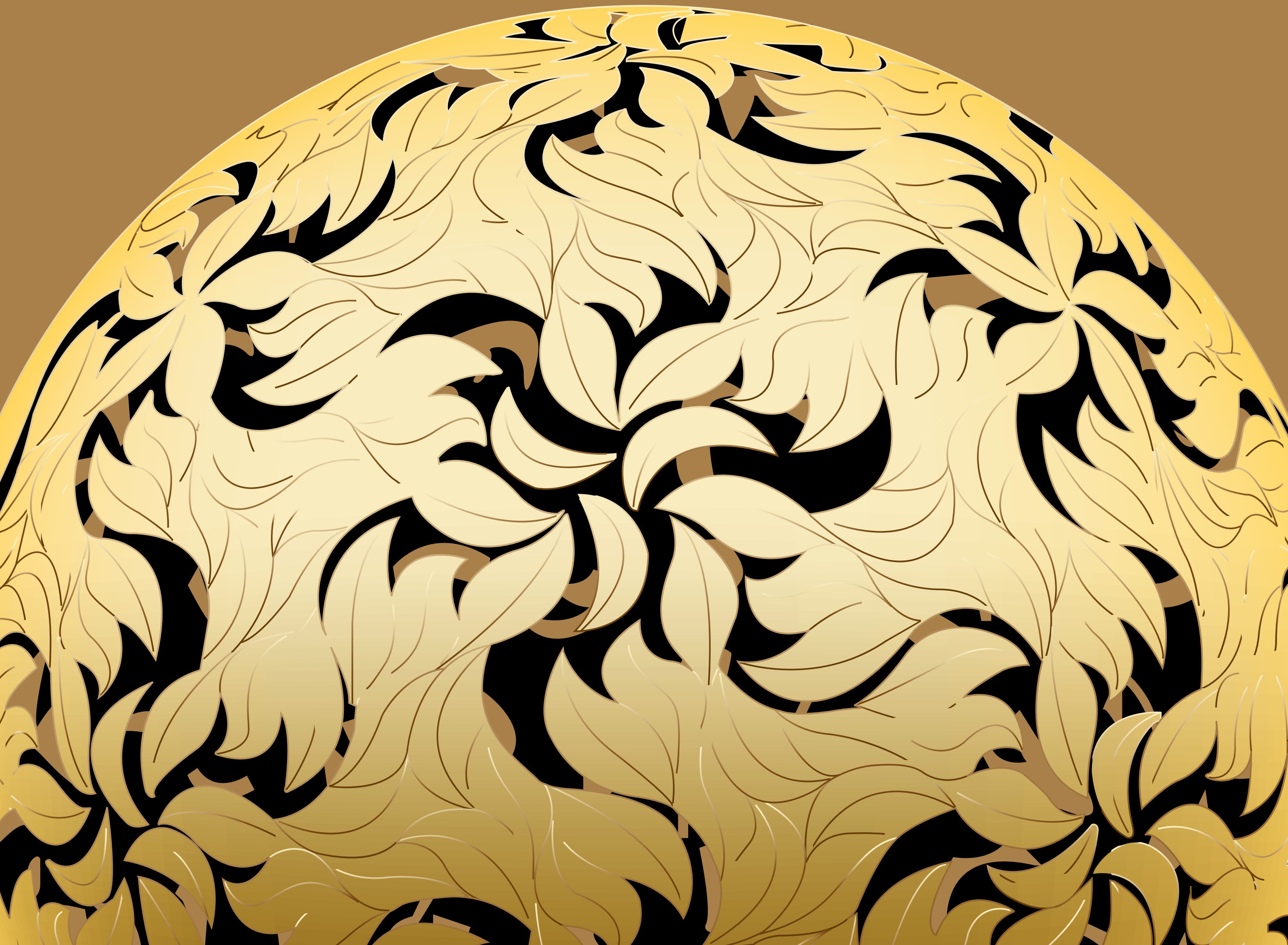
Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem



# Central Bank of Ireland

## Annual Report 2016

Central Bank of Ireland

10 April 2017

Dear Minister

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

I have the honour to enclose herewith the Activities and Annual Accounts of the Central Bank of Ireland for the year ended 31 December 2016.

Yours faithfully

**Philip R. Lane**
**Governor**

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# Part 1

# The Central Bank Commission

as at 31 March 2017

**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

as at 31 March 2017

- **CENTRAL BANK COMMISSION**
  Philip R. 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 R. Lane
    - **DEPUTY GOVERNOR (CENTRAL BANKING)**
      Sharon Donnery
      - Resolution and Corporate Affairs – John Coyle
        - General Secretariat
        - Communi-cations
        - Internal Audit^
        - Legal
        - Organisa-tional 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
        - IT Strategy, Planning and Architecture
        - Technology Delivery and Operations
      - Human Resources – Liz Joyce
        - Human Resources
        - Organisation Development
      - Currency and Facilities Management – Paul Molumby
        - Currency Issue
        - Currency Production
        - Facilities Management
      - Financial Control
      - Procurement
      - Regulatory Transactions
      - Project Management Office
    - **DEPUTY GOVERNOR (FINANCIAL REGULATION)**
      Cyril Roux
      - Credit Institutions Supervision – Ed Sibley
        - Banking Supervision – Supervi-sion
        - Banking Supervision – Inspections
        - Banking Supervision – Analysis
        - Registry of Credit Unions
      - Insurance Supervision – Sylvia Cronin
        - Insurance – Supervision
        - Insurance – Advisory, Analytics & Actuarial Services
      - Asset Management Supervision – Michael Hodson
        - Asset Manage-ment: Supervision
        - Asset Manage-ment: Authorisa-tions & Inspections
      - Securities and Markets Supervision – Grainne McEvoy#
        - Securities and Markets Supervision
      - Policy and Risk – Gerry Cross
        - Prudential Policy and Governance
        - Risk
        - Markets Policy
      - Consumer Protection – Bernard Sheridan
        - CP – Supervision
        - CP – Policy and Authorisa-tions
      - Enforcement – Derville Rowland
        - Enforcement Investiga-tions
        - Enforcement - Advisory
        - 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.

# Mary O'Dea will take up the position in early September 2017. Until that time, Grainne McEvoy, Head of Securities and Markets Supervision Division, will be Acting Director.

# Senior Management

as at 31 March 2017

**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**

**Kevin Garland,**
**Chief Information**
**Officer**

**Liz Joyce,**
**Director**
**Human Resources**

**Gráinne McEvoy,**
**Acting Director**
**Securities and**
**Markets Supervision**

**Maurice McGuire,**
**Director**
**Financial Operations**

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

**Derville Rowland**
**Director**
**Enforcement**

**Michael Hodson,**
**Director**
**Asset Management**
**Supervision**

**Bernard Sheridan,**
**Director**
**Consumer Protection**

**Ed Sibley,**
**Director**
**Credit Institutions**

| Directorate | Division | Head of Division |
|---|---|---|
| **Resolution and Corporate Affairs** | **General Secretariat** | Neil Whoriskey |
| | **Internal Audit** | Joe Foy |
| | **Communications** | Jill Forde |
| | **Legal** | Eadaoin Rock |
| | **Organisational Risk** | Glenn Calverley |
| | **Resolution** | Patrick Casey |
| **Financial Operations** | **Financial Markets** | Peter Sinnott |
| | **Payment and Securities Settlement** | Daragh Cronin |
| **Economics** | **Irish Economic Analysis** | John Flynn |
| | **Financial Stability** | Mark Cassidy |
| | **Monetary Policy** | Gillian Phelan |
| | **Statistics** | Joe McNeill |
| | **Research and Cross-Directorate Projects** | Gerard O'Reilly |
| **Information Management and Technology** | **IT Delivery** | Louise Dennehy* |
| | **IT Strategy, Planning and Architecture** | Karina McArdle |
| | **Technology Delivery and Operations** | Eoin McDermott |
| **Currency and Facilities Management** | **Currency Issue** | Lucy O'Donoghue |
| | **Currency Production** | Tony Duffy |
| | **Facilities Management** | Michael Enright |
| **Human Resources** | **Human Resources** | Derval McDonagh |
| | **Organisational Development** | Karen A O'Leary* |
| **Operations** | **Regulatory Transactions** | Alan Briscoe |
| | **Financial Control** | Fergal Power |
| | **Procurement** | Michael Power |
| | **Project Management Office** | John Thompson |
| **Credit Institutions Supervision** | **Banking Supervision – Analysis** | Adrian Varley |
| | **Banking Supervision – Supervision** | Fiona McMahon |
| | **Banking Supervision – Inspections** | Vacancy |
| | **Registry of Credit Unions** | Anne Marie McKiernan |
| **Insurance Supervision** | **Insurance – Supervision** | Nuala Crimmins |
| | **Insurance – Advisory, Analytics & Actuarial Services** | David Cobley |
| **Asset Management Supervision** | **Asset Management-Supervision** | Vacancy |
| | **Asset Management-Authorisations and Inspections** | Vacancy |
| **Securities and Markets Supervision** | **Securities and Markets Supervision** | Gráinne McEvoy |
| **Policy & Risk** | **Prudential Policy and Governance** | Mary Burke |
| | **Supervisory Risk** | Mary Elizabeth McMunn |
| | **Markets Policy** | Martin Moloney |
| **Consumer Protection** | **Consumer Protection – Policy and Authorisations** | Colm Kincaid |
| | **Consumer Protection – Supervision** | Helena Mitchell |
| **Enforcement** | **Enforcement – Investigations** | Brenda O'Neill |
| | **Enforcement – Advisory** | Seana Cunningham |
| | **Anti-Money Laundering** | Domhnall Cullinan |

* Louise Dennehy will take up the position on 10 April 2017.

* Karen A O'Leary will take up the position on 24 April 2017.

# Governor's Foreword

The Irish economy continued to grow at a robust pace in 2016, supported by strong domestic demand. Growth in employment picked up considerably and there has been a broadening of recovery on the domestic side of the economy. The overall outlook remains relatively positive. However, this outlook is subject to uncertainty about the external environment, including Brexit and risks to the global trading environment. A Brexit Taskforce was established in the Bank prior to the UK referendum and it continues to assess and analyse the implications, including the potential for a more diverse range of entity types and business models that would require the Bank's supervision.

In the euro area, economic conditions also improved during 2016. While the annual headline inflation rate remained subdued during the past year, the Governing Council of the European Central Bank (ECB) took a number of non-standard measures aimed at bringing inflation back to a level close to but below 2 percent over the medium term.

In order to fulfil the Bank's mission of 'Safeguarding Stability, Protecting Consumers', there was good progress in implementing the Strategic Plan for the period 2016-2018. In underpinning financial stability, the Bank's role has both European and domestic dimensions. As part of the ECB's Single Supervisory Mechanism (SSM), the Bank helped ensure that capital ratios and liquidity ratios were sufficient for banks to withstand adverse shocks, which was further reinforced by a proactive supervisory engagement programme. In cooperation with the Single Resolution Board (SRB), another important element was the work that was undertaken to ensure that any future resolution of troubled institutions would minimise the need for injections of taxpayer funds. In this respect resolution plans for all Irish banks were developed and endorsed by the SRB in 2016. In the insurance sector, the Bank successfully introduced significant new regulatory measures under Solvency II which became effective in 2016.

Domestically, under the national macroprudential policy framework, the Bank sets additional capital buffers for banks and also enacts borrower-based measures to mitigate the risks associated with boom-bust financial cycles. In 2016 the Bank reviewed and revised the system of mortgage measures originally introduced in 2014, to ensure that it continued as an essential tool in limiting systemic financial risk, while acting to protect consumers from the risks associated with over-borrowing.

Under our consumer protection mandate, one of the key areas of focus remains the comprehensive industry-wide tracker mortgage examination. This is the largest, most complex and significant supervisory review that the Bank has undertaken to date in respect of our consumer protection mandate; significant progress has been made and the aim is to ensure that all relevant lenders conduct a comprehensive and robust review, which delivers fair outcomes for all customers.

Pursuing a credible and effective approach to enforcement also helps to underpin consumer confidence. During 2016 the Bank concluded nine administrative sanctions cases and imposed monetary penalties of more than €12m.

There were a number of significant developments from an organisational perspective. The Bank's re-location programme for its city centre-based staff to the new Dockland Campus progressed in line with the agreed objectives and occupation of the new premises was concluded in April 2017. The Bank also concluded an organisational review during the year and enhanced its communications offerings, including the development of a new website which went live in March 2017. The annual report provides details on these and all of the Bank's activities during the past year.

The Bank is reporting a financial profit of €2.3bn in 2016; after retained earnings, surplus income amounting to approximately €1.8bn will be paid over to the Exchequer. The Bank's profits continue to reflect the legacies of the financial crisis both domestically and in the euro area. These factors will fall away over the medium term and the Bank's profit flows will correspondingly normalise to more modest levels.

I wish to pay tribute to Deputy Governor Cyril Roux who is leaving the Bank. He brought determination, drive and expertise to the Bank's wide supervisory mandate both in Ireland and Europe. He successfully contributed to the running of the Bank as a whole, and leaves behind a strong team to continue this work. I also wish to acknowledge the members of the Central Bank Commission for their contributions and support throughout the year. Finally, I would like to sincerely thank all of the staff of the Bank for their continued hard work and focus on delivering on the Bank's mandate.

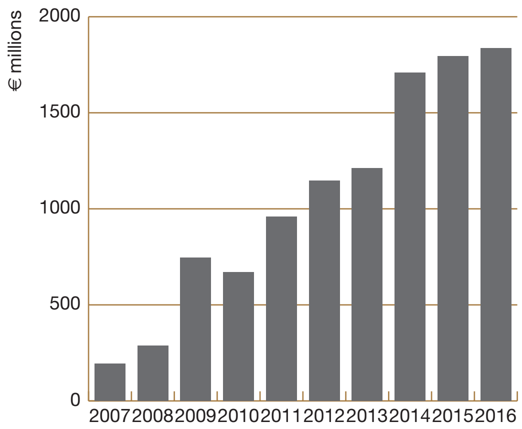
**Philip R. Lane,**
**Governor**

**10 April 2017**

# 2016 **at a Glance**

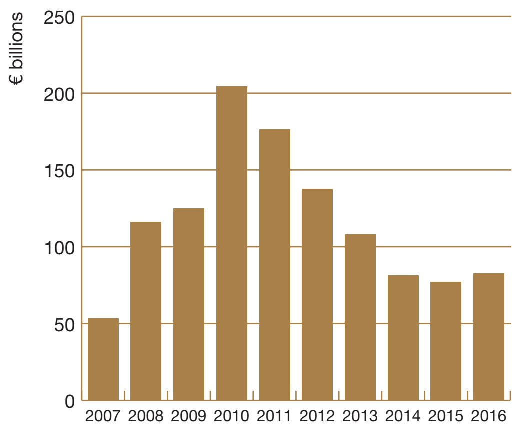
## 2016: The Central Bank at a Glance

### Surplus Income Paid to Exchequer



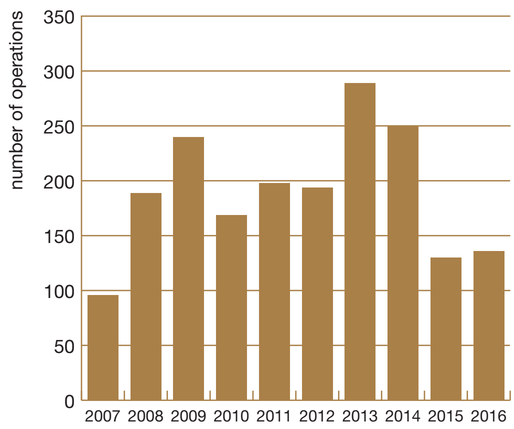

Surplus income paid to the Exchequer increased to €1,836.2 million (€1,795.2 million in 2015).

### Total Assets



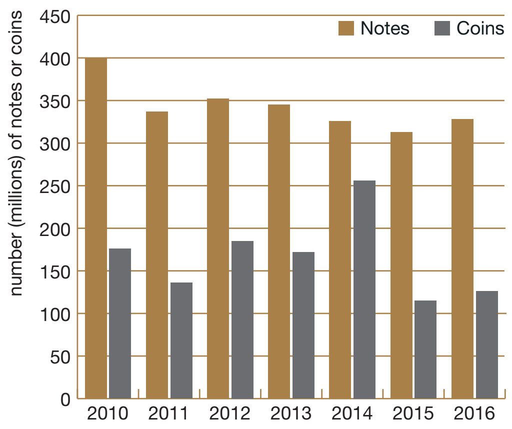

Total Assets increased to €82.8 billion (€77.2 billion in 2015).

### Number of Open Market Operations




136 operations were conducted by the Bank on behalf of the Eurosystem (130 in 2015).

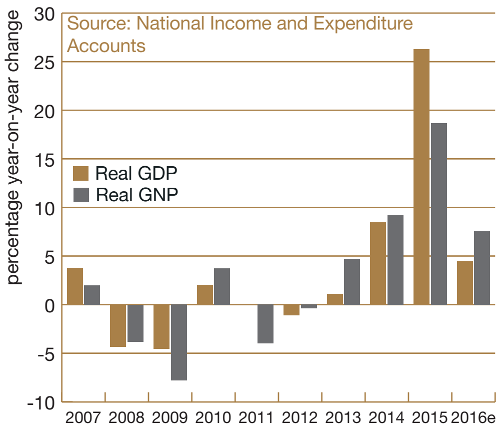
### Issuance of Banknotes and Coin




The number of banknotes issued increased (328 million in 2016 from 313 million in 2015) and the number of coins issued increased (126 million in 2016 from 115 million in 2015)

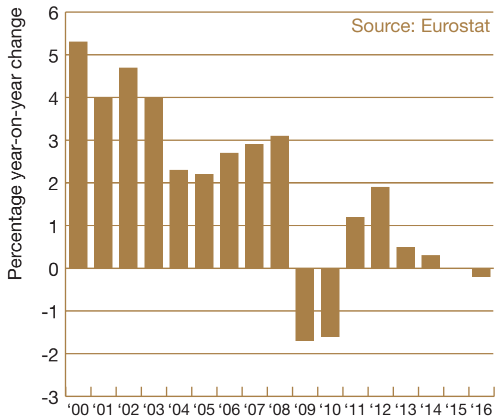
# 2016: The Irish Economy at a Glance

## Real GNP and GDP



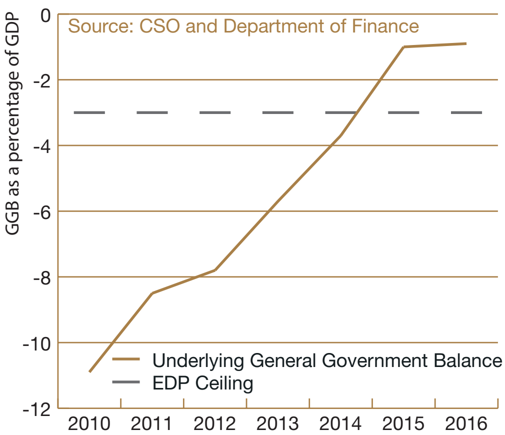

The economy expanded in 2016, growing in real GNP terms, by an estimated 7.6 per cent and in real GDP terms by an estimated 4.5 per cent.

## Inflation (HICP)




The HICP measure of inflation averaged -0.2 per cent in 2016.

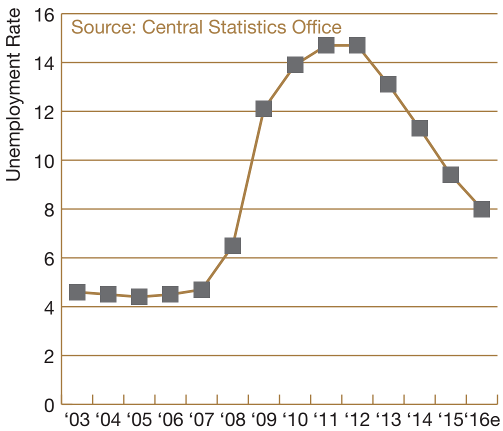
## General Government Balance (GGB) as a % of GDP




The 2016 General Government deficit is estimated to have comfortably outperformed the Excessive Deficit Procedure (EDP) ceiling.

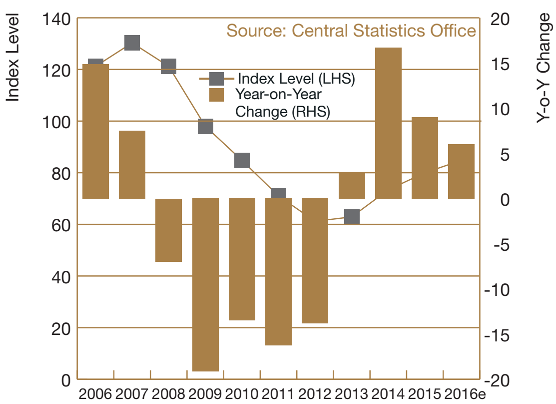
Note: Figures for 2016 are based on estimates at time of Budget 2017 and are subject to revision once EDP figures are published by Eurostat in April 2017.

## Unemployment Rate



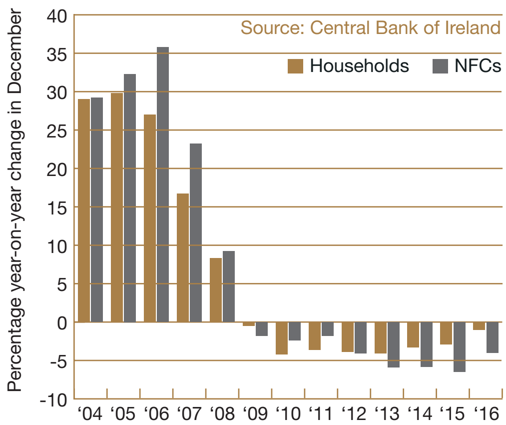

The unemployment rate decreased to an estimated average of 8.0 per cent in 2016. The current (January) ILO rate of unemployment is 7.1 per cent.

## National Residential Property Prices




The Residential Property Price Index was 6 per cent higher on average in 2016 than in 2015.

## End-Year Annual Rates of Change in Lending




Lending to Irish Households and Non-Financial Corporations (NFCs) fell by 1 per cent and by 4 per cent, respectively, year-on-year by end-2016.

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

# Chapter 1:
# Strategic Plan 2016-2018

## Review of Implementation in 2016

Central Bank Strategic Plan 2016-2018 – at a glance

**Our Mission:**

Safeguarding Stability,
Protecting Consumers

**Our Vision:**

Trusted by the Public
Respected by our Peers
Fulfilling workplace for our People


Strategic Responsibilities
Strategic Enablers

## Introduction

The mission of the Central Bank is “Safeguarding Stability, Protecting Consumers”. Central to delivering this mission is working to safeguard price and financial stability (the former in the context of the Eurosystem) and to undertake assertive risk-based supervision underpinned by a credible threat of enforcement. How the mission is delivered is set out in the Central Bank Strategic Plan 2016-2018 (the Plan) which was approved by the Commission in September 2015 and published in November 2015. It was developed following extensive engagement with the Commission, senior executives and management in the Bank.

Towards the end of 2016, the first year of implementation of the Plan, it was considered timely for the Commission to review its content to ensure that the objectives and outcomes articulated remain valid and to determine if any adjustments or additions were required. The Commission agreed that the Plan remained relevant to the mandate of the Bank as no additional significant responsibilities had been given to the Bank since the Plan was published. However, some issues were identified which have arisen since the Plan was originally agreed and these will be addressed in the 2017, and subsequent, operational plans. These include Brexit-related activities, in particular the monitoring and assessment of economic and financial stability risks for Ireland and the development of a financial regulation policy response; enhancing the range of financial statistics provided for both internal and external analysis; and an increased emphasis on risk management within the Bank, both financial and non-financial risk.

Some of the significant achievements to highlight for 2016 include the delivery of the Financial Sector Assessment Program (FSAP); the review of the macroprudential measures; the ongoing tracker mortgage examination; the embedding of Solvency II in the insurance sector; and the Fusion project to relocate city centre based staff to the new Dockland Campus.

One of the commitments in the Plan is to report annually on its implementation. This high-level summary sets out the key work undertaken in order to meet the Strategic Plan objectives in 2016. Chapter 2 of this Annual Report provides fuller details of developments in the Bank in 2016 in a format which mirrors the Strategic Responsibilities and Enablers as set out in the Plan.

## Strategic Responsibilities

| Price Stability |
| --- |
| *Desired Outcome: Euro area inflation objective is achieved.* |

The primary objective of the European Central Bank (ECB) is to maintain price stability. In this pursuit, the ECB aims to maintain inflation rates below, but close to, 2% over the medium term.

In 2016, the pattern of headline inflation in the euro area as measured by the Harmonised Index of Consumer Prices (HICP), mainly reflected the influence of energy prices. The HICP measure of inflation averaged 0.2% in 2016.

The Bank is responsible for contributing to the formulation and implementation of Eurosystem monetary policy thus helping to ensure that the euro area inflation objective is achieved. The primary focus under this objective is to provide effective briefing and policy advice to support the Governor in his role as a member of the Governing Council of the ECB. In 2016, briefing was prepared in a timely manner based on high quality analytical research which assisted the Governor in contributing to the decision making processes for the formulation of the Eurosystem monetary policy.

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 monetary stance and implementation. The Bank is also represented on the Market Operations Committee (MOC) which assists in the implementation of euro area monetary policy, including the implementation of the ECB's asset purchase programme, which was effected in a smooth and efficient manner. The Governor was also supported in his policy making role in relation to non-standard policies, such as duration and size of asset purchase programmes and technical issues relating to their implementation. Analysis, assessments and interpretation of financial market developments within and outside the EU was also conducted.

| Financial Stability |
| --- |
| *Desired Outcome: The Financial system is stable.* |

The Bank has an explicit mandate in domestic and European legislation to contribute to financial stability in Ireland and at euro area and EU levels. In order to achieve this objective, it is essential that the Bank has an effective macroprudential policy framework in place. As the designated macroprudential authority for Ireland, the Bank has deployed a suite of measures which aim to prevent and mitigate system-wide risks. The Countercyclical Capital Buffer (CCyB) was introduced on 1 January 2016 and is reviewed quarterly. This is a time-varying countercyclical capital requirement that aims to limit the potential systemic risks associated with excessive credit growth.

Assessments of the issues which put financial stability considerations to the forefront are made public through the publication of the Bank's bi-annual Macro-Financial Reviews. The Macro-Financial Reviews provide an overview of the macro-financial environment in Ireland. Its aims are twofold: (i) to help the public, financial-market participants and international and national authorities better evaluate financial risks and (ii) to promote informed dialogue on the financial system's strengths and weaknesses and efforts to strengthen its resilience.

In 2016, the Bank conducted an in-depth review of the macroprudential policy measures, first introduced for the Irish mortgage market in 2015 in the form of limits on new lending at high loan-to-value (LTV) and loan- to-income (LTI) ratios. The objectives of these measures are to enhance resilience of banks and households to financial shocks and to curb cyclical tendencies in the mortgage market. As a result of the review, which was informed by submissions from a public consultation, some variations to the measures in relation to first time buyers were introduced.

A new Macroprudential Measures Committee (MMC) was established in September 2016 which acts as an advisory committee for regular reviews of bank-related national macroprudential measures and makes recommendations about maintaining or revising any deployed measures as it deems appropriate. An account of these meetings is published on the Bank's website.

During 2016, the IMF Financial Sector Assessment Program (FSAP) was delivered successfully. It focused on the following areas:

» The resilience of the financial sector (risk and vulnerabilities assessment);

» The quality of the regulatory and supervisory framework;

» The capacity to manage and resolve financial crises.

This successful outcome has resulted in public recognition of the progress the Bank has made in recent years.

During 2016, work continued to launch and manage a Central Credit Register (CCR). Following extensive consultation with the Office of the Data Protection Commissioner, the CCR regulations were made in September. Under those regulations, the CCR will start to receive credit information from lenders from 30 June 2017 onwards and will start to provide information to both lenders and borrowers in early 2018.

The new contributory fund for the Deposit Guarantee Scheme (DGS) was successfully established and contributions of €93m were received by end-December 2016.

| Consumer Protection |
| --- |
| *Desired Outcome: Regulated firms act in the best interests of consumers.* |

In progressing the consumer protection mandate, the Bank seeks to ensure that a positive consumer focused culture is embedded within regulated firms and that firms are compliant with their regulatory obligations. The Bank sets out clearly the key risks and threats to this objective and its expectations of firms in dealing with these threats in the Consumer Protection Outlook Report (CPOR) which is published in the first quarter of each year. In addition, three Consumer Protection Bulletins were published in 2016 which covered the areas of Personal Lending, the Code of Conduct on Mortgage Arrears and Current Account Switching.

The Tracker Mortgage Examination (the Examination) is the most significant supervisory review that the Bank has undertaken in the context of its consumer protection mandate. Since 2010, the Bank has pursued a number of lender-specific issues in relation to transparency for borrowers who opted to switch from their tracker rates or who had the right to revert to a tracker rate at the end of a fixed rate period. As at end- 2016, 8,800[1] impacted accounts were identified as part of the Examination. The Bank expects the relevant lenders will have identified and commenced engagement with all impacted customers by mid-2017.

Following a public consultation on a review of the existing Small and Medium Enterprise (SME) Code, new SME lending regulations came into force on 1 July for all lending institutions, except credit unions where they came into force on 1 January 2017. Additional protections were also introduced for borrowers on variable rate mortgages, enhancing transparency and facilitating switching.

The increased oversight of the low impact intermediary sector continued to deliver some important outcomes with overall compliance levels with minimum standards increasing in terms of the number of regulatory submissions and supervisory actions being taken against non-compliant firms.

1 As at end-February 2017 this figure had increased to 9,900

| Supervision and Enforcement |
|---|
| *Desired Outcome: Regulated firms are financially sound and safely managed.* |

Regulation of financial institutions and markets is undertaken through risk-based supervision, which is underpinned by credible enforcement deterrents. During 2016, the Bank enhanced its supervisory engagement, processes and tools in light of new powers, new mandates and upgraded international standards. This included implementing an enhanced supervisory engagement model for credit unions and adopting a risk-based approach to Anti-Money Laundering (AML) supervision in line with international best practice and standards.

Supervisory Engagement Plans (SEP) and On-Site Inspection plans (OSI) for both significant and less significant credit institutions were delivered.

Significant support was provided to the Single Supervisory Mechanism (SSM) Non Performing Loans (NPL) Task Force, which is chaired by Deputy Governor Donnery. This was complemented with robust on and off-site engagement with credit institutions in relation to distressed portfolios.

Solvency II was fully embedded for insurance undertakings; online reporting was deployed and reporting requirements were met. All timelines for the European Insurance Occupational and Pensions Authority (EIOPA) Stress Test were met as was the required market coverage for Ireland.

A large number of intrusive, firm specific, supervisory engagements and thematic inspections to improve standards on an industry wide basis were undertaken and new mandates were successfully implemented in terms of the Market Abuse Directive and its related Regulation. Material progress on improving the quality and efficiency of the investment fund authorisation process was made through the use of online applications and automated workflows.

The Bank committed to extending its on-site inspections activities, initially introduced in the banking sector, across all regulated entities. While this outcome was broadly delivered for insurance undertakings, credit unions and retail intermediaries, resource constraints and staff turnover impacted the degree to which this could be fully delivered for some sectors.

The Bank has continued to commit resources to robust investigations of firms and individuals, seeking to hold them to account where their behaviour does not meet the required standards. The planned number of administrative sanctions cases brought to settlement in 2016 was exceeded, along with imposing a record fines figure of in excess of €12m; the first case referred by the ECB to the Bank under the SSM regime was also settled.

| Regulatory Policy Development |
|---|
| *Desired Outcome: The Bank engages actively in the European regulatory policy process contributing to the development of sound rules well adapted to the Irish context and supporting the work to transpose those rules into Irish law thus ensuring that regulatory frameworks are appropriate and effective.* |

During 2016 the focus, both at domestic and EU level, was primarily on bedding down regulatory frameworks which had undergone substantial change in preceding years, including Solvency II. The Bank has been actively engaged in the development of European Banking Authority (EBA) reports, guidelines and technical standards (e.g. leverage ratio, liquidity, securitisation and covered bonds, large exposures, credit risk management) and in the impact assessment of International Financial Reporting Standard 9.

The Bank continued to influence the international policy agenda on securities and markets issues through participation on the National Competent Authority prospectus peer review and through contributing to work on Prospectus Directive III, European Securities and Markets Authority (ESMA) initiatives, Transparency Regulations amendments and ESMA Guidelines.

From a regulatory and supervisory perspective, the Bank's primary concern in the period leading up to the Brexit referendum and thereafter has been to ensure that regulated firms with business models exposed directly or indirectly to the UK economy have addressed and planned appropriately for negative impacts that may result from the UK decision to leave the European Union. It remains a key part of the strategy in 2017 to continue to engage with financial firms to ensure that they have closely considered, and adapted for, the potential implications for their business models and revenue streams.

The Bank regulates approximately 400 fund management companies and, in 2016, wanted to ensure that these companies were complying and demonstrating compliance with the rules applying to them. In particular, the Bank wanted to ensure that companies have the right governance arrangements, comply with applicable legal and regulatory requirements and that the Bank can regulate such entities without undue constraint and in times of distress. Draft rules and guidance were prepared and the Bank consulted[2] extensively to test those rules and guidance and refine them as necessary.

In 2016, the Bank increased its focus on information technology and cyber security risks and published cross industry guidance in this regard for all regulated firms. The guidance clearly articulates the Bank's current supervisory expectations regarding the management of IT and cyber risks.

An internal Policy Network was established to achieve a strategic and consistent approach to the regulatory policy agenda. The aim of the network is to promote an effective framework of engagement between policy, frontline and other disciplines and to facilitate a range of discussions on improving the Bank's effectiveness and impact in EU policy making, sharing best practice on policy enhancement projects and policy responses to emerging issues.

| Payments, Settlements and Currency |
| --- |
| *Desired Outcome: Payment, Settlement and Currency systems are safe, resilient and efficient.* |

The Bank has a statutory obligation to ensure that Ireland has a safe and efficient national payments and settlements infrastructure, its work in this area having both domestic and Eurosystem aspects. The TARGET2 system, the interbank payment system for the real-time processing of transfers throughout the European Union, offers the highest standards of reliability and resilience and plays a key role in ensuring the smooth conduct of monetary policy. The Irish TARGET2 component processed almost 860,000 transactions in 2016 with a total value of €3.35 trillion.

The Bank continued to oversee the Irish retail payment and settlement systems and to monitor and adapt to developments in electronic payments. An assessment of the Irish Paper Clearing Company (IPCC), carried out by the Bank in accordance with the ECB's Oversight Framework for retail Payment Systems found no significant issues.

The Bank successfully launched the new €20 banknote, which is the third banknote in the new Europa Series of banknotes (ES2). These new banknotes have enhanced security features and are designed to deter counterfeiting. Preparations were also underway for the issue of the ES2 €50 banknote in April 2017.

The Bank issued a series of collector coins to commemorate the centenary of the 1916 Rising. A collector coin to commemorate the Irish designer and architect Eileen Gray was also issued in 2016.

The operating models for banknote and coin production, processing and issuance were reviewed and new models will be implemented in 2017.

2 CP86 Consultation on Fund Management Company Effectiveness

| Economic Advice and Statistics |
| --- |
| *Desired Outcome: Economic advice is forward-looking and independent and statistics are robust and relevant.* |

The Bank undertakes economic analysis, research, data collection and statistical analysis, designed to inform economic policy making domestically and at the euro area level. The analytical and statistical outputs are disseminated through various publications, seminars and through ongoing interactions with government departments, academia and commentators.

During 2016, work continued on the development of a euro area macro toolbox based on existing tools including models developed by the ECB. This allows the Bank to independently assess the impact of shocks on the euro area output and inflation forecasts.

A core DSGE[3] model, with detailed macro-financial and labour market components, has been developed to assess the impact of various macroprudential policies, including the mortgage rules and countercyclical buffers.

The Bank published articles, Economic Letters and research technical papers both in academic journals and other official publications. The focus of these publications was to set out the analytical thinking behind important Bank policy decisions and to contribute to broader policy debates both nationally and internationally.

The introduction of the Single Supervisory Mechanism (SSM) and other policy initiatives has led to a significant increase in statistical and analytical requirements. There have been a number of developments in European System of Central Banks (ESCB) statistics during 2016. Work continued on integrating statistical and supervisory data to provide a more holistic picture of the banking sector, particularly in terms of harmonising definitions and concepts.

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 Bank's close working relationship with the Central Statistics Office (CSO) was further developed during 2016. Following the publication of the National Accounts results in July 2016, the CSO established an Economic Statistics Review Group which is chaired by the Governor. Areas of cooperation now cover most institutional sector statistics, balance of payments, financial accounts, insurance and pension funds, and government finance statistics. In addition, all new data compiled by the Bank are provided to the CSO for input into Ireland's macroeconomic statistics.

| Recovery and Resolution |
| --- |
| *Desired Outcome: Frameworks are in place to ensure failed or failing regulated firms go through orderly resolution.* |

Embedding the EU resolution framework within in-scope firms, and where necessary, resolving failed or failing firms in an orderly manner, are vital components of a sustained economic recovery. Following the transposition of the Bank Recovery and Resolution Directive (BRRD) into Irish law in 2015 and the designation of the Bank as Ireland's national resolution authority (NRA), the Bank has focused in 2016 on embedding the resolution framework domestically, advancing resolution plans for all in-scope institutions and fulfilling its obligations under the new framework.

The Bank, in conjunction with the Single Resolution Board (SRB), further developed resolution plans for banks licensed in Ireland in 2016 and as the NRA developed plans for 11 Irish in-scope investment firms under the BRRD.

From 1 January 2016, Irish credit institutions were required to make contributions to the Single Resolution Fund (SRF), which is managed by the SRB. In April 2016, €107m was levied on Irish licensed banks and certain in-scope investment firms and transferred to the SRF in June 2016.

3 Dynamic stochastic general equilibrium

Investment firms that come within the scope of the BRRD are required to make contributions to the Bank and Investment Firm Resolution Fund (BIFR Fund), a domestic resolution fund. Levy contributions of €1m were raised from in-scope investment firms in 2016. Under the Credit Institutions Resolution Fund Levy (Amendment) Regulations 2016 (S.I. No. 499/2016), credit unions were levied for contributions to the Credit Institutions Resolution Fund (CIRF) in the amount of €7.5m for the 12-month period ended 30 September 2016.

In recent years, there have been a number of instances where firms have not been able to avail of an alternative solution to address their difficulties, and the Bank has needed to take resolution action under the Central Bank and Credit Institutions (Resolution) Act 2011 in order to protect members' savings. During 2016, the Bank undertook resolution action in relation to Rush Credit Union, resulting in the liquidation of the credit union in November 2016 and the triggering of the DGS.

## Strategic Enablers

| People and Knowledge |
|---|
| *Desired Outcome: The Bank attracts, retains and develops skilled people and collaborates through sharing knowledge across the organisation.* |

The Bank is committed to creating a fulfilling and progressive workplace and to implement strategies for resourcing and learning and other talent management processes for all staff. During 2016, the Bank completed an organisation re-design which moves the Bank from a grade-based to a role-based organisation. Role profiles for all roles have been developed along with organisation design principles and appropriate governance arrangements to ensure the new structures are sustained. Implementation will have been effected in most areas by February 2017 and will be enhanced by the new working environment in the Dockland Campus when all city-centre based staff have been relocated.

In order to attract and retain staff, it is important to have attractive reward and recognition policies and to ensure that the overall employee value proposition is transparent and well understood and communicated.

As the FEMPI[4] legislation applies to the Bank, this places constraints on the implementation of some aspects of these policies.

A Career Framework was developed based on the role profiles which identifies the common job families across different parts of the Bank, based on skill sets such as policy development, supervisory skills and data management and analytics, and the potential lateral and promotional career opportunities available.

The Bank continues to invest heavily in learning and development opportunities for staff. In 2016, the Bank successfully launched the OneBank Curriculum Programme for new entrants, designed a re-vamped Graduate Programme which will be initiated in 2017, and supported over 450 staff (150 commenced in 2016) to undertake further studies as part of the Bank's Academic Professional Training Scheme.

Resourcing has remained a significant challenge for the Bank and while there has been a significant number of new entrants in 2016, the effect of turnover, staff secondments and internal churn has seriously impacted the overall increase in staff numbers, which showed a net increase of 83 (5.5%) for the year.

| Information and Resources |
|---|
| *Desired Outcome: The Bank manages its information, data and other resources effectively and efficiently.* |

The project to relocate the Bank's city centre based staff from three locations to the Dockland Campus made significant progress towards completion during 2016 and the first group of staff moved to the new building in December 2016. Apart from the significant construction challenges, this project also included a major technology uplift, revisions to HR policies to support new ways of working and a new facilities management operating model. In addition, the property sales project for the Dame Street complex was completed in December.

Analysis of data and information is a core competency for the Bank in delivering on its mandate. The Bank is developing a comprehensive data and information management strategy and work in this area progressed well in 2016. A tender to procure an Enterprise Document Management Solution and identify a preferred supplier was completed and implementation of this solution for initial areas of the Bank will commence in 2017.

4 Financial Emergency Measures in the Public Interest.

A review of organisational information security was conducted resulting in improved governance and ongoing focus on the risk landscape of the Bank's systems and data.

The investment strategy for the Bank's investment assets and its share of the ECB's own foreign reserves portfolios, which are managed on an agency basis, seeks to optimise the risk-adjusted long-term return on these. The Bank outperformed the benchmark in relation to both.

The Bank faces a range of risks, which are managed within defined tolerances through risk management frameworks and methodologies. In 2016, a detailed analysis on the future evolution of the Bank's balance sheet was carried out to help identify risks both now and in the coming years and to inform risk mitigation decisions. In addition to the divisional risk and control assessment processes, the Bank initiated a Strategic Risk Assessment (SRA) in 2016, identifying a range of strategic risks faced by the Bank. This SRA will facilitate the Bank in determining whether additional risk remediation initiatives are required.

| Communication and Accountability |
|---|
| *Desired Outcome: The Bank communicates and engages actively and reports openly and transparently on its performance.* |

The Bank is publicly accountable and displays this through the publication of key reports, strategies, policies, and a wide range of other information. The format of the Regulatory Performance Statement, published alongside the Annual Report in April 2016, was revised. The keynote speeches and other addresses delivered by the Governor, Deputy Governors and other senior executives were published on the Bank's website.

In keeping with its commitment to transparency, the Bank ensures that its obligations under Freedom of Information (FOI) are fully met. In addition to complying with the Publications Scheme required under the legislation, the Bank also voluntarily publishes a range of information including the minutes of the Commission meetings and also of the newly established Macroprudential Measures Committee.

The Bank is developing and broadening its communication channels, in order to promote more actively its role to internal, domestic and international stakeholders and audiences. The Communication function in the Bank has been strengthened to ensure that the Bank's role and mandate are well understood and are proactively communicated in a clear and open manner.

A new website has been developed, which was launched in March 2017. This will ensure that the information about the Bank is more accessible to its stakeholders, including the general public.

# Chapter 2:

## Key Activities and Developments in 2016

## Price Stability

**The Bank's primary objective, as set out in legislation, is that of price stability. In that context, the Bank is responsible for contributing to the formulation and implementation of Eurosystem monetary policy and helping to ensure that the euro area inflation objective is achieved. In this context, it supports the Governor in his role as a member of the Governing Council of the ECB, which is responsible for the formulation of monetary policy (setting interest rates and the provision of liquidity) in the euro area.**

The primary objective of the ECB is to maintain price stability through achieving an inflation rate of below but close to 2%. In 2016, the pattern of headline inflation in the euro area as measured by the Harmonised Index of Consumer Prices (HICP), mainly reflected the influence of energy prices. The HICP measure of inflation averaged 0.2% in 2016.

The Eurosystem's regular open market operations consist of one-week liquidity-providing operations in euro (main refinancing operations, or MROs). The Eurosystem offers credit institutions two standing facilities (i) the marginal lending facility in order to obtain overnight liquidity from the central bank, against the presentation of sufficient eligible assets; and (ii) the deposit facility in order to make overnight deposits with the central bank. In recent years, the regular operations have been complemented by liquidity-providing long-term refinancing operations in euro (LTROS).

In addition, several programmes of outright asset purchases have been implemented with the objective of sustaining growth across the euro area consistent with the inflation objective. The expanded asset purchase programme (APP) includes all purchase programmes under which private sector securities and public sector securities are purchased to address the risks of a too prolonged period of low inflation. Further information on the APP is provided below.

### Monetary Policy – Decisions

In 2016, annual headline inflation in the euro area remained subdued and the Governing Council took a number of non–standard[5] measures aimed at bringing inflation back to a level close to but below 2% over the medium term.

To counteract heightened risks to the ECB's price stability objective, on 10 March 2016, the Governing Council announced a number of significant monetary policy decisions in response to a deterioration in the macroeconomic outlook, in particular weaker than expected inflation data and falling inflation expectations, together with a sharp decline in oil prices. The interest rate on the MRO of the Eurosystem was reduced by 5 basis points to 0.00%, the marginal lending facility was cut by 5 basis points to 0.25% and the rate on the deposit facility was reduced by 10 basis points to -0.40%. The interest rate on the Main Refinancing Operation (MRO) of the Eurosystem was reduced by 5 basis points to 0.00%, the marginal lending facility was cut by 5 basis points to 0.25% and the rate on the deposit facility was reduced by 10 basis points to -0.40%.

The Governing Council also announced the introduction of the Corporate Sector Purchase Programme (CSPP) as an additional component of the APP, and an increase of combined monthly purchases under the APP. The CSPP helps to further strengthen the pass-through of the Eurosystem's asset purchases to financing conditions of the real economy, and, in conjunction with the other non-standard monetary policy measures in place, provides further monetary policy accommodation.

Finally, a new series of four targeted longer-term refinancing operations (TLTRO II) beginning in June 2016, was announced. They offer long-term funding at attractive conditions to banks. These were introduced to reinforce the ECB's accommodative monetary policy stance and strengthen the transmission of monetary policy by further incentivising bank lending to the real economy.

5 Non-standard or unconventional monetary policy measures, are instruments deployed by the ECB to enhance the transmission of monetary policy in the present economic environment

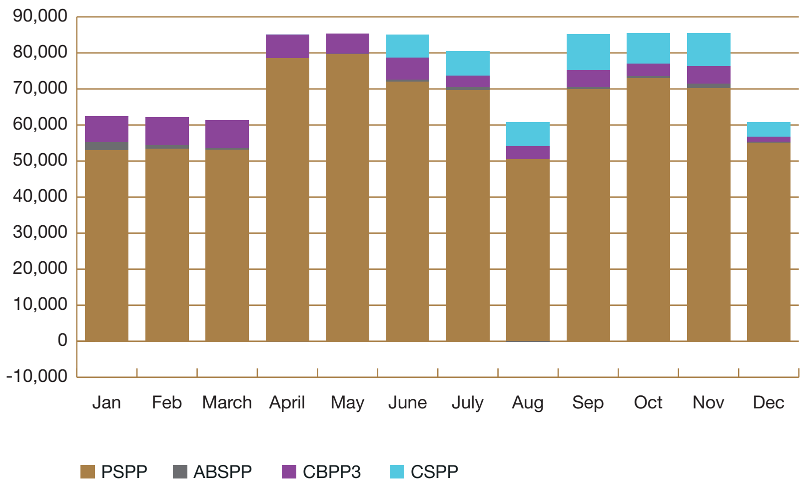
On 8 December 2016, the Governing Council announced that it would extend the APP by nine months until the end of December 2017, or beyond, if necessary, but reduce the pace of purchases from €80bn to €60bn per month. The extension of the APP was calibrated to preserve the very substantial degree of monetary accommodation necessary to secure a sustained convergence of inflation rates, and allow for a more sustained market presence and, therefore, a more lasting transmission of stimulus measures. The decision reflected the Governing Council's view that the risks of deflation to the euro area were then considered to be broadly similar to what they were when the APP commenced. The Governing Council also reiterated its previous guidance in relation to both the reinvestment of principal payments from the securities already purchased, and the expectation that its main policy rates would remain at or below current levels for an extended period of time and well past the horizon of the net asset purchases.

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 focuses on the implementation of euro area monetary policy including, in particular, the implementation of the ECB APP, and contributes to reporting, analysing, assessing and interpreting financial market developments within and outside the EU. The Committee is also involved in the management of the ECB's foreign reserves.

## The Asset Purchase Programme

The monthly pace of purchases for the Eurosystem as a whole in 2016 is illustrated in Chart 1 below, which displays a somewhat lower pace in August and December. In practice, purchases are adjusted slightly higher in certain months to allow a reduced pace in months where liquidity conditions are usually tighter.

**Chart 1:** APP Monthly Purchases in 2016




Source: ECB

The inclusion of the Corporate Sector Purchase Programme (CSPP) in the APP from March 2016 helps facilitate the higher average monthly purchase pace, and involves purchases of investment-grade euro-denominated bonds issued by non-bank corporations. Up until that point, the APP comprised the Public Sector Purchase Programme (PSPP), which was launched in March 2015, and two private sector purchase programmes, the Asset-Backed Securities Purchase Programme (ABSPP) and the Covered Bond Purchase Programme (CBPP3), both of which were launched in late 2014.

The universe of eligible assets was intentionally kept broad so the distribution of purchases would be spread across a large number of sectors in the economy. Purchases in CSPP are possible in both the primary and secondary markets and the Eurosystem can purchase up to 70% of any individual bond.

The other decisions in relation to APP made in March 2016 were around the parameters of PSPP. To ensure the continued smooth implementation of asset purchases, the issuer and issue share limits for securities issued by eligible international organisations and multilateral development banks were increased to 50% from 33%. This gave additional flexibility in the implementation of the PSPP. In addition, as of April 2016, the share of such securities purchased under the PSPP was reduced from 12% to 10% on a monthly basis, and continued to be purchased on a risk-shared basis. To maintain the overall 20% risk-sharing regime for PSPP, the ECB's share of monthly purchases of government bonds was increased from 8% to 10%[6].

In addition, in 2016, in order to ensure a smooth implementation of the programme out to the new extended end-date, a number of programme parameters were changed. The maturity range of the PSPP was broadened by decreasing the minimum remaining maturity for eligible securities from two years to one year.

Also, it was announced that purchases of securities under the APP with a yield to maturity below the interest rate on the ECB's deposit facility would be permitted to the extent necessary.

## Monetary Policy – Operations

Overall, the APP was implemented smoothly in 2016. Holdings at the end of 2016 amounted to €1,532.0bn, of which €1,254.6bn related to the PSPP, €203.5bn to the CBPP3, €22.8bn to the ABSPP and €51.1bn to the CSPP[7]. The changes made to the programme in 2016 reflected the monetary policy response deemed appropriate by the Governing Council to the changing macroeconomic outlook and balance of risks, in order to support a return of headline HICP inflation back towards the objective of below but close to 2%. Over the medium term, as these changes involved the size and duration of APP purchases, certain programme parameters needed to be amended to ensure a smooth implementation of the programme.

In contrast to 2015, recourse to Eurosystem reverse transactions increased by 6.7% in 2016, driven by demand for TLTRO II funding[8]. Unlike its predecessor, TLTRO II allows participants to potentially borrow at the deposit facility rate, depending on the extent to which they lend to households (excluding loans for house purchase) and euro area non-financial corporations. Over the course of the three TLTRO II operations conducted in 2016, the deposit facility stood at -0.40%. By end-2016, liquidity provided through the TLTROs (both I and II) comprised the largest portion (91.6%) of total Eurosystem lending.

In 2016, excess liquidity rose from €654.5bn on 1 January to €1,194.3bn on 31 December. The average figure rose considerably, from €373.0bn in 2015 to €893.3bn in 2016. The Eurosystem's asset purchase programmes, and to a lesser extent the TLTRO II, served to increase the size of the Eurosystem's balance sheet, and thus excess liquidity, reflecting a further easing of the monetary policy stance. However, excess liquidity increased by a lesser amount than the net liquidity provided through the APP and reverse transactions, as the increase in liquidity draining autonomous factors (i.e. factors outside the direct control of the National Central Bank (NCB)) served to partially offset the liquidity impact of those operations. These factors include a higher volume of bank notes in circulation and government deposits held with NCBs.

Despite the negative remuneration rate (-0.40% from 16 March 2016), daily recourse to the overnight deposit facility, for the Eurosystem as a whole, rose considerably throughout the year as excess liquidity increased, with usage averaging €326.1bn compared to €114.2bn in 2015. Current account holdings in excess of minimum reserve requirements averaged €567.0bn for the year (up from

6 Further details on the modalities of PSPP can be found on the ECB's website: https://www.ecb.europa.eu/mopo/implement/omt/html/pspp-qa.en.html

7 Databook value at amortised

8 The second series of Targeted Longer-Term Refinancing Operations

€259.1bn in 2015)[9]. Recourse to the marginal lending facility, which allows institutions to borrow overnight funds from the Eurosystem, averaged €0.1bn in 2016 compared to €0.3bn in 2015.

The Euro Overnight Index Average (EONIA), a measure of the effective interest rate prevailing in the euro interbank overnight market, levels fell steadily throughout 2016, reflecting a similar pattern to 2015, as ECB policy interest rates were cut and 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 a daily average rate of -0.108% in 2015 to -0.315% in 2016.

## Irish Operations

Owing to the decentralised nature of the Eurosystem's monetary policy implementation, the Bank was highly active in implementing monetary policy in Ireland in 2016.

Reverse transactions conducted by the Bank on behalf of the Eurosystem remained broadly unchanged at 129 in 2016, compared to 128 in 2015. The number of Irish counterparties eligible to participate in operations at the end of 2016 was 21, down from 22 in 2015. Total outstanding monetary policy borrowings by Irish counterparties stood at €7.4bn at 31 December 2016, compared to €10.7bn at 31 December 2015. The majority of Irish borrowings comprised TLTRO II funding. The decline in Eurosystem borrowings occurred against a backdrop of reduced funding requirements, ongoing bank deleveraging and the continued injection of liquidity from the Eurosystem's asset purchases.

In relation to the APP, the Bank's holdings at the end of 2016 amounted to €16.3bn of Irish sovereign bonds (own-risk) and €1.2bn of supranational bonds (shared-risk) during the year. The Bank was active in purchasing covered bonds under CBPP3 (shared-risk), with holdings of €3.3bn of covered bonds at the end of 2016. The Bank also plays a role in the implementation process of the ABSPP and CSPP, but similar to several other NCBs, it does not actively purchase in these markets.

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 doing so, it ensured that Irish banks had continued full access to Eurosystem liquidity.

## Collateral for Monetary Policy Operations

At end-2016, 21 eligible counterparties had signed up to the pooling agreement[10], with collateral of €13.3bn held with the Bank. Overall for 2016, the average month-end value of collateral submitted to the Bank was €13.9bn, of which 85% were cross-border assets[11]. The downward trend in collateral holdings seen in 2015 continued in 2016, with average monthly holdings down by almost €6bn per month, year-on-year. This is in line with the continued reduction in monetary policy borrowings by counterparties.

Some developments of note in the area of collateral in 2016 included:

» Allowing the use of assets with negative cash flows as eligible collateral.

» A reduction in the limit for usage of unsecured debt instruments issued by a credit institution from 5% to 2.5% of the total value of the assets used as collateral by a counterparty after the applicable haircut[12] has been applied.

9 While excess reserves are remunerated at the same rate regardless of whether they are held in a current account or placed on the deposit facility, higher current account holdings in part reflect the fact that not all credit institutions are eligible to place funds on the deposit facility.

10 Pooling is a securities collateralisation technique that enables an institution to make collateral available to a counterparty without allocating it to a specific transaction.

11 Domestic assets consist of Irish Government Bonds, Mortgage-Backed Promissory Notes (MBPNs) and Special Mortgage-Backed Promissory Notes (SMBPNs). All other assets are classified as cross-border.

12 A risk control measure applied to underlying assets whereby the value of those underlying assets is calculated as the market value of the assets reduced by a certain percentage.

# Financial Stability

**The Bank has an explicit mandate in domestic and European legislation to contribute to financial stability in Ireland and at euro area and EU levels.**

## Stability of the Financial System

In carrying out its mandate, the Bank conducts financial stability analysis that contributes to the prevention and mitigation of financial sector risks. This analysis is undertaken at a system-wide level (macroprudential); at individual institution level (microprudential) and also examines the interlinkages between the various components of the financial system and the real economy. The Bank contributes to macroprudential oversight within the EU via participation in the ESRB[13].

As the designated macroprudential authority for Ireland, the Bank has deployed a suite of macroprudential measures which aim to prevent and mitigate system wide risks. These measures are reviewed on a regular basis consistent with the Bank's macroprudential policy framework.

The Bank identified seven institutions as systemically important in Ireland. These were identified during its annual review of the other systemically important institutions (O-SII) buffer. The relevant O-SII Buffer for these banks will be phased in between July 2019 and July 2021. The Countercyclical Capital Buffer (CCyB) was introduced on 1 January 2016 and reviewed quarterly thereafter. The CCyB (currently set at 0%) is a time-varying countercyclical capital requirement that aims to limit the potential systemic risks associated with excessive credit growth.

The new Macroprudential Measures Committee (MMC) was established in September 2016. It acts as an advisory committee to the Governor. The committee conducts regular reviews of retail bank-related national macroprudential measures and makes recommendations about maintaining or revising any deployed measures as it deems appropriate. A summary of the outcomes of meetings of the MMC in 2016 is published on the Bank's website. The Bank's Financial Stability Committee (FSC) which coordinates and assesses financial stability issues and advises the Governor in this regard in relation to Ireland and the euro area, met 16 times during 2016.

The Bank conducted an in-depth review of the macroprudential policy measures introduced for the Irish mortgage market in the form of limits on new lending at high loan-to-value (LTV) and loan-to-income (LTI) ratios. The objectives of these measures are to enhance resilience of banks and households to financial shocks and to curb cyclical tendencies in the mortgage market.

Similar to other years, the Bank published its Macro-Financial Reviews in June and December. These Reviews provide an overview of the current state of the macro-financial environment in Ireland and are published to help financial market participants, other authorities and the public evaluate financial system risks. Further, two editions of both the Household Credit Market report and the Small and Medium-Sized Enterprises (SME) report were published in 2016 to communicate the latest developments in the household and SME sectors respectively.

13 European Systemic Risk Board

### Box 1: Review of Macroprudential Mortgage Measures on Loan-to-Value and Loan-to-Income

In 2016, the Bank completed its first review of macroprudential mortgage measures introduced for residential mortgage lending in Ireland. The outcome of the review was published on 23 November 2016. The measures, which specify limits on high loan-to-value (LTV) and high loan-to-income (LTI) mortgage lending were introduced in February 2015. The aim of the measures is to enhance the resilience of both borrowers and banks to future shocks and to dampen, in a precautionary way, the pro-cyclical dynamics that can exist between property lending and house prices. The measures, which form a permanent feature of the Irish mortgage market, will be reviewed on a regular basis by the Bank as part of its role as national macroprudential authority for Ireland.

The 2016 review had two aims: firstly, to examine the early performance of the measures against their stated objectives and, secondly, to examine possible side effects of the measures since their introduction. To inform the review, an extensive programme of analytical work was undertaken by the Bank. Additionally, submissions from external stakeholders via a public call for evidence played an important role in the review. In total, 51 submissions were received and the submissions along with a feedback statement relating to these was published.

The review found that the overall framework is appropriate and effective in meeting the objectives of the measures. In particular, limiting the amount of borrowing that can take place at high LTV and LTI ratios reduces risks to financial stability by curbing house price-credit spirals, restricting the build-up of borrower indebtedness, and lowering the risk of borrowers defaulting on mortgages. While the risk of housing and financial crises cannot be eliminated, the evidence suggests that the rules that are in place would reduce the probability and severity of future crises. However, when considering the overall calibration of the measures, three structural changes to the measures were identified, which will improve the effectiveness and sustainability of the framework. These changes, outlined below, are effective from 1 January 2017.

**Changes to the Regulations:**

Under the original mortgage Regulations, first-time buyers (FTBs) were subject to a 10% deposit requirement on a house purchase up to a value of €220,000, and a 20% deposit requirement for any excess above that value. From 1 January 2017, the property value threshold of €220,000 is removed, such that a 10% deposit requirement now applies to all FTBs. There is no change to the deposit requirements for second and subsequent buyers (SSBs) or buy-to-let investors (BTLs).

The structure of the proportionate caps has been amended. In 2016, financial institutions were permitted to extend up to 15% of the value of their total new lending for primary dwelling homes (FTBs and SSBs) above the LTV limits set by the mortgage Regulations. From 1 January 2017, separate allowances for FTBs and SSBs have been introduced. For SSBs, 20% of the value of new lending to this group will be allowed above the 80% LTV limit set by the Regulations and 5% of the value of new lending to FTBs is allowed above the 90% LTV limit for that group.

The requirement for a property valuation to take place within two months of mortgage drawdown was extended to four months.

There was a technical amendment to the scope of the non-primary dwelling home limit so that large commercial landlords and developers are not in-scope of the Regulations.

The Bank has committed to a regular review of these measures and considers ongoing evaluation to be an integral component of macroprudential policy.

The Bank participated in a large scale review of the Irish Financial Sector conducted with the IMF as part of its FSAP. This was the first such comprehensive review conducted by the IMF since 2006 and included a series of stress tests of the Irish banking, insurance and non-banking sectors as well as a review of Ireland's macroprudential policy framework.

The financial stability-related research publications of the Bank focused largely on macroprudential policy and in particular on housing and mortgage markets in 2016. Some of the issues covered included the interaction between macroprudential policy and new mortgage lending; borrowers; housing supply; the rental market; house prices and the resilience of borrowers and banks. Staff regularly presented at domestic and international fora during the year including the European Economics Association, the Dublin Economics Workshop, the Irish Economics Association and the International Monetary Fund.

The Bank also undertook a range of activities to frame policy in the areas of financial stability, including, analysis on the implications of the UK's decision to leave the EU (Brexit); analysis on the pricing of mortgages and SME loans; development of systemic risk indicators, crisis management coordination and the development of a commercial property price register with the CSO and NAMA.

**Box 2: Central Bank Brexit Task Force**

During the period leading to the UK referendum on EU membership in early 2016, two reports were prepared in the Bank which considered a broad range of potential Brexit scenarios that could affect the Irish economy, financial firms supervised by the Bank and the Bank itself. And in the weeks prior to the Brexit decision, a contingency task force was established in the Bank. It focused on the operational preparedness of the Bank and of financial institutions in terms of funding, foreign exchange hedging and other relevant transactions that could be affected by market disturbances around the referendum.

Following the June 2016 Brexit vote, it was decided to establish a permanent Brexit Task Force to provide a high-level assessment of financial stability implications issues from Brexit. The Task Force is chaired by the Head of the Financial Stability Division and comprises senior experts from across the Bank. The group meets on a quarterly basis and, in 2016, produced two reports that were considered by the Bank's Financial Stability Committee (FSC) and the Central Bank Commission. Task Force assessments are published as appropriate in the Bank's bi-annual Macro-Financial Reviews.

In 2017 the Brexit Task Force will continue to meet on a quarterly basis to facilitate information sharing across the Bank and to conduct expert assessments of developments affecting financial stability as Brexit unfolds. The Task Force will continue to present the outputs from these meetings to the FSC on a quarterly basis and will also report to the Commission periodically. The group will maintain its ongoing interaction with the Department of Finance and ESRI[14], as well as engagement with other relevant external parties.

The Bank actively participated in relevant European financial stability-related committees during 2016. These included, the ESCB Financial Stability Committee (ESCB-FSC), the European Systemic Risk Board (ESRB) and its substructures on macroprudential analysis, policy and stress testing. The ESCB-FSC continued its regular review of main risks and macroprudential policy measures through the Macroprudential Report and the Macroprudential Monitor. 2016 also marked the finalisation of the work on the low interest rate environment by the joint ESCB-ESRB Task Force. ESRB advisory and expert groups examined a number of specific financial stability risks during the year. These included work on vulnerabilities in the residential real estate; real estate data gaps; investment fund liquidity and leverage; shadow banking; and macroprudential issues on central counterparties. As well as contributing to the ESRB submission to the European Commission's consultation on the review of the EU macroprudential framework, the Bank also submitted its own views.

## Central Credit Register (CCR)

The CCR is being established by the Bank in accordance with the Credit Reporting Act 2013. The CCR is a national mandatory database of credit intelligence that will be maintained and operated by the Bank. Credit reporting obligations will apply to over 500 lenders including banks, credit unions,

14 The Economic and Social Research institute

local authorities, the National Asset Management Agency, asset finance houses, and licensed moneylenders.

In progressing the substantial work of implementing the CCR during 2016, the Bank:

» Completed the design of the CCR solution and processes.

» Made the necessary regulations under the Credit Reporting Act 2013, following consultation with the Data Protection Commissioner and obtaining the consent of the Minister for Finance.

» Published guidance documents and technical manuals explaining the obligations on lenders in conjunction with the regulations.

» Developed a CCR website (www.centralcreditregister.ie).

» Continued engagement with lenders and their representative bodies to explain the approach.

» Engaged with consumer groups to develop public awareness initiatives for use in 2017.

The CCR will be implemented on a phased basis with Phase 1 focusing on data collection for consumer lending and the second phase concentrating on lending to businesses. Lenders will start submitting personal and credit information to the CCR in respect of consumer lending in the six-month period to 31 December 2017 (all to be backdated to 30 June 2017). Lenders will undertake that necessary technical and operational changes and data quality assurance testing will also be carried out as part of the implementation.

The quality of data submitted by lenders will impact on the accuracy of reports. This will be taken into account when deciding when the CCR is ready for data enquiry. Individual borrowers will, thereafter, be able to request their own credit report free of charge, once every year. The implementation of Phase 2 which covers lending to businesses, is scheduled for 2018.

## Deposit Guarantee Scheme (DGS)

The DGS[15] is administered by the Bank and is funded by the credit institutions covered by the scheme. The Scheme protects eligible depositors up to €100,000 in the event of a credit institution failing.

Following the introduction of the European Union (Deposit Guarantee Schemes) Regulations 2015 (S.I. No. 516 of 2015), new funding arrangements were introduced requiring the DGS to reach a target fund level of 0.8% of covered deposits by 2024, resulting in the establishment of the DGS Contributory Fund in 2016. A risk-based methodology, in line with European Banking Authority guidelines, was employed to calculate contributions for each institution based on their degree of risk and level of covered deposits. The first annual contributions to the new fund were collected at end 2016. Following the invocation of the DGS on 2 November 2016, compensation payments totalling over €22m were issued to the members of Rush Credit Union within 7 working days.

15 A dedicated website providing consumer information on the DGS is available at www.depositguarantee.ie.

## Consumer Protection

**Regulated firms act in the best interests of consumers.**

As the regulator of financial service providers and markets in Ireland, the Bank has to ensure that the best interests of consumers are protected. The Bank works to develop a positive consumer-focused culture within regulated firms, ensuring the consumer protection framework remains effective by reviewing, developing and enhancing the protections in place and by influencing and shaping European and international developments, and monitoring and enforcing compliance with the required standards through themed reviews and inspections.

The Bank's priority of "getting it right for consumers" is delivered through the 5Cs Framework[16]; consumer, confidence, compliance, challenge and culture. This framework encourages regulated firms to deliver consumer-focused outcomes.

In 2016, the Bank prioritised the themes set out in the Consumer Protection Outlook Report (CPOR) under the 5Cs Framework:

1. Working to develop a positive consumer-focused culture within regulated firms;

2. Ensuring the consumer protection framework remains effective by reviewing, developing and enhancing the protections in place and by influencing and shaping European and international developments; and

3. Monitoring and enforcing compliance with the required standards through themed reviews and inspections.

### Consumer

The Bank continued to increase its level of involvement at consumer protection committees at the EBA, EIOPA, ESMA and the Joint Committee, while also continuing to provide technical support to the Department of Finance on the negotiation and transposition of EU legislation into Irish law. This included the transposition of the Mortgage Credit Directive (MCD) and the Payment Accounts Directive (PAD), the related implementation into authorisation processes and consequent changes to Central Bank Codes.

The Bank contributed to the work of FinCoNet, the international organisation of financial consumer protection supervisory authorities, through chairing the organisation and developing guidance to supervisors on standards in relation to sales incentives and responsible lending in 2016.

Following a review of the existing protections for SMEs, new regulations came into effect which enhanced the protections for SMEs when dealing with lenders. In order to help SMEs understand the protections available, the Bank published a short Guide for micro and small enterprises and guarantors, and has been working with stakeholders representing SMEs to promote greater awareness of the protections in place.

The Bank introduced, by amending the Consumer Protection Code 2012, a number of increased protections for variable rate mortgage holders, enhancing transparency for those borrowers on the variable nature of their rate and providing more information on other products.

Three Consumer Protection Bulletins were published in 2016. They covered personal lending, the Code of Conduct on Mortgage Arrears and current account switching.

16 The Bank's Consumer Protection Strategy is based on the 5 Cs framework – Consumer – is at the centre of the Bank's focus, Confidence – working to help consumers have confidence in financial services, products and regulation, Compliance – monitoring and enforcing compliance with consumer protection rules, Challenge – being prepared to challenge firms and ourselves to get a better outcome for consumers and Culture – promoting a consumer-focused approach to the provision of financial services

In order to inform the Bank's policy and supervision work, a number of consumer research projects were undertaken: the results of consumer research into health insurance renewals (March 2016), complaints handling by regulated firms (May 2016) and consumer experience of motor insurance damage claims (February 2017) were published.

## Culture

The Bank continued to challenge boards and senior management of firms to demonstrate how they are managing risks and delivering the right outcomes for their customers. In 2016, 11 meetings were held with CEOs and/or Boards of banks/insurers/investment firms to discuss current and emerging consumer risks and culture. The Bank also re-iterated the assessment of current and emerging risks to its consumer protection objectives in a number of external speaking events throughout the year.

The Bank developed its Consumer Protection Risk Assessment (CPRA) supervisory model during 2016 which will allow for better testing and monitoring of firms' progress in embedding fit-for-purpose consumer protection risk management frameworks. The CPRA model was tested in specific areas (including governance and culture) in six firms.

The Bank reviewed the internal audit reports received from firms based on their implementation of the 2014 Guidelines on Variable Remuneration Arrangements for Sales Staff. The Bank will continue to engage with firms on this issue.

## Confidence

Work on the Tracker Examination progressed with 10 lenders of the 15 in-scope submitting review phase reports. Two lenders have now completed the review as no issues have been identified and engagement with the other eight lenders is ongoing. Five lenders will deliver phase 2 of the review in 2017 due to the number of mortgage accounts, the nature of the systems and records they have maintained, as well as the different issues which are arising during the review:

» Third parties acting as Authorised Officers for the Bank conducted on-site testing in August to assess lenders' progress on their reviews. On-site testing will continue in 2017 and the findings will feed into the Bank's engagement with lenders.

» A public update on the Tracker Examination was issued on 19 December, stating that lenders had identified approximately 8,200[17] accounts where there was a right to, or the option of, a tracker rate of interest and/or the correct rate of interest was not provided to customers in accordance with the lender's contractual or regulatory requirements. The majority of these customers have had their rates rectified to date, with approximately 3,000 having now received redress and compensation from one lender.

The Bank pursued to resolution in 2016 all of the issues identified as part of the comprehensive themed review in 2015 of how lenders are delivering on the important consumer protections prescribed by the statutory Code of Conduct on Mortgage Arrears for borrowers in arrears and pre-arrears.

In July 2016, the Bank published a discussion paper on the risks and benefits of the practice of product producers paying commission to intermediaries for selling their products.

Systems failures and errors have and will continue to be monitored to ensure that firms are delivering on their obligations to guarantee that consumers are kept fully informed of arising issues and that any impact on the consumer is dealt with in a timely and appropriate way.

17 As at end-February this figure had increased to 9,900

## Challenge

During 2016, the Bank commenced reviewing applications from Credit Servicing Firms (CSFs)[18]. This has included the assessment of those firms against the detailed Authorisation Requirements and Standards introduced by the Bank on foot of the legislation. During 2017 these applications will be progressed to decision stage, i.e., either authorisation or refusal.

New Authorisation Process Models for a number of industry sectors were rolled out in Q1 2016. This followed the introduction of enhanced authorisation process models for Payment Institutions and Electronic Money Institutions in October 2015. New internal tracking and reporting mechanisms were also introduced to track applications' performance against the new authorisation process models' targets on an ongoing basis.

## Compliance

A thematic inspection of high risk investment products (structured retail products) was completed and the findings were published on 1 September 2016.

The findings of a thematic inspection into how health insurers handle the annual renewal process were published in March 2016 together with the results of supporting consumer research. The inspection focused on how providers were engaging with and/or advising their consumers.

A themed inspection of motor insurance providers, focusing on the handling of motor damage claims was completed, with the inspection and consumer research findings published in February 2017.

A significant thematic inspection continued throughout 2016 to target retail intermediaries that were not meeting the minimum standards in terms of complying with reporting and other obligations to the Bank. The Bank's objective was to target a culture of non-compliance, which can often signal other issues in those firms, which can impact negatively on consumers. As of 31 December 2016, of the original 325 firms in-scope of this inspection, 297 of these firms had either submitted their annual returns or revoked their authorisation.

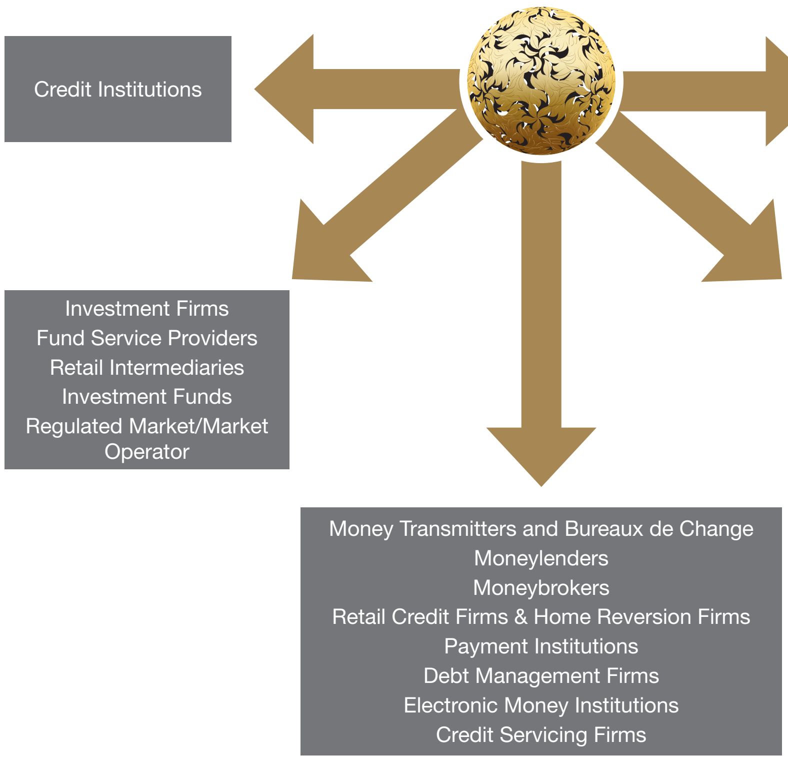
18 Firms which service loans sold by regulated lenders to third parties

## Supervision and Enforcement

**Regulated firms are financially sound and safely managed.**

The Bank aims to ensure that regulated firms are financially sound and safely managed. Regulation of financial institutions and markets is undertaken through assertive risk-based supervision, underpinned by credible enforcement deterrents.

**Chart 2:** Regulated Firms




This mandate is delivered through a range of tools which include:

- Supervisory assessments of individual firms according to the engagement cycles set out under PRISM, the Bank's (risk-based supervisory framework);
- Monitoring of regulatory returns filed with the Bank;
- Reactive supervisory work on foot of triggers including regulatory returns, market intelligence and whistleblowing complaints;
- Approval of persons under the fitness and probity standards;
- Processing of requests for authorisation and acquiring transactions;
- Supervising banks within the SSM framework; and
- Enforcement actions.

The Bank seeks to take a proportionate approach to its actions as an intrusive and assertive regulator at all times. However, the Bank does not strive to ensure a “zero-failure” system of regulation and supervision, but seeks to ensure that where a firm fails, this happens in a way that avoids significant disruption to financial services or consumers.

### Enhancing Supervisory Engagement, Processes and Tools

Enhanced engagement with supervisory teams positively impacts the quality of supervisory processes such that supervisors can better and more efficiently utilise data to generate resource efficient supervisory outcomes. The Bank’s analytics capability was also further developed in 2016.

Significant support for the SSM NPL Task Force (which is chaired by the Deputy Governor – Central Banking) was provided by the Bank with NPL guidance issued for consultation in 2016. This was complemented with robust on and off-site engagement with credit institutions in relation to distressed portfolios.

The Bank commissioned the external auditors of credit institutions and insurance companies to conduct auditor assurance work under the powers of the Central Bank (Supervision and Enforcement) Act, 2013.

Stress testing of Irish money market funds was carried out which fed directly into the asset management portion of the IMF’s final FSAP report. Arising from this work was the first collection of daily redemption data from Irish investment funds, which will form the basis of joint research with the IMF on investment fund liquidity analysis.

Material progress on improving the quality and efficiency of the investment fund authorisation process was delivered through the use of online applications and automated workflows.

A risk-based approach to AML supervision was adopted in line with international best practice and standards. An enhanced supervisory engagement model was also implemented for credit unions. The Bank completed a sector stress test on the financial position of credit unions in 2016. This work, which was considered by the Bank’s FSC, included projecting credit losses, investment returns and capital shortfalls over a three-year horizon. Follow-up actions based on the projections are planned for 2017.

A significant level of restructuring and consolidation activity occurred during 2016 within the credit union sector. In this regard, the Bank has worked closely with the Credit Union Restructuring Board (“ReBo”) and individual credit unions with a continued focus on adequate risk management and delivery of business improvement. A dedicated unit has also been created within the Bank whose primary focus is to drive initiatives for the sector.

### Using Enforcement Powers Effectively

The Bank continued to commit resources to robust investigations of firms and individuals, seeking to hold them to account where their behaviour does not meet the required standards.

Following the conduct of enforcement investigations, the Bank, under its Administrative Sanctions Procedure (ASP), referred cases in respect of certain persons concerned in the management of both the Irish Nationwide Building Society and Quinn Insurance Limited (QIL) to Inquiry in 2015. The referral of these cases to Inquiry led to a number of legal challenges, which were instituted by certain persons concerned in the management of these entities. During 2016, the Bank successfully defended a number of legal challenges brought before the High Court.

The Bank imposed fines totalling €12.05m in 2016, the largest figure for fines imposed by the Bank in a single year to date. A fine of €4.5m, was imposed on Springboard Mortgages Limited for serious failings in its obligations to tracker mortgage customers.

The Bank continued to play an active role in networks and working groups to share knowledge and experience across the SSM. The Network of Enforcement and Sanctions Experts provides a forum for communication, collaboration and cooperation within the SSM in relation to enforcement and sanctions. The Bank has been active in sharing its knowledge and experience with the Network and also seeks to influence the direction of enforcement policy through it.

The Bank is represented on the SSM Fitness & Probity (F&P) working group, which comprises representatives of the ECB and National Competent Authorities (NCAs) and works to develop policy stances to ensure a higher level of harmonisation of F&P assessments across the SSM.

### Implementing the Solvency II regulatory framework for Insurance undertakings.

Since 1 January 2016, insurers in Ireland have operated under a new EU regulatory regime – Solvency II. A key focus of the Bank in 2016 was to ensure that the new regime was embedded effectively, both within the Bank and in regulated insurance firms.

The most significant changes within the Bank in how insurance undertakings are regulated have centred on the introduction of a revised engagement model, a dedicated analytics team, increased on-site supervisory capability and the introduction of the F&P process for the Head of Actuarial function in insurance firms.

As part of its work to support embedding Solvency II, the Bank prioritised early feedback on areas such as systems of governance, capital management and regulatory capital calculations, with robust assessment of new control function holders under Solvency II. A number of policy papers on topics such as outsourcing arrangements, look-through of Collective Investment Undertakings (CIUs) reporting and directors' certification were issued.

Additional measures were introduced to maintain key aspects of the domestic supervisory regime. These included guidance on the domestic actuarial regime and revised directors' certifications requirements together with the introduction of external audit of key Solvency II regulatory returns.

The Bank initiated a proportionate, bespoke engagement model for less complex insurance companies which resulted in increased levels of supervision under Solvency II and brings the engagement model for these companies in line with international standards. This model resulted in a combination of proactive supervisory activities, including a thematic inspection focused on governance, risk management and internal control frameworks. Further refinement and embedding is required in 2017, with the Bank actively engaged in identifying trends and issues in the insurance industry and the wider regulatory environment.

### Extending on-site inspection activities to further sectors of the industry.

The Bank increased its on-site inspection activities across all industry sectors in 2016. Such activities comprised thematic reviews and intrusive on-site inspections.

Thematic Reviews Focus 2016

| Sector | Activity/Review |
|---|---|
| Credit institutions | Regulatory reporting and IT risk. |
| Credit Unions | Outsourced activities and F&P due diligence requirements. |
| Insurance undertakings | Governance and oversight of pricing of private motor insurance. |
| Asset management | Depositary oversight, sub-fund governance, risk function oversight, outsourcing arrangements, conflicts of interest and client reporting. |
| Markets | Use of the risk management process by UCITS and investment fund fees. |

On-site Inspections Focus 2016

| Sector | Activity/Review |
|---|---|
| Credit institutions | Credit risk; capital; liquidity risk; operational risk; IT risk; governance and business model analysis. |
| Insurance undertakings | Reserving; claims management and underwriting discipline. |
| Markets | Depositary oversight of investment funds. |

In addition, Anti-Money Laundering (AML)/Countering the Financing of Terrorism (CFT)/Financial Sanctions (FS) inspections were carried out across a broad range of sectors including payment institutions, bureaux de change, credit unions, investment firms, banks and funds.

# Regulatory Policy Development

**Regulatory frameworks are appropriate and effective.**

A high quality and effective regulatory framework is essential in requiring financial firms to operate to high standards. It provides the basis for supervising and enforcing the key principles of organisational and financial soundness, consumer protection, and effectively functioning markets. The Bank engages actively in the European regulatory policy process contributing to the development of sound rules well adapted to the Irish context, and supporting the work to transpose those rules into Irish law.

The Bank actively contributes to the development of relevant laws, regulations and technical standards in Europe and providing the necessary guidance for regulated firms and markets in Ireland.

It also ensures that the rules and regulations are maintained and implemented in such a way that their spirit and purpose is achieved on an ongoing basis, having regard to the changing environment and to new activities and products developed by financial firms and markets.

The Bank continued to support the work of the SSM by participating in a number of working groups to develop a range of aspects of the SSM methodology, support the work on NPLs and the SSM targeted review of internal models (TRIM) initiative – a multi-year review of pillar 1 internal models used for the purposes of regulatory capital estimation of credit institutions.

The Bank contributes to IT Expert groups at both the EBA and the SSM where the focus in mainly on IT risk. Output in 2016 included the development of guidelines on the assessment of IT risk in the context of the Supervisory Review and Evaluation Process (SREP) and cyber-risk inspection methodologies for use across all SSM banks. The Bank published IT and cyber-risk cross industry guidance for regulated firms in Ireland in September 2016.

The Bank has been actively engaged in the development of EBA Reports, guidelines and technical standards and in the impact assessment of IFRS 9. The topics covered include leverage ratio, liquidity, securitisation and covered bonds, large exposures and credit risk management. It continued to influence the international policy agenda on securities and markets issues through participation on the NCA prospectus peer review, contributing to work on Prospectus Directive III, ESMA initiatives, Transparency Regulations amendments and ESMA Guidelines.

In 2016, the Bank progressed a number of issues relating to AML/CFT policy. These included:

» Contributing to the National Risk Assessment on Money Laundering and providing technical assistance to government departments on the transposition of the Fourth Anti-Money Laundering Directive (AMLD IV);

» Contributing to the European Supervisory Authorities (ESAs) and Financial Action Task Force (FATF); and

» Providing and maintaining the policy framework to support effective supervision of regulated firms and markets.

On 1 January 2016, the remaining sections of the 2012 Credit Union and Cooperation with Overseas Regulators Act and Regulations commenced. The Credit Union Handbook was updated in 2016 to reflect the revised Guidance for the new sections of the Act and Regulations. Following the introduction of the cap on savings over €100,000, as provided for in the Credit Union Act 1997

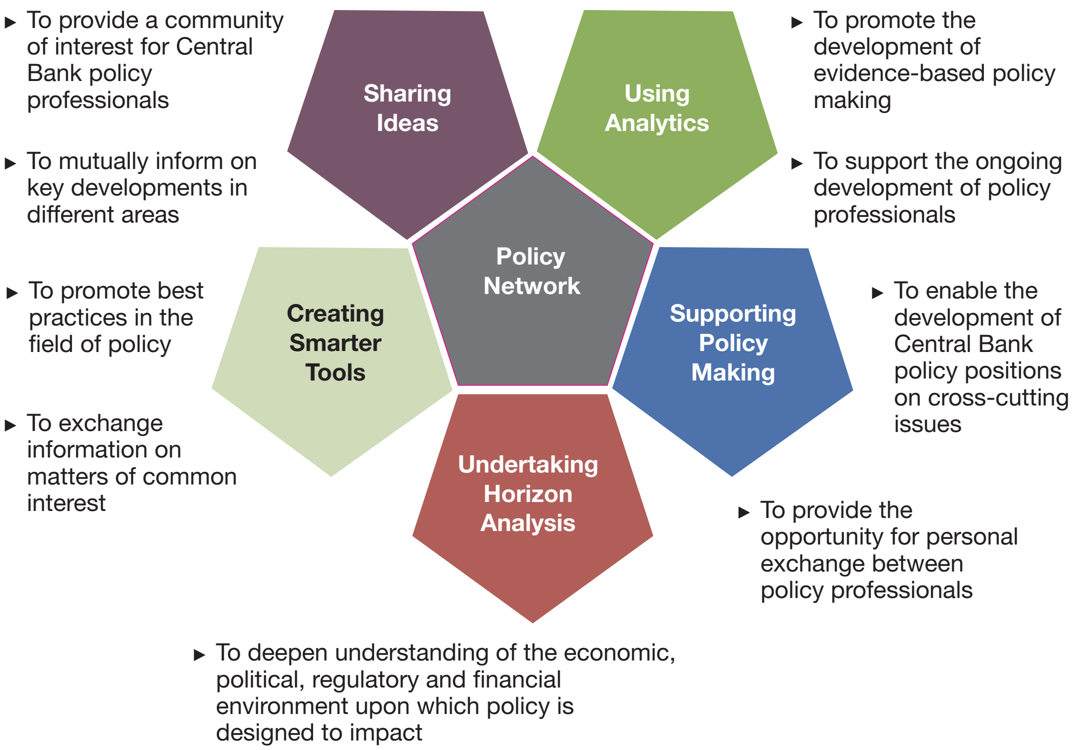
(Regulatory Requirements) Regulations 2016, an application process was developed to facilitate credit unions in seeking approvals for exemptions.

The Bank ensured the smooth implementation of new legislative requirements by successfully implementing UCITS V requirements; and considerable work was carried out in 2016 in relation to preparation for implementation of MiFID II in January 2018, and ensuring firms and funds have appropriate structures and controls in place.

Throughout the year the Bank had extensive and ongoing interaction with the Department of Finance in relation to the transposition of key European legislation and a review to examine a number of issues across the non-life insurance sector. Following the publication of the new EU (Market Abuse) Regulations 2016[19] by the Department of Finance, the Bank published its revised Market Abuse Rules and Guidance. In July and November 2016 respectively, the Bank published Feedback Statements in relation to Consultation Paper (CP100) and Consultation Paper (CP 97) on Central Bank Investment Firms Regulations. These Regulations consolidate the conditions and requirements which the Bank imposes on certain investment firms.

The Bank-wide Policy Network was established and has facilitated a range of discussions from improving the Bank's effectiveness and impact in EU regulatory policy making, sharing best practice on different policy enhancement projects and formulating policy responses to emerging issues.

**Chart 3:** The Bank's Policy Network




19 Statutory Instrument 349 of 2016

## Participation in the work of the European Supervisory Authorities (ESAs)

During 2016 the Bank actively participated in the work of the ESAs on a range of issues.

*European Insurance Occupational and Pensions Authority (EIOPA):*

- Consultation Paper on the Solvency Capital Required (SCR) designed to inform EIOPAs work on reviewing the SCR and advising the EU Commission.
- EU-wide stress test of insurance undertakings which covered 236 firms and delivered a snapshot assessment of vulnerabilities and resilience to severe market developments.
- Report on Long Term Guarantee and Measures on Equity Risk which was the first in a series until 2021 of similar reports to assess the impact on insurers of certain measures in Solvency II including the volatility adjustment and the matching adjustment.
- Advice to the EU Commission to enhance the asset class for high quality infrastructure investments under Solvency II by extending the asset class which could benefit from the differentiated treatment.

*European Banking Authority (EBA):*

- Discussion Paper on the Prudential Regime for Investment Firms exploring options for a more proportionate regulatory regime for various categories of investment firms.
- Consultation Paper as a precursor to the development of Guidelines on Accounting for Expected Credit Loss which will inform the implementation of IFRS 9.
- Impact Assessment on the potential interaction between IFRS 9 and prudential regulatory requirements.
- Report on the Leverage Ratio calibration recommending the introduction of a Leverage Ratio minimum requirement in the EU to mitigate the risk of excessive leverage.
- EU-wide stress test covering 51 European credit institutions designed to support ongoing supervisory efforts to maintain the process of repair of the EU banking sector.
- Guidelines on remuneration policies and practices related to retail banking products and services aimed at reducing conduct risk and mis-selling.
- Guidelines specifying the definition of default across the EU and a Regulatory Technical Standard (RTS) on the materiality threshold of past due credit obligations aimed at improving consistency and comparability of capital requirements.

*European Securities and Markets Authority (ESMA):*

- An Opinion to NCAs in relation to UCITS Share Classes; UCITS Remuneration Guidelines; ESMA advice in relation to the AIFMD Third Country Passport; and an Opinion on Loan Origination for the European Commission all delivered from the Bank's Investment Management Standing Committee (IMSC), which the Deputy Governor (Financial Regulation) chairs.
- The IMSC also developed RTS on European Long-Term Investment Fund Legislation and ESMA also delivered advice to the European Commission on the depositary frameworks of non-EU jurisdictions in the context of the AIFMD.
- Drafting of further Implementing Technical Standards (ITS) and RTS on the MiFIR/MiFID II, for example the RTS on packaged orders.
- Development of technical standards under the EMIR, including the bilateral exchange of margin between parties, the indirect clearing provisions which arise under EMIR for over-the-counter derivatives, and under MiFID II for exchange traded derivatives.
- The publication of the first EU-wide stress tests of Central Counterparties[20].

20 Published by ESMA on 29 April 2016

# Payments, Settlements and Currency

**The Bank, in conjunction with the ECB and other NCAs, is responsible for ensuring that payment, settlement, and currency systems are safe, resilient and efficient and that access to such systems is not restricted. The Bank also ensures the provision of banknotes and coins and other related currency services to the public, a key component of payments systems.**

## Payment and Securities Settlement Systems Policy and Oversight

The Bank has a statutory obligation to ensure that Ireland has a safe and efficient national payments and settlements infrastructure, its work in this area having both domestic and Eurosystem aspects.

With regard to the payment systems currently in use in Ireland[21] the Bank continued throughout 2016 to maintain and develop its good working relationship with the Eurosystem, Banking and Payments Federation Ireland (BPFI) – the representative body of the payments industry in Ireland) and with the Department of Finance.

In terms of securities settlement systems, the Bank maintained its contact with the Bank of England in relation to the oversight of Euroclear UK and Ireland EUI which provides the infrastructure used to settle trades in Irish equities and the National Bank of Belgium vis-à-vis oversight of Euroclear Bank, in which trades in Irish Government bonds are settled. Significant work was also undertaken during 2016 on matters related to the Central Securities Depository Regulation (CSDR) which aims to harmonise certain aspects of the securities settlement cycle/settlement discipline and to provide a set of common requirements for central securities depositories (CSDs) operating in the EU. Examining the potential implications of the outcome of the UK's Brexit referendum for Ireland's securities settlement systems also gave rise to an additional workload for the Bank.

From the broader Eurosystem perspective, the Bank continued throughout the past year to be actively involved in the development and implementation of policies and oversight standards in relation to payment and securities settlement systems generally. This engagement takes place through the participation of Bank staff in relevant international fora, such as the ECB's Market Infrastructure and Payments Committee (MIPC) and its associated working groups, the European Banking Authority (EBA) and the EU Commission.

## TARGET2 Payment System

TARGET2 is an interbank payment system for the real-time processing of transfers throughout the EU. In 2016, the TARGET2 system processed 88 million Real Time Gross Settlement (RTGS) transactions with a daily average in excess of 342,000 transactions. This represented an increase of 1% compared to 2015. However, the total value of transactions decreased in comparison to 2015, by 6% to €446 trillion, with an average daily value of €1.7 trillion.

TARGET2-Ireland, the Irish component, processed almost 860,000 transactions; this represented a decrease of 2% compared to 2015. The value of transactions processed increased by almost 12% to a total value of €3.35 trillion.

In 2016, the number of direct participants in the payments module of TARGET2-Ireland increased by 2 to 14.

## 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

21 The TARGET2 real-time, gross settlement system for large-value payments, STEP2 for retail electronic payments and the Irish Paper Clearing Company Limited for paper payment instruments

Treasury Management Agency (NTMA)). It is responsible for the maintenance of correspondent accounts for other NCBs 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).

On 19 February 2016, following the 14th General Review of Quotas by the Executive Board of the IMF, the Bank was required to increase Ireland's IMF quota subscription from XDR1.2bn[22] (€1.5bn) to XDR3.4bn (€4.3bn). The Board also made the decision to include Chinese Renminbi (RMB) in the Special Drawing Rights (SDR) basket which suggests that the currency may be used to settle future IMF financial transactions. The current outstanding balance on Ireland's IMF loan is €4.8bn (end-January 2017 valuation).

## Bond Register

In its role as Registrar, the Bank makes dividend and redemption payments to account holders on bonds issued by the NTMA and the Housing Finance Agency (HFA). Transactions in respect of Irish Government Bonds are settled in Euroclear Bank, which is based in Belgium. In 2017, the Bank will also assume the role as Registrar for Irish Treasury Bills, a role that was previously performed by the NTMA.

At the end of 2016, the nominal value of bonds on the Register amounted to €121.7bn, a decrease of €3.5bn over the value outstanding at end-2015 (€125.2bn). One bond matured during 2016 resulting in redemption payments of €7.2bn. The NTMA issued one new bond with a value of €3.0bn (1% 2026) during the year. There was one outstanding HFA bond (due to mature in 2018) during the year.

## Currency Issue and Production

### Banknotes

In 2016, a total of 328m banknotes was supplied by the Bank to the market, comprising 45% new and 55% re-issued banknotes. This was a 5% increase on the 313m banknotes issued in 2015.

**Table 1: Banknote Issues**

| | No. of Banknotes (million) | | Value € million | |
|---|---|---|---|---|
| **Denomination** | **2016** | **2015** | **2016** | **2015** |
| €5 | 54 | 54 | 272 | 271 |
| €10 | 61 | 61 | 608 | 611 |
| €20 | 77 | 69 | 1,537 | 1,379 |
| €50 | 135 | 128 | 6,749 | 6,387 |
| €100 | 1 | 1 | 67 | 81 |
| €200* | 0 | 0 | 8 | 2 |
| €500* | 0 | 0 | 42 | 27 |
| **Total** | **328** | **313** | **9,283** | **9,207** |

Note: Figures may not sum due to rounding

*Note: The exact numbers of notes issued:

| 2016 | 2015 |
|---|---|
| €200: 38,050 | €200: 8,100 |
| €500: 81,025 | €500: 54,025 |

22 The currency code for Special Drawing Rights (SDR)

Under the ECB pooled production arrangements, the Bank production allocation in 2016 was 123m €10 banknotes. Other denominations of banknotes are received from other 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 2016, 316m 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. The value of these banknotes exchanged for the public during the year was IR£1.01m (€1.28m). At end 2016, €227m worth of Irish pound banknotes remain outstanding.

## Box 3: The Europa Banknote Series

Preparations for the fourth banknote in the Europa series, the €50, commenced in 2016.This note was launched in April 2017. This banknote series is being introduced gradually over several years, in ascending order, and the denominations of €5, €10, €20, €50, €100, and €200 continuing in this new series, however, the €500 banknote will no longer be produced. 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 of time at Eurosystem NCBs, including the Bank.

In preparation for the launch of the new banknote, the Bank supported the preparations of retail banks, post offices, cash-in-transit companies (CIT)s, credit unions, retailers, vending machine companies, transport companies, leisure companies, charitable organisations, representative bodies, and the public for these new banknotes. Communication material was provided to stakeholders and the Bank liaised with them. New €50 banknotes were provided in advance to enable testing and updating of banknote handling machines.

The €100 and €200 will be the next denominations in the Europa banknote series to be released. Preparations are already underway for a release in 2019. Following a review of the denominational structure of the second series of euro banknotes, the ECB Governing Council decided to stop production of the €500 banknote and to exclude it from the Europa series. In view of the international role of the euro and the widespread trust in euro banknotes, the €500 banknote will remain legal tender. The €500 banknote, like the other denominations of euro banknotes will retain its value and can be exchanged in the euro area for an unlimited period of time. The €500 banknote is not widely used in Ireland, as confirmed through consultation with the main commercial banks.

**The new €50 Bank Note**

## Coin

The Mint, acting as agent for the Minister for Finance, produced 2.5m new coins and issued 126m coins into circulation in 2016. This represents a 9% increase in coins issued compared with the 115m coins issued in 2015. October 2016 marked the first full year of the voluntary participation in rounding. The high level of participation has had an impact on the Bank's coin operations with the reduction in the use of, and demand for, 1c and 2c coin.

Irish pound (IR£) coin is still accepted by the Bank and, once verified, exchanged for a euro equivalent. The value of coins exchanged for the public during the year was €0.194m. At end 2016, the equivalent of €123.7m worth of Irish pound coin remains outstanding.

### Table 2: Coin Issues

| | No. of Coin (million) | | Value € million | |
|---|---|---|---|---|
| **Denomination** | **2016** | **2015** | **2016** | **2015** |
| 1c | 0 | 0 | 0 | 0 |
| 2c | 0 | 14 | 0 | 0 |
| 5c | 39 | 32 | 2 | 2 |
| 10c | 26 | 23 | 3 | 2 |
| 20c | 26 | 18 | 5 | 4 |
| 50c | 12 | 9 | 6 | 5 |
| €1 | 9 | 6 | 9 | 6 |
| €2 | 14 | 13 | 29 | 26 |
| **Total** | **126** | **115** | **53** | **45** |

Note: Figures may not sum due to rounding

The Bank also issues Irish commemorative coin products marking significant events in Irish history, heritage or culture. In 2016, ten commemorative coin products were issued with over 75,000 products sold. More than 90% of all products sold related to the 1916 commemoration coins.

### Box 4: 1916 Proclamation Coins

To commemorate the centenary of the signing of the 1916 Proclamation of the Irish Republic, the Bank, acting as agent for the Minister Finance, issued a series of commemorative coin products marking this event.

For the first time, Ireland issued its own commemorative €2 coin into circulation. The Bank released 4.5m commemorative €2 coins into general circulation from 20 January 2016. In addition to the circulating coin, the Bank also issued a number of sets comprising brilliant uncirculated and proof versions of the €2 coin.

The design for this coin, by Emmet Mullins, was chosen following a competition that saw 52 Irish and international designers submit proposals based on the Proclamation of the Irish Republic. The coin features a representation of the statue of Hibernia (the historic personification of Ireland) on top of the GPO, the centenary dates and the name "Hibernia" in hand-rendered lettering influenced by the Book of Kells.

**Box 4: 1916 Proclamation Coins**

In April 2016 the Bank also released gold and silver proof coins to mark the centenary. The coins, designed by Michael Guilfoyle, depict the statue of Hibernia in front of key words and phrases from the Proclamation.


## The Irish Cash Cycle

Through its programme of engagement with the major cash cycle stakeholders the Bank continues to drive efficiencies in the Irish cash cycle. The current focus is the introduction of Service Level Agreements with customers and a reduction in the number of unnecessary movements of cash within the cash cycle, in an effort to improve its overall efficiency.

In 2016, the Bank continued to facilitate the National Cash Cycle Contingency Group which was established to enhance the overall resilience of the cash cycle. The Group was convened on three occasions during the year to manage incidents which had the potential to impact the national cash supply. The Bank has also taken steps to influence the denominational mix within ATMs. The Bank held its first Currency Seminar in October. This seminar brought together the major stakeholders in the cash cycle and provided an opportunity for the Bank to engage on strategic plans and European developments.

## Quality of Currency

Professional cash-handlers are continually monitored under the relevant ECB mandate relating to the authentication and fitness checking of euro banknotes and coin prior to recirculation. In 2016, a total of 116 monitoring inspections were carried out and 381 banknote handling devices were tested. The monitoring team conducted inspections of financial institutions in three regional towns and four Dublin areas during the year.

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

## Economic Advice and Statistics

**The Bank undertakes economic analysis, research, data collection and statistical analysis, designed to inform economic policy making domestically and at the euro area level. The analytical and statistical outputs are disseminated through various publications, seminars and through ongoing interactions with government departments, academia and commentators. The introduction of the SSM and other policy initiatives has led to a significant increase in statistical and analytical requirements.**

### Economic Analysis and Commentary

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. These are communicated through Bank publications and research papers, other domestic and international journals, statements and speeches by the Governor, Deputy Governors and 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 macroprudential 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 fora, e.g. Organisation for Economic Cooperation and Development (OECD) and the EU; and consulted with visiting half-yearly External Partner[23] missions, rating agencies and others.

Work has continued on the development of a suite of modern macroeconomic models of the Irish economy suitable for policy analysis. A core DSGE[24] model, with detailed macro-financial and labour market components, has been developed. This has been used to assess the impact of various macroprudential policies, including the mortgage rules and countercyclical buffers. A structural econometric model of the Irish economy, COSMO[25], has also been developed and put into operation. It has also been used for macroprudential policy analysis, assessing the potential impact of Brexit and, more generally, to enhance the Bank's economic analysis and forecasting capabilities

To take due account of the impact of external factors in a small, open economy, COSMO is used in conjunction with the global econometric model NiGEM[26], developed by the National Institute for Economic and Social Research in the UK. Using this approach, the results of international scenarios generated in NiGEM are used as inputs into COSMO to ensure that global and international effects are incorporated in a consistent manner.

Some of the recent themes examined in Bank research include:

» The effects of macroprudential policy on borrower leverage.

» An assessment of the resilience of mortgage portfolios.

» Modelling Irish residential property prices and rents.

» An examination of household savings behaviour.

23 The European Commission, the IMF and the ECB.
24 Dynamic stochastic general equilibrium model.
25 Core structural model.
26 National institute Global Econometric Model.

» Differences in wages for new hires.

» Labour market participation in Ireland.

Active participation continued in several research networks examining household finances, international banking and wage formation. The Bank also hosted the ECB Network on Household Finance and Consumption. Bank staff have also presented extensively externally at a range of domestic and international conferences and institutions.

The Bank also participated in the work of the Economic Statistics Review Group (ESRG), established to provide direction for the CSO on how best to meet user needs for greater insight into Irish economic activity, taking account of the measurement challenges inherent in providing a comprehensive picture of the highly-globalised Irish economy. The ESRG was chaired by Governor Lane.

### Contributing to Eurosystem Effectiveness

The Bank continued to develop its statistical framework in 2016 as part of its contribution to the Eurosystem and to the ESCB. The ESCB statistical programme has expanded to cater for the requirements of the SSM, the ESRB and non-standard monetary policy initiatives. The development of new granular data sources is a fundamental part of the strategy to enhance information for policy makers in the ESCB in an efficient and cost-effective way. In particular, the project to develop an analytical credit database (Anacredit) is well established, following publication of the Regulation[27], and the issuance of guidance material to reporting agents by the ECB. As part of this project, the Bank has established a communications workstream to liaise with reporting agents on providing the requisite credit and risk information, required under the Regulation. The collection of granular data was also expanded during the year in the area of securities statistics, with breakdowns of holdings by economic sector, including households now compiled and published. Work was also underway to redesign the production of monthly securities issuance, using the ECB's Centralised Securities Database.

Staff from the Bank participate in all statistical committees and working groups responsible for delivering current statistical outputs, developing new data sources to meet expanded user requirements and contributing to international fora on conceptual and methodological issues. There have been a number of significant developments in ESCB statistics during 2016. Work continued on integrating statistical and supervisory data to provide a more holistic picture of the banking sector, particularly in terms of harmonising definitions and concepts. In addition, daily transaction data on money market transactions are now collected from the largest euro area banks, while first data have been collected under the Regulation on insurance corporations[28]. Data collected under this Regulation will supplement Solvency II information to provide greater insights into the insurance sector.

Data provided by the Bank feeds directly into euro area statistical aggregates, which are a key input for informing monetary policy and other statutory tasks of the ESCB, including its supervisory remit. During 2016, 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 banks and money market funds. Detailed data are also provided monthly on interest rates applied by banks to loans and deposits vis-à-vis households and non-financial corporates. The Bank 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 is disproportionately large in relation to the size

27 https://www.ecb.europa.eu/ecb/legal/pdf/celex_32016r0867_en_txt.pdf

28 Regulation (EU) No 1374/2014 of the European Central Bank 28 November 2014 on statistical reporting requirements for insurance corporations (ECB/2014/50)

of the economy. Quarterly financial accounts, which provide an overview of the financial transactions and positions between economic sectors and the rest of the world are also compiled for Ireland and provided to the ECB. Whom-to-whom data, which provides extra information on the exposure of sectors to counterparties was further expanded for Ireland in 2016. In addition to the regular transmissions, detailed extra data, including entity-specific information were required for monitoring non-standard monetary policy measures.

Securities holdings information continues to be enhanced in tandem with 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.

## Provision of 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 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. In addition, the Bank publishes detailed information on credit provision to the economy, particularly to the SME sector which is largely dependent on domestic banks for funding. Quarterly financial accounts for Ireland are published, as well as regular statistical series on resident investment funds (by type of fund), securitisation and non-securitisation financial vehicles, securities issuance and holdings, and consolidated banking statistics.

## Financial Data and Statistics

Data collected by the Bank are also central to assessments of financial stability. These data facilitate monitoring of funding and credit developments within the financial sector and across the wider domestic economy. Detailed data are collected from banks on their lending and funding activities, broken down by instrument, maturity and purpose. During 2016, the Bank further expanded its publication on mortgage arrears with loans held by non-bank entities, now split between regulated and unregulated entities. The publication provides detailed information on the level and type of restructure solutions implemented, and whether these are abiding by the terms agreed. Data on interest rates were also enhanced to include the level and impact of renegotiated contracts on mortgage rates, and to provide information on the residual maturity of fixed term contracts.

Internationally, the Bank provides data to other international organisations[29] and participates in international fora on financial statistics, including initiatives to address data gaps arising from the financial crisis. Ireland is a significant location for non-bank entities, many of which fall under the definition of shadow banks. Coverage of the non-bank financial sector was extended with first publication of data on non-securitisation financial vehicles (special purpose vehicles) during 2016. Data collected were supplied to the Financial Stability Board and the European Systemic Risk Board, as part of shadow banking monitoring exercises by both bodies, and to the IMF in the context of its FSAP for Ireland.

In addition to expanding statistical outputs, the Bank has undertaken research and analysis through published articles, economic letters and commentary in the Quarterly Bulletin. Published research covered areas such as aircraft leasing, securities holdings by Irish residents, activities of special purpose vehicles in Ireland and their interconnectedness with other sectors, assessment of interest rate developments in Ireland, estimating cash buyers in the Irish housing market, use of private placement debt securities by Irish resident firms and venture capital funding of Irish business.

29 International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD), Bank for International Settlements (BIS) etc.

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 Bank's close working relationship with the CSO was further developed during 2016. The Bank provided a submission to the Economic Statistics Review Group, which was established by the CSO following publication of the National Accounts results in July 2016, and chaired by Governor Lane. Areas of cooperation now cover most institutional sector statistics, balance of payments (BOP)[30], financial accounts, insurance and pension funds, and government finance statistics. Statistical challenges are expanding for both institutions from the increased globalisation of the Irish economy, and from increased demands at European level, particularly in the area of BOP. 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.

## IMF Policy and Constituency Issues

The Governor holds the position of Alternate Governor for Ireland on the IMF's Board of Governors and, in this capacity, attended the IMF/World Bank Group Spring and Annual Meetings in Washington in April and October 2016. 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 renewal of the bilateral lending agreements, together with measures to strengthen the IMF in the context of the forthcoming 15th General Review of Quotas. Given the growing interconnectedness among countries, policy coherence was also discussed.

## 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 Bank for International Settlements (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, such as G20/IMF issues, the functioning of the international monetary system, macroeconomic and financial developments and global imbalances. The Committee is also responsible for preparing the Eurosystem's position for the negotiation and conclusion of international agreements concerning monetary or foreign exchange regime matters.

Engagement continued with international institutions such as the IMF, the World Bank and the OECD and, in partnership with the Department of Finance, the Bank helped formulate Ireland's national position on IMF policy and constituency issues. In addition, the Bank met its Post Programme monitoring and surveillance obligations to the EU-IMF funding partners including two post programme review missions. The Bank assisted with the European Stability Mechanism post programme review also.

During 2016, the Governor's external engagements included delivering a key-note speech on "The Future of the European Financial System: A Macro-Financial View" at the European Financial Forum in Dublin. On 2 August, the Governor gave a speech at the Institute for International and European Affairs on "Macro-Financial Perspectives on the Irish Economy". He participated in a panel discussion

30 BOP statistics include the International Investment position.

on “Monetary Policy and Financial Stability interaction in a world with possibly negative interest rates” at the Deutsche Bundesbank Spring Conference on 10 June in Germany; and delivered a speech on “ECB Monetary Policy: An Overview” at New York University on 27 September. The Governor also delivered addresses at international conferences and seminars in Frankfurt, Geneva, London, Washington and Zurich. The Deputy Governor for Central Banking delivered addresses at the Peterson Institute in Washington, the 8th ECB Statistics Conference in Frankfurt and at the Global Interdependence Centre Conference held in Dublin. She also attended the IMF – World Bank meetings in Washington in October 2016. The Deputy Governor for Financial Regulation attended high-level international seminars in Amsterdam and Bratislava.

# Recovery and Resolution

**The Bank is Ireland's National Resolution Authority and embedding the EU resolution framework within in-scope firms, and where necessary, resolving failed or failing firms in an orderly manner are vital components of a sustained economic recovery.**

Following the transposition of the Bank Recovery and Resolution Directive (BRRD) into Irish law in 2015 and the designation of the Bank as Ireland's national resolution authority (NRA), in 2016 the Bank focused on embedding the resolution framework domestically, advancing resolution plans for all in-scope institutions and fulfilling its obligations under the new framework.

## Single Resolution Mechanism

With the Single Resolution Board (SRB) becoming fully operational on 1 January 2016, decision-making powers and responsibilities regarding Significant Institutions (SIs) and cross-border groups, transferred from the Bank to the SRB under the Single Resolution Mechanism (SRM) from that date. Less Significant Institutions (LSIs) remain under national level responsibility. Within the SRM, day-to-day resolution-related tasks for SIs and cross-border groups are undertaken by Internal Resolution Teams (IRTs). These teams are led by an SRB coordinator and comprise members from the SRB and relevant NRAs. In 2016, the Bank joined the IRTs established for in-scope Irish banks and other Banking Union institutions with a presence in Ireland. The SRB is also responsible for managing the Single Resolution Fund (SRF), a European resolution fund to which certain financial institutions from EU Members States make contributions.

## Resolution Planning

As part of the resolution planning 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 preferred resolution strategy. Where impediments are identified, the institution will be required to address or remove those impediments.

## Credit Institutions

The Bank, in conjunction with the SRB, further developed resolution plans for the Irish licensed banks in 2016. 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 are renewed and progressed on at least an annual basis to ensure that they remain up-to-date. The Bank worked closely with the Irish licensed banks and the SRB throughout 2016 to ensure steps were taken to identify and, where possible, remove or address any impediments to resolvability, which in some cases will take a number of years to effect.

In line with the BRRD, institutions are required to meet a minimum requirement for own funds and eligible liabilities to ensure that they hold a sufficient level of loss absorbing capacity to support the preferred resolution strategy.

In order to ensure resolution actions can be executed effectively, close cooperation between the resolution and other relevant authorities is required. To facilitate decision-making with respect to cross-border institutions, the 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 participated in a number of such colleges in 2016 for Irish and non-Irish parented institutions.

## Investment Firms

The Bank, in its capacity as the NRA, developed resolution plans for 11 Irish in-scope investment firms under the BRRD. As is the case with resolution plans for the Irish licensed banks, the process involves developing a preferred resolution strategy for each of the in-scope investment firms. The resolution plans are reviewed on an annual basis to ensure that they remain up-to-date.

## Funds

From 1 January 2016, Irish credit institutions were required to make contributions to the SRF, which is managed by the SRB. The contributions raised from Irish credit institutions in respect of the 2015 contribution period were transferred to the SRF in January 2016. Investment firms that come within the scope of the BRRD are required to make contributions to the Central Bank and Investment Firm Resolution Fund (BIFR Fund), a domestic resolution fund.

For the 2016 contribution period, the SRB calculated the levies payable by Irish licensed banks. The Bank issued levy notices and collected the levy contributions on behalf of the SRF. In April 2016, c.€107m was levied on Irish licensed banks and certain in-scope investment firms and transferred to the SRF in June 2016. Levy contributions were calculated and collected by the Bank in respect of all institutions within the scope of the BIFR Fund for the 2016 levy period. In 2016, BIFR Fund levy contributions of c.€1m were raised from in-scope investment firms.

## Resolution of Credit Unions

In recent years, there have been a number of instances where firms have not been able to avail of an alternative solution to address their difficulties, and the Bank has needed to take resolution action under the Central Bank and Credit Institutions (Resolution) Act 2011 in order to protect members' savings. During 2016, the Bank undertook resolution action in relation to Rush Credit Union, resulting in the liquidation of the credit union in November 2016.

### Box 5: Liquidation of Rush Credit Union

Arising from significant regulatory concerns regarding the financial position, a number of independent reviews were undertaken in Rush Credit Union (Rush) in the period 2010-2016. On foot of these independent reviews and findings in Rush's audit management letters, recurring issues at Rush became evident. In particular, these reviews and findings identified significant and pervasive weaknesses in the areas of governance, lending practices, credit control, the internal control environment, asset valuation, and capital and reserves. The Registry of Credit Unions (RCU) engaged extensively with Rush over a number of years in order to address the significant financial difficulties and governance issues in the credit union.

In February 2016, concerns were raised surrounding the alleged misappropriation of members' funds at Rush, which led to the Bank issuing a Suspension Notice and commencing an investigation in accordance with the Central Bank Reform Act 2010 into the former manager of the credit union. The credit union also engaged external advisors to carry out an investigation into governance and the alleged misappropriation of funds at Rush.

A regulatory direction was issued to Rush on 20 September 2016, requiring it to restore its regulatory reserve position. This regulatory direction was subsequently breached by Rush, as it failed to address its financial difficulties. At this stage it was clear that Rush was balance sheet insolvent with no reasonable prospect of being able to recover its financial position.

On 2 November 2016, the Bank applied to the High Court to appoint Jim Luby and Tom Rogers of McStay Luby as joint provisional liquidators to Rush. The High Court granted a full winding-up order on 21 November 2016. The liquidation of Rush was ultimately the only viable solution available in the circumstances. The Bank undertook this action in the interests of protecting members and their savings.

The appointment of joint provisional liquidators to Rush resulted in the invocation of the DGS. The Bank issued cheques to eligible depositors of Rush within the statutory timeline and no member of Rush lost their savings.

# People and Knowledge

**The Bank is a knowledge-based organisation. As such, it is essential that the Bank attracts, develops and retains experienced people, which its recruitment and selection processes and merit-based reward model support. To ensure that the Bank is a fulfilling and progressive place to work, it will continue to develop and support a learning culture.**

## Resourcing in 2016

Attracting and retaining people with relevant skills and experience continued to be a significant challenge facing the operations of the Bank. Along with many employers, the Bank faces increasing competition for skilled staff as the majority of staff with post qualification experience are recruited from the private sector in an increasingly buoyant labour market.

In 2016, a net increase of 83 staff (on a full time equivalent (FTE) basis) was achieved (which was a reduction of 67 in the net staff increase compared to 2015). This represents a full year increase in staff for 2016 of 5.5%. 94% of the approved headcount target of 1,695 at 31 December 2016 was achieved. A total of 520 roles were filled in 2016 (690 roles in 2015) and the ratio of internal to external hires was 56%:44%.

While the overall turnover level of 6.2% reduced slightly in percentage terms in 2016 (2015:7.7%), the Bank continued to experience high levels of turnover particularly in some Directorates; and this combined with the high levels of internal mobility due to the continuing growth of the organisation, added to the operational challenges of delivering on the Bank’s complex mandate. The Bank’s resourcing strategy is under continual review in this environment. The Bank's Graduate Programme was redesigned and a restructured and bespoke programme was launched in March 2017.

## Organisation Review Programme

As a knowledge-based organisation, collaboration and sharing information is vitally important to the successful achievement of the Bank’s mandate. This requires flexibility in the organisation structure to effectively respond to the changing external environment. In 2016, the Organisation Review Programme enabled and facilitated an organisation redesign process for the majority of divisions in the Bank, following a pilot of three areas during 2015.

It has resulted in the establishment of a role-based organisation structure with a clearly articulated role profile for every unique role, with consistently fewer reporting layers and wider spans of control across the Bank. Importantly, a dual career path for subject matter experts, alongside those aspiring to management roles, has also been developed. Each Division’s structure and role has been clearly articulated, and the key relationships with different parts of the Bank have been mapped. The design process has also enhanced both line management and HR capabilities to evolve the organisation’s design to respond flexibly to the demands of the external environment for the future.

The role profiling and organisational redesign is a building block for a modern and progressive organisation and has provided the foundation for the development of a Career Framework for the Bank. The Career Framework has identified the common job families across different parts of the Bank, based on skill sets such as policy development, supervisory skills and data management and analytics, and the potential lateral and promotional career opportunities available. It will evolve further in 2017 with supporting tools for staff and managers to better support career conversations, which will contribute to the Bank's goal of developing a fulfilling and progressive workplace with an attractive offering for staff.

## The Bank's Employee Value Proposition

A clearer articulation of the Bank's employee value proposition (EVP) is also an outcome of the Organisation Review. This has the potential to bring together many aspects that make the Bank an attractive place to work including the opportunity to play a significant role in the public interest and progress one's career as a skilled public servant, which enables the Bank to realise its mission. The communication of the EVP will be rolled out following the Bank's move to the Dockland Campus and the launch of its new careers website in 2017.

The Bank is included in the Financial Emergency Measures in the Public Interest (FEMPI) legislation and following the FEMPI 2015 legislation, restoration of some of the previous pay cuts commenced in 2016 and will continue in 2017, in line with public sector pay agreements. The design of a potential new reward framework for the Bank was also completed in 2016 as part of the Organisation Review. The Bank's consideration of any future implementation of such a framework is contingent on continuing to meet its obligations under the FEMPI legislation and consultation with key stakeholders.

## Learning and Development

A broad range of learning and development opportunities are provided by the Bank for its staff. Extensive learning and development activities took place in 2016 with 2,000 classroom training days and 1,200 e-learning days recorded. Over 450 staff (150 commenced in 2016) are currently undertaking further studies as part of the Academic Professional Training Scheme. The Learning and Development function provides and facilitates team development interventions for the business and support bespoke training programmes such as an accredited training programme for staff in consumer protection as well as graduate training.

### Box 6: Diversity and Inclusion in the Bank

The Bank recognises the value and benefits of diversity among its staff and fostering a workplace where all staff feel included and valued regardless of their differences. Effective delivery of our mission and our statutory mandate requires the Bank to have staff with diverse views and experiences, from diverse backgrounds and that are reflective of the society we serve, considering gender, age, sexuality, ethnicity, religion, socio economic background, country of origin, and so on.

In October 2016, a Diversity and Inclusion Steering Group was established, which is Chaired by Ed Sibley, Director of Credit Institution Supervision, and includes four members of the senior leadership team. The Steering Group carried out research and prepared recommendations for the Senior Leadership Committee on actions to enhance the Bank's approach to becoming a more diverse and inclusive organisation. These actions are being progressed in 2017. The Bank is also considering diversity from a regulatory perspective and has published research regarding the level of gender diversity at senior levels in financial services in Ireland.

The Bank is an active member of the 30% Club, which advocates for greater gender balance at senior levels in business and also signed up to Ireland's Diversity Charter, which commits members to "effective diversity management, preventing discrimination and promoting equality with respect to all their stakeholders and the environment in which they operate".

There is a very active Women's Network in the Bank and during the year a series of lunchtime were organised which included a mix of internal and external speakers as follows: Derville Rowland, Sylvia Cronin, Ed Sibley, Ann Heraty (CEO, CPL), Julie Sinnamon (CEO, Enterprise Ireland), Sinéad Burke (Disability Advocate, TED NYC Speaker), Johanna Fullerton (Career Coach, Director of SEVEN Psychology at Work), Margaret Ward (Communications and Brand Expert), Geraldine Gibson (CEO, AQMetrics), Helen Fullen (Pre-Accelerator Leader at the state-funded NDRC, an early stage investor in technology innovation), Margaret Doyle (Head of Financial Services Research, Deloitte), Deirdre Somers (CEO, Irish Stock Exchange), and Christine Graeff (Director of Communications, ECB). The Women's Network also ran one-to-one networking lunches, matching colleagues across divisions and levels in the Bank for one-off lunches.

Pictured at the Bank's Women's Network lunchtime talk, Christine Graeff, Director of Communications at the ECB with Siobhan Kirrane, Ed Sibley, Deputy Governor Sharon Donnery and Jill Forde.

## OneBank Foundation Programme

A OneBank Technical Curriculum Foundation Programme was designed and successfully launched in 2016 with 60 new staff participating as part of their induction to the Bank. The ten module, five day programme is now mandatory for all new staff and a condensed version is being made available to existing staff in 2017. It is intended to build the curriculum beyond the Foundation Programme in 2017. The programme is in response to the recent period of significant employee growth which has highlighted the need for the development of technical knowledge and understanding of the Bank and its operations for staff, as well as developing the reasoning and critical thinking skills necessary to carry out its mission.

## Code of Ethics

In 2016, the Bank reviewed its Code of Ethics and updated it in accordance with developments in the Eurosystem Ethics Framework. The Code of Ethics is binding on all the Bank's staff and addresses a variety of ethical conduct related risks: prevention of misuse of inside information; avoidance of conflicts of interest; and acceptance of hospitality and gifts.

# Information and Resources

**Analysis of data and information is a core competency for the Bank in delivering on its mandate. Its investment strategy in relation to its investment assets and its share of the ECB's own foreign reserves portfolios, which are managed on an agency basis, seeks to optimise the risk-adjusted long-term return on these. In the performance of its responsibilities, the Bank faces a range of risks, which are kept within defined tolerances through risk management frameworks and methodologies. Improved ways of working, collaboration and efficiency will be facilitated for staff in the Bank's new Dockland Campus.**

## Data Strategy

The Data Management Target Architecture is a vision for an effective data management solution which meets the current and future needs of the Bank and is a key organisational objective. In 2016, a comprehensive Data Strategy Programme was developed to deliver on this vision with specific deliveries in 2016 including:

» Provision of Analytical Sandboxes to provide better, faster and more direct access to data for the business. This supports collaboration across divisions enabling them to perform self-service analysis, to prototype individual solutions, and to build dashboards and reports distinct to their business areas. There are currently over 260 users with access to almost 3 billion records.

» Completion of the tender to procure an Enterprise Document Management Solution and identification of a preferred supplier; implementation of this solution for initial divisions will commence during 2017.

» Completion of a proof of concept in relation to the proposed technologies to underpin two key elements of the architecture, i.e. a portal to facilitate interactions with regulated entities and master data management.

## Developments in Information Security

A review of organisational information security was conducted resulting in improved governance and ongoing focus on the risk landscape of the Bank's systems and data.

### Box 7: Significant IT-Related Projects Delivered in 2016

A significant portfolio of IT projects was successfully delivered during 2016 to support the implementation of regulatory and statistical directives to meet both local and European purposes and to support the Bank's obligations. Projects implemented included:

» Solvency II full data collection to deliver on the mandated collection of data from the Insurance Industry and improved reporting to EIOPA

» Regulatory Transactions Strategy including the automation of authorisations processes

» Insurance corporation statistics

» Introduction of new regulations for credit unions.

## North Wall Quay Technology Programme

A major programme of work to implement the technology to support the new Dockland Campus and to uplift technology capability to support enhanced ways of working was a significant focus in 2016. This programme will actively enable and promote greater interaction and collaboration throughout North Wall Quay with the introduction of unified communications, improved telephony, wifi and conferencing facilities providing the ability to work anywhere in the building while also improving the experience of working remotely.

## Operational Risk Management

The Bank's Operational Risk Management Framework (ORM) requires, inter alia, the completion of divisional risk assessments on a cyclical basis. During 2016, 24 divisional operational risk assessments were formally conducted, over and above the ongoing updates to divisional risk registers. The Bank grades risks based on both impact and probability of occurrence. The Bank's approved risk appetite defines specific tolerances in respect of the grading assessment of operational risks. The grading of risks ensures identification of specific controls which require enhancement by divisions, to ensure the Bank's control environment remains within the tolerances underpinning its appetite.

A further component of the Bank's ORM Framework relates to the management, reporting and remediation of incidents. This process requires all incidents to be reported to the Operational Risk team, who validate and assess each using a consistent incident management policy, and then coordinate a root cause analysis with the aim of ensuring the risk of reoccurrence is minimised. All incidents are graded and where an impact rating exceeds a predefined score, the incident is escalated to the Risk Committee of the Bank's Commission.

During 2016, a dedicated Fraud Risk Policy was approved by the Bank's Commission with the aim of further strengthening the ORM Framework by ensuring accountability for fraud related risk is clearly articulated, along with clarifying the process for identifying higher risk divisions and the additional support they will receive in identifying fraud risks and remedial initiatives.

In addition, a wide-ranging review of the Bank's Business Continuity Management (BCM) strategy was conducted. The Bank endorsed the findings of this review and recommendations. Given escalated threats associated with cybercrime, the Bank engaged a competent third party to complete a review of the maturity of its information security posture relative to the international standards pertaining to risk management and controls. This review highlighted a number of areas for ongoing management and further development. Specific initiatives were progressed during 2016 under a dedicated information security programme of work. As with all risk domains, information security represents a moving target, requiring the Bank to reassess its maturity on a continual basis.

In addition to the divisional risk and control assessment processes, the Bank initiated an SRA in 2016, identifying a range of strategic risks faced by the Bank. This SRA will facilitate the Bank in determining whether additional risk remediation initiatives are required.

To further embed a culture of risk management, a risk and incident management training programme was executed throughout the year. This included providing training to staff both on the operation of the Bank's risk management framework and international risk management standards.

### Box 8: Implementation of an Additional Risk Provision in the 2016 Annual Accounts

Each year, as part of the preparation of its Annual Accounts, the Bank carries out a financial risk assessment in accordance with its internal provisioning policy. For the past number of years, this assessment has resulted in the retention of a credit risk related provision associated with the potential for impairments on securities held for monetary policy and investment purposes. The 2016 year-end risk assessment identified an additional material risk, which relates to the potential for future interest rate mismatches on the Bank's balance sheet. As a consequence, and in compliance with Eurosystem accounting guidelines, the Bank introduced an additional risk provision in its 2016 Annual Accounts, which falls under the category of provisions for "*foreign exchange rate, interest rate, credit, and gold price risks*". Following an evaluation of the potential impacts and likelihood of this risk, a provision of €165m has been set aside (Note 33 of the Annual Accounts provides additional information on the details of the provision).

The necessity for an additional risk provision arises from the actions taken by the Bank as part of the Eurosystem's ongoing non-standard monetary policy measures. Since the onset of the financial crisis, the Eurosystem has adopted unconventional monetary policy measures principally aimed at providing excess liquidity to euro area economies. These policy measures have included the introduction of fixed rate, full allotment for liquidity providing refinancing operations, the provision of long-term liquidity to counterparties, the reduction of policy rates to the zero lower bound and even into negative territory for deposit rates, and large-scale asset purchases – known within the euro area as the extended asset purchase programme (APP). Taken together these measures have led to changes in the composition and size of euro area NCBs balance sheets and, consequently, their associated financial risk exposures. The potential for interest rate mismatches arises in this context since securities purchased under the monetary policy programmes are held at amortised cost, whereby the amortisation restores the asset to face value based on its remaining maturity. One result of this accounting practice is that, in the absence of disposals, the expected income associated with the asset purchases is, generally speaking, the fixed interest income earned on the securities. Given the scale of the asset purchases, and the fact that the Bank's increased liabilities are still largely linked to short-term policy interest rates, the potential for an interest rate mismatch on the Bank's balance sheet becomes a material risk to consider.

While the policy rates are currently zero or negative, the difference between these and the yields on purchased bonds does not pose an immediate concern when aggregate holdings are taken into account. However, as economic conditions normalise over time, and the rate of inflation approaches the Eurosystem's target, policy rates are also expected to increase. Given that the interest income on the bonds purchased under the purchase programmes is fixed at low or negative interest rates, this points towards a potential widening spread between the rising cost of funds and the low return on these assets. If this potential widening were to materialise more rapidly than expected, it would increase the likelihood of losses on the Bank's holdings of purchase programme assets. Considering this risk, the Bank has prudently chosen to set aside a provision in its 2016 Annual Accounts in the event that these mismatches were to materialise in the future.

## Project and Programme Management

In 2016, the Bank completed 26 projects. While completions in the year were marginally down on 2015, the number and complexity of projects under management in 2016 was higher than in previous years. The Fusion and Organisation Development programmes were a particular focus in 2016 and, while nearing completion at end 2016, both consumed significant organisation capacity in the year.

Major project completions in 2016 included: implementation of a Local Collateral Management System, an upgrade of technology platforms and major regulatory projects including Solvency II and new Regulations for Credit Unions, and the Funds Sector (AIFMD).

In 2016, a review of Bank project management processes and practice was undertaken by the National Standards Authority of Ireland (NSAI). The review confirmed compliance with the ISO 21500 best practice standard. The NSAI report highlighted that an ethos of good practice compliance and continual improvement was strongly promoted in the Bank.

The resource pool of professional project and programme managers established in 2015 was strengthened in 2016, supporting the assignment of experienced professionals to the most complex, highest risk Bank projects and programmes. The Bank remains committed to a blended resourcing approach, involving the recruitment of experienced professionals in tandem with training of Bank staff in project management. A total of 90 staff participated in the in-house project management training programme in 2016, with a number of participants successfully progressing to the award of the internationally recognised Project Management Institute accreditation. Further development of the training programme is planned in 2017 to encompass process and business change management modules.

In the latter part of 2016, investment prioritisation and portfolio management governance were strengthened at senior management level and further enhancements in this area are planned in 2017.

During the year, the Bank hosted a number of information exchange meetings with Irish public sector organisations and NCBs. The Bank remains committed to sharing experiences and actively supporting the newly established Civil Service Project Management Network.

## 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.

## Legal Services

A number of Regulations were prepared during 2016, including those on residential mortgage lending, credit unions, investment firms, lending to SMEs, and the CCR. Legal assistance was provided on the transposition of a number of EU Directives, including UCITS V, the Payment Accounts Directive and the Mortgage Credit Directive. The Bank's legal resources also assisted with the proposed Central Bank Consolidation Bill. Legal support was provided in respect of the SSM and to the Bank's supervisory divisions on authorisations, ongoing supervision and regulatory actions. In addition, various legal proceedings taken by the Bank and against the Bank during the year, including the liquidation of Rush Credit Union Ltd. were managed by the organisation's legal resources.

Legal advice was provided on a number of large projects, including the development of the Bank's new head office at North Wall Quay and the sale of the Bank's premises on Dame Street. In-house legal resources also supported the Bank's monetary policy activities. For example, the Bank's documentation on monetary policy instruments and procedures was amended to reflect changes to the relevant ECB guidelines; there were legal reviews of the residential mortgage pools backing Special Mortgage-Backed Promissory Notes; and legal assessments were conducted on the compliance of the ABS with Eurosystem eligibility criteria. In addition, the Bank was represented on the Legal Committee of the ESCB.

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. In 2016, a number of ASP Inquiry Management Meetings were held in the two ongoing ASP Inquiries, to include the first ASP Inquiry Management Meeting held by the Bank in public.

## Protected Disclosures/Whistleblower

The Bank receives various protected disclosures reports from the public regarding alleged breaches or contraventions of financial services legislation by financial services entities. Under the relevant legislation persons making these reports benefit from a range of employment and other protections should they be penalised by their employer or suffer any other detriment for making the disclosure. The Bank considers the receipt of such protected disclosures reports as an important supervisory tool in allowing members of the public or staff members of regulated entities to provide such reports in a confidential form to the Bank. A dedicated unit has been established in the Bank to receive such reports and this unit is the primary point of contact for persons to submit reports. It also provides information to persons regarding the process undertaken.

Various supervisory actions have been initiated following the receipt of protected disclosures reports including: enforcement action, on-site inspections conducted, RMPs issued and firms placed on a watch list. Not all reports received will result in supervisory action being initiated as the information may not be sufficient to take action; or the information received was not substantiated when investigated; or information was provided anonymously and contact for further supporting information could not be made.

During 2016, the Bank received 50 protected disclosures reports, this compares with 49 received during 2015.

## Investment Portfolio Management

The Bank's investment portfolio is managed in line with parameters approved by the Bank's Commission, which are kept under regular review. The portfolio consists of securities held on both a Mark-to-Market (MTM) and a Hold-to-Maturity (HTM) basis. The earnings and returns are based on the total income generated by the assets and the values below are based on the market value of all assets as at year-end.

At end 2016, the investment portfolio comprised assets of €18.7bn. This value represents a decrease of €0.3bn on the portfolio value at end 2015 (€19bn), largely owing to the Bank's obligations under the IMF's quota increase agreement. The size of the investment portfolio is also subject to the Bank's obligations under the Eurosystem's Agreement on Net Financial Assets (ANFA), however, these obligations did not contribute to any changes in 2016. ANFA is an agreement between the NCBs of the euro area and the ECB, and sets rules and limits for holdings of financial assets which are related to national tasks of NCBs. At the end of 2016, the Bank's net financial assets (NFA) stood at €24.3bn[31]. The components of the Bank's NFA position are outlined in Table 3, below. The ECB will publish the average 2016 NFA for each NCB on its website, as communicated in the ECB's press release of 27 July 2016. Additional ECB publications concerning NCBs' balance sheets commenced in July 2016.

Total earnings on the Bank's investment portfolio amounted to €336.4m in 2016 compared to €360.6m in 2015. Returns on the investment portfolio, calculated on a valuation basis, were 1.68% in 2016 compared with 2.04% for 2015.

31 For further details of the Eurosystem's Agreement on Net Financial Assets, see the Bank's website here and the ECB's website here.

## Table 3: Components of the Bank's Net Financial Assets Position: Central Bank of Ireland Balance Sheet as at 31 December 2016 – all figures in €000s

| Assets | | | Liabilities | | |
|---|---|---|---|---|---|
| **Item** | **Description** | **Amount** | **Item** | **Description** | **Amount** |
| A1 | Gold and gold receivables | 212,471 | L1 | Banknotes in circulation | 17,084,697 |
| A2 | Claims on non-euro area residents in foreign currency | 3,191,361 | L1.1 | Euro banknotes | 17,084,697 |
| 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 | 2,653,307 | L2 | Liabilities to euro area credit institutions related to monetary policy operations in euro | 19,224,845 |
| A5 | Lending to euro area credit institutions related to monetary policy operations in euro | 7,418,000 | L2.1 | Minimum Reserve Deposits | 13,508,518 |
| A5.1 | Main refinancing operations | 0 | L2.2 | Overnight deposits | 5,716,327 |
| A5.2 | Longer-term refinancing operations | 7,418,000 | 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 | 160,432 | L5 | Liabilities to other euro area residents in euro | 10,406,599 |
| A7 | Securities of euro area residents in euro | 67,254,966 | L6 | Liabilities to non-euro area residents in euro | 587 |
| A7.1 | Securities held for monetary policy purposes | 22,434,179 | L7 | Liabilities to euro area residents in foreign currency | 224 |
| A7.1.1 | Covered Bond Purchase Programme | 61,637 | L8 | Liabilities to non-euro area residents in foreign currency | 0 |
| A7.1.2 | Securities Markets Programme | 1,712,483 | L9 | Counterpart of special drawing rights allocated by the IMF | 988,353 |
| A7.1.3 | Covered Bond Purchase Programme 2 | 45,463 | L10 | Intra-Eurosystem liabilities (net) | 17,831,709 |
| 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 | 3,174,440 | 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) | 951,727 |
| A7.1.7 | Public Sector Purchase Programme – Government securities | 16,275,110 | L10.4 | Liabilities related to the allocation of euro banknotes within the Eurosystem | 16,879,982 |
| A7.1.8 | Public Sector Purchase Programme – Supranational securities | 1,165,046 | L11 | Items in course of settlement | 0 |
| A7.1.9 | Auxiliary instrument 9 | 0 | L12 | Other liabilities | 2,429,630 |
| A7.2 | Other securities of euro area residents in euro | 44,820,787 | L13 | Provisions | 333,243 |
| A8 | General government debt in euro | 0 | L14 | Revaluation accounts | 10,887,130 |
| A9 | Intra-Eurosystem claims | 890,090 | L15 | Capital and reserves | 3,598,984 |
| 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 | 18,431 | | | |
| A10 | Items in course of settlement | 0 | | | |
| A11 | Other assets | 1,005,374 | | | |
| **A999** | **Total Assets** | **82,786,001** | **L999** | **Total Liabilities** | **82,786,001** |

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 2016). 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 2016.
3) "Other liabilities" is the sum of "Other Liabilities" (€2,096,727) & "Superannuation Liabilities" (€ 332,903) as reported in the Balance Sheet in the Statement of Accounts for year ended 31 December 2016.
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 2016 but the corresponding figure is shown in Note 16 of the Statement of Accounts for year ended 31 December 2016 as "Other Securities".
5) Elements of the NFA calculation which are zero as at 31 December 2016, are not reported in the Statement of Accounts for year ended 31 December 2016.

## Assets Acquired as part of the Liquidation of the IBRC

During 2016, the Bank's holdings of assets acquired as part of the liquidation of the IBRC, referred to as the Special Portfolio, declined to €19.61bn (nominal) by year-end (comprising FRNs – €19.53bn and NAMA bonds – €0.08bn). This reduction reflected the purchase by the NTMA of €1.5bn of the Irish FRN 2041 and €1.5bn of the Irish FRN 2043 and the redemption by NAMA of €0.17bn of its bonds (all nominal amounts).

## ECB Reserves

At the end of 2016, the ECB's reserves amounted to €71bn (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 €919.7m (market-value) equivalent at year-end 2016, which is proportionate to the sum of the two countries' capital key shareholdings in the ECB.

## Facilities Management

### Box 9: The Bank's Fusion Programme

Over the past number of years, the Bank has seen a considerable increase in headcount to support the delivery of its increased mandate. As a consequence of the increases in staff numbers, the Bank had to consider alternative accommodation arrangements. Following a thorough examination of the options, the Bank decided in 2012 that the best option was to develop a partially completed building in North Wall Quay (NWQ).

When the Bank set about developing the new premises the key objectives included:

- Establishing a workplace that is 'fit for purpose' for its city centre-based staff.
- Providing a building that achieves high sustainable targets, a high energy rating, and a civic presence that will be future-orientated and long-lasting.
- Achieving this in the most cost- effective manner with a challenging budget.

As the NWQ building was partially complete, it was necessary to accept its constraints while also embracing the many opportunities it presented, not least utilising the atrium as the heart of the building.

The delivery of a fulfilling and progressive workplace for staff was at the core of the design brief and the following were included in the design requirements:

- Work Choice – the provision of various types of work space reflecting the various work styles across the range of functions in the Bank with limited cellular offices, encouraging collaboration.
- Modern workspace – with supporting technology and workstations.
- Provision of Learning and Development centre and Library for staff.
- Provision of facilities to support sustainable travel arrangements (including cycling, pedestrian, etc.) with a good standard of end of journey and wellness facilities.
- Energy efficiency and a sustainable building.

During the early stages of the programme, a number of visits to comparative working environments were conducted to identify and learn from the experience of others on the best approach to the design and fit-out of the new building.

## Box 9: The Bank's Fusion Programme

The programme commenced in 2012 with the selection of the NWQ site and the appointment of the Design Team, including Henry J Lyons Architects (HJL), to oversee the design stage. The Bank purchased the partially completed building in NWQ for €7m in 2013. Following an extensive requirements gathering exercise, leading to scheme design, detailed design and façade design, the Bank submitted a request for planning permission in late 2014 which was granted in early 2015. Walls Construction Ltd were appointed as the main contractor in mid-2015. Bank staff commenced occupancy in late 2016 with the majority of staff relocating to the Dockland campus in early 2017.

From the outset of the programme a budget of circa €140m was set to cover all costs related to land acquisition, development levies and construction, furniture fittings IT/AV works, design team and other professional fees, and insurance. As the programme nears completion and specific costs are being finalised, it is projected that the programme will be completed within the specified budget.

**A modern fit for purpose energy-efficient and sustainable building**

At the beginning of the programme, the Bank specified that the new building should be energy efficient and sustainable and this was a consideration in many of the internal and external design features. The building is designed to target an energy rating of BER A2, which makes it one of the first commercial projects in the state to achieve such a rating.

An important contribution to achieving this high rating is the mesh panels on the building's façade which reduce the impact of solar heat gain on the building and reduce the need for energy to heat and cool the building. Energy consumption will also be reduced by effective use of insulation and use of energy from renewable sources to help reduce environmental impact.

Sustainable travel is promoted with minimal onsite car parking available and extensive bicycle parking and end of journey facilities available for staff. The Bank's "green agenda" is further facilitated through the use of modern technology to minimise the use of paper in the building.

The NWQ premises is the first office building in Ireland to achieve the BREEAM" Outstanding" rating at design stage. The building has been shortlisted for a number of awards including the Green Awards 2017 and Sustainable Energy Award Winners 2016.

**Public Access to NWQ**

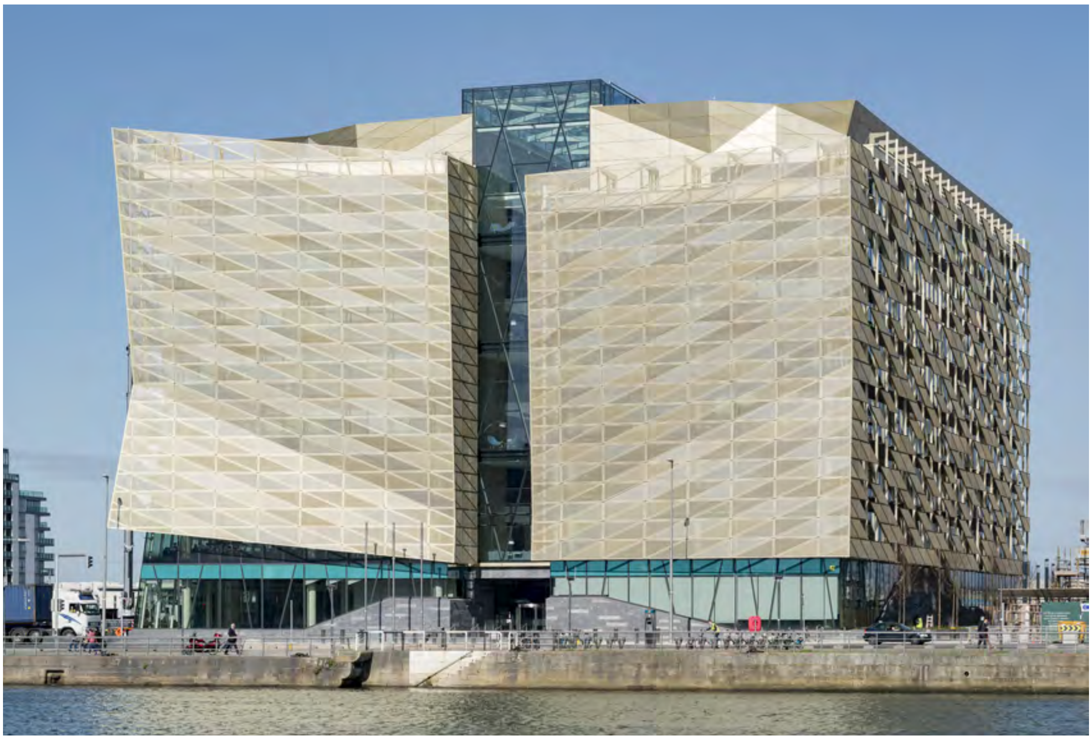
The NWQ premises was designed primarily to create a good working environment for staff, however, an important objective of the design was to establish an open and welcoming aspect for the public to the building. Both the North and South entrances of the building are open to the public during business hours and a dedicated space to host exhibitions and public facing events has been established at the south west side of the ground floor which will host a variety of exhibitions / events on a regular basis. Furthermore, a new archive facility, also on the ground floor, will facilitate the viewing of the Bank's records and archives. It is expected that there will be an increase in the volume of visitors to the Bank in response to the opening of both the new exhibition centre and the archive viewing facility.

**More than just a building**

The accommodation programme offered the Bank the opportunity to assess ways of working and identify how the new premises could facilitate more efficient work practices and also to consider the optimal usage of our existing premises at nearby Spencer Dock. Given the proximity of the buildings and the necessity to have staff located in both buildings, the opportunity was taken to establish a Dockland Campus for our city center staff. Included in the programme has been the delivery of a complete technology refresh (including the introduction of mobile technology to facilitate working throughout the building), a new Facilities Management operating model, and a comprehensive review of a wide range of operational polices across the Bank to support full utilisation of the new services and facilities in the campus.

**Box 9: The Bank's Fusion Programme**

**End of an era in Dame Street**
While the relocation to the Dockland area represents the start of a new era in the Bank's history, it also brings an end to the Bank's presence in Dame Street although the legacy remains with the Bank's specially commissioned Crann an Oir being retained in place on the Dame Street plaza. Given that the tower block in Dame Street has served the Bank so well for so many years and is perceived as an iconic building in the city, the Bank commissioned architects Henry J Lyons to produce indicative Masterplan Proposals for the Dame Street premises for consideration by prospective buyers. In November, Hines were identified as the preferred bidder for the Dame St properties. The Bank is now working with Hines to provide vacant occupancy of the properties in Q2 2017.



Photograph by Donal Murphy Photography.

## Environment, Health and Safety

The majority of staff members (approximately 88%) 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, which is supported by up-to-date 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% compliance exceeded (95.4%) by end-year. A key performance objective for 2016 was to achieve certification for the integrated management system in place at Spencer Dock to OHSAS 18001:2007 (Safety), ISO 14001:2004 (Environmental) and ISO 50001:2011 (Energy) standards. This was achieved ahead of schedule and provides a template for developing a fully integrated and certified management system for North Wall Quay and the Currency Centre in 2017 and 2018, respectively.

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 works. With the help of significant stakeholder engagement, new operating procedures have been developed across all services within the Dockland Campus. These procedures are designed to optimise the performance of the facilities and use of resources through staff engagement and participation. By promoting more sustainable practices the Bank is taking steps to reduce its overall impact on the local and global environments as much as possible, 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 25th Annual Occupational Safety Awards in October 2016. 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. The Bank was also shortlisted as a finalist for the Sustainable Energy Authority of Ireland Annual Awards for its work on the design of the new building in North Wall Quay.

## Box 10: Energy, Safety and Environmental Performance – Bank Initiatives

**Actions Undertaken in 2016**

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

- Developed new online Display Screen Equipment (DSE) Training and DSE Assessment modules to accommodate advances in workstation design and new technologies.
- Published an internal EHS Annual Report on performance on the Bank's website.
- Installation of new guardrails, platforms and defibrillators in the Currency Centre.
- Replacement of old windows, distribution boards, boilers and water tanks in the Currency Centre.
- Upgrade of all Emergency Lighting in the Currency Centre.
- Completion of eye tests for Currency Centre staff requiring prescription safety glasses.
- Ergonomic assessment and upgrade of work areas and equipment in the Currency Centre.
- Achieved integrated management system certification for OHSAS 18001:2007 (Safety), ISO 14001:2004 (Environmental) and ISO 50001: 2011 (Energy) standards in Spencer Dock.
- Upgrade of lighting systems to new LEDs in Currency Centre and Spencer Dock.
- Achieved a 28.6% reduction in line to meet the NEEAP requirements (33% reduction by 2020).
- Replaced paper-based desktop calendars with online versions for 2017.
- NWQ building has been built to achieve high sustainable targets and a high energy rating.

**Actions Planned for 2017**

The Bank intends to further improve its energy, safety and environmental performance in 2017 by undertaking the following initiatives:

- Introduce mobile technologies and managed printing to reduce paper and stationery use.
- Recertification to ISO14001:2004 (Environmental) management system standard in the Currency Centre.
- Extend Spencer Dock scope of integrated management system certification for OHSAS 18001:2007 (Safety), ISO14001:2004 (Environmental) and ISO5001:2011 (Energy) standards to include North Wall Quay operations.
- Advance the Accessibility strategy through a programme of disability awareness training for staff.
- Launch new online EHS Induction, DSE Training and DSE Assessment courses for all staff.
- Commence participation in the OPW *Optimising Power @ Work* scheme in the Currency Centre and align opportunities with operations in the Spencer Dock and North Wall Quay buildings.
- Identify and embed BREEAM *In Use* requirements in Docklands Campus.
- Introduce environmental key performance indicators to help influence positive outcomes across the Bank at Divisional level and embed sustainability into the procurement cycle.
- Promote sustainability and biodiversity initiatives to help staff improve efficiency at home and at work.
- Promote the use of sustainable transport in line with the Bank's smarter travel action plan.

## Communication and Accountability

The Bank is publicly accountable. It displays this through the publication of key reports, strategies, policies, and data; and in keeping with its commitment to transparency, the Bank ensures that its obligations under Freedom of Information are fully met. The Bank is developing and broadening its communication channels, in order to promote more actively its role to internal, domestic and international stakeholders and audiences.

The Bank places an important emphasis on communications with the public, the media, the Oireachtas and other external stakeholders, to ensure that its mandate is understood, that its work is transparent, that key announcements, events and publications are communicated in an accessible and timely way, and that the Bank meets its obligations under the Official Languages Act and the Freedom of Information Act.

### Outreach and Engagement

In 2016, the Bank responded to over 9,200 direct contacts from members of the public, across a wide range of issues ranging from banking to regulated entities.

The Bank hosted a stand at the National Ploughing Championships in September 2016. Bank staff attended to interact with, and answer questions from, members of the public during the event. ECB staff were also in attendance to discuss the new €50 banknotes. More than 22,000 people visited the stand over 3 days, more than double the number of visitors in 2015, and feedback received was very positive.

St Louis Secondary School, Monaghan won the National Final of the Generation €uro Students' Award in March 2016, which challenges schools to simulate the role of the Governing Council of the ECB to determine the most appropriate interest rate for the euro area. Overall, 278 students entered the 2015-2016 competition, with the national winners travelling to Frankfurt in May to meet ECB President Mario Draghi and their fellow winning teams from across Europe. The 2016-2017 competition was launched in October 2016, with more than 350 students submitting entries.


Pictured above are the winners of the Generation €uro Students Award 2016, St. Louis Secondary School, Monaghan.

In granting planning permission for the Bank's new head office in North Wall Quay, Dublin City Council required an area be reserved exclusively for the purposes of an exhibition space or similar to which the general public would have regular access. As part of the wider programme to develop the building (dealt with elsewhere in this report), significant work was undertaken in 2016 to arrange the first exhibits that will feature in this visitor space. From end Q1, 2017, in tandem with the completion of the move to North Wall Quay, the Bank will host the "Euro Exhibition", an exhibition on euro banknotes and coins, developed by the ECB. This will be complemented by a separate exhibition commemorating the 90th anniversary of the Irish Currency Commission.

In addition to public outreach, the Bank recognises the importance of engagement with staff, and significant internal communications programmes were undertaken in 2016, which included keeping staff informed of the impending move to the Dockland Campus.

### Media Relations

The Bank expanded its engagement with national and international media during 2016, through an increased schedule of press events and briefings, together with the regular publication of speeches, releases and statements. Key events included the publication of the Macro-Financial Reviews, particularly against the backdrop of Brexit, and the announcement of the mortgage measures review. The Bank also provided responses to 319 parliamentary questions via the Department of Finance. Bank representatives appeared before Oireachtas committees on a number of occasions in 2016 on issues such as Brexit, budgetary perspectives, and consumer issues including the Tracker Mortgage Examination and motor insurance costs.

### Content and Insights

A benchmarking study of public perceptions and understanding of the Bank's role and work was conducted in 2016. The results of this study will help the Bank identify the most effective channels to increase public awareness of the Bank's mandate and shape its outreach and engagement activity.

The Bank continues to increase its usage of social media outlets such as Twitter, YouTube, LinkedIn and Flickr to communicate our work to the public. Emphasis was placed on the production of videos and infographics to communicate complex areas of the Bank's work in open and effective ways.

The Bank's new, more user-friendly website, including content aimed at a more general audience, was launched in March 2017.

### Box 11: Corporate Social Responsibility

Throughout 2016, the Bank continued to support its staff, external stakeholders, the environment and the wider community through a variety of initiatives and outreach programmes. A sample of these activities is outlined below:

- The Central Bank Charity Committee partnered with six charities for 2016/2017: *BelongTo, Cystic Fibrosis Ireland, Pieta House, Inner City Helping Homeless* and the *Down Syndrome Centre*. Each partner charity received €26,000.
- A *Central Bank's Got Talent* event in May 2016 raised more than €25,000 in aid of charities – *Finn's Fund for Walking, Alone* and the *Alzheimer's Society of Ireland.*
- The Bank donated IT equipment to the charity Camara for use in schools to help improve educational outcomes in low-income communities.
- The Bank supported staff volunteering in programmes such as the Early Learning Initiative, Junior Achievement Ireland and Boardmatch Ireland.
- To support employment in the Dublin 1 area, the Bank worked with Walls Construction Ltd to provided Safe Pass and manual handling courses, and with catering company Sodexo to facilitate a pilot training programme in catering/customer services.

## Measuring and Reporting on Organisational Performance

### Balanced Scorecard Process

The Balanced Scorecard (BSC) methodology is used in the Bank as a means of measuring organisational performance and, particularly, to ensure that the goals and objectives set out in the Bank's Strategic Plan are being implemented. It is also used at Divisional level as an operational planning method of prioritising tasks and activities, tracking progress and reporting periodically to Directors.

The Budget and Remuneration Committee (BRC) of the Bank's Commission monitors the organisational BSC on behalf of the Bank's Commission. Bi-annual reports are prepared for the Committee and the end-year report, including the assessment of the overall performance is presented for approval to the Commission annually. The overall outcome of the BSC is linked to the Performance Management and Development Process (PMDP). Merit leave is awarded to members of staff who give an effective performance, if the overall outcome of the Organisational BSC is at least 85%. In 2016, in recognition of organisational performance and that of individual staff, the Bank awarded 2,332.5 merit leave days, equivalent to a financial cost of €709,365 (an estimated 0.61% of the Bank's total salary cost).

### Freedom of Information

The Bank became subject to the provisions of the Freedom of Information (FOI) Act 2014 on 14 April 2015. During 2016, the Bank received and processed 74 FOI requests, 32 of which were granted/part-granted and 26 refused under the various exemption provisions of the FOI Act. The remaining 16 were withdrawn or handled outside FOI. The majority of requests received in 2016 (approximately 70%) were received from journalists.

The FOI Act 2014 requires FOI bodies to routinely publish a range of information, which is set out by the Minister for Public Expenditure and Reform. On 14 April 2016, the Bank published its FOI publication scheme on its website in compliance with the requirements set out by the Minister.

In order to increase openness and transparency, the Bank voluntarily publishes Bank Commission minutes six weeks after each meeting, and has retrospectively published Commission minutes from April 2014 to December 2015. On a quarterly basis, the Bank publishes appointment diaries for the Governor and Deputy Governors and details of expenditure on travel. In addition, the accounts of the Macroprudential Measures Committee are published on the Bank's website and, towards the end of 2016, the Bank commenced publication of letters from the Governor to members of the Oireachtas.

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

**Philip R. Lane**
**Governor**

**Neil Whoriskey**
**Secretary**

10 April 2017

# Chapter 3:
Governance and Internal Audit

# Governance

This chapter sets out the procedures and processes applicable to the governance of the Bank during 2016.

## 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 ESCB. Secondly, the Bank is responsible for the regulation of Ireland's financial services sector. The functions of the Bank are set out in the Act (as amended). The primary objective of the Bank is that of price stability. The Bank also has the following objectives:

» Stability of the financial system;

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

» Efficient and effective operation of payment and settlement systems;

» Resolution of financial difficulties in credit institutions; and

» 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 central banking and financial regulation functions are integrated and co-ordinated; 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.

During Q1 2017, the Commission carried out a review of its own effectiveness for the 2016 period.

### 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. The Commission, including through its three sub-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. During 2016, the Commission undertook a review of the appropriateness of the Bank's three-year strategy (2016-2018) to ensure that the objectives and outcomes articulated remained valid and to determine if any adjustments or additions were required.

## 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 2016, six such appointed members served on the Commission.

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

As at 31 March 2017, 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. Philip R. Lane was appointed Governor on 26 November 2015.

The Governor is an *ex-officio* member of the Governing Council of the 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 Whatley 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 NCBs. In September 2016, he was appointed as chair of the ESRB High-Level Task Force on Safe Assets.

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)

Sharon Donnery was appointed Deputy Governor (Central Banking) on 1 March 2016. She is the Governor's Alternate on the Governing Council of the ECB. She previously served as the Bank's Alternate Member of the Supervisory Board of the SSM. She is the Chair of the ECB's High Level Group on Non-Performing Loans (NPLs) and was also appointed Chair of the ECB Budget Committee (BuCom) in December 2016.

She joined the Bank in 1996 as an economist in the Monetary Policy Division and has held a range of senior positions as head of division. From February 2013 to August 2014, she held the statutory position of Registrar of Credit Unions and from April 2014 to May 2016 was Director of Credit Institutions. She was also Vice-Chair of the EBA's Standing Committee on Consumer Protection and Financial Innovation.

She holds a BA in Economics and Politics 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 ESRB. He is also a member of the Management Board of the European Securities and Markets Authority (ESMA) and of the Board of Supervisors of ESMA and the European Banking Authority (EBA).

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 senor strategic auditor on behalf of the Executive Board. He holds a PhD in Economics from Harvard University, is a graduate of École Polytechnique (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)

Professor Alan Ahearne is Director of the Whitaker Institute for Innovation and Societal Change at the National University of Ireland, Galway (NUIG). He is also Professor of Economics in the J.E. Cairnes School of Business and Economics. He is Chairman of the ESRI and Department of Finance Joint Research Programme on the Macroeconomy and Taxation. He has served as adviser to the IMF, as research fellow at Bruegel, and as economic adviser to Ireland's former Minister for Finance Brian Lenihan. Before joining NUIG, he was Senior Economist at the Federal Reserve Board in Washington, DC. He has taught economics at Carnegie Mellon University, the University of Virginia, University College Dublin, Dublin City University and the University of Limerick. He began his professional career with Coopers & Lybrand and also worked for Bank of Ireland Group Treasury. His areas of expertise are macroeconomics and international finance and his research has been published in leading international journals. He holds a PhD in economics from Carnegie Mellon University.

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

Patricia Byron has worked as a senior executive in the insurance and related financial services sector over many years. She was the first CEO of the Personal Injuries Assessment Board (PIAB), an independent State body, established in 2004 to reform a costly personal injury claims environment. As Chairperson of the Motor Insurers Bureau of Ireland she led a reform programme, focusing on business transformation and effectiveness.

As Chairperson of the Association of Chief Executives of State Bodies, she became actively involved in a number of cross-cutting public sector reform initiatives. Since leaving the PIAB in 2015, she led a strategic review programme at Chartered Surveyors Ireland. In addition to her role on the Central Bank Commission she currently serves as an independent non-executive Director for the Centre for Effective Services and ComReg.

She is a graduate of UCD, a Chartered Insurer and the first female President of the Insurance Institute.

### 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 ESMA 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 both Trinity College Dublin and University College Dublin. Over his career he has worked on macroeconomic and energy policy and he has published widely in these fields. He is a past President of the Irish Economic Association and of the EUROFRAME group of European economic research institutes. He is a former member of the National Economic and Social Council 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 Euorpean 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 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 and was appointed Secretary of the Bank on 1 January 2011.

### Commission Procedures

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

### Table 4 – Meetings attended by Commission members during 2016

| Commission Members | Commission meetings attended during 2016 |
|---|---|
| Philip R Lane | 11/11 |
| Alan Ahearne | 11/11 |
| Patricia Byron | 11/11 |
| Blanaid Clarke | 11/11 |
| Sharon Donnery* | 10/11 |
| John FitzGerald | 11/11 |
| Des Geraghty | 10/11 |
| Derek Moran | 9/11 |
| Cyril Roux | 10/11 |
| Michael Soden | 11/11 |

* Sharon Donnery attended two meetings of the Commission as Deputy Governor Central Banking Designate.

11 meetings of the Commission were held during 2016. 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; and

» Risk Committee.

## Audit Committee

The Audit Committee is appointed by the Commission and comprises three non-executive members. The current membership of the Audit Committee, as at 31 March 2017, comprises Patricia Byron (Chair), Blanaid Clarke and John FitzGerald.

Meetings of the Audit Committee are held at least four times per year. In 2016, there were six meetings of the Audit Committee. There was also one additional meeting 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 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 the meetings of the Audit Committee are circulated to the Commission and placed on the agenda of subsequent meetings of the Commission.

### Table 5 – Audit Committee Meetings 2016

| Committee Members | Audit Committee meetings attended during 2016 |
|---|---|
| Patricia Byron (Chair) | 6/6 |
| Blanaid Clarke | 6/6 |
| John FitzGerald | 5/6 |

Six meetings of the Audit Committee were held during 2016. All meetings were quorate.

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 reappointment 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; and

» 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'.

The Audit Committee undertook a review of its effectiveness in 2016.

## 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). The current membership of the Budget and Remuneration Committee, as at 31 March 2017, comprises Alan Ahearne (Chair), Blanaid Clarke, Sharon Donnery and Cyril Roux.

Meetings of the Budget and Remuneration Committee are held at least four times per year. In 2016, there were six 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 6 – Budget and Remuneration Committee Meetings 2016**

| Committee Members | Budget and Remuneration Committee meetings attended during 2016 |
|---|---|
| Alan Ahearne (Chair) | 6/6 |
| Blanaid Clarke | 6/6 |
| Cyril Roux* | 5/6 |
| Sharon Donnery** | 3/4 |

* Cyril Roux did not attend the meeting of the Budget and Remuneration Committee that considered the remuneration of the Deputy Governor.
** Sharon Donnery was appointed Deputy Governor (Central Banking) with effect from 1 March 2016 and only attended meetings from that date.

Six meetings of the Budget and Remuneration Committee were held during 2016. All meetings were quorate.

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 (BSC) process on an annual basis;
- Review its own terms of reference and its effectiveness on an annual basis; and
- Consider other topics as requested by the Commission.

The Budget & Remuneration Committee undertook a review of its effectiveness in 2016.

## Risk Committee

The Risk Committee is appointed by the Commission and comprises three non-executive members and the two Deputy Governors. The current membership of the Risk Committee, as at 31 March 2017, comprises Michael Soden (Chair), Alan Ahearne, Sharon Donnery, Des Geraghty and Cyril Roux.

Meetings of the Risk Committee are held at least four times per year. In 2016, there were five meetings of the Risk Committee. There was also one additional meeting held jointly with the Audit Committee. All meetings were quorate.

### Table 7 – Risk Committee Meetings 2016

| Committee Members | Risk Committee meetings attended during 2016 |
|---|---|
| Michael Soden (Chair) | 5 / 5 |
| Alan Ahearne | 5 / 5 |
| Sharon Donnery | 4 / 4 |
| Des Geraghty | 4 / 5 |
| Cyril Roux | 3 / 5 |

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.

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; and
- Consider other topics as requested by the Commission.

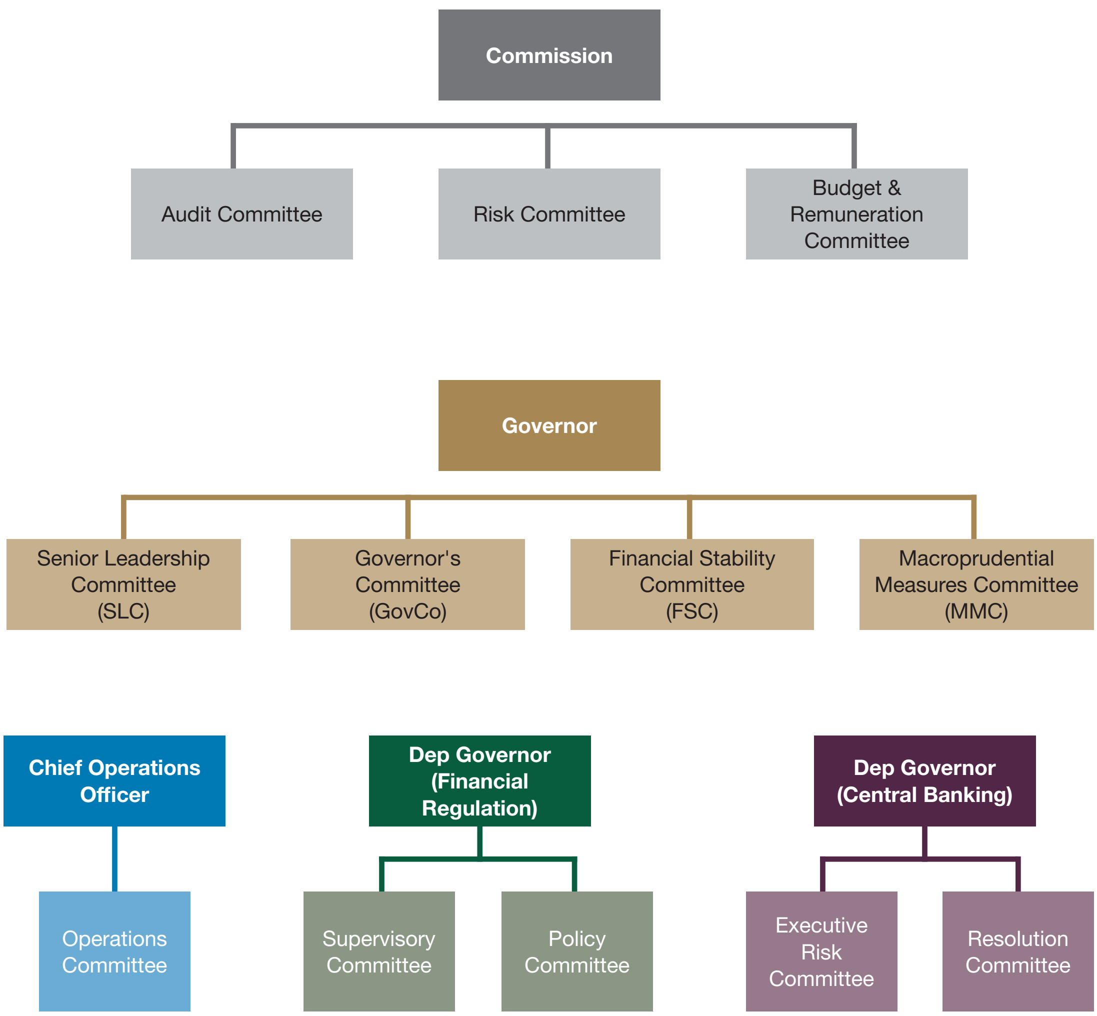
The Risk Committee undertook a review of its effectiveness in 2016.

## Code of Ethics for Members of the Central Bank Commission

During 2016, the Commission revised its Code of Ethics to comply with the ECB Guidelines which laid down the principles for a harmonised Ethics Framework for the Eurosystem and SSM and to ensure consistency between the Commission's Code of Ethics and the internal Staff Code of Ethics.

## 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 Committee maintains an oversight role of all organisational activities and provides final sign-off on issues which have been explicitly escalated from other Committees of the Bank.

» The **Senior Leadership Committee (SLC)** facilitates the inclusion and involvement of the Directors in the implementation of the Bank's strategic agenda. Members of this Committee ensure alignment of all activities and the successful execution of the Bank's strategy through the development and review of the Organisational BSC. The Committee ensures the structures and activities across the Bank are aligned and coordinated, and focuses on delivering the strategic outcomes agreed by the Commission. It also oversees and leads the development of the organisational culture and ensures that the HR strategy supports the continued development of the organisation.

» The **Financial Stability Committee (FSC)** advises the Governor on issues central to the fulfilment of the mandate of the Bank to contribute to financial stability in Ireland and the euro area. Members of the Committee monitor and assess domestic and international economic and financial developments, highlight potential areas of concern relevant to the Irish financial system and draw conclusions from the analysis. A key focus of the Committee is to identify potential actions that can be taken to mitigate risks to financial stability and to follow up on previous measures. Formulation of specific actions may be requested by the Governor for completion by management within or outside the FSC. Actions may take the form of consideration and review of macroprudential policy instruments as well as consideration of recommendations from and to the Bank's Macroprudential Measures Committee.

» The Bank's new **Macroprudential Measures Committee (MMC)** was established in 2016 and met for the first time on 5 September 2016. The Committee's role is to advise on the regular reviews of bank-related national macroprudential measures and make recommendations about maintaining or revising these rules as appropriate. The Bank is the designated national macroprudential authority in Ireland. In recent times, several macroprudential measures have been activated via the banking system. These include: borrower-based measures such as mortgage rules; the counter-cyclical capital buffer (CCyB); other systemically important institution (O-SII) buffer; and reciprocation of macroprudential policy measures taken by other Member States. Accounts of all Committee meetings held in 2016 are published on the Bank's website.

Other high-level committees include:

» The **Operations Committee** is a sub-Committee of the SLC and was established to formulate and deliver 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 **Supervisory Committee** advises the Deputy Governor (Financial Regulation) 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** advises the Deputy Governor (Financial Regulation) on policy matters arising. The Deputy Governor may make policy decisions at the Policy Committee on foot of such advice.

» The **Executive Risk Committee** supports the Governor, the Commission, and Commission Risk Committee in assessing, monitoring and reporting the Bank's financial risks and associated management activities. It is chaired by the Deputy Governor (Central Banking).

» The Resolution Committee (ResCom) advises the Governor on issues central to the fulfillment of the Banks role in the resolution of institutions. The role of ResCom in advising the Governor includes: discussing and analysing material relating to resolution cases in the context of an individual licensed institution; discussing and analysing key issues of relevance in the context of EU Banking Union and the Single Resolution Mechanism; considering key policy questions pertaining to the domestic or EU resolution framework, including the impact of any prospective and desired legislative changes; considering and analysing any other issues of importance in the area of resolution whether from an internal, national or international perspective.

## 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; and
- 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 or the Commission 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 Committees of the Oireachtas on request. In 2016, representatives of the Bank appeared at five Oireachtas Committee meetings.

### Table 8 – Appearances before Oireachtas Committees in 2016

| Date | Attended by | Oireachtas Committee |
|---|---|---|
| 26 Jan | Governor Lane | Committee on Finance, Public Expenditure and Reform, and Taoiseach |
| 9 Sep | Gabriel Fagan<br>Chief Economist | Committee on Budgetary Oversight |
| 19 Sep | Gerry Quinn<br>Chief Operations Officer | Committee of Public Accounts |
| 6 Oct | Cyril Roux<br>Deputy Governor (Financial Regulation) | Committee on Finance, Public Expenditure and Reform, and Taoiseach |
| 13 Dec | Ed Sibley<br>Director Credit Institutions Supervision | Committee on Finance, Public Expenditure and Reform, and Taoiseach |
| 20 Dec | Governor Lane | Committee on Finance, Public Expenditure and Reform, and Taoiseach |

## Internal Audit

The objective of Internal Audit Division (IAD) 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. IAD 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 2016, IAD conducted a range of audits across the Bank. Topics covered included audits of Travel and Related Expenses; Industry Levy Process; Payroll and the Integrity of Employee Records; Thematic Inspections in the Consumer Protection and Insurance Supervision divisions and a Post Implementation Review of the Local Market Operation Platform (Wall Street Suite). IAD also participated in a number of ESCB-wide audits. Topics covered in these audits included reviews of Monetary Policy Preparation; Business Continuity Management; IT Operations and Service Management with a focus on Disaster Recovery; Collateral Management (Close Links) and Banknote Processing. All issues identified are routinely followed up by IAD to ensure that approved action plans are implemented. The Head of IAD also met with the Governor regularly to discuss audit-related issues.

As part of its information gathering and to ensure that IAD keeps abreast of developments and risks within the organisation, IAD regularly attended a number of executive committee meetings and also held meetings with a large number of divisions across the organisation.

Audit software was introduced by IAD in 2016 and successfully rolled out across the wider Bank. Feedback to date has been very positive; the significant engagement with auditees including the delivery of training to those who will use the system has been well received and appreciated.

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

IAD 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. In December 2016, the Head of IAD was appointed Chair of the IAC Audit Task Force on Statistics for a term of three years. Furthermore, during 2016 an IAD staff member joined an IAC Joint Audit Taskforce in the performance of an audit of the TARGET2-Securities (T2S) Financial Statements for the year ended 31 December 2015.

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 participated in the SSM audit of Information Management in 2016 and is participating in the audit of On-going Supervision – Planning and Monitoring in 2017.

# Appendix 1: Statements and Published Papers by the Bank in 2016

## Key Publications

Quarterly Bulletin – January, April, July and October 2016

Annual Report 2015 – April 2016

Annual Performance Statement (Financial Regulation) 2015-2016 – April 2016

## Speeches and Presentations 2016

Address by Governor Philip R. Lane, to the Institute of Directors – January

Introductory statement by Governor Philip R. Lane, at the Oireachtas Committee on Finance, Public Expenditure & Reform – January

Keynote address by Governor Philip R. Lane, to the European Financial Forum at Dublin Castle on "*The Future of the European Financial System: A Macro-Financial View*" – January

Address by Registrar of Credit Unions, Anne Marie McKiernan, at the CUDA annual conference – January

Address by Director of Markets Supervision, Gareth Murphy, to the 5th Annual Funds Congress – "Supervision matters in the funds industry" – February

Address by Director of Insurance Supervision, Sylvia Cronin to the Insurance Ireland's Milliman CRO forum – February

Address by Registrar of Credit Unions, Anne Marie McKiernan, to CUMA Spring Conference – March
Address by Director of Markets Supervision, Gareth Murphy, at the launch of the Duff and Phelps

Global Regulatory Outlook on the key areas highlighted in the report of culture, technology and cyber risk – March

Address by Director of Insurance Supervision, Sylvia Cronin, at the European Insurance Forum on Solvency II – March

Address by Advisor to the Governor, Lars Frisell, – to Financial Stability Department, Sveriges Riksbank, "Some reflections on the potential effects of the Central Bank of Ireland's mortgage regulations" – March

Address by Registrar of Credit Unions, Anne Marie McKiernan, to ILCU AGM at the University of Limerick – April

Address by Director of Consumer Protection, Bernard Sheridan at a FinCoNet meeting in Amsterdam "Protecting the interests of consumers of financial services – role of supervisory authorities" – April

Address by Director of Consumer Protection, Bernard Sheridan to the European Tech Summit on Financial Innovation. – May

Comments by Director of Policy and Risk, Gerry Cross, at the Ernst & Young Non-Executive Director Breakfast Forum – May

Address by Governor Philip R. Lane to Seventh High-Level SNB-IMF Conference on the International Monetary System – May

Address by Governor Philip R. Lane to the International Capital Market Association Conference – May
Address by Governor Philip R. Lane at Insurance Europe's 8th Annual Conference – May

Address by Deputy Governor Sharon Donnery at the CEPR Economic History Symposium, “Lessons from the past, safeguarding stability for the future” – June

Address by Director of Credit Institutions Supervision, Ed Sibley, to Grant Thornton industry event, “Regulatory Transformation” – June

Address by Governor Philip R. Lane at Financial Services Ireland IBEC Annual Lunch “Technological Innovation and Financial Services”– June

Discussion by Deputy Governor Sharon Donnery, Central Bank of Ireland at the 8th ECB Statistics Conference, “Central Bank Statistics: Moving Beyond the Aggregates” – July

Address by Governor Philip R. Lane at the Institute for International and European Affairs, Dublin, “Macro-Financial Perspectives on the Irish Economy” – July

Opening remarks by Chief Economist, Gabriel Fagan, at Oireachtas Committee on Budgetary Oversight – September

Opening Remarks by Chief Operations Officer, Gerry Quinn at the Public Accounts Committee – September

Address by Director of Policy & Risk, Gerry Cross, to the Liquidity and Funding Conference, “Liquidity, funding and regulation” – September

Address by Deputy Governor Sharon Donnery, at the Dublin Economic Workshop Annual Economic Policy Conference, “Macroprudential policy: action in the face of uncertainty” – September

Address by Governor Philip R. Lane, to New York University Stern School of Business, “ECB Monetary Policy: An Overview” – September

Remarks by Deputy Governor Sharon Donnery, on the outlook for the Irish economy at the Global Interdependence Center, Central Banking Series. – September

Address by Director of Credit Institutions Supervision, Ed Sibley, at the Banking and Payments Federation of Ireland (BPFI) on Non-Performing Loans – September

Address by Director of Policy and Risk Gerry Cross at Deloitte Ireland Brexit Briefing “Brexit and Financial Services” – October

Opening Address of Deputy Governor Cyril Roux, to the Oireachtas Committee on Finance, Public Expenditure and Reform – October

Speech by Director of Credit Institutions Supervision, Ed Sibley, at the Banking and Payments Federation of Ireland – October

Address by Deputy Governor Sharon Donnery, at the Peterson Institute for International Economics, “NPL workout and resolution in the euro area” – October

Speech by Governor Philip R. Lane “The Eurozone After Brexit” at the Euro50 Group & CIGI Breakfast Meeting, Washington DC – October

Address by Director of Insurance Supervision, Sylvia Cronin, at the Insurance Supervisory Directorate’s Industry briefing – October

Address by Governor Philip R. Lane at Reuters Newsmaker Event "The European Financial System after Brexit" – October

Remarks by Director of Enforcement, Derville Rowland, on Regulatory Powers and Corporate Offences at the Law Reform Commission Conference 2016 – November

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

Address by Director of Policy & Risk, Gerry Cross, to the ACOI Annual Conference on IT and cyber security risks facing the financial services sector – November

Address of Governor Philip R. Lane, to the Irish Small and Medium Enterprises Association (ISME) Annual Conference 2016 on "SMEs and the Macro-Financial Environment" – November

Opening address by Director of Consumer Protection, Bernard Sheridan, at the FinCoNet AGM 2016 – November

Address by Director of Policy & Risk, Gerry Cross, at the Corporate Treasury & Cash Management Conference on European Regulation and Impacts for Irish Financial Firms – November

Address by Director of Insurance Supervision, Sylvia Cronin, at the Irish Brokers Association Annual General Conference – November

Address by Director of Credit Institutions Supervision, Ed Sibley, at the Institute of Banking on Governance and Culture in the Banking Sector – November

Statement by Governor Philip R. Lane, announcing the Review of the Central Bank Mortgage Measures – November

Speech by Deputy Governor Cyril Roux at the Institute of International and European Affairs on "Perspectives on Financial Regulation in Ireland" – December

Address by Director of Enforcement, Derville Rowland, to Compliance Ireland – December

Introductory statement by Director of Credit Institutions Supervision, Ed Sibley, before the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach – December

Address by Director of Insurance Supervision, Sylvia Cronin, to Deloitte – December

Introductory statement by Governor Philip R. Lane at Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach – December

## Articles in Central Bank Quarterly Bulletins

Interconnectedness of the Irish banking sector with the global financial system – Niamh Hallissey – No. 1 of 2016

Understanding SME interest rate variation across Europe – James Carroll and Fergal McCann – No. 2 of 2016

Irish SME Investment in Economic Recovery – James Carroll, Paul Mooney and Conor O'Toole – No. 2 of 2016

An Overview of the Enhanced Interest Rate Statistics for Ireland – Gavin Doheny and Róisín Flaherty – No. 2 of 2016

The New Paradigm: Analysis of Eurosystem Monetary Operations – John Graham, Alaoishe Luskin and Anthony Nolan – No. 3 of 2016

Estimating Cash Buyers and Transaction Volumes in the Residential Property Sector in Ireland, 2000- 2014 – Dermot Coates, Joe McNeill and Brendan Williams – No. 3 of 2016

Rental markets, savings and the accumulation of mortgage deposits – Conor Kelly, Statistics Division and Fergal McCann – No. 4 of 2016

New Data Collection on Special Purpose Vehicles in Ireland: Initial Findings and Measuring Shadow Banking – Dominick Barrett, Brian Godfrey and Brian Golden – No. 4 of 2016

Option Implied Probability Density Functions: Methodology and Use in Understanding Investor Sentiment – Seamus O'Donnell and Mary O'Keeffe – No. 4 of 2016

## Boxes in Central Bank Quarterly Bulletins

Has real income growth been supported by lower energy prices? – Reamonn Lydon and Stephen Byrne – No. 1 of 2016

Linking Employment to Underlying Economic Activity – Diarmaid Smyth – No. 1 of 2016
Developments in nominal GDP and the GDP deflator – Martin O'Brien – No. 1 of 2016

Corporation Tax Receipts in 2015 – Reamonn Lydon, Diarmaid Smyth and Greame Walsh – No.1 of 2016

Enhancements to Household and Non-Financial Corporation Bank Lending Series in Money and Banking Statistics – Martina Sherman – No. 1 of 2016

Trends in Net Lending and Borrowing by Economic Sector – A Euro Area Comparison – Mary Cussen and Kenneth Devine – No. 1 of 2016

Recent Developments in the Venture Capital Funding Environment in Ireland – Dermot Coates, Siobhán O'Connell and Jenny Osborne-Kinch – No. 1 of 2016

Understanding Credit Developments Through Comparing Firm and Bank Surveys – David Byrne – No. 1 of 2016

Non-Standard Monetary Policy, Corporate Lending, and the 'Balance Sheet Channel' – Giuseppe Corbisiero – No. 1 of 2016

EU Banking Union – No. 1 of 2016

A Macroeconomic Heat Map for Ireland – Stephen Byrne and Diarmaid Smyth – No. 2 of 2016 Drivers of Personal Consumption – A BVAR Approach – Stephen Byrne and Martin O'Brien – No. 2 of 2016

What is happening to producer prices in Ireland? – John Scally – No. 2 of 2016

Real Estate Investment Trusts and the Property Sector in Ireland – Dermot Coates and Aoife Moloney – No. 2 of 2016

Banks and their Affiliates – Insights from Money and Banking Data – Martina Sherman and Jennifer Dooley – No. 2 of 2016

Oil prices and inflation expectations: An investigation into the contribution of global demand and oil supply shocks to euro area inflation expectations – John Larkin – No. 2 of 2016

The impact of the Renminbi's Inclusion in the SDR Basket: some considerations – Bernard Kennedy – No. 2 of 2016

Recent Revision to the National Income and Expenditure Accounts – Diarmaid Smyth – No. 3 of 2016
The Impact of Brexit on the Short-term Outlook – Irish Economic Analysis Division – No. 3 of 2016
Recent Labour Market Developments – Diarmaid Smyth – No. 3 of 2016

Mortgage Arrears and the Role of Non-Bank Entities – Jean Cassidy and Eoin O'Brien – No. 3 of 2016

A Heat Map for Irish Private Sector Credit and Deposits – Martina Sherman and Stephen Byrne – No. 3 of 2016

Review of Labour Market Reforms in the Euro Area – Barra McCarthy and Laura Moretti – No. 3 of 2016

Composition and Dynamics of Chinese Capital Flows: What has been the Role of Capital Controls? – Valerie Herzberg – No. 3 of 2016

An indicator of domestic economic activity in 2015 – Graeme Walsh – No. 4 of 2016

Modelling the Impact of Global Shocks on the Irish Economy – Michael O'Grady, Jonathan Rice, Reamonn Lydon and Graeme Walsh – No. 4 of 2016

Household Financial Assets across Europe: Boom, Bust and Recovery – Kenneth Devine – No. 4 of 2016 Developments in Consumer Credit – Evidence from Money and Banking Statistics – Stephen Byrne and

Ciaran Meehan – No. 4 of 2016

Reforming Banking Regulation for Sovereign Exposures: Implications for the Monetary Transmission Mechanism – Giuseppe Corbisiero and Donata Faccia – No. 4 of 2016

A Comparative Study of the ECB's accounts of monetary policy meetings and Central Bank Minutes – Barra McCarthy and Rebecca Stuart – No. 4 of 2016

## Research Technical Papers 2016

Understanding Irish Labour Force Participation – Stephen Byrne and Martin D. O'Brien – March Bank lending, Collateral, and Credit Traps in a Monetary Union – Giuseppe Corbisiero – March

Contagion in Eurozone Sovereign Bond Markets? The Good, the Bad and the Ugly – David Cronin,

Thomas J. Flavin and Lisa Sheenan – June

Lending Conditions and Loan Default: What Can We Learn From UK Buy-to-Let Loans? – Robert Kelly and Conor O'Toole – June

Mortgage modifications and loan performance by Christian Danne and Anne McGuinness – July
Flexibility of new hires' earnings in Ireland – Reamonn Lydon and Matija Lozej – August

Banks Interconnectivity and Leverage – Alessandro Barattieri, Laura Moretti and Vincenzo Quadrini – October

Joining the dots: The FOMC and the future path of policy rates – Stefan Gerlach and Rebecca Stuart – November

Sources of the small firm financing premium: Evidence from euro area banks – Sarah Holton and Fergal McCann – December

## Economic Letters 2016

Understanding Irish Labour Force Participation – Stephen Byrne and Martin D. O'Brien – March
Indicators for Setting the Countercyclical Capital Buffer – Conn Creedon and Eoin O'Brien – April

Macroprudential Measures and Irish Mortgage Lending: A Review of Recent Data by Enda Keenan,

Christina Kinghan, Yvonne McCarthy and Conor O'Toole – July

Private Placement Debt Securities and the Wholesale Funding of the Banking System in Ireland – Dermot Coates and Jennifer Dooley – August

Household Saving Behaviour in Ireland – Julia LeBlanc – October

Macroprudential Measures and Irish Mortgage Lending: Insights from H1 2016 – Christina Kinghan, Paul Lyons, Yvonne McCarthy, and Conor O'Toole – November

Do all oil price shocks have the same impact? Evidence from the euro area – Anastasios Evgenides – November

The Effects of Macroprudential Policy on Borrower Leverage – Christina Kinghan, Yvonne McCarthy, and Conor O'Toole – November

Model-based estimates of the resilience of mortgages at origination – John Joyce and Fergal McCann – November

Originating Loan to Value ratios and the resilience of mortgage portfolios – Fergal McCann and Ellen Ryan – November

Assessing the sustainability of Irish residential property prices: 1980 Q1-2016 Q2 – Gerard Kennedy, Eoin O'Brien and Maria Woods – November

Housing supply after the crisis – Gerard Kennedy and Rebecca Stuart – November Exploring developments in Ireland's regional rental markets – Fergal McCann – November

Modelling Irish Rents: Recent Developments in Historical Context – Gerard Kennedy, Lisa Sheenan and Maria Woods – November

## Peer Reviewed Articles

### Journal Articles

Bermingham, Colin, Dermot Coates, and Derry O'Brien, "Estimating Commodity Substitution in the Irish Inflation Rate Statistics during the Financial Crisis" *Economic and Social Review*, 2016, 47 (3), 327-337.

Bover, Olympia, Jose Maria Casado, Sonia Costa, Philip Du Caju, Yvonne McCarthy, Eva Sierminska, Panagiota Tzamourina, Ernesto Villanueva, and Tibor Zavadil, "The Distribution of Debt Across Euro Area Countries: The Role of Individual Characteristics, Institutions and Credit Conditions," *International Journal of Central Banking*, 2016, 12 (2), 71-128.

Casey, Eddie and Diarmaid Smyth, "Revisions to Macroeconomic Date: Ireland and the OECD," *Economics & Social Review*, 2016, 47 (1), 33-68.

Clancy, Daragh, Pascal Jacquinot, and Matija Lozej, "Government expenditure composition and fiscal policy spillovers in small open economies within a monetary union," *Journal of Macroeconomics,* 2016, 48, 305-326.

Cronin, David and Kieran McQuinn, "Credit Availability, Macroprudential Regulations, and the House Price-to-Rent Ratio," *Journal of Policy Modeling*, 2016, 38 (5), 971-984.

Cronin, David, Thomas Flavin, and Lisa Sheehan, “Contagion in Eurozone Sovereign Bond Markets? The Good, the Bad and the Ugly,” *Economics Letters*, 2016, 143, 5-8.

Evgenidis, Anastasios and Costas Siriopoulos, “An Explanation of Spread’s Ability to Predict Economic Activity: A Regime Switching Model,” *Journal of Economic Studies*, 2016, 43 (3), 488-503.

Frisell, Lars, “Europe's Regulatory Treatment of Banks' Sovereign Exposures – How a Flawed Framework Was Put to Use in the Irish Financial Crisis,” *European Economy*, 2016, 1, 105-117.

Gerlach, Stefan, Reamonn Lydon, and Rebecca Stuart, “Unemployment and Inflation in Ireland: 1926-2012,” *Cliometrica*, 2016, 10 (3), 345-364.

Kelly, Robert and Fergal McCann, “Some defaults are deeper than others: Understanding long-term mortgage arrears,” *Journal of Banking & Finance*, 2016, 72 (C), 15-27.

Kelly, Robert and Terence O'Malley, “The good, the bad and the impaired: A credit risk model of the Irish mortgage market,” *Journal of Financial Stability*, 2016, 22, 1-9.

Kenny, Oisin, Neill Killeen, and Kitty Moloney, “Network analysis using EMIR credit default swap data: Micro-level evidence from Irish domiciled special purpose vehicles,” *Bank for International Settlements Bulletin*, 2016, (41), 369-388.

Le Blanc, Julia, Alessandro Porpiglia, Federica Teppa, Junyi Zhu, and Michael Ziegelmeyer, “Household Saving Behavior in the Euro Area,” *International Journal of Central Banking*, 2016, 12 (2), 15-70.

Le Blanc, Julia and Almuth Scholl, “Optimal Savings for Retirement: The Role of Individual Accounts,” *Macroeconomic Dynamics*, 2016, 1-28.

McCarthy, Yvonne and Kieran McQuinn, “Attenuation Bias, Recall Error and the Housing Wealth Effect,” *Kyklos*, 2016, 69 (3), 492-517.

McQuinn, Kieran and Diarmaid Smyth, “Assessing the sustainable nature of housing-related taxation receipts: the case of Ireland,” *Journal of European Real Estate Research*, 2016, 9 (2), 193-214.

Moretti, Laura and Toru Suzuki, “Strategic Transparency and Electoral Pressure,” *Journal of Public Economic Theory*, 2016, 18 (4), 624-641.

## Forthcoming

Byrne, Stephen and Martin O'Brien, “Understanding Irish Labour Force Participation,” *The Economic and Social Review*.

Evgenidis, Anastasios, Tsaganos Athanasios, and Costas Siriopoulos, “Towards an asymmetric long run equilibrium between stock market uncertainty and the yield spread. A threshold vector error correction approach,” *Research in International Business and Finance*.

Fasianos, Apostolos, Diego Guevara, and Christos Pierros, “Have we Been Here Before? Phases of Financialisation within the 20th Century in the US,” *Review of Keynesian Economics*.

Fasianos, Apostolos, Hamid Raza, and Stephen Kinsella, “Exploring the link between Household Debt and Income Inequality: An Asymmetric Approach,” *Applied Economics Letters*.

McCarthy, Yvonne and Kieran McQuinn, “Credit Conditions in a Boom and Bust Property Market: Insights for Macroprudential Policy,” *Quarterly Review of Economics and Finance*.

Rannenberg, Ansgar, “Bank Leverage Cycles and the External Finance Premium,” *Journal of Money Credit and Banking*.

## Statistical Publications

Financial Statistics Summary Chart Pack

Money and Banking Statistics

Retail Interest Rates

Money Market Fund statistics

Trends in Private Household Credit and Deposits

Trends in Business Credit and Deposits

Consolidated Banking Statistics

Locational Banking Statistics

Residential Mortgage Arrears and Repossessions

Investment Funds Statistics

Financial Vehicle Corporation Statistics

Quarterly Financial Accounts

Securities Issues Statistics

Securities Holdings Statistics

Official External Reserves

Template on International Reserves

Mortgage Arrears Statistics

Credit and Debit Card Statistics

Triennial Survey of Foreign Exchange and Interest Rate Derivatives Market Activity in Ireland

## Consultation Papers 2016

Review of the Minimum Competency Code 2011 – November

## Glossary

**ABS – Asset Backed Security –** These are bonds or notes backed by financial assets. Usually these assets consist of receivables other than mortgage loans, such as credit card receivables, auto loans, manufactured-housing contracts and home-equity loans.

**ABSPP – Asset-Backed Securities Purchase Programme –** The ABSPP further enhances the transmission of monetary policy, facilitates credit provision to the euro area economy and generates positive spillovers to other markets.

**AIFMD – Alternative Investment Funds Managers Directive –** An EU directive that looks to place hedge funds, private equity and any other alternative investment firms into a regulated framework, in order to monitor and regulate their activity.

**AML – Anti-Money Laundering –** A set of procedures, laws or regulations designed to stop the practice of generating income through illegal actions.

**APP – Asset Purchase Programme –** The purchase programme under which private sector securities and public sector securities are purchased to address the risks of a too prolonged period of low inflation.

**ASP – Administrative Sanctions Procedure –** Where a concern arises that a prescribed contravention has been or is being committed, the Bank may investigate. The Administrative Sanctions Procedure provides that, any time before the conclusion of an Inquiry, the matter may be resolved by entering into a settlement agreement.

**BCBS – Basel Committee on Banking Supervision –** The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide.

**BIFR – Bank and Investment Firm Resolution Fund –** The purpose of the BIFR is to ensure the effective application of the resolution tools and powers that are contained in the regulations. The BIFR, and the requirement to make contributions to the BIFR, applies to all banks authorised in the State as well as investment firms that are within the scope of the 2015 Regulations.

**BIS – Bank for International Settlements –** The Bank for International Settlements is an international financial institution owned by central banks which "fosters international monetary and financial cooperation and serves as a bank for central banks".

**BRC – Budget and Remuneration Committee –** One of three committees of the Central Bank Commission chaired by Alan Ahearne.

**BSC – Balanced Scorecard –** The BSC methodology is used in the Bank as a means of measuring organisational performance and ensuring that the goals and objectives set out in the Bank's Strategic Plan(s) are being implemented.

**BRRD – Bank Recovery and Resolution Directive –** It establishes a common approach within the European Union (EU) to the recovery and resolution of banks and investment firms.

**CAG – Consumer Advisory Group –** The role of the CAG is to advise the Bank on the performance of its functions and the exercise of its powers in relation to consumers of financial services.

**CBPP3 – Covered Bond Purchase Programme –** The Eurosystem buys covered bonds under a third covered bond purchase programme. The measure helps to enhance the functioning of the monetary policy transmission mechanism, supports financing conditions in the euro area, facilitates credit provision to the real economy and generates positive spill overs to other markets.

**CCyB – Countercyclical Capital Buffer –** The CCyB is a time varying capital requirement which applies to in-scope banks and investment firms. It is designed to make the banking system more resilient and less pro-cyclical. Essentially the CCyB will increase the capital requirement of banks when credit growth is "excessive".

**CCMA – Code of Conduct on Mortgage Arrears –** This code sets out the framework that lenders must use when dealing with borrowers in mortgage arrears or in pre-arrears.

**CCPD – Competition and Consumer Protection Commission –** The statutory body responsible for enforcing consumer protection and competition law in Ireland. The commission's mission is to make markets work better for consumers and businesses.

**CCR – Central Credit Register –** The Register is a national mandatory database of credit intelligence that will be maintained and operated by the Bank, in accordance with the provisions of the Credit Reporting Act 2013.

**CIP – Credit Information Provider –** CIPs are obliged to provide personal and credit information of borrowers (known as Credit Information Subjects) relating to credit applications and credit agreements to the CCR.

**COSMO – COre Structural MOdel –** COSMO is a macroeconometric model designed for both forecasting and policy analysis on the Irish economy.

**CPD – Consumer Protection Directorate –** This Directorate comprises: Consumer Protection – Policy and Authorisations; and Consumer Protection – Supervision

**CPOR – Consumer Protection Outlook Report –** The CPOR sets out the consumer protection priorities of the Bank and highlights a number of consumer risks that boards and senior management of all regulated firms need to fully consider.

**CPRA – Consumer Protection Risk Assessment –** This is a supervisory model introduced in 2016 which will allow for better testing and monitoring of firms' progress in embedding fit-for-purpose consumer protection risk management frameworks.

**CSDR – Central Securities Depositories Regulation –** The aim of CSDR is to harmonise certain aspects of the settlement cycle and settlement discipline and to provide a set of common requirements for CSDs operating securities settlement systems across the EU.

**CSFs – Credit Servicing Firms –** Firms which service loans sold by regulated lenders to third parties.

**CSO – Central Statistics Office –** Government body responsible for compiling Irish official statistics.

**CSPP – Corporate Sector Purchase Programme –** An additional component of the APP. The CSPP helps to further strengthen the pass-through of the Eurosystem's asset purchases to financing conditions of the real economy, and, in conjunction with the other non- standard monetary policy measures in place, provides further monetary policy accommodation.

**DGS – Deposit Guarantee Scheme –** The DGS protects depositors in the event of a bank, building society or credit union authorised by the Bank being unable to repay deposits.

**DSGE – Dynamic Stochastic General Equilibrium –** The DSGE methodology attempts to explain aggregate economic phenomena, such as economic growth, business cycles, and the effects of monetary and fiscal policy, on the basis of macroeconomic models derived from microeconomic principles.

**ECB – European Central Bank –** The ECB is the central bank of the Eurosystem.

**EIOPA – European Insurance Occupational and Pensions Authority –** EIOPA was established to support the stability of the financial system, transparency of markets and financial products as well as the protection of policyholders, pension scheme members and beneficiaries.

**EFSF – European Financial Stability Facility –** The EFSF is a special purpose vehicle financed by members of the eurozone to address the European sovereign-debt crisis.

**EFSM – European Financial Stability Mechanism –** The EFSM is an emergency funding programme reliant upon funds raised on the financial markets and guaranteed by the European Commission using the budget of the European Union as collateral.

**EMIR – European Market Infrastructure Regulation –** EMIR implements increased transparency in respect of derivatives, by way of reporting of all derivative contracts (including exchange traded derivatives to trade repositories). Provides for a specific clearing system of derivatives, which breach certain thresholds, provides risk mitigation techniques and sets out requirements for both Central Counterparties and trade repositories.

**EONIA – The Euro Overnight Index Average –** EONIA is a measure of the effective interest rate prevailing in the euro interbank overnight market.

**EPPS – Eurosystem Production and Procurement System –** EPPS relates to the euro currency and its production and procurement.

**ES2 – Europa Series 2 Banknotes –** The second series of euro banknotes with enhanced security features.

**ESA – European Supervisory Authorities –** These Authorities work together in a network, interacting with the existing national supervisory authorities in order to ensure the financial soundness of the financial institutions themselves and to protect users of financial services

**ESCB – European System of Central Banks –** The ESCB comprises the ECB and the national central banks (NCBs) of all EU Member States whether they have adopted the euro or not.

**ESMA – European Securities and Markets Authority –** ESMA is an independent EU Authority that contributes to safeguarding the stability of the EU's financial system by enhancing the protection of investors and promoting stable and orderly financial markets.

**ESRB – European Systemic Risk Board –** The ESRB oversees the financial system of the EU in order to prevent and mitigate systemic risk.

**ESRI – Economic and Social Research Institute –** The Economic and Social Research Institute is Ireland’s independent source of evidence for policy development.

**EVP – Employee Value Proposition –** A unique set of benefits which an employee receives in exchange for the skills, capabilities and experience they bring to the Bank.

**FATF – Financial Action Task Force –** Sets standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

**FEMPI – Financial Emergency Measures in the Public Interest –** The FEMPI legislation has underpinned the various public service pay and pensions reductions since 2009.

**FOI – Freedom of Information –** The Bank became subject to the provision of the Freedom of Information (FOI) Act 2014 on 14 April 2015.

**FSAP – Financial Sector Assessment Program –** The goal of FSAP assessments is twofold: to gauge the stability and soundness of the financial sector, and to assess its potential contribution to growth and development.

**FSC – Financial Stability Committee –** co-ordinates and assesses financial stability issues and advises the Governor in this regard in relation to Ireland and the euro area.

**FSD – Financial Stability Division –** The Financial Stability Division's key mandate is to contribute to financial stability in Ireland and the euro area. It prioritises the prevention and mitigation of financial sector risks, at both the system-wide (macroprudential) and the institution-wide (microprudential) levels.

**FSSA – Financial System Stability Assessment –** A comprehensive assessment that analyses the resilience of the financial sector, the quality of the regulatory and supervisory framework, and the capacity to manage and resolve financial crises.

**FVC – Financial Vehicle Corporation –** is a legal entity (usually a limited company of some type or, sometimes, a limited partnership) created to fulfill narrow, specific or temporary objectives. FVCs are typically used by companies to isolate the firm from financial risk.

**GDP – Gross Domestic Product –** GDP is the measure of a country's total output in goods and services in a given period.

**GNP – Gross National Product –** An economic statistic that is equal to GDP plus any income earned by residents from overseas investments minus income earned within the domestic economy by overseas residents.

**HFA – Housing Finance Agency –** The HFA provides loan finance to local authorities and voluntary housing bodies for housing and related purposes.

**HICP – Harmonised Index of Consumer Prices –** HICP is an indicator of inflation and price stability for the ECB. It is a consumer price index which is compiled according to a methodology that has been harmonised across EU countries.

**HTM – Hold-To-Maturity –** A hold to maturity investment is made by a company which intends to hold it until maturity.

**IFRS9 – International Financial Reporting Standards –** is a reporting standard issued by the International Accounting Standards Board (IASB). It contains three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

**IFSAT – Irish Financial Services Appeals Tribunal –** The Appeals Tribunal is an independent tribunal which will hear and determine appeals from aggrieved parties against certain decisions of the Bank.

**IMF – International Monetary Fund –** The IMF is an international organisation which is governed by and accountable to 189 member countries.

**IMSC – Investment Management Standing Committee –** The committee is responsible for fostering supervisory convergence among national competent authorities, implementation of new rules and providing guidance on existing requirements for the investment funds sector.

**IOSCO – International Organisation of Security Commissions –** The International Organisation of Securities Commissions (IOSCO) is the international body that brings together the world's securities regulators and is recognised as the global standard setter for the securities sector.

**IPCC – Irish Paper Clearing Company –** The IPCC clears paper instruments (i.e. cheques, credit transfers) and forms part of the national clearing system for retail payments.

**JST – Joint Supervisory Teams –** JSTs are formed of staff of the ECB and the relevant national supervisors, including the competent authorities of the countries in which credit institutions, banking subsidiaries or significant cross-border branches of a given banking group are established.

**LIF – Low Impact Firms –** Low impact firms are regulated entities that are considered by the Central Bank to have a low potential adverse impact on the financial stability and the consumer.

**LSIs – Less Significant Institutions –** Less Significant Institutions continue to be under the direct supervision of the National Competent Authorities.

**LTI – Loan-to-Income –** The LTI ratio is one way lenders (including mortgage lenders) measure an individual's ability to manage monthly payment and repay debts.

**LTV – Loan-to-Value –** The LTV ratio is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased.

**LTROs – Long-term Refinancing Operations –** The Eurosystem conducts monthly longer-term refinancing basic tender operations with a three-month maturity in order to steady the supply of liquidity and to assist banks which are active in the money market in the security of their operations.

**MiFID – Markets in Financial Instruments Directive –** MiFID is the EU legislation that regulates firms who provide services to clients linked to financial instruments (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.

**MiFIR – Markets in Financial Instruments Regulation –** The MiFIR Regulation encompasses the rules and guidelines on execution venues, transaction execution as well as pre- and post-trade transparency.

**MMC – Macroprudential Measures Committee –** The Committee's role is to advise on the regular reviews of bank-related national macroprudential measures and make recommendations about maintaining or revising these rules as appropriate.

**MOC – Market Operations Committee –** The MOC assists in the implementation of euro area monetary policy, including the implementation of the ECB's asset purchase programme.

**MPC – Monetary Policy Committee –** The MPC assesses issues relating to the conduct of euro area monetary policy with a view to provide feedback and guidance to the Governing Council.

**MRO – Main Refinancing Operations –** The main refinancing operations, with a weekly frequency and a maturity of one week, are the most important monetary policy instruments used by the Eurosystem for money market management.

**MTF – Multi-Lateral Trading Facilities –** Multilateral trading facility is a European regulatory term for a non-exchange financial trading venue. These are alternatives to the traditional stock exchanges where a market is made in securities, typically using electronic systems.

**NAMA – National Assets Management Agency –** is a body created by the government of Ireland in late 2009, in response to the Irish financial crisis and the deflation of the Irish property bubble.

**NCA – National Competent Authority –** The NCA is the legally delegated or invested authority that has the power to perform a designated function.

**NPL – Non-Performing Loans –** A non-performing loan is a loan that is in default or close to being in default.

**NRA – National Resolution Authority –** Ireland's NRA is the Bank and in conjunction with the single resolution board monitor European financial institutions.

**NSAI – National Standards Authority of Ireland –** The NSAI is the International Organisation for Standardisation (ISO) member body for Ireland.

**NTMA – National Treasury Management Agency –** The NTMA provides a range of asset and liability management services to the Government.

**ODPC – Office of the Data Protection Commissioner –** The Data Protection Commissioner is responsible for upholding the rights of individuals as set out in the Acts, and enforcing the obligations upon data controllers. The Commissioner is appointed by Government and is independent in the exercise of his or her functions.

**OECD – Organisation for Economic Cooperation and Development –** The OECD is a forum where the governments of 34 democracies with market economies work with each other, as well as with more than 70 non-member economies to promote economic growth, prosperity, and sustainable development.

**OIC – Office of the Information Commissioner –** The Office of the Information Commissioner reviews decisions made by public bodies in relation to Freedom of Information requests.

**ORM – Operational Risk Management Framework –** The Bank's internal framework whereby divisions are required to complete risk assessments on a cyclical basis.

**ORSA – Own Risk and Solvency Assessments –** A set of processes constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.

**OSI – On-Site Inspection –** These are in-depth investigations of risks, risk controls and governance with a pre-defined scope and time frame at the premises of a credit institution. These inspections are risk-based and proportionate.

**O-SII – Other Systemically Important Institutions –** O-SII are considered to be of systemic importance to the domestic financial system or that of the EU.

**PSPP – Public Sector Purchase Programme Public –** sector securities are purchased by the ECB to address the risks of a too prolonged period of low inflation.

**QIAIF – Qualified Investor Alternative Investment Funds –** The QIAIF is a regulated investment fund targeted at sophisticated or institutional investors.

**RCU – Registry of Credit Unions –** The Registry of Credit Unions is responsible for the regulation and supervision of credit unions.

**RGP – Risk Governance Panels –** Firm-focused panels that bring together senior staff and risk advisors outside the supervisory chain of command to scrutinise a supervision team's strategy, judgements and risk mitigation programme for a given firm.

**RMP – Risk Mitigation Plan –** A document that is prepared by the institution to foresee risks, estimate impacts, and define responses to issues.

**ROSC – Report on Observance of Standards and Codes –** A ROSC summarises the extent to which countries observe certain internationally recognised standards and codes.

**SEP – Supervisory Engagement Plans –** Engagement plans developed with regulatory service providers depending on their risk profile.

**SDR – Special Drawing Rights –** The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.

**SIs – Significant Institutions –** A significant institution is a bank to which such importance is attached that it is directly overseen by the ECB.

**SME – Small and Medium Enterprises –** SMEs are imade up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding €50m, and/or an annual balance sheet total not exceeding €43m.

**SNRA – Supra National Risk Assessment –** A risk assessment carried out by the EU to analyse risks and present recommendations for mitigation and resolution of those risks.

**SRA – Strategic Risk Assessment –** An SRA identifies major risk faced by the organisation.

**SRB – Single Resolution Board –** The SRB is a decision-making body which is charged with ensuring that resolution decisions across participating Member States are taken in a coordinated and effective manner.

**SREP – Supervisory Review & Evaluation Process –** The aim of the Pillar 2 processes is to enhance the link between an institution's risk profile, its risk management and risk mitigation systems, and its capital planning.

**SRF – Single Resolution Fund –** The SRF may be used to ensure the efficient application of resolution tools and the exercise of the resolution powers conferred to the SRB by the SRM Regulation.

**SRM – Single Resolution Mechanism –** The SRM ensures an orderly resolution of failing banks.

**SSM – Single Supervisory Mechanism –** The Single Supervisory Mechanism (SSM) refers to the system of banking supervision in Europe. It comprises the ECB and the national supervisory authorities of the participating countries.

**TCSP – Trust or Company Service Provider –** A Trust or Company Service Provider is any firm or sole practitioner whose business is to: form companies or other legal persons; act, or arrange for another person to act, as a director or secretary of a company; and act, or arrange for another person to act, as a partner (or in a similar position) for other legal persons.

**TRIM – Targeted Review of Internal Models –** A project to assess whether the internal models currently used by banks comply with regulatory requirements, and whether they are reliable and comparable.

**T2S – Target2Securities –** A single, Pan-European platform for securities settlement in central bank money.

**TLTRO – Targeted longer-term refinancing operations –** The targeted longer-term refinancing operations are Eurosystem operations that provide financing to credit institutions for periods of up to four years.

**UCITS – Undertakings for Collective Investment in Transferable Securities –** UCITS is a mutual fund based in the EU and can be sold to any investor within the EU under a harmonised regulatory regime.

# Part 2
## Financial Operations

# Financial Results for 2016

### Context

The Bank's balance sheet continues to reflect the broad range of measures that 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.

Other key developments include:

» the continuation of further Eurosystem non-standard monetary policy measures through the Expanded Asset Purchase Programme (encompassing the purchase of covered bonds, asset backed securities, corporate sector securities and public sector securities issued by central governments, municipalities, agencies and supra-national institutions). This purchase programme, which has combined monthly purchases of €80 billion across the euro area, until the end of March 2017 and €60 billion thereafter, is anticipated to be carried out until December 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 two per cent over the medium term in the Eurosystem;

» 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 2016, €3 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 agreement sets rules and limits for holdings of financial assets which are related to national tasks of the NCBs;[1]

» the introduction of a new series of targeted longer term refinancing operations (TLTRO II) aimed at reinforcing the ECB's accommodative monetary policy stance and to foster new lending;

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

» the ongoing retention by the Eurosystem of securities purchased under the Securities Markets Programme (SMP) and Covered Bond Purchase Programmes (CBPPs). The aim of these programmes centres on ensuring depth and liquidity in dysfunctional segments of the euro area debt securities markets and restoring an appropriate monetary policy transmission mechanism.

The Bank's risk exposure may grow in the course of 2017, reflecting the continued implementation of the Eurosystem's Expanded Asset Purchase Programme. The ECB Guideline allows Central Banks to create provisions for foreign exchange rate, interest rate, credit and gold price risks. In line with this Guideline, and to align with practices of other National Central Banks, a provision of €165 million is included in the accounts in 2016 in respect of interest rate risk.

The Bank's profits remain at high levels, primarily attributable to the Special Portfolio, which arose on the liquidation of IBRC. This portfolio continues to contribute substantially to profits in the form of interest income and gains from ongoing partial disposals. 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. The Bank has 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).

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

## Financial Results

Profit for the year to 31 December 2016 amounted to €2,294.9 million, a two per cent increase (€48.8 million) against a corresponding amount of €2,246.1 million in 2015.

Realised gains on the sales of securities held in the Special Portfolio increased by €286.9 million in 2016. This was offset by the introduction of a €165 million provision in respect of interest rate, in contrast to a release from provisions of €86.8 million in 2015. In addition, net income interest declined by €48.5 million driven by lower holdings in a lower interest rate environment.

## Interest Income

Interest income of €1,186.1 million was €35.8 million lower than the comparable amount of €1,221.9 million in 2015.

The decrease was primarily attributable to significantly lower interest earned on securities held in the Bank's Special Portfolio (2016: €552.2 million, 2015: €668.6 million) due to a combination of lower average holdings and lower average interest rates.

The decline in income from monetary policy operations (2016: €0.1 million, 2015: €11.6 million) is attributable to lower volumes of lending to credit institutions, a lower average ECB minimum bid rate[2] and an interest expense arising from the TLTRO II operations.

Income earned on securities held for monetary policy purposes increased by €44.2 million in 2016 to €204.9 million (2015: €160.7 million) reflecting the increase in average holdings due to purchases under the Eurosystem's Expanded Asset Purchase Programme.

The Bank earned interest income on Government deposits and Credit Institution deposits amounting to €43.3 million (2015: €19.7 million) and €47.8 million (2015: €6.8 million) respectively during 2016.

## Interest Expense

Interest expense amounted to €27.1 million, an increase of €12.8 million in the year. A significant driver of the change is attributable to interest expense on securities classified as MTM of €9.5 million, reflecting a negative yield environment whereas the corresponding amount for 2015 was recorded as interest income.

## Net Result of Financial Operations, Write-Downs and Provisions

The net result of financial operations, write-downs and provisions in 2016 was a gain of €1,254.0 million which compares with a gain of €1,183.6 million in 2015. Realised gains on the Bank's investment portfolio amounted to €1,372.6 million (2015: €1,097.6 million) and primarily reflect realised gains of €1,359.4 million on partial sales of the Special Portfolio. Unrealised price losses decreased by €0.6 million at end 2016, as there were no unrealised losses on the NAMA bonds in 2016 (2015: €0.5 million).

A provision charge of €145.7 million in 2016 reflects the creation of a provision for foreign exchange rate, interest rate, credit and gold price risks of €165 million (2015: nil) and the release of part of the provision for risks relating to securities held for monetary policy purposes and investments of €20 million (2015: €70 million provision release).

## Net Result of Pooling of Monetary Income

The net result of the pooling of Eurosystem monetary income gave rise to a net receipt of €2.5 million in 2016, compared with a net charge of €1.6 million in 2015 following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares.

2 The key ECB minimum bid rate fell from an average of 0.05 per cent in 2015 to 0.00 per cent in 2016

### Operating Expenses

A detailed analysis of the Bank's operating costs is provided in Note 9 to the Statement of Accounts.

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 operating expenses for 2016 of €233.4 million (2015: €230.3 million). These comprise pay, non-pay, banknote raw materials and depreciation costs.

Staff costs, including pay, decreased by €2.8 million (1.9 per cent). Higher salary costs, reflecting increased staff numbers, were offset by reduced pension costs attributable to higher discount rates in 2016.

Other operating expenses and banknote raw materials increased by €5.8 million (8.2 per cent). Depreciation charges amounted to €10.8 million (2015: €10.6 million).

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 €1,836.2 million (2015: €1,795.2 million), which is payable to the Exchequer.

### Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2016 were €82.8 billion, an increase of €5.6 billion (7.2 per cent) over the corresponding balance for end 2015 (€77.2 billion).

### Assets

A net increase of €11.3 billion in securities held for Monetary Policy Purposes reflects ongoing purchases under the Expanded Asset Purchase Programme.

This increase has been offset by a €3.3 billion decrease in monetary policy advances and partial sales of €3.1 billion related to assets acquired following the liquidation of IBRC (the Special Portfolio).

### Liabilities

Credit Institutions' (commercial banks) deposits increased by €9.2 billion in 2016. This was offset by a decrease in Government deposits of €3.3 billion and a reduction in Intra-Eurosystem net liabilities, of €1.5 billion.

### 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 €1.3 million was redeemed in 2016 (2015: €1.4 million) leaving €227.1 million in Irish banknotes outstanding at end 2016 (2015: €228.4 million) and a balance of €7.4 million in the provision at year end.

### Proceeds of Coin

During 2016, the net value of euro coin issued was €6 million (2015: €7.7 million) reflecting a decrease in demand from the public. After deduction of coin production expenses, net proceeds of €4.7 million were paid to the Exchequer (2015: €7.1 million). The Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2016, Irish coin redeemed totalled €0.2 million (2015: €0.2 million). Full details are incorporated in Note 25 of the Statement of Accounts.

## Prompt Payment of Accounts 2016

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 2016, with corresponding figures for 2015.

| | 2016 | 2015 |
|---|---|---|
| Total Number of Late Payments | 143 | 81 |
| Total Value of All Late Payments (A) | €2,366,113 | €2,690,000 |
| Total Value of All Payments (B) | €162,031,768 | €199,417,000 |
| A as a % of B | 1.46% | 1.35% |
| Total Amount in Interest Paid on Late Payments | €20,485 | €21,000 |

# Statement of Accounts

for the year ended 31 December 2016

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 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 and where silent, the accounting standards generally accepted in Ireland – Financial Reporting Standard 102 (FRS 102), 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**

14 March 2017

## Statement on Internal Financial Control

The Commission acknowledges its responsibilities for the Bank's system of internal financial controls. 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 controls are:

(i) A clearly defined organisation and committee structure that is closely aligned to the Bank's key functions;

(ii) A comprehensive financial and budget management information system, incorporating regular reporting to the Commission on various aspects of the Bank's expenditure framework;

(iii) 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;

(iv) A framework to ensure the Bank's capability to respond to a business continuity incident in a timely manner whilst maintaining critical activities;

(v) A defined governance framework incorporating procedures for project management and investment prioritisation;

(vi) Fraud policies dealing with fraud management and investigations, setting out the responsibilities of employees and management in relation to the reporting and investigation of fraud or suspected fraud within the Bank;

(vii) An independent and objective Internal Audit function which uses a risk-based internal audit plan, prepared annually and approved by the Audit Committee;

(viii) 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

(ix) A centralised Procurement function responsible for orchestrating all of the various procurement components, incorporating regular reporting to the Operations and Audit Committees.

For the 2016 Statement of Accounts, the Bank continues to adopt the 2009 Code of Practice for the Governance of State Bodies (the 2009 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 ESCB Treaties, including the requirement for the Bank to be independent.

The following sections/provisions of the 2009 Code have not been applied in the Bank's internal governance framework:

**Section B, Provision 7.2**
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

**Section E, Provision 15.3**
As referenced in the Code, national procurement guidance and policy (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 2016, expenditure of €1.6 million (€1.5 million in 2015), approximately 2% (1.2% in 2015) of the Bank's committed spend, was incurred across 23 contracts without recourse to an appropriate public procurement tender process. Of the 23 contracts (16 in 2015), three have been regularised during the year, and there are action plans in place to address the remaining 20 contracts. Additionally, a further 20 contracts (24 in 2015) were entered into without recourse to a public procurement tender process under Articles 15 and 32 of the European Union Directive; total expenditure incurred in these instances amounted to €3.5million (€5.3 million for 2015).

In August 2016, the Minister for Public Expenditure and Reform published a revised and updated Code of Practice for the Governance of State Bodies (the 2016 Code). While the 2016 Code became effective on 1 September 2016 and supersedes the 2009 Code, a communication from the Department of Public Expenditure and Reform in December 2016 clarified that institutions with financial reporting periods beginning before 1 September 2016 can opt for the continued application of the provisions of the 2009 Code.

The Bank has completed an assessment of the 2016 Code, which formally introduces the concept of "comply or explain", to determine the extent to which it has a legal requirement to apply the specific provisions. Further, a project has been initiated to perform a review of all relevant governance processes and procedures in the Bank and a decision will be taken by the Commission on which 2016 Code provisions the Bank will ultimately adopt. The outcome of this exercise will be communicated to the Minister in due course.

**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:

(i) 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

(ii) 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:

(i) Approval of the annual plan and detailed expenditure budgets by the Commission;

(ii) Quarterly reporting to the Commission on financial and budgetary performance;

(iii) Quarterly reporting to the Commission on project/capital expenditure; and

(iv) 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 both external auditors. 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 controls for the year ending 31 December 2016. 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:

(i) Review and consideration of the work of the Internal Audit Division;

(ii) Review of issues identified by the external auditors;

(iii) 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**

14 March 2017

## Profit and Loss and Appropriation Account for year ended 31 December 2016

| | Note | 2016 €000 | 2015 €000 |
|---|---|---|---|
| *Interest income* | 2 | *1,186,138* | *1,221,930* |
| *Interest expense* | 3 | *(27,140)* | *(14,360)* |
| **Net interest income** | | **1,158,998** | **1,207,570** |
| *Net realised gains arising from financial operations* | 4 | *1,399,646* | *1,097,594* |
| *Write-downs on financial assets and positions* | 4 | *(70)* | *(745)* |
| *Transfer (to)/from provisions* | 4 | *(145,667)* | *86,763* |
| **Net result of financial operations, write-downs and provisions** | | **1,253,909** | **1,183,612** |
| **Income from fees and commissions** | 5 | **2,184** | **2,092** |
| **Income from equity shares and participating interests** | 6 | **22,699** | **18,270** |
| **Net result of pooling of monetary income** | 7 | **2,499** | **(1,634)** |
| **Other income** | 8 | **88,110** | **66,516** |
| **TOTAL NET INCOME** | | **2,528,399** | **2,476,426** |
| **Staff expenses** | 9 | **(145,907)** | **(148,725)** |
| **Other operating expenses** | 9 | **(72,584)** | **(64,949)** |
| **Depreciation** | 9 | **(10,776)** | **(10,636)** |
| **Banknote raw materials** | 9 | **(4,176)** | **(5,983)** |
| **TOTAL EXPENSES** | | **(233,443)** | **(230,293)** |
| **PROFIT FOR THE YEAR BEFORE UNREALISED GAINS, ACTUARIAL (LOSS)/GAIN AND APPROPRIATION OF PROFIT** | | **2,294,956** | **2,246,133** |
| **Net movement in unrealised gains** | 34 | **68,102** | **1,207,811** |
| **Transfers to revaluation accounts** | 34 | **(68,102)** | **(1,207,811)** |
| **Actuarial (Loss)/Gain on pension scheme** | 32 | **(172,940)** | **181,059** |
| **Transfer to general reserve** | 35 | **(285,791)** | **(631,980)** |
| **SURPLUS INCOME PAYABLE TO THE EXCHEQUER** | 10, 31 | **1,836,225** | **1,795,212** |

The accounting policies together with Notes 1 to 46 form part of these accounts.

**Banc Ceannais na hÉireann**

**Philip R. Lane**
**Governor**

**Sharon Donnery**
**Deputy Governor**

14 March 2017

## Balance Sheet as at 31 December 2016

| ASSETS | Note | 2016 €000 | 2015 €000 |
|---|---|---|---|
| **Gold and gold receivables** | 11 | 212,471 | 188,167 |
| **Claims on non-euro area residents in foreign currency** | 12 | 3,191,361 | 1,835,648 |
| **Claims on non-euro area residents in euro** | 13 | 2,653,307 | 2,812,596 |
| **Lending to euro area credit institutions related to monetary policy operations in euro** | 14 | 7,418,000 | 10,735,000 |
| **Other claims on euro area credit institutions in euro** | 15 | 160,432 | 373,433 |
| **Securities of euro area residents in euro** | 16 | 67,254,966 | 59,630,594 |
| *Other securities* | | *44,820,787* | *48,527,165* |
| *Securities held for monetary policy purposes* | | *22,434,179* | *11,103,429* |
| **Intra-Eurosystem claims** | | 890,090 | 885,432 |
| *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 | *18,431* | *13,773* |
| **Items in course of settlement** | 20 | - | 5 |
| **Other assets** | 21 | 1,005,374 | 774,503 |
| **TOTAL ASSETS** | | 82,786,001 | 77,235,378 |

The accounting policies together with Notes 1 to 46 form part of these accounts.
**Banc Ceannais na hÉireann**

**Philip R. Lane**
**Governor**

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**Deputy Governor**

14 March 2017

## Balance Sheet as at 31 December 2016

| LIABILITIES | Note | 2016 €000 | 2015 €000 |
|---|---|---|---|
| **Banknotes in circulation** | 23 | 17,084,697 | 16,435,618 |
| **Liabilities to euro area credit institutions related to monetary policy operations in euro** | 24 | 19,224,845 | 10,017,548 |
| **Liabilities to other euro area residents in euro** | 25 | 10,406,599 | 13,720,482 |
| **Liabilities to non-euro area residents in euro** | 26 | 587 | 76,499 |
| **Liabilities to euro area residents in foreign currency** | 27 | 224 | 224 |
| **Counterpart of special drawing rights allocated by the IMF** | 28 | 988,353 | 986,956 |
| **Intra-Eurosystem liabilities (net)** | | 17,831,709 | 19,289,306 |
| *Liabilities related to the allocation of euro banknotes within the Eurosystem* | 29 | *16,879,982* | *16,250,479* |
| *Other liabilities within the Eurosystem (net)* | 30 | *951,727* | *3,038,827* |
| **Other liabilities** | 31 | 2,096,727 | 2,245,590 |
| **Superannuation liabilities** | 32 | 332,903 | 141,381 |
| **Provisions** | 33 | 333,243 | 189,553 |
| **Revaluation accounts** | 34 | 10,887,130 | 10,819,028 |
| **Capital and reserves** | 35 | 3,598,984 | 3,313,193 |
| **TOTAL LIABILITIES** | | 82,786,001 | 77,235,378 |

The accounting policies together with Notes 1 to 46 form part of these accounts.
**Banc Ceannais na hÉireann**

**Philip R. Lane**
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14 March 2017

## 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 six months after the end of each financial year, the Bank shall prepare and present 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 (the Guideline)[2]. The Bank's Statement of Accounts for 2016 was prepared in line with the provisions set out in the Guideline, which includes preparation on a going concern basis. The Bank transitioned from previously adopting only the mandatory provisions of the Guideline to full adoption of both mandatory and recommended provisions taking effect from 1 January 2015, the date of transition. Arising from this transition, no adjustment to opening reserves at the date of transition, or comparative information was required (Note 36). In cases where the Guideline does not provide specific direction, 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) issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland.

The principles and policies laid out in the Guideline are broadly in line with Irish generally accepted accounting principles. The principal differences of relevance to the Bank between the Guideline (mandatory and recommended provisions) and FRS 102 are:

(i) Unrealised gains, from assets and liabilities measured at market value, are accounted for through the Profit and Loss and Appropriation Account and transferred to the Revaluation Account in the Balance Sheet;

(ii) No statement of cashflows is required; and

(iii) A provision for foreign exchange rate, interest rate, credit and gold price risks is included under liability item 'Provisions'.

The preparation of the Bank's Statement of Accounts in conformity with the 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) Critical Accounting Estimates and Judgements.

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 2016 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 The Guideline refers to the Guideline of the European Central Bank (3 November 2016) on the legal framework for accounting and financial reporting in the ESCB (ECB/2016/34)

3 The principal statutes governing the Bank are: the *Central Bank Acts* 1942-2014, the *Coinage Act* 1950, the *Decimal Currency Acts* 1969–1990, and the *Economic and Monetary Union Act* 1998. The *Central Bank of Ireland (Surplus Income) Regulations,* 1943 provide for the calculation of the Bank's surplus income for each year which, in accordance with section 32H of the *Central Bank Act*, 1942, is paid into the Exchequer. The Bank is also subject to the *Treaty on European Union* and the *Treaty on the Functioning of the European Union*, incorporating the *Statute of the ESCB and of the ECB*, and to any EU laws made under those Treaties that apply to the national central banks of the ESCB

## (c) Eurosystem 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).

### (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 claims within the Eurosystem” (Note 19) or “Other liabilities within the Eurosystem (net)” (Note 30). Intra-ESCB balances versus non-euro area NCBs 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)(iii), (iv) and Note 29).

Intra-Eurosystem claims arising from the Bank’s participating interest in the ECB are reported under “Participating interest in 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)(iii), (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 2016.

A second key, the ‘Eurosystem capital key’, which is derived from the ESCB capital key outlined above, is used as the basis of allocation for a series of important items including monetary income, banknotes in circulation and the sharing of the ECB’s profit/loss among Eurosystem NCBs. The Bank’s share in the capital key remained at 1.6489 per cent for 2016.

4 Defined in the Guideline of the European Central Bank (3 November 2016) on the legal framework for accounting and financial reporting in the ESCB (ECB/2016/34)

### (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 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, are presented on the Balance Sheet under "Other claims within the Eurosystem" (Note 1(c)(ii), Note 19). The liabilities, in the case of excess issuance relevant to the banknote allocation key, 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), Note 29). Interest is received on the shortfall and paid on the excess issuance on a quarterly basis[7]. This is cleared through the accounts of the ECB and included in "Interest income" or "Interest expense" in the Profit and Loss and Appropriation Account (Note 3(v)).

### (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), and (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 it is higher than the ECB's net profit for the year 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 and Appropriation Account under "Income from equity shares and participating interests" (Note 6(i), Note 19(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

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 (eight per cent) and applying the Eurosystem capital key to the participating NCBs' share (92 per cent)

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)

related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is deducted from the monetary income to be pooled.

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

Gold is considered to generate no income. Securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the 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 a NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying, to the value of the difference, the latest available marginal rate for the Eurosystem's main refinancing operations. This amount is added or deducted, as appropriate from the monetary income to be pooled.

The net monetary income pooled by the Eurosystem is allocated between NCBs according to the subscribed Eurosystem capital key. The difference between the monetary income pooled by the Bank and that reallocated to the Bank 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), (vi), Note 2(x) 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 (k)). 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

9 ECB Decision (EU) 2015/774 of 4 March 2015 on a secondary markets public sector asset purchase programme of the ECB (ECB/2015/10), 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

gains in the Revaluation Account. Unrealised trade date gains/losses on foreign exchange forward contracts are recorded under 'other assets/liabilities' in accordance with the Guideline 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 as set out in the Guideline, i.e. foreign exchange forwards, foreign exchange swaps, interest rate swaps, forward rate agreements, forward transactions in securities and options.

Future contracts traded on organised markets are recorded off-balance sheet at the notional amount, while daily margin calls paid or received are recognised as net interest income and expenses.

#### (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 (PSPP)[13]. 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.

### (d) Income and Expense Recognition

Income and expenses are recognised on an accruals basis.

### (e) Property, Plant and Equipment, Intangible Assets and Heritage Assets

#### (i) Measurement

Property Plant and Equipment (PPE) and Intangible Assets are stated at cost less accumulated depreciation and are not revalued.

#### (ii) Depreciation

All PPE and Intangible Assets (except for PPE under construction) are depreciated on a straight-line basis over their anticipated useful lives. The Bank applies the use of accounting estimates and judgement in determining the depreciation rates to be utilised and applies these rates on the basis that they provide an accurate assessment of the anticipated useful lives. In doing so, the useful estimated lives may deviate from the Guideline's recommended depreciation rates. These depreciation rates are 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 |

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

**(iii) Impairment**

PPE and Intangible Assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of a fixed asset may not be recoverable.

**(iv) Derecognition**

A PPE or Intangible Asset is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at its retirement or disposal. Any gains or losses are recognised in the Profit and Loss and Appropriation Account in the year of retirement or disposal. Gains or losses on the disposal of the asset are determined as the difference between net disposal proceeds and the carrying value of the asset.

**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)(d)).

## (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 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. In accordance with the Guideline, the Bank has reverted to local GAAP and 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 2016 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) Functional Currency

The functional currency of the Bank is euro. 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 and Note 3).

### (j) Valuation Policy

(i) Assets and liabilities denominated in foreign currency, unmatured investments, foreign currency contracts outstanding and shares in the Bank for International Settlements are valued at mid-market closing exchange rates at year end (Note 34). The exchange rate valuation of assets and liabilities is performed on a currency-by-currency basis.

(ii) In accordance with the 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; and adjusting the methodology when observable market inputs become unavailable or are unreliable (Note 12, Note 13 and Note 16(i)).

(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, Note 34).

(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. developed using market data) 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 income or an interest expense in the Profit and Loss and Appropriation Account. Securities sold under such an agreement remain on the Balance Sheet of the Bank.

Under a reverse repurchase agreement, securities are bought for cash with a simultaneous agreement to sell them back to the counterparty at an agreed price on a set future date. Reverse repurchase agreements are recorded as collateralised loans on the asset side of the Balance Sheet (Note 15) but are not included in the Bank's securities holdings. They give rise to interest income or an interest expense in the Profit and Loss and Appropriation Account (Note 2, Note 3).

## (m) Provisions

### (i) 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) adverse national or local economic conditions or adverse changes in industry conditions.

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. Where observable data is not available, specific formulae are applied to the calculation using management's expert judgement.

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)).

**(ii) Provision for Foreign Exchange rate, Interest rate, Credit and Gold price risks:**

Given the nature of the operations of a central bank, the Bank, in accordance with the Guideline, may set up a provision on the Balance Sheet for foreign exchange rate, interest rate, credit and gold price risks.

This provision is based on a comprehensive assessment of each of the above financial risks facing the Bank, with due consideration given to the expected impact on the Bank's Balance Sheet. The size of and continuing requirement for this provision is reviewed annually, based on the Bank's assessment of its exposure to these risks, and taking a range of factors into account. In the event that a provision release is identified from the comprehensive assessment it will be released in the financial year identified (Note 4, Note 33 (ii), Note 36).

**(iii) 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 33).

### (iv) 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.

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) Critical Accounting Estimates and Judgements

The preparation of the Statement of Accounts in conformity with the 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 judgement or complexity or areas where assumptions and estimates are significant to the Statement of Accounts are as follows:

- Impairment (Note 1(j)(iii),(m), Note 4, Note 33(i));
- Provisions (Note 33);
- Depreciation rates (Note 1 (e)(ii), Note 22);
- Defined Benefit Pension Scheme valuation (Note 32); and
- Valuation of the Special Portfolio (Note 1(j), 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 and Note 31(i)).

## (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 the purchase cost and any directly attributable expenditure and are recorded in Other Assets (Note 21(iii)).

**Subsequent Measurement**
Investment properties whose fair value can be measured reliably are measured at fair value. In accordance with the Bank's accounting policies, management undertake an annual review to determine the fair value of the Bank's investment property.

In accordance with the Guideline, unrealised gains on revaluations are posted to revaluation accounts and unrealised losses are posted to the Profit and Loss and Appropriation 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(v)).

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

## Note 2: Interest Income

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Securities – MTM (i) | 552,208 | 680,939 |
| Securities – HTM (ii) | 333,964 | 340,445 |
| Securities for Monetary Policy Purposes (iii) | 204,877 | 160,704 |
| Credit Institutions Deposits (iv) | 47,755 | 6,771 |
| Government Deposits (iv) | 43,298 | 19,696 |
| Rental Income (v) | 1,950 | 298 |
| Deposit Protection/ Guarantee Income (vi) | 695 | 822 |
| SDR (vii) | 543 | 51 |
| Other (viii) | 373 | 277 |
| Deposit Income | 231 | 60 |
| Monetary Policy Operations (ix) | 136 | 11,577 |
| Income from Transfer of Foreign Reserve Assets to ECB (x) | 60 | 290 |
| Repurchase Agreements | 37 | - |
| TARGET Income | 11 | - |
| **Total** | **1,186,138** | **1,221,930** |

(i) Income earned on securities held in the Special Portfolio amounted to €552.2 million (2015: €668.6 million). This portfolio of securities was acquired following the Irish Bank Resolution Corporation (IBRC) liquidation in February 2013.

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

As a result of many of the securities trading at negative yields during 2016, an overall interest expense on the balance of the Bank's investment portfolio classified as MTM, has been recorded. Interest income of €12.4 million was earned on this portfolio during 2015 (Note 3(i), Note 12(ii)(a), Note 13(i), and Note 16(i)(a)).

| Securities – MTM | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Special Portfolio | 552,208 | 668,575 |
| – *Floating Rate Notes* | *551,649* | *663,826* |
| – *2025 Irish Government Bond* | – | *4,067* |
| – *NAMA Bond* | *559* | *682* |
| MTM Portfolio | – | 12,364 |
| **Total** | **552,208** | **680,939** |

(ii) This relates to income earned on bonds classified as HTM in the Bank's investment portfolio. Interest earned on these securities has decreased as a result of lower yields (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)).

| Securities for Monetary Policy Purposes | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| SMP | 102,122 | 122,731 |
| PSPP | 83,844 | 20,696 |
| CBPP3 | 13,659 | 6,506 |
| CBPP1 | 3,141 | 7,702 |
| CBPP2 | 2,111 | 3,069 |
| **Total** | **204,877** | **160,704** |

The change in the level of income earned in 2016 is a reflection of the associated levels of activity under each programme (Note 16(ii)).

(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 Credit Institution deposits and Government deposits amounting to €47.8 million (2015: €6.8 million) and €43.3 million (2015: €19.7 million) respectively. Prior to the introduction of the negative interest rate, the Bank paid interest on these deposits. The Bank continues to apply interest on these deposits up to an agreed threshold (Note 3 and Note 45).

| Credit Institution Deposits | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Minimum Reserve (net) | 25,049 | 936 |
| Overnight Deposit | 22,706 | 5,835 |
| **Total** | **47,755** | **6,771** |

(v) 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), Note 21(iii)).

(vi) This relates to income on the Deposit Guarantee Scheme (DGS) Contributory Fund and the DGS Legacy Fund (Note 31(iii)).

(vii) This relates to interest on Ireland's Quota in the IMF and Ireland's SDR holdings (Note 12(i)).

(viii) Included in Other is an amount of €0.3 million in relation to income on foreign currency swaps (2015: €0.2 million) (Note 38 and Note 39).

(ix) 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 on MROs reflects lower levels of lending to credit institutions and the lower average interest rate in 2016 compared to 2015. In 2016 the Bank participated in a series of targeted longer term refinancing operations (TLTRO II). These operations accrue interest at the deposit facility rate and are now recorded as an expense to the Bank (Note 3(iii), Note 14).

| Monetary Policy Operations | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Main Refinancing Operations (MRO) | 136 | 1,359 |
| Longer-term Refinancing Operations (LTRO) | – | 10,218 |
| **Total** | **136** | **11,577** |

(x) This relates to the remuneration of Foreign Reserve Assets transferred to the ECB. The decrease in income reflects the lower average MRO rate in 2016 compared to 2015 (Note 1(c)(vii) and Note 18).

## Note 3: Interest Expense

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Securities – MTM (i) | 9,468 | – |
| Swap Expenses (ii) | 5,409 | 95 |
| Monetary Policy Operations (iii) | 5,355 | – |
| Reverse Repurchase Agreements (iv) | 3,297 | 620 |
| Remuneration of Liability in respect of allocation of Euro Banknotes in Circulation (v) | 1,667 | 7,992 |
| Other (vi) | 1,412 | 336 |
| Deposits (vii) | 477 | 12 |
| Intra-Eurosystem Balances (net) (viii) | 55 | 5,304 |
| Government Deposits | – | 1 |
| **Total** | **27,140** | **14,360** |

(i) This item relates to interest expense on securities classified as MTM in the Bank's investment portfolio during 2016. The corresponding amount for 2015 was recorded as interest income (Note 2(i), Note 12(ii)(a), Note 13(i), and Note 16(i)(a)).

(ii) This expense is in relation to foreign currency swaps held by the Bank. The increase is due to the hedging of the increased net SDR exposure following the IMF Quota increase (Note 4, Note 12(i)(a), Note 38 and Note 39).

(iii) This item consists of the net expense on LTROs held by the Bank during 2016. Previously, income was earned on all of these operations, however in 2016 a series of TLTRO II operations were introduced on which interest is being charged at the deposit facility rate. Included within these amounts is income of €4.2 million (Note 2(ix) and Note 14(i)).

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

(v) 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 2016 (Note 1(c)(ii), (c)(iv) and Note 29).

(vi) This primarily relates to interest expense payable on current bank account balances (Note 13).

(vii) This relates to interest expense payable on deposit bank account balances (Note 15).

(viii) 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) and Note 30(i)).

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

| Net Realised Gains arising from Financial Operations | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Realised Price Gains on Securities | 1,372,598 | 1,097,594 |
| – *Special Portfolio (i)* | *1,359,350* | *1,073,057* |
| – *MTM Portfolio* | *13,248* | *24,537* |
| Realised Exchange Rate Gains (ii) | 27,048 | – |
| **Total** | **1,399,646** | **1,097,594** |

(i) This reflects the realised gains on the sales of the 2038 Floating Rate Note (FRN) and 2041 FRN (Note 16 (i)(a)). During 2016, €254 million of the NAMA bond matured and €171 million was sold at par (2015: €426 million matured, €172 million sold at par).

(ii) Realised exchange rate gains relate to the forward sale of our net SDR exposure following the IMF Quota increase which became effective on 19 February 2016 (Note 12(i) (a), Note 38 and Note 39).

| Write-Downs on Financial Assets and Positions | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Unrealised Price Losses on Securities | (70) | (698) |
| Unrealised Exchange Rate Losses | – | (47) |
| **Total** | **(70)** | **(745)** |

| Transfer (to)/from Provisions | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Provision Release for Securities (Note 33(i)) | 20,000 | 70,000 |
| Onerous Lease and Dilapidations (Note 8(iii), Note 33(v)) | – | 17,229 |
| Provision for Foreign Exchange rate, Interest rate, Credit and Gold price risks (Note 33(ii)) | (165,000) | – |
| Restructuring Provision (Note 33(iv)) | (667) | (466) |
| **Total** | **(145,667)** | **86,763** |

## Note 5: Income from Fees and Commissions

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Securities Lending | 949 | 750 |
| TARGET2 Distribution of Pooled Income | 626 | 599 |
| Service Fees and Charges | 609 | 743 |
| **Total** | **2,184** | **2,092** |

## Note 6: Income from Equity Shares and Participating Interests

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Share of ECB Profits (i) | 20,379 | 15,848 |
| BIS Dividend (ii) | 2,320 | 2,422 |
| **Total** | **22,699** | **18,270** |

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

In 2016, the Governing Council of the ECB decided not to transfer any of the ECB's profits to the ECB risk provision (2015: Nil). The ECB risk provision is maintained at the limit of the paid up share capital of the euro area NCBs.

An amount of €966.2 million (2015: €812.1 million) was paid to the Eurosystem NCBs on 31 January 2017 in accordance with their Eurosystem capital key as an interim distribution of the ECB's profits for the year. The Bank's share amounted to €15.9 million (2015: €13.4 million) (Note 19). The final distribution of profit for 2015 paid in February 2016, amounting to €4.4 million, is also presented in the 2016 figures (the corresponding figure in 2014, paid in 2015 was €2.5 million).

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

## Note 7: Net Result of Pooling of Monetary Income

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| *Monetary income pooled* | *(161,217)* | *(150,098)* |
| *Monetary income reallocated* | *163,372* | *148,083* |
| **Net Receiver (Contributor) of Monetary Income (Note 19 and Note 30)** | **2,155** | **(2,015)** |
| Previous Years' Eurosystem Adjustments (Note 19) | 344 | 381 |
| **Total** | **2,499** | **(1,634)** |

This represents the difference between the monetary income pooled by the Bank of €161.2 million (2015: €150.1 million) and that reallocated to the Bank of €163.4 million (2015: €148.1 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 year of €0.3 million (2015: €0.4 million) (Note 1(c)(vi)).

## Note 8: Other Income

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Financial Regulation Net Industry Funding (i) | 74,468 | 74,837 |
| Expected Return on Pension Fund Assets (Note 32(i)) | 16,400 | 13,280 |
| Financial Regulation Monetary Penalties (ii) | 12,076 | 2,165 |
| Other Financial Regulation Income (Note 43) | 3,296 | 3,054 |
| Other | 2,055 | 203 |
| Financial Regulation Deferred Charges (iii) | – | (7,087) |
| Interest on Pension Scheme Liabilities (Note 32(i)) | (20,185) | (19,936) |
| **Total** | **88,110** | **66,516** |

(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 €12.1 million in 2016 (2015: €2.2 million), is included in Surplus Income payable to the Exchequer following approval of the Statement of Accounts (Note 10).

(iii) In 2015, this represented the net effect of the unwinding of a provision for an onerous lease attributable to industry of €5.8 million and the release of a portion of charges previously deferred of €1.3 million. There were no deferred charges recorded in 2016 (Note 4 and Note 43(vii)).

## Note 9: Expenses

| | Total Head Office & Printworks* | | Mint** | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| Salaries/Allowances (i) | 105,418 | 96,067 | 349 | 487 | 105,767 | 96,554 |
| PRSI | 9,652 | 8,470 | 25 | 25 | 9,677 | 8,495 |
| Pensions (Note 32(i)) | 30,837 | 44,188 | 63 | 111 | 30,900 | 44,299 |
| **Staff Expenses** | **145,907** | **148,725** | **437** | **623** | **146,344** | **149,348** |
| Communications & IT | 22,670 | 15,207 | (9) | 44 | 22,661 | 15,251 |
| Business Travel | 2,790 | 2,382 | 5 | 8 | 2,795 | 2,390 |
| Office Administration Expense | 1,436 | 1,498 | 2 | 1 | 1,438 | 1,499 |
| Professional Fees (ii) | 14,668 | 14,257 | 2 | 4 | 14,670 | 14,261 |
| External Research & Corporate Subscriptions | 2,523 | 2,067 | 2 | 3 | 2,525 | 2,070 |
| Publishing & Public Relations | 419 | 806 | – | – | 419 | 806 |
| Payments & Asset Management Charges | 6,025 | 4,888 | 31 | 11 | 6,056 | 4,899 |
| Currency Supplies & Machine Maintenance | 833 | 776 | 54 | 67 | 887 | 843 |
| Training, Education & Conferences | 2,812 | 3,395 | 2 | 4 | 2,814 | 3,399 |
| Recruitment & Other Staff Costs | 3,637 | 3,352 | 1 | – | 3,638 | 3,352 |
| Facilities Management & Maintenance | 5,832 | 5,889 | 20 | 4 | 5,852 | 5,893 |
| Rent & Utilities | 7,290 | 10,004 | – | – | 7,290 | 10,004 |
| Miscellaneous (iii) | 1,649 | 428 | – | 2 | 1,649 | 430 |
| **Other Operating Expenses** | **72,584** | **64,949** | **110** | **148** | **72,694** | **65,097** |
| **Depreciation** | **10,776** | **10,636** | **144** | **99** | **10,920** | **10,735** |
| **Currency Production Raw Materials (iv)** | **4,176** | **5,983** | **3,166** | **652** | **7,342** | **6,635** |
| **Total Expenses** | **233,443** | **230,293** | **3,857** | **1,522** | **237,300** | **231,815** |

* 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) In 2016 the Bank made retention payments of €449,089 to 28 staff (2015: €38,009 to three 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. The 28 payments were to staff who were identified in 2015 as "Target Employees", as defined within the policy. No further staff have been included in the policy since 2015 and no further payments are due.

In June 2015 a Single Supervisory Mechanism (SSM) On-Site Allowance Policy was approved and this was further reviewed in June 2016. This Policy applies to staff who are assigned to work on-site in credit institutions carrying out inspections (preparation, execution and reporting) under the SSM for 65-85% of their available working time. Payments made under this policy totalled €180,348, and were made to 47 staff during the year. Staff in receipt of this allowance are subject to normal taxation.

In 2016, a payment totalling €32,919 was paid on the expiry of one fixed term contract in accordance with the provisions of the Redundancy Payments Acts 1967 to 2007 and the Protection of Employees (Fixed Term Work) Act 2003 (2015: a payment of €35,775 was paid on the expiry of two fixed term contracts). A settlement was made with one individual for €24,322 which included payment in lieu of notice and a termination payment totalling €6,961 (2015: €2,475 for one termination payment). One other payment in lieu of notice was made during the year totalling €2,603.

## Note 9: Expenses (continued)

Remuneration of Executive Commission Members in 2016 and Key Management Personnel

| Name | Period 2016 | Salary | Period 2015 | Salary |
|---|---|---|---|---|
| **Philip R. Lane**<br>Governor (a) | 1 January – 31 December | €254,048 | 26 November – 31 December | €24,700 |
| **Philip R. Lane**<br>Governor Elect (a) | Not applicable | Nil | 1 November – 25 November | €15,997 |
| **Sharon Donnery**<br>Deputy Governor (Central Banking) (a) | 1 March-31 December | €184,093 | Not applicable | Nil |
| **Cyril Roux**<br>Deputy Governor (Financial Regulation) | 1 January-31 December | €310,000 | 1 January – 31 December | €310,000 |
| **Patrick Honohan**<br>Governor (a) (Resigned 25 November 2015) | Not applicable | Nil | 1 January – 25 November | €229,349 |
| **Stefan Gerlach**<br>Deputy Governor (Central Banking) (Resigned 27 November 2015) | Not applicable | Nil | 1 January – 27 November | €202,738 |

Remuneration of Non-Executive Commission Members

| Name | 2016 | 2015 |
|---|---|---|
| Blanaid Clarke | Nil (b) (c) | Nil (b) (c) |
| Alan Ahearne | Nil (b) (c) | Nil (b) (c) |
| Derek Moran | Nil (b) | Nil (b) |
| Des Geraghty | €14,936 | €14,936 |
| Michael Soden | €14,936 | €14,936 |
| John FitzGerald | €14,936 | €14,936 |
| Patricia Byron | €14,936 | €11,202 |

Expenses of Non-Executive Commission Members

| Name | Travel | Accommodation and Subsistence | Total 2016 | Total 2015 |
|---|---|---|---|---|
| Blanaid Clarke | Nil | Nil | Nil | €240 |
| Alan Ahearne | €386 | €160 | €546 | €1,761 |
| 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 |

## Note 9: Expenses (continued)

Remuneration of Other Key Management Personnel

| Name | Period | Salary 2016 | Salary 2015 |
|---|---|---|---|
| Other Key Management Personnel (d)[14] | 1 January – 31 December | €7,366,496 | €7,007,833 |

(a) Governor Philip R. Lane's and Deputy Governor Sharon Donnery's pension scheme entitlements do not extend beyond the standard entitlements in the Bank's defined benefit superannuation scheme (Note 32).

(b) In keeping with the One Person One Salary principle, three non-executive members of the Commission did not receive payment of any fees.

(c) 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 (2015: two members) for costs incurred due to their absence on Commission business. During 2016, an expense of €14,936 (2015 €14,936) was incurred in relation to the National University of Ireland, Galway and an expense of €14,936 (2015 €14,936) in relation to Trinity College Dublin.

(d) The Bank operates a Revenue approved holiday loan scheme for all staff. Advances totalling €33,250 were made to one Executive Commission Member and seven Key Management Personnel. As at 31 December 2016 all advances under this scheme have been fully repaid.

The Bank provided mortgages to staff at preferential interest rates up until 2008. At 31 December 2016, one Key Management Person had an outstanding mortgage balance of €4,728. Benefit in Kind taxation on the preferential interest rate was applied to this mortgage in line with Revenue approved procedures.

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

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| **Audit of Individual Accounts** | **276** | **276** |
| Mazars (vi) | 151 | - |
| Comptroller and Auditor General | 125 | 120 |
| Grant Thornton (vi) | - | 156 |
| **Other Assurance Services** | **57** | **43** |
| Mazars | 57 | - |
| Grant Thornton | - | 43 |
| **Total** | **333** | **319** |

Other Assurance Services relate to audit services provided on behalf of the ECB, the Superannuation Fund and the Banking and Investment Firm Resolution Fund.

(iii) Included in Miscellaneous are the expenses of the Financial Services Appeals Tribunal €0.08 million (2015: €0.09 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 €4.2 million (2015: €6 million) and Coin €3.2 million (2015: €0.6 million). The decrease in the cost of Banknotes relates to the lower production volume in

14 Key Management Personnel refers to staff at Head of Division and above excluding Governor and Deputy Governors who are reported separately

2016 compared to 2015. The increase in coin costs relates primarily to the purchase of the gold and silver for coin products marking the centenary of the 1916 Easter Rising and the Proclamation of the Irish Republic.

(v) An amount of €5.8 million (2015: €6.1 million) was payable to the Department of Finance in respect of the pension levy from staff salaries.

(vi) During 2016 Grant Thornton resigned as external auditors and Mazars were consequently appointed following a public procurement competition.

## Note 10: Surplus Income payable to the Exchequer

Surplus Income of €1,836.2 million is payable to the Exchequer in respect of the year ended 31 December 2016 (2015: €1,795.2 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

| | 2016 | 2016 | 2015 | 2015 |
|---|---|---|---|---|
| | €000 | Fine Ounces of Gold | €000 | Fine Ounces of Gold |
| Gold and Gold Receivables | 212,471 | 193,499 | 188,167 | 193,343 |
| **Total** | **212,471** | **193,499** | **188,167** | **193,343** |

Gold and Gold Receivables consist of coin stocks held in the Bank, together with gold bars held at the Bank of England. The increase in the balance at year end 2016 is primarily due to the change in the market value of gold holdings from the year end 2015 to 2016 (Note 1(j)(iv) and Note 34).

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

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Receivables from the International Monetary Fund (IMF) (i) | 1,858,393 | 1,157,743 |
| Balances with Banks and Security Investments, External Loans and other External Assets due within one year (ii) | 1,332,968 | 677,905 |
| **Total** | **3,191,361** | **1,835,648** |

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

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Quota | 4,451,425 | 1,576,462 |
| Less IMF Holdings maintained by the Bank | (3,423,158) | (1,247,237) |
| Reserve Position in IMF (a) | 1,028,267 | 329,225 |
| SDR Holdings (b) | 830,126 | 828,518 |
| **Total** | **1,858,393** | **1,157,743** |

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

(a) Reserve Position in the IMF:

This asset represents the difference between Ireland's Quota in the International Monetary Fund (IMF) and the IMF's holdings of euro maintained by the Bank. Ireland's Quota is its membership subscription. On 15 December 2010, the Board of Governors of the IMF completed a package of far-reaching reforms of the Fund's quotas and governance. The conditions for implementing the quota increases agreed were met on 26 January 2016. As a result, Ireland's IMF quota increased by SDR 2,192.3 million from SDR 1,257.6 million to SDR 3,449.9 million on the 19 February 2016. 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 77 per cent (2015: 79 per cent).

(b) 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 five currencies (US Dollar, Sterling, Japanese Yen, Chinese Renminbi[15] and Euro) (Note 28).

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

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Balances with Banks | 377,553 | 4,190 |
| Security Investments – MTM (a) | 955,415 | 673,715 |
| **Total** | **1,332,968** | **677,905** |

(a) These securities comprise debt issued by non-euro area issuers (Note1(j)).

| Maturity Profile | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| 0 – 3 months | 808,072 | 628,295 |
| 3 months – 1 year | 524,896 | 49,610 |
| **Total** | **1,332,968** | **677,905** |

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

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Security Investments – HTM (i) | 1,197,079 | 1,035,839 |
| Balances with Banks | 729,301 | 705,699 |
| Security Investments – MTM (i) | 726,927 | 1,071,058 |
| **Total** | **2,653,307** | **2,812,596** |

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

15 On 1 October 2016 the IMF introduced the Chinese Renminbi (RMB) as the fifth currency to be included in the SDR basket reflecting the ongoing evolution of the global economy

## Note 13: Claims on Non-Euro Area Residents in Euro (continued)

| Maturity Profile | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| 0 – 3 months | 5,052 | 795,917 |
| 3 months – 1 year | 1,064,631 | 413,135 |
| 1 – 5 years | 1,121,719 | 1,349,653 |
| 5 – 10 years | 461,905 | 253,891 |
| **Total** | **2,653,307** | **2,812,596** |

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

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Longer Term Refinancing Operations (i) *of which* | | |
| LTROs | 1,150,000 | 3,750,000 |
| TLTROs | 6,268,000 | 4,685,000 |
| Main Refinancing Operations (ii) | – | 2,300,000 |
| **Total** | **7,418,000** | **10,735,000** |

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[16]. As at 31 December 2016, total Eurosystem monetary policy-related advances amounted to €595.9 billion (2015: €558.9 billion), of which the Bank held €7.4 billion (2015: €10.7 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 specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council of the ECB.

(i) LTROs aim to provide counterparties with additional longer-term refinancing. In 2016, operations were conducted with maturities between 3 and 48 months and were conducted with full allotment of the total amount bid. In 2016, regular 3-month LTROs were conducted on a monthly basis, with the applicable interest rate equal to the average MRO rate over the relevant period.

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.

Additionally, in March 2016 the Governing Council introduced a new series of operations TLTRO II. These operations have a four-year maturity, with a possibility of repayment after two years. The applicable interest rate for TLTRO II operations depends on the individual lending benchmark of the respective counterparties between the date of allotment and January 2018. The actual rate will be set in 2018 and will be between the MRO rate and the deposit facility rate at the time of the allotment. The deposit facility rate has been used for calculating the TLTRO II interest for 2016, in the absence of the actual rate, as this is deemed a prudent approach (Note 3(iii)).

16 http://www.ecb.europa.eu/mopo/assets/html/index.en.html

## Note 14: Lending to Euro Area Credit Institutions related to Monetary Policy Operations in Euro (continued)

| Maturity Profile of LTRO and TLTROs | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| 0 – 3 months | 1,150,000 | 3,750,000 |
| 1 – 5 years | 6,268,000 | 4,685,000 |
| **Total** | **7,418,000** | **8,435,000** |

(ii) MROs are executed through liquidity providing reverse transactions with a frequency and a maturity of normally one week, on the basis of standard tenders. Since October 2008, these operations have been conducted as fixed rate with full allotment of the total amount bid. While the Bank conducted MROs during the year, no balance was outstanding at 31 December 2016.

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

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| **Maturities less than one year:** | | |
| Balances with Banks | 160,432 | 153,683 |
| Reverse Repurchase Agreements | – | 219,750 |
| **Total** | **160,432** | **373,433** |

## Note 16: Securities of Euro Area Residents in Euro

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Other Securities (i) | 44,820,787 | 48,527,165 |
| Securities Held for Monetary Policy Purposes (ii) | 22,434,179 | 11,103,429 |
| **Total** | **67,254,966** | **59,630,594** |

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 (SMP), which began in May 2010, and the Public Sector Purchase Programme (PSPP) which began in March 2015.

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

### (i) Other Securities

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Security Investments – MTM (a) | 34,500,568 | 38,402,989 |
| Security Investments – HTM (b) | 10,320,219 | 10,124,176 |
| **Total** | **44,820,787** | **48,527,165** |

| Maturity Profile | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| 0 – 3 months | 1,109,689 | 1,860,317 |
| 3 months – 1 year | 2,460,136 | 2,122,648 |
| 1 – 5 years | 6,480,428 | 6,109,527 |
| 5 – 10 years | 4,542,424 | 5,276,131 |
| 10 – 15 years | – | – |
| > 15 years | 30,228,110 | 33,158,542 |
| **Total** | **44,820,787** | **48,527,165** |

(a) Security Investments – MTM

| | 2016 Closing Market Value | 2015 Closing Market Value |
|---|---|---|
| | €000 | €000 |
| Special Portfolio (i) | 30,311,163 | 33,412,000 |
| Treasury Bills | 1,849,346 | 2,360,743 |
| Financial Issue Bonds | 708,799 | 1,455,858 |
| Government Issue Bonds | 1,631,260 | 1,174,388 |
| **Total** | **34,500,568** | **38,402,989** |

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

### (i) Special Portfolio – Assets acquired following liquidation of IBRC

| | Book Values | | | | Revaluation Movements | | | | Summary | |
|---|---|---|---|---|---|---|---|---|---|---|
| €000 | 2015 Closing Balance | Purchases | Sales/ Redemptions | 2016 Closing Balance | 2015 Closing Balance | Opening Revaluation on Disposal | Movement on Retained Portfolio | 2016 Closing Balance | 2015 Closing Market Value | 2016 Closing Market Value |
| Floating Rate Notes | 22,534,000 | – | (3,000,000) | 19,534,000 | 10,624,542 | (1,239,705) | 1,309,273 | 10,694,110 | 33,158,542 | 30,228,110 |
| NAMA Bonds | 254,000 | 254,000 | (425,000) | 83,000 | (542) | 542 | 53 | 53 | 253,458 | 83,053 |
| **Total** | **22,788,000** | **254,000** | **(3,425,000)** | **19,617,000** | **10,624,000** | **(1,239,163)** | **1,309,326** | **10,694,163** | **33,412,000** | **30,311,163** |

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

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 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: 2017-2018 (€0.5 billion per annum), 2019-2023 (€1 billion per annum), and 2024 on (€2 billion per annum until all bonds are sold).

**Floating Rate Notes (FRNs)**

In 2013, the Bank acquired eight FRNs amounting to €25.0 billion as part of the exchange of assets on the liquidation of IBRC. The eight FRNs acquired range in maturity from 2038 to 2053. These are classified as Level 3 type securities (Note 1(j) (v)). As at 31 December 2016, the FRNs were valued at €30.2 billion (2015: €33.2 billion) giving rise to an unrealised gain of €10.7 billion (2015: €10.6 billion) (Note 34). During 2016, the Bank sold €3 billion nominal of the FRNs (2041 FRN €1.5 billion and 2043 FRN €1.5 billion) realising gains amounting to €1.4 billion (Note 4). All holdings of the 2038 and the 2041 FRNs have now been disposed of.

As there is no active market in the FRNs, 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. The model is periodically evaluated by the Bank to ensure that it is consistent with best practice. For illustrative purposes a twenty five basis point increase in the Irish discount curve used in the pricing model will result in a decrease on the valuation by approximately €1.6 billion (2015: €1.6 billion). A twenty five basis point decrease in the Irish discount curve used in the pricing model will result in an increase on the valuation by approximately €1.7 billion (2015: €1.7 billion).

**NAMA Bonds**

In 2013 the Bank acquired €13.7 billion nominal of NAMA Bonds following the IBRC liquidation, of which, €0.4 billion (2015: €0.6 billion) was redeemed by NAMA in 2016 at par, realising no gain or loss (Note 4(i)). As at 31 December 2016, the NAMA bonds were valued at €0.1 billion (2015: €0.3 billion) giving rise to an unrealised gain of €0.1 million (2015: unrealised loss €0.5 million) as at that date (Note 4(i)). 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)).

(b) Security Investment – HTM
Held-to-maturity-securities are securities with fixed or determinable payments and a fixed maturity which the Bank intends to hold to maturity (Note 1(j)(iii)).

### (ii) Securities Held for Monetary Policy Purposes

As at 31 December 2016 these categories of securities relate 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 SMP[18] and debt securities acquired within the scope of the PSPP[19].

Securities purchased under all of these programmes are valued on an amortised cost basis subject to impairment (Note 1(c)(ix)).

The amortised cost of the securities held by the Bank, as well as their market values[20] (which are not recorded on the Balance Sheet or in the Profit and Loss and Appropriation Account but are provided for comparison purposes only), are as follows:

| | 2016 | 2016 | 2015 | 2015 |
|---|---|---|---|---|
| | €000 | €000 | €000 | €000 |
| | Amortised Cost | Market Value | Amortised Cost | Market Value |
| Covered Bonds Purchase Programme 1 (CBPP1) | 61,637 | 63,204 | 61,508 | 66,003 |
| Covered Bonds Purchase Programme 2 (CBPP2) | 45,463 | 45,897 | 65,489 | 67,890 |
| Covered Bonds Purchase Programme 3 (CBPP3) | 3,174,440 | 3,209,788 | 2,202,007 | 2,193,410 |
| Securities Markets Programme (SMP) | 1,712,483 | 2,000,627 | 1,950,468 | 2,298,174 |
| Public Sector Purchase Programme (PSPP) *of which* | | | | |
| Government Sector (Own-Risk) | 16,275,110 | 16,561,870 | 6,823,957 | 6,805,513 |
| Supranational (Shared-Risk) | 1,165,046 | 1,151,169 | – | – |
| **Total** | **22,434,179** | **23,032,555** | **11,103,429** | **11,430,990** |

| **Maturity Profile** | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| 0 – 3 months | 42,498 | 10,015 |
| 3 months – 1 year | 2,199,074 | 262,767 |
| 1 – 5 years | 5,654,592 | 5,202,697 |
| 5 – 10 years | 10,177,865 | 4,177,901 |
| 10 – 15 years | 2,104,591 | 669,419 |
| > 15 years | 2,255,559 | 780,630 |
| **Total** | **22,434,179** | **11,103,429** |

Purchases under CBPP1 were completed on 30 June 2010, while CBPP2 ended on 31 October 2012. The SMP was terminated on 6 September 2012.

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

20 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

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

In 2016 the Eurosystem Expanded Asset Purchase Programme (EAPP)[21] constituting the CBPP3, the Asset-Backed Securities Purchase Programme (ABSPP)[22] and PSPP[23] was supplemented with the corporate sector purchase programme (CSPP)[24] as a fourth component. Under this programme, NCBs may purchase investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area.

From March 2015 until March 2016, the combined monthly EAPP purchases by the NCBs and the ECB amounted to €60 billion on average. From April 2016 this increased to €80 billion on average. In December 2016, the Governing Council decided to continue the net EAPP purchases after March 2017 at a monthly pace of €60 billion until the end of December 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 inflation aim. If in the meantime the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intends to increase the programme in terms of size and/or duration. The net purchases will be made alongside reinvestments of the principal payments from maturing securities purchased under the EAPP.

As mentioned previously, the securities purchased under all of these programmes are valued on an amortised cost basis subject to impairment. The Governing Council assesses on a regular basis the financial risks associated with the securities held under these programmes. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year end and are approved by the Governing Council. There was no impairment of securities as at 31 December 2016 (2015: Nil).

The Eurosystem aggregate holdings of monetary policy securities at end December 2016 amounted to €1,654 billion of which the Bank held €22.4 billion (2015: €803 billion of which the Bank held €11.1 billion) (see table below) (Note 1(c)(ix) and Note 2(iii)):

| Amortised cost €m | Year | SMP | CBPP1 | CBPP2 | CBPP3 | PSPP | ABSPP | CSPP | Total |
|---|---|---|---|---|---|---|---|---|---|
| Eurosystem | 2016 | 102,274 | 12,789 | 6,913 | 203,516 | 1,254,635 | 22,830 | 51,069 | 1,654,026 |
| | 2015 | 122,952 | 20,582 | 9,723 | 143,340 | 491,215 | 15,322 | – | 803,134 |
| Bank | 2016 | 1,713 | 62 | 45 | 3,174 | 17,440 | – | – | 22,434 |
| | 2015 | 1,950 | 62 | 65 | 2,202 | 6,824 | – | – | 11,103 |

## Note 17: Participating Interest in ECB

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Participating Interest in 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 2016 (2015: 1.1607) (Note 1 (c)(ii),(iii)).

21 Further details of the EAPP can be found on the ECB's website https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html

22 Decision ECB/2014/45 of 19 November 2014 on the implementation of the asset backed securities purchase programme

23 Under this programme, the ECB and the NCBs may purchase, in the secondary market, euro-denominated securities issued by euro area central, regional or local governments, recognised agencies located in the euro area and international organisations and multilateral development banks located in the euro area

24 Under this programme, the NCBs may purchase investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area

## Note 18: Claims Equivalent to the Transfer of Foreign Reserves

| | 2016 | 2015 |
|---|---|---|
| | €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. The Bank's Eurosystem capital key at 31 December 2016 is 1.6489 per cent (2015: 1.6489 per cent)[25].

The total of the claims in respect of those assets is €672.6 million (2015: €672.6 million) (Note 1(c)(ii)(iii)(vii) and Note 2(x)).

## Note 19: Other Claims within the Eurosystem

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Share of ECB Profits (i) | 15,932 | 13,392 |
| Net Result of Pooling of Monetary Income (ii) | 2,499 | 381 |
| **Total** | **18,431** | **13,773** |

(i) This represents the Bank's share of the ECB's interim distribution of seigniorage and other income for 2016 (Note 1(c)(v) and Note 6(i)).

(ii) This represents the Bank's monetary income receivable following the adjustment to 2016 monetary income of €0.3 million (2015: €0.4 million) (Note 1(c)(ii)(vi), Note 7 and Note 30).

## Note 20: Items in Course of Settlement

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Items in Course of Settlement | – | 5 |
| **Total** | **–** | **5** |

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.

25 The contribution of foreign reserve assets by each NCB is fixed in proportion to its share in the subscribed capital of the ECB

## Note 21: Other Assets

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Accrued Interest Income (i) | 541,810 | 383,703 |
| Property, Plant and Equipment (Note 22) | 237,293 | 155,463 |
| - *Tangible – Plant, Property, Equipment (Note 22(i))* | *224,294* | *139,629* |
| - *Intangible – Computer Software (Note 22(ii))* | *12,999* | *15,834* |
| Other (ii) | 143,535 | 79,942 |
| Investment Property (iii) | 55,000 | 51,548 |
| Shares in the Bank for International Settlements (iv) | 21,604 | 21,480 |
| Stocks of Materials for Banknote Production | 3,301 | 4,324 |
| Prepayments | 2,815 | 2,180 |
| Banking & Investment Firm Resolution Fund (v) | 16 | 75,863 |
| **Total** | **1,005,374** | **774,503** |

(i) This item includes the accrued income earned on the securities held for monetary policy purposes. The increase in accrued income reflects the Bank's higher holdings under the CBPP3 and PSPP programmes.

(ii) Included in this item is an amount of €67.8 million (2015: €65.4 million) which represents the interest income due on securities at the date a purchase of that security is made by the Bank.

A further €6 million (2015: €5.4 million) relates to deficits due from certain Industry Funding sub-categories at end 2016 (Note 43(i)).

(iii) In November 2015, the Bank acquired Block R, Spencer Dock. The property, which comprises both commercial and retail space, is partially used by the Bank in its current operations. The remainder is either let out, or available for letting on the open market and therefore this portion is recognised as an investment property. In accordance with the Bank's accounting policies, management undertake an annual review to determine the fair value of the Bank's investment property. The fair value of the property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The fair value measurement provided has resulted in an upward revaluation amounting to €3.5 million. In accordance with the Guideline, the unrealised gain in relation to this revaluation has been posted to the revaluation accounts (Note 1(p), Note 2(v), and Note 34).

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 7 and 11 years. The leases include a provision for a five-yearly rent review according to prevailing market conditions.

| Future Minimum Lease Payments | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Not later than one year | 1,882 | 1,882 |
| After one year but not more than five years | 7,528 | 7,528 |
| After five years | 24,699 | 26,581 |
| **Total** | **34,109** | **35,991** |

(iv) The Bank holds 8,564 shares in the Bank for International Settlements, the euro equivalent of which is €21.6 million (2015: €21.5 million) (Note 6(ii) and Note 37(i)).

(v) Included in this item are levies collected on behalf of the Banking and Investment Firm Resolution Fund (BIFRF). The funds collected from the authorised credit institutions are payable to the Single Resolution Board (SRB) and accordingly are also included in Liabilities to Non-Euro Area Residents in Euro at year end (Note 26).

## 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 (c) | | Total Property, Plant & Equipment | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| At Cost – 1 January | 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 |
| Acquisitions | 147 | 58,061 | 127 | 1,896 | 2,473 | – | 159 | 25 | (1) | 89 | 86,784 | 17,679 | 89,689 | 77,750 |
| Disposals | (164) | – | – | (8,942) | – | (15,081) | (6) | (3,993) | (9) | (5,733) | – | – | (179) | (33,749) |
| At Cost – 31 December | 125,952 | 125,969 | 49,368 | 49,241 | 3,620 | 1,147 | 13,327 | 13,174 | 10,599 | 10,609 | 119,913 | 33,129 | 322,779 | 233,269 |
| Accumulated Depreciation at 1 January | 28,478 | 26,758 | 41,491 | 49,355 | 1,065 | 15,655 | 12,591 | 16,099 | 10,015 | 14,626 | – | – | 93,640 | 122,493 |
| Depreciation for the year (a) | 2,834 | 1,720 | 1,119 | 1,078 | 172 | 491 | 355 | 485 | 436 | 1,122 | – | – | 4,916 | 4,896 |
| Disposals (b) | (56) | – | – | (8,942) | – | (15,081) | (5) | (3,993) | (10) | (5,733) | – | – | (71) | (33,749) |
| Accumulated Depreciation at 31 December | 31,256 | 28,478 | 42,610 | 41,491 | 1,237 | 1,065 | 12,941 | 12,591 | 10,441 | 10,015 | – | – | 98,485 | 93,640 |
| **Net Book Value at 31 December** | **94,696** | **97,491** | **6,758** | **7,750** | **2,383** | **82** | **386** | **583** | **158** | **594** | **119,913** | **33,129** | **224,294** | **139,629** |

(a) Of the total depreciation charge of €4.9 million (2015: €4.9 million), €0.2 million in respect of Mint machinery was charged to the Currency Reserve (2015: €0.1 million) (Note 1(e)).

(b) Following a review of the Fixed Assets Register during the year, PPE with an historic cost of less than €0.1 million, which were fully depreciated, were written off in 2016 with no proceeds arising. Additionally PPE with a net book value €0.1 million was written off to Other Operating Expenses (Note 9) (2015: PPE with an historic cost of €33.8 million, which were fully depreciated, were written off with no proceeds arising).

(c) Assets Under Construction primarily relates to expenditure on the North Wall Quay project (Note 37(ii) Commitments) and also includes capital expenditure incurred on assets which have not yet come into use by the year end.

(d) The Bank currently holds an Art Collection valued at €2 million based on a 2016 valuation (2015: €1.7 million), 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)).

## Note 22: Property, Plant and Equipment (continued)

### (ii) Intangible Computer Software

| | Computer Software | |
|---|---|---|
| | **2016** | **2015** |
| | **€000** | **€000** |
| At Cost – 1 January | 36,278 | 33,039 |
| Acquisitions | 3,169 | 3,619 |
| Disposals | – | (380) |
| **At Cost – 31 December** | **39,447** | **36,278** |
| Accumulated Depreciation at 1 January | 20,444 | 14,985 |
| Depreciation for year (a) | 6,004 | 5,839 |
| Disposals (b) | – | (380) |
| **Accumulated Depreciation at 31 December** | **26,448** | **20,444** |
| **Net Book Value at 31 December** | **12,999** | **15,834** |

(a) The total depreciation charge in 2016 was €6.0 million (2015: €5.8 million) (Note 1(e)).

(b) Following a review of the Fixed Assets Register during the year, there were no Intangible Assets to be written off (2015: Intangible Assets with an historic cost of €0.4 million, which were fully depreciated, were written off with no proceeds arising).

## Note 23: Banknotes in Circulation

| | **2016** | **2015** |
|---|---|---|
| | **€000** | **€000** |
| Total value of euro banknotes issued into circulation by the Bank | 33,964,679 | 32,686,097 |
| Liability resulting from the ECB's share of euro banknotes in circulation | (1,485,633) | (1,429,191) |
| Liability according to the Bank's weighting in the ECB's capital key | (15,394,349) | (14,821,288) |
| **Total** | **17,084,697** | **16,435,618** |

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 2016 increased by 3.9 per cent from, €32.7 billion to €34.0 billion. The total value of banknotes in circulation within the Eurosystem increased by 3.9 per cent compared with 6.6 per cent in 2015. According to the allocation key, the Bank had euro banknotes in circulation worth €17.1 billion at the end of the year, compared to €16.4 billion at the end of 2015. As the banknotes actually issued by the Bank were more than the allocated amount, the difference of €16.9 billion (compared to €16.3 billion in 2015) 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

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Minimum Reserve Deposits (i) | 13,508,518 | 5,287,455 |
| Overnight Deposits (ii) | 5,716,327 | 4,730,093 |
| **Total** | **19,224,845** | **10,017,548** |

(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 2016, interest was paid on these deposits at the ECB's MRO 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 the deposit facility rate.

## Note 25: Liabilities to Other Euro Area Residents in Euro

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| General Government Deposits (i) | 10,403,604 | 13,717,807 |
| Currency Reserve Relating to Net Proceeds of Coin (ii) | 2,995 | 2,675 |
| **Total** | **10,406,599** | **13,720,482** |

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:

## Note 25: Liabilities to Other Euro Area Residents in Euro (continued)

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Coin issued into Circulation | 6,035 | 7,734 |
| Specimen Coin Sets | 3,167 | 903 |
| Withdrawn Irish Coin | (195) | (209) |
| **Sub-Total** | **9,007** | **8,428** |
| **Less Operating Costs (Note 9)** | **(3,857)** | **(1,522)** |
| **Net Proceeds of Coin Issue** | **5,150** | **6,906** |
| Interest on Pension Liability (Note 32) | (115) | (130) |
| Superannuation Employer Contribution (Note 32) | (55) | (62) |
| Transfer to the Exchequer | (4,660) | (7,084) |
| Opening Balance | 2,675 | 3,045 |
| **Closing Balance** | **2,995** | **2,675** |

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 €6.0 million (2015: €7.7 million) from the Bank to the commercial banks in 2016. As a result, the net surplus generated a transfer of €4.7 million which was paid to the Exchequer on 21 December 2016 (2015: €7.1 million).

## Note 26: Liabilities to Non-Euro Area Residents in Euro

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| EU Agencies (i) | 521 | 76,434 |
| International Financial Institutions | 66 | 65 |
| **Total** | **587** | **76,499** |

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

(i) Included within EU Agencies are amounts relating to the BIFRF which 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 are payable to the Single Resolution Board (SRB) established by Article 42(1) of the Single Resolution Mechanism Regulation. At 31 December 2016, a balance of levies of less than €0.1 million (2015: €75.9 million) were held by the Bank payable to SRB and accordingly are held in other assets (Note 1(c)(ii) and Note 21(v)).

## Note 27: Liabilities to Euro Area Residents in Foreign Currency

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Liabilities to Euro Area Residents in Foreign Currency | 224 | 224 |
| **Total** | **224** | **224** |

This liability primarily relates to a deposit placed by the National Treasury Management Agency (NTMA) 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

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Counterpart of SDR allocated by the IMF | 988,353 | 986,956 |
| **Total** | **988,353** | **986,956** |

This is the liability of the Bank to the IMF in respect of the allocation of Special Drawing Rights (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

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Liability According to the Bank's Weighting in the ECB's Capital Key | 15,394,349 | 14,821,288 |
| Liability Resulting from the ECB's Share of Euro Banknotes in Circulation | 1,485,633 | 1,429,191 |
| **Total** | **16,879,982** | **16,250,479** |

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 interest rate used by the Eurosystem in its tenders for main refinancing operations (Note 3(v)).

## Note 30: Other Liabilities within the Eurosystem (net)

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| TARGET2 Balance (net) (i) | 951,727 | 3,036,812 |
| Monetary Income Charge (ii) | - | 2,015 |
| **Total** | **951,727** | **3,038,827** |

(i) This item represents the Bank's net liability to the ECB as a result of euro cross-border payments transacted over the TARGET2 system by all NCBs participating in the ESCB, which amounted to €951.7 million at end 2016 (2015: €3,036.8 million) (Note 1(c)(ii)). At end 2016, five non-participating countries (Bulgaria, Croatia, 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(viii)).

(ii) The net result of the pooling of monetary income in 2016 resulted in an overall claim and is presented in Note 19 to the Statement of Accounts. In 2015 this item included a liability of €2 million arising from the net result of the pooling of monetary income (Note 1(c)(vi), Note 7 and Note 19(ii)).

## Note 31: Other Liabilities

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| Profit & Loss Appropriation (i) | 1,836,225 | 1,795,212 |
| Deposit Protection Scheme (ii) | 156,008 | 394,965 |
| Other (iii) | 48,157 | 20,963 |
| Other Accruals (iv) | 31,813 | 19,297 |
| Credit Institutions Resolution Fund (v) | 14,958 | 12,935 |
| Interest Accruals | 9,566 | 2,218 |
| **Total** | **2,096,727** | **2,245,590** |

(i) This represents the amount of surplus income payable to the Exchequer (Note 1(o) and Note 10).

(ii) At the end of 2015, Directive 2014/49/EU on deposit guarantee schemes was transposed into Irish Law by the European Union (Deposit Guarantee Schemes) Regulations 2015[26]. The regulations introduced new funding requirements for the DGS resulting in the establishment of the DGS Contributory Fund. The DGS Contributory Fund must reach a target level of 0.8 per cent of covered deposits by 2024. The first annual contributions by credit institutions to the DGS Contributory Fund were collected at the end of 2016.

In order to assist in the smooth transition from the Deposit Protection Account (DPA) to the DGS Contributory Fund and to ensure sufficient funding is available for DGS purposes during this time, legislation provided for the transfer of 0.2 per cent of covered deposits from the DPA to the DGS Legacy Fund in early 2016. Residual balances in the DPA were returned to credit institutions at this time. In 2016, compensation payments of €22.7 million were made to approximately 9,800 depositors in respect of the liquidation of Rush Credit Union, and were charged to the DGS Legacy Fund (Note 2(vi)).

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## Note 31: Other Liabilities (continued)

| | 2016 | 2015 |
|---|---|---|
| | €000 | €000 |
| DPA | - | 394,965 |
| DGS Legacy Fund | 62,587 | - |
| DGS Contributory Fund | 93,421 | - |
| **Total** | **156,008** | **394,965** |

(iii) Included in Other is an amount of €6.3 million (2015: €0.1 million) representing surpluses due to certain Industry Funding sub-categories at end 2016 (Note 43(i)).

(iv) Included in other accruals is an accrual of €7.0 million (2015: €7.1 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 €15.0 million (2015: €12.9 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.

## 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 2016 is detailed in section (v) of this note (Note 1(f)).

The Bank discloses the cost of providing benefits in accordance with FRS 102.

A full actuarial valuation of the Scheme is being undertaken as at 31 December 2016 by Lane Clark Peacock (LCP), the Bank's actuaries (last valuation as at 31 December 2013).

### (i) Amount charged to Profit and Loss and Appropriation Account/Currency Reserve

| | Profit and Loss 2016 | Currency Reserve 2016 | Total 2016 | Total 2015 |
|---|---|---|---|---|
| | €000 | €000 | €000 | €000 |
| **Expected Return on Assets** | **16,400** | **-** | **16,400** | **13,280** |
| **Interest on Pension Scheme Liabilities** | **(20,185)** | **(115)** | **(20,300)** | **(20,066)** |
| Current Service Cost | (30,837) | (63) | (30,900) | (44,299) |
| **Sub-Total** | **(30,837)** | **(63)** | **(30,900)** | **(44,299)** |
| **Total Pension Cost of Defined Benefit Scheme** | **(34,622)** | **(178)** | **(34,800)** | **(51,085)** |

As at 31 December 2016, there was no previously unrecognised surplus deducted from settlements or curtailments and no gains or losses on any settlements or curtailments.

## Note 32: Superannuation Liabilities (continued)

### (ii) Actuarial (Loss)/Gain on Pension Scheme

| Year Ended 31 December | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 |
| Actuarial (Loss)/Gain on Pension Liability | (177,207) | 160,058 | (198,670) | (11,410) | (92,808) |
| Actuarial Gain on Plan Assets | 4,267 | 21,001 | 11,828 | 32,624 | 19,468 |
| **Total** | **(172,940)** | **181,059** | **(186,842)** | **21,214** | **(73,340)** |

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 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 |
| Present value of Wholly or Partly Funded Obligations (iv) | (971,598) | (750,095) | (853,883) | (615,766) | (571,218) |
| Fair Value of Plan Assets (v) | 638,695 | 608,714 | 567,945 | 531,198 | 473,793 |
| **Net Pension Liability** | **(332,903)** | **(141,381)** | **(285,938)** | **(84,568)** | **(97,425)** |

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.

### (iv) Movement in Scheme Obligations

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 |
| Opening Present Value of Scheme Obligations | (750,095) | (853,883) | (615,766) | (571,218) | (455,336) |
| Current Service Cost | (30,900) | (44,299) | (25,356) | (20,255) | (15,083) |
| Past Service (Cost)/Credit | - | – | (27) | 3,957 | 7,585 |
| Pensions Paid | 11,908 | 13,109 | 13,325 | 10,468 | 12,337 |
| Employee Contributions | (4,979) | (4,379) | (4,173) | (4,121) | (4,060) |
| Transfers Received | (25) | (635) | (433) | (909) | (445) |
| Interest on Pension Scheme Liabilities | (20,300) | (20,066) | (22,783) | (22,278) | (23,408) |
| Actuarial Gain/(Loss) | (177,207) | 160,058 | (198,670) | (11,410) | (92,808) |
| **Closing Present Value of Scheme Obligations** | **(971,598)** | **(750,095)** | **(853,883)** | **(615,766)** | **(571,218)** |

## Note 32: Superannuation Liabilities (continued)

### (v) Movement in Fair Value of Plan Assets

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 |
| Opening Fair Value of Plan Assets (Bid Value) | 608,714 | 567,945 | 531,198 | 473,793 | 434,160 |
| Expected Return | 16,400 | 13,280 | 17,423 | 16,276 | 14,120 |
| Actuarial Gain/(Loss) | 4,267 | 21,002 | 14,241 | 32,624 | 19,468 |
| Employer Contribution | 16,218 | 14,582 | 13,802 | 13,943 | 13,877 |
| Employee Contributions | 4,979 | 4,379 | 4,173 | 4,121 | 4,060 |
| Pensions Paid | (11,908) | (13,109) | (13,325) | (10,468) | (12,337) |
| Transfers Received | 25 | 635 | 433 | 909 | 445 |
| **Closing Fair Value of Plan Assets (Bid Value)*** | **638,695** | **608,714** | **567,945** | **531,198** | **473,793** |

* 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 2016 was €0.6 million (2015: nil) and €2.7 million (2015: €4.8 million) respectively.

### (vi) Financial Assumptions

| | 2016 | 2015 |
|---|---|---|
| | % | % |
| Discount Rate | 1.90 | 2.70 |
| Rate of Increase in Pensionable Salaries | 3.30 | 3.20 |
| Rate of Increase in Pensions | 3.30 | 3.20 |
| Rate of Price Inflation | 1.90 | 1.80 |

The impact of a 0.1 per cent increase/decrease in the discount rate would be a corresponding decrease/increase of approximately 2.6 per cent (2015: 2.4 per cent) in scheme liabilities.

The current service cost charged to expenses (Note 9) in 2016 of €30.9 million (2015: €44.3 million) has decreased primarily due to the change in the pension assumptions noted above. Similarly, the actuarial loss of €172.9 million (2015: actuarial gain of €181.1 million) is heavily influenced by the change in pension assumptions noted above.

## Note 32: Superannuation Liabilities (continued)

### (vii) Demographic and Other Assumptions

| | 2016 | 2015 |
|---|---|---|
| Mortality Pre Retirement (i) | 73% ILT15 (males)<br>77% ILT15 (females) | 73% ILT15 (males)<br>77% ILT15 (females) |
| Mortality Post Retirement | 58% ILT15 (males)<br>62% ILT15 (females) | 58% ILT15 (males)<br>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: 86.2 | Male: 86.0 |
| | Female: 88.7 | Female: 88.6 |

(i) ILT15 (males) and ILT15 (females) are both published mortality tables prepared by the Central Statistics Office in Ireland.

### (viii) Plan Assets of the Scheme

The asset distribution of the Scheme as at 31 December 2016 is as follows:

| Class | Distribution | Long Term Distribution |
|---|---|---|
| | % | % |
| Bonds | 39.8 | 40.0 |
| Cash | 0.1 | - |
| Equities | 40.8 | 40.0 |
| Multi Asset Funds (MAF) | 9.9 | 10.0 |
| Property | 9.4 | 10.0 |
| **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 was completed in the first half of 2016. The fund does not invest directly in property occupied by the Bank.

## Note 33: Provisions

The following amounts were provided for at 31 December 2016:

| | Opening Balance 1 Jan 2016 | Created | Utilised | Released to P&L | Closing Balance 31 Dec 2016 |
|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 |
| Provision for Securities (i) | 180,000 | - | - | (20,000) | 160,000 |
| Provision for foreign exchange rate, interest rate, credit and gold price risks (ii) | - | 165,000 | - | - | 165,000 |
| Unredeemed Irish Pound Banknotes (iii) | 8,738 | - | (1,284) | - | 7,454 |
| Restructuring Provision (iv) | 615 | 667 | (693) | - | 589 |
| Provision for Onerous Lease and Dilapidation (v) | 200 | - | - | - | 200 |
| **Total** | **189,553** | **165,667** | **(1,977)** | **(20,000)** | **333,243** |

(i) The Bank has retained a provision for securities in the amount of €160 million (2015: €180 million). The collective provision reflects an estimated allowance for risks arising in respect of the securities held for monetary policy and investment purposes. The release of €20 million during the year is primarily due to reduced risk exposures. The annual estimation of the impairment charge is subject to considerable uncertainty, which remains high in the current economic climate. 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 2016 (Note 1(c)(ix) and (m), Note 4 and Note 16(ii)).

(ii) As outlined previously in the accounting policies, the Bank has adopted the recommended provisions contained within the Guideline with respect to provision for foreign exchange rate, interest rate, credit and gold price risks (Note 36). The provision figure for 2016 follows a comprehensive assessment of the relevant financial risks to which the Bank is exposed which fall within the scope of the Guideline. For 2016, the assessment focussed on interest rate risk exposures and utilised a financial model to identify a range of potential loss figures relating to this risk. The analysis was conducted based on the Bank's year-end Balance Sheet and assumed a steady rate of FRN disposals. The financial model employed a scenario-based approach which uses a large number of interest rate paths, including extreme scenarios. The risk was measured over the medium term with reference to both Value-at-Risk (VaR) and Expected Shortfall, and both one-year and cumulative losses were considered in this year's analysis. Considering the current balance sheet positions, the Bank is particularly exposed to the potential for a rapid increase in interest rates in the medium term and the 2016 provision corresponds to such a scenario. Given the large amount of uncertainty associated with measuring interest rate risks over the medium term, judgment and estimation was exercised by management in evaluating the range of figures produced via the financial model and to determine an appropriate risk provision.

The impact on the current year of creating such a provision is €165 million. Whilst the policy is being applied retrospectively, there is no adjustment to the opening reserves required at the date of transition 1 January 2015, or on comparative information (Note 1(m) and Note 4).

(iii) 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 €1.3 million was redeemed in 2016 leaving the balance in the provision at €7.4 million as at 31 December 2016 (2015: €8.7 million) (Note 37(iii)).

(iv) An overtime restructuring provision was created in 2014 for administrative and currency staff.

During 2016 €0.6 million was paid in relation to this provision. Another overtime restructuring provision of €0.6 million was created in 2016. No staff were paid in relation to this provision, leaving a balance of €0.6 million at 31 December 2016. These amounts are payable 50 per cent in January 2017 and January 2018 respectively.

## Note 33: Provisions (continued)

A provision of €0.1 million for a Voluntary Severance Scheme (VSS) for specific technical and general staff was created and partially utilised during 2016 for staff that left during the year. The remaining provision will be utilised in respect of one staff member who has been approved for the scheme and will leave post year end. This scheme, which began in 2015, is open to staff who meet the specific criteria and staff can apply for the scheme up to six months after the move to the North Wall Quay premises. As the number of staff who may apply for this scheme is unknown, no further provision has been created during 2016 (Note 1(m) and Note 4).

The terms of all VSS schemes, are the terms of the collective agreement reached between the Government and the Public Service Committee of ICTU on redundancy payments to public servants.

(v) A dilapidation provision €0.2 million for the Iveagh Court premises was created in 2013, and it is scheduled to be utilised in 2017 (Note 1(m) and Note 4).

## Note 34: Revaluation Accounts

| | 2016 | 2015 | Net Movement in Unrealised Gains |
|---|---|---|---|
| | €000 | €000 | €000 |
| Securities (i) | 10,712,947 | 10,642,401 | 70,546 |
| Gold | 164,518 | 140,386 | 24,132 |
| Foreign Currency | 6,213 | 36,241 | (30,028) |
| Investment Property | 3,452 | - | 3,452 |
| **At 31 December** | **10,887,130** | **10,819,028** | **68,102** |

(i) The movement on securities 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:

| | 2016 | 2015 |
|---|---|---|
| **Currency** | **Rate** | **Rate** |
| US Dollar | 1.0541 | 1.0887 |
| Japanese Yen | 123.4000 | 131.0700 |
| Sterling | 0.8562 | 0.7340 |
| Swiss Franc | 1.0739 | 1.0835 |
| Danish Krone | 7.4344 | 7.4626 |
| Swedish Krona | 9.5525 | 9.1895 |
| Canadian Dollar | 1.4188 | 1.5116 |
| SDR | 0.7846 | 0.7857 |
| The gold prices used were: | | |
| Euro per fine ounce | 1,098.0460 | 973.2250 |

## Note 35: Capital and Reserves

| | Capital (i) | General Reserve | Currency Reserve | Total |
|---|---|---|---|---|
| | €000 | €000 | €000 | €000 |
| **At 31 December 2015** | **30** | **2,961,515** | **351,648** | **3,313,193** |
| Retained profit for the year (ii) | - | 285,791 | - | 285,791 |
| **At 31 December 2016** | **30** | **3,247,306** | **351,648** | **3,598,984** |

(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 €285.8 million comprising of €458.7 million from the Profit and Loss and Appropriation Account and an actuarial loss of €172.9 million, which was recognised in the Profit and Loss and Appropriation Account (Note 31(i) and Note 32(ii)).

## Note 36: Transition to full implementation of the ECB Accounting Guideline

Effective 1 January 2015 the Bank transitioned from previously adopting only the mandatory provisions of the Guideline to implementing all; both recommended and mandatory provisions of the Guideline. The policies applied under the Bank's previous accounting framework are not substantially different to those presented under the new fully adopted Guideline with the exception of the introduction of a provision for foreign exchange rate, interest rate, credit and gold price risks at the year end. Following a comprehensive assessment, no adjustments to opening reserves or prior year comparatives were required (Note 4 and Note 33).

## 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(iv)).

**(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 2016, Irish pound banknotes to the value of €227.1 million (2015: €228.4 million) were still outstanding, against which the Bank has a provision of €7.4 million (2015: €8.7 million) (Note 33(iii)).

**(iv) Litigation**

The Bank has two 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.

## Note 37: Contingent Liabilities and Commitments (continued)

### Commitments

**(i) Operating Leases**

The lease on the Iveagh Court premises was extended to May 2017. The total amount payable under the terms of the remainder of the lease is €1.1 million. The total rental payments under this operating lease during 2016 were €2.8 million (2015: €2.7 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 (Note 22(i)(iii)). Total contracted commitments as at 31 December 2016 amounted to €11.3 million (2015: €66.5 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 implementation of monetary policy within the domestic financial sector, investment policy actions relating to the management of the Bank's reserves, and as a constituent Eurosystem National Central Bank (NCB) participating in broader monetary policy initiatives such as the Extended Asset Purchase Programme (EAPP). From an overall balance sheet perspective, these risks typically include credit, market, liquidity and currency risk.

The Bank aims to control for these exposures by maintaining a range of financial risk management processes to identify, assess, manage and monitor these risks, within defined, internal risk management policies and by reference to Eurosystem risk-management frameworks and procedures where relevant. The Commission Risk Committee (CRC), supported by the Executive Risk Committee (ERC), oversees the Bank's financial risk management activities, ensuring adherence to approved standards and policies. The Deputy Governor (Central Banking) is the chair of the ERC.

Three divisions of the Bank are engaged in the active management of the Bank's financial risks. The Financial Markets Division (FMD) carry out monetary policy operations on behalf of the ECB (including asset purchases under the EAPP), monitoring the liquidity position of the domestic banks and providing Emergency Liquidity Assistance where necessary, carrying out the investment management operations necessary to manage the Bank's investment reserves and the Bank's share of the ECB's investment portfolio. The Payments and Securities Settlements Division (PSSD) is responsible for, inter alia, euro payment settlements within the Eurosystem Real Time Gross Settlement Services (TARGET2) framework, the execution of back office activities relating to collateral transactions arising through the implementation of monetary policy, and the settlement of transactions relating to the Bank's management of its own, and its share of the ECB's, investment portfolio.

The Organisational Risk Division (ORD) is responsible for, inter alia, defining the risk management policies and assessing and monitoring financial risks. ORD defines the investment limits frameworks, conducts collateral due diligence, monitors both monetary and investment policy compliance, and assesses current and emerging risks within the Bank's Balance Sheet. FMD and PSSD report to the Director of Financial Operations, whereas ORD is functionally independent and reports to the Director of Corporate Affairs.

The risk management policies and measures applied to each of the Bank's principal financial risk exposures are described below.

### Credit Risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer or counterparty with obligations to the Bank. The Bank is exposed to credit risk associated with the Bank's investment activities and through monetary policy operations, including non-standard measures such as the EAPP.

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.

## Note 38: Financial Risk Management (continued)

Credit risks arising from Eurosystem monetary policy implementation are mitigated by applying strict eligibility criteria for counterparties and by compliance with the provisions of Article 18.1 of the Statute of the ESCB, which ensures that all Eurosystem refinancing 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 applicable, the credit risk to the Bank is further moderated by Eurosystem loss-sharing mechanisms which distribute losses arising from monetary policy operations in proportion to the capital key of member national central banks. However, in the case of monetary policy operations collateralised by Additional Credit Claims (ACCs), the risk is borne by the NCB accepting the collateral concerned. In this case, further risk controls are implemented through an annual dedicated operational and legal due diligence assessment of the underlying loans and associated documentation.

Credit risk in relation to the Eurosystem non-standard monetary policy related portfolios is managed in accordance with the relevant Eurosystem frameworks. Potential losses on securities held on aggregate by the Eurosystem in the Securities Market Programme and the third Covered Bond Purchase Programme, in addition to the ECB's holdings and holdings of supranational bonds under the EAPP, are borne by the Bank on a capital key share basis, while the Bank's holdings of Irish government securities under the Public Sector Purchase Programme and holdings under the first and second Covered Bond Purchase Programme are held on an own-risk basis. Following a collective asset impairment assessment, the Bank has deemed it prudent to retain a provision of €160 million in its 2016 annual accounts in respect of exposures to credit risks on certain held-to-maturity assets (Note 33).

### Interest Rate Risk

Interest rate risk refers to the risk of loss arising from adverse changes in interest rates. The Bank's investment portfolios are managed by the Financial Markets Division (FMD) in accordance with the risk management parameters, governance and control frameworks approved by the Commission. Compliance and performance relative to these policies is verified and reported by Organisational Risk Division (ORD) to the Executive Risk Committee (ERC) and the Risk Committee of the Commission (CRC).

A key source of interest rate risk exposure for the Bank relates to the sensitivity of the value of its investment assets to interest rate changes. The Bank mitigates this interest rate risk exposure on a portion of the investment portfolio through allocation to a held-to-maturity portfolio. Risk management preferences in relation to the remainder of the investment assets are expressed through an externally compiled benchmark, against which the investment portfolios are measured and managed. The interest rate risk of the Bank's mark-to-market portfolios is calculated and managed using modified duration which quantifies the sensitivity of the value of an investment portfolio to changes in bond yields. Value-at-Risk[27] (VaR) and Expected Shortfall are used as supplementary measures of market risk on the Bank's portfolios.

The Bank is also exposed to interest rate 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)). Interest rate risk on the Bank's exposures to the Eurosystem's non-standard monetary policy EAPP is mitigated through the application of an amortising accounting policy.

Interest rate risk can also refer to the current or future risk to the Bank's capital and earnings arising from movements in interest rates that affect its Balance Sheet positions. In this respect, the Bank is exposed to a potential interest rate mismatch due to its holdings of fixed rate assets under the Expanded Asset Purchase Programme (EAPP) while at the same time is exposed to liabilities which are tied to monetary policy rates. To assess this risk, the Bank considers its Balance Sheet positions regularly in the context of interest rates over the next number of years, and calculates a range of risk measurement statistics from a distribution of profitability outcomes. Within this, Value-at-Risk (VaR) and Expected Shortfall are used, together with expert judgement, to measure the level of interest rate risk on the Bank's Balance Sheet. As part of its assessment of interest rate risk, and the identification of a potential interest rate mismatch, the Bank has deemed it prudent to set aside a risk provision of €165 million (Note 33).

27 The Value-at-Risk is the maximum loss that can be expected within a specified holding period with a specified confidence level

## Note 38: Financial Risk Management (continued)

### Currency Risk

Currency risk refers to the risk of loss due to changes in exchange rates. In the context of the euro area and the consequent approach to foreign exchange intervention, the Bank maintains a limited holding of foreign currency assets. The currency distribution of the investment portfolio is periodically reviewed using a combination of quantitative methodologies, VaR and stress testing as well as a variety of qualitative factors. At 31 December 2016, the Bank's portfolios were predominantly denominated in euro, with a small amount of gold priced in US dollars and a small exposure to certain foreign currency fixed income assets on a hedged basis. The Bank is also partially exposed to currency risk through a net-asset position in Special Drawing Rights. This exposure is held on a hedged basis (Note 12(i) and Note 28). All currency hedging is done by way of swaps and foreign exchange forward contracts which match the value of the underlying assets.

### Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss in the event of adverse price changes. Liquidity risk is mitigated through the allocation of a portion of the Bank's investment portfolio to a liquid mark-to-market portfolio. To avoid excessive concentration, investments within the mark-to-market portfolio are subject to issue limits, thereby minimising exposure to any particular issue that could create acute liquidity risk in a situation where the asset must be sold. In addition, issue limits are coupled to minimum credit ratings to moderate the likelihood of unscheduled disposals.

## Note 39: Unmatured Contracts in Foreign Exchange

Unmatured Foreign Exchange Contracts at year end were as follows:

| | 31 December 2016 | | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|---|
| | DKK | EUR | JPY | SDR | EUR | GBP | JPY |
| | 000 | 000 | 000 | 000 | 000 | 000 | 000 |
| **Unmatured Purchases** | 7,497 | 2,231,948 | 134,546 | - | 661,180 | - | 10,051 |
| **Unmatured Sales** | (2,645,397) | (2,141) | (120,784,546) | (682,284) | (75) | (1,480) | (88,310,051) |
| **Unmatured Purchases and Sales** | **(2,637,900)** | **2,229,807** | **(120,650,000)** | **(682,284)** | **661,105** | **(1,480)** | **(88,300,000)** |

All foreign exchange contracts are scheduled to mature by 20 October 2017.

## Note 40: Unmatured Contracts in Securities

Unmatured Contracts in Securities at year end were as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| | €000 | €000 |
| **Unmatured Purchases** | – | 59,068 |
| **Unmatured Sales** | – | (256,895) |
| **Unmatured Purchases and Sales** | **–** | **(197,827)** |

## 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 2016 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 2016 a balance of €43,010 was due from ICCL (2015: €35,781). This was paid in full in February 2017 (2015: February 2016) (Note 21(ii)).

(iv) The Bank as a resolution authority is responsible for the management and administration of the Banking and Investment Firm Resolution Fund pursuant to Regulation 163(3) of the European Union (Bank Recovery and Resolution) Regulations 2015. The Bank can also deposit or invest fund monies with institutions other than the Bank (Note 21(v) and Note 26(i)).

(v) The Bank is responsible for the management and administration of the Credit Institution Resolution Fund pursuant to Section 11(1) of the *Central Bank and Credit Institutions (Resolution) Act,* 2011 (Note 8 and Note 31(v)).

(vi) The Bank established a funded pension scheme on 1 October 2008, under the *Central Bank and Financial Services Authority of Ireland Act*, 2003. The management and administration of the scheme is operated by the Bank for the benefit of its employees. Details on the Bank's contributions to the pension fund are set out in Note 32.

## Note 42: Events after the End of the Reporting Period

**(i) ECB Final Distribution of Profits**

The Governing Council of the ECB decided on 16 January 2017 to distribute its remaining profit for 2016, amounting to €226.9 million, to the euro area NCBs, in proportion to their paid-up shares. The Bank's share of this final distribution of profits was €3.7 million, which was paid on 17 February 2017, and will be accounted for in the 2017 Statement of Accounts.

**(ii) Sale of Property**

On 23 December 2016, the Bank entered into a binding contract to dispose of its properties, with a carrying value of €27.7 million at Dame St, Dublin 2, for a consideration of €67 million. On that date a deposit of €13.4 million was received by the Bank's solicitors as stakeholder for the parties. Deeds of conveyance and transfer, to complete the sale of the properties, were executed on 16 January 2017. The Bank entered into licences which permit the Bank to remain in the properties on a licence fee free basis until 16 May 2017. If the Bank has not vacated those properties by that date, a licence fee will apply.

## Note 43: Financial Regulation Activities

| Funding of Financial Regulation Activities | | 2016 | 2015 |
|---|---|---|---|
| | | €000 | €000 |
| **Levy Income** | | | |
| Levy Income (i) | | 73,259 | 67,677 |
| Deferred Levy Income (ii) | | 1,198 | 5,873 |
| **Levy Income** | **A** | **74,457** | **73,550** |
| **Provision** | | | |
| Opening Provisions for Unpaid Levy Notices | | 1,914 | 3,493 |
| Levies Written Off | | (363) | (292) |
| Closing Provisions for Unpaid Levies (iii) | | (1,540) | (1,914) |
| **Charge for Year** | **B** | **11** | **1,287** |
| **Financial Regulation Net Industry Funding** | **C (A+B)** | **74,468** | **74,837** |
| **Other Income** | | | |
| Securities Market Fees | | 2,738 | 2,496 |
| Licensing Fees | | 500 | 500 |
| Miscellaneous | | 58 | 58 |
| **Other Income** | **D** | **3,296** | **3,054** |
| **Total Income** | **E (C+D)** | **77,764** | **77,891** |
| **Subvention** | | | |
| Securities Market Supervision Activities | | 6,789 | 6,195 |
| Other Financial Regulation Costs not Recovered | | 70,501 | 62,584 |
| **Subvention from Central Bank (iv)** | **F** | **77,290** | **68,779** |
| **Total Funding of Financial Regulation Activities** | **G (E+F)** | **155,054** | **146,670** |

## Note 43: Financial Regulation Activities (continued)

| Costs of Financial Regulation Activities | | 2016 | 2015 |
|---|---|---|---|
| | | €000 | €000 |
| **Direct Expenses** | | | |
| Salaries/Allowances | | 52,275 | 46,333 |
| PRSI | | 4,893 | 4,133 |
| Pension Provision | | 15,328 | 21,383 |
| **Staff Expenses** | **H** | **72,496** | **71,849** |
| Training, Recruitment & Other Staff Costs | | 1,077 | 2,306 |
| Equipment, Stationery & Requisites | | 68 | 1 |
| Business Travel | | 1,630 | 1,269 |
| Publishing & Consumer Advertising | | 39 | 28 |
| Professional Fees | | 7,819 | 3,504 |
| Miscellaneous | | 4,188 | 2,147 |
| **Non-Pay Operating Expenses** | **I** | **14,821** | **9,255** |
| **Total Direct Expenses** | **J (H+I)** | **87,317** | **81,104** |
| **Support Services** | | | |
| Premises & Facilities | | 14,160 | 15,252 |
| Information Technology Services | | 22,703 | 18,019 |
| Human Resources | | 8,898 | 8,880 |
| Other Services | | 21,620 | 22,136 |
| **Total Support Services (v)** | **K** | **67,381** | **64,287** |
| **Provisions** | | | |
| **Restructuring Charge for Year (vi)** | **L** | **356** | **–** |
| **Deferred Charges** | | | |
| Opening Provision for Deferred Charges | | – | 7,087 |
| Change in Provision | | – | (5,808) |
| **Deferred Charges related to Current Year (vii)** | **M** | **–** | **1,279** |
| **Total Costs of Financial Regulation Activities** | **N (J+K+L+M)** | **155,054** | **146,670** |

## Note 43: Financial Regulation Activities (continued)

### (i) Levy Income

| | 2015 Deficit/ (Surplus) A | Amount Levied in 2016 B | 2016 Deficit/ (Surplus)* C | 2016 Levy Income D (B+C-A) |
|---|---|---|---|---|
| | €000 | €000 | €000 | €000 |
| Credit Institutions | 747 | 40,967 | (6,115) | **34,105** |
| Insurance Undertakings | 1,326 | 17,906 | 1,854 | **18,434** |
| Intermediaries & Debt Management Firms | 1,712 | 3,192 | 1,107 | **2,587** |
| Securities & Investment Firms | 1,538 | 10,764 | 2,016 | **11,242** |
| Investment Funds | 1 | 2,785 | 649 | **3,433** |
| Credit Unions | - | 1,483 | - | **1,483** |
| Moneylenders | (32) | 392 | (81) | **343** |
| Approved Professional Bodies | 4 | 11 | 13 | **20** |
| Bureaux de Change | 16 | 12 | 15 | **11** |
| Home Reversion, Retail Credit & Credit Management Firms | 143 | 683 | 383 | **923** |
| Payment Services & E-Money Institutions | (41) | 792 | (155) | **678** |
| **Total Funding** | **5,414** | **78,987** | **(314)** | **73,259** |

* The aggregate of the gross deficits (€6.0 million) and surpluses (€6.3 million) attributable to each Industry Funding sub-category have been included in Note 21(ii) and Note 31(iii) 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 €1.2 million has been recognised in the current year (2015: €5.9 million).

### (iii) Provision for Unpaid Levies

The Bank maintains provisions in respect of levies which remain unpaid at year end. Levies fall due within 28 days of the invoices being issued and are reported as outstanding from day 29 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 €9.5 million in 2016 (2015: €8.7 million) were excluded from the Net Industry Funding levies issued to the industry in 2016. 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 2016 was €67.4 million (2015: €64.3 million).

Allocation is based on well-recognised industry practice including occupied floor space, personal computer numbers and headcount (staff numbers) as appropriate.

**(vi) Provisions**

In 2016, the Bank created a restructuring provision in respect of overtime. This represents the portion of that provision attributable to financial regulation activity (Note 1(m), Note 4 and Note 33).

**(vii) Deferred Charges**

Between 2013 and 2015 the Bank recognised certain charges in the Income and Expenditure Statement on an accruals basis which were to be charged to Industry in future years as actual outgoings are incurred. These expenses related 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 meant that this provision was no longer required. It was, therefore, released in 2015.

(ii) An accrual in respect of annual leave (Note 31(iv)); 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 the Income and Expenditure Statement in 2015 leaving a zero balance at year end 2015.

## Note 44: Safe keeping of the promissory note backing the Republic of Ireland’s borrowing from the International Monetary Fund for direct budget support

As at 31 December 2016, the Bank held in its custody a promissory note amounting to SDR 3,722.8 million issued by the National Treasury Management Agency in favour of the IMF in the context of the borrowings made from the IMF for direct budget support. Under this arrangement, funds equivalent to SDR 19,465.8 million were provided by the IMF to the Minister for Finance, who has the sole obligation to repay the related debt to the IMF. This promissory note was entered into on 16 December 2010.

## Note 45: Comparatives

Certain comparative information has been reclassified for consistency with current year disclosures. Interest income (e.g. coupon interest) and interest expense (e.g. premium amortisation) arising from securities held for monetary policy purposes which were previously presented on a gross basis are now presented on a net basis, depending on whether the net amount is positive or negative (Note 2 and Note 3). The liability in respect of the Banking and Investment Firm Resolution Fund which was previously included under Other Liabilities (Note 31) has been reclassified and is now presented under Liabilities to Non-Euro Area Residents in Euro (Note 26). These reclassifications have been performed to ensure consistency of presentation of the financial statements among NCBs.

## Note 46: Approval of Accounts

The Commission approved the Statement of Accounts on 14 March 2017.

## 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 2016 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:

- gives a true and fair view of the assets, liabilities and financial position of the Bank as at 31 December 2016 and of its income and expenditure for 2016; and
- has 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 expenditure of €1.6 million on goods and services by the Bank in 2016 that was not based on appropriate public procurement tender processes.

**Seamus McCarthy**
**Comptroller and Auditor General**

14 March 2017

## 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 2016 which comprises the Profit and Loss and Appropriation Account, the Balance Sheet and the related notes I to 46. The relevant 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 is silent, accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland, that being the FRS 102.

This report, including the opinion, is made solely to the Commission of the Bank as a body, in accordance with Article 27 of the Statute of the European Central Bank and our audit work has been undertaken so that we might state to the Commission Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission, for our audit work, for this report, or for the opinions we have formed.

### 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 Bank. 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 Ethical Standards for Auditors.

### 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 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 by the Commission Members; and the overall presentation of the Statement of Accounts. We are not required to form an opinion on the effectiveness of the Bank's system of internal financial controls. In addition, 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 material misstatements or inconsistencies we consider the implications for our report.

### Opinion on the Statement of Accounts

In our opinion the Statement of Accounts:

- gives a true and fair view in accordance with the Guideline of the European Central Bank on the legal framework for the accounting and financial reporting in the European System of Central Banks and, where the Guideline of the European Central Bank is silent, FRS 102, of the state of the affairs of the Bank as at 31 December 2016 and of the surplus for the year then ended; and
- has been properly prepared in accordance with the relevant financial reporting framework.

## 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 is 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.

**Micheal Tuohy**
**For and on behalf of**
**Mazars**
**Chartered Accountants**
**& Statutory Audit Firm**
**Harcourt Centre**
**Block 3**
**Dublin 2**

14 March 2017

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

**Central Bank of Ireland**
**New Wapping Street, North Wall Quay, Dublin 1, Ireland**

**Banc Ceannais na hÉireann,**
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