15 Central Bank Annual Report

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Central Bank of Ireland

12 April 2016

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 2015.

Yours faithfully

Philip R. Lane
Governor

Contents

Part 1

The Central Bank Commission

as at 12 April 2016

Philip R. Lane,
Governor

Sharon Donnery,
Deputy Governor
(Central Banking)

Cyril Roux,
Deputy Governor
(Financial Regulation)

Derek Moran,
Secretary General of
the Department of
Finance

Alan Ahearne

Patricia Byron

Blanaid Clarke

John FitzGerald

Des Geraghty

Michael Soden

Neil Whoriskey,
Secretary

Organisation

CENTRAL BANK COMMISSION
Philip Lane* (Chairman), Alan Ahearne, Patricia Byron, Blanaid Clarke, Sharon Donnery *, John FitzGerald, Des Geraghty, Derek Moran*, Cyril Roux*, Michael Soden, Neil Whoriskey (Secretary)

GOVERNOR
Philip Lane

- **DEPUTY GOVERNOR (CENTRAL BANKING)** – Sharon Donnery
  - Resolution and Corporate Affairs – John Coyle
    - General Secretariat
    - Communications
    - Internal Audit^
    - Legal
    - Organisational Risk
    - Resolution
  - Financial Operations – Maurice McGuire
    - Financial Markets
    - Payment and Securities Settlement
  - Chief Economist – Gabriel Fagan
    - Irish Economic Analysis
    - Financial Stability
    - Monetary Policy
    - Statistics
- **CHIEF OPERATIONS OFFICER** – Gerry Quinn
  - Chief Information Officer – Kevin Garland
    - IT Delivery
    - Customer Engagement
  - Human Resources – Liz Joyce
    - Human Resources
    - Organisation Development
  - Currency and Facilities Management – Paul Molumby
    - Currency Issue
    - Currency Production
    - Facilities Management
  - Financial Control and Procurement
  - Regulatory Transactions
  - Project Management Office
- **DEPUTY GOVERNOR (FINANCIAL REGULATION)** – Cyril Roux
  - Credit Institutions Supervision – Ed Sibley
    - Banking Supervision – Supervision
    - Banking Supervision – Inspections
    - Banking Supervision – Analysis
    - Registry of Credit Unions
  - Insurance Supervision – Sylvia Cronin
    - Insurance – Supervision
    - Insurance – Advisory, Analytics & Actuarial Services
  - Markets Supervision – Gareth Murphy
    - Securities and Markets Supervision
    - Investment Firms and Fund Services
  - Policy and Risk – Gerry Cross
    - Prudential Policy and Governance
    - Risk
    - Markets Policy
  - Consumer Protection – Bernard Sheridan
    - CP – Supervision
    - CP – Policy and Authorisations
  - Enforcement – Derville Rowland
    - Enforcement
    - Anti-Money Laundering

* Ex-officio

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

Senior Management

as at 12 April 2016


Philip R. Lane,
Governor


Sharon Donnery,
Deputy Governor
(Central Banking)


Cyril Roux,
Deputy Governor
(Financial Regulation)


Gerry Quinn,
Chief Operations
Officer


John Coyle,
Director
Resolution and
Corporate Affairs


Sylvia Cronin,
Director
Insurance Supervision


Gerry Cross,
Director
Policy & Risk


Gabriel Fagan,
Chief Economist


Lars Frisell,
Adviser to the
Governor


Kevin Garland,
Chief Information
Officer


Liz Joyce,
Director
Human Resources


Maurice McGuire,
Director
Financial Operations


Paul Molumby,
Director
Currency & Facilities
Management


Gareth Murphy,
Director
Markets


Derville Rowland
Director
Enforcement


Bernard Sheridan,
Director
Consumer Protection


Ed Sibley,
Director
Credit Institutions
Supervision

Management

as at 12 April 2016

Directorate	Division	Head of Division/Unit
Resolution and Corporate Affairs	General Secretariat Internal Audit Communications Legal Organisational Risk Resolution	Neil Whoriskey Joe Foy Jill Forde Eadaoin Rock Glenn Calverley Patrick Casey
Financial Operations	Financial Markets Payment and Securities Settlement	Peter Sinnott Daragh Cronin
Economics	Irish Economic Analysis Financial Stability Monetary Policy Statistics Research and Cross-Directorate Projects	John Flynn Mark Cassidy Luca Onorante (Acting) Joe McNeill Gerard O'Reilly
Information Management and Technology	IT Delivery Customer Engagement	Vacant Karina McArdle
Currency and Facilities Management	Currency Issue Currency Production Facilities Management	Lucy O'Donoghue Tony Duffy Michael Enright
Human Resources	Human Resources Organisational Development	Derval McDonagh Michael Maher
Operations	Regulatory Transactions Financial Control Procurement Project Management Office	Alan Briscoe Fergal Power Michael Power John Thompson
Credit Institutions Supervision	Banking Supervision - Analysis Banking Supervision - Supervision Banking Supervision - Inspections Registry of Credit Unions	Adrian Varley Vacant Fiona McMahon Anne Marie McKiernan
Insurance Supervision	Insurance - Supervision Insurance - Advisory, Analytics & Actuarial Services	Kieran Murphy Vacant
Markets	Securities and Markets Supervision Investment Firms and Funds Supervision	Gráinne McEvoy Michael Hodson
Policy & Risk	Prudential Policy and Governance Risk Markets Policy	Mary Burke Patricia Dunne Martin Moloney
Consumer Protection	Consumer Protection - Policy and Authorisations Consumer Protection - Supervision	Colm Kincaid Helena Mitchell
Enforcement	Enforcement Anti-Money Laundering	Brenda O'Neill Domhnall Cullinan

Governor's Foreword

During 2015, the Irish economy experienced broadly-based strong growth, which is projected to ease only modestly in 2016. The strong growth outlook provides an opportunity to address the remaining effects of the crisis and strengthen resilience to future challenges to economic, fiscal and financial stability. Discipline in reducing the remaining vulnerabilities and strengthening economic resilience will continue to be necessary in order to mitigate the risk of future *boom-bust* cycles and ensure stable and sustainable medium-term growth.

To fulfil the Bank's mission of 'safeguarding stability, protecting consumers', macro-prudential regulations were introduced on loan-to-value and loan-to-income ratios for residential mortgage lending in February 2015. The balance sheets of financial institutions also improved through capital increases and restructures, while the multi-year reorganisation of the credit union sector continued through both voluntary and expedited transfers.

In continuing to fulfil and enhance the Bank's consumer protection mandate, authorisation standards for credit servicing firms were established, a revised process for payment institution applications was introduced, the new SME Code was delivered and consultation on Standard Variable Rate mortgages was undertaken. To guard against the risks to the Irish and wider financial system from the activities of non-bank financial entities (including investment funds, money market funds and financial vehicle corporations), we continue to monitor and deepen our understanding of the non-bank financial sector.

There is a significant public interest in the Bank having a credible and effective enforcement policy. During 2015, 24 enforcement cases were brought to conclusion, including nine Administrative Sanctions for which fines of over €7m were imposed.

Turning to the European agenda, a tentative recovery was evident for the euro area, supported by low oil prices, a relatively weak external value of the euro, and an accommodative monetary policy stance that has included the continued use of both standard and non-standard measures. Consumer price inflation remained around zero, below the ECB's 2 per cent reference rate. The ECB's March 2016 announcement of further accommodative measures underscores its intention to use exceptional monetary policy instruments in support of its price stability mandate and objectives.

The regulatory framework both in Ireland and Europe is moving to a more comprehensive and intrusive regime, particularly in banking and insurance. During 2015, the Bank continued to make a material contribution to the design and implementation of unified supervision for the larger banks in the euro area under the Single Supervisory Mechanism (SSM), which has been in place for just over a year. Comprehensive measures were developed for the insurance sector in the form of Solvency II, the new EU-wide insurance regulatory regime; these new measures became effective on 1 January 2016.

Significant progress was made during the year on major projects within the Bank. In particular, the project to co-locate most city centre-based staff in our new headquarters in North Wall Quay progressed with the award of construction contracts and the commencement of work to complete the building programme. We are also undertaking a major review of our organisational design.

During 2015, we developed and published a new Strategic Plan which will guide and direct our work over the next three years.

In April 2015, the Bank became subject to the Freedom of Information Act, 2014 and processed the 156 requests received up to end-year. The Bank has also published information voluntarily, for example, relating to diaries and expenses and towards the end of the year has published the minutes of meetings of the Commission.

This Annual Report documents in greater detail the wide range of activities undertaken by the Bank.

The Bank is reporting a 2015 financial profit of €2.2bn. After retained earnings, €1.8bn will be paid to the Exchequer. The scale of profits earned continues to reflect the broad range of measures the Bank has taken in recent years in response to the financial and sovereign debt crises.

I would like to pay tribute to the major contributions made by my predecessor, Patrick Honohan who retired in November 2015, particularly in the manner in which he led the reformation of the Bank and re-established its mission and reputation. I also wish to thank Stefan Gerlach who left the Bank at the end of 2015 for his contribution as Deputy Governor and all the members of the Central Bank Commission for their support and advice.

Finally, since I took up my role, I have been struck with the diverse range of activities for which the Bank is responsible and have also been impressed with the commitment and hard work of management and staff, which are vital to the continued success of the Bank in delivering on its mandate.

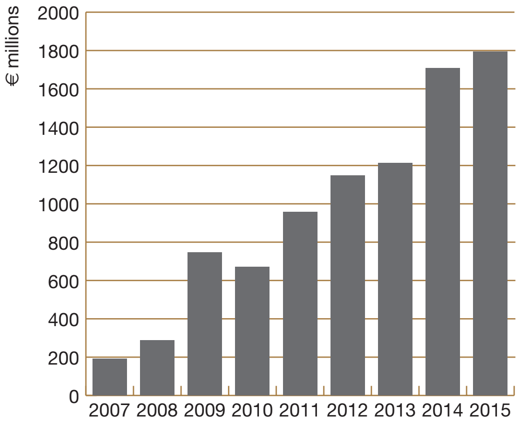
Philip R. Lane,
Governor

12 April 2016

2015 **at a Glance**

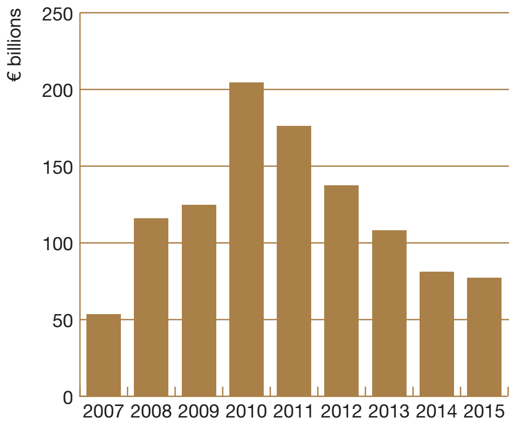
2015: The Bank at a Glance

Surplus Income Paid to Exchequer



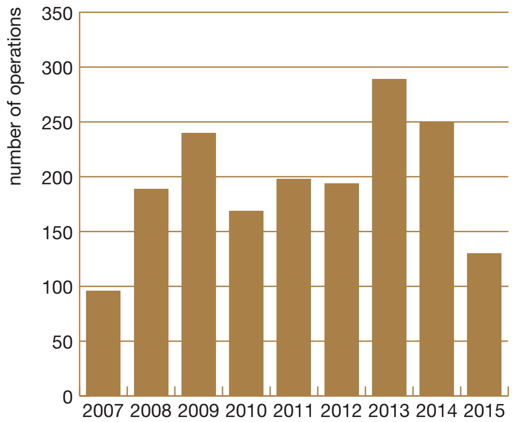
Surplus income paid to the Exchequer increased to €1,795.2 million (€1,708.8 million in 2014).

Total Assets



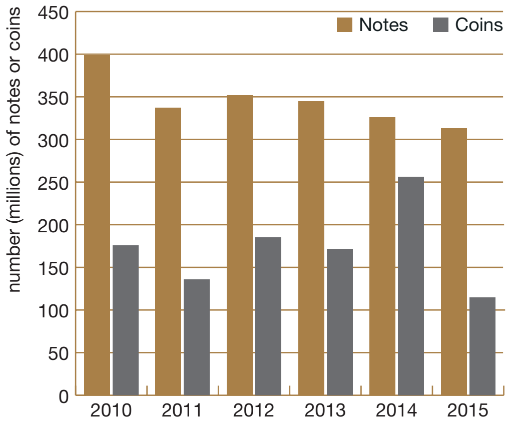
Total Assets were €77.2 billion (€81.3 billion in 2014).

Number of Open Market Operations



128 operations were conducted by the Bank on behalf of the Eurosystem (250 in 2014).

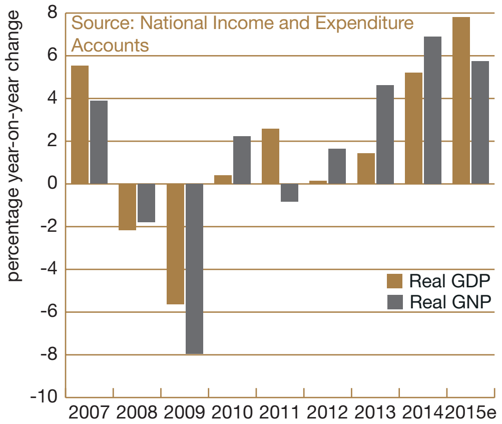
Issuance of Banknotes and Coin



The number of banknotes issued decreased (313 million in 2015 from 326 million in 2014) and the number of coins issued decreased (115 million in 2015 from 256 million in 2014).

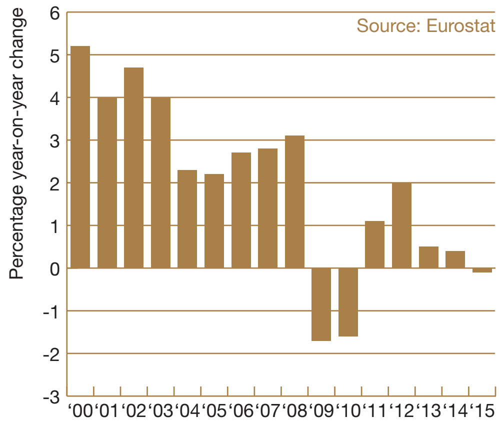
2015: The Economy at a Glance

Real GNP and GDP



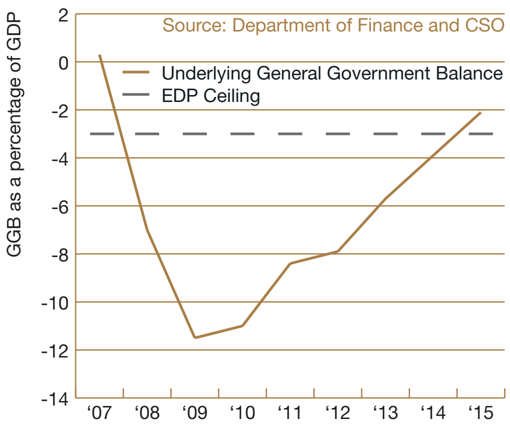
The economy expanded further in 2015, growing in real GNP terms by an estimated 5.7 per cent, and in real GDP terms by an estimated 7.8 per cent.

Inflation (HICP)



The HICP measure of inflation averaged 0.0 per cent in 2015.

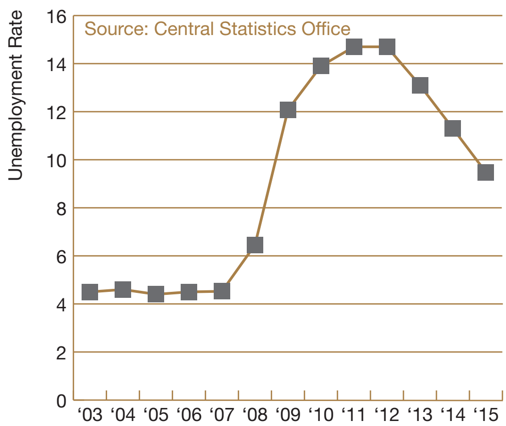
General Government Balance (GGB) as a % of GDP



The 2015 General Government deficit is estimated to have comfortably out performed the Excessive Deficit Procedure (EDP) ceiling.

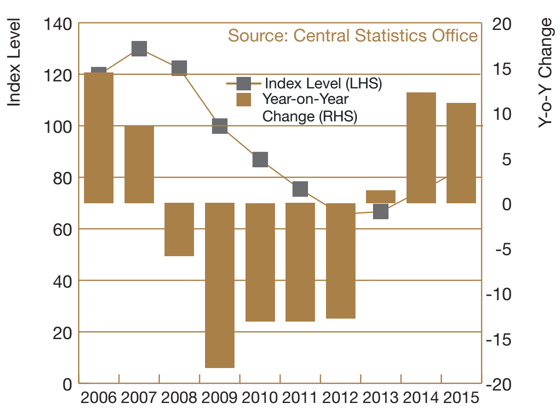
Note: 2015 Figure is Department of Finance Estimate from Budget 2016 and is subject to revision once EDP figures are published by Eurostat in April 2016.

Unemployment Rate



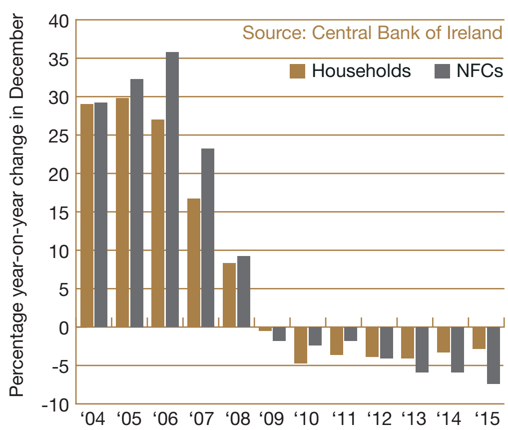
The unemployment rate decreased to an average of 9.5 per cent in 2015. The current (March 2016) ILO rate of unemployment is 8.6 per cent.

National Residential Property Prices



The Residential Property Price Index was 10.5 per cent higher on average in 2015 than in 2014.

End-Year Annual Rates of Change in Lending



Lending to Irish Households and Non-Financial Corporations (NFCs) fell by 2.8 per cent and by 7.3 per cent, respectively, year-on-year by end-2015.

Note: Growth rates are based on underlying transactions, i.e., after adjusting for write-downs, securitisations, and transfers to NAMA, etc.

Selected Abbreviations

AIFMD	Alternative Investment Fund Manager Directive
AIFs	Alternative Investment Funds
AML	Anti-Money Laundering
ASP	Administrative Sanctions Procedure
CAG	Consumer Advisory Group
CCMA	Code of Conduct on Mortgage Arrears
CDS	Credit Default Swaps
CFT	Counter Financing of Terrorism
CRD IV	Capital Requirements Directive IV
CSMAD	Criminal Sanctions for Market Abuse Directive
CRR	Capital Requirements Regulation
DAC	Designated Activity Company
EBA	European Banking Authority
ECB	European Central Bank
EFSF	European Financial Stability Fund
EFSM	European Financial Stability Mechanism
EIOPA	European Insurance & Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds Regulation
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
IAASA	The Irish Auditing and Accounting Standards Authority
ICAAP	Internal Capital Adequacy Assessment Process
ICAVs	Irish Collective Asset-management Vehicles
IOSCO	International Organisation of Securities Commissions
LSIs	Less Significant Institutions
LTI	Loan-to-Income
LTV	Loan-to-Value
MiFID	Markets in Financial Instruments Directive
MREL	Minimum Realisable Eligible Liabilities
MRP	Mortgage Redress Programme
NPL	Non-Performing Loans
ORSA	Own Risk and Solvency Assessment
PCF	Pre-Approval Controlled Function
PII	Professional Indemnity Insurance

PPI	Payment Protection Insurance
PRISM	Probability Risk and Impact System
QIAIFs	Qualifying Investor Alternative Investment Funds
ReBo	Credit Union Restructuring Board
RFSPs	Regulated Financial Service Providers
SME	Small and Medium-Sized Enterprises
SME Code	Code of Conduct for Business Lending to SMEs
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TEM	Temporary Engagement Model
UCITS	Undertakings for Collective Investment in Transferable Securities

Chapter 1:
Key Activities and Developments in 2015

Executive Summary

Introduction

2015 was the final year of the Bank's 2013-2015 Strategic Plan, and progress across a broad range of work was achieved during the term of the Plan. This encompassed major contributions to external developments in financial supervision and the Bank's evolving relationships with Ireland's banking, financial and economic systems. This Annual Report records the Bank's activities over the year comprising the wide spectrum of work carried out, progress made and results achieved.

Monetary Policy at ECB Governing Council level

The Bank continued to support the formulation of Eurosystem-wide monetary policy through the effective contribution of the Governor at ECB Governing Council level on standard and non-standard monetary policy issues. In January, the Eurosystem's asset purchases were significantly extended by the ECB to include bonds of euro area governments and certain European agencies and institutions. In December, the ECB announced an additional suite of accommodative monetary policy measures, including the monthly purchases of bonds, which were extended until at least the end of March 2017.

Financial Stability

Financial stability in Ireland and across the euro area is a key priority. In that respect, new macro-prudential policies were introduced in 2015. In February, regulations concerning loan-to-value (LTV) and loan-to-income (LTI) ratios on residential mortgage lending came into effect. In December, and in accordance with Capital Requirements Directive IV, the Bank announced the introduction of two new capital buffer requirements – the Countercyclical Capital Buffer (CCB) and the Other Systemically Important Institutions (O-SII) buffer.

Financial Supervision and Regulation

The Bank regulates more than 10,000 firms, investment funds and individual financial service providers to Irish and foreign customers and investors. It aims to protect those customers and contribute to financial stability through the use of assertive supervision underpinned by the credible threat of enforcement. Regulation powers include the granting or refusals of authorisations, the ongoing supervision of authorised service providers, the issuance of binding codes and regulations, and the use of enforcement powers. Many of these powers are exercised as prescribed by European regulations and/or together with other supervisory authorities in Europe.

In 2015, the Bank protected effectively the interests of the clients of Irish regulated firms. No disorderly failure of a firm prudentially regulated by the Bank, which would have led to consumer detriment, was recorded, even though the Bank operates a risk-based approach rather than a no failure regime.

The Bank oversaw the strengthening of the capital structure of Irish banks and insurance companies, in addition to the restructuring of part of the credit union sector. Governance, operational and technical remediation plans, including continued progress on non-performing loans, IT security, and operational resilience were required from banks, credit unions, investment firms, insurance undertakings and other regulated financial services providers on foot of detailed onsite inspections, thematic reviews and ongoing supervision.

A number of significant enhancement and new regulations were introduced in 2015 to increase consumer and investor protection, and strengthen regulated firms, such as the credit union regulations, UCITs regulations, client asset regulations and investor money regulations. The Bank contributed throughout the year to the drafting of the statutory instruments transposing Solvency II into domestic law for Irish insurance undertakings, while developing domestic guidance for the insurance industry.

In its gatekeeping role the Bank developed the framework for authorising Irish Collective Asset Management Vehicles (ICAV), authorised the first e-money institution in Ireland as well as the first branch of a bank domiciled outside of the EU. The Bank exercised its powers by rejecting, inter alia, applications for controlled functions, and for debt management firms' authorisations and by imposing conditions on applications for the use or the change of internal models by credit institutions and insurance undertakings.

The Bank held firms and individuals to account in 2015. It concluded nine settlement agreements and over €7.3m in fines were imposed on firms and an individual. On two occasions the Bank used its powers to refer individuals to Inquiry under Part IIIC of the Central Bank Act, 1942 (as amended).

Under its risk-based supervision framework, the Bank carried out a range of activities aimed at ensuring anti-money laundering compliance in 2015. Inspections were undertaken across ten financial sectors including life insurance, investment firms, retail credit firms and money lending. During the year, the Bank published three compliance reports, covering the banking and credit union sectors and the funds industry.

Resolution

In July 2015, the Bank Recovery and Resolution Directive (BRRD) was transposed into Irish law and the Bank was designated as Ireland's National Resolution Authority (NRA). As NRA, the Bank will exercise BRRD resolution powers and functions. Under BRRD, an EU-wide single rulebook for the resolution of failed or failing banks and investment firms has been established. All Irish licenced banks and certain larger investment firms come within the remit of the BRRD. The BRRD requires institutions to prepare recovery plans on an annual basis setting out measures they would take to restore their financial position following deterioration. As NRA, the Bank is required to prepare resolution plans on an ex ante basis setting out the actions it would take in the event of a firm's failure.

The restructuring of the credit union sector continued and 33 projects involving 77 credit unions were completed during the year. Mergers provide an important starting point to address financial and operational weakness in credit unions and to protect the interests of members. The Bank engaged with the Restructuring Board and individual credit unions to ensure that each proposal took account of the Bank's legal and regulatory requirements.

Consumer Protection

The Bank delivers its consumer protection mandate through three broad functions. In policy development, it works to ensure the consumer protection framework is fit for purpose through developing and influencing policy and strategy domestically and at external forums. Through its regulatory responsibilities, the Bank authorises firms and individuals to provide financial services. In its supervisory role, it monitors, investigates and enforces compliance with the consumer protection framework.

Noteworthy outcomes during 2015 were the establishment of the authorisation standards for credit servicing firms, the introduction of a revised process for payment institution applications, the issuance of the new SME Code, new or revised UCITS, Client Assets and Investor Money regulations, and the consultation on Standard Variable Rate mortgages. Unauthorised service providers were vigorously challenged, and retail intermediaries in breach of their obligations were made to comply or to return their authorisations.

An investigation by the Bank uncovered significant failures by Permanent TSB and its subsidiary company in relation to tracker mortgage options and rates. This included mortgage overpayments, mortgage arrears, and in certain cases the loss of some homes. The firms agreed to implement a major redress and compensation programme for affected customers.

Economic Analysis and Statistics

The Bank plays 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. Internally, economic analysis and research provided important inputs to ongoing financial stability assessments and macro-prudential reviews during 2015. Within the Eurosystem, the Bank contributed to macroeconomic forecasting exercises and in the provision of policy advice and economic analysis.

There were extensions and improvement in the Bank's statistics implemented in 2015. Some of these extensions have important policy relevance, including at European and international levels such as the data on Special Purpose Vehicles (SPV) and Shadow Banking. The close working relationship with the Central Statistics Office was further developed during 2015.

Payment and Settlement Systems and Currency Services

At a Eurosystem level, the Bank continued to be actively involved in the development and implementation of oversight policies, standards, and requirements relating to payment and securities settlement systems. Target2 Securities (T2S) will be a new settlements infrastructure for Europe. In 2015, the Bank actively contributed to the various structures of the T2S programme, including the Advisory Group and the National User Group, and is a member of the T2S Board.

The Bank administers the Deposit Guarantee Scheme that protects eligible depositors up to €100,000 in the event of a credit institution failing. The credit institutions covered by the scheme fund it. A new Directive on Deposit Guarantee was signed into law in November 2015.

The third banknote in the Europa Series 2 (ES2), the €20, was launched in November 2015. The first series of euro banknotes will always retain their value and can be exchanged for an unlimited period at Eurosystem central banks. A total of 313m banknotes were supplied by the Bank during the year, a four per cent reduction on the 2014 issue. Acting as agent for the Minister for Finance, the Bank issued 115 million coins into circulation in 2015, which was a 55 per cent decrease in coins issued in 2014. The Bank issues Irish commemorative coin and a €2 circulating coin was issued in January 2016 commemorating the 1916 Easter Rising centenary.

The national rollout of rounding of one and two-cent coins occurred on 28 October 2015, and it was preceded by an awareness campaign for merchants and consumers. The level of merchant take-up of rounding at end-year was strong and consumer reaction was positive.

Organisational Efficiency and Effectiveness

In November 2015, the Bank published its Strategic Plan for 2016 – 2018 which sets out clear objectives to continue to deliver on its legal mandate in a changing environment for the central banking and financial systems in Ireland and Europe. The Bank uses a Balanced Scorecard methodology to monitor the implementation of its objectives as set out in the Strategic Plan. An annual Scorecard is prepared for the Bank at the beginning of the year. The Commission reviews the overall qualitative outcome of the BSC annually, which is linked to the Performance Management Development Process, which assesses staff individual work performance.

At the end of 2015, the Bank employed 1,515.75 full-time equivalents and the staff turnover figure for the Bank for the year was 7.7 per cent. The ratio of internal to external hires was 43 to 57 per cent in 2015.

The Bank's Organisation Review programme progressed significantly during 2015. Three areas of the Bank were selected in the first half of the year to pilot a structural redesign process and all areas of the Bank will complete this structural redesign process in 2016.

At end 2015, the investment portfolio comprised assets of €19bn. This represented a decrease of €0.7bn on the portfolio value at end 2014, largely reflecting the Bank's obligations under the Eurosystem's Agreement on Net Financial Assets framework. Total earnings on the investment portfolio amounted to €359.1m in 2015 and the return was 2.04 per cent. The Bank's holdings of assets acquired as part of the liquidation of the IBRC declined to €22.78bn (nominal) at year-end. This reduction reflected the sale of €0.9bn of holdings of the fixed coupon 2025 bond, the purchase by the NTMA of €1.5bn of the Irish FRN 2038 and €500m of the Irish FRN 2041 and the redemption by NAMA of €0.17bn of its bonds (all nominal amounts).

The Bank's Expenditure Approval Framework details the governance structure within which the approval authorities for operational and investment (capital and non-capital) expenditure are framed for the organisation. The key principles of the Bank's Procurement Policy are to achieve the best value for money while complying with all applicable EU Directives and national laws, and managing all related risks.

The Bank came under the provisions of the Freedom of Information Act 2014, in April 2015. Over the year, the Bank received and processed 156 requests, with high volumes of requests received in the initial two months. In promoting the FOI principles of openness and accountability, voluntary publication of Directors' expenses and the diaries of the Governor and Deputy Governor commenced during the year. A range of administrative information including Commission minutes and details of salary and wage structures in the organisation was also published.

The Programme to relocate staff from the three city centre locations to North Wall Quay, Dublin, progressed throughout the year and the commencement of occupancy in the new building is planned for late 2016. In 2015, the Bank purchased premises in Spencer Dock, where it was renting office space. This acquisition will serve as a contingency site for additional accommodation to meet the Bank's medium to long-term needs. The North Wall Quay project is the first office building in Ireland to achieve the highest available environmental sustainability rating for the building design.

Overseen by the Bank's Project Management Office, 28 significant project were completed in 2015, including the introduction of the SSM and new CRD IV; implementation of a Local Market Operations Platform; and new Human Resources Information Systems. Following certification by the National Standards Authority of Ireland of compliance with the ISO 21500 project management standard, the Bank provided briefings to a number of public sector organisations on its approach to project management and the role of its project management office.

Throughout 2015, the Bank's programme of media engagement continued. Through its Public Contacts unit, the Bank responded to 7,414 direct contacts from members of the public. The Bank's main online communications channel is centralbank.ie. Work towards a redesign of the Bank's website commenced in 2015.

Eurosystem Effectiveness and Price Stability

The Bank is responsible for maintaining price stability through the implementation of ECB decisions on monetary policy.

Monetary Policy – Decisions

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 2015, annual headline inflation remained below 1 per cent in the euro area and the Governing Council took a number of measures aimed at bringing inflation back to a level close to but below 2 per cent in the medium term. On 22 January 2015, the Governing Council announced the extension of the asset purchase programme to include bonds of euro area governments and select European agencies and institutions. Under the Expanded Asset Purchase Programme (EAPP), beginning in March, the Eurosystem would purchase €60bn of securities monthly at least until September 2016. A change in the pricing of the six remaining Targeted Longer-Term Refinancing Operations (TLTROs), removing the 10 basis point (0.10 per cent) spread over the Main Refinancing Operations (MRO) rate that applied to the first two TLTROs was also announced at this time.

The Governing Council announced an additional suite of accommodative monetary policy measures in December 2015. The deposit facility rate was further lowered by 10 basis points to -0.3 per cent. Monthly purchases of €60bn under the EAPP were extended until the end of March 2017, or beyond if necessary, until a sustained adjustment in the path of inflation is evident[1]. A reinvestment policy of the securities purchased under the EAPP was also announced and the list of eligible issuers was extended to include euro area regional and local governments. Finally, refinancing operations as fixed rate tender procedures with full allotment would be conducted for as long as necessary, and at least until the end of the last reserve maintenance period of 2017.

The ECB's Monetary Policy Committee (MPC) assesses 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 Governing Council. Through its participation on this committee, the Bank actively contributes to and influences key debates related to the monetary policy stance and its implementation. The Bank is also represented on the Markets Operations Committee (MOC), which 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 the ECB asset purchase programme and contributes to reporting, analysing, assessing and interpreting financial market developments within and outside the EU.

Monetary Policy - Operations

The Eurosystem continued the series of asset purchase programmes, comprising the covered bond and asset-backed securities purchase programmes, and the TLTROs, both of which were established in 2014. Under the sovereign bonds' purchase programme which commenced on 9 March 2015, the Eurosystem had purchased €491.2bn of public sector securities (including agency debt), €143.3bn of covered bonds and €15.3bn of asset-backed securities by year-end. Further details of the ECB purchase programmes are provided in Box 1, below.

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

1 Following its meeting on 10 March 2016, the Governing Council announced a further package of measures including, a reduction in the MRO and the MLF rates by 5 basis points each to 0.00 and 0.25 per cent respectively, and of the deposit facility by 10 basis points to -0.40 per cent; an increase in monthly purchases under the EAPP from €60bn to €80bn, and the launch of four new Targeted Longer-Term Refinancing Operations (TLTRO II) starting in June 2016.

Reflecting an improved functioning of the euro area money market and provision of liquidity through the EAPP, the total amount of liquidity provided by the Eurosystem through standard monetary policy operations decreased by €71.0bn (11.3 per cent) in 2015[2]. Included in the total amount of Eurosystem liquidity provision are the TLTROs, which provided approximately €205.5bn over four operations during 2015. Liquidity provided through the TLTROs comprised the largest portion (74.8 per cent) of Eurosystem borrowings at the end of December 2015. As excess liquidity[3] has increased, counterparties' recourse to standard Eurosystem operations (the MRO with maturity of one week and the LTRO with maturity of three months) has decreased, and collectively accounted for €140.5bn (25.2 per cent) of total Eurosystem liquidity provision (€88.9bn in the MRO and €51.6bn in the LTRO).

Excess liquidity rose from €259.4bn on 31 December 2014 to €654.5bn on 31 December 2015, with the average figure rising considerably, from €129.7bn in 2014 to €373.0bn in 2015. The Eurosystem's asset purchase programmes served to increase the size of the Eurosystem's balance sheet, and thus excess liquidity, resulting in a further easing of the monetary policy stance. Following the introduction of a negative Deposit Facility rate on 5 June 2014, credit institutions across the Eurosystem are charged a negative interest rate if they place excess funds on either this facility or on their reserve accounts above their reserve requirements[4]. Daily recourse to the overnight Deposit Facility rose considerably throughout the year as excess liquidity increased, with usage averaging €114.2bn compared to €30.7bn in 2014. Current account holdings in excess of minimum reserve requirements averaged €259.1bn for the year (up from €99.2bn in 2014). The interest rates on the MRO and the Marginal Lending Facility remained unchanged at 0.05 per cent and 0.30 per cent, respectively. Recourse to the marginal lending facility, which allows institutions to borrow overnight funds from the Eurosystem, averaged €0.3bn in 2015 compared to €0.2bn in 2014.

The Euro Overnight Index Average (EONIA)[5] levels fell steadily throughout 2015, as excess liquidity in the system increased, putting downward pressure on the interest rate charged in the interbank market for overnight deposits. EONIA fell from -7.9 basis points (-0.079 per cent) on 2 January 2015 to -22.3bps (-0.223 per cent) on 29 December 2015, and averaged -10.7 basis points (-0.107 per cent) over the year.

Irish Operations

Operations conducted by the Bank on behalf of the Eurosystem decreased from 250 in 2014 to 128 in 2015. The decline arose as early repayment operations associated with the 3-year longer term refinancing operations ceased due to the maturity of the 3-year operations.

The number of Irish counterparties eligible to participate in operations at the end of 2015 was 22, the same number as 2014. Total outstanding monetary policy borrowings by Irish counterparties stood at €10.7bn as at 31 December 2015, compared to €20.7bn as at 31 December 2014. The decline in Eurosystem borrowings occurred against a backdrop of reduced funding requirements, ongoing deleveraging and increasing excess liquidity.

2 From €629.4bn on 31 December 2014, to €558.5bn on 31 December 2015.

3 Excess liquidity arises when the supply of liquidity through the Eurosystem's monetary operations and asset purchase programmes exceeds both minimum reserve requirements and autonomous factors, which are outside the control of individual national central banks.

4 The ECB requires credit institutions established in the euro area to hold deposits on accounts with their national central bank. These are called 'minimum' or 'required' reserves (MMR). This is calculated as 1 per cent of a credit institution's deposits or debt securities issued with a maturity of up to two years.

5 The EONIA rate is the 1-day interbank interest rate at which banks provide loans to each other.

Box 1: The Euro Area Expanded Asset Purchase Programme (EAPP)

Following a prolonged period of persistently low inflation in the euro area the ECB announced the EAPP in January 2015. Aimed at fulfilling the ECB's price stability mandate, the EAPP included a new Public Sector Purchase Programme (PSPP) in addition to its existing private sector asset purchase programmes, encompassing the asset-backed securities purchase programme (ABSPP) and the covered bond purchase programme (CBPP3), both of which were launched in late 2014. PSPP purchases began on 9 March 2015 comprising marketable debt instruments issued by euro area governments, certain agencies and certain international or supranational institutions located in the euro area. In December, it was decided that certain marketable debt instruments issued by regional and local governments located in the euro area would also become eligible for regular PSPP purchases.

Overall Eurosystem purchases under the EAPP are conducted at an average pace of €60bn each month. Purchases were initially intended to be carried out until at least September 2016 and in any case until the Governing Council could see 'a sustained adjustment in the path of inflation that is consistent with its aim of achieving inflation rates below, but close to, 2 per cent over the medium term'. In December 2015, the Governing Council decided to extend purchases from September 2016 to March 2017.

With key interest rates at the zero lower bound, the EAPP is an additional non-standard measure aimed at easing monetary policy in order to increase inflation towards target. It is designed to work through a number of channels. Firstly, it directly impacts the price of the purchased assets, resulting in a fall in sovereign bond yields, and, thereby longer-term interest rates generally. Secondly, it has a portfolio rebalancing effect, whereby the former holders of the assets purchased by the Eurosystem find alternative investment options. This portfolio reallocation produces further price increases across a wider range of assets, resulting in a broad lowering of borrowing costs across the euro area. This can also provide an encouragement to banks to increase lending to the real economy. The programme also has an important signalling effect, which affects variables such as confidence and the exchange rate, and contributes to a desired increase in inflation towards its target.

A number of criteria were announced around the purchases of securities under the PSPP; they must be bought on the secondary market, be denominated in euros, be eligible as collateral for ECB monetary policy operations and have a minimum remaining maturity of 2 years and a maximum remaining maturity of 30 years and 364 days at the time of purchase. The Governing Council also decided in March that bonds yielding less than the ECB deposit rate (-0.2 per cent in March and -0.3 per cent from December 2015) are not eligible for purchase. Finally, it was also decided to have a 25 per cent issue share limit (the proportion of any one bond issue that can be held by the Eurosystem, aggregating across all portfolios) and a 33 per cent issuer limit (the proportion of bonds issued by a particular sovereign or supranational agency held by the Eurosystem).

The 25 per cent issue share limit is designed to prevent the ECB from having 'a blocking minority in a debt restructuring involving collective action clauses'. In September, the issue limit was increased from 25 to 33 per cent but subject to a case-by-case verification that it would not create a situation whereby the Eurosystem would have a blocking minority for the purposes of collective action clauses, in which case the issue share limit would remain at 25 per cent. The 33 per cent issuer holdings limit is implemented 'with the aim of preserving market functioning and allowing the formation of a market price on a given security'.

Of the €60bn of monthly purchases, €10bn comprises Covered Bonds and asset backed securities (ABS) purchases that are loss shared. The remaining €50bn is made up of the PSPP and the Governing Council decided that 20 per cent of this would be subject to loss sharing. Of the €50bn, €6bn per month (12 per cent of the PSPP) is directed towards the purchase of the debt of supranational institutions located in the euro area and this is fully risk shared. Of the remaining purchases of mostly sovereign bonds, another €4bn (8 per cent of the PSPP) per month is purchased by the ECB, which is also fully risk shared, bringing loss-shared purchases to €10bn per month (20 per cent of the PSPP). The remaining €40bn (80 per cent of the PSPP) is purchased by the Eurosystem national central banks (NCBs) at their own risk.

Regarding implementation, the ECB coordinates the purchases, with the vast majority of purchases undertaken on a decentralised basis and each individual NCB purchasing according to their capital key. As of the end of December, total cumulative purchases of euro area debt securities under the PSPP amounted to €494.9bn book value (€491.2bn at amortised cost), of which €60.1bn book value (€59.8bn amortised cost) related to supranational debt. Total cumulative purchases of Irish government debt, including both ECB and the Central Bank of Ireland purchases, amounted to €7.6bn book value or an average of €760m per month.

Bank Lending Survey

The Bank conducted the Irish component of the euro area Bank Lending Survey (BLS) quarterly in 2015 with a 100 per cent response rate from the five Irish banks that participate. The survey examined quarterly changes in credit market conditions. Similar to previous years, the survey was supplemented with ad-hoc questions examining topical issues in financial and credit markets.

Stability of the Financial System

Financial stability in Ireland and across the euro area is a key priority for the Bank. The Bank fulfils its domestic and European treaty mandates to contribute to financial stability in Ireland and the euro area through the prevention and mitigation of financial sector risks, at both the system-wide (macro-prudential) and the institution (micro-prudential) levels.

Financial Stability

The Bank introduced new macro-prudential policies in 2015. In February, regulations concerning loan-to-value (LTV) and loan-to-income (LTI) ratios on residential mortgage lending came into effect. In December, and in accordance with Capital Requirements Directive IV (CRD IV), the Bank announced the introduction of two new capital buffer requirements – the countercyclical capital buffer (CCB) and the Other Systemically Important Institutions (O-SII) buffer. As a member of the SSM, the implementation of capital buffers is a shared responsibility with the ECB. The overarching aim of the policies is to strengthen the resilience of the domestic banking system.

These measures have been taken in fulfilment of the Bank's mandates, both domestic and European, for financial stability. Other notable financial stability related actions during 2015 included: the Bank became the national resolution authority in Ireland in accordance with the Bank Recovery and Resolution Directive (BRRD) and new regulations for the credit union sector were announced. The Bank's Financial Stability Committee which co-ordinates and assesses financial stability issues and advises the Governor in this regard in relation to Ireland and the euro area, met on 15 occasions during 2015.

The Bank's biannual Macro-Financial Reviews were published in June and December. The Review offers an overview of the current state of the macro-financial environment in Ireland and is published to help financial market participants, other authorities and the public evaluate financial risks. An up-to-date picture of developments in the Irish household credit market is communicated through the publication of the Household Credit Market Report. The Small and Medium–Sized Enterprises (SME) Market Report fulfils a similar function by considering developments relating to the Irish Small and Medium Enterprises credit market.

The financial stability-related research publications of the Bank focused largely on the housing and mortgage markets in 2015. Issues covered included the design of macroprudential policies, long-term mortgage arrears, mortgage insurance and mortgage interest rate types. Beyond the residential property market, research addressing data gaps and shadow banking and the role of personal guarantees in Irish SME lending were published. Some of this research was presented at two financial stability conferences held by the Bank during the year. These conferences included contributions from international experts. The first, held in January, focused on balance sheet recovery of households and firms. The second, titled 'Banking, Credit and Macro-Prudential Policy: what can we learn from micro-data', took place in November. In September, the Bank hosted a round-table discussion of domestic property market experts.

During 2015, the Bank actively participated in European financial stability-related committees. In the context of the ESCB and SSM, the Bank is represented at the Financial Stability Committee and its Macro-Prudential Analysis and Macro-Prudential Policy Groups. The Bank participated in the ESRB through attendance at meetings of its General Board, Advisory Technical Committee and working groups. The work of these committees has a number of strands such as:

» The identification and assessment of systemic risks in the European Union.

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

» The development of a macro-prudential policy framework and operationalising macro-prudential policy in the banking sector.

Specific issues analysed in these committees during the year included the low interest environment, insurance sector developments and vulnerabilities in the real estate markets; and an area of increasing emphasis is the development of macro-prudential policy beyond the banking sector.

Box 2: Preparatory Work and Stakeholder Engagement Preceding the Bank's 2015 Macro-Prudential Policy

During 2014, the Bank became concerned that the signs of recovery in the housing market could, over time, translate into increased risks to financial stability. These concerns were exacerbated by existing vulnerabilities in household and banks' balance sheets. To address the concern, a cross-division working group, including representatives from the Financial Stability, Banking Supervision, Legal, Prudential Policy and Consumer Protection areas of the Bank was set up. Its role was to make recommendations on potential macro-prudential policy measures for the housing market.

Preparatory work for the introduction of the measures drew on international evidence and experience in relation to macro-prudential measures for mortgage and credit markets. A significant amount of research and analytical work was also undertaken in relation to credit risk for different cohorts of mortgage borrowers, including first-time buyers; the potential impact of regulations concerning LTV and LTI type measures on financial sector resilience, borrower behaviour and housing market developments; and a potential role for mortgage insurance schemes in strengthening borrowers' resilience. Much of this work was published through the Bank's Economic Letter and Research Technical Paper series.

In terms of engagement with interested parties, the Bank issued a public consultation in October 2014 on its proposals for introducing residential mortgage regulations. The Bank received over 150 submissions in response to the consultation from individuals, institutions and interested groups. The Bank carefully considered all feedback received and made a number of amendments to the proposals on the back of the consultation.

The main concern raised in the responses related to the proposed LTV cap and specifically the 80 per cent cap for principal dwelling homes with many respondents worried it would have a particularly negative impact on first time buyers (FTBs). In response, the Bank included differentiated limits for FTBs buying lower-value properties in the final regulations. The Bank also made amendments to the compliance and reporting requirements in response to operational concerns highlighted by impacted institutions.

The measures introduced aim to improve the resilience of the banking and household sectors and to reduce the risk of bank credit and house price spirals in the future.

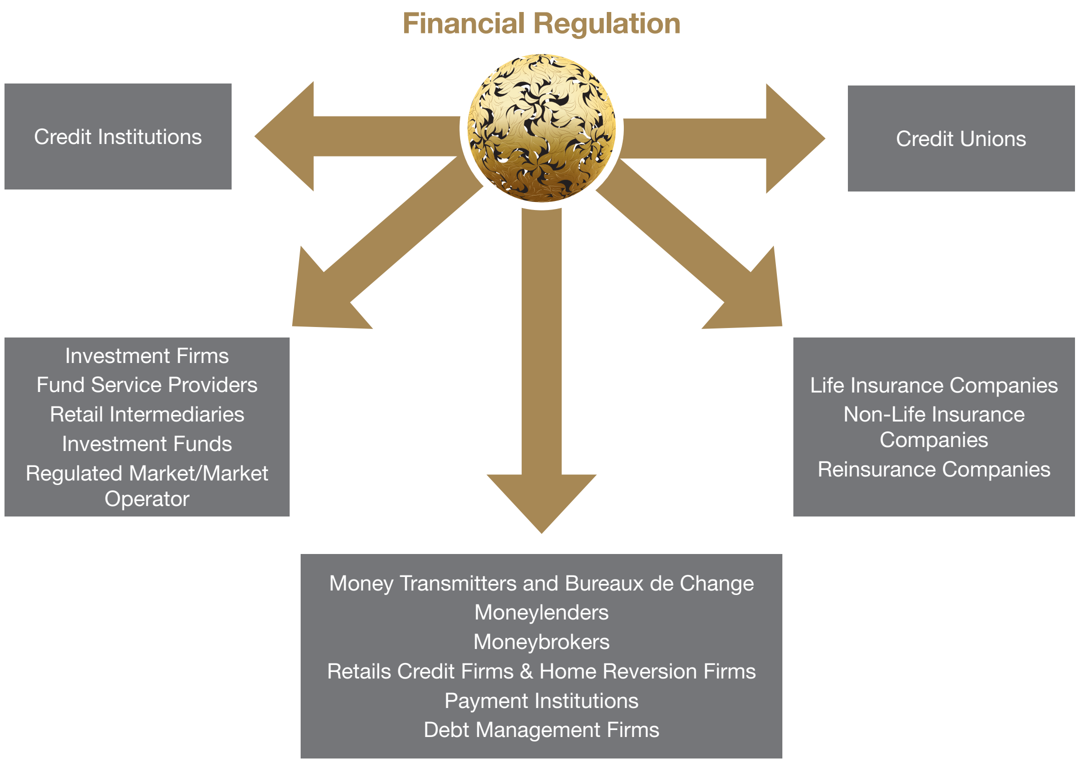
Proper and Effective Regulation of Financial Institutions and Markets[6]

Regulation of institutions and markets is undertaken through assertive risk-based supervision which is underpinned by credible enforcement deterrents. Central to those activities is the Bank's focus on its strategic objectives of safeguarding stability and protecting consumers.

The Bank has responsibility for the supervision of approximately 10,000 or most but not all financial service providers and funds in Ireland see chart 1, below.

During 2015 the Bank's supervisory activities and outcomes across all financial sectors continued to be underpinned by its risk-based approach coupled with the effective threat of enforcement. The Bank's approach is based on the principle that not all firms are equally important and that a regulator delivers most value by focusing its resources on the firms which are most significant and on the risks that pose the greatest threat to consumers and to financial stability. In 2015, no disorderly failure of a financial service provider under the prudential supervision of the Bank occurred.

Chart 1: Firms Regulated by the Bank



Banking Supervision

The Bank's prudential supervision objectives are to protect depositors and financial stability by demanding of Irish credit institutions that they have sustainable, capital generating business models over the economic cycle, are governed and controlled appropriately, with clear and embedded risk appetites, which drive an appropriate culture within them, have sufficient financial resources (considering both capital and liquidity needs), and are resolvable in the event of a failure without recourse to the Irish taxpayer.

6 The 2015 – 2016 Annual Performance Statement (APS) is published separately. The APS provides a full account of the Bank's regulatory and supervisory activities for the year with accompanying tables, data and metrics, and sets out its work objectives and detailed planned actions for 2016.

As part of the SSM, it is the responsibility of the Bank to contribute to ensuring the safety and soundness of the euro area banking system, and to increase financial integration and stability in Europe.

Implementation of the New Banking Supervision Structure and SSM Transition

In 2015, the Bank completed the move to supervision of larger banks, or Significant Institutions (SIs) as part of the ECB-led Joint Supervision Team (JST) structure, while teams supervising smaller banks, or Less Significant Institutions (LSI), transitioned to supervision in accordance with the SSM Manual. JST and LSI Supervision teams are supported in their work by the dedicated on-site inspections teams and by a range of experts on analytics, regulatory reporting, crisis management, policy implementation and authorisation.

On-site inspections began in 2015 with new teams, such as the IT risk and Business Model Analysis. All parts of banking supervision actively engage with the SSM in carrying out their respective remits, including participation in a number of SSM High Level Groups, Task Forces, Networks and Working Groups, contributing to the ongoing development of both the SSM Manual and influencing regulatory initiatives.

Capital Ratios

The aggregate transitional total capital rose by €4.0bn in the year to September 2015 resulting in the ratio of the banks active in the Irish retail sector improving from 17.3 to 20.3 per cent. Transitional Common Equity Tier 1 (CET1) capital increased by €3.4bn, from 14.9 to 17.5 per cent and total capital increased by €4.4bn, 15.1 to 18.3 per cent. These changes were as a result of capital restructuring and new issuance by banks to enhance their capital position, a return to modest profitability and a reduction in risk weighted assets year on year.

Supervisory Review and Evaluation Process (SREP)

The principal prudential supervisory activity of the SSM is the SREP. It includes analysis and challenge of each bank's Internal Capital Adequacy Assessment Process (ICAAP) and is conducted annually, concluding with the determination and issuance for each bank of capital requirements. The SREP methodology is based on four main elements – business model assessment, governance and risk management assessment, assessment of risks to capital, and assessment of risks to liquidity. The ECB aims to achieve consistency of SREP assessments and decisions through a harmonised methodology and comparisons across all SIs of the euro area.

The SREP includes an assessment of both qualitative and quantitative elements including Pillar II techniques for addressing risks not fully captured within the Pillar I methodology; and banks' forward looking analysis of their capital adequacy, including a review of the banks' own stress test methodologies. The SREP process required engagement with a range of stakeholders to ensure that the SREP analysis was conducted within compressed SSM timeframes in 2015.

Onsite Inspections and Auditor Assurance

Thorough onsite inspection of banks is a large component part of banking supervision in the SSM. Inspections under the SSM methodology are more intensive than the previous domestic practice and consequently are of a significantly longer duration, typically 3 months. During 2015, inspections were conducted in areas such as risk-taking and risk-culture, corporate governance, internal control and risk management frameworks, financial resilience, and compliance with banking regulation.

Since 2013, the Bank may require the external auditor of a bank to conduct an examination of certain provisions of financial services legislation. The Bank commissioned the external auditors of High Impact credit institutions to conduct an auditor assurance exercise on internal governance, new lending and cyber security during 2015.

These inspections and auditor assurance reports enabled the Bank to identify a number of governance, internal controls, IT and operational, business and other issues, and to request targeted remediation plans to the relevant credit institutions.

Non-Performing Loans (NPL)

An extensive review, driven by the Bank, with support from the SSM, of both the NPLs strategies at the retail banks was undertaken during 2015. The Bank issued the retail banks with requirements relating to their NPL resolution and collective provisioning models. Banks were instructed to conclude sustainable solutions for at least 80 per cent of distressed mortgage borrowers by the end of Q1 2016. Enhanced mortgage monitoring requirements were introduced and other remediation plans required for the banks inspected.

In addition to this work, the Deputy Governor (Central Banking) Sharon Donnery is Chair of the SSM High Level Group on NPLs which examines approaches to the consistent supervision of banks in the euro area with high levels of NPLs.

Third Country Branch Authorisation

Following a comprehensive assessment process and in consultation with its home supervisor the Bank authorised a Swiss bank to establish a branch in Ireland, subject to the imposition of a comprehensive suite of conditions. This is the first branch to be authorised under Section 9A of the Central Bank Act, 1971 (as amended). Branches do not have capital nor a Board of Directors. Accordingly, the Bank is limited in its ability to supervise such entities.

Credit Union Supervision

The statutory function of the Registry of Credit Unions (RCU) is to ensure the protection of members' funds by credit unions and the maintenance of the financial stability and well-being of credit unions generally.

Supervisory Engagement

During 2015, the Bank increased supervisory focus on Low Impact credit unions while maintaining its engagement with those credit unions considered as potential lead transferees (consolidators) and those considered higher risk.

In so doing the Bank gained greater visibility of Low Impact credit unions and enhanced its understanding of the quality of their governance, risk management and compliance frameworks. Where viability challenges and business model constraints were evident, the Registry engaged further to ensure that their Boards had prepared the necessary contingency arrangements to safeguard members' savings and ensure continuity of service to members in recognition of the time bound and incentivised remit of ReBo to facilitate credit unions in the context of restructuring and amalgamation. During 2015, 135 onsite engagements were completed, and subsequently RMPs were issued to 126 credit unions.

Issuance of Credit Union Regulations

The Commission on Credit Unions made a number of recommendations regarding the strengthening of the regulatory framework for credit unions. The recommendations included more effective governance and regulatory requirements and the provision of regulation making powers to the Bank. Following a detailed consultation process in 2015, a comprehensive suite of prudential regulations was introduced for credit unions from 1 January 2016. The regulations cover a number of areas including reserves, liquidity, lending, investments and savings; and build on existing prudential and governance requirements in these areas. They also include the establishment of categories of loans, which a credit union may make and related concentration limits, the introduction of a maximum individual members' savings limit of €100,000 and counterparty and maturity limits for investments by credit unions thereby limiting potential loss of member funds arising from any failure of an individual credit union.

The provision of regulation-making powers to the Bank also provides flexibility so that in the future, the Bank can review and update the regulations following consultation as appropriate, taking sector development into account.

Fitness and Probity for Credit Unions

A Fitness and Probity regime for credit unions came into effect on 1 August 2013 and is being implemented on a phased basis, with fully implementation by 1 August 2016. In applying a Fitness and

Probity regime to credit unions, the Bank's aim has been to improve governance standards at board and management level within the sector for the benefit of all stakeholders.

Enforcement Action

The Administrative Sanctions Procedure (ASP) became fully applicable to the credit union sector on 1 August 2013. The Bank settled its first ASP case against a credit union and a member of its management in 2015 for failing to deliver accurate and timely prudential returns.

Insurance Supervision

The Bank's prudential supervision objectives are to protect policyholders by demanding of Irish insurance undertakings that they have sustainable, capital generating business models over the economic cycle; are governed and controlled appropriately, with clear and embedded risk appetites, which drive an appropriate culture within them and have sufficient financial resources to pay out claims in full when they fall due.

Restoration of the Balance Sheet Resilience of the Non-Life Sector

The domestic non-life claims environment has been marked in 2015 by increasing claims payouts, stemming in part from court awards inflation, the introduction of Periodic Payment Orders and an increase in claims frequency. This, in tandem with a low interest rate environment, has resulted in widespread losses and an erosion of the solvency position of the sector. In 2015, the resulting Bank's supervisory requirements, combined with the pending entry into application of Solvency II, resulted in firms raising capital, issuing subordinated debt, increasing reserve protection, and upgrading underwriting discipline among other actions to strengthen their balance sheet.

Supervisory Engagement

More generally, a wide range of supervisory reviews and engagements including Risk Governance Panels (RGPs), Full Risk Assessments (FRAs), Financial Risk Reviews (FRRs), and meetings with executive management and key personnel were completed. A number of thematic reviews were conducted which covered topics including bodily injury claims and pricing in non-life companies and unit linked governance of cross border life companies.

On foot of this supervisory work, companies were required to strengthen the technical provisions, governance and risk management functions and related processes.

Alongside the supervisory engagement with regulated undertakings, there was also regular interaction with industry stakeholders e.g. scheduled meetings, participation in industry forums and speaking engagements at industry conferences. Effective communication with industry remains a key a priority for the Bank and plays an important role in support of its wider supervisory agenda.

Implementation of the Solvency II Directive

Throughout 2015, the Bank worked on the implementation of the Solvency II regime which came into operation on 1 January 2016. Solvency II is the most significant change in insurance regulation in over 40 years. The main objective of Solvency II regulation and supervision is the adequate protection of policy holders and beneficiaries through capital and other quantitative requirements, governance requirements and reporting and disclosure requirements.

The Bank undertook a large-scale Solvency II implementation project, which consisted of ten major work-streams with significant cross-directorate effort across the Bank. The Solvency II project has continued into 2016 to deliver the full Solvency II reporting solution, increased analytics capabilities and to complete the training plan for insurance supervisors.

The Bank's online reporting system (ONR) has been upgraded to receive the substantially increased volume and complexity of Pillar III reporting from insurance undertakings. The Bank is substantially upgrading its capabilities to analyse and interrogate this new data in fulfilling its mandate to effectively supervise insurers.

Internal Model Applications

The Bank received eight formal internal model applications during 2015 which were approved by the Bank. Formal approval assessments involved detailed technical reviews of the suitability of the methods used and a quantitative analysis of the results as well as an assessment of the compliance with the use and governance requirements. The process concluded with a final decision that examines the model as a whole and feedback into supervisory strategy. These assessments identified areas of strength and weakness that were fed back to the respective companies and also allowed the Bank to observe best practices in these areas. In many cases this feedback included terms and conditions to improve or amend the model, and often significantly increased the capital requirement.

Insurance Directorate Reorganisation

It was necessary to reorganise the Insurance Directorate in 2015 to ensure the successful implementation of the new regulatory regime, Solvency II. The Bank was also cognisant of recent peer reviews undertaken by the IMF and the European Insurance and Occupational Pensions Authority (EIOPA). Consequently, the new structure comprises two separate divisions: i) Supervision and ii) Advisory, Analytics and Actuarial Services. Supervision will include dedicated onsite inspection teams, comparable to, if less numerous than, those established in banking supervision, while Analytics will enable the effective use of the more granular data of Solvency II returns to identify developments.

Authorisation of the VHI

On 22 June 2015, the Bank granted authorisation to VHI Insurance DAC as a non-life insurance company. VHI Healthcare Ltd was also authorised as an insurance intermediary. The authorisation of VHI Insurance DAC constituted a major project within the Insurance Directorate and required an in-depth assessment of the application prior to its approval by the Bank.

Markets Supervision

The Bank authorises and supervises a wide range of financial services firms and investment funds and supervises primary and secondary securities markets and client assets. It aims to ensure investor protection, market integrity and proper functioning of capital markets.

Mitigation of Risks

A wide range of supervisory reviews and engagements, including RGPs, FRAs, and meetings with executive management and key personnel were completed. On foot of these reviews and engagements, firms and investment funds were required to strengthen the finances, governance, risk management functions and related processes.

A number of thematic reviews were conducted, including topics such as the treatment of pricing errors in the calculation of net asset values (NAV) for investment funds, securities lending for investment funds, governance and controls for MiFID firms trading on their own account, and selected MiFID conduct of business requirements and examination of the ongoing application of risk management processes employed by UCITS.

Two thematic reviews in areas that represent key risks to the Bank's objectives related to Cyber Security and governance, which involved an inspection of controls and procedures around system security and access, and a review of Directorships within the investment fund industry.

Efficient and Effective Authorisation and Approval Processes

A number of key projects were undertaken in 2015 to enhance and improve the rigour and efficiency of authorisation processes. The Bank engaged in a consultative process with industry in 2015 to assess the efficiency of the revised authorisation process for MiFID investment firms, implemented in 2014, and to consider extending this process to fund service providers. This involved a series of meetings and analysis of feedback received. Based on positive feedback from industry, a decision to extend this process to fund service providers was agreed, which became effective from January 2016.

The Irish Collective Asset-Management Vehicles (ICAV) Act, 2015 (the ICAV 2015 Act) was signed into law on 4 March 2015. It provides an additional legal structure for Irish authorised investment funds, both UCITS and AIFs[7]. The Bank's authorisation processes have been amended to incorporate investment funds intending to establish as ICAVs. The Bank began accepting ICAV applications on 16 March 2015 and the first ICAV investment fund was authorised on 30 March 2015.

Enhanced Analysis of Markets Supervisory Data

Early in 2015, a new Supervisory Analytics Unit was established with the primary objective of improving the analysis of the Markets related data collected in the Bank. This included:

» Gaining supervisory access to new data sets arising from the recent European Market Infrastructure Regulation (EMIR) and Alternative Investment Fund Manager Directive (AIFMD) regulations. This involves the receipt and management of more than three million records on a daily basis.

» Developing tools to analyse run-risk and liquidity-risk in open-ended investment vehicles.

» Engaging with the European Securities and Markets Authority (ESMA) and other national regulators in the area of managing data collected from Investment Firms and securities markets participants.

Market Integrity[8]

The Bank was active and visible in pursuing suspected breaches of market abuse regulations. Two themed reviews were conducted: (i) the reporting of suspicious transactions; and (ii) the filing of share activity reports by persons concerned in the management of listed issuers. The Bank also worked closely with European peers on approaches that are more efficient to the collection of transaction reporting data.

Investment Funds

Investment funds ('funds') are established for the purpose of investing the pooled subscriptions of investors (held as units or shares in the fund) in investment assets in accordance with investment objectives published in the prospectus. The net asset value of Irish authorised funds amounted to €1,898.8 billion as at 31 December 2015 represented by 6,201 funds, including sub-funds. The number of revocations (all voluntary) of existing funds, including sub-funds, in 2015 was 577. The total number of funds authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, Unit Trusts Act 1990, Part 24 of the Companies Act 2014, the Investment Funds, Companies and Miscellaneous Provisions Act 2005, the Investment Limited Partnerships Act 1994 and the Irish Collective Asset-management Vehicles Act 2015 in 2015 was 149 funds (948 including sub-funds). This data meets the Central Bank's reporting requirements under Section 3(6) of the Unit Trust Act 1990.

Policy, Risk and Governance

The Bank issues domestic codes and regulations to strengthen consumer protection and the resilience of regulated firms, influences the development of EU and international policy and implements the transposed frameworks at a national level.

Influencing the EU and International Regulatory Framework

Within the EU, there are a number of institutions and authorities which determine regulatory policy in Europe. The European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities Markets Authority (ESMA), collectively referred to as the European Supervisory Authorities (ESAs), develop the Technical Standards, Guidelines and Recommendations, which give effect to EU financial services legislation.

The Bank is an active member of the ESAs and its contribution to their work has helped achieve high quality regulation that contributes to the enhancement of Ireland's reputation and regulatory framework.

7 The ICAV was initiated in order to provide a more tailored, bespoke corporate solution, designed to meet the needs of European investment funds and their investors. The ICAV Act does not result in any changes for established investment companies, which continue to co-exist with the ICAV. Existing funds established as investment companies have the option of converting to ICAV status while funds domiciled outside of Ireland can migrate into Ireland as ICAVs by continuation.

8 **Regulated Disclosures:** 996 prospectuses approved, 443 passport requests processed and 4361 final terms filed in 2015. All prospectuses approved contained required disclosures under the Prospectus Directive. Compliance with the Transparency Directive and Short Selling Regulation continually monitored.

On the banking side, the Bank contributed to developments in harmonising the SSM's approach to Capital Requirements Directive IV (CRDIV)/ Capital Requirements Regulation (CRR) options and discretions and to the various SSM decisions/policy proposals mainly related to bank capital requirements. The Bank also contributed to the work of the European Systemic Risk Board (ESRB), its Advisory Technical Committee (ATC) and associated working groups. In addition the Bank provided expert technical assistance and policy advice in EU Council negotiations on the development of legislative proposals on Banking Structural Reform and Securitisation both of which reached General Agreement at Council in 2015.

In insurance, in addition to providing expert advice and policy support resources for the implementation of Solvency II, the Bank also developed a number of domestic policies to supplement the EU framework and incorporate additional supervisory safeguards. These included Domestic Actuarial Regime and related Governance Requirements under Solvency II and amendments to the Bank's Fitness and Probity Requirements.

In the Markets sector, the Bank contributed to technical standards for MiFID II and for the Prospectus Directive, reviewed the arrangements for UCITS Share Classes and an opinion to the European Commission on Loan Origination in Investment Funds. The Bank worked on the extension of the AIFMD third country passport and supported supervisory convergence among National Competent Authorities. Domestically, it developed a series of Codes and Regulations referred to below under the Consumer Protection section.

Increased Focus on Shadow Banking

Ireland is a location for non-bank financial entities such as investment funds - including money market funds, insurance companies, securitisation vehicles and other financial intermediaries. These are sometimes referred to collectively as shadow banks although most are regulated financial providers.

Throughout 2015 the Bank substantially increased its focus on policy issues related to shadow banking through expanding the scope of its work in Europe and with leading international organisations. This has included chairing sub-groups developing policy in the European Systemic Risk Board (ESRB) and the International Organisation of Securities Commissions (IOSCO). The increased focus and engagement has enabled the Bank to input extensively in policy discussions in the area and carefully consider the implications for Ireland including contributing for the first time to the annual Financial Stability Board's information-sharing exercise and the production of their Global Shadow Banking Monitoring Report.

Governance

In May 2015 the Bank issued a consultation paper (CP94) 'Corporate Governance Requirements for Investment Firms and Market Operators'. This is part of the Bank's ongoing work to develop and ensure sound corporate governance for the Irish financial services industry. It is intended the finalisation of this CP will be aligned with the introduction of MiFID II.

On a related matter and, as a follow-up to the Bank's 2014 'Risk Appetite - A Discussion Paper', the Bank and the Institute of Directors organised a Forum in October 2015 to discuss risk appetite. The Forum was attended by over 350 participants from financial services and other sectors and prompted further debate on risk appetite, its contribution to good governance and influence on organisational strategy and risk management.

Managing and Monitoring Supervisory Engagement

The Bank continued to strengthen the framework for risk-based supervision. PRISM is the system used to articulate the Bank's risk appetite in respect of supervised firms. The Bank has worked to identify emerging risks to ensure they are appropriately reflected in that system and support the supervisory work.

The Supervisory Support Team within the Bank fulfils an important quality assurance function as it assesses supervisory engagement with regulated entities to ensure that (i) PRISM standards and guidance are complied with, (ii) risks within firms are properly identified, understood and mitigated in a timely manner and (iii) the consistency and quality of supervisory decisions and judgments is maintained. The team provides advice, support and assistance to supervisors including a programme of training for supervisors on the use of PRISM and related IT software.

Enforcement

The Bank's enforcement framework seeks to hold regulated firms and individuals to account where their behaviour fails to meet the required standards. Where firms and individuals fail to comply with their regulatory requirements, enforcement is an important tool to affect deterrence, achieve compliance, and promote the behaviours expected by the Bank.

Administrative Sanctions Procedure Settlements

The Bank concluded nine ASP settlement agreements in 2015, which a total of just over €7.3m in fines were imposed.

Holding Individuals to Account

In 2015 two ASP cases have been referred to Inquiry. This is the first time the Bank has used its powers to refer cases to Inquiry under Part IIIC of the Central Bank Act 1942 (as amended). Both referrals relate to individuals concerned in the management of regulated entities. A number of legal challenges have since been made in the High Court relating to the Bank's power to hold an Inquiry, and relating to the process involved in referring a case to such an Inquiry. The Bank is robustly defending those cases.

The Bank believes that there is a very real and significant public interest in it defending the use of its statutory powers, which provide for an effective and credible enforcement regime. The Bank will continue to vigorously defend such cases when and if they arise.

On 20 May 2015, the Bank disqualified Mr Tadhg Gunnell, a former general partner of Bloxham, for 10 years from being a person concerned in the management of a regulated financial service provider. This settlement is in line with the Bank's overall objective of holding individuals, as well as firms, to account. This disqualification period of 10 years is the longest imposed by the Bank to date.

Fitness and Probity

In 2015, following fitness and/or probity concerns raised by supervisors in relation to proposed appointments to Pre-Approval Controlled Functions in regulated firms, the Bank prepared for 26 specific interviews (22 of which were conducted) with proposed appointees. Following contact from the Bank, ten proposed appointments were subsequently withdrawn, one proposed appointment was refused and another is currently with a decision maker. During the year, the Bank issued the first Prohibition Notice and the first Suspension Notice relating to individuals in controlled functions, under the powers set out in the 2010 Act.

Supervision of AML/CFT Compliance

The Bank's areas of responsibility for anti-money laundering include effective risk based supervision of anti-money laundering (AML) /counter financing of terrorism (CFT) and financial sanctions (FS) compliance, contribution and input into AML/CFT legislative and policy developments, and the authorisation of Trust or Company Service Providers.

The Bank carried out a range of supervisory activities aimed at ensuring AML/CFT compliance in 2015 and 32 AML/CFT/FS inspections of firms from 10 different sectors were undertaken. Other activities included widespread industry and speaking engagements, the publication of three sectoral compliance reports (banking sector in February 2015, credit union sector in May 2015 and the funds industry in November 2015) and increasing the Bank's influence in relation to AML/CFT policy at European and international level.

The Bank provided the Department of Finance with an assessment of ML/TF risks in the financial sectors that it supervises. The purpose of this was to assist the Department of Finance in the preparation of a National Risk Assessment.

Resolution of Financial Difficulties in Credit Institutions and Credit Unions

Recovery and resolution planning in banks, credit unions and other financial institutions, and carrying out resolution actions where necessary should failure occur, are necessary components of a prudential supervisory framework.

Resolution is the restructuring of a firm at the point of failure by a resolution authority using resolution tools in order to safeguard public interests, including the continuity of critical functions, financial stability and minimising taxpayer impacts. It was a year of major change for the Bank by virtue of the transposition of the Bank Recovery and Resolution Directive (BRRD) into Irish law and in that context the designation of the Bank as Ireland's national resolution authority (NRA). Previously the Bank's work in the area focused principally on resolving troubled credit unions. While legacy issues are still being dealt with in previously resolved credit unions, the focus shifted in 2015 to implementing the new EU-wide resolution framework under the BRRD.

New EU Resolution Framework

Following the creation of the SSM as the first pillar of EU Banking Union, the second pillar has seen the creation of the Single Resolution Mechanism (SRM) alongside the new EU-wide recovery and resolution framework, BRRD. Under BRRD, a single rulebook for the resolution of failed or failing banks and investment firms has been established. On 15 July 2015, the Minister for Finance designated the Bank as Ireland's NRA under the domestic legislation transposing BRRD into Irish law. As NRA, the Bank will exercise BRRD resolution powers and functions at Member State level.

All Irish licensed banks and certain larger investment firms come within the remit of BRRD. BRRD requires institutions to prepare recovery plans each year setting out measures they would take to restore their financial position following deterioration. As NRA, the Bank is required to prepare resolution plans setting out the actions it would take in the event of a firm's failure.

The Bank now has at its disposal a set of resolution tools, which can be used to resolve failing institutions in order to minimise the impact of failure on the financial system, the economy, depositors and taxpayers. Should an institution fail in the future, BRRD seeks to avoid recourse to taxpayer support by, *inter alia*, requiring national resolution funds to be raised from industry and through the use of a new statutory mechanism to bail-in certain liabilities to absorb losses. In 2016, institutions will need to comply with a new minimum requirement – the Minimum Requirement for Own funds and Eligible Liabilities (MREL). MREL aims to ensure that firms build up and maintain the capacity to absorb losses and be recapitalised, if required, in the event of failure.

Under the SRM, responsibility for resolution matters in respect of significant and cross-border banks is vested in the Single Resolution Board (SRB). Responsibility for resolution matters in respect of other licensed banks and larger investment firms remains with the Bank. As Ireland's NRA, the Bank works closely with the SRB on bank resolution-related issues and is Ireland's representative on the SRB Plenary Board. Finally, for euro area countries, national resolution fund contributions from banks will be progressively mutualised over an eight-year period from 1 January 2016 into a new Single Resolution Fund (SRF) managed by the SRB.

Box 3 – Banking Union and the SRM

In response to the financial crisis, the European Commission pursued a number of initiatives to create a safer and sounder financial sector for the single market. These initiatives, which include stronger prudential requirements for banks, improved depositor protection and rules for managing failing banks, form a single rulebook for all banks in the 28 Member States of the European Union. The single rulebook is the foundation on which the Banking Union is established and Banking Union applies to participating Member States within the euro area.

Following the introduction of the SSM in November 2014, the SRM came into force on 1 January 2016. When banks fail in the future, the SRM will facilitate the management of bank resolution more effectively by the Single Resolution Board, working in close cooperation with national resolution authorities, and with access to the support of a new industry-financed SRF.

Key activities of the NRA during 2015

Bank and Investment Firm Resolution Fund (BIFR)

In 2015, a new resolution financing arrangement, the BIFR Fund, was established for Ireland. The Bank raised levy contributions into this fund from banks and in-scope investment firms. These contributions were calculated in accordance with a specific methodology as set out in the Delegated Regulation[9]. In managing and administering the BIFR Fund, the Bank must ensure that its resources reach a target level over the course of the next 10 years. From 2016 onwards, Irish licensed banks and certain investment firms will make their contributions directly to the SRF, rather than the BIFR Fund. Contributions collected into the BIFR Fund from relevant firms during 2015 will be transferred to the SRF in early 2016; and in future years those institutions will receive a credit in respect of this 2015 contribution against future annual contributions to the SRF. In 2015, approximately €76m was levied on industry in Ireland.

Resolution Planning Activities

The Bank also initiated ex ante resolution planning activities for the Irish licensed banks in 2015. The resolution planning process involves the development of a preferred resolution strategy for each in-scope institution, with key changes to be implemented by firms in order to enhance their resolvability. Resolution plans can be drawn up at licensed entity and at a group level, with a cooperation framework established under BRRD for firms operating in a cross-border context. Resolution plans are renewed on at least an annual basis to ensure that they remain up to date. As part of the process, resolution authorities are required to carry out an annual resolvability assessment in order to assess whether there are any impediments to the execution of the resolution plan. Where impediments are identified, the institution will be required to address or remove those impediments. In order to facilitate decision-making in relation to cross-border institutions, BRRD provides for the creation of 'Resolution Colleges' at which relevant authorities can share their views on the resolution matters for the relevant institution. The Bank hosted the first such colleges in the euro area in December 2015.

Restructuring of the Credit Union Sector

Restructuring of the credit union sector is necessary to address the viability and operational challenges that continue to face many credit unions. Most mergers provide an important starting point to address financial and operational weakness in credit unions and to provide a broader scope of product and services offerings to members.

During 2015, the Registry of Credit Unions (RCU) proactively engaged with the Credit Union Restructuring Board (ReBo) and individual credit unions on restructuring proposals in order to ensure that each proposal takes account of the Bank's legal and regulatory requirements and policy on

9 Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements.

restructuring. In 2015, 33 projects involving 77 credit unions were completed. RCU also participated in the work of ReBo as a non-voting member of its Board, to oversee and facilitate restructuring of the sector.

There was a significant increase in the pace of restructuring during 2015; there are now 354 registered credit unions, down from 383 at the end of 2014. RCU worked closely with credit unions and their representative bodies to resolve a number of credit unions that could not demonstrate their ability to safeguard adequately their members' funds. These unviable credit unions were restructured through the transfer process and were supported by private sector funds where necessary. Availing of private sector funds resulted in savings of taxpayers' funds (if resolved using the Bank's resolution powers, this could have given rise to the use of the Credit Institutions Resolution Fund). This was done with minimal disruption to credit union services, no loss of funds to any member and through solutions within the credit union sector itself.

Protection of Consumers of Financial Services

The Bank protects consumers of financial services through the use of its gatekeeping, regulatory, supervisory and enforcement powers.

Consumer Protection Directorate - Objectives

The protection of consumers of financial services and that of investors is central to the Bank's statutory objectives. The Bank's consumer protection approach is to ensure that firms act in the best interests of their customers, treat them fairly and with dignity and respect. The Bank's work, which is both risk-based and evidence-based, aims to deliver the right outcomes for consumers and seeks to influence a consumer-focused culture in all firms, thus enabling consumers to have confidence in the decisions they make.

The Bank delivers on this mandate within three broad functions: gatekeeping, supervision and regulation. The Bank assesses applications for authorisation from individuals and firms across a number of retail sectors[10]. It also monitors and investigates compliance by firms with consumer protection and prudential requirements (where relevant), taking robust supervisory action where potential or crystallised risks outside the Bank's appetite are identified. The Bank seeks to ensure that the consumer protection framework is fit for purpose. It is also responsible for developing and influencing the consumer policy agenda domestically, in Europe and internationally[11].

Mortgage Redress Programme (MRP)

As a result of an investigation by the Bank, significant failures were identified by Permanent TSB (PTSB) and its subsidiary company, Springboard Mortgages Limited (Springboard), associated with tracker mortgage options and rates. The consequences of these failures were serious and included: mortgage overpayments; mortgage arrears; legal proceedings; and in certain cases loss of ownership of properties, including some homes.

The Bank commenced an investigation of PTSB during June 2014 in relation to PTSB's failures associated with tracker mortgage options and rates, a suspected breach of the Consumer Protection Codes 2006 and 2012. During the investigation, an issue regarding the application of incorrect interest rates to mortgage accounts was also identified in respect of PTSB's subsidiary, Springboard, and a separate investigation commenced in respect of that entity during July 2015 in respect of this issue.

The Bank required that in addition to ensuring that the MRP appropriately remediated and compensated impacted customers (as outlined above), the MRP prioritised ease of engagement for impacted customers with the scheme (to ensure a better customer experience) and ensured clarity of communications with impacted customers.

Both firms agreed to implement a major redress and compensation programme to address the detriment suffered by customers. The investigations of PTSB and Springboard into the tracker mortgage issues are ongoing. The Bank prioritised the development and implementation of the Mortgage Redress Programme over the progression of the investigations to ensure that the lenders urgently addressed the ongoing detriment to mortgage holders.

In October 2015, the Bank announced that it would be undertaking a broader examination of tracker mortgage related issues covering, inter alia, transparency of communications with and contractual rights of tracker mortgage borrowers. To that end, the Bank wrote to all relevant lenders in December 2015 requiring them to develop a robust plan and framework for their review of mortgage lending practices in line with the framework and scope outlined in the letter. The lenders were required to submit their plans to the Bank by the end of March 2016.

10 Payment Institutions/Electronic Money Institutions, Credit Servicing Firms, Retail Credit Firms, Moneylenders, Mortgage Intermediaries, Insurance Intermediaries, Investment Intermediaries, Debt Management Firms, Bureaux de Change, Money Transmission Firms and Home Reversion Firms.

11 The key outcomes achieved in fulfilling its Consumer Protection mandate are set out in this section with further detail in the Annual Performance Statement.

Ensuring Borrowers in Arrears are Being Treated Fairly

The Code of Conduct on Mortgage Arrears (CCMA) provides a strong consumer protection framework for borrowers who are struggling with mortgage repayments or who are in, or facing, arrears. An inspection was conducted to assess lenders' arrangements for delivering on the important consumer protections prescribed in the statutory CCMA.

Overall, it was found that lenders have implemented frameworks as required by the CCMA. However, the inspection identified weaknesses, of varying degrees, in some lenders' policies, procedures, systems and controls. These in turn failed to provide assurance to the Bank that the lenders in question are delivering fair outcomes for borrowers in arrears. Some specific practices and policies, which are contrary to the letter and spirit of the CCMA and which posed a threat to consumer protection were also identified and, as such, lenders were instructed to cease these practices immediately. Formal risk mitigation programmes were issued to a number of lenders and in the case of two lenders, identified as outliers, an independent third party review has also been required.

Enhancing the Consumer Protection Framework for Borrowers

In July 2015, a new regulatory regime was introduced for 'credit servicing firms' which provides protection for borrowers where their loans are sold to third parties, which are not regulated firms. The Bank's staff contributed strongly to the drafting of the relevant regulation. Credit servicing firms must now meet mandatory requirements to be authorised and must comply with the requirements of financial services legislation, including the Bank's statutory codes of conduct, on an ongoing basis.

Enhanced Protections Introduced for SME Borrowers

Following a review of the existing Code of Conduct for Business Lending to SMEs (SME Code) new regulations (the SME Regulations) were published on 18 December 2015. The SME Regulations will replace the existing SME Code and will come into effect from 1 July 2016 for all regulated entities other than credit unions, which will be subject to the regulations from 1 January 2017. These Regulations introduce new requirements on lenders, including greater transparency for borrowers around the application process, borrowers being provided with reasons for decline in writing, greater protections for guarantors, a requirement for lenders to engage with borrowers in arrears and financial difficulties and expanded grounds for appeal.

Increased Protections Proposed for Variable Rate Mortgage Holders

The Bank's view is that there is a lack of clarity as to what the terms and conditions of variable rate contracts mean, how such rates are calculated and how such rates can change over time. It is also evident that there are a number of non-financial barriers to mortgage switching. In order to address these concerns, increased protections have been proposed that would build on the strong consumer protection framework already in place. A Consultation Paper on these proposals was published on 12 November 2015.

Protection of Client Assets

A new regime for safeguarding client assets and investor money was implemented in 2015, involving the publication of two sets of new rules and guidance in relation to client assets and investor money. This was a significant project involving extensive engagement with industry prior to the enactment of the new rules, subsequent presentation events and the publication of Bank Regulations concerning the distribution of client assets in circumstances where a shortfall arises following the failure of an investment firm. These are contained in S.I. 407 of 2015, Investor Compensation Act 1998 (Return of Investor Funds or Other Client Property Regulations 2015).

Strengthening Investment Funds Regulation for the Protection of Investors

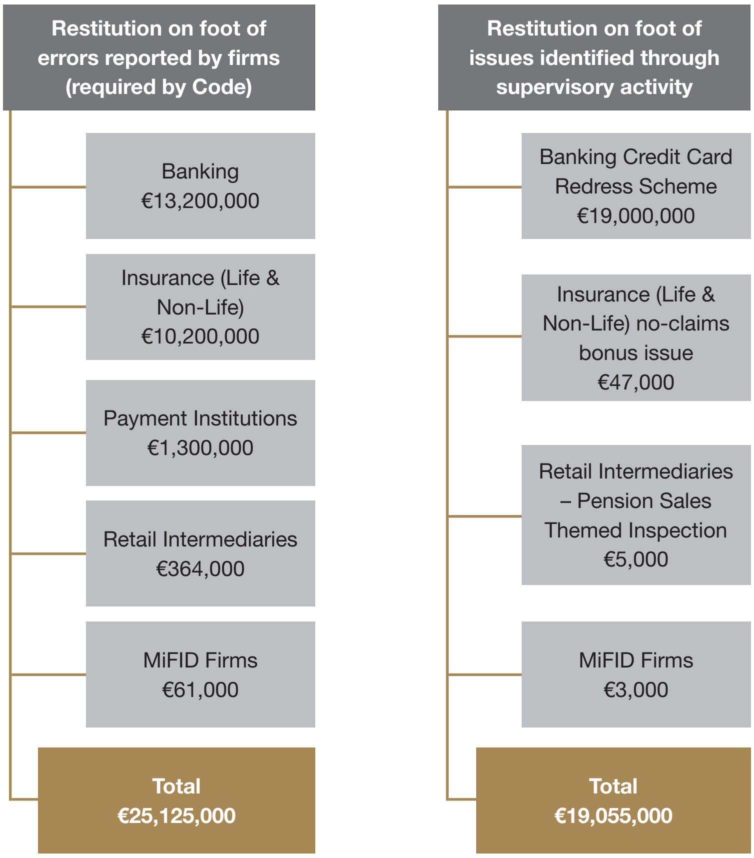
The regulatory framework for investment funds was strengthened in October with the introduction of the Central Bank UCITS Regulations 2015 that consolidate the rules, which the Bank imposes on UCITS,

UCITS management companies and UCITS depositaries. These regulations simplify the application of rules and provide additional enforceability. The provisions in the regulations supplement those imposed by the EU UCITS Regulations 2011 transposing the UCITS Directive in Ireland. The Bank also produced themed guidance and a number of new UCITS 'Q&As' to assist regulated entities in understanding the UCITS regulatory framework.

Consumer Restitution

In delivering on the Bank's consumer protection mandate, the aim is to continually challenge regulated firms to act in the best interest of their consumers, which includes acting swiftly to correct any situation which results in a consumer being disadvantaged by any action of a firm. The following chart sets out the approximate level of restitution by firms as a result of reported errors and issues identified through supervisory activity.

Chart 2: Consumer Restitution



Thematic Reviews – focusing on product specific consumer protection issues

While financial products and services can deliver consumer benefits, they can also present risks if the right product or service is not sold to the right consumer in the right way. During 2015, a number of product-specific reviews were conducted, notably:

- **Contracts for Difference (CFDs) are unsuitable for risk-averse consumers**
  Because of the high-risk nature of CFDs, a themed review was conducted by the Bank which confirmed that CFDs are not suitable for investors with a low risk appetite. The review also identified shortcomings in some firms' assessments of consumers' knowledge and experience and

the need for consumers to be fully informed of the high-risk nature and potential for loss with CFD investments.

- **Retirement Income products need more transparency**
  During 2015, the Bank reviewed the sale of pension annuities to assess whether or not consumers were being provided with relevant information to enable them make decisions consistent with their long-term interests. The review identified significant differences in the annuity rates being offered and uncovered shortcomings in the information provided by firms to facilitate the customer in making informed decisions.

Monitoring Compliance across the Retail Intermediary Sector

There were 2,624 retail intermediaries supervised by the Bank as at 31 December 2015. These firms provide advice and sell insurance, investment and mortgage products on behalf of insurance companies, banks and other firms. Themed reviews continue to be an important supervisory tool for this sector of the industry, given its size. The following themed reviews were conducted in 2015:

- **Review of Compliance with Minimum Reporting Standards**
  During 2015, a major review was undertaken that identified 325 non-compliant firms as regards their reporting obligations. Following extensive engagement, including 127 unannounced onsite visits by end-2015, 297 of these firms have either submitted their annual returns or revoked their authorisations.

- **Adequacy of Professional Indemnity Insurance (PII)**
  Holding the required level of PII is a key prudential and consumer protection safeguard in that it provides an additional resource from which a firm can pay justified claims made by consumers relating to the provision of negligent or incorrect advice. During 2015, 315 firms were pursued in relation to breaches of PII cover, of which 312 cases were resolved. Enforcement action was taken against one firm and the remaining two firms are subject to ongoing supervisory action.

- **Financial Position**
  A breach of capital or solvency rules can pose a significant consumer risk as a negative financial position can affect a firm's ability to continue operating as a going concern and can lead to poor outcomes for consumers. Solvency is a basic prudential standard for all financial institutions. A breach of this standard is grounds for revocation of a licence under the Investment Intermediaries Act, 1995. The Bank engaged with 64 retail intermediaries in relation to their financial positions throughout 2015, following which 62 firms resolved the breaches, while the two remaining cases are the subject of ongoing supervisory action.

Debt Management Firms

During 2015, the Bank continued to apply a rigorous regulatory assessment to those applicants who have sought authorisation as debt management firms. During the year, six debt management firms were authorised, bringing the total number of authorised debt management firms to 57 (from a total of 114 applications reviewed since 2013). A further nine applications for authorisation were refused by the Bank.

In line with the strategy of inspecting new firms shortly after authorisation, onsite inspections of 5 debt management firms and a desk-based review of advertising by 32 firms were conducted in 2015. Poor practices were found in relation to information gathering by firms about their consumers, in matters of transparency on fees, charges and in firms' Terms of Business, and required website information was either missing or out of date.

Gatekeeping Customer Charges

Legally[12], credit institutions and bureau de change are required to submit a notification to the Bank for approval before introducing any new customer charge or increasing any existing customer charge in respect of certain services. In 2015, four notifications were granted full approval and one notification was fully rejected (a notification may contain one or more charges). There were no instances in 2015 where notifications were rejected at the levels sought and subsequently approved at a lower level. Eight exemptions were approved.

Consumer Advisory Group (CAG)

Work continued with the CAG, a statutory body specifically established to provide advice to the Bank on its consumer protection activities. The Bank facilitated four meetings of the body during 2015, where key items were discussed including the Debt Management Sector, Mortgage Arrears and the Small and Medium Enterprises Code Review. Two new members were appointed to the CAG in 2015 as part of a rolling renewal process.

12 Sections 149 and 149(A) of the Consumer Credit Act, 1995 (as amended).

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 public, the markets and the media.

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. These were 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 provided important inputs to ongoing financial stability assessments and macro-prudential reviews. Within the Eurosystem, the Bank contributed to macroeconomic forecasting exercises and in the provision of policy advice and conjunctural economic analysis.

Six macroeconomic forecasting exercises were completed during the year: two of these were conducted within the context of the Eurosystem's Broad Macroeconomic Projection Exercise, and the remaining four were published in the Bank's Quarterly Bulletin series. In addition, the Bank participated in other forecasting and policy forums e.g. Organisation for Economic Co-operation and Development (OECD) and the EU; and consulted with visiting quarterly External Partner[13] missions, rating agencies and others.

The joint Macro-Modelling Project, between the Bank and the ESRI, was completed during 2015. This was a three-year project to develop a suite of modern macroeconomic models of the Irish economy suitable for policy analysis. By project completion, a core DSGE[14] model with a macro-financial component was developed. It is currently being used to assess the impact of various macro-prudential policy changes. A structural econometric model of the Irish economy has also been developed and can be viewed as a successor to the old ESRI Hermes model. This is currently being put into operation and will enhance the Bank's economic analysis and forecasting capabilities.

Some of the recent themes examined in Bank research include:

» The determinants of movements into long-term mortgage arrears.

» An assessment of the impact of fiscal austerity in Europe within a DSGE framework.

» The determinants on where non-bank financial firms locate in the OECD.

» Research that supported the preferential treatment of first time buyers in terms of the recently introduced macro-prudential policy in the mortgage market on the basis of lower default rates.[15]

Active participation continued in several research networks examining competitiveness, household finances, international banking, and wage formation. Two major surveys in support of these networks were also completed. In conjunction with the CSO, the Bank completed the first comprehensive survey of household finances including assets and liabilities at a household level. A Quarterly Bulletin article[16] gave a first glance at this data. Bank staff are engaged in ongoing work in this area such as the effect of housing and financial wealth on consumption and determinants of credit constraints. There was also a survey of wage and price formation by Irish firms.

13 The European Commission, the IMF and the ECB

14 Dynamic stochastic general equilibrium modeling

15 The Appendix to this Annual Report - **Statements and Published Papers by the Bank in 2015** - gives details of the six research technical papers released this year as well as staff publications in peer reviewed academic journals

16 Quarterly Bulletin 1 – January 2015 : 'The Financial Position of Irish Households'

The Bank hosted four conferences and workshops during the year. These included a conference exploring issues related to the evolution of the balance sheets of Irish firms and households during the economic crisis; an international workshop examining what micro data can inform us about banking and macro-prudential policy; and a one day economic history workshop. In addition, the Bank hosted the 11th Annual Central Bank Conference on the Microstructure of Financial Markets.

The Miriam Hederman O'Brien prize, which is organised by the Foundation for Fiscal studies, was awarded to Bank staff members Diarmaid Smyth and Rónán Hickey for their paper titled 'The Financial Crisis in Ireland and Government Revenues'.

Statistics

The Bank produces a range of statistics regarding its Monetary Policy and Financial Stability responsibilities. Moreover, a key part of its statistical output is concerned with the production of high quality data for external analysis.

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. The range of statistics produced was expanded during 2015 to facilitate better analysis and monitoring of credit flows to the domestic economy with particular emphasis on the household and non-financial corporate sectors. In addition to its regular statistical releases, a number of enhancements were introduced in 2015. These included the publication of an expanded interest rate series, which provided rates on new housing loans, exclusive of renegotiations, for the first time. Rates charged for credit to SMEs that are largely dependent on domestic credit institutions for funding, were also published with a breakdown by sector. This augments detailed quarterly data on outstanding loan amounts and new credit issued to SMEs within each economic sector. Credit card information was also expanded providing extra detail on the types of purchases undertaken, average levels of indebtedness by card and the interest rates charged. The publication of Motor Insurance Statistics was reinstated, with data published for the years 2009 to 2013.

The regular series of statistical releases provide detailed information on household savings and borrowings with domestic credit institutions, disaggregated by instrument, purpose and maturity. This helps monitor household balance sheets, and particularly, developments in addressing the current high levels of indebtedness and arrears. The Bank also publishes quarterly financial accounts for Ireland as well as regular statistical series on resident investment funds and FVCs, securities issuance and holdings, and consolidated banking statistics.

In addition, the Bank provides analysis of the data compiled through published articles, economic letters, and commentary in the Quarterly Bulletin. Articles published during 2015 covered the enhanced locational banking statistics for Ireland, an analysis of shadow banking activity in Ireland and a review of the analytical benefits from the 'whom-to-whom' presentation of financial accounts. Furthermore, economic letters were published on the use of private placements by Irish corporates, on the opportunities for switching lenders in the Irish mortgage market, and on correctly interpreting international banking statistics for Ireland.

The Bank also holds regular meetings with stakeholders, including reporting agents, industry representatives, and key users of statistics, both in the public and private sectors to provide feedback on the data compiled and to monitor key user needs.

The close working relationship with the Central Statistics Office (CSO) was developed further during 2015. Areas of cooperation now cover most institutional sector statistics, balance of payments, financial accounts, insurance and pension funds, and government finance statistics. Both institutions continued work on the implementation of the new international manuals. In addition, all new data compiled by the Bank are provided to the CSO for input into Ireland's macroeconomic statistics. The close cooperative arrangements strive to ensure, as far as possible, that duplication of reporting by financial sector entities is eliminated and the burden on industry minimised. The combined expertise of both institutions also helps to enhance the quality of Ireland's financial statistics.

Financial Stability – Statistics

Detailed data are collected from banks on their lending and funding activities, broken down by instrument, maturity and purpose. The data collected facilitate the monitoring of funding and credit developments within the financial sector and across the wider domestic economy. During 2015, the Bank further enhanced its publication on mortgage arrears to include information on loans held by non-bank entities. The mortgage arrears publication provides detailed information on the level and type of restructure solutions implemented, and whether these are abiding by the terms agreed. Internationally, the Bank provides data to other international organisations[17] and participates in international forums on financial statistics, including initiatives to address data gaps arising from the crisis.

Monetary Policy - Statistics

The Bank continued to develop its statistical framework as part of its contributions to the Eurosystem and to the European System of Central Banks (ESCB). The ESCB statistical programme has expanded to cater for the requirements of the Single Supervisory Mechanism (SSM) and the European Systemic Risk Board (ESRB). The Bank participates in all statistical committees and working groups responsible for maintaining current statistical outputs as well as developing new data sources to meet user requirements. There were a number of significant developments in ESCB statistics during 2015. Work continued on integrating statistical and supervisory data to provide a more holistic picture of the banking sector, and improved information on the inter-connectedness and cross-border exposures of the financial sector. The collection of granular data is central to meeting new user requirements in an efficient and cost effective manner. In this regard, the development of a granular database for analysing credit and monitoring risks within the euro area-banking sector was a priority issue. A project to develop an analytical credit database (Anacredit), essentially a Eurosystem credit register, is well advanced, with draft legislation already published.[18] Development of the Anacredit project will benefit from work already undertaken in the Bank to implement a domestic credit register.

Data provided by the Bank feeds directly into euro area statistical aggregates, which are a key input for monetary policy decision-making and for the performance of the other functions of the Eurosystem and the ESCB. During 2015, the Bank continued to meet all its statistical reporting obligations to the ECB. Data provided includes detailed information on the funding and lending activities of credit institutions and money market funds. Detailed data are also provided monthly on interest rates applied by banks to loans and deposits vis-à-vis households and non-financial corporates. Data provision was expanded in 2015 with the introduction of enhanced reporting templates.

The Bank also provides monthly and quarterly data to the ECB on the non-bank financial sector, primarily for Investment Funds and Financial Vehicle Corporations (FVCs) engaged in securitisation activities. Irish data are particularly significant for these entities, as Ireland is a prime location within the euro area for funds and FVCs and its contribution to euro area statistical aggregates are disproportionately large in relation to the size of the economy. A project to extend statistical reporting to insurance corporations commenced in 2015 in tandem with the implementation of Solvency II. First reporting will take place in mid-2016. Quarterly financial accounts, which provide an overview of the financial transactions and positions between economic sectors and the rest of the world are also compiled for Ireland and provided to the ECB. These statistics were also enhanced in 2015, with the introduction of 'whom-to-whom' information – this provides further information on counterparts to exposures.

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

18 http://www.ecb.europa.eu/stats/money/aggregates/anacredit/shared/pdf/draft_regulation_granular_and_credit_risk_data.en.pdf

In addition to the regular data transmissions, the introduction of non-standard monetary policy measures by the ECB necessitated the provision of detailed extra data, including entity-specific information.

Securities holdings information was introduced alongside further development of securities issuance information. The granular data on securities will, over time, be linked with Anacredit data to provide very detailed information on exposures, linkages and vulnerabilities within the financial sector.

The new international statistical manuals[19] were implemented in 2014, and ECB Regulations and Guidelines were updated to reflect these. In 2015, significant work was undertaken to consolidate the new framework and to expand its application to all time series.

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 coordination among the Member States. The Committee prepares the agenda for the ECOFIN meetings, which, inter alia, includes assessing and examining current economic and financial developments, coordinating EU economic and fiscal policies, analysing financial market and financial stability issues, and dealing with relations with third 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 2015, among them a review of access policies and surcharges, the adequacy of reserves, sovereign debt restructuring and the Fund's lending Framework as well as the resource situation of the Fund. Work on further quota reform, and the preparation of messages for international meetings on the global financial architecture, was also undertaken.

IMF Policy and Constituency Issues

Governor Honohan held the position of Alternate Governor for Ireland on the IMF's Board of Governors and, in this capacity, attended the IMF/World Bank Group Spring and Annual Meetings held in Washington in April 2015 and Lima, Peru in October 2015. Discussions at the Spring Meetings centred 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, the quinquennial review of the SDR basket, together with measures to strengthen the IMF. Policy coherence was also discussed, given the growing interconnectedness among countries.

Other International Activities and Relations

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, including the BIS 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, for example, G20 and 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.

19 European System of Accounts 2010 (ESA 2010) and Balance of Payments Manual 6 (BPM6)

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

Engagements by Governor Honohan included a visit by Governor Carney of the Bank of England on 28 January and Governor Guðmundsson of the Central Bank of Iceland on 28 April 2015. During the year, the Governor's external engagements included delivering a key – note speech on 'Some Lessons Learnt from the EU-IMF Programme' at the conference - 'Ireland: Lessons from Its Recovery from the Bank Sovereign Loop', that was hosted by the Bank, the Centre for Economic Policy and Research (CEPR) and the IMF on 19 January. He participated in a panel discussion on 'Inflation and Unemployment in Europe' at an ECB Conference on 23 May in Portugal; and delivered a speech on 'Debt and Austerity: Post-Crisis Lessons from Ireland' at the London School of Economics on 17 November. The Governor also delivered addresses at international conferences and seminars in Brussels, Paris and Stockholm. The Deputy Governors and other members of senior management delivered a number of speeches and participated in various international seminars and conferences. The Deputy Governor for Financial Regulation attended high-level international seminars in Riga and Luxembourg.

The Bank hosted a number of international delegations and organisations during 2015, among them a delegation from the financial regulators of Iceland and Vietnam, as well as a delegation from the Association of Chief Financial Officers, Denmark.

Efficient and Effective Payment and Settlement Systems and Currency Services

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

Payments Systems Oversight

The Bank is charged by statute with promoting a safe and efficient national payments and settlements infrastructure. Its work in this area has both domestic and Eurosystem dimensions.

Throughout 2015, the Bank continued to liaise closely on payment matters with the Banking and Payments Federation Ireland (BPFI – the representative body of the payments industry in Ireland) and with the Department of Finance. With regard to the latter, a significant development was the implementation of EU Regulation 2015/751 on interchange fees for card-based payment transactions.

On the securities settlement systems front, the Bank maintained its contact with the Bank of England and the National Bank of Belgium in relation to the oversight of Euroclear UK and Ireland (EUI) and Euroclear Bank, which respectively provide the infrastructure used to settle trades in Irish equities and Irish Government bonds.

At a Eurosystem level, the Bank continued to be actively involved in the development and implementation of oversight policies, standards and requirements regarding payment and securities settlement systems, through its participation in international fora. Particularly the ESCB's Payment and Settlements Systems Committee (PSSC) and its associated working groups.

Target2 Securities Programme

Target2 Securities (T2S) will be a new settlements infrastructure for Europe. The programme is one of the largest projects launched by the Eurosystem.

In 2015, the Bank actively contributed to the various structures of the Target2 Securities (T2S) programme including the Advisory Group and the National User Group, and is a member of the T2S Board.

Target2

TARGET2 is an interbank payment system for the real-time processing of cross-border transfers throughout the European Union. In 2015, the TARGET2 system processed over 87 million transactions with a daily average in excess of 340,000 transactions. This represented a decrease of 3.5 per cent compared to 2014. The total value of transactions also decreased in comparison to 2014, falling by 0.5 per cent to €490 trillion, with an average daily value of €1.9 trillion.

The Irish TARGET2 component, TARGET2-Ireland, processed almost 880,000 transactions; this represented a decrease of 7 per cent compared to 2014. The value of transactions processed via the Irish component decreased by 23 per cent, to a total value of €3 trillion. In 2015, the number of direct participants in the payments module of TARGET2-Ireland increased to 12 (2014 -11).

Collateral for Monetary Policy Operations

At end-2015, 22 eligible counterparties had signed up to the pooling agreement with collateral of €17.4bn held with the Bank. Overall, for the year, the average month-end value of collateral submitted to the Bank was €20.3bn, of which 84 per cent were cross-border assets.[20] There was a downward

20 Domestic assets consist of Irish Government Bonds, MBPNs and SMBPNs. All other assets are classified as cross-border.

trend evident in 2015 with the average month-end holding[21] falling from €22.8bn in the first half to €17.7bn in the second half of the year, in line with reduced monetary policy borrowing by banks.

Box 4: National Rollout of Rounding

In June 2015, the Government asked the Bank to proceed with the national rollout of rounding one and two-cent coins, following the successful pilot scheme run in Wexford in 2013. Rounding applies to the change given in shops where it is rounded up or down at the till to the nearest five cent. One cent and two cent coins retain their legal tender status, and the Bank will continue to ensure that there is a sufficient supply. Rounding only applies to cash payments and only the change given will be affected, not the price of individual goods.

The roll-out date for rounding was 28 October 2015. This was preceded by an awareness campaign which had two components: a merchant awareness campaign launched in September, and a consumer awareness campaign launched in October. In all, 30,000 'signage packs' were distributed to retailers throughout the country. The communication campaign used a mix of radio, print and digital[22] media. In parallel, the Bank worked with charities and cash-cycle stakeholders to ensure a smooth roll out of rounding.

The level of merchant take-up of rounding at end-year was strong: it was estimated that 60 to 70 per cent of relevant transactions nationwide were being rounded. Consumer reaction was positive, with retailers reported that the number of consumers who ask for their exact change was very low. The Bank will continue to monitor the implementation of rounding in 2016.

Deposit Guarantee Scheme (DGS)[23]

The DGS is administered by the Bank and is funded by the credit institutions covered by the scheme. The DGS protects eligible depositors up to €100,000 in the event of a credit institution failing.

A new Directive on Deposit Guarantee Schemes (2014/49/EU) was transposed into national legislation in November 2015 under the European Union (Deposit Guarantee Schemes) Regulations 2015 (S.I. No. 516 of 2015). The Directive introduces a risk-based funding model based on credit institutions' holdings of covered deposits, a reduction in pay-out deadlines and harmonisation of eligibility categories. In addition, new depositor information requirements were introduced to ensure that depositors are aware of the key aspects of protection of their deposits by the DGS.

Banking Services

The Bank provides a range of banking services to the Government and other customers. This includes maintenance of the Exchequer Account and other accounts under the remit of the Minister for Finance (such as the Revenue Commissioners, Office of Public Works, Paymaster General and the National Treasury Management Agency (NTMA). It is responsible for the maintenance of correspondent accounts for other central banks and institutions such as the European Commission and Asian Development Bank. The Bank also administers all financial transactions between Ireland and the IMF, including the payment of quota subscriptions; and processing of any disbursements and repayments to the IMF, European Financial Stability Fund (EFSF) and European Financial Stability Mechanism (EFSM).

The National Treasury Management Agency completed the fourth early repayment of Ireland's IMF loan facility totalling SDR 5.2bn on 20 March 2015.[24] This represents a repayment of just over €19.2bn of Ireland's original €22.6bn IMF loan facility. The Bank, in its role as fiscal agent for the Government, executed the payment transactions with the IMF on these four dates.

21 End-month value as at the last Friday of each month.

22 www.betterallround.ie

23 www.depositguarantee.ie

24 This brought cumulative repayments of approximately SDR 15.7bn: SDR 5.6bn on 10 December 2014, SDR 2.1bn on 17 December 2014 and SDR 2.8bn on 6 February 2015.

Bond Register

In its role as registrar, the Bank makes dividend and redemption payments to account holders on bonds issued by the NTMA, the Housing Finance Agency (HFA), and the European Investment Bank (EIB). Transactions in respect of Irish Government Bonds (and other bonds for which the Bank acts as Registrar) are settled in Euroclear Bank, which is based in Belgium.

At the end of 2015, the nominal value of bonds on the Register amounted to €125.2bn, an increase of €8.6bn over the value outstanding at end-2014 (€116.6bn). Four bonds matured during 2015 resulting in redemption payments of €2.4bn. The NTMA issued two bonds with a value of €4.9bn (0.80% 2022) and €5.1bn (2.00% 2045) during the year. There was one outstanding Housing Finance Agency (HFA) bond (due to mature in 2018), and the last European Investment Bank bond (9% Dublin Note 2015) matured on 20 April 2015.

Integrated Treasury Management System

The Bank invested in a new fully integrated treasury management system in 2015. The integrated system enables a more efficient front to back office workflow, and increased ability to trade in a range of industry standard instruments with both national and international counterparties. The new system also offers improved performance measurement and reporting and significantly reduced operational risk. The Bank's previous treasury management system was custom built in-house and needed to be replaced, as it was no longer capable of meeting the Bank's needs. Following an extensive public procurement process, a contract was awarded to implement the new system in collaboration with subject matter experts across the Bank.

Currency Issue and Production

Banknotes

A total of 313 million banknotes were supplied by the Bank to the market during the year, comprising 53 per cent new and 47 per cent re-issued banknotes. This was a four per cent reduction on the 326 million banknotes issued in 2014.

Under the ECB pooled production arrangements the Bank was allocated the production of 106 million €10 banknotes in 2015. Other denominations of banknotes are received from other Eurosystem NCBs and issued by the Bank as required.

High-speed machinery is used to check for authenticity and fitness of all banknotes lodged to the Bank; unfit banknotes are then destroyed under secure conditions with fit banknotes prepared for re-issue into circulation. In 2015, 274 million euro banknotes were processed in this manner.

Irish pound (IR£) banknotes are still accepted by the Bank and, once verified, are exchanged for their euro equivalent. IR£1.1m (€1.4m) worth of banknotes was exchanged for the public during the year. At end 2015, €228m worth of Irish pound banknotes remained outstanding.

Box 5: The Europa Banknote Series

The third banknote in the Europa Series 2 (ES2), the €20, was launched on 25 November 2015. This banknote series is being introduced gradually over several years, in ascending order, and the denominations will remain unchanged. The new series will be circulated in parallel with the first series of euro banknotes, which will remain legal tender. Advance notification will be given should the first series of euro banknotes 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 at Eurosystem NCBs.

Prior to the launch of the new series, the Bank supported the preparations of retail banks, post offices, cash-in-transit companies (CITs), credit unions, retailers, vending machine companies, transport companies, leisure companies, charitable organisations, representative bodies and the public for the new banknote. Communication material was provided to stakeholders and the Bank liaised with them. New €20 banknotes were provided in advance to enable testing and updating of banknote handling machines. Training on the security features of the new banknote was made available to professional cash handlers. The launch of the banknote was advertised through newspaper and web advertisements and regular tweets.

Overall, the launch of the new banknote was a success with the vast majority of banknote handling machines accepting the new banknote from the launch date.

The €50 will be the next denomination in the Europa banknote series to be released in 2017.

Coin

The Bank, acting as agent for the Minister for Finance, produced 31 million new coins and issued 115 million coins into circulation in 2015. This represents a 55 per cent decrease in coins issued compared to the 256 million coins issued in 2014. This decrease was mainly accounted for by a decrease in the issuance of low denomination coin.

The Bank issues Irish commemorative coin products marking significant events in Irish history, heritage or culture. In 2015, the Bank issued seven commemorative coin products. A series of coins commemorating the centenary of the 1916 Easter Rising will be issued as part of the 2016 commemorative coin programme. A commemorative €2 circulating coin was issued in January 2016.

Irish pound (IR£) coins are still accepted by the Bank and, once verified, are exchanged for their euro equivalent and IR£0.2m (€0.2m) worth of coin were exchanged for the public during the year. At end 2015, €124m worth of coin remain outstanding.

The Irish Cash Cycle

The Bank continued its programme of engagement with the major cash cycle stakeholders. The focus was the implementation of recommendations arising from the Irish Cash Cycle Efficiency (ICCE) review. In 2015, the Bank facilitated developments to enhance the overall resilience of the cash cycle and took steps to influence the denominational mix within ATMs.

To complement the introduction of Rounding, the Bank has increasingly taken a proactive role in the management of the coin cycle by promoting more recirculation in the market, which should in the longer-term lead to increased market self-sufficiency based on existing supply. (See Table 2 – Coin Issues, below)

Quality of Currency

Professional cash-handlers are continually monitored under the relevant ECB mandate in relation to the authentication and fitness checking of euro banknotes and coin prior to recirculation. In 2015, 115 monitoring inspections were carried out and 450 banknote handling devices were tested. The monitoring team conducted inspections of financial institutions in three regional towns and four Dublin areas. The team also conducted their first inspection of Bureaux de Change while an increased number of retailer premises were audited. All counterfeit banknotes and coin detected in Ireland are received and processed in the National Analysis Centre (NAC) and the Coin National Analysis Centre (CNAC), which are located in the Bank. The counterfeit team also provides training to professional cash-handlers and law enforcement agencies on identifying banknote security features and on authentication and fitness checking of euro banknotes. The training sessions complement the work of the monitoring team and enhance the knowledge of professional cash-handlers leading to improvements in the overall quality of euro banknotes in circulation.

Table 1: Banknote Issues

	No. of Banknotes (million)		Value € million	
Denomination	**2015**	**2014**	**2015**	**2014**
€5	54	55	271	274
€10	61	59	611	595
€20	69	77	1,379	1,534
€50	128	133	6,387	6,674
€100	1	1	81	105
€200*	0	0	2	2
€500*	0	0	27	23
Total	**313**	**326**	**8,757**	**9,207**

Note: Figures may not sum due to rounding

*Note: The exact numbers of notes issued:

2015	2014
€500: 54,025	€500: 46,100
€200: 8,100	€200: 9,100

Table 2: Coin Issues

	No. of Coin (million)		Value € million	
Denomination	**2015**	**2014**	**2015**	**2014**
1c	0	77	0	0.8
2c	14	50	0.28	1
5c	32	36	1.6	1.8
10c	23	25	2.3	2.5
20c	18	24	3.6	4.8
50c	9	15	4.5	7.5
€1	6	11	6	11
€2	13	17	26	34
Total	**115**	**256**	**44.28**	**63.4**

Note: Figures may not sum due to rounding

Operational Efficiency and Cost Effectiveness

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

Strategic Planning

During the tenure of its 2013-15 Strategic Plan, the Bank delivered on progress across a broad range of objectives. This included major contributions to external developments in financial supervision and the Bank's evolving relationships with Ireland's banking, financial and economic systems. In addition, the Bank continued to successfully embed continual change in its internal structures, resources and operating methods.

In November 2015, the Bank published its strategy for 2016 – 2018 that sets out clear objectives and builds on work already underway over the past years to deliver on its legal mandate in an environment of change for the central banking and financial systems in Ireland and Europe. The Bank has committed to publishing a report on progress in relation to the strategy annually.

Balanced Scorecard Process

Since 2010, the Bank has used a Balanced Scorecard (BSC) methodology to monitor the implementation of the goals of its Strategic Plans. The BSC has evolved over time to suit the needs of the organisation. An annual BSC is prepared for the Bank at the beginning of the year, setting out key outcomes and the Bank's Directors are accountable for the completion of all objectives set. Performance on the BSC is monitored and assessed throughout the year and is reported on a biannual basis to a sub-committee of the Commission. The Commission annually reviews the overall qualitative outcome of the BSC, which is linked to the Performance Management Development Process (PMDP) for staff, which assesses staff work performance. Merit leave is awarded to those members of staff who meet or exceed certain ratings under the PMDP process. In reflecting the performance of the organisation and of the individual staff in 2015, the Bank awarded 2067.5 days merit leave, which has a financial equivalent cost of €607,989 (an estimated 0.58 per cent of the Bank's total salary cost).

Resourcing

At the end of 2015, the Bank employed 1515.75 FTEs. Of this, 315.85 were assigned to Central Banking functions, 709.6 were assigned to Regulatory areas and 490.3 to Operations. A further nine were assigned to the Investor Compensation Company Limited (ICCL). The total number of FTEs represents a net increase of 11.1 per cent on the 2014 staffing levels. The staff turnover figure for the Bank in 2015 was 7.7 per cent[25] but some specific areas had rates higher than this. A total of 584 roles were filled during the year and the ratio of internal to external hires was 43 to 57 per cent.

Talent Management and Learning and Development

Talent Management discussions resulted in a decision to adopt an inclusive approach to talent management with a focus on career management. Building manager capability continued throughout the year through the delivery of a suite of management training programmes.

The central Learning and Development Curriculum was further expanded during 2015 and a comprehensive brochure outlining all of the Bank's learning and development programmes was developed.

25 Turnover is calculated as: $\frac{\text{No. of leavers (FTE) between 1/1/15 and 31/12/15 X 100}}{\text{Actual FTEs Employed as at 1/1/15}}$

Organisation Review

The Bank's Organisation Review programme progressed significantly during 2015. The key goal of the Organisation Review programme is to implement improvements in the organisational structure and work practices to achieve the Bank's vision of being 'trusted by the public, respected by our peers and a fulfilling workplace for our people'. Three areas of the Bank were selected to pilot a structural redesign process in the first half of 2015. By the end of Q1 2016, all areas of the Bank will have completed this structural redesign process and implementation of the redesign process outcomes remain on target for 2016. The development of a more flexible reward model (subject to detailed design, agreement with stakeholders and the Bank's obligations under FEMPI legislation) progressed during 2015 and role profiles are being evaluated to help create a robust foundation for the reward framework for the future. A staff survey and other research work were completed during the year to assist in developing the Bank's employee value proposition, which will be shared further during the course of 2016.

Management of Procedures and Processes

Investment Portfolio

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

At end 2015, the investment portfolio comprised assets of €19bn. This value represents a decrease of €0.7bn on the portfolio value at end 2014 (€19.7bn), largely on the back of the Bank's obligations under the Eurosystem's Agreement on Net Financial Assets (ANFA) framework. ANFA is an agreement between the national central banks (NCBs) of the euro area and the ECB. The agreement sets rules and limits for holdings of financial assets, which are related to national tasks of the NCBs. At the end of 2015, the Eurosystem's net financial assets stood at €490bn with the Bank's portion standing at €23.9bn.[26] The components of the Bank's net financial assets position are outlined in Table 3, below.

Total earnings on the Bank's investment portfolio amounted to €359.1m in 2015 compared to €454.7m in 2014. Returns on the investment portfolio were 2.04 per cent in 2015 compared with 2.37 per cent for 2014.

26 For further details of the Eurosystem's Agreement on Net Financial Assets, see the Bank's website at www.centralbank.ie/mpolbo/assetman/Pages/introduction.aspx and the ECB's website at www.ecb.europa.eu/explainers/tell-me-more/html/anfa_qa.en.html

Table 3: Components of the Bank's Net Financial Assets Position: Central Bank of Ireland Balance Sheet as at 31 December 2015 – All figures in €000

Assets			Liabilities		
Item	**Description**	**Amount**	**Item**	**Description**	**Amount**
A1	Gold and gold receivables	188,167	L1	Banknotes in circulation	16,435,618
A2	Claims on non-euro area residents in foreign currency	1,835,648	L1.1	Euro banknotes	16,435,618
A3	Claims on euro area residents in foreign currency	0	L1.2	Banknotes in national euro area currencies	0
A4	Claims on non-euro area residents in euro	2,812,596	L2	Liabilities to euro area credit institutions related to monetary policy operations in euro	10,017,548
A5	Lending to euro area credit institutions related to monetary policy operations in euro	10,735,000	L2.1	Minimum Reserve Deposits	5,287,455
A5.1	Main refinancing operations	2,300,000	L2.2	Overnight deposits	4,730,093
A5.2	Longer-term refinancing operations	8,435,000	L2.3	Fixed-term deposits	0
A5.3	Fine-tuning reverse operations	0	L2.4	Fine tuning reverse operations	0
A5.4	Structural reverse operations	0	L2.5	Deposits related to margin calls	0
A5.5	Marginal lending facility	0	L3	Other liabilities to euro area credit institutions in euro	0
A5.6	Credits related to margin calls	0	L4	Debt certificates issued	0
A6	Other claims on euro area credit institutions in euro	373,433	L5	Liabilities to other euro area residents in euro	13,720,482
A7	Securities of euro area residents in euro	59,630,594	L6	Liabilities to non-euro area residents in euro	636
A7.1	Securities held for monetary policy purposes	11,103,429	L7	Liabilities to euro area residents in foreign currency	224
A7.1.1	Covered Bond Purchase Programme	61,508	L8	Liabilities to non-euro area residents in foreign currency	0
A7.1.2	Securities Markets Programme	1,950,468	L9	Counterpart of special drawing rights allocated by the IMF	986,956
A7.1.3	Covered Bond Purchase Programme 2	65,489	L10	Intra-Eurosystem liabilities (net)	19,289,306
A7.1.4	Outright Monetary Transactions	0	L10.1	Liabilities equivalent to the transfer of foreign reserves	0
A7.1.5	Covered Bond Purchase Programme 3	2,202,007	L10.2	Liabilities related to the issuance of ECB debt certificates	0
A7.1.6	ABS Purchase Programme	0	L10.3	Other liabilities within the Eurosystem (net)	3,038,827
A7.1.7	Public Sector Purchase Programme - Government securities	6,823,957	L10.4	Liabilities related to the allocation of euro banknotes within the Eurosystem	16,250,479
A7.1.8	Public Sector Purchase Programme - Supranational securities	0	L11	Items in course of settlement	0
A7.1.9	Auxiliary instrument 9	0	L12	Other liabilities	2,462,834
A7.2	Other securities of euro area residents in euro	48,527,165	L13	Provisions	189,553
A8	General government debt in euro	0	L14	Revaluation accounts	10,819,028
A9	Intra-Eurosystem claims	885,432	L15	Capital and reserves	3,313,193
A9.1	Participating interest in ECB	199,021			
A9.2	Claims equivalent to the transfer of foreign reserves	672,638			
A9.3	Claims related to the issuance of ECB debt certificates	0			
A9.4	Claims related to TARGET and corresp. acc. (net)	0			
A9.5	Other claims within the Eurosystem	13,773			
A10	Items in course of settlement	5			
A11	Other assets	774,503			
A999	**Total Assets**	**77,235,378**	**L999**	**Total Liabilities**	**77,235,378**

Notes:

1) Net Financial Assets (NFAs) are calculated as A1+A2+A3+A4+A5.6+A6+A7.2+A8+A9.1+A9.2+A9.3+A10+A11-L1.2-L2.5-L3-L5-L6-L7-L8-L9-L10.1-L10.2-L11-L12-L13-L14-L15 adjusted for liquidity providing operations denominated in foreign currency (which amounted to zero as at 31 December 2015). These items are highlighted in grey in the table.
2) All figures correspond to those reported in the Statement of Accounts for year ended 31 December 2015.
3) "Other liabilities" is the sum of "Other Liabilities" (€2,321,454) & "Superannuation Liabilities" (€ 141,381) as reported in the Balance Sheet in the Statement of Accounts for year ended 31 December 2015.
4) "Other securities of euro area residents in euro" are not shown separately on the Balance Sheet in the Statement of Accounts for year ended 31 December 2015 but the corresponding figure is shown in Note 16 of the Statement of Accounts for year ended 31 December 2015 as "Other Securities".
5) Elements of the NFA calculation which are zero as at 31 December 2015, are not reported in the Statement of Accounts for year ended 31 December 2015.

Assets Acquired as part of the Liquidation of the IBRC

During 2015, the Bank's holdings of assets acquired as part of the liquidation of the IBRC declined to €22.78bn (nominal) by year-end (comprising FRNs - €22.53bn and NAMA bonds - €0.25bn). This reduction reflected the sale of €0.9bn nominal of holdings of the fixed coupon 2025 bond, the purchase by the NTMA of €1.5bn of the Irish FRN 2038 and €500m of the Irish FRN 2041 and the redemption by NAMA of €0.17bn of its bonds (all nominal amounts).

ECB Reserves

At the end of 2015, the ECB's reserves amounted to €67.9bn (market-value) 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 under management by the Bank amounted to €883m (market-value) equivalent, which is proportionate to the sum of the two countries' shareholdings in the ECB.

Expenditure and Procurement Policy Approval Frameworks

The Bank's Expenditure Approval Framework details the governance structure within which the approval authorities for operational and investment (capital and non-capital) expenditure are framed for the organisation. The operating and investment (capital and non-capital) 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.

Organisation Risk Management

The Bank has an obligation to ensure that it has effective risk management frameworks for the financial risks on its 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; and 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.

In 2015, the Bank continued to enhance its capabilities to strengthen its assessment and monitoring of its principal risk exposures and associated buffers. In support of effective governance and risk-informed decision-making, the Bank has set out a risk appetite statement covering its principal organisational risks. The risk appetite specifies the amounts and types of risk the Bank is willing to accept in the pursuit of its objectives and its approach to their management and ongoing oversight. Further, the Bank reviewed its internal approach to assurance, and a strategy has been defined to enhance the level of assurance to key governance bodies that key internal controls are in place and are operating effectively, that risk management objectives are being achieved, and to monitor the Bank's risk profile *vis-à-vis* its approved risk appetite.

The Bank participates also in Eurosystem-wide risk management initiatives and working groups. In this context, a key policy work stream in 2015 was the design and subsequent implementation of the risk control frameworks for the Eurosystem's EAPP.

Management of the Bank's investment portfolio was undertaken in accordance with the parameters prescribed by the Commission to control market, credit and liquidity risks. During 2015, risk monitoring activities were migrated to the Bank's new Portfolio Management System and regular updating of the investment limits framework, eligible counterparties and issuers were completed.

Reviews of approved asset classes and currency strategies were carried out in the period, and reflected in the annual strategic review of the investment portfolio.

Through its participation in the Eurosystem Risk Management Committee and its various taskforces, the Bank contributes to the development of collateral policy and it ensures compliance with the wide-ranging collateral risk management frameworks developed by the Eurosystem. Throughout 2015, the Bank continued to make liquidity available to counterparties through the ongoing implementation of the additional credit claims initiative (ACC). As part of its risk control framework, due diligence was carried out on a sample of ACC collateral to ensure compliance with relevant acceptance criteria.

The Bank's Operational Risk Management Framework was maintained during 2015. It comprises three broad elements:

» Risk management process via Risk and Control Self-Assessment (RCSA) and biannual reporting of the Bank's risk profile to the Commission.

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

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

The Bank continued to develop and strengthen its business continuity arrangements. The dependence of financial sector participants on the Bank's liquidity-providing operations, the increasing complexity of monetary policy operational requirements and the importance of the Bank's broad-ranging supervisory mandate underscores the importance of the Bank's resilience and continuity plans. The approach to managing business continuity risks includes contingency plans for critical divisions; recovery and restoration plans for significant support divisions; testable alternative working areas; an increased recovery capability for critical systems; and a testing and exercise strategy.

Legal Services

A number of regulations were prepared during the year including those made on residential mortgage lending, lending to SMEs, client asset requirements, UCITs and credit unions. Legal assistance was provided on the transposition of a number of key Directives including in particular Solvency II, the BRRD and the DGS Directive. The Bank's legal resources also assisted with the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015 and the proposed Central Bank Consolidation Bill. Legal support was provided in respect of the SSM and to the supervisory divisions on authorisations, ongoing supervision and regulatory actions. The Legal Division also managed various legal proceedings, taken both by the Bank and against the Bank, during the year.

Legal advice was provided on a number of large projects, including the development of new premises for the Bank on North Wall Quay, the acquisition of premises in Spencer Dock and the proposed Central Credit Register. The Bank's documentation on monetary policy instruments and procedures was recast and further amended to reflect changes to the relevant ECB guidelines. Legal reviews of residential mortgage pools backing Special Mortgage-Backed Promissory Notes were conducted. Legal assessments were conducted on the compliance of ABS with Eurosystem eligibility criteria. The Bank is represented on both the ESCB and the SSM Legal Committees.

The Regulatory Decisions Unit continued to provide support to the Bank's decision-making functions in connection with the refusal or revocation of authorisations, decisions under the fitness and probity regime (such as suspension and prohibition notices) and the ASP under Part IIIC of the 1942 Act. Inquiry Members were appointed and a number of ASP Inquiries were ongoing.

Freedom of Information

The Freedom of Information Act 2014 was passed into law in October 2014 and the Bank became subject to its provisions on 14 April 2015. Significant preparation was undertaken in the Bank to prepare for the operation of the Act. A dedicated unit was established to process Freedom of Information (FOI) requests. In 2015, the Bank received and processed 156 requests, with high volumes of requests received in the initial two months. Of the total requests received, 40 requests were granted or part granted, 32 refused and 25 were withdrawn or handled outside of FOI, leaving four requests ongoing at end-year.

In an effort to promote the FOI principles of openness, transparency and accountability, the Bank conducted a review of the information published on a voluntary basis and during the course of 2015 commenced the voluntary publication of Director expenses and diaries of the Governor and Deputy Governor. In accordance with Section 8 of the Act, the Bank is currently preparing its Publication Scheme, which is scheduled for completion by April 2016. In the interim, the Bank has published a range of administrative information including the December 2015 minutes of the Commission and details of the Bank's salary and wage structures.

Facilities Management

The Bank currently operates across four locations: Dame Street, Iveagh Court, Spencer Dock and Sandyford. In 2015, the Bank continued to maintain these premises to a high standard and provide facilities management services to staff, contractors and visitors. The Bank launched its first Archive Policy to preserve and promote the organisation's historical records, which are over thirty years old. A project commenced to reduce the amount of paper records held in the Bank's city centre locations and curtail the amount of paper the organisation produces in advance of the move to North Wall Quay. The first phase of this project resulted in the destruction of over three metric tonnes of surplus paper. The Bank successfully completed a tender for the delivery of Total Facility Management Services for its buildings in Spencer Dock and Iveagh Court.

In 2015, the Bank purchased the Spencer Dock premises where it had previously been renting accommodation. This acquisition, in addition to offering a positive financial return under a range of scenarios, is close to North Wall Quay and will serve as a contingency site for additional accommodation to meet the Bank's medium to long-term needs. The financial assumptions related to the business case were independently verified and the purchase of the property was approved by the Bank in line with its expenditure framework.

New Building Programme[27]

The Programme to relocate staff from the three city centre locations to North Wall Quay, Dublin, progressed throughout the year.

Following the granting of planning permission and the completion of the detailed design for the base build and internal layouts for the building in 2014, the Bank moved into the construction phase in 2015. On completion of the public procurement process in Q1 2015, Walls Construction Limited were appointed as main contractor and commenced construction works on site in Q2 2015. While the Bank acquired an existing structure on the site, initial construction works included piling, demolition and concrete pouring works. In early Q4, 2015 the installation of the façade commenced on the western elevation of the building. The Construction Programme is progressing towards the commencement of occupancy in the new building in Q4 2016.

A key component of the design of the new building is producing an energy efficient sustainable building and the Bank was awarded the BREEAM[28] 'Outstanding' rating at design stage in October 2015. The North Wall Quay project is the first office building in Ireland to achieve the highest available BREEAM rating for the building design.

27 The Bank's website has a section dedicated to providing information on progress with the new Building Programme and this site will be updated with all relevant information at appropriate intervals. http://www.centralbank.ie/about-us/newbuilding/Pages/Ournewbuilding.aspx

28 **BREEAM** (Building Research Establishment Environmental Assessment Methodology), which was first published by the Building Research Establishment (BRE) in 1990. It is an established methodology for assessing, rating, and certifying the sustainability of buildings.

As part of the relocation to North Wall Quay, the Bank has ongoing engagement with the local community through programmes such as the schools' arts programme for the hoarding surrounding the new building. The Bank's efforts in this regard have been recognised through the receipt of the Dockland's Business Award 2015 in the Responsible Business Award category. The Bank received the commendation in the Business to Arts Awards 2015 for the schools hoarding project in North Wall Quay.

To complement the construction programme, the Bank has developed an Operations Programme to manage the transition to the new operational aspects of the new building. This programme will design and implement a Building Services Operating Model which maximises efficiencies, supports the organisation's Principles and Behaviours, and facilitates organisational change. Many of the Bank's operational systems, processes and policies are being reviewed and revised, if required, (including, Information Technology, Human Resources, Security, Business Continuity and Facilities Management).

Project and Programme Management

In 2015, the Bank completed 28 projects representing an increase of 27 per cent on 2014. Performance of completed projects against plans and budgets was similar to previous years and in line with expectations. Major project completions in the year included introduction of the SSM and new CRD IV and implementation of a Local Market Operations Platform (LMOP) and new Human Resources Information Systems (HRIS).

A key area of focus in 2015 was improvement in project management competency and skills. A central pool of professional and experienced project managers was established, facilitating assignment of experienced professionals to high complexity and risk projects. Continued expansion of the resource pool is planned in 2016. Further enhancements to the internal project management training and development programme were also introduced. This involved continued development of the blended learning approach introduced in 2014, which now includes independent knowledge assessment and certification following programme completion by participants.

Following certification by the National Standards Authority of Ireland (NSAI) of compliance with the ISO 21500 project management standard, the Bank positively responded to a number of requests from public sector organisations for briefings on its approach to project management and the role of its project management office.

Information Technology Management

A significant portfolio of IT projects was successfully delivered during 2015 to support the implementation of regulatory and statistical directives to meet both local and European purposes and to support the central banking obligations.

Projects implemented included:

» Solvency II Preparatory data collection.

» The returns and systems changes to support the Alternative Investment Funds Markets Directive.

» The implementation of a new LMOP to improve the Bank's ability to trade effectively in a range of industry standard instruments with national and international counterparties.

» Updates to the CRD IV returns reflecting continued focus from the ECB on data collection to support banking supervision.

There were also projects to support the internal operations of the Bank including completing the technology supports for Freedom of Information processes and initiating a project to refresh and uplift the Bank's public website.

A major programme of work is underway to implement the technology to support the new building in North Wall Quay and to uplift technology capability to support enhanced ways of working. There was continued focus on data and information management and a number of projects and cross-divisional initiatives were initiated to enhance the Bank's analytics and information management capabilities. Projects underway include the scoping of requirements for an enterprise document and records management solution, including the drafting of revised policies and procedures for document management.

External Communications

During 2015, the Bank answered 1,000 individual media queries, from domestic and international media. Queries were focused generally on supervisory, financial and economic issues, as well as the role of the Bank. The Bank's programme of media engagement continued with regular publication of speeches, media releases and statements; and with direct engagement by way of interviews and press briefings. In addition, the Bank provided responses to 275 parliamentary questions via the Department of Finance.

The Bank, through its Public Contacts unit, responded to 7,414 direct contacts from members of the public. The vast majority (almost 90 per cent) related to products and services offered by regulated firms, and queries on the authorisation status of financial services firms.

The sixth Whitaker Lecture took place in February 2015. The lecture series, in honour of former Central Bank Governor Dr. T.K. Whitaker, who was Governor from 1969 to 1976, takes place every two years. At each lecture, a well-known figure from the field of economics presents on a different topic. This year Professor John FitzGerald gave a lecture titled 'A half a century of managing the Irish economy'.

Social Media

The Bank increased its social media presence five-fold during the year through continued use of Twitter, YouTube and LinkedIn, and commenced use of Flickr. Content for social media channels builds on material provided to press and other stakeholders, along with extracts from Bank publications, charts, images, career opportunities, and video from press conferences and other activity.

The Bank's main online communications channel is centralbank.ie. Work towards a redesign of the website commenced in 2015 and will lead to the introduction of a more user-friendly and audience-focused site in 2016.

Generation €uro Students' Award

The Generation €uro Students' Award entered its fourth cycle in 2014 -2015. The competition continues to attract strong interest from schools around Ireland (270 entries) and has established itself as Ireland's leading competition for Transition Year students who are interested in economics and monetary policy.

Students from St. Gerald's College, Castlebar, were named as national winners. The team travelled to the ECB in May 2015 to meet President Mario Draghi along with the Governors and students from participating NCBs across the euro area.

The fifth cycle of the competition commenced in October 2015. Separately, a number of school visits to the Bank were facilitated throughout the year.

St. Gerald's College, Castlebar – national winners of the Generation €uro Students' Award. The winning team with their teacher, Ms Regina Casey and Governor Patrick Honohan.

Box 6: Corporate Social Responsibility

Corporate Social Responsibility (CSR) refers to an organisation's responsibility for the impacts of its decisions and activities on society and the environment. Throughout 2015, the Bank worked to assess and formalise its approach to CSR. To help achieve this aim, it became a member of Business in the Community Ireland and a CSR Working Group was formed. A CSR section on the Bank's website was developed to increase awareness within the organisation. In Q4 2015, the Bank formally approved a CSR organisational policy statement and governance model.

Throughout the year, the Bank supported its staff, stakeholders, the environment and the community through a variety of initiatives and outreach programmes, some of which are outlined below:

- The Central Bank Charity Committee donated to six partner charities from the Bank's Benevolent Fund as well as supporting staff charitable donations through its 'Matching Funds' scheme and running charitable events such as 'Run4Funds'.
- The Bank supported staff volunteering in programmes such as the Early Learning Initiative, Junior Achievement and Boardmatch Ireland.
- In September 2015, the Bank was shortlisted for the 2015 Allianz Business to Arts Awards in the category of 'Best Use of Creativity in the Community' for its partnership with the National College of Art and Design in working with Docklands-based schools to paint murals surrounding the site of the new premises at North Wall Quay.
- The Bank continued to work towards reducing its impact on the environment across all operations, most significantly in the design of the new premises. It also held its first 'Green Week' which increased environmental awareness among staff.
- In April, the Bank become a member of the 30% Club Ireland, which aims to reach a 30 per cent female gender balance in Irish business boards and executive management level by 2020.
- The Bank took part in a number of key education initiatives aimed at improving awareness of the role of the organisation and of the Eurosystem, including providing visits for schools, educational resources on the Bank's website and running the annual Generation €uro Students' Award.
- Members of staff were encouraged to live a positive and healthy lifestyle through Wellness at Work initiatives such as the Pedometer Challenge and were recognised for their achievements through the Bank's formal employee recognition scheme the 'Spotlight Awards'.

Environment, Health and Safety

The majority of staff members (approximately 88 per cent) are engaged in office-based activities at the city centre sites with the remainder involved in manufacturing activities at the Currency Centre. An integrated health and safety, fire, environmental and energy policy is in place, supported by appropriate management systems.

Quarterly health and safety reviews continue to develop environmental, health and safety awareness and deliver compliance across all activities, with the overall divisional average target of 90 per cent compliance exceeded (95.4 per cent) by end-year. A key programme for improvement in 2015 was to promote environmental awareness. To help achieve this, the Bank hosted its inaugural 'Green Week' in January. Videos and competitions were used to highlight environmentally friendly practices and to encourage the more mindful use of resources. The impact of the campaign also helped to have a positive influence on the overall reductions indicated in the energy usage table below.

The adoption of environmental, health, safety and accessibility principles in the physical design of the new headquarters building is also helping to shape how the Bank will continue to achieve EH&S

objectives. By promoting more sustainable approaches to its activities before relocation, the Bank is taking steps to reduce its overall impact on the local and global environments, while also providing a safer and more inclusive environment for staff and visitors.

The Bank was awarded the top prize in the 'Financial and Insurance Services' category at the National Irish Safety Organisation's (NISO) 24th Annual Occupational Safety Awards in October 2015. The award was an external endorsement of the strength of the Bank's management systems (policies, procedures, forms and records), measured against its business category.

Actions Undertaken in 2015

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

» Integration of environmental, safety, fire and energy into one common policy to streamline governance and improve awareness at every level.

» Commenced work towards certification to the OHSAS 18001:2007 (Safety), ISO 14001:2004 (Environmental) and ISO 50001:2011 (Energy) Management System standards in 2016.

» Reduced CO2 by approximately 1,000kg per year by replacing an internal mail vehicle with an electric van.

» Installation of a state-of-the art zonally controlled system with all new boilers and BMS control upgrade in the Currency Centre.

» Replacement of old windows to improve energy efficiency.

Actions Planned for 2016

The Bank intends to further improve its energy, safety and environmental performance in 2016 by undertaking the following initiatives:

» Water tank replacement project – will commence early 2016 with the final stages of planning under way in the Currency Centre.

» Attain certification for the OHSAS 18001:2007 (Safety), ISO14001:2004 (Environmental) and ISO5001: 2011 (Energy) Management System standards.

» Investigation of the Bank's fuel and energy usage on site in partnership with the OPW Optimising Power @ Work Programme.

» Finalise workstation design for mobilisation to North Wall Quay.

Energy used in 2015

Notwithstanding a significant increase in the number of people working in the Bank's buildings in 2015, the energy reducing actions taken during the year allowed the Bank to record an overall energy reduction of 1.54 per cent for 2015 compared with 2014 – see table below.

Table 4: Energy Usage

	Currency Centre		City Centre Sites		Overall	
	2015 kWh	% change against actual 2014	2015 kWh	% change against actual 2014	2015 kWh	% change against actual 2014
Electricity*	3,250,002	-8.44	5,322,564	-3.62	8,572,566	-5.51
Gas*	2,574,198	9.34	2,987,983	6.0	5,562,181	7.52
Oil**	151,004	43.54	6,774	-93.84	157,778	-26.68
Total Energy	**5,975,205**	**0.035**	**8,317,320**	**-2.65**	**14,292,525**	**-1.54**

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

**Oil figures are 'estimated usage' for City Centre.

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

Philip R. Lane
Governor

Neil Whoriskey
Secretary

12 April 2016

Appendix: Statements and Published Papers by the Bank in 2015

Key Publications

Quarterly Bulletin - January, April, July and October 2015

Annual Report 2014 – April 2015

Annual Performance Statement, Financial Regulation – April 2015

Strategic Plan 2016-2018 - November 2015

Speeches and Presentations 2015

Introductory statement by Governor Patrick Honohan at Oireachtas Banking Inquiry - January

Keynote address by Governor Patrick Honohan at the IMF-CEPR-Central Bank Conference, 'Ireland - Some Lessons Learnt from the EU-IMF Programme' - January

Address by Registrar of Credit Unions, Anne Marie McKiernan, to the Credit Union Development Association (CUDA) Annual Conference - January

Address by Advisor to the Governor, Lars Frisell, to Irish Economy Conference, 'The Timing of Macroprudential Intervention: The Central Bank's new LTV and LTI regulations' - February

Address by Director of Markets Supervision, Gareth Murphy, at the 4th Annual Funds Congress - February

Address by Registrar of Credit Unions, Anne Marie McKiernan, Credit Union Managers Association (CUMA) Spring Conference - March

Introductory statement by Governor Patrick Honohan at Oireachtas Banking Inquiry -March

Address by Head of Consumer Protection, Colm Kincaid, to the ACOI, 'Ethical Conduct and Consumer Protection' - March

Address by Registrar of Credit Unions, Anne Marie McKiernan, at the Credit Union Restructuring Board Annual Conference - March

Address by Deputy Governor (Financial Regulation), Cyril Roux, to Chartered Accountants Ireland, Leinster Society, 'SME Lending and Arrears' - March

Presentation by Governor Patrick Honohan at Queen's University Belfast, 'Currency Choices in Ireland Past and Present' - March

Introductory statement by Oliver Gilvarry to the Oireachtas Committee on Finance, Public Expenditure and Reform Hearing on the European Commission's Green Paper on Capital Markets Union - March

Remarks by Governor Patrick Honohan prepared for the session 'Politics by Other Means? Eurozone Institutions and National Sovereignty in the Bank Bailout Negotiations' at the INET Annual Conference, 'Liberté, égalité, fragilité' - April

Address by Director of Consumer Protection, Bernard Sheridan, to the Institute of Internal Auditors, 'Outcomes focused, evidence based – Delivering Consumer Protection in a Changing world'- April

Address by Director of Insurance Supervision, Sylvia Cronin, at the Central Bank of Ireland Solvency II Forum - April

Address by Deputy Governor (Financial Regulation), Cyril Roux, at the Central Bank of Ireland Solvency II Forum - April

Address by Registrar of Credit Unions, Anne Marie McKiernan, at the Irish League of Credit Unions (ILCU) AGM - April

Address by Deputy Governor (Financial Regulation), Cyril Roux, to PWC Annual CEO Insurance dinner - May

Address by Head of Markets Policy, Martin Moloney, at the Islamic Finance and Law Conference at the UCD School of Law - May

Address by Director of Insurance, Sylvia Cronin, at Dublin International Insurance & Management Association (DIMA) Conference, 'The Changing landscape in Global Regulation' - May

Address by Advisor to the Governor, Lars Frisell, to the Financial Safety Net Conference, 'Resolution of the Irish banking crisis: Hard-earned lessons for Europe' - May

Address by Director of Consumer Protection, Bernard Sheridan, at the Financial Services Ireland FinTech Task Force Meeting - May

Introductory statement by Governor Patrick Honohan to Oireachtas Committee on Finance, Public Expenditure and Reform - May

Address by Director of Consumer Protection, Bernard Sheridan, at the Insurance Institute Conferral of Insurance Qualifications Ceremony - May

Panel Discussion by Governor Patrick Honohan, Vítor Constâncio, Catherine Mann, Jean Pisani-Ferry and Christoph Schmidt, at the ECB forum on the Central Bank - May

Address by Deputy Governor (Central Banking), Stefan Gerlach, at the Twenty-First Dubrovnik Economic Conference, 'Making Residential Rental Markets Work for Financial Stability' - June

Introductory statement by Deputy Governor (Financial Regulation), Cyril Roux, to the Oireachtas Banking Inquiry - June

Address by Director of Market Supervision, Gareth Murphy, to the Irish Funds Annual Conference, Royal Dublin Society - June

Address by Director of Enforcement, Derville Rowland, to IBEC Seminar on recent developments in the area of Anti-Money Laundering and emerging themes from recent inspections conducted by the Central Bank - June

Introductory statement by Governor Honohan to the Oireachtas Banking Inquiry - June

Address by Director of Policy and Risk, Gerry Cross, at Dublin International Insurance & Management Association (DIMA) Annual General Meeting - June

Address by Director of Policy and Risk, Gerry Cross, to Independent Fund Directors at Central Bank Breakfast Briefing - July

Remarks by Director of Markets Supervision, Gareth Murphy, at a seminar hosted by the Irish Ambassador to Germany on Regulatory Perspectives on Financial Technologies - September

Address by Deputy Governor (Financial Regulation), Cyril Roux, to the Society of Actuaries' Risk Management Conference, ‘Cyber Security and Cyber Risk’ - September

Address by Director of Markets Supervision, Gareth Murphy, at the Irish Funds Symposium - October

Address by Deputy Governor (Central Banking), Stefan Gerlach, to the Society of Chartered Surveyors Ireland Annual Conference - October

Address by Deputy Governor (Financial Regulation), Cyril Roux, to the Institute of Directors' Risk Appetite Forum - October

Address by Registrar of Credit Unions, Anne Marie McKiernan, to the National Supervisors Forum AGM - November

Address by Director of Policy and Risk, Gerry Cross, to the Association of Compliance Officers in Ireland Annual Conference, ‘Compliance: Road to 2020 – Meeting regulatory challenges over the next 5 years’ - November

Remarks by Deputy Governor (Central Banking), Stefan Gerlach, at Central Bank workshop on banking, credit and macro-prudential policy - November

Address by Governor Honohan to London School of Economics (LSE), ‘Debt and austerity: post-crisis lessons from Ireland’ - November

Address by Director of Insurance Supervision, Sylvia Cronin, to the 30th Life Conference by the Institute and Faculty of Actuaries, ‘Culture and Governance: Acting Together for a Happy Marriage’ - November

Address by Deputy Governor (Financial Regulation), Cyril Roux to the Banking and Payments Federation of Ireland (BPFI) Banking Conference, 'Working with the SSM Regime' - November

Keynote address by Chief Economist, Gabriel Fagan, to the 2nd Sunday Business Post Property Summit, ‘Property Markets and Financial Stability’ - December

Introductory statement by Registrar of Credit Unions, Anne Marie McKiernan, to the Oireachtas Committee on Finance, Public Expenditure and Reform - December

Articles in Central Bank Quarterly Bulletins

The Financial Position of Irish Households - Martina Lawless, Reamonn Lydon and Tara McIndoe-Calder - No. 1 2015

The Instruments of Macro-Prudential Policy - Therese Grace, Niamh Hallissey and Maria Woods - No. 1 2015

The Changing Nature of Irish Exports: Context, Causes and Consequences - Stephen Byrne and Martin O’Brien - No. 2 2015

Navigating Uncharted Waters: Analysis of Monetary Operations & Financial Markets Developments - Eimear Curtin, Brian Gallagher and Fionnuala Ryan - No. 2 2015

New Insights from the Enhancements to Quarterly Financial Accounts - Mary Cussen - No. 2 2015

Data Gaps and Shadow Banking: Profiling Special Purpose Vehicles’ Activities in Ireland - Brian Godfrey, Neil Killeen and Kitty Mooney - No. 3 2015

The Expanded Asset Purchase Programme - What, Why and How of Euro Area QE - Peter Dunne, Mary Everett and Rebecca Stuart - No. 3 2015

Labour Cost Adjustment during the Crisis: Firm-level Evidence - Suzanne Linehan, Reamonn Lydon and John Scally - No. 3 2015

The Financial Crisis in Ireland and Government Revenues - Rónán Hickey and Diarmaid Smyth - No. 4 2015

Locational Banking Statistics in Ireland: Introducing the Enhanced Quarterly Statistics - Dermot Coates and Aoife Moloney - No. 4 2015

Boxes in Central Bank Quarterly Bulletins

Consumer Spending Data and Forecasts - Diarmaid Addison-Smyth - No. 1 2015

The International Activities of the Irish Life and Non-Life Insurance Sector - Anne-Marie Kelly and Brídín O'Leary - No.1 2015

Comparative Developments in Irish and Euro Area Securities Issues Statistics - Dermot Coates, Anne McHugh and Siobhán O'Connell - No. 1 2015

Enlargement of the euro area: adjustment of voting arrangements in the Governing Council of the European Central Bank (ECB) - Mary Keeney - No. 1 2015

Exchange rate pass-through in the euro area - Mary Everett and John Larkin - No. 1 2015

Investment and Depreciation in Ireland - Diarmaid Addison-Smyth - No. 2 2015

Impact of oil price developments on Irish inflation - Suzanne Linehan - No. 2 2015

Residential Mortgage Arrears and Non-Bank Entities - Jean Cassidy - No. 2 2015

Retail Interest Rate Developments - Gavin Doheny - No. 2 2015

The ECB's Public Sector Purchase Programme - Rebecca Stuart - No. 2 2015

Are there asymmetries in the oil price pass through to retail petrol prices in the euro area? - John Larkin - No. 2 2015

Ireland and the Macroeconomic Imbalance Procedure - An Update - Linda Kane - No. 3 2015

SMEs Cost of Bank Funding - Martina Sherman - No. 3 2015

Investment funds debt security holdings in a low yield environment - Brian Golden - No. 3 2015

US Monetary Policy: Looking Beyond Headline Unemployment - Arsenios Skaperdas - No. 3 2015

Monetary Policy Rates and Shadow Short Rates - Valentina Colombo - No. 3 2015

The Recent Growth Performance of the Irish Economy - Diarmaid Smyth and Martin O'Brien - No. 4 2015

The Impact of Changes in Trade in Aircraft in the National Accounts - Martin O'Brien - No. 4 2015

Irish Trade with China - Stephen Byrne - No. 4 2015

Money Market Funds Resident in Ireland: Insights from Enhanced Statistical Reporting - Siobhán O'Connell - No. 4 2015

Recent Developments in Market-Based Inflation Expectations - Laura Moretti - No. 4 2015

Turmoil in Chinese Equity Markets and Global Implications - Patrick Haran and Neil Lawton - No. 4 2015

Research Technical Papers 2015

Jagged Cliffs and Stumbling Blocks: Interest Rate Pass-through Fragmentation during the Euro Area Crisis - Sarah Holton and Costanza Rodriguez d'Acri – June

Designing Macro-prudential Policy in Mortgage Lending: Do First Time Buyers Default Less? – Robert Kelly, Terry O'Malley and Conor O'Toole – June

The macroeconomic effects of the Euro Area's fiscal consolidation 2011-2013: A Simulation-based approach – Ansgar Rannenberg, Christian Schoder and Jan Strasky – August

Location Decisions of Non-Bank Financial Foreign Direct Investment: Firm-Level Evidence from Europe – Ronald B. Davies and Neill Killeen – October

Some defaults are deeper than others: Understanding long-term mortgage arrears – Robert Kelly and Fergal McCann – December

Credit conditions, macro-prudential policy and house prices – Robert Kelly, Fergal McCann and Conor O'Toole – December

Economic Letters 2015

Interpreting data for Ireland in international banking statistics - Dermot Coates, Mary Everett, Joe McNeill and Aoife Molone – January

Macro-prudential measures and the housing market - Gerard Kennedy and Rebecca Stuart – January

Assessing the impact of macro-prudential measures - Mary Cussen, Martin O'Brien, Luca Onorante and Gerard O'Reilly – January

House price volatility: The role of different buyer types - Dermot Coates, Reamonn Lydon and Yvonne McCarthy – January

Mortgage insurance in an Irish context – Niamh Hallissey – February

The use of personal guarantees in Irish SME lending - James Carroll, Fergal McCann and Conor O'Toole – May

Government revenues in Ireland since the financial crisis - Rónán Hickey and Diarmaid Smyth – May

Switch and Save in the Irish Mortgage Market? - Kenneth Devine, Sarah Frost and Rory McElligott – July

Mortgage Interest Rate Types in Ireland - Robert Kelly, Paul Lyons and Conor O'Toole – July

The macroeconomic effects of the Euro Area's fiscal consolidation - Ansgar Rannenberg, Christian Schoder and Jan Strasky – October

Households in long-term mortgage arrears: lessons from economic research - Robert Kelly and Fergal McCann – December

Irish Non-Financial Corporations and the US Private Placement Market by Dermot Coates, Aoife Moloney and Jenny Osborne-Kinch - December

Peer Reviewed Articles

Journal Articles

Alessi, Lucia, Eric Ghysels, Luca Onorante, Richard Peach, and Simon Potter, ‘Central Bank Macroeconomic Forecasting During the Global Financial Crisis: The European Central Bank and Federal Reserve Bank of New York Experiences,’ Journal of Business & Economic Statistics 2015, 32 (4), 483–500.

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Consultation Paper on amendments to the AIF Rulebook – November

Consultation on Risk Assessment and Capital Planning for Fund Administrators – December

Chapter 2:
Governance

This chapter sets out the procedures and processes applicable to the governance of the Bank during 2015.

Legal Framework and Statutory Objectives

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

» Stability of the financial system

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

» Efficient and effective operation of payment and settlement systems

» Resolution of financial difficulties in credit institutions

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

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

The Central Bank Commission

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

In 2015, the Commission arranged for an external evaluation of its governance, undertaken by PwC. The evaluation was discussed by the Commission and an implementation plan drawn up to implement its recommendations.

Delegation of Powers and Functions

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

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

The Commission engages with management members on issues of strategic importance to the Bank (other than ESCB functions) and advises, supports and constructively challenges them as appropriate. It also contributes to the formulation of a strategy to allow the Bank to achieve its statutory functions and reviews the Bank's performance in relation to this strategy. In 2015, the Commission adopted a new three year Strategic Plan for the Bank for 2016-2018.

Members of the Commission

The Governor is the Chair 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. Ex-officio members of the Commission remain members for as long as they hold the office in question. The Minister for Finance may appoint at least six, but no more than eight, other members of the Commission who typically hold office for a term of five years. In 2015, six such appointed members served on the Commission.

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

As at 31 March 2016, 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. He retired as Governor on 25 November 2015.

Philip R Lane was appointed as a member of the Commission on 21 October 2015 and was appointed Governor on 26 November 2015.

The Governor is an ex-officio member of the Governing Council of the European Central Bank (ECB). The Governor, or an Alternate, must attend all meetings of the Governing Council. The roles and responsibilities of the Governor in this respect 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, Philip R Lane was on the academic staff at Trinity College Dublin and he remains affiliated with the University as Whately Professor of Political Economy (on leave). He has chaired the Advisory Scientific Committee of the European Systemic Risk Board (ESRB) and was Director of the International Macroeconomics and Finance Programme at the Centre for Economic Policy Research (CEPR). He has also acted as an academic consultant for the ECB, European Commission, International Monetary Fund, World Bank, OECD, Asian Development Bank and a number of national central banks. A graduate of Trinity College Dublin, he received his PhD in Economics from Harvard University in 1995 and was Assistant Professor of Economics and International Affairs at Columbia University (1995-1997) before returning to Dublin. His research interests include financial globalisation, macroeconomics of exchange rates and capital flows, macroeconomic policy design and European monetary integration.

Deputy Governor (Central Banking)

Stefan Gerlach served as Deputy Governor (Central Banking) from 1 September 2011 to 31 December 2015.

Sharon Donnery was appointed Deputy Governor (Central Banking) with effect from 1 March 2016.

She serves as an Alternate to the Governor in the Governing Council of the ECB. She is also Chair of the Single Supervisory Mechanism (SSM) High Level Group on Non-Performing Loans (NPLs) which is examining approaches to the consistent supervision of banks with high levels of NPLs.

Prior to her appointment, she was Director of Credit Institutions Supervision at the Bank, having been appointed in March 2014. She had responsibility for the prudential supervision of all banks (within the context of SSM) and credit unions in Ireland. From February 2013 to August 2014, she held the statutory position of Registrar of Credit Unions. She joined the Bank in 1996 as an economist in the Monetary Policy Division and has held a range of senior positions, including Senior Economist, Head of Consumer Information, and Head of Consumer Protection. Her education background is in economics; she holds a BA in Politics and Economics and an MA in Economics from University College Dublin.

Deputy Governor (Financial Regulation)

Cyril Roux was appointed to the position of Deputy Governor (Financial Regulation) on 1 October 2013. He is a member of the SSM Supervisory Board of the ECB and of the General Board of the European Systemic Risk Board (ESRB).

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) between April 2007 and March 2010.

Prior to joining ACAM, he spent 10 years at AXA in a variety of senior positions, including COO of the Structured Finance Division and senior strategic auditor on behalf of the Executive Board. He holds a PhD in Economics from Harvard University, is a graduate of the École Polytechniuque (France), and is a qualified actuary.

Secretary General of the Department of Finance

Derek Moran is Secretary General of the Department of Finance and is responsible for economic, budgetary and fiscal, banking and financial service policy matters and oversight of Ireland's investments in and support for covered banks. He has previously been the Assistant Secretary General with responsibility for Fiscal Policy Division, Budget and Economic Division and led on tax policy issues between 2006 and 2014. He is currently a member of the board of the National Treasury management Agency, the Civil Service Management Board and is a Council Member of the Foundation for Fiscal Studies. He has previously served on the National Economic and Social Council, National Statistics Board and the EU’s Economic Policy and Tax Policy Committees.

Appointed Members

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

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

Alan Ahearne is Professor and Head of Economics at the National University of Ireland, Galway (NUIG). He is a Non-Resident Fellow at Bruegel and chairs the Economic and Social Research Institute (ESRI)/Department of Finance Joint Research Programme on the Macro-economy and Taxation. He has served as External Advisor to the Strategy, Practice and Review Department of the IMF. He was Special Advisor to the Minister for Finance from March 2009 to March 2011. Before joining NUIG, he was Senior Economist at the Federal Reserve Board in Washington, DC. He has taught economics at Carnegie Mellon University, University College Dublin, Dublin City University and the University of Limerick. He began his professional career with Coopers & Lybrand and also worked for Bank of Ireland Group Treasury. His areas of expertise are macroeconomics and international finance. He holds a PhD (1998) in economics from Carnegie Mellon University.

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

Patricia Byron is the Director General of the Society of Chartered Surveyors Ireland. She was formerly the Chief Executive Officer of the Injuries Board. Over recent years she has also been involved in a number of efficiency initiatives in support of public sector reform. She also sits in a voluntary capacity on the Board of the Centre for Effective Services. She previously worked in the insurance sector for the major part of her career. 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 and capital markets and she has published extensively in these areas. She holds postgraduate degrees in Law and in Business Studies (Banking & Finance) and a doctorate in Law. She works with the Irish Takeover Panel and is a member of the European Securities and Markets Authority Takeover Bids Network. She is the Irish representative on the OECD Corporate Governance Committee and is a member of the European Commission’s Informal Company Law Expert Group. Previously, she was one of the founding members of the Institute of Directors’ Centre for Corporate Governance at University College Dublin and a member of the European Commission's Reflection Group on the Future of EU Company Law.

John FitzGerald (Appointed on 1 October 2010 for 5 years and re-appointed on 1 October 2015 for 5 years)

John FitzGerald is Chairman of the Government's Climate Change Advisory Council and he is an Adjunct Professor in the Department of Economics, Trinity College Dublin. Over his career he has worked on macro-economic and energy policy and has published widely in these fields. He is a past President of the Irish Economic Association and of the EUROFRAME group of European economic research institutes. He is a former member of the National Economic and Social Council and of the Northern Ireland Authority for Energy Regulation. 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 subsequently worked in the Economic and Social Research Institute until October 2014.

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

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

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

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

Secretary of the Bank

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

Table 5 – Meetings attended by Commission members during 2015

Commission Members	Commission meetings attended during 2015
Patrick Honohan*	10/11
Philip R. Lane**	3/4
Alan Ahearne	12/13
Patricia Byron	12/13
Blanaid Clarke	13/13
John FitzGerald	13/13
Des Geraghty	12/13
Stefan Gerlach***	9/13
Derek Moran	12/13
Cyril Roux***	12/13
Michael Soden	13/13

* Patrick Honohan retired as Governor on 25 November 2015; he did not attend the Commission meeting that considered the remuneration of the Governor.
** Philip R. Lane was appointed as a Commission member on 21 October 2015. He was appointed Governor on 26 November 2015. He did not attend the Commission meeting that considered the remuneration of the Governor.
*** Stefan Gerlach and Cyril Roux did not attend the Commission meeting that considered the remuneration of the Governor.

The table above shows that 13 meetings of the Commission were held during 2015 and the total number of meetings attended by each member.

Commission Procedures

Meetings of the Commission are scheduled on a monthly basis (except August) and are presided over by the Governor, as Chair. Further meetings are scheduled as necessary for the proper performance of the functions of the Commission. In 2015, there were 13 meetings of the Commission. All meetings were quorate.

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 is appointed by the Commission and comprises three non-executive members. From 1 January to 31 August 2015, the membership of the Audit Committee comprised Blanaid Clarke (Chair), Alan Ahearne and John FitzGerald. Following a process of rotation and refreshing of Committee memberships, from 1 September to 31 December 2015 the membership of the Audit Committee comprised Patricia Byron (Chair), Blanaid Clarke and John FitzGerald.

Meetings of the Audit Committee are held at least four times per year. In 2015, there were six meetings of the Audit Committee. There were also two additional meetings held jointly with the Risk Committee.

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

Table 6 – Audit Committee Meetings 2015

Committee Members	Audit Committee meetings attended during 2015
Patricia Byron (Chair)*	2/2
Blanaid Clarke (Former Chair)**	6/6
John FitzGerald	6/6
Alan Ahearne***	3/4

* Patricia Byron was appointed Chair on 1 September 2015.
** Blanaid Clarke served as Chair up to 31 August 2015.
*** Alan Ahearne stepped down from the Audit Committee with effect from 1 September 2015.

The table shows that six meetings of the Audit Committee were held during 2015 and the total number of meetings attended by each member.

and Auditor General or by the independent external auditor. In addition, at least once a year the Committee will meet the Comptroller and Auditor General and the external auditor without the presence of the executives. The Chair will also hold regular meetings with the Head of Internal Audit. The Committee meets in non-executive composition at the beginning of each meeting. The minutes of meetings of the Audit Committee are circulated to the Commission and placed on the agenda of subsequent meetings of the Commission.

The Audit Committee undertook a review of its own effectiveness and its terms of reference in 2015. In addition, an external evaluation of Commission Governance examined the Audit Committee during 2015.

The key responsibilities of the Audit Committee, as per its Terms of Reference, 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.

» Review and approve the statement to be included in the Annual Report concerning internal controls.

» 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 management letters from the Comptroller and Auditor General and the external auditor before the management response is issued.

» Review the Bank's internal control systems.

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

» Advise on the appointment and re-appointment of external auditors, on their remuneration, and on questions of resignation or dismissal.

» Monitor policy on the engagement of the external auditors to supply non-audit services. 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.

» 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.

» Consider other topics as requested by the Commission.

» Ensure that the provisions of the Bank's Confidential Disclosures Policy are appropriate to ensure a proper approach to dealing with reports by staff of 'wrongdoing'.

Budget and Remuneration Committee

The Budget and Remuneration Committee is appointed by the Commission and comprises either two or three non-executive members and the two Deputy Governors (Deputy Governors are not present when matters relating to the remuneration of management members of the Commission are discussed). From 1 January to 31 August 2015, the membership of the Budget and Remuneration Committee comprised Michael Soden (Chair), Blanaid Clarke, Stefan Gerlach and Cyril Roux. Following a process of rotation and refreshing of Committee memberships, from 1 September to 31 December 2015 the membership of the Budget and Remuneration Committee comprised Alan Ahearne (Chair), Blanaid Clarke, Stefan Gerlach and Cyril Roux.

Meetings of the Budget and Remuneration Committee are held at least four times per year. In 2015, there were five meetings of the Budget and Remuneration Committee. 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.

Table 7 – Budget and Remuneration Committee Meetings 2015

Committee Members	Budget and Remuneration Committee meetings attended during 2015
Alan Ahearne (Chair)*	2/2
Michael Soden (Former Chair)**	3/3
Blanaid Clarke	5/5
Stefan Gerlach***	4/5
Cyril Roux***	3/5

* Alan Ahearne was appointed Chair on 1 September 2015.
** Michael Soden stepped down as Chair of the Budget and Remuneration Committee with effect from 1 September 2015.
*** Stefan Gerlach and Cyril Roux did not attend the meeting of the Budget and Remuneration Committee that considered the remuneration of the Governor.

The table above shows that five meetings of the Budget and Remuneration Committee were held during 2015 and the total number of meetings attended by each member.

The Budget and Remuneration Committee undertook a review of its own effectiveness and its terms of reference in 2015. In addition, an external evaluation of Commission Governance examined the Budget and Remuneration Committee during 2015.

The key responsibilities of the Budget and Remuneration Committee, as per its Terms of Reference, are to:

» Review and make recommendations to the Commission for the remuneration of management members of the Commission, including the Governor.

» Review on at least an annual basis the Bank's overall remuneration policy and procedures and make recommendations to the Commission where necessary.

» Review and advise the Commission regarding budgetary and expenditure matters.

» Review and advise the Commission on the Bank's Balanced Scorecard process on an annual basis.

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

» Consider other topics as requested by the Commission.

Risk Committee

The Risk Committee is appointed by the Commission and comprises three non-executive members and the two Deputy Governors. For 2015, the membership of the Risk Committee comprised Des Geraghty, Alan Ahearne, Michael Soden, Stefan Gerlach and Cyril Roux. Following a process of rotation and refreshing of Committee chairs, from 1 September to 31 December 2015 Michael Soden replaced Des Geraghty as Chair of the Committee.

Meetings of the Risk Committee are held at least four times per year. In 2015, there were four meetings of the Risk Committee. There were also an additional two meetings held jointly with the Audit Committee.

Table 8 – Risk Committee Meetings 2015

Committee Members	Risk Committee meetings attended during 2015
Michael Soden (Chair)*	4/4
Des Geraghty (Former Chair)**	4/4
Alan Ahearne	4/4
Stefan Gerlach	4/4
Cyril Roux	2/4

* Michael Soden was appointed Chair on 1 September 2015.
** Des Geraghty served as Chair up to 31 August 2015.

The table above shows that four meetings of the Risk Committee were held during 2015 and the total number of meetings attended by each member.

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.

Following a review of its own effectiveness and its terms of reference in December 2014, the Commission approved changes to the Risk Committee's Terms of Reference in January 2015. In addition, an external evaluation of Commission Governance examined the Risk Committee during 2015.

The key responsibilities of the Risk Committee, as per its Terms of Reference, are to:

» Review, advise and make recommendations to the Commission on periodic reports to the Commission on investment of the investment assets by the Bank focusing particularly on

  - the currency composition and other risk parameters of the investment assets

  - the security criteria for management of the Bank's investment assets

  - the rate of return earned on the Bank's investment assets including an assessment of the performance benchmarks used.

» Consider and advise the Commission on any matters relating to the Bank's investment policies and practices which may be referred to the Committee by the Commission from time to time.

» Review and anticipate the current risk exposures and the overall risk strategy for the Bank.

» Review the current financial situation of the Bank taking account of its asset and liability position and forecasts.

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

» Monitor implementation of the operational risk and business continuity risk management frameworks, approve interim updates to the respective frameworks, review significant incidents, and consider whether risks or incidents merit discussion at the Commission.

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

» Consider other topics as requested by the Commission.

Code of Conduct for Members of the Central Bank Commission

The Central Bank Commission has adopted its own Code of Conduct for its members. This has been in place since 1 January 2013. It is published on the Bank's website.

Internal Governance Structures

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

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

» The **Governor's Committee** deals primarily with preparation for Commission meetings, follow-up actions, senior appointments and other strategic issues. The Governor's Committee maintains an oversight role of all organisational activities.

» The **Senior Leadership Committee** facilitates the inclusion and involvement of the (management) Directors in the implementation of the Bank's strategic agenda. The Committee ensures the alignment of all activities and the successful execution of the Bank's strategy through the development and review of the organisational Balanced Scorecard. 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.

» The **Financial Stability Committee** is responsible for monitoring and assessing domestic and international economic and financial developments and for highlighting potential areas of concern relevant to the Irish financial system. A key focus of the Committee is to identify potential actions that can be taken to mitigate risks to financial stability. Actions include consideration, implementation and review of 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 a sub-committee of the Senior Leadership Committee. It formulates and delivers the plans that relate to the efficient functioning of the Bank. It ensures that the organisation conducts its business and uses all 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, the Bank's balance sheet and risks relating to the implementation of Eurosystem monetary policy. Its role is to discuss, review, manage and formulate proposals on Financial and Associated Risks of the Bank for the Risk Committee of the Commission.

» The **Supervisory Committee** (chaired by the Deputy Governor (Financial Regulation)) advises the Chair and relevant supervisory directorates and divisions on issues central to the management of supervisory risks and also on the development and enhancement of risk-based supervision and supervisory engagement, including PRISM matters.

» The **Policy Committee** (chaired by the Deputy Governor (Financial Regulation)) advises the Chair on regulatory policy issues and initiatives including consultation papers, feedback statements, codes, guidelines, and regulations before their adoption by the Deputy Governor or by the Commission, in accordance with relevant delegations.

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.

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

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.

In November 2015, the Bank published a three-year Strategic Plan for the period 2016-2018.

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 2015, representatives of the Bank appeared at three Oireachtas Committee meetings.

Table 9 – Appearances before Joint Oireachtas Committees in 2015*

Date	Attended by	Oireachtas Committee
31 Mar	Oliver Gilvarry Advisor Markets Policy Division David Owens Markets Policy Division	Oireachtas Committee on Finance, Public Expenditure and Reform
28 May	Governor Honohan	Oireachtas Committee on Finance, Public Expenditure and Reform
15 Dec	Anne Marie McKiernan Registrar of Credit Unions	Oireachtas Committee on Finance, Public Expenditure and Reform

*In addition to the appearances before Oireachtas Committees set out above, a number of current and former staff of the Bank appeared before the Joint Committee of Inquiry into the Banking Crisis.

Internal Audit

The objective of Internal Audit Division is to act as the independent 'third line of defence' within the Bank's governance framework. It is the responsibility of the Bank's operational management to establish appropriate systems of internal controls. Thus, operational management acts as the first line of defence. The risk management, control, compliance and oversight functions established and deployed by management represent the second line of defence. Internal Audit provides independent, objective assurance and consulting activities designed to add value and to improve the performance of the Bank's tasks and activities. In doing so, it assists the Bank in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

During 2015, Internal Audit conducted a range of audits across the Central Banking, Financial Regulation and Operations areas. Topics covered included audits of CashSSP[1]; the Online Returns Process and the Online Reporting System; Authorisation of Payment Institutions; the Efficiency and Effectiveness of the Recruitment Processes; and the Security of Physical Data and Devices. Internal Audit also participated in a number of ESCB-wide audits. Topics covered in these audits included reviews of: Accounting, Valuation and Financial Reporting for Investment Operations; and Non-Standard Monetary Policy Measures. All issues identified are routinely followed up by the Internal Audit Division to ensure that approved action plans are implemented. 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 attended a number of executive committee meetings and also held meetings with a large number of divisions across the organisation.

Internal Audit submitted regular reports to the Audit Committee on the outcome of all audits including progress in implementing recommendations from previous audits. A three-year plan is prepared on a rolling basis which is approved by the Audit Committee annually.

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 to relevant ESCB Committees.

One of the responsibilities of the IAC is to conduct audit assurance work as stipulated by the SSM audit plan and as a result, the Bank will be participating in various SSM audits throughout 2016.

1 The Cash Single Shared Platform (CashSSP) is a logistical cash management IT system, which is used for managing cash handling processes at central banks and for exchanging banknotes and coins with commercial banks and cash-in-transit companies.

Part 2

Financial Operations

Financial Results for 2015

Context

The Bank's balance sheet continues to reflect the broad range of measures the Bank has taken in recent years in response to the financial and sovereign debt crises. These actions are in line with the Bank's domestic and Eurosystem mandate to contribute to the stability of the financial system and to maintain price stability, and have had a significant impact on the Bank's financial results over this period. With regard to the domestic banking sector, the continued improvement in financial market conditions, both at home and abroad, resulted in a further reduction of the requirement for support from the Bank to the sector over the course of 2015.

The other key developments have been:

» a further reduction in the Bank's holdings in the Special Portfolio, which arose from the liquidation of Irish Bank Resolution Corporation (IBRC). During the course of 2015, the remaining holdings of the Irish 2025 Government bond were disposed of, while €2 billion of nominal holdings of the Floating Rate Notes (FRNs) were redeemed by the NTMA;

» a reduction in the Bank's investment portfolio as part of the Eurosystem's Agreement on Net Financial Assets (ANFA)[1]. ANFA is an agreement between the National Central Banks (NCBs) of the euro area and the European Central Bank (ECB), which together form the Eurosystem. The agreements set rules and limits for holdings of financial assets which are related to national tasks of the NCBs[1];

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

» the initiation of further Eurosystem non-standard monetary policy measures through the Expanded Asset Purchase Programme (encompassing the purchase of covered bonds, asset backed securities and public sector securities issued by central governments, municipalities, agencies and supra-national institutions). This purchase programme, which has combined monthly purchases of €60 billion across the euro area, is anticipated to be carried out until March 2017 or until there is a sustained adjustment in the path of inflation consistent with the objective of achieving inflation rates below, but close to, 2 per cent over the medium term in the Eurosystem; and

» the ongoing retention by the Eurosystem of securities purchased under the Securities Markets Programme (SMP) and Covered Bond Purchase Programmes (CBPPs), 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 risk exposure may grow in the course of 2016, reflecting the continued implementation of the Eurosystem's Expanded Asset Purchase Programme. The Bank's profits remain at high levels, primarily reflecting interest income and realised gains on the partial disposal of the special portfolio acquired by the Bank which arose on the liquidation of IBRC. The disposal policy for this portfolio remains unchanged, with the intention to dispose of holdings as soon as possible, provided conditions of financial stability permit.

Financial Results

Profit for the year to 31 December 2015 amounted to €2,246.1 million compared with a corresponding amount of €2,140.1 million in 2014. The key contributing factor to profits in 2015 was the realised gains earned on the sales of securities held in the Special Portfolio. Interest income decreased by €306.8 million to €1,223.2 million while the interest expense decreased by €92.2 million to €15.6 million. As a result, in 2015, the net interest income of the Bank decreased by €214.6 million to €1,207.6 million.

1 For further details of the Eurosystem's Agreement on Net Financial Assets, see the Bank's website at www.centralbank.ie/mpolbo/assetman/Pages/introduction.aspx and the ECB's website at www.ecb.europa.eu/explainers/tell-me-more/html/anfa_qa.en.html

Interest Income

The decrease in interest income was primarily attributable to a significantly lower amount of interest earned on securities held in the Bank's Special and Investment portfolios due to a combination of lower average holdings and lower average interest rates in 2015 compared to 2014 (2015: €1,021.4 million, 2014: €1,298.5 million) and lower interest earned on lending conducted by the Bank as part of the Eurosystem's monetary policy operations (2015: €11.6 million, 2014: €50.5 million). The decrease in income earned on monetary policy operations during 2015 resulted from lower volumes of lending to credit institutions and lower average ECB minimum bid rate[2].

Income earned on securities held for Monetary Policy Purposes decreased by €14.6 million in 2015 to €160.7 million (2014: €175.3 million).

The Bank earned interest income on government deposits and credit institution deposits amounting to €19.7 million (2014: €3.3 million) and €8.8 million (2014: €1 million) respectively during 2015.

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 €60.8 million and €18.0 million to €5.3 million and €8.0 million respectively. The decrease in both expense categories reflects the fall in the average ECB minimum bid rate[2] (together with a significantly lower average balance in Intra-Eurosystem Liabilities in 2015 of €10.5 billion (2014: €34.2 billion). Interest paid on Government deposits fell by €9.4 million to €0.001 million in 2015 while interest paid on Credit Institutions' deposits decreased by €4.9 million to €1.2 million. The decrease in the interest expense on these deposits is primarily due to lower average interest rates during the year.

Net Result of Financial Operations, Write-Downs and Provisions

The net result of financial operations, write-downs and provisions in 2015 was a gain of €1,183.6 million which compares with a gain of €833.3 million in 2014. Realised gains on the Bank's investment portfolio amounted to €1,097.6 million (2014: €739.2 million) and primarily reflect the realised capital gains of €1,073.1 million on the residual sales of the 5.4% Irish 2025 Government Bond, the 2038 Floating Rate Note (FRN) and partial sales of the 2041 FRN. Unrealised price losses increased by €0.3 million to €0.7 million at end 2015.

This category also includes the release of part of the provision for risks relating to securities held for monetary policy purposes and investments of €70 million (2014: €100 million) and an adjustment to the provision for an onerous lease on a premises formerly leased by the Bank of €17.2 million (2014: €1 million).

Net Result of Pooling of Monetary Income

The result of the net pooling of Eurosystem monetary income gave rise to a net charge of €1.6 million in 2015, compared with a net refund of €0.4 million in 2014 following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares. The charge comprised of the following elements:

(i) A charge of €2 million payable to the Eurosystem in respect of monetary income earned above the Bank's capital key share; and offset by

(ii) Prior year monetary income receipts of €0.4 million.

Operating Expenses

In recent years the Bank's continued investment in strengthening its capabilities and capacity, including reviewing staff requirements and investment in new systems is reflected in the total

2 The key ECB minimum bid rate fell from an average of 0.16 per cent in 2014 to 0.05 per cent in 2015

operating expenses for 2015 of €230.3 million (2014: €216.4 million). These comprise pay, non-pay, banknote raw materials and depreciation costs. Staff costs, including pay, increased by €24.5 million (19.7 per cent), while other operating expenses and banknote raw materials decreased by €9 million (11.2 per cent). Depreciation charges amounted to €10.6 million (2014: €12.3 million). A detailed analysis of the Bank's operating costs is provided in Note 9 to the Statement of Accounts.

After transfers to reserves and adjustments related to the recognition of a net actuarial loss on the Bank's pension scheme, as required under Financial Reporting Standard 102 (FRS 102), the Bank's Surplus Income amounted to €1,795.2 million (2014: €1,708.8 million), which is payable to the Exchequer.

Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2015 were €77.2 billion, a decrease of €4.1 billion (5.0 per cent) over the corresponding balance for end 2014 (€81.3 billion).

Assets

At 31 December 2015, lending to credit institutions through the Longer Term Refinancing Operations (LTRO) decreased by €8.2 billion to €8.4 billion, while lending through the Main Refinancing Operations (MRO) had decreased by €1.8 billion from the previous year end to €2.3 billion.

Included in the Bank's own investment portfolio is the Special Portfolio. This portfolio decreased by €1.9 billion to €33.4 billion (2014: €35.3 billion) at end December 2015 reflecting the effect of redemptions and sales from the portfolio offset by the increase in market value year on year.

There was an increase of €7.7 billion in securities held for Monetary Policy Purposes reflecting the Bank's participation in the Expanded Asset Purchase Programme.

Liabilities

In respect of liabilities, at end year, the Bank's proportional share of total euro banknotes in circulation amounted to €16.4 billion, which represented an increase of almost €0.9 billion on the previous year. Government deposits and Credit Institutions' (commercial banks) deposits increased by €6.9 billion and €6 billion respectively in 2015. Intra-Eurosystem net liabilities, which amounted to €19.3 billion at 31 December 2015, were €19.5 billion lower than at end-2014. This comprises a decrease of €19.7 billion in the Bank's liability to other member central banks of the Eurosystem in respect of cross-border transfers via the TARGET2[3] payment system offset by a €0.2 billion increase in the value of euro banknotes issued by the Bank over and above its capital key share of the total Eurosystem issuance.

Redemption of Irish Banknotes

Irish pound banknotes formerly issued by the Bank ceased to be legal tender with effect from 9 February 2002. Since then the Bank has maintained a provision for outstanding IEP banknotes from which €1.4 million was redeemed in 2015 (2014: €1.5 million) leaving €228.4 million in Irish banknotes outstanding at end 2015 and a balance of €8.7 million in the provision at year end.

Proceeds of Coin

During 2015, the net value of euro coin issued was €7.7 million (2014: €17.5 million) reflecting a significant decrease in demand from the public. After deduction of coin production expenses, net proceeds of €7.1 million were paid to the Exchequer (2014: €16.6 million). The Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2015, Irish coin redeemed totalled €0.2 million (2014: €0.1 million). Full details are incorporated in Note 25 of the Statement of Accounts.

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

Prompt Payment of Accounts 2015

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

The following is a summary of penalty interest payments made to suppliers during 2015, with corresponding figures for 2014.

	2015	2014
Total Number of Late Payments	81	219
Total Value of All Late Payments (A)	€2,690,000	€2,142,000
Total Value of All Payments (B)	€199,417,000	€111,994,000
A as a % of B	1.35%	1.91%
Total Amount of Interest Paid on Late Payments	€21,000[4]	€6,000

4 This figure includes compensation payments of €6,276 – 2015 was the first year in which these were paid

Statement of Accounts

for the year ended 31 December 2015

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 Central Bank Commission (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.

As far as the Commission is aware there is no relevant audit information of which the Bank's auditors are unaware. The Commission has taken all the steps in order to make itself aware of any relevant audit information and to establish that the Bank's statutory auditors are aware of that information.

Philip R. Lane
Governor

Patricia Byron
Member of the Commission

15 March 2016

Statement on Internal Financial Control

Responsibility for System of Internal Financial Controls
The Commission acknowledges its responsibilities for the Bank's system of internal financial control. Such a system can provide only reasonable and not absolute assurance that assets are safeguarded, proper accounting records maintained and material errors are prevented.

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

The *Central Bank Act,* 1942 (as amended) provides that any of the statutory functions may be delegated by the Commission to the Governor, a Deputy Governor or an employee of the Bank. In the interests of the efficient and effective management of the Bank and the exercise of its powers and functions, the exercise of most of the Bank's statutory functions and powers are delegated to the management members of the Commission. Where functions are so delegated, the responsibility and accountability for the performance of these functions lies with that management member. However, the Commission, often through its three committees (Audit Committee, Budget & Remuneration Committee, and Risk Committee), monitors and reviews the performance of management members in exercising these functions and powers and examines the Bank's internal controls.

The key features of the Bank's system of internal financial control are:

- A clearly defined organisation and committee structure that is closely aligned to the Bank's key functions;
- A comprehensive financial and budget management information system, incorporating regular reporting to the Commission on various aspects of the Bank's expenditure framework;
- Comprehensive frameworks for risk management, which include organisation-wide operational risk and incident management, financial risk management relating to the Bank's investment assets and monetary policy operations and overall balance sheet management;
- A framework to ensure the Bank's capability to respond to a business continuity incident in a timely manner whilst maintaining critical activities;
- A defined governance framework incorporating procedures for project management and investment prioritisation;
- A fraud policy and procedure in place, setting out the responsibilities of employees and management in relation to the reporting and investigation of fraud or suspected fraud within the Bank;
- An independent and objective Internal Audit function which uses a risk-based internal audit plan, prepared annually and approved by the Audit Committee;
- A Human Resources governance framework which includes a Commission approved manpower plan, supported by defined procedures for the approval and appointment of experienced and suitably qualified staff; and
- A centralised Procurement function responsible for orchestrating all of the various procurement components, incorporating regular reporting to the Operations and Audit Committees.

The Bank has adopted the Code for Practice for the Governance of State Bodies (the Code); adapted in some instances to take account of the Bank's particular governance framework and the statutory requirements of the Central Bank Acts and the ESCB Treaties, including the requirement for the Bank to be independent.

The following provisions of the Code have not been applied in the Bank's internal governance framework:

- In accordance with the *Central Bank Act*, 1942 (as amended) remuneration of Bank staff is set by the Commission; general government pay policy may not be implemented in certain instances where the Commission considers a departure is warranted for operational reasons; and
- As referenced in the Code, national procurement regulations (with regard to advertising and the use of objective tendering procedures for awarding contracts above certain value thresholds) are not applied in all instances.

However, the Bank is compliant with its own internal governance framework in such instances.

During 2015, expenditure of €1.5 million (€4 million in 2014), approximately 1.2% (4% in 2014) of the Bank's expenditure on goods and services, was incurred across 16 contracts without recourse to a public procurement tender process. Of the 16 contracts (42 in 2014), one has been regularised during the year, and there are action plans in place to address the remaining 15 contracts. Additionally, a further 24 contracts (28 in 2014) were entered into without recourse to a public procurement tender process under Articles 14 and 31 of the European Union Directive; total expenditure incurred in these instances amounted to €5.3 million (€7.5 million for 2014).

Risk Management

The Risk Committee is responsible for monitoring the implementation of the Bank's risk management frameworks. Divisional risk registers are maintained which are used to categorise identified risks, which may prevent the Bank meeting its objectives. On the basis of the risks identified, actions are agreed to manage and mitigate the risks.

The Bank's system of internal controls includes:

- 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 principal categories of organisational risk to which the Bank is exposed are strategic, financial and operational risks. The principal risks are reviewed on an on-going basis and any changes in the principal risks are reported to the Commission.

Key Internal Financial Control Processes

The Bank's system of internal controls includes 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;
- Quarterly reporting to the Commission on project/capital expenditure; and
- Detailed policies and procedures relating to financial controls.

Monitoring

The Internal Audit Division independently and systematically reviews the controls in place and reports to the Audit Committee on a regular basis. While assessing the controls in place, the Internal Audit Division is mindful of the risk of fraud and designs its testing procedures to assist in the detection of fraud. The Audit Committee oversees implementation of the Bank's Fraud Policy and Confidential Disclosures Policy.

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

Annual Review of Controls
We confirm that the Commission has reviewed the effectiveness of the Bank's system of internal financial control for the year ending 31 December 2015. A detailed review was performed by the Audit Committee, which has reported its findings to the Commission. The review of the effectiveness of the system included:

- Review and consideration of the work of the Internal Audit Division;
- Review of issues identified by the Office of the Comptroller and Auditor General and Grant Thornton; and
- Review of the Internal Audit Division reports on the status of the Bank's control environment and the status of previously raised issues. High risk issues are reported to the Audit Committee to consider the appropriateness of management action in respect of the issues raised.

Philip R. Lane
Governor

Patricia Byron
Member of the Commission

15 March 2016

Profit and Loss and Appropriation Account for year ended 31 December 2015

	Note	2015 €000	2014 €000
Interest income	2	*1,223,161*	*1,530,017*
Interest expense	3	*(15,591)*	*(107,838)*
Net interest income		**1,207,570**	**1,422,179**
Net realised gains arising from financial operations	4	*1,097,594*	*739,421*
Write-downs on financial assets and positions	4	*(745)*	*(383)*
Transfer from Provisions	4	*86,763*	*94,239*
Net result of financial operations, write-downs and provisions		**1,183,612**	**833,277**
Income from fees and commissions	**5**	**2,092**	**2,493**
Income from equity shares and participating interests	**6**	**18,270**	**16,990**
Net result of pooling of monetary income	**7**	**(1,634)**	**445**
Other income	**8**	**66,516**	**81,105**
TOTAL NET INCOME		**2,476,426**	**2,356,489**
Staff expenses	**9**	**(148,725)**	**(124,243)**
Other operating expenses	**9**	**(64,949)**	**(72,212)**
Depreciation	**9**	**(10,636)**	**(12,266)**
Banknote raw materials	**9**	**(5,983)**	**(7,693)**
TOTAL EXPENSES		**(230,293)**	**(216,414)**
PROFIT FOR THE YEAR BEFORE UNREALISED GAINS AND APPROPRIATION OF PROFIT		**2,246,133**	**2,140,075**
Net movement in unrealised gains	**34**	**1,207,811**	**6,348,850**
Transfers to revaluation accounts	**34**	**(1,207,811)**	**(6,348,850)**
Actuarial Gain/(Loss) on pension scheme	**32**	**181,059**	**(186,842)**
Transfer to general reserve	**35**	**(631,980)**	**(244,472)**
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	**10, 31**	**1,795,212**	**1,708,761**

The accounting policies together with Notes 1 to 45 form part of these accounts.
Banc Ceannais na hÉireann

Philip R. Lane
Governor

Sharon Donnery
Deputy Governor

15 March 2016

Balance Sheet as at 31 December 2015

ASSETS		2015	2014
	Note	€000	€000
Gold and gold receivables	11	188,167	190,979
Claims on non-euro area residents in foreign currency	12	1,835,648	1,270,239
Claims on non-euro area residents in euro	13	2,812,596	2,126,878
Lending to euro area credit institutions related to monetary policy operations in euro	14	10,735,000	20,700,000
Other claims on euro area credit institutions in euro	15	373,433	351,015
Securities of euro area residents in euro	16	59,630,594	55,095,861
Intra-Eurosystem claims		885,432	894,827
Participating interest in ECB	17	*199,021*	*199,021*
Claims equivalent to the transfer of foreign reserves	18	*672,638*	*672,638*
Other claims within the Eurosystem	19	*13,773*	*23,168*
Items in course of settlement	20	5	209
Other assets	21	774,503	678,031
TOTAL ASSETS		77,235,378	81,308,039

The accounting policies together with Notes 1 to 45 form part of these accounts.
Banc Ceannais na hÉireann

Philip R. Lane
Governor

Sharon Donnery
Deputy Governor

15 March 2016

Balance Sheet as at 31 December 2015

LIABILITIES	Note	2015 €000	2014 €000
Banknotes in circulation	23	16,435,618	15,512,370
Liabilities to euro area credit institutions related to monetary policy operations in euro	24	10,017,548	4,054,691
Liabilities to other euro area residents in euro	25	13,720,482	6,814,494
Liabilities to non-euro area residents in euro	26	636	998
Liabilities to euro area residents in foreign currency	27	224	202
Counterpart of special drawing rights allocated by the IMF	28	986,956	924,618
Intra-Eurosystem liabilities (net)		19,289,306	38,766,926
Liabilities related to the allocation of euro banknotes within the Eurosystem	29	*16,250,479*	*16,021,726*
Other liabilities within the Eurosystem (net)	30	*3,038,827*	*22,745,200*
Other liabilities	31	2,321,453	2,375,349
Superannuation liabilities	32	141,381	285,938
Provisions	33	189,553	280,023
Revaluation accounts	34	10,819,028	9,611,217
Capital and reserves	35	3,313,193	2,681,213
TOTAL LIABILITIES		77,235,378	81,308,039

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

Banc Ceannais na hÉireann

Philip R. Lane
Governor

Sharon Donnery
Deputy Governor

15 March 2016

Notes to the Accounts

Note 1: 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 ESCB[1] and its diverse range of activities.

(b) Accounting Principles

The Bank, as a participating member of the ESCB, complies with the accounting policies laid down by the Governing Council of the ECB in its Accounting Guideline[2]. The Guideline establishes in particular the accounting rules applicable to refinancing operations for credit institutions, securities, foreign currency transactions and the issue of banknotes. The Bank's Statement of Accounts for 2015 was prepared in line with the provisions set out in the Guideline. In cases where the Guideline does not provide specific direction or its application is not mandatory, accounting standards generally accepted in Ireland and relevant statutory provisions[3] which apply to the Bank are followed. The Financial Reporting Standard applicable in the UK and Republic of Ireland is Financial Reporting Standard 102 (FRS 102). The Bank transitioned from previously extant Irish accounting standards as at 1 January 2014. Comparative figures have been restated to reflect the transition. Reconciliations and descriptions of the effect of the transition to FRS 102 on the reported balance sheet and profit and loss account are given in Note 36.

Having regard to the role and activities of a central bank, the Bank is of the opinion that a statement of cash flows 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.

The preparation of the Bank's Statement of Accounts in conformity with the ESCB Accounting Guideline and FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgements or complexity are disclosed in Note 1(n) Judgemental Items.

(c) Eurosystem Accounting Guideline

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

(i) Trade Date Accounting[4]

Transactions in assets and liabilities are generally booked at the settlement date (usually the trade date plus two business days).

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 2015 together with the European Central Bank (ECB). The term 'Eurosystem' refers to the nineteen 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/2015/24

3 The principal statutory provisions are: *Treaty on European Union*, 1992, *Central Bank Act,* 1942 (as amended), *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/2015/24

(ii) Intra-ESCB balances

Intra-ESCB balances result primarily from cross-border payments in the EU that are settled in central bank money in euro. These transactions are for the most part initiated by private entities (i.e. credit institutions, corporations and individuals). They are primarily settled in TARGET2 – the Trans-European Automated Real-time Gross settlement Express Transfer system, (Note 30), and give rise to bilateral balances in the TARGET2 accounts of EU central banks.

These bilateral balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. Intra-Eurosystem balances of the Bank vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (e.g. interim profit distributions to NCBs, monetary income results), are presented on the balance sheet of the Bank as a single net asset or liability position and disclosed under "Other liabilities within the Eurosystem (net)" (Note 30). Intra-ESCB balances versus non-euro area NCBs not arising from TARGET2 are disclosed under "Liabilities to non-euro area residents in euro" (Note 26).

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a single net liability under Intra-Eurosystem liabilities (net) "Liabilities related to the allocation of euro banknotes within the Eurosystem" (Note 1(c)(iv) and Note 29).

Intra-Eurosystem claims arising from the Bank's participating interest in the ECB are reported under "Participating interest in the ECB" (Note 1(c)(iii) and Note 17).

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 1(c)(vii) and Note 18).

(iii) Capital Key

The ESCB capital key is the percentage of the subscribed share capital of the ECB held by the respective ESCB NCBs. It is a measure of the relative national size of EU Member States and is a 50:50 composite of GDP and population size. Pursuant to Article 28 of the ESCB Statute, the ESCB NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which must be adjusted every five years. The most recent quinquennial review was undertaken in 2014. The Bank's share of the ECB's subscribed capital remained at 1.1607 per cent in 2015.

A second key, the 'Eurosystem capital key', which is derived from the ESCB capital key outlined above, is used as the basis of allocation for a series of important items including monetary income, banknotes in circulation and the sharing of the ECB's profit/loss among Eurosystem NCBs. On 1 January 2015 following the accession of Lithuania to the Eurosystem, the Bank's share in the Eurosystem capital key decreased from 1.6587 per cent to 1.6489 per cent.

(iv) Banknotes in Circulation

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes[5]. The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with each NCB's banknote allocation key[6].

The ECB has been allocated a share of eight per cent of the total value of euro banknotes in circulation, whereas the remaining 92 per cent has been allocated to NCBs according to their

5 ECB Decision of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35, 9.2.2011, p. 26 as amended

6 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)

weightings in the capital key of the ECB. 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 interest[7], are presented on the Balance Sheet under “Intra-Eurosystem: net liabilities related to the allocation of euro banknotes within the Eurosystem” (Note 1 (c)(ii) and Note 29). The interest expense (Note 3(i)) on these balances is cleared through the accounts of the ECB and included in “Interest expense” 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 eight per cent share of euro banknotes allocated to the ECB, as well as the income arising from the securities held under (a) the Securities Markets Programme (SMP), (b) the third Covered Bond Purchase Programme (CBPP3), (c) the Asset-Backed Securities Purchase Programme (ABSPP) and (d) the Public Sector Purchase Programme (PSPP) is due to the euro area NCBs in the financial year it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim distribution of profit[8]. It is distributed in full unless the ECB’s net profit for the year is less than its income earned on euro banknotes in circulation and securities purchased under the aforementioned programmes, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

The amount distributed to NCBs is disclosed in the Profit and Loss account under “Income from equity shares and participating interests” (Note 6(i)).

(vi) Net Result of Pooling of Monetary Income

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

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

The earmarkable assets consist of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions; intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; and a limited amount of each NCB’s gold holdings in proportion to each NCB’s capital key.

7 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

8 ECB Decision (EU) 2015/1195 of 2 July 2015 amending Decision (EU) 2015/298 on the interim distribution of the income of the ECB (ECB/2015/25)

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 first covered bonds purchase programme, Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme and under Decision ECB/2015/10 of 4 March 2015 on a secondary markets public sector asset purchases programme[9] are considered to generate income at the latest available marginal interest rate[10] used by the Eurosystem in its tenders for main refinancing operations.

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

The net monetary income pooled by the Eurosystem is allocated between NCBs according to the subscribed Eurosystem capital key. The difference between the monetary income pooled by the Bank and that reallocated to the Bank constitutes the "Net result of pooling of monetary income" recorded in the Profit and Loss and Appropriation Account (Note 7).

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. A total amount of €672.6 million has been transferred since 1 January 1999. The resulting claim on the ECB is remunerated at the latest available interest rate for the main refinancing operations adjusted to reflect a zero return on the gold component (Note 1(c)(ii), Note 1(c)(vi) and Note 18).

(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 (Note 1(j)). Unrealised (valuation) gains are not recognised as income but are accounted for through the Profit and Loss and Appropriation Account and transferred to Revaluation Accounts. Unrealised (valuation) losses are taken to the Profit and Loss and Appropriation Account at year end where they exceed previous revaluation gains in the Revaluation Account. Unrealised trade date gains/losses on foreign exchange forward contracts are recorded under 'other assets/liabilities' in accordance with ESCB guidelines having been accounted for through the Profit and Loss and Appropriation Account as outlined above. This method is used for foreign exchange forward contracts and the techniques covering the most significant off-balance sheet financial instruments which have been identified for possible use by the ESCB are set out in the ECB Accounting Guideline, i.e. foreign exchange forwards, foreign exchange swaps, future contracts, interest rate swaps, forward rate agreements, forward transactions in securities and options.

9 OJ L 121, 14.5.2015, p. 20–24

10 The Main Refinancing Operations (MRO) rate is applied to the daily balances of central government/agency/non-financial corporate bonds purchased under the programme, while it is the actual return earned on international and supranational institution bonds purchased under the programme that is pooled

(ix) Securities Held for Monetary Policy Purposes

These securities were acquired by the Bank within the scope of the purchase programmes for Covered Bonds[11] (CBPP1, CBPP2 and CBPP3), debt securities acquired in the scope of the Securities Markets Programme[12] (SMP) and the Public Sector Purchase Programme[13] (PSPP). The securities are measured at amortised cost and are subject to impairment (Note 2(iii), Note 16(ii) and Note 33(i)). The Governing Council decided on 15 December 2014 that securities held for monetary policy purposes shall be accounted for at amortised cost (subject to impairment), regardless of the holding intention (Note 1(m)).

(d) Income and Expense Recognition

Income and expenses are recognised on an accruals basis.

(e) Property, Plant and Equipment and Intangible Assets

(i) Measurement

In accordance with FRS 102, Property Plant and Equipment (PPE) and Intangible assets are stated at cost less accumulated depreciation and are not revalued. PPE are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of a fixed asset may not be recoverable.

Heritage Assets

The Bank currently holds an Art Collection which is not recognised in the annual accounts of the Bank on the grounds of materiality in either the current or preceding financial years (Note 22(i)(iv)).

(ii) Depreciation

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

Property Plant and Equipment		
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
Intangible		
Computer Software	–	3 - 5 years

(f) Superannuation

Under the Bank's superannuation scheme, 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

11 ECB Decision of 2 July 2009 on the implementation of the Covered Bond Purchase Programme (ECB/2009/16), OJ L 175, 4.7.2009, p. 18, 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 and ECB Decision of 15 October 2014 on the implementation of the third Covered Bond Purchase Programme (ECB/2014/40), OJ L 335 22.10.2014, p.22

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

13 ECB Decision of 4 March 2015 establishing a secondary markets public sector asset purchase programme (ECB/2015/10), OJ L 121 14.5.2015, p.20

contributions made to the Spouses' and Childrens' Pension Scheme and payments received from eligible staff for the purchase and transfer of notional added service. In the case of staff employed on or after 6 April 1995, contributions are also payable in respect of the main scheme. All pension benefits are paid out of this fund. The Bank discloses the cost of providing benefits in accordance with FRS 102.

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 9) and the difference between the expected return on scheme assets and the interest cost of scheme liabilities (Note 8). The current service cost, any past service costs and interest cost of scheme liabilities 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 2015 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 (Note 1(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 2).

(j) Valuation Policy

(i) Assets and liabilities denominated in foreign currency, un-matured 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 not held for monetary policy purposes and classified as mark-to-market (MTM) are valued at mid-market closing prices at year-end where an active market exists. Where market prices are not available or are unreliable, fair values are determined using mark-to-model valuation techniques including discounted cash flow models which, to the extent possible, use observable market inputs in accordance with FRS 102. A mark-to-model valuation approach inevitably incorporates a high level of management judgement in the absence of observable market data or when observable market data is judged to be unreliable. This judgement includes but is not limited to: evaluating available market information for comparator instruments; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread; adjusting the methodology when observable market inputs become unavailable or are unreliable (Note 12, Note 13 and Note 16).

(iii) Marketable securities not held for monetary policy purposes and classified as held-to-maturity (HTM) are carried at amortised cost and are subject to impairment. An impairment review is completed on an annual basis (Note 12, Note 13 and Note 16(i)).

(iv) Gold is valued at the closing market price (Note 11).

(v) The financial assets and liabilities of the Bank are classified as prescribed in FRS 102. 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 12, Note 13 and 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 (foreign exchange 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 (Note 1(j)) are accounted for through the Profit and Loss and Appropriation Account and transferred to the Revaluation Accounts.

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

(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 2).

(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; and

(vi) a deterioration in national or local economic conditions that correlates with defaults on the assets.

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (Note 4 and Note 33(i)).

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

The Bank accounts for onerous leases in accordance with FRS 102.

Where a contract becomes onerous, the present obligation under the contract is recognised and measured as a provision (Note 4, Note 21(iv) and Note 33(iii)).

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

In accordance with FRS 102 a provision for restructuring costs is recognised when the general recognition criteria for provisions are met.

The Bank accounts for restructuring costs in accordance with FRS 102 (Note 4 and Note 33(iv)).

(n) Judgemental Items

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

- Impairment: (Note 1(j)(iii), Note 1(m), Note 4 and Note 33(i));
- Provisions: (Note 33);
- Defined Benefit Pension Scheme deficit: (Note 32); and
- Valuation of Special Portfolio: (Note 1(j) and Note 16(i)).

(o) Surplus Income

The Bank complies with Statutory Instrument 93/1943 - *Central Bank of Ireland (Surplus Income) Regulations*, 1943. The Bank may retain up to a maximum of 20 per cent of profit in each year. The amount retained is appropriated to reserves and is subject to the approval of the Commission each year (Note 10).

(p) Investment Property

Property held for long term rental yields and capital appreciation is classified as investment property.

Initial Measurement
Investment properties are initially recognised at cost which includes purchase cost and any directly attributable expenditure and are recorded in Other Assets (Note 21(iv)).

Subsequent Measurement
Investment properties whose fair value can be measured reliably are measured at fair value. Under ESCB guidelines, unrealised gains on revaluations are posted to revaluation accounts and unrealised losses are posted to the profit and loss account at the end of the year. Falls in fair value may be offset against revaluation accounts, but only to the extent that they reverse previously recognised unrealised gains.

Rental Income
Rental income is accounted for on a straight-line basis over the lease term and is recognised within Interest Income (Note 2(vi)).

The aggregate benefit of lease incentives is recognised as a reduction to the expense recognised over the lease term on a straight line basis.

Note 2: Interest Income

	2015	2014
	€000	€000
Interest on Securities - MTM (i)	680,939	941,456
Interest on Securities - HTM (ii)	340,445	357,040
Interest on Securities for Monetary Policy Purposes (iii)	160,704	175,286
Government Deposit (iv)	19,696	3,250
Monetary Policy Operations (v)	11,577	50,466
Credit Institution Income (iv)	8,824	982
Rental Income (vi)	298	–
Income from Transfer of Foreign Reserve Assets to ECB (vii)	290	946
Other	277	25
Deposit Income	111	304
Reverse Repurchase Agreements (viii)	-	262
Total	**1,223,161**	**1,530,017**

(i) The breakdown of income is as follows:

	2015	2014
	€000	€000
Special Assets Portfolio	668,575	889,291
– *Floating Rate Notes*	*663,826*	*752,461*
– *2025 Irish Government Bond*	*4,067*	*107,115*
– *NAMA Bond*	*682*	*29,715*
MTM Portfolio	12,364	52,165
Total	**680,939**	**941,456**

Income earned on securities held in the Special Assets Portfolio amounted to €668.6 million (2014: €889.3 million). This portfolio of securities was acquired following the Irish Bank Resolution Corporation (IBRC) liquidation in February 2013.

Income of €12.4 million (2014: €52.2 million) was earned on securities classified as MTM in the Bank's investment portfolio (Note 12, Note 13 and Note 16(i)(a)).

The decrease in interest earned on both portfolios reflects a combination of lower average balances as a result of sales and redemptions during the period and lower average interest rates (Note 12, Note 13 and Note 16(i)(a)).

(ii) This relates to income earned on bonds classified as HTM in the Bank's investment portfolio (Note 13(i) and Note 16(i)(b)).

(iii) This item incorporates income on securities held for monetary policy purposes broken down as follows: (Note 1(c)(ix) and Note 16(ii)).

Interest on Securities for Monetary Policy Purposes (iii)	2015	2014
	€000	€000
CBPP1	7,702	17,519
CBPP2	3,069	7,898
CBPP3	6,506	225
PSPP	20,696	–
SMP	122,731	149,644
Total	**160,704**	**175,286**

The change in the level of income earned in 2015 is a reflection of the associated levels of activity under each programme.

(iv) In June 2014 the ECB introduced a negative deposit facility rate which applies to certain deposits held with the Bank. The Bank earned interest income on Government deposits and credit institution deposits amounting to €19.7 million (2014: €3.3 million) and €8.8 million (2014: €1 million) respectively. Prior to the introduction of the negative interest rate the Bank paid interest on these deposits. The Bank continues to pay interest on these deposits up to an agreed threshold (Note 3(iii) and 3(v)).

(v) This relates to income earned on lending to credit institutions by the Bank as part of the Eurosystem's monetary policy operations. The decrease in income earned reflects the lower levels of lending to credit institutions and the lower average interest rate in 2015 compared to 2014 (Note 14).

(vi) Rental income relates to the rental proceeds arising from the portion of Block R, Spencer Dock which is let out on a commercial basis to third parties (Note 1(p) and Note 21(iv)).

(vii) This relates to the remuneration of Foreign Reserve Assets transferred to the ECB. The decrease in income reflects the lower average MRO rate in 2015 compared to 2014 (Note 1(c)(vii) and Note 18).

(viii) This item represents interest earned on Reverse Repurchase Agreements (Note 1(l), Note 3(iv), Note 13 and Note 15).

Note 3: Interest Expense

	2015	2014
	€000	€000
Remuneration of Liability in respect of allocation of Euro Banknotes in Circulation (i)	7,992	25,978
Intra-Eurosystem Balances (net) (ii)	5,304	66,059
Credit Institutions' Deposits (iii)	1,231	6,168
Reverse Repurchase Agreements (iv)	620	–
Other	431	233
Deposits	12	–
Government Deposits (v)	1	9,400
Total	**15,591**	**107,838**

(i) The interest expense is based on the difference between the value of euro banknotes allocated to each NCB in accordance with its banknote allocation key and the value of the euro banknotes that the Bank actually puts into circulation. This is remunerated at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. The lower interest expense reflects a lower average MRO rate in 2015 (Note 1(c)(ii) and (c)(iv)).

(ii) The interest expense on these balances, which are also remunerated at the short-term refinancing rates of the Eurosystem, is calculated by the ECB at the end of each day. The lower interest expense reflects a combination of lower balances and lower interest rates (Note 1(c)(ii)).

(iii) This item relates to interest paid on Credit Institutions' deposits. The reduction in interest expense reflects the lower average interest rate in 2015 (Note 2(iv) and Note 24).

(iv) This item represents interest incurred on Reverse Repurchase Agreements (Note 1(l), Note 2(viii), Note 13 and Note 15).

(v) This item relates to interest paid on Government deposits. The reduction in interest expense reflects the lower average interest rate in 2015 (Note 2(iv)).

Note 4: Net Result of Financial Operations, Write-Downs and Provisions

Net Realised Gains arising from Financial Operations	2015	2014
	€000	€000
Realised Price Gains on Securities	1,097,594	739,206
– *Special Assets Portfolio (i)*	*1,073,057*	*718,349*
– *MTM Portfolio*	*24,537*	*20,857*
Realised Exchange Rate Gains	–	215
Total	**1,097,594**	**739,421**

(i) This reflects the realised gains on the residual sales of the 5.4% Irish 2025 Government Bond, the 2038 Floating Rate Note (FRN) and partial sales of the 2041 FRN (Note 16(i)(a)). During 2015, there were no realised gains on the NAMA Bond. €172 million of the NAMA bond was sold during the year at par, realising no gain or loss.

Write-Downs on Financial Assets and Positions	2015	2014
	€000	€000
Unrealised Price Losses on Securities	(698)	(383)
Unrealised Exchange Rate Losses	(47)	–
Total	**(745)**	**(383)**

Transfer (to)/from Provisions	2015	2014
	€000	€000
Provision release for Securities (Note 33(i))	70,000	100,000
Onerous Lease and Dilapidations (Note 8(iii), Note 33(iii))	17,229	971
Restructuring Provision (Note 33(iv))	(466)	(6,732)
Total	**86,763**	**94,239**

Note 5: Income from Fees and Commissions

	2015	2014
	€000	€000
Securities Lending	750	1,229
Service Fees and Charges	743	691
TARGET2 Distribution of Pooled Income	599	559
Other	–	14
Total	**2,092**	**2,493**

Note 6: Income from Equity Shares and Participating Interests

	2015	2014
	€000	€000
Share of ECB Profits (i)	15,848	14,912
BIS Dividend (ii)	2,422	2,083
Other	–	(5)
Total	**18,270**	**16,990**

(i) This item represents the Bank's share of the ECB's profit (Note 1(c)(v)).

In 2015 the Governing Council of the ECB decided not to transfer any of the ECB's profits to the ECB risk provision (2014: €15 million). The ECB risk provision is maintained at the limit of the paid up share capital of the euro area NCBs. An increase in the risk provision ceiling to €7,620 million in 2015 (2014: €7,575 million) reflects €44.7 million paid up capital of Lithuania on 1 January 2015.

An amount of €812.1 million (2014: €840.7 million) was paid to the Eurosystem NCBs on 29 January 2016 in accordance with their Eurosystem capital key as a partial distribution of the ECB's profits for the year. The Bank's share amounted to €13.4 million (2014: €13.9 million) (Note 19). The final distribution of profit for 2014, paid in February 2015, amounting to €2.5 million is also included. The corresponding figure in 2014 was €1 million.

(ii) This item represents dividends received on shares held in the Bank for International Settlements (Note 21(v) and Note 37(i)).

Note 7: Net Result of Pooling of Monetary Income

	2015	2014
	€000	€000
Monetary income pooled	*(150,098)*	*(173,763)*
Monetary income reallocated	*148,083*	*164,982*
Net Contributor of Monetary Income (Note 30)	**(2,015)**	**(8,781)**
Previous Years' Eurosystem Adjustments (Note 19)	381	3,860
Exceptional Income (Note 19)	–	5,363
Interest Receivable	–	3
Total	**(1,634)**	**445**

This represents the difference between the monetary income pooled by the Bank of €150.1 million (2014: €173.8 million) and that reallocated to the Bank of €148.1 million (2014: €165 million) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares, together with interest and an adjustment on net results for previous years of €0.4 million (2014: €3.8 million) (Note 1(c)(vi)). There was no distribution of exceptional income in 2015 (2014: €5.4 million).

Note 8: Other Income

	2015	2014
	€000	€000
Financial Regulation Net Industry Funding (i)	74,837	74,795
Expected Return on Pension Fund Assets (Note 32(i))	13,280	19,836
Other Financial Regulation Income (Note 43)	3,054	2,396
Financial Regulation Monetary Penalties (ii)	2,165	5,422
Other	203	1,398
Financial Regulation Deferred Charges (iii)	(7,087)	(319)
Interest on Pension Scheme Liabilities (Note 32(i))	(19,936)	(22,423)
Total	**66,516**	**81,105**

(i) The composition of Financial Regulation Net Industry Funding is provided in Note 43(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 €2.2 million in 2015 (2014: €5.4 million), is included in Surplus Income payable to the Exchequer following approval of the Statement of Accounts (Note 10).

(iii) This represents the net effect of the unwinding of the provision for the onerous lease attributable to industry of €5.8 million (2014: €0.3 million) and the release of a portion of charges previously deferred of €1.3 million (2014:€0.01 million) (Note 43(vi)).

Note 9: Expenses

	Total Head Office & Printworks*		Mint**		Total	
	2015	2014	2015	2014	2015	2014
	€000	€000	€000	€000	€000	€000
Salaries/Allowances (i)	96,067	91,228	487	436	96,554	91,664
PRSI	8,470	7,774	25	27	8,495	7,801
Pensions (Note 32(i))	44,188	25,241	111	142	44,299	25,383
Staff Expenses	**148,725**	**124,243**	**623**	**605**	**149,348**	**124,848**
Communications & IT	15,207	10,842	44	36	15,251	10,878
Business Travel	2,382	2,234	8	12	2,390	2,246
Office Administration Expense	1,498	1,044	1	3	1,499	1,047
Professional Fees (ii)	14,257	27,734	4	3	14,261	27,737
External Research & Corporate Subscriptions	2,067	1,903	3	3	2,070	1,906
Publishing & Public Relations	806	295	–	–	806	295
Payments & Asset Management Charges	4,888	5,833	11	11	4,899	5,844
Currency Supplies & Machine Maintenance	776	822	67	35	843	857
Training, Education & Conferences	3,395	3,056	4	6	3,399	3,062
Recruitment & Other Staff Costs	3,352	2,598	–	–	3,352	2,598
Facilities Management & Maintenance	5,889	6,004	4	4	5,893	6,008
Rent & Utilities	10,004	9,382	–	–	10,004	9,382
Miscellaneous (iii)	428	465	2	11	430	476
Other Operating Expenses	**64,949**	**72,212**	**148**	**124**	**65,097**	**72,336**
Depreciation	**10,636**	**12,266**	**99**	**92**	**10,735**	**12,358**
Currency Production Raw Materials (iv)	**5,983**	**7,693**	**652**	**1,041**	**6,635**	**8,734**
Total Expenses	**230,293**	**216,414**	**1,522**	**1,862**	**231,815**	**218,276**

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

**Expenses incurred at the Mint relating to the provision and issue of coin are charged directly to the Currency Reserve (Note 1(g) and Note 25(ii)).

(i) Included in this item is an expense for holiday pay amounting to €1.2 million (2014: €0.4 million).

In 2015 the Bank made retention payments of €38,009 to three staff (2014: €111,167 to four staff). These payments were made in accordance with the Retention of Target Employees Interim Policy which was introduced in July 2014. This policy was developed in response to the Bank's risk of losing key employees who are in certain strategic roles critical to strategically significant projects with regard to the functions of the Bank.

In June 2015 a Single Supervisory Mechanism (SSM) On-Site Allowance Policy was approved. This policy applies to staff who are available and assigned to work on-site in credit institutions carrying out inspections (preparation, execution and reporting) under the SSM for 70-90 per cent of their available working time. Payments made under this policy totalled €241,000 and were made to 52 staff during the year. Staff in receipt of this allowance are subject to normal taxation. This policy is due to be reviewed in mid-2016.

Note 9: Expenses (continued)

In 2015, payments totalling €35,775 were paid on the expiry of two fixed-term contracts in accordance with the provisions of the Redundancy Payments Acts 1967 to 2007 and the *Protection of Employees (Fixed Term Work) Act,* 2003. In one separate instance, a termination payment of €2,475 was paid. Compensation payments totalling €9,750 (2014: €10,346) were paid in one employment related case (two cases in 2014).

Remuneration of Executive Commission Members in 2015 and key personnel

Name	Period	Salary and Fees
Philip R. Lane (a) Governor Elect	1 November – 25 November	€15,997
Philip R. Lane (a) Governor	26 November – 31 December	€24,700
Patrick Honohan (b) Governor	1 January – 25 November	€229,349
Stefan Gerlach Deputy Governor (Central Banking)	1 January – 27 November	€202,738
Cyril Roux Deputy Governor (Financial Regulation)	1 January – 31 December	*€310,000*
Other key management personnel[14]	1 January – 31 December	€7,007,833

Remuneration of Non-Executive Commission Members

	2015	2014
Blanaid Clarke	Nil (c)	Nil (c)
Alan Ahearne	Nil (c)	Nil (c)
Derek Moran	Nil (c)	Nil (c)
Des Geraghty	€14,936	€14,936
Michael Soden	€14,936	€14,936
John FitzGerald	€14,936	€2,489
Patricia Byron	€11,202 (d)	Nil (c)

Expenses of Non-Executive Commission Members

	Travel	Accommodation and Subsistence	Total 2015	Total 2014
Blanaid Clarke	€46	€194	€240	Nil
Alan Ahearne	€711	€1,050	€1,761	€2,353
Derek Moran	Nil	Nil	Nil	Nil
Des Geraghty	Nil	Nil	Nil	Nil
Michael Soden	Nil	Nil	Nil	Nil
John FitzGerald	Nil	Nil	Nil	Nil
Patricia Byron	Nil	Nil	Nil	Nil

14 Key management personnel refers to staff at Director or equivalent and Head of Division grades

Note 9: Expenses (continued)

(a) Governor Philip R. Lane was appointed as Governor Elect from 1 November until 25 November 2015. During this time, his salary was based on a Deputy Governor scale. He was appointed to Governor on 26 November 2015 and from this date he was paid on the basis of an annualised salary of €254,048. Governor Lane's pension scheme entitlements do not extend beyond the standard entitlements in the Bank's defined benefit Superannuation Scheme.

(b) Governor Patrick Honohan gifted €51,502 (2014: €57,048) under Section 483 of the *Taxes Consolidation Act,* 1997 to the Minister for Finance from his 2015 emoluments, which resulted in a net remuneration of €177,847 for 2015 (2014: €197,000). He retired on 25 November 2015 with a pension entitlement under the Central Bank Superannuation Scheme (Note 32).

(c) In keeping with the One Person One Salary principle, three non-executive Members of the Commission did not receive payment of any fees. Due to the time commitment necessary to fulfil the functions of the Commission, a time buy-out is in place to compensate the full-time public sector employers of two Members (2014: three Members) for costs incurred due to their absence on Commission business. In 2015, €14,936 (2014: €14,936) was paid to the National University of Ireland, Galway and €14,936 (2014: €14,936) to Trinity College Dublin. In addition in 2014 €12,447 was paid to the Economic and Social Research Institute (ESRI).

(d) Up to 31 March 2015, Patricia Byron was within the scope of the One Person One Salary principle, and did not receive a fee as a non-executive Member. She ceased her role as a public servant on that date and was paid at the standard fee rate for the remainder of the year.

(ii) Included in professional fees are amounts payable to external auditors. Auditors' fees incurred in respect of services provided by RSM Farrell Grant Sparks/Grant Thornton (vi) and the Office of the Comptroller and Auditor General amounted to:

	2015	2014
	€000	€000
RSM Farrell Grant Sparks/Grant Thornton (vi)	*156*	*180*
Office of the Comptroller and Auditor General	*120*	*120*
Audit of Individual Accounts	**276**	**300**
RSM Farrell Grant Sparks/Grant Thornton (vi)	*43*	*35*
Other Assurance Services	**43**	**35**
Total	**319**	**335**

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

(iii) Included in Miscellaneous are the expenses of the Financial Services Appeals Tribunal €0.09 million (2014: €0.03 million) which the Bank discharges, in accordance with the provisions of Section 57AX(4) of the *Central Bank Act*, 1942 (as amended).

(iv) Currency Production Raw Materials expenses relate to the production of Banknotes €6 million (2014: €7.7 million) and Coin €0.6 million (2014: €1 million). The decrease in the cost of Banknotes relates to the lower production volume in 2015 compared to 2014. In relation to the Coin costs, there was a reduction in coin demand and production volumes in 2015 primarily due to the introduction of voluntary rounding of 1 cent and 2 cent coins.

(v) An amount of €6.1 million (2014: €6.1 million) was payable to the Department of Finance in respect of the pension levy from staff salaries.

(vi) On 29 September 2015, RSM Farrell Grant Sparks merged with Grant Thornton. Included above are fees payable in respect of services provided by RSM Farrell Grant Sparks up to that date and fees payable to Grant Thornton for services provided after that date.

Note 10: Surplus Income payable to the Exchequer

Surplus Income of €1,795.2 million is payable to the Exchequer in respect of the year ended 31 December 2015 (2014: €1,708.8 million) (Note 1(o) and Note 31(i)). The gross amount is payable to the Exchequer as, under Section 6J of the *Central Bank Act*, 1942 (as amended), the Bank is exempt from Corporation Tax and Capital Gains Tax.

Note 11: Gold and Gold Receivables

	2015	2014
	€000	€000
Gold and Gold Receivables	188,167	190,979
Total	**188,167**	**190,979**

Gold and gold receivables consist of coin stocks held in the Bank, together with gold bars held at the Bank of England. The decrease in the balance at end 2015 is due to the change in the market value of gold holdings since end 2014 (Note 1(j)(iv)).

Note 12: Claims on Non-Euro Area Residents in Foreign Currency

	2015	2014
	€000	€000
Receivables from the International Monetary Fund (IMF) (i)	1,157,743	1,084,881
Balances with Banks and Security Investments, External Loans and other External Assets due within one year (ii)	677,905	185,358
Total	**1,835,648**	**1,270,239**

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

	2015	2014
	€000	€000
Quota	1,576,462	1,519,127
Less IMF Holdings maintained by the Bank	(1,247,237)	(1,210,713)
Reserve Position in IMF (i)	329,225	308,414
SDR Holdings (ii)	828,518	776,467
Total	**1,157,743**	**1,084,881**

(i) Reserve Position in the IMF:

This asset represents the difference between Ireland's Quota in the IMF and the IMF's holdings of euro maintained by the Bank. Ireland's Quota is its membership subscription, 25 per cent of which was paid for in foreign currencies and the balance in euro. The holdings of euro by the IMF, maintained with the Bank, which initially were equal to 75 per cent of the Quota, have changed from time to time as a result of instructions received from the IMF regarding its lending to member countries. The current percentage holding is 80 per cent. There was no change in this percentage holding in 2014 and 2015.

Note 12: Claims on Non-Euro Area Residents in Foreign Currency (continued)

(ii) Special Drawing Rights (SDRs) Holdings:

The SDR is an international reserve asset, which was created by the IMF and allocated to member countries in the 1970s/80s in order to increase international liquidity. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of exchange rates of four currencies (US dollar, sterling, yen and euro) (Note 28).

(ii) Balances with Banks and Security Investments, External Loans and other External Assets due within one year

	2015	2014
	€000	€000
Balances with Banks	4,190	26,207
Security Investments - MTM	673,715	159,151
Total	**677,905**	**185,358**

These securities comprise debt issued by non-euro area issuers (Note 1(j)).

Maturity Profile	2015	2014
	€000	€000
0 - 3 months	628,295	185,358
3 months - 1 year	49,610	–
Total	**677,905**	**185,358**

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

	2015	2014
	€000	€000
Security Investments - MTM (i)	1,071,058	710,817
Security Investments - HTM (i)	1,035,839	1,081,977
Balances with Banks	705,699	5,084
Reverse Repurchase Agreements (ii)	–	329,000
Total	**2,812,596**	**2,126,878**

(i) These securities comprise debt issued by non-euro area issuers (Note 1(j)).

(ii) These securities comprise debt issued by non-euro area issuers (Note 1(l)).

Maturity Profile	2015	2014
	€000	€000
0 – 3 months	795,917	583,185
3 months – 1 year	413,135	419,545
1 – 5 years	1,349,653	1,058,042
5 – 10 years	253,891	66,106
Total	**2,812,596**	**2,126,878**

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

	2015	2014
	€000	€000
Longer Term Refinancing Operations (LTRO) (i)	8,435,000	16,650,000
Main Refinancing Operations (MRO) (ii)	2,300,000	4,050,000
Total	**10,735,000**	**20,700,000**

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 decrease in the level of the Eurosystem Main Refinancing Operations (MRO) and Longer Term Refinancing Operations (LTRO) advances during 2015. As at 31 December 2015, total Eurosystem monetary policy-related advances amounted to €558.9 billion (2014: €630.3 billion), of which the Bank held €10.7 billion (2014: €20.7 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 38).

(i) LTROs aim to provide counterparties with additional longer-term refinancing. In 2015, operations were conducted with maturities equal to the reserve maintenance period[15] and with maturities of three months. These operations were conducted at fixed rate with full allotment of the total amount bid. On 5 June 2014, the Governing Council of the ECB decided to conduct a series of targeted longer term refinancing operations (TLTROs) aimed at improving bank lending to the euro area non-financial private sector, excluding loans to households for house purchases, over a window of two years. The interest rate on the TLTROs is fixed over the life of each operation at the Eurosystem's MRO rate prevailing at the time of take up, plus a fixed spread of 10 basis points. As at 31 December 2015, €4.7 billion (2014: €4.4 billion) in TLTROs was advanced by the Bank to local credit institutions. This amount is included in the LTRO figure.

Maturity Profile of LTROs	2015	2014
	€000	€000
0 – 3 months	3,750,000	12,255,000
1 – 5 years (TLTROs)	4,685,000	4,395,000
Total	**8,435,000**	**16,650,000**

(ii) MROs are executed through liquidity providing reverse transactions with a weekly frequency and a maturity of one week, normally by means of standard tenders. Since October 2008, these operations have been conducted as fixed rate tender procedures. These operations play a key role in achieving the aims of steering interest rates, managing market liquidity and signalling the monetary policy stance.

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

	2015	2014
	€000	€000
Maturities less than one year:		
Reverse Repurchase Agreements	219,750	200,000
Balances with Banks	153,683	151,015
Total	**373,433**	**351,015**

15 https://www.ecb.europa.eu/press/pr/date/2014/html/pr140717_1.en.html

Note 16: Securities of Euro Area Residents in Euro

This item comprises two portfolios: (i) 'Other securities', which includes marketable securities that are not related to the monetary policy operations of the Eurosystem and (ii) 'Securities held for monetary policy purposes', introduced to reflect the euro-denominated covered bond portfolios, (CBPP1 commenced in July 2009, CBPP2 in November 2011 and CBPP3 in October 2014), the securities markets programme, which began in May 2010, the public sector purchase programme which began in March 2015 and the asset backed securities purchase programme which began in November 2014.

	2015	2014
	€000	€000
Other Securities (i)	48,527,165	51,699,552
Securities Held for Monetary Policy Purposes (ii)	11,103,429	3,396,309
Total	**59,630,594**	**55,095,861**

(i) Other Securities

	2015	2014
	€000	€000
Security Investments - MTM (a)	38,402,989	43,657,239
Security Investments - HTM (b)	10,124,176	8,042,313
Total	**48,527,165**	**51,699,552**

Maturity Profile	2015	2014
	€000	€000
0 – 3 months	1,860,317	3,204,224
3 months – 1 year	2,122,648	3,756,845
1 – 5 years	6,109,527	6,329,361
5 – 10 years	5,276,131	3,576,468
10 – 15 years	–	1,187,381
> 15 years	33,158,542	33,645,273
Total	**48,527,165**	**51,699,552**

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

(a) Security Investments – MTM

The portfolio of securities acquired following the IBRC liquidation form part of this category as outlined in the table below:

Special Portfolio – Assets acquired following liquidation of IBRC

	Book Values				Revaluation Movements				Summary	
€000	2014 Closing Balance	Purchases	Sales/ Redemptions	2015 Closing Balance	2014 Closing Balance	Opening Revaluation on Disposal	Movement on Retained Portfolio	2015 Closing Balance	2014 Closing Market Value	2015 Closing Market Value
Floating Rate Notes	24,534,000	–	(2,000,000)	22,534,000	9,111,273	(612,280)	2,125,549	10,624,542	33,645,273	33,158,542
NAMA Bonds	426,000	426,000	(598,000)	254,000	(242)	242	(542)	(542)	425,758	253,458
Irish 2025 Government Bond	896,868	–	(896,868)	–	290,513	(290,513)	–	–	1,187,381	–
Total	**25,856,868**	**426,000**	**(3,494,868)**	**22,788,000**	**9,401,544**	**(902,551)**	**2,125,007**	**10,624,000**	**35,258,412**	**33,412,000**

The above table shows the movement in the book values and the valuation of securities which were acquired following the IBRC liquidation during 2013. The Bank intends to sell the portfolio of Floating Rate Notes (FRNs) as soon as possible, provided conditions of financial stability permit. The Bank has also indicated that it will sell a minimum of these securities in accordance with the following schedule: 2016-2018 (€0.5 billion per annum), 2019-2023 (€1 billion per annum), and 2024 on (€2 billion per annum until all bonds are sold).

Floating Rate Notes (FRNs)

In 2013, the Bank acquired eight FRNs amounting to €25 billion as part of the exchange of assets on the liquidation of IBRC. The eight FRNs acquired range in maturity from 2038 to 2053. These are classified as Level 3 type securities (Note 1(j)(v)). As at 31 December 2015, the FRNs were valued at €33.2 billion (2014: €33.6 billion) giving rise to an unrealised gain of €10.6 billion (2014: €9.1 billion) (Note 34). During 2015, the Bank sold €2 billion nominal of the FRNs (2038 FRN €1.5 billion and 2041 FRN €0.5 billion) realising gains amounting to €0.8 billion. All holdings of the 2038 FRN have now been disposed of.

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

a) an estimated "6 month forward" Euribor curve which can change over time in response to a variety of factors, including supply and demand for liquidity in banks as well as economic growth and inflation expectations, and

b) a zero coupon yield curve compiled from the Irish yield curve for the period for which directly observable market prices are available, and thereafter extrapolated using observable yields on other relevant European yield curves that are trading in active markets.

Model factors require judgement to ensure they are appropriately estimated over time. A twenty five basis point change in the Irish discount curve used in the pricing model will impact on the valuation by approximately €1.6 billion (2014: €1.6 billion). The model is periodically evaluated by the Bank to ensure that it is consistent with best practice.

In February 2015, a 30 year Irish sovereign was issued and has been incorporated into the FRN valuation model in 2015.

NAMA Bonds

In 2013, the Bank acquired €13.7 billion nominal of NAMA Bonds following the IBRC liquidation, of which, €0.6 billion (2014: €12.2 billion) was redeemed by NAMA in 2015 at par, realising no gain or loss (Note 4(i)). As at 31 December 2015, the NAMA bonds were valued at €0.3 billion (2014: €0.4 billion) giving rise to an unrealised loss of €0.5 million (2014: €0.2 million) as at that date (Note 4). In the absence of an active market, the Bank values these bonds using prices derived from the Common European Pricing Hub (CEPH). The CEPH is used for collateral pricing purposes in the context of Eurosystem monetary policy operations. These are classified as Level 2 type securities (Note 1(j)(v)).

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

5.4% Irish 2025 Government Bond

In 2013, the Bank acquired €3.5 billion nominal of the 5.4% Irish 2025 Government Bond following the IBRC liquidation. During 2015, the Bank sold the remaining €861 million (2014: €2,300 million) nominal of the bond realising gains amounting to €314.8 million (2014: €537.6 million).

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

(b) Security Investment – HTM
These securities comprise debt issued by euro area issuers (Note 1(j)(iii)).

(ii) Securities Held for Monetary Policy Purposes

	2015	2015	2014	2014
	€000	€000	€000	€000
	Amortised Cost	Market Value	Amortised Cost	Market Value
Covered Bonds Purchase Programme 1 (CBPP1)	61,508	66,003	276,058	287,371
Covered Bonds Purchase Programme 2 (CBPP2)	65,489	67,890	103,783	108,849
Covered Bonds Purchase Programme 3 (CBPP3)	2,202,007	2,193,410	498,884	498,891
Securities Markets Programme (SMP)	1,950,468	2,298,174	2,517,584	2,917,146
Public Sector Purchase Programme (PSPP)	6,823,957	6,805,513	–	–
Total	**11,103,429**	**11,430,990**	**3,396,309**	**3,812,257**

The market value[16] of these securities are not recorded on the balance sheet or in the profit and loss account but are provided for comparative purposes only.

Maturity Profile	2015	2014
	€000	€000
0 – 3 months	10,015	117,932
3 months – 1 year	262,767	720,615
1 – 5 years	5,202,697	1,740,468
5 – 10 years	4,177,901	721,683
10 – 15 years	669,419	95,611
> 15 years	780,630	–
Total	**11,103,429**	**3,396,309**

This category of securities relates to acquisitions by the Bank within the scope of the purchase programmes for covered bonds[17] (CBPP1, CBPP2, and CBPP3), public debt securities acquired within the scope of the Securities Markets Programme[18] (SMP) and debt securities acquired within the scope of the Public Sector Purchase Programme[19] (PSPP).

16 Market values are indicative and were derived on the basis of market quotes. When market quotes were not available, market prices were estimated using internal Eurosystem models

17 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, 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 and ECB Decision of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40), OJ L 335 22.10.2014, p.22

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

19 ECB Decision of 04 March 2015 establishing a secondary markets public sector asset purchase programme (ECB/2015/10), OJ L 121, 14.5.2015, p. 20

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

Under the SMP established in May 2010, the ECB and the NCBs could purchase euro area public and private debt securities to address the malfunctioning of certain segments of the euro area debt securities markets and to restore proper functioning of the monetary policy transmission mechanism. This programme was terminated on 6 September 2012.

Purchases under the first covered bond purchase programme (CBPP1) were completed on 30 June 2010, while the second covered bond purchase programme (CBPP2) ended on 31 October 2012. The third covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP) were announced on 2 October 2014, and under the two programmes, the ECB and the NCBs can purchase, in both the primary and secondary markets, euro-denominated covered bonds issued in the euro area and senior and guaranteed mezzanine tranches of asset-backed securities[20] that are denominated in euro and issued by entities that are resident in the euro area. Under the CBPP3, the ECB and Eurosystem NCBs make direct purchases of euro-denominated covered bonds in both the primary and secondary markets. Under the ABSPP, the ECB co-ordinates purchases which are made by external asset managers and two internal managers on behalf of the Eurosystem and, in both cases, the securities are held on the ECB's balance sheet.

The PSPP was introduced on 22 January 2015 as part of the expanded asset purchase programme (which also incorporated CBPP3 and the ABSPP), with the ECB and the NCBs purchasing marketable debt instruments issued by euro area central governments, certain agencies located in the euro area or certain international or supranational institutions located in the euro area.

The expanded asset purchase programme initially had an anticipated combined monthly purchases amounting to €60 billion until at least September 2016. In December 2015, the Governing Council extended the expanded asset purchase programme until the end of March 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its aim of achieving inflation rates below, but close to, 2 per cent over the medium term.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under the SMP, the three CBPPs, the PSPP and the ABSPP.

The holdings of monetary policy securities are as follows (Note 1(c)(ix) and Note 2(iii)):

Amortised cost €m	Year	SMP	CBPP1	CBPP2	CBPP3	PSPP	ABSPP	Total
Eurosystem	2015	122,952	20,582	9,723	143,340	491,215	15,322	803,134
	2014	144,263	28,817	12,787	29,632	–	1,744	217,243
Bank	2015	1,950	62	65	2,202	6,824	–	11,103
	2014	2,518	276	103	499	–	–	3,396

Securities purchased for monetary policy purposes are measured at amortised cost subject to impairment. Annual impairment tests are conducted on the basis of information available and recoverable amounts estimated as at the reporting date. There was no impairment of securities as at 31 December 2015.

20 For the purposes of the Decision ECB/2015/31 on the implementation of the asset-backed securities purchase programme, 'mezzanine tranche' means a tranche of an ABS issue that, in accordance with the post-enforcement priority of payments, and if applicable, the post-acceleration priority of payments as set out in the prospectus:

(a) ranks below the non-subordinated tranche or sub-tranches of the same ABS issue as set out in Article 77 of Guideline (EU) 2015/510 (ECB/2014/60); and

(b) ranks above the most subordinated tranche or sub-tranches that are the first to bear losses incurred on the securitised exposures and which thereby provide protection to the second loss and, where relevant, higher ranking tranches or sub-tranches

Note 17: Participating Interest in ECB

	2015	2014
	€000	€000
Participating Interest in the ECB	199,021	199,021
Total	**199,021**	**199,021**

This represents the Bank's contribution to the capital of the ECB. Pursuant to Article 28 of the ESCB Statute, the ESCB NCBs are the sole subscribers to the capital of the ECB. The level of subscriptions is dependent on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which are adjusted every five years.

The Bank's share in subscribed capital of the ECB remained at 1.1607 per cent for 2015 (2014: 1.1607 per cent) (Note 1(c)(iii)).

Note 18: Claims Equivalent to the Transfer of Foreign Reserves

	2015	2014
	€000	€000
Claims equivalent to the transfer of foreign reserves	672,638	672,638
Total	**672,638**	**672,638**

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. Given the accession of Lithuania to the Eurosystem on 1 January 2015, the Bank's Eurosystem capital key changed to 1.6489 per cent (2014: 1.6587 per cent). However, this adjustment of the capital key did not result in a transfer of foreign reserve assets.

The total of the claims in respect of those assets is €672.6 million (2014: €672.6 million) (Note 1(c)(iii), (c)(vii) and Note 2(vii)).

Note 19: Other Claims within the Eurosystem

	2015	2014
	€000	€000
Share of ECB Profits (i)	13,392	13,944
Net Result of Pooling of Monetary Income (ii)	381	9,224
Total	**13,773**	**23,168**

(i) This represents the Bank's share of the ECB's interim distribution of seigniorage and other income for 2015 (Note 1(c)(v) and Note 6(i)).

(ii) This represents the Bank's monetary income receivable following the adjustment to 2014 monetary income of €0.4 million (2014: €3.8 million) (Note 1(c)(vi), Note 7 and Note 30). There was no distribution of exceptional income in 2015 (2014: €5.4 million).

Note 20: Items in Course of Settlement

	2015	2014
	€000	€000
Items in Course of Settlement	5	209
Total	**5**	**209**

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 financial year.

Note 21: Other Assets

	2015	2014
	€000	€000
Accrued Interest Income (i)	383,703	519,531
Property, Plant and Equipment (Note 22)	155,463	84,829
- *Tangible - Plant, Property, Equipment (Note 22(i))*	*139,629*	*66,774*
- *Intangible - Computer Software (Note 22 (ii))*	*15,834*	*18,055*
Other (ii)	79,942	46,766
Bank & Investment Firm Resolution Fund (iii)	75,863	–
Investment Property (iv)	51,548	–
Shares in the Bank for International Settlements (v)	21,480	19,677
Stocks of Materials for Banknote Production	4,324	3,165
Prepayments	2,180	4,063
Total	**774,503**	**678,031**

(i) This item includes the accrued income earned on the securities acquired following the IBRC liquidation. The decrease in income reflects a combination of lower average balances and lower average interest rates.

(ii) Included in this item is an amount of €5.4 million (2014: €4.4 million) representing deficits due from certain Industry Funding sub-categories at end 2015 (Note 43(i)).

A further €65 million (2014: €21 million) represents the interest income due on securities at the date a purchase of that security was made by the Bank.

(iii) Included in this item are levies collected on behalf of the Bank and Investment Firm Resolution Fund (BIFRF). The funds collected from the authorised credit institutions were paid over to the Single Resolution Board (SRB) on 28 January 2016 and accordingly are also included in liabilities at year end (Note 31(iii)).

(iv) In November 2015, the Bank acquired Block R, Spencer Dock. The property, which comprises both commercial and retail space, is currently partially used by the Bank in its current operations, while the remainder is either let out, or available for letting on the open market. The costs associated with the acquisition of the portion of the property currently occupied by the Bank have been capitalised as Property, Plant and Equipment (€57.9 million) (Note 22 (i)), while the remainder has been accounted for as an Investment Property (€51.5 million).

Given the proximity of the purchase completion date to the year end, the carrying value of the Investment Property is based on the purchase price. Rental income arising from the investment is included within Interest Income (Note 2(vi)). As this building was previously leased by the Bank, an onerous lease provision in respect of this property totalling €17.2 million has been released (Note 33(iii)). The Bank's new headquarters at North Wall Quay provides for its immediate and near term accommodation needs. The acquisition of the Spencer Dock premises, in addition to offering a positive financial return under a range of scenarios, allows for close proximity contingency for additional accommodation to meet medium to long term needs. The financial assumptions related to the business case were independently verified and the purchase of the property was approved by the Commission in line with the Bank's expenditure framework.

The Investment Property is let to a number of third parties. These leases have a remaining term of between 17 and 19 years, with break clauses of between seven and eleven years. The leases include a provision for a five-yearly rent review according to prevailing market conditions.

Future Minimum Lease Payments	2015
	€000
Not later than one year	1,890
After one year but not more than five years	7,561
After five years	26,540
Total	**35,991**

(v) The Bank holds 8,564 shares in the Bank for International Settlements, the euro equivalent of which is €21.5 million (2014: €19.7 million) (Note 6(ii) and Note 37(i)). A dividend is paid annually.

Note 22: Property, Plant and Equipment

(i) Tangible Property, Plant and Equipment (PPE)

€000	Premises		Plant and Machinery		Computer Equipment		Other Equipment		Furniture, Fixtures & Fittings		Assets Under Construction (iii)		Total Property, Plant & Equipment	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
At Cost - 1 January	67,908	66,950	56,287	55,004	16,228	16,739	17,142	17,038	16,253	15,900	15,450	11,343	189,268	182,974
Acquisitions	58,061	958	1,896	1,574	–	6	25	104	89	353	17,679	4,107	77,750	7,102
Disposals	–	–	(8,942)	(291)	(15,081)	(517)	(3,993)	–	(5,733)	–	–	–	(33,749)	(808)
At Cost – 31 December	125,969	67,908	49,241	56,287	1,147	16,228	13,174	17,142	10,609	16,253	33,129	15,450	233,269	189,268
Accumulated Depreciation at 1 January	26,758	23,168	49,355	48,133	15,655	15,440	16,099	15,542	14,626	13,301	–	–	122,493	115,584
Depreciation for the year (i)	1,720	3,590	1,078	1,447	491	698	485	557	1,122	1,325	–	–	4,896	7,617
Disposals (ii)	–	–	(8,942)	(225)	(15,081)	(482)	(3,993)	–	(5,733)	–	–	–	(33,749)	(707)
Accumulated Depreciation at 31 December	28,478	26,758	41,491	49,355	1,065	15,656	12,591	16,099	10,015	14,626	–	–	93,640	122,494
Net Book Value at 31 December	**97,491**	**41,150**	**7,750**	**6,932**	**82**	**572**	**583**	**1,043**	**594**	**1,627**	**33,129**	**15,450**	**139,629**	**66,774**

(i) Of the total depreciation charge of €4.9 million (2014: €7.6 million), €0.1 million in respect of Mint machinery was charged to the Currency Reserve (2014: €0.1 million) (Note 1(e)).

Note 22: Property, Plant and Equipment (continued)

(ii) Following a review of the Fixed Assets Register during the year, PPE with an historic cost of €33.8 million, which were fully depreciated, were written off in 2015 with no proceeds arising (2014: tangible assets with a carrying value of €0.1 million were written off to Other Operating Expenses) (Note 9).

(iii) Assets Under Construction relates to expenditure on the North Wall Quay project (Note 37(ii) Commitments).

(iv) The Bank currently holds an Art Collection valued at €1.7 million based on a 2010 valuation, which is not recognised in the annual accounts of the Bank on the grounds of materiality in either the current or preceding financial years (Note 1(e)).

(ii) Intangible Computer Software

	Computer Software	
	2015	**2014**
	€000	**€000**
At Cost - 1 January	33,039	22,542
Acquisitions	3,619	10,978
Disposals	(380)	(481)
At Cost - 31 December	**36,278**	**33,039**
Accumulated Depreciation at 1 January	14,985	10,497
Depreciation for year (i)	5,839	4,741
Disposals (ii)	(380)	(254)
Accumulated Depreciation at 31 December	**20,444**	**14,984**
Net Book Value at 31 December	**15,834**	**18,055**

(i) The total depreciation charge in 2015 was €5.8 million (2014: €4.7 million) (Note 1(e)).

(ii) Following a review of the Fixed Assets Register during the year, intangible assets with an historic cost of €0.4 million, which were fully depreciated, were written off in 2015 with no proceeds arising (2014: intangible assets with a carrying value of €0.2 million were written off to Other Operating Expenses (Note 9)).

Note 23: Banknotes in Circulation

	2015	2014
	€000	€000
Total value of euro banknotes issued into circulation by the Bank	32,686,097	31,534,096
Liability resulting from the ECB's share of euro banknotes in circulation	(1,429,191)	(1,348,870)
Liability according to the Bank's weighting in the ECB's capital key	(14,821,288)	(14,672,856)
Total	**16,435,618**	**15,512,370**

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 NCB on the last working day of each month in accordance with the banknote allocation key.

The value of the euro banknotes actually issued by the Bank in 2015 increased by 3.8 per cent from €31.5 billion to €32.7 billion. The total value of banknotes in circulation within the Eurosystem increased by 6.6 per cent (2014: 6.3 per cent). According to the allocation key, the Bank had euro banknotes in circulation worth €16.4 billion at the end of the year, compared to €15.5 billion at the end of 2014. As the banknotes actually issued by the Bank were more than the allocated amount, the difference of €16.3 billion (compared to €16 billion in 2014) is shown in 'Liabilities related to the allocation of euro banknotes within the Eurosystem' (Note 1(c)(iv) and Note 29).

Note 24: Liabilities to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

	2015	2014
	€000	€000
Minimum Reserve Deposits (i)	5,287,455	3,066,229
Overnight Deposits (ii)	4,730,093	988,462
Total	**10,017,548**	**4,054,691**

(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 2015, interest was paid on these deposits at the ECB's main refinancing operations interest rate. Since June 2014 any reserves held in excess of the minimum requirements are charged at the lower of zero or the deposit facility rate.

(ii) The deposit facility is available to counterparties to place funds with the Bank on an overnight basis at a pre-specified rate.

Note 25: Liabilities to Other Euro Area Residents in Euro

	2015	2014
	€000	€000
General Government Deposits (i)	13,717,807	6,811,449
Currency Reserve Relating to Net Proceeds of Coin (ii)	2,675	3,045
Total	**13,720,482**	**6,814,494**

These items have a maturity of less than one year.

(i) The general government deposits include current accounts and deposits payable on demand held at the Bank.

(ii) The costs and proceeds of coin issue are required to be charged or credited to the Currency Reserve. The balance from that activity must be paid into the Exchequer at the direction of the Minister for Finance. Where the net proceeds of coin issue, together with expenses, result in a net cost to the Bank, the Minister reimburses the difference to the Bank. The balance on the Currency Reserve relating to coin issue is reported as an asset or liability of the Bank (Note 1(g)). All expenses in relation to the production of coin are disclosed in Note 9. Superannuation expenses are disclosed in Note 32. Details of net proceeds for the year are included in the table below:

	2015	2014
	€000	€000
Coin issued into Circulation	7,734	17,533
Specimen Coin Sets	903	1,199
Withdrawn Irish Coin	(209)	(120)
Sub-Total	**8,428**	**18,612**
Less Operating Costs (Note 9)	**(1,522)**	**(1,862)**
Net Proceeds of Coin Issue	**6,906**	**16,750**
Interest on Pension Liability (Note 32)	(130)	(360)
Superannuation Employer Contribution (Note 32)	(62)	(74)
Transfer to the Exchequer	(7,084)	(16,555)
Opening Balance	3,045	3,284
Closing Balance	**2,675**	**3,045**

As a result of the *Finance Act*, 2002, and as directed by the Minister for Finance, the Bank is required to transfer the net proceeds from the issue of coin directly to the Exchequer. As noted in the table above, there was a net issuance of coin amounting to €7.7 million (2014: €17.5 million) from the Bank to the commercial banks in 2015. As a result, the net surplus generated a transfer of €7.1 million which was paid to the Exchequer on 22 December 2015 (2014: €16.6 million).

Note 26: Liabilities to Non-Euro Area Residents in Euro

	2015	2014
	€000	€000
EU Agencies	571	905
International Financial Institutions	65	93
Total	**636**	**998**

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

Note 27: Liabilities to Euro Area Residents in Foreign Currency

	2015	2014
	€000	€000
Liabilities to Euro Area Residents in Foreign Currency	224	202
Total	**224**	**202**

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 transfer of funds with the IMF relating to the Financing Programme for Ireland.

Note 28: Counterpart of Special Drawing Rights (SDR) Allocated by the IMF

	2015	2014
	€000	€000
Counterpart of Special Drawing Rights (SDR) Allocated by the IMF	986,956	924,618
Total	**986,956**	**924,618**

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 12(i)).

Note 29: Liabilities related to the allocation of euro banknotes within the Eurosystem

	2015	2014
	€000	€000
Liability according to the Bank's weighting in the ECB's capital key	14,821,288	14,672,856
Liability resulting from the ECB's share of euro banknotes in circulation	1,429,191	1,348,870
Total	**16,250,479**	**16,021,726**

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 1(c)(ii) and (c)(iv) and Note 23). The remuneration of this liability is calculated daily at the latest available (marginal) interest rate used by the Eurosystem in its tenders for main refinancing operations (Note 3).

Note 30: Other Liabilities within the Eurosystem (net)

	2015	2014
	€000	€000
TARGET2 Balance (net) (i)	3,036,812	22,736,419
Monetary Income Charge (ii)	2,015	8,781
Total	**3,038,827**	**22,745,200**

(i) This item mainly represents the Bank's net liability to the ECB as a result of euro cross-border payments transacted over the TARGET2 system by all NCBs participating in the ESCB, which amounted to €3 billion at end-2015 (2014: €22.7 billion) (Note 1(c)(ii)). At end-2015, four non-participating countries (Bulgaria, Denmark, Poland and Romania) were members of TARGET2 and, therefore, included in the multilateral netting process. The remuneration of TARGET2 positions, with the exception of balances arising from back-to-back swap transactions, is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations (Note 3).

(ii) This item includes a liability of €2 million arising from the net result of the pooling of monetary income in 2015 (2014: €8.8 million) (Note 1(c)(vi), Note 7 and Note 19(ii)).

Note 31: Other Liabilities

	2015	2014
	€000	€000
Profit & Loss Appropriation (i)	1,795,212	1,708,761
Deposit Protection Accounts (ii)	394,965	391,776
Bank & Investment Firm Resolution Fund (iii)	75,863	–
Other (vi)	20,963	16,156
Other Accruals (iv)	19,297	19,551
Credit Institutions Resolution Fund (v)	12,935	238,416
Interest Accruals	2,218	689
Total	**2,321,453**	**2,375,349**

(i) This represents the amount of surplus income payable to the Exchequer (Note 1(o) and Note 10).

(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 2015 the Deposit Guarantee Scheme made total compensation payments of €1.2 million to 73 depositors in respect of the liquidation of IBRC. All eligible depositors of Berehaven Credit Union were compensated in 2014. In 2014 total compensation payments of €22 million were paid to approximately 3,700 depositors in respect of the liquidation of Berehaven Credit Union and IBRC.

(iii) The Bank and Investment Firm Resolution Fund (BIFRF) was established by Regulation 163(1) of the European Union (Bank Recovery and Resolution) Regulations 2015. The Bank is responsible for the collection of levies from authorised credit institutions and investment firms in Ireland. Levies collected from authorised credit institutions (€75 million) were paid to the Single Resolution Board (SRB), established by Article 42(1) of the Single Resolution Mechanism Regulation on 28 January 2016 and accordingly the levies collected are included as an asset at year end (Note 21(iii)). Levies collected from authorised investment firms (€0.4 million) are held and managed by the Bank.

(iv) Included in other accruals is an accrual of €7.1 million (2014: €5.8 million) in respect of untaken annual leave (Note 9(i)).

(v) A Credit Institutions Resolution Fund was established in 2011 under the *Central Bank and Credit Institutions (Resolutions), Act* 2011. The balance of €12.9 million (2014: €238.4 million) represents funds held by the Bank on behalf of the Fund. The Bank is responsible for the management and administration of the Fund and separate financial statements are prepared by the Bank for the Fund.

(vi) Included in Other is an amount of €0.1 million (2014: €0.1 million) representing surpluses due to certain Industry Funding sub-categories at end 2015 (Note 43(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 Childrens' Pension Scheme and payments received from eligible staff for the purchase and transfer of notional added service. In the case of staff employed on or after 6 April 1995, contributions are also payable in respect of the main Scheme. Up to 30 September 2008, the Bank operated a pay-as-you-go system in that assets were not separately identified to provide for the Bank's pension liabilities, with benefits paid as they fell due from current revenues. On 1 October 2008, a funded pension scheme was established (as provided for under the *Central Bank and Financial Services Authority of Ireland Act,* 2003) and an amount of €400 million was transferred to purchase fund assets. The valuation of the fund assets at 31 December 2015 is detailed in section (v) of this Note (Note 1(f)).

The Bank discloses the cost of providing benefits in accordance with FRS 102. As this is the first year of adoption of FRS 102, comparative figures have been restated to reflect the transition to FRS 102.

Note 32: Superannuation Liabilities (continued)

A full actuarial valuation of the Scheme was completed as at 31 December 2013 by Lane Clark Peacock (LCP), the Bank's actuaries, to comply with disclosure requirements under FRS 102. An actuarial report was completed by LCP as at 31 December 2015.

(i) Amount charged to Profit and Loss and Appropriation Account/Currency Reserve

	Profit and Loss 2015	Currency Reserve 2015	Total 2015	Total 2014
	€000	€000	€000	€000
Expected Return on Assets	**13,280**	**–**	**13,280**	**19,836**
Interest on Pension Scheme Liabilities	**(19,936)**	**(130)**	**(20,066)**	**(22,783)**
Current Service Cost	(44,188)	(111)	(44,299)	(25,356)
Past Service Cost	–	–	–	(27)
Sub-Total	**(44,188)**	**(111)**	**(44,299)**	**(25,383)**
Total Pension Cost of Defined Benefit Scheme	**(50,844)**	**(241)**	**(51,085)**	**(28,330)**

As at 31 December 2015, there was no previously unrecognised surplus deducted from settlements or curtailments, and no gains or losses on any settlements or curtailments.

(ii) Actuarial Gain/(Loss) on Pension Scheme

Year Ended 31 December	2015	2014	2013
	€000	€000	€000
Actuarial gain/(loss) on pension liability	160,058	(198,670)	(11,410)
Actuarial gain on plan assets	21,001	11,828	32,624
Total	**181,059**	**(186,842)**	**21,214**

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. For the financial years 2013, 2014 and 2015, the pension levy was accounted for by reducing the expected return on assets by 0.6 per cent, 0.75 per cent and 0.15 per cent respectively.

(iii) Balance Sheet Recognition

Year Ended 31 December	2015	2014	2013	2012	2011
	€000	€000	€000	€000	€000
Present value of Wholly or Partly Funded Obligations (iv)	(750,095)	(853,883)	(615,766)	(571,218)	(455,336)
Fair Value of Plan Assets (v)	608,714	567,945	531,198	473,793	434,160
Net Pension Liability	**(141,381)**	**(285,938)**	**(84,568)**	**(97,425)**	**(21,176)**

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

	2015	2014	2013	2012	2011
	€000	€000	€000	€000	€000
Opening Present Value of Scheme Obligations	(853,883)	(615,766)	(571,218)	(455,336)	(392,615)
Current Service Cost	(44,299)	(25,356)	(20,255)	(15,083)	(11,330)
Past Service (Cost)/Credit	–	(27)	3,957	7,585	(1,969)
Pensions Paid	13,109	13,325	10,468	12,337	10,746
Employee Contributions	(4,379)	(4,173)	(4,121)	(4,060)	(3,509)
Transfers Received	(635)	(433)	(909)	(445)	(252)
Interest on Pension Scheme Liabilities	(20,066)	(22,783)	(22,278)	(23,408)	(22,119)
Actuarial Gain/(Loss)	160,058	(198,670)	(11,410)	(92,808)	(34,288)
Closing Present Value of Scheme Obligations	**(750,095)**	**(853,883)**	**(615,766)**	**(571,218)**	**(455,336)**

(v) Movement in Fair Value of Plan Assets

	2015	2014	2013	2012	2011
	€000	€000	€000	€000	€000
Opening Fair Value of Plan Assets (Bid Value)	567,945	531,198	473,793	434,160	443,876
Expected Return	13,280	19,836	16,276	14,120	22,346
Actuarial Gain/(Loss)	21,002	11,828	32,624	19,468	(37,580)
Employer Contribution	14,582	13,802	13,943	13,877	12,503
Employee Contributions	4,379	4,173	4,121	4,060	3,509
Pensions Paid	(13,109)	(13,325)	(10,468)	(12,337)	(10,746)
Transfers Received	635	433	909	445	252
Closing Fair Value of Plan Assets (Bid Value)*	**608,714**	**567,945**	**531,198**	**473,793**	**434,160**

* Included in the fair value of plan assets are two bank accounts - a Superannuation Capital Account and Superannuation Working Account held with the Bank. The balance on the Superannuation Capital Account and Superannuation Working Account at 31 December 2015 was nil (2014: €1.7 million) and €4.8 million (2014: €5.4 million) respectively.

(vi) Financial Assumptions

	2015	2014
	%	%
Discount Rate	2.70	2.35
Rate of Increase in Pensionable Salaries	3.20	3.40
Rate of Increase in Pensions	3.20	3.40
Rate of Price Inflation	1.80	2.00

The impact of a 0.1 per cent increase/decrease in the discount rate would be a corresponding decrease/increase of approximately 2.4 per cent (2014: 2.6 per cent) in scheme liabilities.

Note 32: Superannuation Liabilities (continued)

The current service cost charged to expenses (Note 9) in 2015 of €44.3 million (2014: €25.4 million) has increased primarily due to the change in the pension assumptions noted above. Similarly, the actuarial gain of €181.1 million (2014: actuarial loss of €186.8 million) is heavily influenced by the change in pension assumptions noted above.

(vii) Demographic and Other Assumptions

	2015	2014
Mortality Pre Retirement (i)	73% ILT15 (males) 77% ILT15 (females)	73% ILT15 (males) 77% ILT15 (females)
Mortality Post Retirement	58% ILT15 (males) 62% ILT15 (females)	58% ILT15 (males) 62% ILT15 (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		
Age between 60 and 65 at which 40 years' service completed (for those with option to retire at 60)	Male: 86.0	Male: 86.0
	Female: 88.6	Female: 88.6

(i) ILT15 (males) and ILT15 (females) are both published mortality tables prepared by the Central Statistics Office in Ireland.

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.

Based on life expectancy at age 65.

Note 32: Superannuation Liabilities (continued)

(viii) Plan Assets of the Scheme

The asset distribution of the Scheme as at 31 December 2015 is as follows:

Class	Distribution	Long Term Distribution
	%	%
Bonds	48.2	40.0
Cash	2.6	–
Equities	39.4	40.0
Multi asset funds (MAF)	9.8	10.0
Property	–	10.0
Other	–	–
Total	**100.0**	**100.0**

In 2014, the Commission of the Bank approved the decision to change the asset allocation ratio from 50:50 bonds/equities to 40:40:10:10 bonds/equities/MAF/property. The investment strategy relating to the new composition commenced in 2015, and is expected to be completed in the first half of 2016. The fund does not invest directly in property occupied by the Bank.

(ix) Prior Year Comparatives

Amounts for the current and previous four years are as follows:

Year Ended 31 December	2015	2014	2013	2012	2011
	€000	€000	€000	€000	€000
Defined Benefit Obligation (iii)	(750,095)	(853,883)	(615,766)	(571,218)	(455,336)
Fair Value of Plan Assets (iii)	608,714	567,945	531,198	473,793	434,160
(Deficit)/Surplus in the Plan (iii)	(141,381)	(285,938)	(84,568)	(97,425)	(21,176)
Experience Gain Arising On					
- the plan liabilities (iv)	32,164	30,274	33,561	21,522	9,492
As a percentage of the scheme liabilities	*4.3%*	*3.5%*	*5.5%*	*3.8%*	*2.1%*
- the plan assets	21,001	11,828	32,624	19,468	(37,580)
As a percentage of the scheme assets	*3.5%*	*2.1%*	*6.1%*	*4.1%*	*(8.7%)*

(x) Expected Contributions to the Plan for the Year Ending 31 December 2016

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 2016
	€000
Contributions by the Employer	16,617
Contributions by Plan Participants	5,369
Total	**21,986**

Note 33: Provisions

The following amounts were provided for at 31 December 2015:

	Opening Balance 1 Jan 2015	Created	Utilised	Released to P&L	Closing Balance 31 Dec 2015
	€000	€000	€000	€000	€000
Provision for Securities (i)	250,000	–	–	(70,000)	180,000
Unredeemed Irish Pound Banknotes (ii)	10,093	–	(1,355)	–	8,738
Provision for Onerous Lease and Dilapidations (iii)	17,429	–	–	(17,229)	200
Restructuring Provision (iv)	2,501	466	(2,352)	–	615
Total	**280,023**	**466**	**(3,707)**	**(87,229)**	**189,553**

(i) The Bank has retained a provision for securities in the amount of €180 million (2014: €250 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 2015 (Note 1(c)(ix) and (m), Note 4 and Note 16(ii)).

(ii) Irish pound banknotes formerly issued by the Bank ceased to be legal tender with effect from 9 February 2002. Since then the Bank has maintained a provision for outstanding IEP banknotes from which €1.4 million was redeemed in 2015 leaving the balance in the provision at €8.7 million as at 31 December 2015 (2014: €10.1 million) (Note 37(iii)).

(iii) During the year, the Bank completed the purchase of Block R, Spencer Dock, which was previously partially occupied by the Bank as a tenant. Accordingly, a previously held onerous lease in respect of this property was released during the year (€17.2 million, Note 21). A dilapidation provision (€0.2 million) for the Iveagh Court premises was created in 2013, and it was not necessary to revise it in 2015 (Note 1(m), Note 4 and Note 21(iv)).

(iv) A restructuring provision was created in 2014 for two Voluntary Severance Schemes (VSS) and an overtime restructuring scheme for administrative and currency staff. During 2015 an additional three employees were admitted to the 2014 schemes resulting in an increased provision of €0.2 million. During 2015 €2.2 million was paid in relation to the 2014 schemes, leaving a balance of €0.6 million in 2015 (2014: €2.5 million).

A provision of €0.3 million for a third scheme for specific technical and general staff was created and utilised during 2015 for staff who left during the year. This new scheme is open to staff who meet the specific criteria and staff can apply for the scheme up to 2018. As the number of staff who may apply for this scheme is unknown, no further provision has been created during 2015 (Note 1(m) and Note 4).

The terms of all three VSS schemes are in accordance with standard Government practice in this area.

Note 34: Revaluation Accounts

	2015	2014	Net Movement
	€000	€000	€000
Securities and Other Instruments (i)	10,642,401	9,444,553	1,197,848
Gold	140,386	143,198	(2,812)
Foreign Currency	36,241	23,466	12,775
At 31 December	**10,819,028**	**9,611,217**	**1,207,811**

(i) The movement on Securities and Other Instruments relates primarily to unrealised capital gains arising from the end year valuation of the securities acquired following the liquidation of the IBRC, partially offset by the release of the opening revaluation on similar securities disposed of during the year (Note 1(j)(i) and Note 16(i)).

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

	2015	2014
Currency	**Rate**	**Rate**
US Dollar	1.0887	1.2141
Japanese Yen	131.0700	145.2300
Sterling	0.7340	0.7789
Swiss Franc	1.0835	1.2024
Danish Krone	7.4626	7.4453
Swedish Krona	9.1895	9.3930
Canadian Dollar	1.5116	1.4063
SDR	0.7857	0.8386
The gold prices used were:		
Euro per fine ounce	973.2250	987.7690

Note 35: Capital and Reserves

	Capital (i)	General Reserve	Currency Reserve	Total
	€000	€000	€000	€000
At 31 December 2014	**30**	**2,329,535**	**351,648**	**2,681,213**
Retained profit for the year (ii)	–	631,980	–	631,980
At 31 December 2015	**30**	**2,961,515**	**351,648**	**3,313,193**

(i) The authorised capital of the Bank is fixed under Section 9(1) of the *Central Bank Act*, 1942 (as amended) 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 to the general reserve of €632 million comprising of €450.9 million from the Profit and Loss and Appropriation Account and an actuarial gain of €181.1 million, which was recognised in the Profit and Loss and Appropriation Account (Note 31(i)).

Note 36: Transition to FRS 102

FRS 102 had been adopted by the Bank at 31 December 2015. The date of transition is 1 January 2014. The result of this adoption can be seen below:

Reconciliation of reserves as at 1 January 2014	
Capital and reserves under previous Irish GAAP	2,436,741
Capital and reserves restated	2,436,741

Reconciliation of reserves as at 31 December 2014	
Capital and reserves under previous Irish GAAP (Note 35)	2,681,213
Pension - Expected return on assets (Note 8)	2,413
Actuarial Loss on pension scheme (Note 35)	(2,413)
Capital and reserves restated	2,681,213

Reconciliation of Profit and Loss for year ended 31 December 2014	**Accounts 2014 (Irish GAAP)**	**Effect of Transition to FRS 102**	**Restated 2014 Accounts (FRS 102)**
	€000	**€000**	**€000**
Interest income	1,530,017	–	1,530,017
Interest expense	(107,838)	–	(107,838)
Net interest income	1,422,179	–	1,422,179
Net realised gains arising from financial operations	739,421	–	739,421
Write-downs on financial assets and positions	(383)	–	(383)
Transfer from Provisions	94,239	–	94,239
Net result of financial operations, write-downs and provisions	833,277	–	833,277
Income from fees and commissions	2,493	–	2,493
Income from equity shares and participating interests	16,990	–	16,990
Net result of pooling of monetary income	445	–	445
Other income	78,692	2,413	81,105
TOTAL NET INCOME	**2,354,076**	**2,413**	**2,356,489**
Staff expenses	(124,243)	–	(124,243)
Other operating expenses	(72,212)	–	(72,212)
Depreciation	(12,266)	–	(12,266)
Banknote raw materials	(7,693)	–	(7,693)
TOTAL EXPENSES	**(216,414)**	**–**	**(216,414)**
PROFIT FOR THE YEAR BEFORE UNREALISED GAINS AND APPROPRIATION OF PROFIT	**2,137,662**	**2,413**	**2,140,075**

Note 36: Transition to FRS 102 (continued)

Defined Benefit Pension Scheme

Under previous Irish GAAP, the expected return on assets assumption was calcuated using financial assumptions which reflected a more current market based assessment of the assets held by the Bank's Superannuation Fund. Under FRS 102 the expected return on pension fund assets assumption, as calculated by the Bank's actuaries, is based on the discount rate. The effect of the move to the discount rate will either increase or decrease the actuarial pension cost recorded in the Bank's Statement of Accounts. Under the *Central Bank of Ireland (Surplus Income) Regulations*, 1943, an increase/decrease in profit which is related to pension fund accounting will be offset by a decrease/increase the Bank's General Reserve. The 2014 Statement of Accounts has been restated to reflect the implementation of the discount rate on the return of assets of the Pension Fund as at 31 December 2014.

Note 37: Contingent Liabilities and Commitments

Contingent Liabilities

(i) Bank for International Settlements

The Bank holds 8,564 shares in the Bank for International Settlements, each of which is 25 per cent paid up. The Bank has a contingent liability in respect of the balance (Note 6(ii) and Note 21(v)).

(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 2015, Irish pound banknotes to the value of €228.4 million (2014: €229.8 million) were still outstanding against which, the Bank has a provision of €8.7 million (Note 33(ii)).

(iv) Litigation

The Bank has eight 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

The lease on the Iveagh Court premises was extended to May 2017 as a contingency to support the migration to North Wall Quay. The total rental payments under this operating lease is €2.7 million (2014: €1.6 million). During the year, the Bank acquired the Spencer Dock premises which was previously partially occupied under an operating lease (Note 22(i)(iii)).

Year	Future minimum lease payments
2016	€2.8 million
2017	€1.1 million

(ii) North Wall Quay project

The project involves significant investment by the Bank for the design, construction and fit out of the existing structure, prior to commencing the relocation to it as its headquarters in late 2016 (Note 22(i)(iii)). Total contracted commitments as at 31 December 2015 amounted to €66.5 million (2014: €14.6 million).

Note 38: Financial Risk Management

The Bank's balance sheet is exposed to financial risks arising as a consequence of performing its statutory role, in terms of both domestic financial sector monetary and investment policy actions and as a constituent Eurosystem central bank. These risks typically include credit, market and currency risk. As a Eurosystem national central bank, euro liability liquidity risk does not arise.

The Bank aims to control these exposures by maintaining a range of financial risk management processes to identify, assess, manage and monitor these risks, within clear internal risk policies and by reference to Eurosystem risk-management policies and frameworks where relevant.

Specialist teams and governance committees support senior management in ensuring that agreed standards and policies are followed. In particular, the Risk Committee of the Commission, supported by the Executive Risk Committee oversees the Bank's financial risk management activities. On a day-to-day basis, the Organisational Risk Division (ORD) is responsible for assessing and monitoring financial risks. ORD is an independent risk management division that reports to the Director of Resolution and Corporate Affairs. The Deputy Governor (Central Banking) is the chair of the Executive Risk Committee.

Credit Risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk in the management of its investment assets, in the monetary policy operations conducted on behalf of the Eurosystem and in connection with 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 selected rating agencies. Credit exposure is mitigated on the Bank's investment assets by implementation and maintenance of an approved investment policy framework.

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 ensures 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, the Eurosystem Credit Assessment Framework (ECAF) ensures that the Eurosystem requirement of high credit standards for all eligible assets is met. In addition, on-going risk control measures including valuation haircuts, initial and variation margins are also applied. Where Eurosystem loss-sharing arrangements apply, the credit risk to the Bank 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 extraordinary monetary policy related portfolios is managed in accordance with the relevant Eurosystem frameworks.

Market Risk

Market risk is defined as the risk of loss as a result of changes in market risk factors, including prices, interest rates, foreign exchange rates, commodity prices and credit spreads. The Bank is predominantly exposed to market risk through the interest rate sensitivity of its investment assets. In addition, market risk arises from the Bank's portfolio of bonds which were acquired following the liquidation of the IBRC. Some exposure may also arise due to exchange rate fluctuations, gold prices and to changes in financial market conditions.

Market risk with respect to trading portfolios is managed within the Bank's Financial Operations Directorate in line with the 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.

Note 38: Financial Risk Management (continued)

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 risk of the Bank's mark-to-market portfolios is calculated and managed using modified duration. Modified duration quantifies 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 (i)).

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 2015, the Bank's portfolios were predominantly in euro, with a small amount of gold which is priced in US dollars and can include a limited amount of foreign currency instruments hedged in euro. The Bank is also exposed to currency risk through a net-asset position in Special Drawing Rights (Note 12 and Note 28).

Note 39: Unmatured Contracts in Foreign Exchange

Unmatured Foreign Exchange Contracts at year end were as follows:

	31 December 2015			31 December 2014	
	EUR	GBP	JPY	EUR	JPY
	000	000	000	000	000
Unmatured Purchases	661,180	–	10,051	189,423	–
Unmatured Sales	(75)	(1,480)	(88,310,051)	–	(26,300,000)
Unmatured Purchases and Sales	**661,105**	**(1,480)**	**(88,300,000)**	**189,423**	**(26,300,000)**

All foreign exchange contracts are scheduled to mature by 10 June 2016.

Note 40: Unmatured Contracts in Securities

Unmatured Contracts in Securities at year end were as follows:

	31 December 2015	31 December 2014
	€000	€000
Unmatured Purchases	59,068	–
Unmatured Sales	(256,895)	(529,000)
Unmatured Purchases and Sales	**(197,827)**	**(529,000)**

All contracts matured by 11 January 2016.

Note 41: Related Parties

(i) The Bank provides several services to the Minister for Finance, its sole shareholder, and to other Government departments and bodies.

The main services provided during the year to 31 December 2015 were:

- provision of banking services including holding the principal accounts of Government;
- provision and issue of coin;
- holding and maintaining the Register of Irish Government securities.

(ii) As a participating member of the ESCB, the Bank has on-going relationships with other NCBs and the ECB.

(iii) The Bank is one of three shareholders of 'The Investor Compensation Company Limited' (ICCL) and provides administrative and other services to it, the costs of which are recovered from the ICCL. The Bank is the supervisory authority for the purpose of the Act. The ICCL administers the investor compensation scheme to partially reimburse the clients of failed investment firms. The ICCL prepares its own Annual Report and audited Financial Statements. At 31 December 2015, a balance of €35,781 was due from ICCL (2014: €42,183). This was paid in full in February 2016 (2014: February 2015).

Note 42: Events after the End of the Reporting Period

(i) ECB Final Distribution of Profits

The Governing Council of the ECB decided on 22 January 2016 to distribute its remaining profit for 2015, amounting to €269.7 million, to the euro area NCBs, in proportion to their paid-up shares. The Bank's share of this final distribution of profits was €4.4 million and will be accounted for in the 2016 Financial Statements.

Note 43: Financial Regulation Activities

Funding of Financial Regulation activities		2015	2014
		€000	€000
Levy Income			
Levy Income (i)		67,677	75,778
Deferred Levy Income (ii)		5,873	–
Levy Income	**A**	**73,550**	**75,778**
Provision			
Opening Provisions for Unpaid Levy Notices		3,493	2,640
Levies Written Off		(292)	(130)
Closing Provisions for Unpaid Levies (iii)		(1,914)	(3,493)
Charge for Year	**B**	**1,287**	**(983)**
Financial Regulation Net Industry Funding	**C (A+B)**	**74,837**	**74,795**
Other Income			
Securities Market Fees		2,496	1,883
Licensing Fees		500	500
Miscellaneous		58	13
Other Income	**D**	**3,054**	**2,396**
Total Income	**E (C+D)**	**77,891**	**77,191**
Subvention			
Securities Market Supervision activities		6,195	6,300
Other Financial Regulation costs not recovered		62,584	55,895
Subvention from Central Bank (iv)	**F**	**68,779**	**62,195**
Total Funding of Financial Regulation Activities	**G (E+F)**	**146,670**	**139,386**

Note 43: Financial Regulation Activities (continued)

Costs of Financial Regulation activities		2015	2014
		€000	€000
Direct Expenses			
Salaries/Allowances		46,333	42,825
PRSI		4,133	3,790
Pension Provision		21,383	12,102
Staff Expenses	**H**	**71,849**	**58,717**
Training, Recruitment & Other Staff Costs		2,306	1,765
Equipment, Stationery & Requisites		1	1
Business Travel		1,269	1,168
Publishing & Consumer Advertising		28	38
Professional Fees		3,504	21,630
Miscellaneous		2,147	1,840
Non-Pay Operating Expenses	**I**	**9,255**	**26,442**
Total Direct Expenses	**J (H+I)**	**81,104**	**85,159**
Support Services			
Premises & Facilities		15,252	13,130
Information Technology Services		18,019	13,816
Human Resources		8,880	7,204
Other Services		22,136	17,471
Total Support Services (v)	**K**	**64,287**	**51,621**
Restructuring Charge			
Restructuring Charge for Year	**L**	**–**	**2,614**
Deferred Charges			
Opening Provision for Deferred Charges		7,087	7,406
Change in Provision		(5,808)	(327)
Closing Provision for Deferred Charges		–	(7,087)
Deferred Charges related to Current Year (vi)	**M**	**1,279**	**(8)**
Total Costs of Financial Regulation Activities	**N (J+K+L+M)**	**146,670**	**139,386**

Note 43: Financial Regulation Activities (continued)

(i) Levy Income

While levy income of €73.6 million in 2015 has reduced (2014: €75.8 million), there are two significant changes within this net position as follows:

- Professional Fees in 2015 are substantially lower as the 2014 Comprehensive Assessment of credit institutions was not repeated.
- Pension charges in 2015 show a marked increase, principally reflecting a change in the discount rate.

	2014 Deficit/ (Surplus) (A)	Amount Levied in 2015 (B)	2015 Deficit/ (Surplus)* (C)	2015 Levy Income D (B+C-A)
	€000	€000	€000	€000
Credit Institutions	676	32,603	747	**32,674**
Insurance Undertakings	238	15,584	1,326	**16,672**
Intermediaries	2,506	2,615	1,712	**1,821**
Securities and Investment Firms	859	10,585	1,538	**11,264**
Investment Funds	30	2,737	1	**2,708**
Credit Unions	–	1,407	–	**1,407**
Moneylenders	(55)	358	(32)	**381**
Approved Professional Bodies	6	21	4	**19**
Bureau de Change	5	11	16	**22**
Home Reversion & Retail Credit Firms	108	151	143	**186**
Payment Services Institutions	(23)	541	(41)	**523**
Total Funding	**4,350**	**66,613**	**5,414**	**67,677**

* The aggregate of the gross deficits (€5.5 million) and surpluses (€0.1 million) attributable to each Industry Funding sub-category have been included in Note 21(ii) and Note 31(vi) respectively

(ii) Deferred Levy Income

In 2015 the Bank changed the method of levying current service pension costs. Under this revised approach, the impact of pension volatility is being spread over a rolling ten year period and, as a result, accrued income in relation to levy charges deferred of €5.9 million has been recognised in the current year.

(iii) Provision for unpaid levies

The Bank maintains provisions in respect of levies which remain unpaid at year end. Levies fall due within thirty five days of the invoices being issued and are reported as outstanding from day thirty six onwards. The policy is to make full provision for levies related to prior years and to make partial provision for outstanding levies related to the current year. Outstanding levies are pursued as part of the on-going debt recovery process.

(iv) Subvention

By agreement with the Minister for Finance, since 2007 approximately 50 per cent of the total costs of financial regulation activities have been met by the imposition of levies on the industry. The balance of the total annual costs is provided by the Bank in accordance with Section 32I of the *Central Bank Act*, 1942 (as amended). Since 2007 the Bank, with the approval of the Minister for Finance, has incurred costs in respect of certain securities market supervision activities (relating to the Prospectus, Market Abuse, Transparency and Short Selling Directives) carried out within the organisation. These costs totalling €6.2 million in 2015 (2014: €6.3 million) were excluded from the Net Industry Funding levies issued to the industry in 2015. Securities Market fees are included in Other Income.

(v) 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 2015 was €64.3 million (2014: €51.6 million).

Allocation is based on well-recognised industry practice including occupied floor space, personal computer numbers and headcount (staff numbers) as appropriate.

(vi) Deferred Charges

Since 2013 the Bank has recognised certain charges in the Income and Expenditure Statement on an accruals basis which will be charged to Industry in future years as actual outgoings are incurred. These expenses relate to:

(i) An onerous lease and dilapidations provision. The acquisition in 2015 of the premises at Spencer Dock, which was the subject of this provision has meant that this provision is no longer required. It has, therefore been released in the current year (Note 33(iii)).

(ii) An accrual in respect of annual leave (Note 9(i)); and

(iii) A restructuring provision for planned restructuring in 2015 in relation to administrative and currency staff. The balances of the deferred charges in respect of the accrual for annual leave and the restructuring provision were released to Income and Expenditure in 2015 leaving a zero balance at end 2015.

Note 44: Comparatives

Certain comparative information has been reclassified for consistency with current year disclosures. Property, Plant and Equipment (Note 22) have been reclassified into Tangible (Property, Plant and Equipment) and Intangible assets (Computer Software) as required under FRS 102.

Note 45: Approval of Accounts

The Commission approved the Statement of Accounts on 15 March 2016.

Comptroller and Auditor General Report for presentation to the Houses of the Oireachtas

Central Bank of Ireland

I have audited the statement of accounts of the Central Bank of Ireland for the year ended 31 December 2015 under the Central Bank Act 1942, as amended by the Central Bank Reform Act 2010. The statement of accounts comprises 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 Note 1(b) of the notes to the accounts.

Responsibilities of the Central Bank Commission

The members of the Central Bank Commission are responsible for the preparation of the statement of accounts, for ensuring that the statement gives a true and fair view and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the statement of accounts and report on it in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the statement of accounts

An audit involves obtaining evidence about the amounts and disclosures in the statement, sufficient to give reasonable assurance that the statement is free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the Bank's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the statement of accounts, and
- the overall presentation of the statement of accounts.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the Bank's annual report to identify if there are any material inconsistencies with the audited statement of accounts and to identify if there is any information that is apparently materially incorrect or inconsistent based on the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the statement of accounts

In my opinion, the statement of accounts:

- give a true and fair view of the assets, liabilities and financial position of the Bank as at 31 December 2015 and of its income and expenditure for 2015; and
- have been properly prepared on the basis described in Note 1(b) of the notes to the accounts.

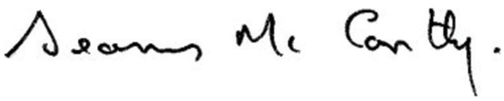
In my opinion, the accounting records of the Bank were sufficient to permit the statement of accounts to be readily and properly audited. The statement of accounts is in agreement with the accounting records.

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 if I find

- 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 with the knowledge acquired by me in the course of performing the audit, 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
- 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 was a material level of expenditure on goods and services by the Bank in 2015 that was not based on competitive selection procedures.



Seamus McCarthy
Comptroller and Auditor General

15 March 2016

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 2015 which comprise the Profit and Loss and Appropriation Account, the Balance Sheet and the related notes 1 to 45. The financial reporting framework that has been applied in their preparation is the Guideline of the European Central Bank on the legal framework for the accounting and financial reporting in the European System of Central Banks and, where the Guideline of the European Central Bank does not provide specific direction or its application is not mandatory, accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) have been followed.

Respective responsibilities of Commission Members and Auditors

As explained more fully in the Statement of Commission Members' Responsibilities the Commission Members are responsible for the preparation of the Statement of Accounts in accordance with the financial reporting framework.

Pursuant to the requirements of Article 27 of the Statute of the European Central Bank, we have been appointed to audit the Statement of Accounts of the Central Bank of Ireland. Our responsibility, as independent auditors, is to audit and express an opinion on the Statement of Accounts in accordance with Article 27 of the Statute of the European Central Bank and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report, including the opinion, has been prepared for, and only for, the Bank's Commission as a body, in accordance with Article 27 of the Statute of the European Central Bank and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the Statement of Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Statement of Accounts sufficient to give reasonable assurance that the Statement of Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Bank's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commission Members; and the overall presentation of the financial statements. We are not required to form an opinion on the effectiveness of the Bank's system of internal financial controls. We read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Statement of Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2015 and of the surplus for the year then ended; and

– have been properly prepared in accordance with the financial reporting framework.

Floating Rate Notes

– Due to the continued significance of the Floating Rate Notes included on the Balance Sheet, the reader's attention is drawn to Note 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.

Michael Shelley
For and on behalf of
Grant Thornton
Chartered Accountants
Registered Auditors

15 March 2016

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Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

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