by each member.

Wholesale Banking and, latterly, for Global Retail Banking. He was also responsible for the development of Security Pacific Bank's international capital markets activities. He spent the early part of his career with Citibank/Citicorp Investment Bank, Canada. He is the author of 'Open Dissent - An Uncompromising View of the Crisis', published in 2010.

Secretary of the Bank

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

Following the resignation of Matthew Elderfield, Cyril Roux was appointed Deputy Governor (Financial Regulation) on 1 October 2013.

Following completion of a three-year initial term of appointment to the Commission Blanaid Clarke was re-appointed to the Commission by the Minister for Finance for a five-year term commencing on 1 October 2013.

Patricia Byron was appointed to the Commission by the Minister for Finance for a five year term with effect from 1 January 2014.

Commission Procedures

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



The Commission held its meeting of 20 September at the University of Limerick. The Commission is pictured with the President of the University of Limerick, Prof. Don Barry.

Back Row (l to r) Alan Ahearne, Neil Whoriskey, Stefan Gerlach, Michael Soden, Des Geraghty.

Front Row (l to r) Blanaid Clarke, John Moran, Governor Patrick Honohan, Prof. Don Barry, John FitzGerald.

Table 16

Committee Members	Audit Committee meetings attended during 2013
Blanaid Clarke (Chair)	9/9
Alan Ahearne	9/9
John FitzGerald	9/9

The table shows that seven meetings of the Audit Committee were held during 2013 and the total number of meetings attended by each member. Two of these meetings were held in joint composition with the Risk Committee.

A quorum of six members is required for all meetings. Thirteen meetings of the Commission were held during 2013. The Commission meeting of 20 September 2013 was held in University of Limerick.

Committees of the Commission

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

The Commission has established the following committees:

- » Audit Committee
- » Budget and Remuneration Committee
- » Risk Committee

Audit Committee

The Audit Committee, appointed by the Commission, comprises three non-executive members. The members of the Audit Committee as at 31 March 2014 were Blanaid Clarke (Chair), Alan Ahearne and John FitzGerald.

Meetings of the Audit Committee are held at least four times per year. All members of the Commission have the right of attendance as observers at meetings of the Audit Committee. The Chair of the Committee will also convene a meeting if requested by the Comptroller and Auditor General or by the independent external auditor. In addition, at least once a year the Chairman of the Audit Committee will meet the Comptroller and Auditor General and the external auditor without the presence of the executives. The Chair will also hold regular meetings with the Head of Internal Audit. The

Committee meets in non-executive composition at the beginning of each meeting. The Committee meets regularly, with the Head of the Internal Audit Division. The minutes of the meetings are circulated to all members of the Commission.

In 2013, the Audit Committee met 7 times. The Audit Committee also held two meetings jointly with the Risk Committee during 2013.

A review of the operation of the Audit Committee during 2013 against the terms of reference was carried out under a number of broad headings. The review concluded that the Committee operated within its terms of reference and delivered an effective performance during the period reviewed.

The key responsibilities of the Audit Committee are:

- » To review and make recommendations to the Commission on the integrity of the Bank's financial statements including the significant accounting judgements made in the preparation of these statements.
- » To review and approve the Annual Statement on System of Internal Controls to be included in the Annual Report.
- » To review the annual audit plans of the Comptroller and Auditor General and the external auditor and ensure that they are consistent with the scope of the audit engagement. Review of the management letters from the Comptroller and Auditor General and the External Auditor before the management response is issued.
- » To review the Bank's internal control systems.
- » To review and approve the charter and annual work plan of the internal audit function, monitor the effectiveness and

Table 17

Committee Members	Budget and Remuneration Committee meetings attended during 2013
Michael Soden (Chair)	7/7
Blanaid Clarke	7/7
Matthew Elderfield	4/4
Stefan Gerlach	7/7
Cyril Roux	2/3

The table above shows that seven meetings of the Budget and Remuneration Committee were held during 2013 and the total number of meetings attended by each member.

independence of the function in the overall context of the Bank's financial risk management systems and, where appropriate, review and ensure follow up of the reports of the function.

- » To advise on the appointment and reappointment of external auditors, on their remuneration, and on questions of resignation or dismissal.
- » To monitor policy on the engagement of the external auditors to supply non-audit services. To ensure that appropriate procedures are put in place to ensure that ESCB rules on the appointment of the external auditor for non-audit services are adhered to.
- » To review the findings arising from the audits by the Comptroller and Auditor General and the external auditors.
- » Review its own terms of reference and its effectiveness on an annual basis.
- » To consider other topics as requested by the Commission.
- » Ensures that the provisions of the Bank's speak up and Fraud policies are appropriate to ensure a proper approach to dealing with reports by staff of 'wrongdoing' in the Bank.

Budget and Remuneration Committee

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

The members of the Budget and Remuneration Committee as at 31 March 2014 were Michael Soden (Chair), Blanaid Clarke, Stefan Gerlach and Cyril Roux, who was appointed to the

Budget and Remuneration Committee on 1 October 2013.

Meetings of the Budget and Remuneration Committee are held not less than four times per year. All members of the Commission have the right of attendance as observers at meetings of the Committee. The minutes of the meetings are circulated to all members of the Commission. Seven meetings of the Budget and Remuneration Committee were held in 2013. In 2013, the Budget and Remuneration Committee met 7 times.

Following a review of the effectiveness of the Budget and Remuneration Committee carried out in the first half of 2013, the Committee agreed to the adoption of a number of amendments to its terms of reference. The revised terms of reference were approved by the Commission at its meeting in September 2013. The revised terms of reference of the Budget and Remuneration Committee set out the following key responsibilities:

- » To review and make recommendations to the Commission for the remuneration of management members of the Commission, including the Governor.
- » To review on at least an annual basis the Bank's overall remuneration policy and procedures and make recommendations to the Commission where necessary.
- » To review and advise the Commission regarding budgetary and expenditure matters.
- » To review and advise the Commission of the Bank's Balanced Scorecard process on an annual basis.

Table 18

Committee Members	Risk Committee meetings attended during 2013
Des Geraghty (Chair)	8/8
Michael Soden	8/8
Alan Ahearne	8/8
Matthew Elderfield	6/7
Stefan Gerlach	7/8
Cyril Roux	1/2

The table above shows that six meetings of the Risk Committee were held during 2013 and the total number of meetings attended by each member.

- » To review its own terms of reference and its effectiveness on an annual basis
- » To consider other topics as requested by the Commission.

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.

Risk 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 2014 were Des Geraghty (Chair), Alan Ahearne, Michael Soden, Stefan Gerlach and Cyril Roux, who was appointed to the Risk Committee on 1 October 2013.

Meetings are held at least quarterly. All members of the Commission have the right of attendance as observers at meetings of the Committee. The minutes of the meetings are circulated to all members of the Commission. Six meetings of the Risk Committee took place during 2013.

The Risk Committee met eight times, held two seminars and also held two meetings jointly with the Audit Committee during 2013.

A review of the Risk Committee was concluded in 2013.

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

Code of Conduct for Members of the Central Bank Commission

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

Internal Governance Structures

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

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

- » The **Governor's Committee** is established to co-ordinate activities across the Bank. It discusses organisational wide issues and maintains an overseeing role of all activities including provision of final signoff on issues which have been explicitly escalated from

Table 19 – Appearances before Joint Oireachtas Committees in 2013

Date	Attended by	Oireachtas Committee
Jan 16	Governor Honohan	Joint Committee on Finance, Public Expenditure and Reform Debate - Matters Relating to the Economy
Apr 4	Greg Dempsey, Head of Special Resolution Unit	Joint Oireachtas Committee on Finance, Public Expenditure and Reform
Apr 17	Bernard Sheridan, Director of Consumer Protection	Joint Oireachtas Committee on Finance, Public Expenditure and Reform
Apr 30	Governor Honohan	Joint Oireachtas Committee on EU Affairs
Jun 13	Deputy Governor Matthew Elderfield	Public Accounts Committee
Sep 25	Governor Honohan	Joint Oireachtas Committee on Finance, Public Expenditure and Reform

other Committees of the Bank. It ensures the structures and activities across the Bank are aligned and co-ordinated, and focuses on delivering the strategic outcomes agreed by the Commission. They also oversee and lead the development of the organisational culture and ensure that the HR strategy supports the continued development of the organisation.

- » 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

In accordance with Section 32K of the Act, the Bank prepares a report of its activities during the year and presents this report to the Minister for Finance within six months after the end of each financial year. Section 32J (3) of the Act requires the Bank to prepare and transmit to the Comptroller and Auditor General a Statement of Accounts for the financial year concerned. The

Comptroller and Auditor General audits, certifies and reports on the Statement of Accounts and remits both his/her report and the Statement of Accounts to the Minister.

Copies of both of these documents are laid before each House of the Oireachtas.

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

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

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

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

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

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 2013, representatives of the Bank appeared at five Oireachtas Committee meetings (see Table 19).

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: the operations of PRISM, Framework for Supervision of Client Assets, the Operational Risk framework, Procurement, Creditors, Security Vetting processes, Management of Critical Spreadsheets, and a number of IT audits including the review of a major IT project and also a number of audits in the Currency Division. In addition, Internal Audit participated in a number of ESCB wide audits, topics covered in these audits included: payment systems, collateral management framework, ethical framework, financial risk management and IT Governance. 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.

Part 2

Financial Operations



Financial Results for 2013

Context

In recent years, the Central Bank of Ireland's (the Bank's) balance sheet reflected its response to the domestic and international financial crisis. These actions were in line with the Bank's domestic and Eurosystem mandate to contribute to the stability of the financial system, and has had a direct and significant impact on the Bank's financial results.

In 2013, the improvement in financial market conditions, both at home and abroad, has resulted in a lessening of the requirement for support from the Bank to either the domestic banking sector or to Eurosystem operations. The key developments have been:

- » the level of financial support required by the domestic banking sector through lending by the Bank has reduced further;
- » the liquidation of the Irish Bank Resolution Corporation (IBRC) and subsequent restructuring has altered significantly the composition of the Bank's balance sheet assets. The composition of the Bank's balance sheet assets has changed, as Exceptional Liquidity Assistance (ELA) was eliminated and replaced primarily with a portfolio of long-dated Irish government bonds and short-dated NAMA bonds;
- » the continuation of the "fixed-rate full-allotment" approach at Eurosystem level to support liquidity provision and bank lending in the euro area; and
- » the Eurosystem continues to hold securities purchased under the Securities Market Programme (SMP) and Covered Bonds Purchase Programmes (CBPP), 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 exposures which have arisen from policy actions taken to address the crisis at domestic and Eurosystem level. 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 at the height of the crisis. However, the overall size has continued its decline which started in 2011. The Bank's profits remain at historically high levels. These historically high profits reflect in part the Bank's holdings of long-dated government bonds, which are held in the Bank's trading portfolio and will be sold under the agreed schedule, provided that conditions of financial stability permit.

Financial Results

Profit for the year to 31 December 2013 amounted to €1,518.1 million compared with a corresponding amount of €1,437.4 million in 2012. Against a lower interest rate background, both the interest income and interest expense of the Bank decreased in 2013. Interest income decreased by €579.1 million to €2,017.9 million while interest expense decreased by €571.6 million to €471.2 million. As a result, in 2013, the net interest income of the Bank decreased by €7.6 million to €1,546.7 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 (2013: €289.6 million, 2012: €758.1 million) and on ELA (2013: €112.8 million, 2012: €1,105.2 million) advanced to domestic credit institutions. The provision of ELA ended on 7 February 2013 following the liquidation of IBRC. Income earned on the Bank's own investment portfolio increased by €839.9 million as a result of the income earned on the portfolio of securities acquired by the Bank following the IBRC liquidation, which replaced the income earned from the provision of ELA. The decrease in income earned on monetary policy operations during 2013 resulted from lower volumes of lending to credit institutions and a reduction in average ECB interest rates¹. Income earned on securities held under the Eurosystem SMP decreased to €182.4 million in 2013 from €207.2 million in 2012. 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.

¹ The key ECB minimum bid rate fell from an average of 0.88 per cent in 2012 to 0.55 per cent in 2013.

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 €478.0 million and €47.1 million respectively. The decreases in both expense categories reflect the fall in the average ECB minimum bid rate¹ (together with a significantly lower average balance in Intra-Eurosystem Liabilities in 2013 of €61.1 billion (2012: €91.5 billion)). Interest paid on Government deposits decreased by €28.9 million while interest paid on Credit Institutions' deposits fell by €17.1 million in 2013. The decrease in the expense related to Government deposits resulted from a lower average remuneration rate (EONIA)² paid during the year on a lower average Government deposit balance in 2013 of €15.8 billion (2012: €19.7 billion). The fall in interest paid on Credit Institutions' deposits was attributable to lower interest rates paid on balances held in minimum reserve accounts over the period.

Financial Operations, Write-Downs and Provisions

The net result of financial operations, write-downs and provisions was a gain of €69.2 million which compares with a net charge of €101.6 million in 2012. This category includes the release of part of the provision for risks relating to securities held for monetary policy purposes and investments, the creation of a new provision for an onerous lease on the Bank's premises plus 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 CBPP 1 and 2), a previously established provision of €400 million, which was created in respect of the risks associated with these securities in the context of the continued sovereign debt market crisis, was reduced by €50 million at 31 December 2013 (at end-2012, the provision had been increased from €300 million to €400 million). Realised capital gains on the Bank's investment portfolio amounted to €53.1 million,

representing an increase of €44.4 million from the previous year. Unrealised price losses increased by €16.7 million to €17.0 million at end-2013 reflecting the upward movement in core area bond yields at end year.

Net Result of Pooling of Monetary Income

The result of the net pooling of Eurosystem monetary income gave rise to a refund of €15.4 million in 2013, compared with a refund of €68.7 million in 2012. This refund mainly comprises two elements:

- (i) the refund of monetary income to the Bank of €11.5 million, following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares. In 2013, the Bank earned €11.5 million less than its capital key share of Eurosystem monetary income compared to €60.6 million in 2012.
- (ii) a decrease of €3.9 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 2013 of €207.3 million (2012: €177.8 million). These comprise pay, non-pay, banknote raw materials and depreciation. Staff costs, including pay, increased by €15.1 million (14.3 per cent), while other operating expenses and banknote raw materials increased by €12.5 million. Depreciation charges amounted to €13.3 million (2012: €11.4 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 gain on the Bank's pension scheme, as required under FRS 17: Retirement Benefits, the Bank's Surplus Income amounted to €1,212.1 million (2012: €1,147.6 million), which is payable to the Exchequer.

² The average Euro Overnight Index Average (EONIA) rate fell from 0.23 per cent in 2012 to 0.09 per cent in 2013.

³ In 2013 the ECB Governing Council reviewed the appropriateness of this provision and decided to dissolve the remaining amount of €310 million at the end of 2013.

Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2013 were €108.1 billion, a decrease of €29.4 billion (21.4 per cent) over the corresponding figure for end-2012 (€137.5 billion). The decrease was mainly driven by a reduction in monetary policy advances to credit institutions.

At 31 December 2013, lending to credit institutions through the main refinancing operations (MRO) had decreased by €3.3 billion from the previous year-end to €4.5 billion, while lending through the longer term refinancing operations (LTRO) decreased by €28.6 billion to €34.5 billion in the same period.

ELA advanced to domestic credit institutions outside of the Eurosystem's monetary policy operations decreased from €40.4 billion in 2012 to nil in 2013 following the liquidation of IBRC in February 2013. The Bank subsequently acquired a portfolio of securities in exchange for collateral, including Promissory Notes, that was appropriated following the liquidation. This portfolio amounted to €43.9 billion at 31 December 2013.

In respect of liabilities, at end year, the Bank's proportional share of total euro banknotes in circulation amounted to €14.1 billion, which represented an increase of almost €0.7 billion on the previous year. Government deposits decreased by €9.4 billion while Credit Institutions' (commercial banks) deposits decreased by €0.3 billion in 2013. Intra-Eurosystem net liabilities, which amounted to €71.6 billion as at 31 December 2013, were €23.6 billion lower than at end-2012. This includes a decrease of €24.1 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 decreased by €37.2 million reflecting the partial unwinding by €50 million of the provision maintained by the Bank for risks on securities held for monetary policy and investment purposes. There were further reductions in the Bank's provisions due to the

unwinding of the Eurosystem's provision against counterparty risks in monetary policy operations by the ECB Governing Council (€3.9 million) and the redemption of IEP banknotes during the year (€1.6 million). These gains were offset by the creation of an onerous lease (€18.4 million) in respect of the Bank's net obligations relating to the lease on the Spencer Dock premises beyond 2016 following the decision to relocate to North Wall Quay.

Redemption of Irish Banknotes

Irish banknotes ceased to be legal tender with effect from 9 February 2002. As at 31 December 2002, notes to the value of €299.7 million were outstanding, at which point the proceeds were transferred to the Exchequer less a provision of €60.0 million to meet obligations in respect of unredeemed Irish notes. In 2010 and 2012 the Commission approved two further transfers of €10 million each to the provision which had been depleted due to redemptions. During 2013, an amount of €1.6 million was redeemed (2012: €2.5 million) leaving €231.2 million in Irish banknotes outstanding at end-2013 and a balance of €11.6 million in the provision at year end.

Proceeds of Coin

During 2013, the net value of euro coin issued was €5.2 million (2012: net redemption of €24.3 million). After deduction of coin production expenses, seigniorage of €2.6 million was paid to the Exchequer in December 2013 compared with a payment from the Exchequer to the Bank in 2012 of €26.7 million. The Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2013, Irish coin redeemed totalled €0.2 million (2012: €0.3 million). Full details are incorporated in Note 25 of the Statement of Accounts.

Prompt Payment of Accounts 2013

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 8 percentage points, with the relevant rate at 1 January and 1 July each year applying for the six-month period after these dates. In 2013, interest was payable at a rate of between 8.25 and 8.50 per cent per annum.

The following is a summary of interest payments made to suppliers during 2013, with corresponding figures for 2012, in accordance with the provisions of the Regulations referred to above.

	2013	2012
Total Number of Late Payments	308	230
Total Value of All Late Payments (A)	€2,729,271	€5,860,175
Total Value of All Payments (B)	€89,649,351	€72,578,967
A as a % of B	3.04%	8.07%
Total Amount of Interest Paid on Late Payments	€15,150	€8,776

Statement of Accounts

for the year ended 31 December 2013

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

14 April 2014

Statement on Internal Financial Control

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

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

The system of internal controls 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 that incorporates:
 - Approval of the annual plan and detailed expenditure budgets by the Commission;
 - Quarterly reporting to the Commission on financial and budgetary performance; and
 - Quarterly reporting to the Commission on project/capital expenditure.
- Detailed policies and procedures relating to financial controls;
- An operational risk framework which is the entire process of systematically facilitating the identification, analysis, response, monitoring and reporting of valid operational incidents and risks in a consistent manner whilst simultaneously assessing the strength of internal controls for each identified risk and incident to mitigate the risk of reoccurrence; and
- A risk control framework to manage the Bank's key financial risks within clearly defined internal risk policies and with reference to Eurosystem risk-management policies where relevant.

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

The European Treaties (Article 130 of the Treaty on the Functioning of the European Union and Article 7 of the Statute of the ESCB and of the ECB, which provisions are also reflected in the *Central Bank Act, 1942*) provide that the Central Bank of Ireland is independent of the Government and so Government decisions, codes of practice and circulars do not apply directly to the Bank. The Bank has broadly followed Government policy and the Code of Practice for the Governance of State Bodies, but there are some exceptions in the areas of procurement and pay policy consistent with the Bank's independent mandate.

During 2013, expenditure of €7.1 million (approx. 8% of the Bank's committed spend) was incurred across 54 contracts without recourse to a public procurement tender process. The governance process around the reporting and monitoring of procurements was enhanced during 2013 with non-competitively procured services being reported to the Audit Committee on a quarterly basis. Of the 54 contracts referred to above, 23 have been regularised during the year, and there is an action plan in place to address the remaining 31 contracts.

The Central Bank Commission is solely responsible for setting the terms and conditions (including remuneration and allowances) of its staff in accordance with section 6D of the *Central Bank Act, 1942* which is a task that the Commission is required as matter of EU and Irish law to carry out independently of the Government as the Bank considers necessary to fulfil its mandate. The Bank's staff and retired staff are (with the consent of the Governor of the Bank, and consistent with the Bank's independent role) subject to the application of the Financial Emergency Measures in the Public Interest Acts.

We confirm that the Commission reviewed the effectiveness of the system of internal financial controls for the year ended 31 December 2013.

Patrick Honohan, Governor

Blanaid Clarke, Member of the Commission

14 April 2014

Profit and Loss and Appropriation Account for year ended 31 December 2013			
		2013	2012
	Note	€000	€000
<i>Interest income</i>	1	2,017,949	2,597,061
<i>Interest expense</i>	2	(471,228)	(1,042,779)
Net interest income		1,546,721	1,554,282
<i>Net realised gains arising from financial operations</i>	3	54,624	8,690
<i>Write-downs on financial assets and positions</i>	3	(17,014)	(337)
<i>Provisions</i>	3	31,600	(110,000)
Net result of financial operations, write-downs and provisions		69,210	(101,647)
Income from fees and commissions	4	2,741	3,472
Income from equity shares and participating interests	5	31,717	13,499
Net result of pooling of monetary income	6	15,445	68,732
Other income	7	59,588	76,815
TOTAL NET INCOME		1,725,422	1,615,153
Staff expenses	8	(120,519)	(105,435)
Other operating expenses	8	(69,941)	(57,220)
Depreciation	8	(13,347)	(11,430)
Banknote raw materials	8	(3,478)	(3,676)
TOTAL EXPENSES		(207,285)	(177,761)
PROFIT FOR THE YEAR BEFORE UNREALISED GAINS AND APPROPRIATION OF PROFIT		1,518,137	1,437,392
Net movement in unrealised gains	34	2,927,569	32,147
Transfers to revaluation accounts	34	(2,927,569)	(32,147)
Actuarial Gain/(Loss) on pension scheme	32	21,214	(73,340)
Transfer to general reserve	35	(327,241)	(216,424)
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	9, 31	1,212,110	1,147,628

The accounting policies together with Notes 1 to 44 form part of these accounts.

Banc Ceannais na hÉireann

Patrick Honohan, Governor

Stefan Gerlach, Deputy Governor

14 April 2014

Balance Sheet as at 31 December 2013

ASSETS		2013	2012
	Note	€000	€000
Gold and gold receivables	10	168,444	243,522
Claims on non-euro area residents in foreign currency	11	1,019,123	1,051,462
Claims on euro area residents in foreign currency	12	–	495,597
Claims on non-euro area residents in euro	13	1,514,728	1,228,596
Lending to euro area credit institutions related to monetary policy operations in euro	14	39,046,000	70,936,000
Other claims on euro area credit institutions in euro	15	561,606	40,425,500
Securities of euro area residents in euro	16	63,817,152	21,264,128
Intra-Eurosystem claims		856,679	885,762
<i>Participating interest in ECB</i>	17	179,448	176,179
<i>Claims equivalent to the transfer of foreign reserves</i>	18	643,894	639,836
<i>Other claims within the Eurosystem</i>	19	33,337	69,747
Items in course of settlement	20	22,712	13,853
Other assets	21	1,103,942	941,396
TOTAL ASSETS		108,110,386	137,485,816

The accounting policies together with Notes 1 to 44 form part of these accounts.

Banc Ceannais na hÉireann

Patrick Honohan, Governor

Stefan Gerlach, Deputy Governor

14 April 2014

Balance Sheet as at 31 December 2013

LIABILITIES		2013	2012
	Note	€000	€000
Banknotes in circulation	23	14,051,139	13,328,406
Liabilities to euro area credit institutions related to monetary policy operations in euro	24	3,242,700	3,518,115
Liabilities to other euro area residents in euro	25	10,264,054	19,638,624
Liabilities to non-euro area residents in euro	26	17,280	22,245
Liabilities to euro area residents in foreign currency	27	180	191
Counterpart of special drawing rights allocated by the IMF	28	867,159	903,913
Intra-Eurosystem liabilities (net)		71,593,462	95,199,863
<i>Liabilities related to the allocation of euro banknotes within the Eurosystem</i>	29	16,476,549	15,940,680
<i>Other liabilities within the Eurosystem (net)</i>	30	55,116,913	79,259,183
Other liabilities	31	1,910,773	1,915,595
Pension liability	32	84,568	97,425
Provisions	33	379,963	417,141
Revaluation accounts	34	3,262,367	334,798
Capital and Reserves	35	2,436,741	2,109,500
TOTAL LIABILITIES		108,110,386	137,485,816

The accounting policies together with Notes 1 to 44 form part of these accounts.

Banc Ceannais na hÉireann

Patrick Honohan, Governor

Stefan Gerlach, Deputy Governor

14 April 2014

Accounting Policies and Related Information

(a) Legal Framework

Throughout the Statement of Accounts the term 'Bank', where used, refers to the Central Bank of Ireland.

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

(b) Accounting Principles

The Bank, as a participating member of the ESCB, complies with the accounting policies laid down by the Governing Council of the ECB in its Accounting Guideline². The Guideline establishes in particular the accounting rules applicable to refinancing operations for the banking sector, securities, foreign currency transactions and the issue of banknotes. The Bank's Statement of Accounts for 2013 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 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.

1 The use of the term European System of Central Banks (ESCB) refers to the twenty-eight national central banks (NCBs) of the Member States of the European Union as at 31 December 2013 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 1942–2013, 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' (Note 29) Accounting Policy (c)(iv).

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

(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 changed on 1 July 2013 to 1.1111 per cent from 1.1107 per cent in 2012 following the accession of Croatia to the EU and a related update of the components used to calculate the key (GDP and population).

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

On 1 July 2013 following the accession of Croatia to the EU and a related update of the components used to calculate the key (GDP and population), the Bank's share in the Eurosystem capital key increased marginally from 1.5874 per cent to 1.5974 per cent.

(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 1.5974 per cent (2012: 1.5874 per cent) share in the fully paid-up capital of the ECB (Accounting Policy (c)(iii)) and therefore a 1.4695 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 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

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).

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.

Balance Sheet under “Intra-Eurosystem: net claim/liability related to the allocation of euro banknotes within the Eurosystem” (Note 29 Accounting Policy (c)(ii)). 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 Market 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 the SMP and Outright Monetary Transactions (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 the 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 interests” (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. Securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bonds purchase programmes and under Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

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.

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

The net monetary income pooled by the Eurosystem is allocated between NCBs according to the subscribed 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, an increase of €128.0 million on 1 January 2009 and an increase of €4.1 million on 1 July 2013. 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(v) and Note 18) 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 SMP¹¹. The securities are classified as held-to-maturity, measured at amortised cost and are subject to impairment (Note 1(ii), Note 16 and Note 33).

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.

(d) Income and Expense Recognition

Income and expenses are recognised on an accruals basis.

(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
Computer Equipment	–	3 - 5 years
Other Equipment	–	5 years
Furniture, Fixtures and Fittings	–	5 years

Accelerated depreciation has been provided for on assets which have a reduced useful life (Note 22).

(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 2013 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 (Note 1).

(j) Valuation Policy

- (i) Assets and liabilities denominated in foreign currency, unmatured investments, foreign currency contracts outstanding and shares in the Bank for International Settlements are valued at mid-market closing exchange rates at year-end (Note 34). The exchange rate valuation of assets and liabilities is performed on a currency-by-currency basis.
- (ii) In accordance with the ECB Guideline, the valuation of securities is performed on a security-by-security basis. Marketable securities classified as mark-to-market (MTM) are valued at mid-market closing prices at year-end where an active market exists. Where market prices are not available or are unreliable, fair values are determined using mark to model valuation techniques including discounted cash flow models which, to the extent possible, use observable market inputs in accordance with FRS 26 Financial Instruments: Recognition and Measurement. A mark-to-model valuation approach inevitably incorporates a high level of management judgement in the absence of observable market data or when observable market data is judged to be unreliable. This judgement includes but is not limited to: evaluating available market information for comparator instruments; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread; adjusting the methodology when observable market inputs become unavailable or are unreliable (Note 13, Note 15 and Note 16).
- (iii) 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 (Note 13 and Note 16).

- (iv) Gold is valued at the closing market price.
- (v) Exceptional liquidity assistance provided to domestic credit institutions covered by guarantee is classified as Loans and Receivables. In accordance with FRS 26, 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 (Note 15) 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)).

- (vi) The financial assets and liabilities of the Bank are classified as prescribed in FRS 29: Financial Instruments Disclosures. Under the fair value hierarchy, for classification of financial assets and liabilities, Level 1 applies where quoted prices (unadjusted) in active markets for identical assets and liabilities are available; Level 2 applies where inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are available and; Level 3 applies where inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used (Note 16).

(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 13 and 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).

(m) Provisions

Impairment

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.

Onerous Leases

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

The Bank accounts for onerous leases in accordance with FRS 12 – Provisions, Contingent Assets and Liabilities.

Where a contract becomes onerous, the present obligation under the contract is recognised and measured as a provision (Note 3, Note 22 and Note 33).

Notes to the Accounts

Note 1: Interest Income

	2013	2012
	€000	€000
Deposit Income	317	1,163
Interest on Securities - MTM(i)	943,215	161,475
Interest on Securities - HTM	370,445	311,214
Interest on Securities for Monetary Policy Purposes (ii)	218,130	254,525
Reverse Repurchase Agreements (iii)	44	279
Monetary Policy Operations (iv)	289,569	758,089
Income from Transfer of Foreign Reserve Assets to ECB (v)	3,059	4,872
Exceptional Liquidity Assistance (vi)	112,782	1,105,155
Interest on Facility Deed (vii)	80,364	–
Other	24	289
Total	2,017,949	2,597,061

- (i) This item includes income earned (€855.1 million) on the portfolio of securities acquired following the IBRC liquidation. The portfolio comprised non-amortising Irish Government Floating Rate Notes, non-amortising NAMA¹² bonds, a 5.4% Irish 2025 bond acquired by the Bank following the termination of the IBRC's market repo in February 2013 and collateral securing the Main Refinancing Operations (MRO). The income earned on these securities amounted to €667.6 million, €36.1 million, €149.5 million and €1.9 million respectively (Note 16(ii)).
- (ii) This item incorporates income of €24.5 million (2012: €37.1 million), €11.3 million (2012: €10.2 million) and €182.4 million (2012: €207.2 million) on the securities purchased by the Bank under the CBPP1, CBPP2 and the SMP respectively (Note 16(i)) Accounting Policy (c)(ix).
- (iii) There were Reverse Repurchase Agreements amounting to €442.0 million outstanding at 31 December 2013 (2012: Nil) (Note 13 and Note 15) Accounting Policy (l).
- (iv) This relates to income earned on lending to credit institutions by the Bank as part of the Eurosystem's monetary policy operations (Note 14).
- (v) This relates to the remuneration of Foreign Reserve Assets transferred to the ECB (Note 18) Accounting Policy (c)(vii).
- (vi) The provision of ELA ceased on 7 February 2013 following the IBRC liquidation (Note 15(ii)).
- (vii) This item relates to the income earned by the Bank on the outstanding balance of the facility deed during the course of the IBRC liquidation process. The interest was earned for a period of 49 days at a rate of 4.5%. The facility deed was accepted as collateral for the Exceptional Liquidity Assistance and was exchanged for NAMA Bonds to the value of €12.9 billion at end March 2013 (Note 16(ii)).

Note 2: Interest Expense

	2013	2012
	€000	€000
Government Deposits	14,116	43,003
Credit Institutions' Deposits	16,263	33,377
Intra-Eurosystem Balances (net) (i)	351,247	829,240
Remuneration of Liability in respect of allocation of Euro Banknotes in Circulation (ii)	89,365	136,480
Other	237	679
Total	471,228	1,042,779

- (i) The interest expense on these balances, which are remunerated at the short-term refinancing rates of the Eurosystem, is calculated by the ECB at the end of each day. Accounting Policy (c)(ii).
- (ii) The interest expense is based on the difference between the value of euro banknotes allocated to each NCB in accordance with their banknote allocation key and the value of the euro banknotes that the Bank 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	2013	2012
	€000	€000
Net Realised Price Gains on Securities	53,052	8,614
Net Realised Exchange Rate Gains	1,572	76
Total	54,624	8,690

Write-Downs on Financial Assets and Positions	2013	2012
	€000	€000
Unrealised Price Losses on Securities	(16,982)	(323)
Unrealised Exchange Rate Losses	(32)	(14)
Total	(17,014)	(337)

Provisions	2013	2012
	€000	€000
Provision for Securities (Note 33(ii))	50,000	(100,000)
Provision for Unredeemed Irish Pound Banknotes (Note 33(iii))	–	(10,000)
Onerous Lease and Dilapidations (Note 22(iv) and Note 33(iv))	(18,400)	–
Total	31,600	(110,000)

Note 4: Income from Fees and Commissions

	2013	2012
	€000	€000
Service Fees and Charges	766	753
Securities Lending	1,392	2,165
TARGET2 Distribution of Pooled Income	583	554
Total	2,741	3,472

Note 5: Income from Equity Shares and Participating Interests

	2013	2012
	€000	€000
Share of ECB Profits (i)	28,600	10,330
BIS Dividend (ii)	3,117	3,169
Total	31,717	13,499

(i) This item represents the Bank's share of the ECB's profit (Accounting Policy (c)(v)). The Governing Council of the ECB decided to transfer from the ECB's profits, as at 31 December 2013, an amount of €0.387 million (which is distributed from the ECB's income on securities held in the SMP programme and income earned on euro banknotes in circulation) to the ECB risk provision, thereby increasing it to the level of its present ceiling of €7,530.0 million. As a result an amount of €1,369.7 million was paid to the Eurosystem NCBs on 31 January 2014 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 €21.9 million (Note 19). The final distribution of profit for 2012, paid in March 2013, amounting to €6.7 million is also included.

(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

	2013	2012
	€000	€000
Net Result of Pooling of Monetary Income (i)	11,493	60,586
Share of Eurosystem Provision Against Counterparty Risks (ii)	3,952	8,146
Total	15,445	68,732

- (i) This represents the difference between the monetary income pooled by the Bank of €254.2 million (2012: €312.1 million) and that reallocated to the Bank of €265.4 million (2012: €371.5 million) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares, together with interest and adjustments on net results for previous years of €0.2 million (2012: €1.2 million). Accounting Policy (c)(vi).
- (ii) In accordance with the decision of the Governing Council taken under Article 32.4 of the ESCB Statute, the provision against counterparty risks in monetary policy operations that was established in 2008 is allocated between the national central banks of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in the year when the defaults have occurred. In 2008, when the provision was established, there was a charge to the Profit and Loss and Appropriation Account of €73.1 million being the Bank's share of the total provision for the Eurosystem. This provision is reviewed annually and amounted to €310 million on 31 December 2012. In line with the general accounting principle of prudence, the Governing Council has reviewed the appropriateness of the outstanding provision and decided to dissolve it at the end of 2013. The respective adjustments are reflected in the Profit and Loss and Appropriation Accounts of the NCBs. In the case of the Bank, the resulting income amounted to €3.9 million (Note 33(i)).

Note 7: Other Income

	2013	2012
	€000	€000
Interest on Pension Scheme Liabilities (Note 32 (i))	(22,025)	(23,230)
Expected Return on Pension Fund Assets (Note 32 (v))	16,276	14,120
Financial Regulation Net Industry Funding (i)	53,033	59,509
Financial Regulation Surplus from 2012(i)	–	15,384
Financial Regulation Deferred Charges (Note 42(vi))	7,406	–
Financial Regulation Monetary Penalties (ii)	1,348	8,493
Other Financial Regulation Income (Note 42(iii))	1,717	1,040
Other	1,833	1,499
Total	59,588	76,815

- (i) From 2013, following a change in the accounting treatment in respect of surpluses/(deficits) arising from industry funding, the cost of financial regulation recoverable from the industry is disclosed as income. The surplus funding (€15.4 million) arising in 2012 was recognised as income in that year. To assist comparison certain comparative amounts have been re-analysed.

The composition of Financial Regulation Net Industry Funding and the rationale for the inclusion of the Financial Regulations Surplus from 2012 are provided in (Note 42(i)).

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

Note 8: Expenses

€000	Head Office*		Printworks		Total Head Office & Printworks		Mint (i)		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Salaries/Allowances (ii)	87,453	81,299	9,261	9,192	96,714	90,491	710	684	97,424	91,175
PRSI	6,973	6,849	676	692	7,649	7,541	43	46	7,692	7,587
Pensions (Note 32 (i))	16,156	7,403	–	–	16,156	7,403	142	95	16,298	7,498
Staff Expenses	110,582	95,551	9,937	9,884	120,519	105,435	895	825	121,414	106,260
Communications & IT	9,416	7,114	2	12	9,418	7,126	81	37	9,499	7,163
Business Travel	2,309	1,885	177	191	2,486	2,076	22	23	2,508	2,099
Office Administration Expense	796	840	162	179	958	1,019	3	11	961	1,030
Professional Fees (iii)	26,723	21,370	360	181	27,083	21,551	4	6	27,087	21,557
External Research & Corporate Subscriptions	1,516	1,776	6	49	1,522	1,825	2	2	1,524	1,827
Publishing & Public Relations	409	443	6	12	415	455	–	–	415	455
Payments & Asset Management Charges	4,061	3,559	4	8	4,065	3,567	20	31	4,085	3,598
Currency Supplies and Machine Maintenance	–	–	873	1,264	873	1,264	173	128	1,046	1,392
Training, Education & Conferences	3,046	2,386	101	61	3,147	2,447	7	12	3,154	2,459
Recruitment & Other Staff Costs	2,166	1,912	176	154	2,342	2,066	–	–	2,342	2,066
Facilities Management & Maintenance	2,924	2,842	3,107	2,667	6,031	5,509	7	7	6,038	5,516
Rent & Utilities	7,693	6,709	1,052	1,154	8,745	7,863	–	–	8,745	7,863
Miscellaneous (iv)	2,856	141	–	311	2,856	452	2	–	2,858	452
Other Operating Expenses	63,915	50,977	6,026	6,243	69,941	57,220	321	257	70,262	57,477
Depreciation	9,304	6,266	4,043	5,164	13,347	11,430	96	50	13,443	11,480
Currency Production Raw Materials	–	–	3,478	3,676	3,478	3,676	2,612	2,492	6,090	6,168
Total Expenses	183,801	152,794	23,484	24,967	207,285	177,761	3,924	3,624	211,209	181,385

* 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 2013 are shown in Note 42.

- (i) Expenses incurred at the Mint relating to the provision and issue of coin are charged directly to the Currency Reserve under the provisions of the *Coinage Act, 1950*, the *Decimal Currency Acts, 1969-1990* and the *Economic and Monetary Union Act, 1998* and not to the Profit and Loss and Appropriation Account. Accounting Policy (g).
- (ii) Included in pay is an accrual for annual leave due to staff amounting to €6.5 million. This is the first time the Bank has accrued for the cost of outstanding annual leave (Note 31).

Note 8: Expenses (continued)

Remuneration of Executive and non-Executive Directors in 2013

Name	Period	Salary and Fees	Other¹³
Patrick Honohan*			
Governor	1 Jan - 31 Dec	€265,186	€5,694
Stefan Gerlach			
Deputy Governor (Central Banking)	1 Jan - 31 Dec	€240,175	€5,554
Matthew Elderfield			
Deputy Governor (Financial Regulation)	1 Jan - 8 Oct	€258,016	€1,859
Cyril Roux			
Deputy Governor (Financial Regulation)	1 Oct - 31 Dec	€77,500	–
Total fees paid to other Members of the Central Bank Commission			
	1 Jan - 31 Dec	€74,680	€4,975 ¹⁴

*Governor Patrick Honohan gifted €60,186 under section 483 of the Taxes Consolidation Act 1997 to the Minister for Finance from his 2013 emoluments, which resulted in a net remuneration of €205,000 for 2013. Patrick Honohan's pension entitlements do not extend beyond the standard entitlements in the model public sector defined benefit superannuation scheme.

The aggregate annual fee for 5 non-executive members of the Commission amounted to €74,680 (€14,936 per member). The ex-officio members of the Commission do not receive a fee in respect of their membership of the Commission.

- (iii) The increase in professional fees (€5.5 million) reflects payments incurred on projects undertaken within the Bank in relation to the financial crisis.

Professional fees also include amounts paid to external auditors. Auditors' fees incurred in respect of services provided by RSM Farrell Grant Sparks and the Comptroller and Auditor General amounted to:

	2013	2012
	€000	€000
Audit of Statement of Accounts	265	256
<i>RSM Farrell Grant Sparks</i>	<i>150</i>	<i>150</i>
<i>Comptroller and Auditor General</i>	<i>115</i>	<i>106</i>
Other Assurance Services	35	35
<i>RSM Farrell Grant Sparks</i>	<i>35</i>	<i>35</i>
Total	300	291

Other Assurance Services for 2013 relate to audit services provided on behalf of the ECB and the Superannuation Fund.

¹³ Relates to travel refunds.

¹⁴ Relates to accommodation and travel expenses incurred by one member of the Commission.

Note 8: Expenses (continued)

- (iv) Included in miscellaneous is an amount of €2.3 million in respect of fixed asset write-offs following a review of the fixed asset register (Note 22 (ii)). Also included in this category are the expenses of the Financial Services Appeals Tribunal €0.08 million (2012: €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 (2012: €6.3 million) was paid to the Department of Finance in respect of the pension-related deductions from staff salaries. This figure is not shown separately in the table but is included within the figure for Salaries.
- (vi) Compensation payments totalling €69,124 (2012: €264,227) and ranging from €5,000 to €56,583 (2012: €9,000 to €96,988) were paid in 3 employment related cases (2012:7).

Note 9: Surplus Income

Surplus Income of €1,212.1 million is payable to the Exchequer in respect of the year ended 31 December 2013 (2012: €1,147.6 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 decrease in the balance at end 2013 is due mainly to the change in the market value of gold holdings year-on-year.

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

	2013	2012
	€000	€000
Receivables from the IMF (i)	1,016,123	1,048,950
Balances with Banks and Security Investments, External Loans and other External Assets (iv)	3,000	2,512
Total	1,019,123	1,051,462

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

	2013	2012
	€000	€000
Quota	1,394,551	1,449,944
Less IMF Holdings of euro	(1,105,325)	(1,148,519)
Reserve Position in IMF (ii)	289,226	301,425
SDR Holdings (iii)	726,897	747,525
Total	1,016,123	1,048,950

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

(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) These balances have a maturity of less than one year.

Note 12: Claims on Euro Area Residents in Foreign Currency

	2013	2012
	€000	€000
Balances with Banks (i)	–	482,381
Security Investments – MTM (ii)	–	13,216
Total	–	495,597
Maturity Profile	2013	2012
	€000	€000
0 - 3 months	–	495,597
Total	–	495,597

(i) This item in 2012 consisted of a claim arising from reverse operations with Eurosystem counterparties amounting to €482.4 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. There were no reverse operations outstanding with Euro Area Residents in Foreign Currency at end December 2013 (Note 38).

(ii) Accounting Policy (j).

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

	2013	2012
	€000	€000
Balances with Banks	1,754	144,231
Security Investments - MTM (i)	662,600	534,303
Security Investments - HTM (i)	819,374	550,062
Reverse Repurchase Agreements (ii)	31,000	–
Total	1,514,728	1,228,596

Maturity Profile

	2013	2012
	€000	€000
0 – 3 months	235,948	235,282
3 months – 1 year	128,676	164,033
1 – 5 years	1,073,670	735,593
5 – 10 years	76,434	93,688
Total	1,514,728	1,228,596

(i) Accounting Policy (j).

(ii) Accounting Policy (l).

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

	2013	2012
	€000	€000
Main Refinancing Operations (i)	4,545,000	7,850,000
Longer Term Refinancing Operations (ii)	34,501,000	63,086,000
Total	39,046,000	70,936,000

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 the Eurosystem Main Refinancing Operations (MRO) and Longer Term Refinancing Operations (LTRO) advances during 2013. As at 31 December 2013 total Eurosystem monetary policy related advances amounted to €752.3 billion (2012: €1,128.8 billion), of which the Bank held €39.0 billion (2012: €70.9 billion). In accordance with Article 32.4 of the ESCB Statute, any losses from lending to euro area credit institutions related to monetary policy operations, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing Eurosystem capital key shares. For lending secured by Additional Credit Claims, the risks are borne by the Bank (Note 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 October 2008, these operations have been conducted as fixed rate tender procedures. These operations play a key role in achieving the aims of steering interest rates, managing market liquidity and signalling the monetary policy stance.

(ii) LTRO aim to provide counterparties with additional longer-term refinancing. In 2013, operations have been conducted with maturities equal to the reserve maintenance period and with maturities of three months. These operations were conducted at fixed rate with allotment of the total amount bid.

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

	2013	2012
	€000	€000
Balances with Banks (i)	150,606	500
Reverse Repurchase Agreements	411,000	–
Exceptional Liquidity Assistance (ELA) (ii)	–	40,425,000
Total	561,606	40,425,500

- (i) These balances have a maturity of less than one year.
- (ii) There was no ELA outstanding at end 2013. The provision of ELA which amounted to €39.5 billion ended on 7 February 2013 following the liquidation of IBRC. On that date the Bank took outright ownership of the Promissory Notes, the Facility Deed and the NAMA Bond which had been accepted as collateral for the ELA. Subsequently, the Government offered to exchange the existing non-standard and non-tradable Promissory Notes collateral for a long term non-amortising portfolio of standard marketable Irish Government bonds, an offer which the Bank accepted (Note 16(ii)).

When these transactions were settled (by 28 March 2013), the Bank had acquired a portfolio of securities with the following nominal values:

- Government Floating Rate Notes (replacing Promissory Note) €25.0 billion;
- Government Guaranteed NAMA Bonds (existing collateral) €0.8 billion;
- Government Guaranteed NAMA Bonds (facility deed) €12.9 billion;

As part of the transaction, the Bank also acquired a €3.5 billion 5.4% Irish 2025 Government Bond following the termination of the IBRCs market portfolio in February 2013. It also acquired collateral underpinning the main refinancing operations (Note 14) with IBRC of €0.4 billion which were sold during 2013 and €16.8 million gains were realised.

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 the second in November 2011, together with the euro-denominated securities markets programme, 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.

	2013	2012
	€000	€000
Securities Held for Monetary Policy Purposes (i)	3,306,696	4,362,841
Other Securities (ii)	60,510,456	16,901,287
Total	63,817,152	21,264,128

Note 16: Securities of Euro Area Residents in Euro (continued)**(i) Securities Held for Monetary Policy Purposes**

	2013	2012
	€000	€000
Covered Bonds Purchase Programme 1 (CBPP1) - HTM	423,465	696,316
Covered Bonds Purchase Programme 2 (CBPP2) - HTM	195,281	257,176
Securities Markets Programme (SMP) - HTM	2,687,950	3,409,349
Total	3,306,696	4,362,841

Maturity Profile	2013	2012
	€000	€000
0 - 3 months	2,501	–
3 months - 1 year	438,989	821,316
1 - 5 years	1,297,224	1,949,411
5 - 10 years	1,473,144	1,498,050
10 - 15 years	94,838	94,064
Total	3,306,696	4,362,841

This Balance Sheet category contains securities acquired by the Bank within the scope of the purchase programmes for covered bonds¹⁵, and public debt securities acquired within the scope of the SMP¹⁶. Under the securities markets programme established in May 2010, the ECB and the NCBs could 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 - OMT, and the CBPP1 and the CBPP2 concluded on 30 June 2010 and 31 October 2012 respectively.

The total Eurosystem NCBs' (including the ECB) holding of SMP, CBPP1 and CBPP2 securities, respectively, amounted to €178.8 billion, €41.6 billion and €15.4 billion at end December 2013, of which the Bank held €2,688 million, €423 million and €195 million (Note 1(ii) Accounting Policies (c)(iii) and (c)(ix)).

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 impairment tests are conducted on the basis of information available and recoverable amounts estimated as at the reporting date.

¹⁵ 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.

¹⁶ ECB Decision of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

Note 16: Securities of Euro Area Residents in Euro (continued)**(ii) Other Securities**

	2013	2012
	€000	€000
Security Investments - MTM (i)	52,567,482	9,050,743
Security Investments - HTM (ii)	7,942,974	7,850,544
Total	60,510,456	16,901,287

Maturity Profile	2013	2012
	€000	€000
0 - 3 months	14,234,149	2,893,331
3 months - 1 year	5,160,082	4,073,584
1 - 5 years	5,488,723	5,250,149
5 - 10 years	4,255,636	4,684,223
10 - 15 years	3,545,024	–
> 15 years	27,826,842	–
Total	60,510,456	16,901,287

- (i) This item includes a portfolio of securities acquired by the Bank in February 2013 following the IBRC liquidation. The liquidation ended the extended provision of ELA to IBRC by the Bank (Note 15). This portfolio amounted to €43.9 billion at end December 2013. The portfolio comprises eight non-amortising Irish Government Floating Rate Notes (€27.8 billion), non-amortising NAMA Bonds (€12.6 billion) and the 5.4% Irish 2025 Government bond acquired by the Bank following the termination of the IBRC's market repo in February 2013 (€3.5 billion). The Bank intends to sell the combined portfolio of the FRNs and the fixed rate bond as soon as possible, provided conditions of financial stability permit. The Bank will sell a minimum of these securities in accordance with the following schedule: to end 2014 (€0.5 billion), 2015-2018 (€0.5 billion per annum), 2019-2023 (€1 billion per annum), and 2024 on (€2 billion per annum until all bonds are sold). As part of these minimum sales, the Bank sold €350 million of the 5.4% Irish 2025 Government Bond by end December 2013.

Floating Rate Notes (FRNs)

The Bank acquired FRNs amounting to €25.0 billion as part of the exchange of assets on the liquidation of IBRC. The eight FRNs range in maturity from 2038-2053. There were no sales, purchases or transfers of FRNs in the year. As at 31 December 2013, the FRNs were valued at €27.8 billion giving rise to an unrealised gain of €2.8 billion as at that date (Note 34). These are classified as Level 3 type securities.

As there is no active market in floating rate notes, the Bank values the FRNs using an internal model which applies valuation methods and techniques that are generally recognised as standard within the industry. The fair value of these securities has been estimated using a discounted cash flow valuation technique incorporating:

- an estimated "6 month forward" euribor curve which can change over time in response to a variety of factors, including supply and demand for liquidity in banks as well as economic growth and inflation expectations, and
- an Irish zero coupon yield curve for the period for which directly observable market prices are available, and thereafter extrapolated using observable yields on other European zero coupon yield curves that are trading in active markets.

Note 16: Securities of Euro Area Residents in Euro (continued)

Model factors require judgement to ensure they are appropriately estimated over time. A twenty five basis point change in the spread between the euribor forward rates and the discount curve used in the pricing model will impact on the valuation by approximately €1 billion. The model is periodically evaluated by the Bank to ensure that it is consistent with best practice. No realised gains or losses were recognised in the period under review.

NAMA Bonds

The Bank acquired €13.7 billion nominal of NAMA Bonds following the IBRC liquidation, of which, €1.1 billion was redeemed by NAMA in 2013. As at 31 December 2013, the NAMA bonds were valued at €12.6 billion giving rise to an unrealised loss of €12.4 million as at that date (Note 3). In the absence of an active market, the Bank values these Bonds using prices derived from the Common European Pricing Hub (CEPH). The CEPH is used for collateral pricing purposes in the context of Eurosystem monetary policy operations. These are classified as Level 2 type securities.

5.4% Irish 2025 Government Bond

The Bank acquired €3.5 billion nominal of the 5.4% Irish 2025 Government Bond post IBRC liquidation. During 2013, the Bank sold €350 million nominal of the bond realising gains amounting to €24.8 million. As at 31 December 2013, the 5.4% Irish 2025 Government Bond was valued at €3.5 billion giving rise to an unrealised gain of €292.7 million as at that date (Note 34). This security is valued using quoted market prices (unadjusted) in line with the approach adopted for the remainder of the Bank's mark-to-market portfolio. This is classified as a Level 1 type security.

All other financial assets and liabilities in the Statement of Accounts are classified as Level 1. Accounting Policy (j)(vi).

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

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.

On 1 July 2013, a change in the ECB's capital key occurred as a result of the accession of Croatia to the EU and the related updates of the components used to calculate the key (GDP and population). The Bank's share in subscribed capital of the ECB increased marginally to 1.1111 per cent (2012: 1.1107 per cent). Accounting Policy (c)(iii).

As a result, the Bank's participating interest in the ECB increased by €3.3 million. This included an increase of €0.8 million in the Bank's share of the ECB's subscribed capital and an increase of €2.5 million in the Bank's share of the ECB's accumulated net assets (also referred to as net equity). This gave rise to a transfer of €3.3 million to the ECB.

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. The adjustment to the capital key of the ECB on 1 July 2013 required the transfer of additional foreign reserve assets to the ECB in the amount of €4.1 million which incorporated the increase in the Bank's share of the capital key. This brought the total of the claims in respect of those assets to €643.9 million (Note 1(v)) Accounting Policy (c)(vii).

Note 19: Other Claims within the Eurosystem

	2013	2012
	€000	€000
Share of ECB Profits (i)	21,879	9,122
Net Result of Pooling Monetary Income (ii)	11,458	60,625
Total	33,337	69,747

- (i) This represents the Bank's share of the ECB's interim distribution of seigniorage and other income for 2013 (Note 5(ii) Accounting Policy (c)(v)).
- (ii) This represents monetary income receivable following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares (Note 6(i) Accounting Policy (c)(vi)).

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

	2013	2012
	€000	€000
Shares in the Bank for International Settlements (i)	18,922	19,444
Stocks of Materials for Banknote Production	3,884	1,676
Accrued Interest Income (ii)	962,479	786,348
Prepayments	2,724	1,478
Fixed Assets (Note 22)	79,435	79,953
Other (iii)	36,498	52,497
Total	1,103,942	941,396

- (i) The Bank holds 8,564 shares (2,564 paid up) in the Bank for International Settlements, the euro equivalent of which is €18.9 million (2012: €19.4 million) (Note 5(ii) and Note 36(i)). A dividend is paid annually.
- (ii) This item includes the accrued income earned on the securities acquired following the IBRC liquidation.
- (iii) Included in this item is an amount of €7.4 million (Note 42(vi)) in respect of deferred charges to be recouped from industry and an amount of €4.7 million representing deficits due from certain Industry Funding sub-categories at end 2013 amounts (Note 42(i)).

Note 22: Fixed Assets

€000	Premises		Plant and Machinery		Computer Equipment		Other Equipment		Furniture, Fixtures & Fittings		Assets Under Construction (iii)		Total Fixed Assets	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
At Cost - 1 January	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
Acquisitions	101	53	253	4,629	4,261	7,791	474	749	371	278	9,825	1,518	15,285	15,018
Disposals	-	(358)	-	-	(5,595)	(582)	-	-	-	-	-	-	(5,595)	(940)
At Cost - 31 December	66,950	66,849	55,004	54,751	39,281	40,615	17,038	16,564	15,900	15,529	11,343	1,518	205,516	195,826
Accumulated Depreciation at 1 January	19,743	18,221	46,216	43,689	23,285	18,899	14,604	12,837	12,025	10,872	-	-	115,873	104,518
Depreciation for the year (i)	3,425	1,579	1,917	2,527	5,901	4,454	938	1,767	1,276	1,153	-	-	13,457	11,480
Disposals (ii)	-	(57)	-	-	(3,249)	(68)	-	-	-	-	-	-	(3,249)	(125)
Accumulated Depreciation at 31 December	23,168	19,743	48,133	46,216	25,937	23,285	15,542	14,604	13,301	12,025	-	-	126,081	115,873
Net Book Value at 31 December	43,782	47,106	6,871	8,535	13,344	17,330	1,496	1,960	2,599	3,504	11,343	1,518	79,435	79,953

- (i) Of the total depreciation charge of €13.4 million (2012: €11.4 million), €0.01 million in respect of Mint machinery was charged to the Currency Reserve (2012: €0.05 million).
- (ii) Following a review of the Fixed Assets Register during the year, fixed assets to the value of €2.3 million were written off to Other Operating Expenses.
- (iii) Assets under Construction relates to expenditure on the North Wall Quay site, including the purchase price of €7 million (Note 36).
- (iv) During 2013, and following a comprehensive assessment process, the Bank completed the purchase of a 300 year leasehold interest in a site at North Wall Quay, which will be developed into the Bank's new headquarters. As a result of this decision, the Bank intends to vacate its current properties (both owned and rented, excluding the Sandyford premises) in 2016. The planned vacation of these properties has resulted in a number of charges to profit in the current year financial statements, including an onerous lease and dilapidations provision of €18.4 million in respect of the Spencer Dock premises which is included in Provisions (Note 33) and an accelerated depreciation charge of €2 million in 2013 in respect of certain assets impacted by the move which is included in Accumulated Depreciation. An impairment review was undertaken and no impairment was required.

Note 23: Banknotes in Circulation

	2013	2012
	€000	€000
Total value of Euro Banknotes put into Circulation by the Bank	30,527,687	29,269,087
Liability resulting from the ECB's share of Euro Banknotes in Circulation	(1,221,905)	(1,158,907)
Liability according to the Bank's weighting in the ECB's capital key	(15,254,643)	(14,781,774)
Total	14,051,139	13,328,406

This item consists of the Bank's share of total euro banknotes issued by the Eurosystem. The total value of euro banknotes in circulation is allocated to each national central bank on the last working day of each month in accordance with the banknote allocation key.

During 2013, the total value of banknotes in circulation within the Eurosystem increased by 4.8%. According to the allocation key, the Bank had euro banknotes in circulation worth €14.1 billion at the end of the year, compared to €13.3 billion at the end of 2012. The value of the euro banknotes actually issued by the Bank in 2013 increased by 4.3% from €29.3 billion to €30.5 billion. As this was more than the allocated amount, the difference of €16.5 billion (compared to €15.9 billion in 2012) 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

	2013	2012
	€000	€000
Minimum Reserve Deposits (i)	1,979,736	1,798,115
Overnight Deposits (ii)	1,262,964	1,720,000
Total	3,242,700	3,518,115

- (i) Credit institutions in the euro area are required to hold minimum average reserve deposits with their respective NCBs for the purpose of liquidity management. In 2013, 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 at a pre-specified rate.

Note 25: Liabilities to Other Euro Area Residents in Euro

	2013	2012
	€000	€000
General Government Deposits (i)	10,260,770	19,635,529
Currency Reserve relating to Net Proceeds of Coin (ii)	3,284	3,095
Total	10,264,054	19,638,624

These items have a maturity of less than one year.

- (i) This balance includes the Credit Union Fund. This Fund was established under the *Credit Union and Co-operation with Overseas Regulators Act, 2012*. The purpose of the Fund is to provide a source of financial support for the restructuring of credit unions which will be undertaken by the Credit Union Restructuring Board (ReBo), which was also established under the Act. Under the Act the Minister for Finance is responsible for administering and managing the Credit Union Fund. The balance at 31 December 2013 was €249 million.

Also included in the General Government Deposits are credits totalling €1.2 million (2012: €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 (Note 8 and Accounting Policy (g)). Details of net proceeds for the year are included in the table below:

	2013	2012
	€000	€000
Coin issued into/(redeemed from) Circulation	5,150	(24,282)
Specimen Coin Sets	2,157	3,178
Withdrawn Irish Coin	(237)	(318)
Proceeds from Smelted Coin	–	–
Sub-Total	7,070	(21,422)
Less Operating Costs (Note 8)	(3,924)	(3,624)
Net Proceeds of Coin Issue	3,146	(25,046)
Interest on Pension Liability	(253)	(178)
Superannuation Employer Contribution	(98)	(92)
Transfer (to)/from the Exchequer	(2,606)	26,709
Opening Balance	3,095	1,702
Closing Balance	3,284	3,095

As a result of the *Finance Act, 2002*, and as directed by the Minister for Finance, the Bank is required to transfer the net proceeds from the issue of coin directly to the Exchequer. As noted in the table above, there was a net issuance of coin from the Bank to the commercial banks in 2013. As a result, the net surplus generated a transfer of €2.6 million which was paid to the Exchequer in December 2013 (2012: transfer from the Exchequer of €26.7 million).

Note 26: Liabilities to Non-Euro Area Residents in Euro

	2013	2012
	€000	€000
International Financial Institutions	98	98
EU Agencies	17,182	22,147
Total	17,280	22,245

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 placed by the National Treasury Management Agency to fund a minimum balance requirement in an account with the Federal Reserve Bank of New York used for the receipt of funds from the IMF Financing Programme for Ireland.

Note 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, other IMF members and other official holders of SDRs. SDR holdings may also change as a result of interest payments made by the IMF on the Bank's Reserve Position in the IMF and on the Bank's SDR holdings net of SDR allocations (Note 11).

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 (Note 23) Accounting Policies (c)(ii) and (c)(iv).

Note 30: Other Liabilities within the Eurosystem (net)

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)). At end-2013, six non-participating countries (Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania) were members of TARGET2 and, therefore, included in the multilateral netting process.

Note 31: Other Liabilities

	2013	2012
	€000	€000
Profit & Loss & Appropriation (i)	1,212,110	1,147,628
Deposit Protection Accounts (ii)	379,757	403,024
Interest Accruals	31,594	87,223
Other Accruals (iii)	24,454	14,749
Credit Institutions Resolution Fund (iv)	235,746	249,442
Other (v)	27,112	13,529
Total	1,910,773	1,915,595

- (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. During 2013 the Deposit Guarantee Scheme made total compensation payments of €25 million to 1,350 deposit account holders of IBRC in respect of the liquidation of that credit institution.
- (iii) Included in other accruals is an accrual for €6.5 million for annual leave owed to staff members (Note 8(ii)).
- (iv) A Credit Institutions Resolution Fund was established at the end of 2011 under the *Central Bank and Credit Institutions (Resolution) Act, 2011*. The Minister for Finance lodged €250 million into the fund account maintained at the Bank. The purpose of the fund is to provide a source of funding for the resolution of financial instability in, or an imminent serious threat to the financial stability of, authorised credit institutions including credit unions. The reduction in the balance of the fund at end 2013 mainly reflects a payment of €23 million to Permanent TSB plc. in relation to the transfer of the assets and liabilities of Newbridge Credit Union Limited. This payment was offset somewhat by the receipt of contributions from the credit institutions in accordance with the Credit Institutions Resolution Fund Levy Regulations 2012 (SI 381/2012). Separate Financial Statements are prepared by the Bank for the Fund.
- (v) Included in Other is an amount of €4.3 million representing surpluses due to certain Industry Funding sub-categories at end 2013 (Note 42(i)).

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 2013 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 as at 31 December 2013 by Lane Clark Peacock, the Bank's actuaries, to comply with disclosure requirements under FRS 17.

Note 32: Superannuation Liabilities (continued)**(i) Amount charged to Profit and Loss and Appropriation Account/Currency Reserve**

	Profit and Loss 2013	Currency Reserve 2013	Total 2013	Total 2012
	€000	€000	€000	€000
Expected Return on Assets	16,276	–	16,276	14,120
Interest on Pension Scheme Liabilities	(22,025)	(253)	(22,278)	(23,408)
Current Service Cost	(20,113)	(142)	(20,255)	(15,083)
Past Service Cost	3,957	–	3,957	7,585
Sub-Total	(16,156)	(142)	(16,298)	(7,498)
Total Pension Cost of Defined Benefit Scheme	(21,905)	(395)	(22,300)	(16,786)

As at 31 December 2013, 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 2013 of €3.9 million (2012: €7.6 million) comprises an amount of €4.3 million (2012: €8.8 million) in respect of pensioner reductions offset by a cost of €0.4 million (2012: €1.2 million) in respect of the transfer of pension service for new staff members.

(ii) Actuarial Gain/(Loss) on Pension Scheme

Year Ended 31 December	2013	2012	2011
	€000	€000	€000
Actuarial (loss) on pension liability	(11,410)	(92,808)	(34,288)
Actuarial gain/(loss) on plan assets	32,624	19,468	(37,580)
Total	21,214	(73,340)	(71,868)

As at 31 December 2013, the cumulative actuarial loss recognised in the Profit and Loss and Appropriation Account was €128.3 million (2012: €149.5 million). During 2011, the Government introduced a levy for pension fund assets for a period of four years. The levy is accounted for by reducing the expected return on assets by the relevant rate. In 2013, the pension levy rate was 0.6%. In 2014, the rate was increased to 0.75% (viii).

(iii) Balance Sheet Recognition

The amounts recognised in the Balance Sheet are as follows:

Year Ended 31 December	2013	2012	2011	2010	2009
	€000	€000	€000	€000	€000
Present value of Wholly or Partly Funded Obligations	(615,766)	(571,218)	(455,336)	(392,615)	(377,004)
Fair Value of Plan Assets	531,198	473,793	434,160	443,876	414,611
Net Pension (Liability)/Asset	(84,568)	(97,425)	(21,176)	51,261	37,607

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**

	2013	2012	2011	2010	2009
	€000	€000	€000	€000	€000
Opening Present Value of Scheme Obligations	(571,218)	(455,336)	(392,615)	(377,004)	(382,927)
Current Service Cost	(20,255)	(15,083)	(11,330)	(9,432)	(9,575)
Past Service Cost	3,957	7,585	(1,969)	(720)	-
Pensions Paid	10,468	12,337	10,746	11,387	11,830
Employee Contributions	(4,121)	(4,060)	(3,509)	(2,809)	(2,545)
Transfers Received	(909)	(445)	(252)	(763)	-
Interest on Pension Scheme Liabilities	(22,278)	(23,408)	(22,119)	(22,085)	(22,453)
Actuarial Gain from Experience Adjustments	33,561	21,522	9,492	27,460	28,666
Actuarial Loss from Liability Valuation Adjustments	(44,971)	(114,330)	(43,780)	(18,649)	-
Closing Present Value of Scheme Obligations	(615,766)	(571,218)	(455,336)	(392,615)	(377,004)

(v) Movement in Fair Value of Plan Assets

	2013	2012	2011	2010	2009
	€000	€000	€000	€000	€000
Opening Fair Value of Plan Assets (Bid Value)	473,793	434,160	443,876	414,611	404,657
Expected Return	16,276	14,120	22,346	13,586	10,089
Actuarial Gain/(Loss)	32,624	19,468	(37,580)	12,894	(678)
Employer Contribution	13,943	13,877	12,503	10,600	9,828
Employee Contributions	4,121	4,060	3,509	2,809	2,545
Pensions Paid	(10,468)	(12,337)	(10,746)	(11,387)	(11,830)
Transfers Received	909	445	252	763	-
Closing Fair Value of Plan Assets (Bid Value)*	531,198	473,793	434,160	443,876	414,611

* Included in the fair value of plan assets are two bank accounts - a Superannuation Capital Account and Working Account held with the Bank. The balance on the Superannuation Capital account and Superannuation Working Account at 31 December 2013 amounted to €0.4 million (2012: €0.4 million) and €4.1 million (2012: €3.5million) respectively.

Note 32: Superannuation Liabilities (continued)**(vi) Financial Assumptions**

	2013	2012
	%	%
Discount Rate	3.70	3.90
Expected Return on Assets	3.25	3.40
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 0.1% increase/decrease in the discount rate would be a decrease/increase of approximately 2.2% in scheme liabilities.

(vii) Demographic and Other Assumptions

	2013	2012
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 options to retire at 60)	Evenly spread over age 60 to 65 (for those with options 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: 86.9 Female: 88.6	Male: 86.8 Female: 88.5

* 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 2013 was as follows:

Class	Expected Return	Distribution	Long Term Distribution
	%	%	%
Equities	7.00	53.5	50.0
Fixed Interest/Cash	1.00	46.5	50.0
Total	4.00	100.0	100.0
Pension Levy	(0.75)		
Overall Expected Return	3.25		

The assets were rebalanced to 50%/50% distribution in early 2014. 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 expected return has been adjusted by 0.75% to allow for the pension levy which will be deducted from the assets. The actual return on plan assets for the year 2013 was a gain of €48.9 million (2012: gain of €33.6 million).

(ix) Prior Year Comparatives

Amounts for the current and previous four periods are as follows:

Year Ended 31 December	2013	2012	2011	2010	2009
	€000	€000	€000	€000	€000
Defined Benefit Obligation	(615,766)	(571,218)	(455,336)	(392,615)	(377,004)
Fair Value of Plan Assets	531,198	473,793	434,160	443,876	414,611
(Deficit)/Surplus in the Plan	(84,568)	(97,425)	(21,176)	51,261	37,607
Experience Gain/(Loss) Arising On					
- the plan liabilities	33,561	21,522	9,492	27,460	28,666
<i>As a percentage of the scheme liabilities</i>	5.5%	3.8%	2.1%	7.0%	7.6%
- the plan assets	32,624	19,468	(37,580)	12,894	(678)
<i>As a percentage of the scheme assets</i>	6.1%	4.1%	(8.7%)	2.9%	(0.2%)

(x) Expected Contributions to the Plan for the Period Ending 31 December 2014

The following estimates, by the actuary, of expected contributions are based on the current membership and pensionable salary roll of the plan participants.

31 December 2014	
€000	
Contributions by the Employer	14,604
Contributions by Plan Participants	4,188
Total	18,792

Note 33: Provisions

The following provisions were maintained at 31 December 2013:

	2013	2012
	€000	€000
Eurosystem Monetary Policy Operations Counterparty Risk (i)	–	3,952
Provision for Securities (ii)	350,000	400,000
Unredeemed Irish Pound Banknotes (iii)	11,563	13,189
Provision for Onerous Lease and Dilapidation (iv)	18,400	–
Total	379,963	417,141

- (i) In accordance with the decision of the ECB Governing Council taken under Article 32.4 of the ESCB Statute, the provision against counterparty risks in monetary policy operations that was established in 2008 is allocated between the NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in the year when the defaults have occurred. In line with the general accounting principle of prudence, the Governing Council has reviewed the appropriateness of the outstanding provision and decided to dissolve it at the end of 2013. The respective adjustments are reflected in the Profit and Loss and Appropriation Accounts of the NCBs. In the case of the Bank the resulting income amounted to €3.9 million (Note 6(ii)).
- (ii) The Bank has retained a provision in the amount of €350 million (2012: €400 million). The collective provision reflects an estimated allowance for risks arising in respect of the securities held for monetary policy and investment purposes. The annual estimation of the impairment charge is subject to considerable uncertainty, which remains high in the current economic environment. 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 2013 (Note 3) Accounting Policy (m).
- (iii) Irish pound 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 end 2010 and 2012, an amount of €10 million was transferred from profits to replenish this provision. At 31 December 2013, the provision stood at €11.6 million (2012: €13.2 million) (Note 3 and Note 36 (iii)) Accounting Policy (m).
- (iv) The Bank plans to vacate the Spencer Dock premises as part of the move to North Wall Quay and as a result an onerous lease and dilapidations provision has been created for an amount of €18.4 million in respect of the Bank's net obligations relating to the lease on the premises beyond 2016. The onerous lease provision calculation includes an assumption that the Bank can recover costs from sub leasing the building and the attached car park (Note 3 and Note 22) Accounting Policy (m).

Note 34: Revaluation Accounts

	2013	2012	Net Movement
	€000	€000	€000
Gold	120,663	195,961	(75,298)
Foreign Currency	12,792	21,378	(8,586)
Securities and Other Instruments (i)	3,128,912	117,459	3,011,453
At 31 December	3,262,367	334,798	2,927,569

- (i) The movement on Securities and Other Instruments includes unrealised capital gains arising from the end year valuation of the securities acquired following the IBRC liquidation in February 2013 (Note 16 (i)).

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

	2013	2012
Currency	Rate	Rate
US Dollar	1.3791	1.3194
Japanese Yen	144.7200	113.6100
Sterling	0.8337	0.8161
Swiss Franc	1.2276	1.2072
Danish Krone	7.4593	7.4610
Swedish Krona	8.8591	8.5820
Canadian Dollar	1.4671	1.3137
SDR	0.8942	0.8579
The gold prices used were:		
Euro per fine ounce	871.2200	1,261.1790

Note 35: Capital and Reserves

	Capital (i)	General Reserve	Currency Reserve	Total
	€000	€000	€000	€000
At 31 December 2012	30	1,757,822	351,648	2,109,500
Retained profit for the year (ii)	–	327,241	–	327,241
At 31 December 2013	30	2,085,063	351,648	2,436,741

- (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 €327.2 million to the General Reserve, after adjusting for the actuarial gain of €21.2 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 (Note 5(ii) and Note 21(i)).

(ii) Capital and Foreign Reserve Assets Pledged to the ECB

Under the Statute of the ESCB the Bank may be called upon in the future, along with all other participating NCBs, to transfer further amounts of capital (Article 28) and foreign reserve assets (Article 30) to the ECB.

(iii) Irish Pound Banknotes

The Bank has a contingent liability in relation to Irish pound banknotes that are no longer legal tender and that may be presented at a future date. At 31 December 2013, Irish pound banknotes to the value of €231.3 million were still outstanding (Note 33 (iii)).

(iv) The Bank has 15 on-going legal cases which may result in a liability for the Bank where claims are being made against the Bank. These contingent liabilities are not quantifiable. The Bank is defending these actions and accordingly no amount has been provided for.

Commitments

(i) Operating Leases

In July 2008, the Bank entered into a 25 year lease agreement in respect of office accommodation at Spencer Dock, Dublin 1. The annual rental payment under this operating lease is €3.6 million (2012: €3.3 million).

The Bank also entered into a 4 year lease in November 2010, on 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 2012, 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 development levy payments in the region of €3.5 million were payable to relevant agencies and authorities, of which €0.8 million were levies paid in 2013. 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 in 2016. Total contracted commitments as at 31 December 2013 amounted to €3.4 million.

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 Bank 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.

Note 37: Financial Risk Management (continued)

Credit Risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk in the management of its investment assets, in the monetary policy operations conducted on behalf of the Eurosystem, and in connection with on-going liquidity support to the national banking sector.

Credit risk in the Bank's investment portfolios is controlled by a system of Commission-approved limits based primarily on external credit ratings provided by Fitch and Moodys rating agencies. Credit exposure is mitigated on the Bank's investment assets by a relatively conservative investment policy.

Credit risk arising due to Eurosystem monetary policy implementation is controlled through the application of strict eligibility criteria for counterparties and the provisions of Article 18.1 of the Statute of the ESCB, which ensure that all Eurosystem credit operations (i.e. liquidity providing monetary policy operations and intraday credit) are based on adequate collateral.

To further control this risk, strict eligibility criteria for acceptable collateral are applied through the Eurosystem credit assessment framework (ECAAF) and on-going risk control measures including valuation haircuts, initial and variation margins. The credit risk to the Bank arising from Eurosystem operations is mitigated further by the system's loss-sharing mechanism that distributes any losses arising from monetary policy operations in proportion to the capital key of member NCBs. However, in the case of monetary policy operations collateralised by Additional Credit Claims, the risk is borne by the NCB accepting the collateral concerned.

Credit risk in relation to the Eurosystem crisis-related Securities Market Programme and Covered Bond Purchase Programmes is managed in accordance with the relevant Eurosystem frameworks. Potential losses on securities held in the Covered Bond Purchase Programmes are borne by the respective NCB.

Market Risk

Market risk is defined as the risk of loss as a result of changes in market risk factors, including prices, interest rates, foreign exchange rates, commodity prices and credit spreads. The Bank is exposed to market risk through the interest rate sensitivity of its investment assets. In addition, market risk arises from the Bank's portfolio of bonds which were acquired following the liquidation of the IBRC Limited. Some exposure may also arise due to exchange rate fluctuations, gold prices and to changes in financial market conditions.

Market risk with respect to trading portfolios is managed within the Bank's Financial Operations Directorate in line with the high-level risk management parameters, governance and control frameworks approved by the Commission as well as reporting arrangements for key risk indicators. Compliance and performance relative to these policies is verified and reported on by ORD.

The Bank is exposed to interest rate risk in the mark-to-market trading investment portfolio. Risk management preferences in relation to the investment assets are expressed through an externally compiled benchmark, against which the investment portfolios are measured and managed. The market (interest rate) risk of the Bank's mark-to-market portfolios is calculated and managed using modified duration. Modified duration measures the sensitivity of the value of an investment portfolio to changes in bond yields. Value-at-Risk (VaR) and Expected Shortfall are used as supplementary measures of market risk on the Bank's portfolios.

The Bank is also exposed to market risk on its non-amortising portfolio of standard marketable Irish Government bonds (FRNs) and Government guaranteed NAMA bonds which were acquired following the liquidation of IBRC (Note 16).

Note 37: Financial Risk Management (continued)**Currency Risk**

In the context of the euro area and the consequent lack of foreign exchange intervention, the Bank's holdings of volatile foreign assets have been reduced to the minimum. The currency distribution of the investment portfolio is reviewed periodically using a combination of quantitative methodologies, VaR and stress testing as well as a variety of qualitative factors. At end-December 2013, the Bank's portfolios were predominantly in euro, with a small amount of gold denominated in US dollars. The Bank is also exposed to currency risk through a net-liability position in Special Drawing Rights (Note 11 and Note 28).

Note 38: Unmatured Contracts in Foreign Exchange

There were no unmaturing Foreign Exchange Contracts outstanding at year end.

	31 December 2013		31 December 2012	
	EUR	US Dollar	EUR	US Dollar
000s of currency units				
Unmatured Purchases	–	–	494,565	–
Unmatured Sales	–	–	–	(641,943)
Unmatured Purchases and Sales	–	–	494,565	(641,943)

Note 39: Unmatured Contracts in Securities

Unmatured contracts in securities at year end were as follows:

	31 December 2013		31 December 2012	
	EUR	US Dollar	EUR	US Dollar
000s of currency units				
Unmatured Purchases	131,973	–	–	–
Unmatured Sales	(442,033)	–	–	–
Unmatured Purchases and Sales	(310,060)	–	–	–

All contracts matured by 3 January 2014.

Note 40: Related Parties

- (i) The Bank provides several services to the Minister for Finance, its sole shareholder, and to other Government departments and bodies.

The main services during the year to 31 December 2013 were:

- provision of banking services including holding the principal accounts of Government;
- provision and issue of coin;
- holding and maintaining the Register of Irish Government securities.

- (ii) As a participating member of the ESCB, the Bank has on-going relationships with other NCBs and the ECB.
- (iii) The Bank is one of three shareholders of 'The Investor Compensation Company Limited' (ICCL) and provides administrative and other services to it, the costs of which are recovered from the ICCL. The Bank is the supervisory authority for the purpose of the Act. The ICCL administers the investor compensation scheme to reimburse the clients of failed investment firms. The ICCL prepares its own Annual Report and audited Statement of Accounts.

Note 41: Post-Balance Sheet Events

(i) Redemption of NAMA Bonds

Since the reporting date the Bank's holdings of NAMA Bonds has reduced by €3.2 billion following redemptions by the National Asset Management Agency (NAMA).

(ii) ECB Final Distribution of Profits

The Governing Council of the ECB decided on 20 February 2014 to distribute its remaining profit for 2013, amounting to €60.5 million, to the euro area NCBs, in proportion to their paid-up shares. The Bank's share of this final distribution of profits was €1 million and will be accounted for in the 2014 Financial Statements.

Note 42: Financial Regulation Activities

The following is a summary of the income and expenditure in respect of financial regulation activities for the year ended 31 December 2013, together with comparatives for the year ended 31 December 2012.

		2013	2012
		€000	€000
Income			
Levy Income	(i)	69,736	65,170
(Increase)/Decrease in Provision for Unpaid Levies	(ii)	(1,319)	335
Other Income	(iii)	1,717	1,077
Total Income		70,134	66,582
Subvention from Central Bank of Ireland	(iv)	57,912	44,096
		128,046	110,678
Expenses			
Total Expenses for Financial Regulation activities	(v)	128,046	110,678
Deferred Charges attributable to Industry	(vi)	(7,406)	-

Note 42: Financial Regulation Activities (continued)**(i) Levy Income**

	Surplus from 2012	Amount Levied in 2013	2013 Deficit/ (Surplus)*	2013 Levy Income	2012
	€000	€000	€000	€000	€000
Industry Funding					
Credit Institutions	7,063	25,518	3,178	35,759	42,012
Insurance Undertakings	4,248	12,551	(2,451)	14,348	8,902
Intermediaries	718	2,363	75	3,156	2,108
Securities and Investment Firms	1,665	5,314	(105)	6,874	5,162
Collective Investment Schemes and Service Providers	1,360	5,819	(134)	7,045	4,082
Credit Unions	–	1,375	–	1,375	1,398
Moneylenders	124	392	(146)	370	207
Approved Professional Bodies	10	30	3	43	39
Exchanges	–	–	–	–	233
Bureau de Change	5	17	(2)	20	102
Home Reversion & Retail Credit Firms	24	75	(3)	96	90
Payment Services Institutions	167	480	3	650	835
Total Funding	15,384	53,934	418	69,736	65,170

* In some instances, the deficit/(surplus) attributable to a Funding category represents the net effect of the deficit/(surplus) attributable to individual sub-categories within that category. The aggregate of the gross deficits (€4.7 million) attributable to each Industry funding sub-category have been included in Note 21. Similarly, the aggregate of the gross surpluses (€4.3 million) attributable to each Industry funding sub-category have been included in Note 31.

Financial Regulation Net Industry Funding is shown in Note 7 as follows:

	2013	2012
	€000	€000
2013 Levy Income	69,736	65,170
Less: Surplus from Prior Year	(15,384)	(5,996)
Less: (Increase)/Decrease in Provision for Unpaid Levies	(1,319)	335
Financial Regulation Net Industry Funding (Note 7)	53,033	59,509

Note 42: Financial Regulation Activities (continued)**(ii) (Increase)/Decrease in Provision for Unpaid Levies**

The Bank maintains provisions in respect of levies which remain unpaid at year end. Such levies are pursued as part of the on-going debt recovery process.

The provisions/write-offs are as follows:

	2013	2012
	€000	€000
Opening Provision for Unpaid Levy Notices	1,520	2,252
Levies Written Off	(199)	(397)
Increase/(Decrease) in Provision	1,319	(335)
Closing Provision for Unpaid Levy Notices	2,640	1,520

(iii) Other Income

This is comprised as follows:

	2013	2012
	€000	€000
Securities Market Fees	1,465	1,028
Licensing Fess	238	–
Miscellaneous	14	12
	1,717	1,040
Other Income	–	37
	1,717	1,077

(iv) Subvention

By agreement with the Minister for Finance, since 2007 approximately 50 per cent of the total costs of financial regulation activities have been met by the imposition of levies on the industry. The balance of the total annual costs is provided by the Bank in accordance with Section 321 of the *Central Bank Act, 1942* (as amended). Since 2007 the Bank, with the approval of the Minister for Finance, has incurred costs in respect of certain securities market supervision activities (relating to the Prospectus, Market Abuse, Transparency and Short Selling Directives) carried out within the organisation. These costs totalling €5.702 million in 2013 were excluded from the Net Industry Funding levies issued to the industry in 2013. Securities Market fees (included in Note (iii) above) are shown as income.

In addition, under the provisions of the *Central Bank Act, 1942* (Section 33J) Regulations 2013, a supplementary levy was imposed on credit institutions authorised under Irish legislation that were admitted to 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 Balance Sheet Assessment exercises conducted during the year.

Note 42: Financial Regulation Activities (continued)**(v) Total Expenses**

	2013	2012
	€000	€000
Direct Expenses	81,674	72,429
Support Services	46,372	38,212
	128,046	110,641
Other Expenses	–	37
Total Expenses	128,046	110,678

Expenses, both direct and in respect of support services, are included in Note 8.

Direct Expenses

	2013	2012
	€000	€000
Salaries/Allowances	45,780	44,497
PRSI	3,846	3,925
	49,626	48,422
Pension Provision	7,834	3,694
Staff Expenses	57,460	52,116
Training, Recruitment & Other Staff Costs	1,538	1,758
Equipment, Stationery & Requisites	1	252
Business Travel	1,295	1,089
Publishing & Consumer Advertising	43	129
Professional Fees	19,606	16,086
Miscellaneous	1,731	999
Non-Pay Operating Expenses	24,214	20,313
Direct Expenses	81,674	72,429

The total amount of professional fees incurred in 2013 in relation to the Balance Sheet Assessments of the covered financial institutions was €12.2 million (2012: €12.0 million). These costs were fully recouped from the relevant financial institutions and are accounted for under Credit Institutions Industry Funding.

Note 42: Financial Regulation Activities (continued)**Support Services**

The Financial Regulation Directorates receive various services including premises, human resources administration, accounting, internal audit, statistical and information technology services from support services directorates in the Bank. The cost of these services in 2013 was €46.4 million (2012: €38.2 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:

	2013	2012
	€000	€000
Premises & Facilities	12,309	11,969
Information Technology Services	15,610	10,386
Human Resources	5,941	5,240
Other Services	12,512	10,617
Total	46,372	38,212

(vi) Deferred Charges attributable to Industry

In 2013 the Bank recognised certain charges, the relevant proportion of which will be charged to Industry in future years as actual outgoings are incurred. These expenses related to:

- (i) An onerous lease and dilapidations provision (Note 22 (iv)); and
- (ii) An accrual in respect of annual leave (Note 8 (ii)).

The relevant share of these charges of €7.4 million will be carried forward until such time as the related obligation is settled (Note 21).

Note 43: Comparatives

Certain comparative information has been reclassified for consistency with current year disclosures.

Note 44: Approval of Accounts

The Commission approved the Statement of Accounts on 14 April 2014.

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 2013 under the Central Bank Act 1942, as amended by the Central Bank Reform Act 2010. The statement of accounts, which has been prepared under the accounting policies set out therein, comprises the accounting policies and related information, the profit and loss and appropriation account, the balance sheet and the related notes. The financial reporting framework that has been applied in the preparation of the statement of accounts is set out in paragraph (b) of the accounting policies and related information.

Responsibilities of the Central Bank Commission

The members of the Central Bank Commission are responsible for the preparation of the statement of accounts, for ensuring that the accounts 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 2013 and of its income and expenditure for 2013.

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.

IBRC Liquidation and New Headquarters

Without qualifying my opinion, I draw attention to

- Notes 15 and 16 to the statement of accounts which outline the impact of the liquidation of IBRC on the Bank's balance sheet.
- Note 22 to the statement of accounts which outlines the accounting and monetary impacts of the Bank's decision to relocate to North Wall Quay as its new headquarters and to vacate its current properties (excluding the Sandyford premises).

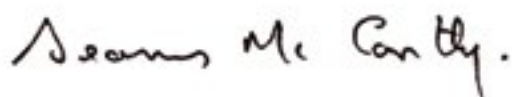
Matters on which I report by exception

I report by exception if:

- I have not received all the information and explanations I required for my audit, or
- my audit noted any material instance where public money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the Bank's annual report is not consistent with the related statement of accounts, or
- the statement on internal financial control does not reflect the Bank's compliance with the Code of Practice for the Governance of State Bodies, or
- I find there are other material matters relating to the manner in which public business has been conducted.

Non competitive procurement

The Statement on Internal Financial Control discloses that there were material instances of non-competitive procurement in respect of contracts that operated in 2013. It also sets out the action taken by the Bank to address the matter.



Seamus McCarthy
Comptroller and Auditor General

14 April 2014

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 2013 which comprise the Profit and Loss and Appropriation Account, the Balance Sheet and the related notes 1 to 44. The financial reporting framework that has been applied in their preparation is the Guideline of the European Central Bank on the legal framework for the accounting and financial reporting in the European System of Central Banks and, where the Guideline of the European Central Bank does not provide specific direction or its application is not mandatory, accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) have been followed.

Respective Responsibilities of the Commission Members and Auditors

As explained more fully in the Statement of Commission Members' Responsibilities the commission members are responsible for the preparation of the Statement of Accounts in accordance with the financial reporting framework.

Pursuant to the requirements of Article 27 of the Statute of the European Central Bank, we have been appointed to audit the Statement of Accounts of the Central Bank of Ireland. Our responsibility, as independent auditors, is to audit and express an opinion on the Statement of Accounts in accordance with Article 27 of the Statute of the European Central Bank and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report, including the opinion, has been prepared for, and only for, the Bank's Commission as a body, in accordance with Article 27 of the Statute of the European Central Bank and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the Statement of Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Statement of Accounts sufficient to give reasonable assurance that the Statement of Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Bank's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the commission members; and the overall presentation of the financial statements. We are not required to form an opinion on the effectiveness of the Bank's system of internal financial controls. We read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Statement of Accounts. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report. Our responsibilities do not extend to other information.

Opinion on the Statement of Accounts

In our opinion the Statement of Accounts:

- give a true and fair view in accordance with the Guideline of the European Central Bank on the legal framework for the accounting and financial reporting in the European System of Central Banks, and where the Guideline of the European Central Bank does not provide specific direction or its application is not mandatory, Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the Bank as at 31 December 2013 and of the surplus for the year then ended; and
- have been properly prepared in accordance with the financial reporting framework.

Floating Rate Notes

- Due to the significance of the Floating Rate Notes acquired by the Bank during the year, the reader's attention is drawn to Note 16. Our opinion is not modified in respect of this matter.

Other matters on which we are required to report

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper accounting records have been kept by the Bank.
- The Statement of Accounts are in agreement with the accounting records.
- We have nothing to report in respect of best practice which would indicate we report to you if, in our opinion the disclosures of the commission members' remuneration and transactions are not made.



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14 April 2014

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