Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Central Bank of Ireland
Annual Report 2017

centralbank.ie

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Part 1:
Annual Report

The Central Bank Commission

Philip R. Lane
Governor of the
Central Bank (Chair)

Alan Ahearne
*Re-appointed Mar 2015
for 5 years*

Patricia Byron
*Appointed Jan 2014
for 5 years*

Blanaid Clarke
*Re-appointed Oct 2013
for 5 years*

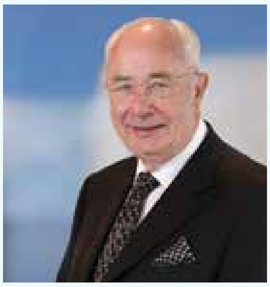
Sharon Donnery
Deputy Governor
Central Banking

John Fitzgerald
*Re-appointed Oct 2015
for 5 years*

Des Geraghty
*Re-appointed Oct 2014
for 5 years*

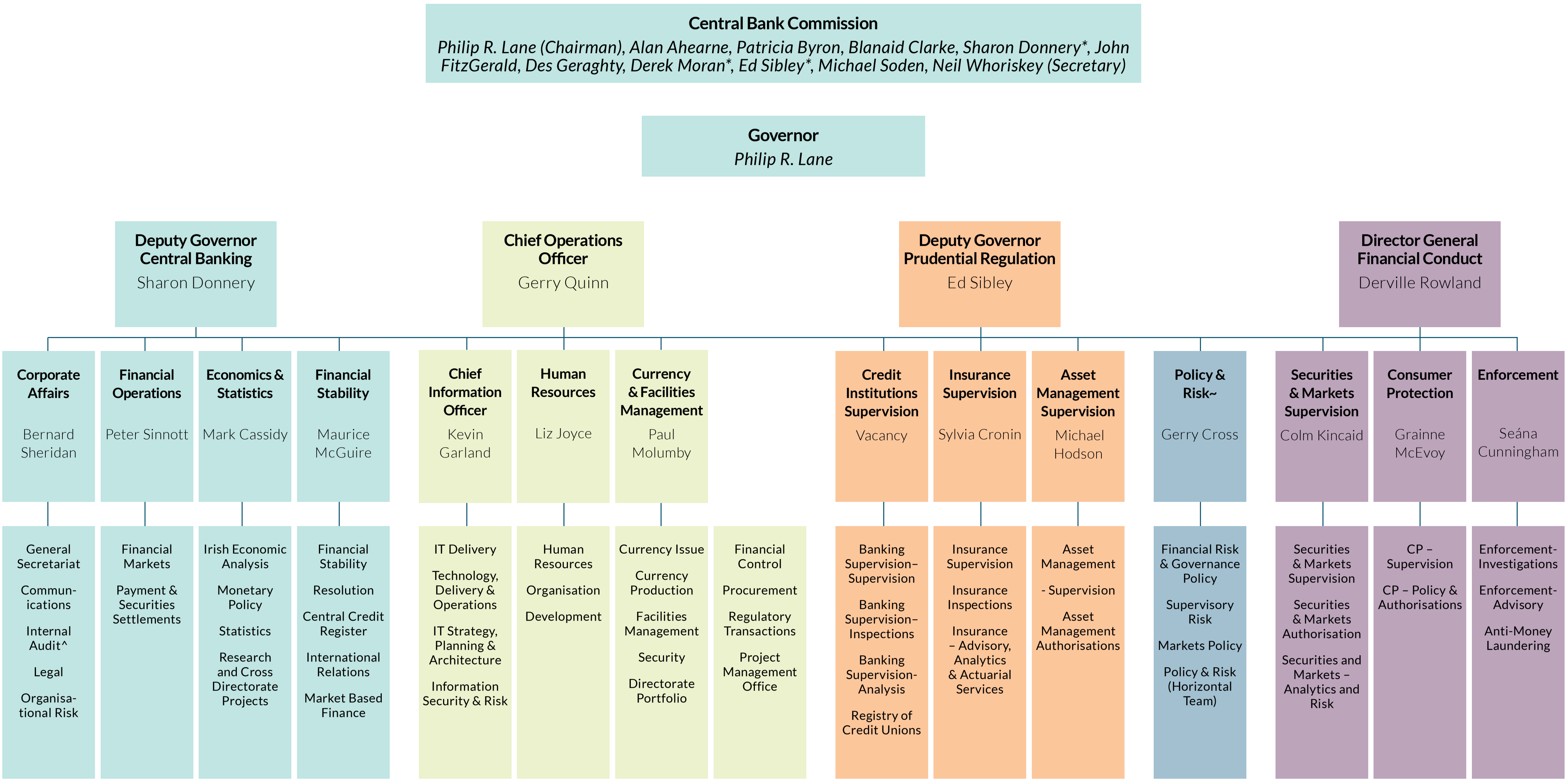
Derek Moran
Secretary General
Dept. of Finance

Ed Sibley
Deputy Governor
Prudential Regulation



Michael Soden
*Re-appointed Oct 2014
for 5 years*

Neil Whoriskey
Secretary
of the Bank



*Ex-officio
^ Internal Audit Division reports directly to the Governor and reports to the Director of Corporate Affairs only for matters of an administrative or budgetary nature
~ The Policy and Risk Directorate supports the work of both Pillars, Prudential Regulation and Financial Conduct, but is part of the Financial Conduct pillar for administrative purposes

Senior Management

Directorate	Division/Function	Head
Corporate Affairs Director: Bernard Sheridan	General Secretariat Communications Internal Audit Legal Organisational Risk Special Projects	Neil Whoriskey Jill Forde Joe Foy Eadaoin Rock Glenn Calverley Michael Maher
Financial Stability Director: Maurice McGuire	Financial Stability Resolution Central Credit Register International Relations Market Based Finance	Robert Kelly Wesley Murphy Deirdre Walsh Valerie Herzberg Kitty Moloney
Financial Operations Director: Peter Sinnott	Financial Markets Payment and Securities Settlement	Daragh Cronin William Molloy
Economics and Statistics Director: Mark Cassidy	Irish Economic Analysis Monetary Policy Statistics Research and Cross-Directorate Projects	John Flynn Gillian Phelan Joe McNeill Gerard O'Reilly
Information Management and Technology Director: Kevin Garland	IT Strategy, Planning and Architecture IT Delivery Technology Delivery and Operations Information Security and Risk	Karina McArdle Louise Dennehy Eoin McDermott David Shaw
Currency and Facilities Management Director: Paul Molumby	Facilities Management Currency Issue Currency Production Security* Directorate Portfolio	Des Lane Lucy O'Donoghue Tony Duffy Harry Murphy Michael Enright
Human Resources Director: Liz Joyce	Human Resources Organisational Development	Derval McDonagh Karen O'Leary
Operations Reporting to: Gerry Quinn, COO	Financial Control Procurement Regulatory Transactions Project Management Off ce	Fergal Power Michael Power Alan Briscoe John Thompson
Credit Institutions Supervision Director: Vacant	Banking Supervision – Supervision Banking Supervision – Analysis Banking Supervision – Inspections Registry of Credit Unions	Geraldine Hannon Yvonne Madden** Adrian Varley Tommy Hannafin Patrick Casey

CONTINUED

** Acting Head of Division

Senior Management

Directorate	Division/Function	Head
Insurance Supervision Director: Sylvia Cronin	Insurance – Supervision Insurance – Inspections Insurance – Actuarial, Analytics and Advisory Services	Marie-Louise Delahunty Lisa O'Mahony Andrew Candland
Asset Management Supervision Director: Michael Hodson	Asset Management – Supervision Asset Management – Authorisations and Inspections	Claire Lanigan Denise Murray
Policy & Risk Director: Gerry Cross	Financial Risk and Governance Policy Supervisory Risk Markets Policy Policy & Risk (Horizontal Team)	Mary Burke Mary-Elizabeth McMunn Martina Kelly Denise Delaney
Consumer Protection Director: Gráinne McEvoy	Consumer Protection – Supervision Consumer Protection – Policy and Authorisations	Helena Mitchell Vacancy
Enforcement Director: Seána Cunningham	Enforcement – Investigations Enforcement – Advisory Anti-Money Laundering	Vacancy Vacancy Domhnall Cullinan
Securities and Markets Supervision Director: Colm Kincaid	Securities and Markets – Supervision Securities and Markets – Authorisations Securities and Markets – Analytics and Risk	Patricia Dunne Brenda O'Neill Ray Guthrie

FOREWORD *by* Philip R. Lane, *Governor*

This annual report sets out how we deliver on our mission of safeguarding stability and protecting consumers. It details the breadth of our activities in meeting the goals of the Central Bank's Strategic Plan for 2016-2018 across our central banking, financial regulation and operations functions.

Our commitment to serving the public is demonstrated through our core work. The annual report details our work to safeguard monetary and financial stability, ensure that payment, settlement and currency systems are safe, resilient and efficient, and how we undertake economic analysis, research, data collection and statistical analysis, designed to inform economic policy. It illustrates our assertive risk-based approach to supervision, which is underpinned by credible enforcement action where necessary, and how we aim to ensure that regulated firms act in the best interests of consumers.

In terms of some of the major challenges facing the Central Bank in 2017, a priority has been our management of the economic and financial risks arising from Brexit. This included extensive expert analysis and supervisory engagement by divisions across the Central Bank, covering its economics, supervisory, policy, and operational functions.

A core element in our consumer protection work is to ensure that violations of our regulatory codes are remediated and to hold to account the regulated firms responsible for such failures. Considerable progress was made during 2017 in advancing the Tracker Mortgage Examination, which is a complex, resource-intensive supervisory review: the end-2017 figures show that lenders had at that point paid €316m in redress and compensation with more to follow. The completion of the examination – including an assessment of the organisational cultures of the main banks – is a high priority for 2018.

FOREWORD BY PHILIP R. LANE, GOVERNOR

The ECB's non-standard monetary policy measures have led to changes in the composition and size of the balance sheets of national central banks. These changes require careful ongoing risk management and the Central Bank has taken prudent steps with regard to managing balance sheet risk.

In 2017, the Central Bank enhanced its resources in key areas and implemented and embedded significant improvements to its regulatory toolkit. We restructured our financial regulation functions into two distinct pillars: one dedicated to prudential regulation and one dedicated to financial conduct. This partition matches our dual responsibilities to ensure that our regulated firms are both prudentially sound and also adhere to our requirements in terms of financial conduct vis-à-vis consumers, investors and market behaviour. The dual structure also improves our capacity to manage the increased scale and complexity of our financial regulatory mandates and the considerable expansion in the scale of international financial intermediation. Through enforcement action, we continue to hold to account firms and individuals in breach of our regulatory framework.

We completed the relocation of all Dublin city centre-based staff to the Dockland Campus in 2017. The new facilities have provided a dynamic and flexible workplace that promotes effective collaboration and internal communication.

The Central Bank is reporting a financial profit of €2.6bn for 2017. After retained earnings, surplus income amounting to approximately €2.1bn will be paid over to the Exchequer. The Bank's headline profits will normalise over the medium term, with the fading out of the temporary impact of the special portfolio of floating rate notes. We aim for the highest standards of governance, risk management, transparency and accountability. For this year's annual accounts, we have also enhanced our corporate governance reporting, in line with the new Code of Practice for the Governance of State Bodies.

Looking to the future, we expect that the ongoing economic recovery at Irish, European and global levels will be a significant driver of monetary and financial conditions in Ireland. Stronger economic performance is very welcome in terms of its positive impact on living standards and financial stability. However, small, highly globalised countries like Ireland are more volatile than larger economies, which means we can grow strongly for extended periods but are especially vulnerable to negative shocks. High stocks of both public and private debt and the inherent volatility of the Irish macro-financial system requires ongoing vigilance in terms of limiting pro-cyclical tendencies in the operation of the financial system and the wider economy. In addition, Ireland faces significant tail risks, such that building resilience to adverse shocks remains an ongoing priority.

FOREWORD BY
PHILIP R. LANE, GOVERNOR

The operation of the mortgage market will continue to be a major focus of our work. The health of the mortgage system is vitally important, given the predominance of housing in determining financial welfare and the central role played by mortgages in providing access to households to the cheaper forms of loans that are made possible by debt that is secured against collateral. Subject to meeting our regulatory requirements, both traditional banks and non-bank lenders have important parts to play in the provision and financing of mortgages, with a greater range of lenders and more diversified funding sources enhancing the resilience of the financial system.

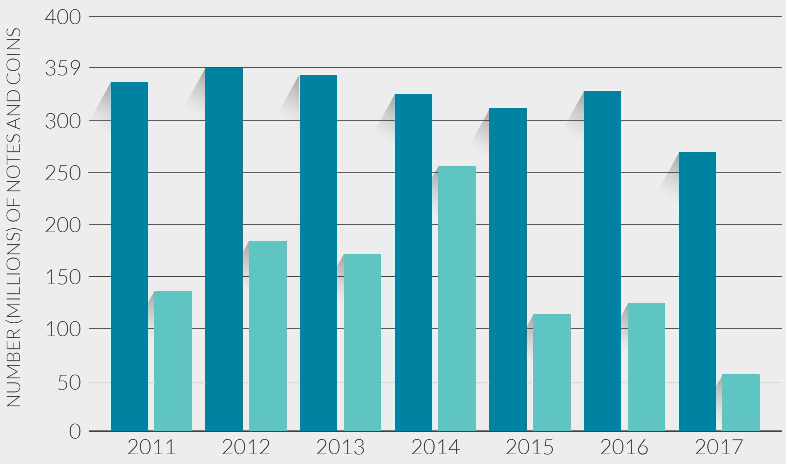
Our commitment is to safeguard financial stability and protect consumers through our set of macroprudential mortgage measures, our focus on addressing the outstanding stock of non-performing loans and our supervisory work to ensure mortgage customers are fairly treated.

I am grateful to the members of the Central Bank Commission for their contributions and support throughout the year. I would also like to thank all staff members for their continued hard work on delivering the mandate of the Central Bank.

Philip R. Lane
Governor
24 April 2018

2017: The Central Bank at a Glance

Issuance of Banknotes and Coin



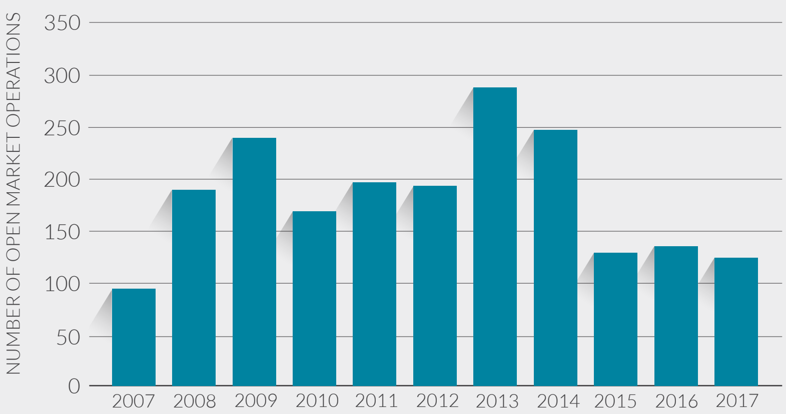
269 MILLION NOTES & **58** MILLION COINS ISSUED IN 2017

125 OPEN MARKET OPERATIONS IN 2017

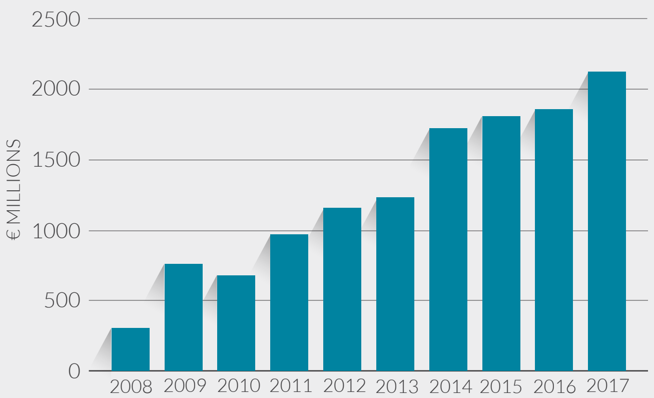
€2,101.3 MILLION SURPLUS INCOME PAID TO THE EXCHEQUER IN 2017

€90.3 BILLION TOTAL ASSETS IN 2017

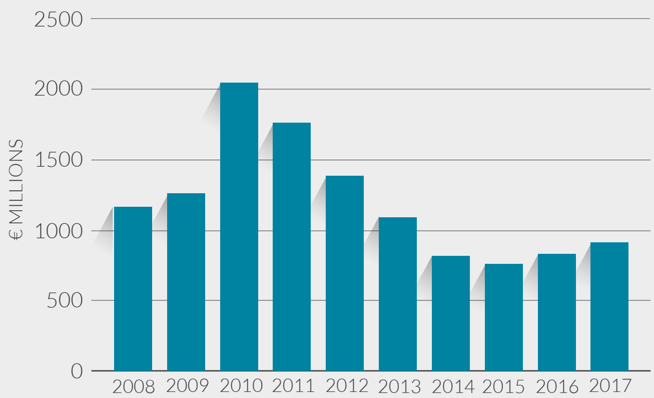
Number of Open Market Operations



Surplus Income Paid to the Exchequer



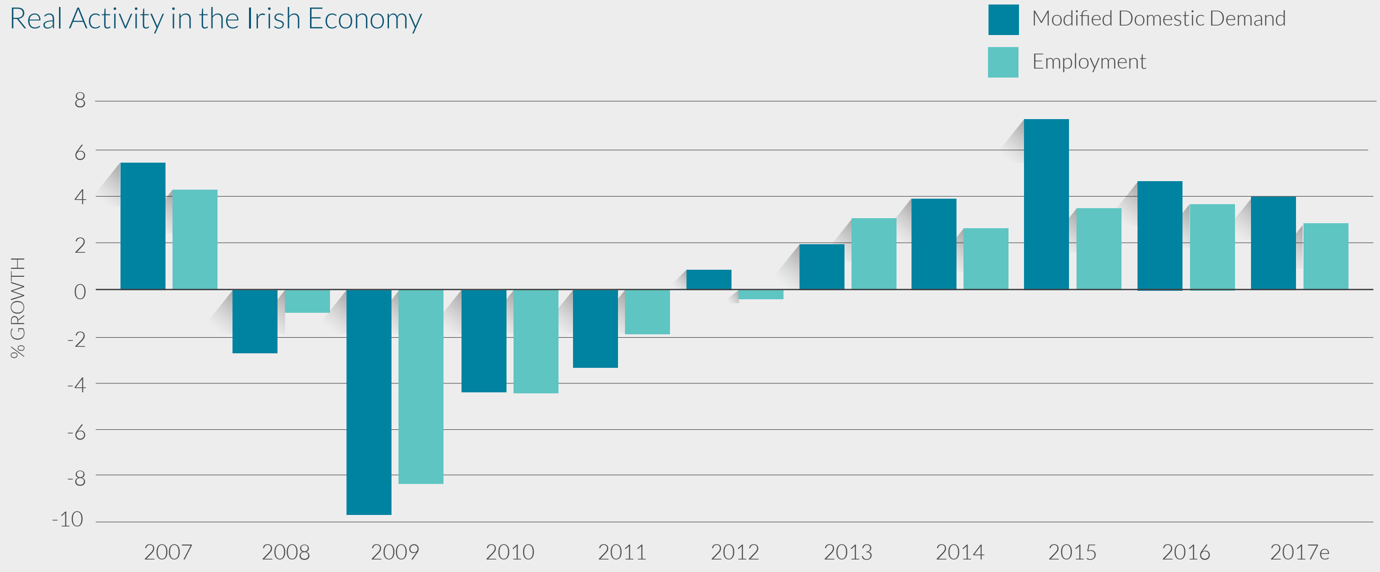
Total Assets



Surplus Income paid to the Exchequer increased to €2,101.3 million (€1,836.2 million in 2016). The Central Bank's profits have been abnormally elevated since the onset of the financial crisis in 2008. Between 2009 and 2012, the Central Bank earned interest on Emergency Liquidity Assistance provided to distressed credit institutions. In 2013, the Central Bank acquired a range of assets arising from the liquidation of the Irish Bank Resolution Corporation (IBRC). The interest paid on these assets and the capital gains from their disposal has resulted in a large income flow to the Central Bank with the Surplus Income being paid over to the Exchequer.

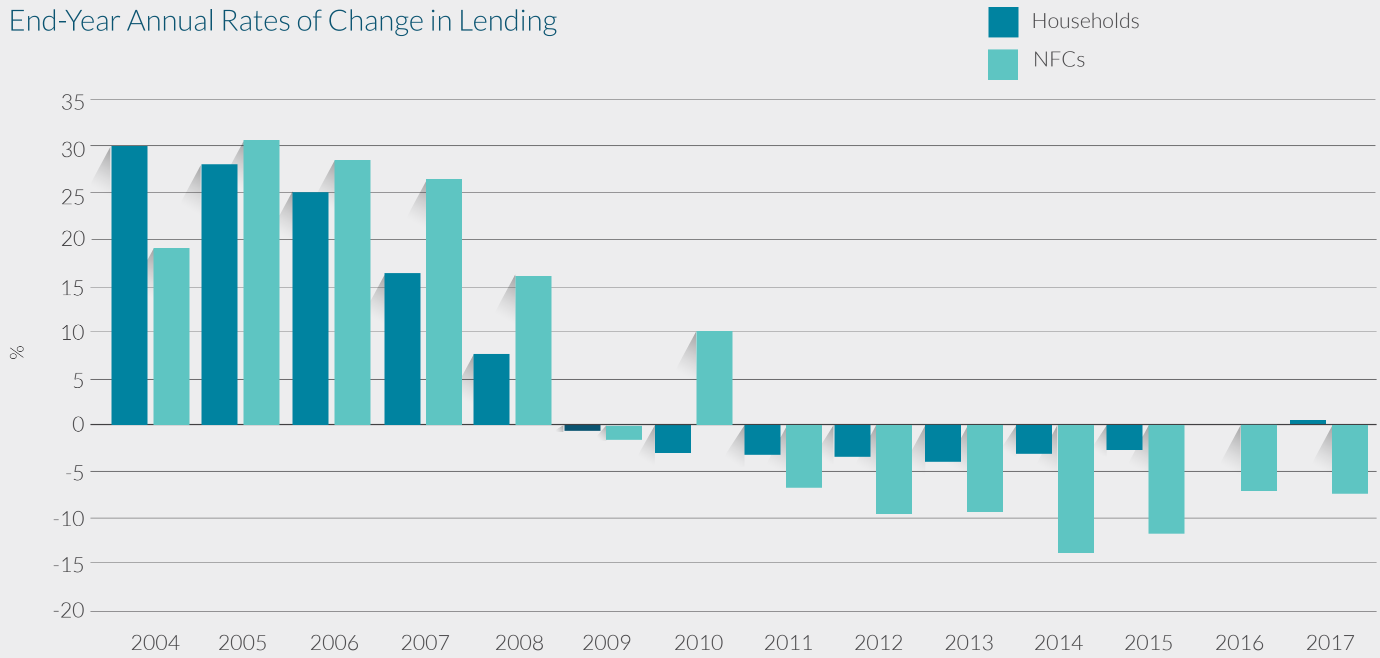
2017: The Irish Economy at a Glance

Real Activity in the Irish Economy



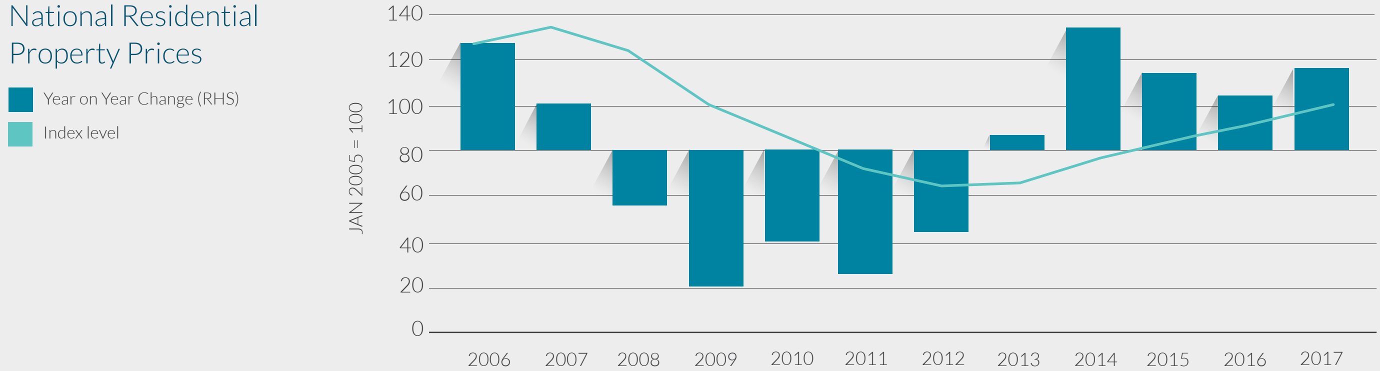
Source: Central Statistics Office

End-Year Annual Rates of Change in Lending



Source: Central Bank of Ireland

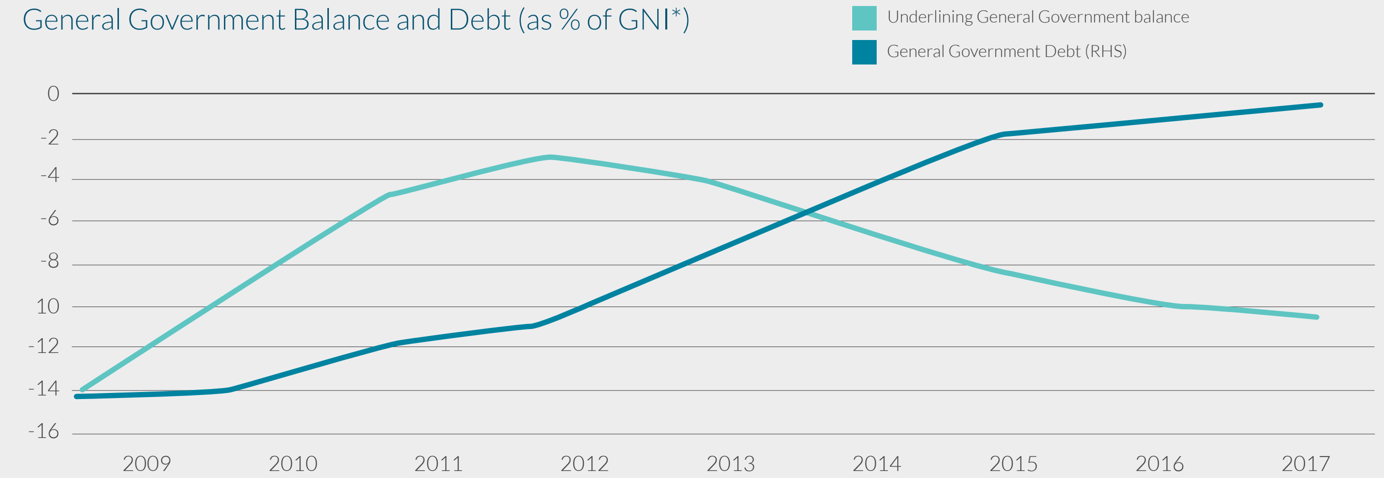
National Residential Property Prices



Source: Central Statistics Office

2017: The Irish Economy at a Glance

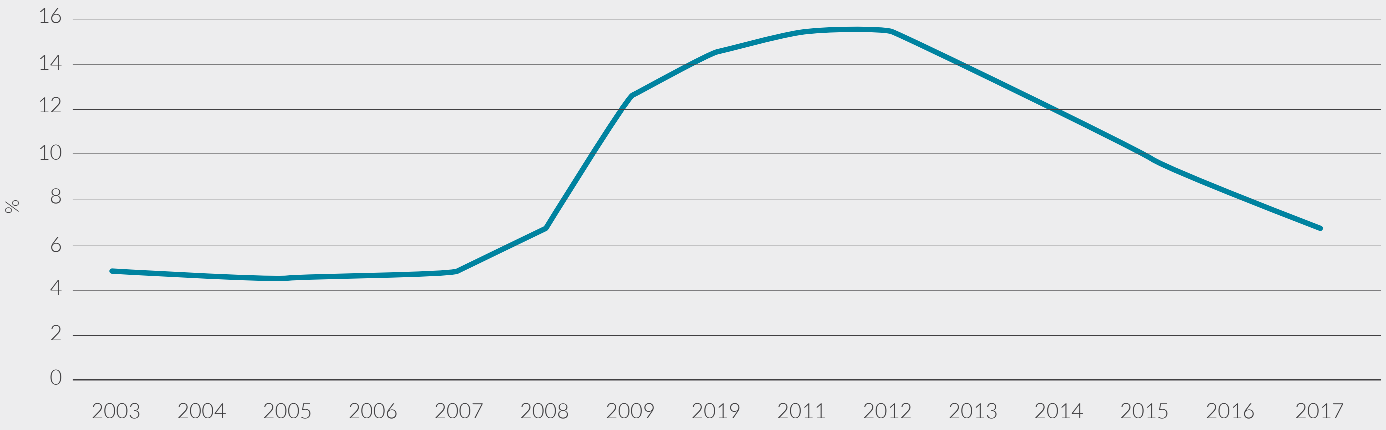
General Government Balance and Debt (as % of GNI*)



Note: Ireland's headline national account aggregates and their components have become significantly affected by the globalised activities of Irish resident multi-national enterprises. Consequently, GDP does not accurately measure the income flowing to Irish residents. GNI* along with corresponding adjusted presentations of the BOP/IIP provide more reliable and accurate estimates of the resources available to domestic residents and Ireland's international balance sheet.

Source: Department of Finance, Central Statistics Office, Central Bank of Ireland

Unemployment Rate



Source: Central Statistics Office

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Chapter 1:
Strategic Plan:
Review of Implementation

Chapter 1: Strategic Plan - Review of Implementation

Introduction

The Central Bank's current Strategic Plan for 2016-2018 (the Plan) was published in November 2015. It sets out how the Central Bank delivers on its mission of "Safeguarding Stability, Protecting Consumers". Each year the Central Bank Commission (the Commission) reviews the Plan to ensure it remains valid, to consider progress against the objectives set out, and to determine if any adjustments are required.

The Commission reviewed the Plan at the end of 2017. The full details on the activities of the Central Bank as delivered both against the Plan and as part of its core work across the Central Banking, Prudential Regulation, Financial Conduct, and Operations Pillars, are provided in Chapter 2 of this Annual Report. The format of Chapter 2 reflects the Strategic Responsibilities and Enablers as set out in the Strategic Plan.

Since the Plan was created, significant changes have taken place in the economy and the environment in which the Central Bank operates. However, no significant new Strategic Responsibilities have been added to the Central Bank's mandate over the past year. Consequently, the Commission determined the scope of the Plan remained appropriate for the Central Bank.

Developments

The Commission noted that there are a number of developments, and associated risks, that require enhanced focus as the Central Bank enters the final year of its current strategic planning period. The environment in which the Central Bank operates has evolved, both internally and externally, during 2017.

From the external environment perspective, compared to the period of emerging recovery from the crisis when the current Plan was first developed, the economy now continues to grow at a solid pace. However, there are risks and uncertainties, both in relation to Brexit and broader external risks, which will require close monitoring such as the relatively high levels of personal debt, while the resolution of issues concerning the Tracker Mortgage Examination continues to be a priority.

The Commission also noted the importance of the need for the Central Bank to continue to be clear on how it is delivering on its mandate so that the public can have trust that the Central Bank is continuing to work for the long-term welfare of society.

Internally, there was a significant restructuring within the Central Bank in 2017 with the re-organisation of the supervisory directorates and the creation of the Prudential Regulation Pillar and the Financial Conduct Pillar. The restructure is designed to ensure that the Central Bank remains suitably equipped to meet its expanded regulatory mandate. The Central Bank also consolidated its city centre premises into one location at the Dockland Campus.

Strategic Responsibilities

Ensuring the best interests of consumers are protected remains a high priority for the Central Bank. The creation of two separate Pillars for Prudential Regulation and for Financial Conduct has further elevated the focus on Financial Conduct which underpins the Central Bank's commitment to consumer protection. Developing a positive consumer focused culture within regulated firms was already identified in the Plan as a priority and, in 2018, the Central Bank will continue to focus its attention on the culture and the behaviours of retail banks, which will include the completion of a report on Culture in the Retail Banking System in mid-year.

In 2018, the Central Bank will continue to focus its attention on the culture and the behaviours of retail banks, which will include the completion of a report on Culture in the Retail Banking System in mid-year.

The domestic supervisory policy agenda continues to become ever more closely aligned to European regulation and policy. The Central Bank continues to dedicate significant resources to policy formulation and transposition of European legislation and directives. Careful prioritisation of resources to interact with, and influence the European policy agenda, is required to be as effective as possible.

Brexit remains one of the most significant challenges for the Bank due to the potential negative impact for the domestic economy, as well as the increased work in authorisations and supervision of firms locating to Ireland, post-Brexit. Some firms will also operate new business models which have not been supervised in Ireland previously, requiring the recruitment of staff with the appropriate skills.

The ECB's non-standard monetary policy measures have led to changes in the composition and size of National Central Banks' (NCBs) balance sheets, including that of the Central Bank. These changes require careful ongoing risk management. In relation to non-standard monetary policy measures, purchases under the Asset Purchase Programme (APP) will continue until the end of September 2018, 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.

Strategic Enablers

To effectively and efficiently deliver the mandate of the Central Bank, it must manage the three strategic enablers outlined in the Central Bank's strategy: People and Knowledge, Information and Resources as well as Communication and Accountability. In 2017, the Central Bank achieved a number of significant initiatives associated with the strategic enablers.

The Central Bank successfully relocated from a number of city centre locations and brought them together to the Dockland Campus in 2017. The move to North Wall Quay, together with the nearby premises in Spencer Dock, supported by an uplift of the technology platform, provide a modern and cost effective workplace which supports staff and their work to deliver the mandate. The Dockland Campus provides a dynamic, progressive and sustainable workspace, which will help the development of the organisation. The initiative was delivered on time and in budget.

The Central Bank is pursuing the delivery of a Data Strategy to uplift its capability in the management of structured and unstructured data, a range of initiatives are being undertaken to improve processing systems, document management, data management, and analytics capability. This investment is underway and will see a phasing of significant improvements over the planned implementation period.

Resourcing remains a challenge for the organisation. A new resourcing strategy for the Central Bank was approved in 2017, which focuses on creating greater awareness of the employer brand, as well as the use of targeted recruitment campaigns and social media to attract applicants, in a very competitive market. As a result, the new Central Bank's website careers page drew significant interest following campaigns from both graduates and seasoned professionals, resulting in increased numbers of applications. While approximately 100 vacancies still remain, a total of 620 roles were filled in 2017, which is a net increase of 139 fulltime approved headcount.

Strategic Risk

Amongst the important strategic risks identified at end-2017 were the requirement to further strengthen the internal control environment, the potential for disruption from Cyber or IT security incidents, a requirement to build the capacity to efficiently analyse significantly increased datasets of supervisory information, and the need to plan a coherent response to the disruptive risks associated with the evolution and integration of technology in financial services. In addition, non-financial risk must be effectively managed.

Throughout 2017, the Central Bank has increased its focus on internal risk management, including further development of the Organisational Risk Management Framework and enhancing the Business Continuity Management Framework. During the year, the Central Bank also progressed the development of a Non-Financial Risk Management Programme, focused on designing an appropriate maturity path to ensure full coverage of all non-financial risks, and to enable clear management insight into the relationship between risks, controls, incidents and remedial actions.

Trust and Transparency

As an entity that works in the public interest, the Central Bank continues to increase its focus on trust and transparency. Among the communications initiatives in 2017 was the development of a new website. There was also greater emphasis placed on the Central Bank's corporate social responsibility programme. The Central Bank also enhanced its approach to corporate governance through the adoption of the new Code of Practice for the Governance of State Bodies. The Central Bank was awarded the international Central Banking Transparency award for 2018.

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Chapter 2:
Key Activities and Developments in 2017

Chapter 2: Key Activities and Developments in 2017

Price Stability

Price stability in the euro area is the primary objective of the Central Bank. The Maastricht Treaty confers this objective on all NCBs of the Eurosystem. The Governing Council of the European Central Bank (ECB), of which the Governor is a member, is responsible for the setting of monetary policy (setting interest rates and the provision of liquidity) in the euro area with the aim of achieving its inflation objective. The Central Bank provides support and analysis to the Governor in his capacity as a member of the Governing Council, and implements the monetary policy decisions of the Governing Council.

Monetary Policy – Decisions

The Governor is a member of the Governing Council of the ECB, which is responsible for the formulation of monetary policy (the setting of interest rates and provision of liquidity) in the euro area[1]. The primary objective of monetary policy in the euro area is to maintain price stability[2]. In the pursuit of price stability, the ECB aims at maintaining inflation rates below, but close to, 2% over the medium term.

In 2017, annual euro area headline inflation increased from the prolonged period of very weak inflation seen in recent years. During the year, the Governing Council decided to continue to provide a substantial amount of monetary policy accommodation, as it assessed that such a policy stance was warranted in order to see a sustained return of inflation towards levels that are below, but close to, 2%. This accommodation took the form of both continued low interest rates (standard monetary policy) and non-standard monetary policy measures, including asset purchases under the Eurosystem's expanded Asset Purchase Programme (APP).

The Eurosystem's standard monetary policy measures include open market operations consisting of one-week liquidity-providing operations in euro (Main Refinancing Operations (MROs)). In addition, 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 collateral; and (ii) the Deposit Facility in order to make overnight deposits with the Central Bank. Throughout 2017, the Governing Council decided to leave its benchmark interest rates unchanged. The interest rate on the MRO remained at 0.00%, the Marginal Lending Facility rate at 0.25% and the Deposit Facility rate at -0.40%[3].

[1] The euro area consists of those Member States of the European Union (EU) that have adopted the euro as their currency. The term Eurosystem refers to the ECB and the NCBs of those Member States whose currency is the euro. The term ESCB (European System of Central Banks) refers to the ECB and the NCBs of the EU Member States.

[2] The price stability mandate of the Eurosystem is interpreted by the Governing Council as an annual change in the Harmonised Index of Consumer Prices (HICP) index of 'below, but close, to 2%'. In 2017, the inflation rate in the euro area increased from very low levels in 2015 and 2016 to an average rate of inflation rate of 1.5%.

[3] This created an asymmetric interest rate corridor, with the Deposit Facility rate acting as a floor. Interbank lending rates remained close to, but above the Deposit Facility rate, amid the already large and increasing levels of excess liquidity, induced mainly by the Eurosystem's APP and Targeted Longer-Term Refinancing Operations.

Forward guidance - whereby information about future monetary policy intentions, based on the assessment of the outlook for price stability is provided - remained an important policy tool for the Governing Council in 2017. In the opening months of the year, the Governing Council indicated that it continued "to expect the key ECB interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases". However, on 8 June 2017, the Governing Council's forward guidance was adapted to remove the reference to "lower levels" of interest rates, wording that implied the possible need for additional monetary policy easing, through the further lowering of interest rates, had subsided.

In recent years, the Eurosystem has complemented its standard policy tools with non-standard, or unconventional, monetary policy to address the risks associated with low inflation. The so-called expanded APP consists of a Public Sector Purchase Programme (PSPP), a Corporate Sector Purchase Programme (CSPP), a third Covered Bond Purchase Programme (CBPP3) and an Asset-Backed Securities Purchase Programme (ABSPP). Purchases of assets began in March 2015, and the programme was adjusted several times over 2015 and 2016 as the economic situation evolved. In 2017, the Eurosystem continued to purchase private sector securities and public sector securities under the APP.

The Eurosystem purchased €80bn of assets per month in January and February 2017, however, with risks to the inflation outlook receding somewhat, the monthly amount of purchases was reduced to €60bn in March. In October 2017, the Governing Council decided that the non-standard APP would be extended until the end of September 2018, or beyond, if necessary. It was also announced that from January 2018, the pace of net asset purchases under the APP would be reduced to €30bn per month on average.

The recalibration of the APP reflected growing Governing Council confidence in the gradual convergence of inflation rates towards the inflation aim of below, but close to, 2% over the medium term. However, the Governing Council reconfirmed that if the outlook became less favourable, or if financial conditions became inconsistent with further progress towards a sustained adjustment in the path of inflation, it would stand ready to increase the APP in terms of size and/or duration.

It was further announced that the Eurosystem would reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary. This decision was taken with a view to contributing to favourable liquidity conditions and to maintaining an appropriate monetary policy stance.

Under the ECB's fixed rate full allotment procedure, in return for adequate collateral, counterparties receive the full allocation of their bid amount in regular monetary policy operations. Fixed rate full allotment is currently in place for the Eurosystem's MROs and three-month Longer-Term Refinancing Operations (LTRO).

The recalibration of the APP reflected growing Governing Council confidence in the gradual convergence of inflation rates towards the inflation aim of below, but close to, 2% over the medium term.

The Targeted Longer-Term Refinancing Operations (TLTROs) are Eurosystem operations that provide financing to credit institutions for periods of up to four years. TLTROs are defined as operations that offer long-term funding at attractive conditions to banks in order to further ease private sector credit conditions and stimulate bank lending to the real economy. Counterparties that participated in the final operation of the second series of the ECB's TLTRO programme (TLTRO.II-4) in 2017 received full allotment, subject to a borrowing limit, with the rate for the duration of the borrowings fixed within a range of 0.00% to -0.40%, depending on the growth of its lending to the real economy (discussed further below). In addition, the Governing Council decided that the use of its fixed rate full allotment policy would be extended "for as long as necessary, and at least until the end of the last reserve maintenance period of 2019".

Throughout the year, the Central Bank actively contributed to and influenced key debates related to the monetary policy and its implementation through its membership of the ECB's Monetary Policy Committee (MPC). The 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. The Central Bank is also represented on the ECB's Market Operations Committee (MOC), which focuses on the implementation of euro area monetary policy including, in particular, the implementation of the 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.

Monetary Policy - Operations

The APP was implemented smoothly in 2017. Accumulated Eurosystem APP purchases decreased to €781.6bn from €899.1bn in 2016, reflecting the reduction in the pace of purchases from an average of €80bn per month until March 2017 to an average of €60bn each month from April 2017 to year-end. Of the €781.6bn of APP purchases, €658.4bn related to the PSPP, €81.5bn to the CSPP, €39.4bn to the CBPP3 and €2.3bn to the ABSPP.

On 29 March 2017, the fourth and final allotment under the TLTRO.II occurred, in which a total of €233.5bn was borrowed by Eurosystem counterparties. Although the level of excess liquidity in the euro area remained elevated, the level of participation amongst Eurosystem counterparties was high, likely helped by the fact that this was potentially the last opportunity to borrow from the Eurosystem for four years at such favourable rates. Overall, TLTRO.II-4 generated a net liquidity injection of circa €216.7bn following some switching of borrowings from the first series of the ECB's TLTRO (TLTRO.I) to TLTRO.II-4, in the early repayment operations.

At the end of 2017, total outstanding borrowings under both TLTRO series (I & II) stood at €752.9bn (representing circa 98.5% of total outstanding Eurosystem borrowings of €764bn), following early repayments of TLTRO.I borrowings in March, June, September and December 2017. The remaining amount of TLTRO.I liquidity, which amounts to circa €13.4bn, matures in September 2018.

TLTRO.II-4 was the last opportunity (as mentioned above) for banks to secure four-year funding at a rate between 0.00%, and possibly as low as the ECB's Deposit Facility rate at the time of the allotment (-0.40%). An increase of at least 2.50% in a participating bank's loan stock to households (excluding loans for house purchase) and euro area non-financial corporations is the target required in order to avail of the -0.40% interest rate on borrowings. Each bank's net lending figures will be based on flows between 1 February 2016 and 31 January 2018, and Eurosystem counterparties' interest rates for all four TLTRO.II operations will be communicated to participants before the first early repayment date in June 2018.

Excess liquidity[5] in the Eurosystem rose from €1,194bn on 30 December 2016 to €1,757bn on 29 December 2017, while the daily average level of excess liquidity rose considerably, from €893bn in 2016 to €1,623bn in 2017. The Eurosystem's APP, and to a lesser extent TLTRO.II, served to increase the size of the Eurosystem's balance sheet, and thus excess liquidity, a reflection of the continued easing of the monetary policy stance. BOX 1 examines the impact of the introduction of the APP on the Central Bank's balance sheet in more detail.

Daily recourse to the overnight Deposit Facility for the Eurosystem as a whole, rose considerably throughout the year, largely as a result of continued APP purchases, which added to the quantity of reserves in the system. Usage rose by circa 64% to €695.8bn at the end of 2017. Current account holdings in excess of minimum reserve requirements totaled €1,062bn at the end of 2017, up from €770bn at the end of 2016. In 2017, the average daily use of the Marginal Lending Facility increased slightly to €0.3bn, from €0.1bn in 2016.

[5] Figures for the level of excess liquidity in the Eurosystem are computed as follows: current account balances plus Deposit Facility balances less total reserve requirements.

BOX 1:

Asset Purchase Programme (APP) and the Balance Sheet of the Central Bank

In reaction to the financial crisis and subdued inflation outlook in the euro area, the Eurosystem increasingly utilised non-standard monetary policy measures to provide stimulus to the economy, which have led over time to substantial increases in the Eurosystem balance sheet.

Included in these non-standard monetary policy measures is the APP, which was initiated in late 2014 in response to a prolonged period of persistently low inflation. The expanded APP consists of four purchase programmes (i.e. the third Covered Bond Purchase Programme (CBPP3), Asset-Backed Securities Purchase Programme (ABSPP), Public Sector Purchase Programme[6] (PSPP) and Corporate Sector Purchase Programme (CSPP). As at end-2017, overall cumulative holdings under the APP amounted to €2,286.1bn, of which €1,888.8bn related to the PSPP, €240.7bn to the CBPP3, €131.6bn to the CSPP and €25.0bn to the ABSPP. The APP has contributed significantly to an expansion of the Eurosystem's balance sheet from €2,208.2bn in 2014, prior to the implementation of the APP, to an historical high of €3,661.4bn, as at the end of 2017.

The APP is predominantly implemented on a decentralised basis and therefore each NCB is responsible for conducting asset purchases in its own jurisdiction. For example, PSPP purchase volumes, which constitute the bulk of APP purchases, are divided between countries based on their ECB capital key shares. The APP has thus led to changes in the composition and size of euro area NCB balance sheets.

At end-2017, the Central Bank held €21.46bn of Irish Government bonds, as well as €5.43bn of supranational bonds[7]. Consequently, the share of the balance sheet attributable to securities held for monetary policy purposes increased from 5% of total balance sheet assets at end-2014 to 40% of total assets at the end-2017, as illustrated in the orange section of Chart A below.

Despite these purchases, the Central Bank's balance sheet has only grown by €9bn during this period (€90.3bn in 2017 compared to €81.3bn in 2014). PSPP-related purchases were partially offset by a combination of reduced reliance by Irish credit institutions on Eurosystem monetary policy lending operations and disposals of Irish government bonds received by the Central Bank, in exchange for collateral held against emergency liquidity assistance, following the resolution of Irish Banking Resolution Corporation (IBRC).

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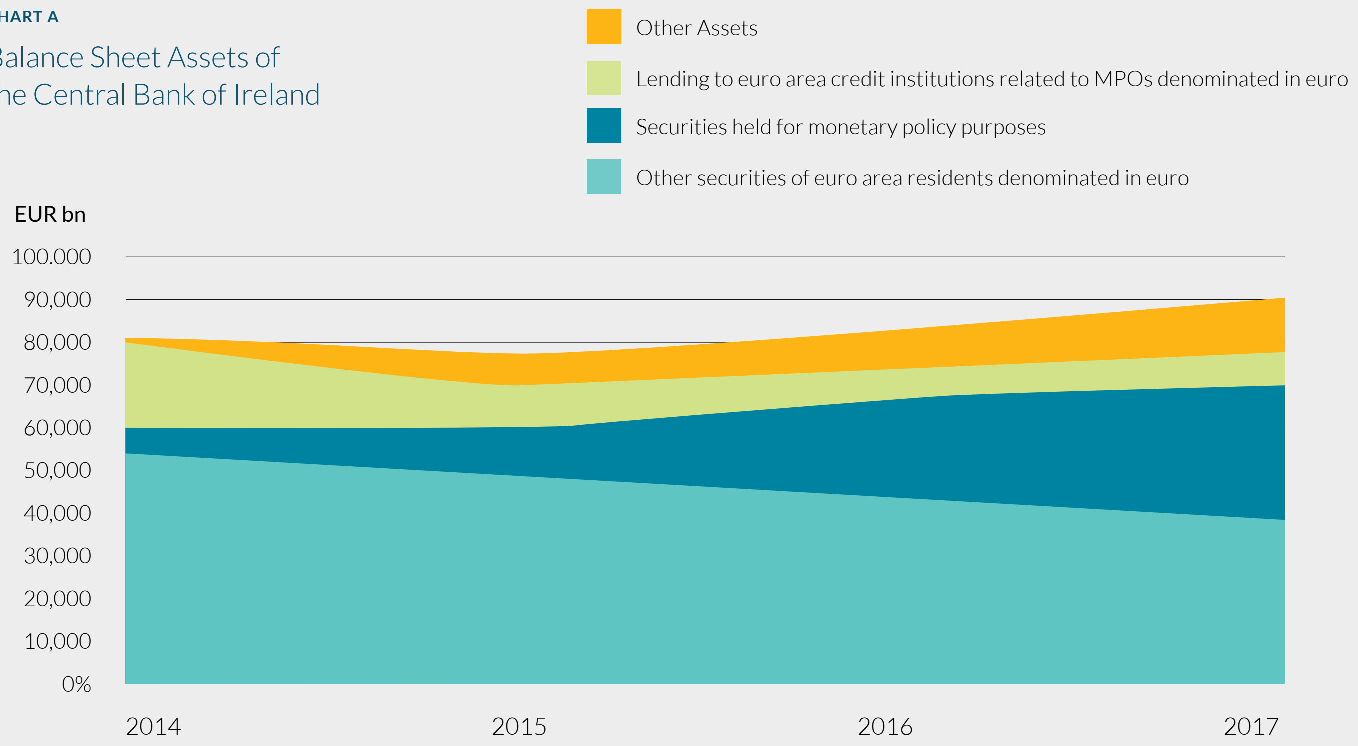
[6] It should be noted that risk sharing does not apply to NCB purchases of sovereign bonds under the PSPP.
[7] In the event that an NCB cannot effect its capital key share purchase of sovereign bonds, it can substitute supranational bonds in order to meet its capital key share.

In relation to the former, monetary policy-related loans to Irish credit institutions fell from €20.7bn at end-2014 to €7.5bn at end-2017, as credit institutions need to take recourse to Eurosystem refinancing operations reduced amid continued deleveraging of their balance sheets, and renewed access to the interbank and debt capital markets at cost effective funding levels. The APP also contributed to this reduced recourse as asset purchases add excess reserves to the system.

APP purchases will continue to impact the asset side of Eurosystem NCBs' balance sheets, including the Central Bank's, for some time in line with the Governing Council decision in December 2017 to continue to purchase bonds under the APP until September 2018 at least, and to continue to reinvest maturities for the foreseeable future.

CHART A

Balance Sheet Assets of the Central Bank of Ireland



Irish Operations

Owing to the decentralised nature of the Eurosystem's monetary policy implementation, the Central Bank remained active in implementing monetary policy in Ireland in 2017.

"Reverse repo" transactions[8] conducted on behalf of the Eurosystem amounted to 115 in 2017. The number of Irish counterparties eligible to participate in operations at end-2017 was 19, down from 21 in 2016. Total outstanding monetary policy borrowings by Irish counterparties stood at €7.5bn as at 31 December 2017, compared to €7.4bn as at 31 December 2016.

Irish counterparties borrowed €1.5bn in TLTRO-II.4 in 2017, which brought borrowings under the TLTRO series (I & II) to €7.5bn. At end-2017, this figure represented the total outstanding Eurosystem borrowings of Irish counterparties. Participation in the weekly Eurosystem monetary operations declined throughout the year against a backdrop of ample longer-term funding, the persistent injection of liquidity from the Eurosystem's asset purchases, and improved access to interbank markets.

The Central Bank conducted and settled all monetary policy operations during the year in a timely, efficient and effective manner in compliance with the Eurosystem's operational framework. Furthermore, it monitored the minimum reserve requirements for credit institutions in compliance with ECB procedures.

Collateral for Monetary Policy Operations

At end-2017, 19 eligible counterparties had signed up to the Central Bank's pooling agreement, with collateral to a value of €11.038bn held[9]. Overall, for 2017, the average month-end value of collateral submitted to the Central Bank was €12.2bn. The downward trend in collateral holdings seen in 2015 and 2016 continued in 2017, with average monthly holdings down by an average of €1.9bn per month compared to 2016. This is in line with the continued reduction in monetary policy borrowings by counterparties.

A key development of note in the area of collateral in 2017 was the Governing Council's approval to proceed with the development of a Eurosystem Collateral Management System (ECMS). ECMS aims to bring harmonisation of practices and procedures across a currently fragmented ESCB collateral management landscape. It will replace the Central Bank's internal collateral management system and is intended to go live in Q4 2022.

[8] A contract under which a holder of cash agrees to the purchase of an asset and, simultaneously, agrees to re-sell the asset for an agreed price on demand, or after a stated vtime, or in the event of a particular contingency.
[9] Pooling refers to a collateralisation technique whereby a counterparty maintains a pool account with an NCB to deposit assets collateralising that counterparty's related Eurosystem credit operations. The assets are recorded in such a way that an individual eligible asset is not linked to a specific Eurosystem credit operation and the counterparty may substitute eligible pooled assets on a continuous basis.

Financial Stability

The Central Bank has an explicit mandate in domestic and European legislation to contribute to financial stability in Ireland and across the euro area.

Stability of the Financial System

To achieve its mandate, the Central Bank identifies, implements and monitors policies to limit the impact of risks on both the financial system and the real economy. In particular, as the macro-prudential authority for Ireland, it focuses on the prevention and mitigation of system-wide risks with the aim of increasing the resilience of the Irish financial system. Ongoing risk monitoring and the deployment of appropriately calibrated macro-prudential tools form key activities in achieving these objectives. Financial stability also demands well-managed, well-regulated firms which serve the needs of the economy and consumers over the long term. The foundations of the Central Bank's approach include the regulatory framework, its supervisory methodology, enforcement and resolution, which are outlined in detail in the Annual Performance Statement 2017 that is available on the Central Bank's website.

BOX 2

Financial Crisis Preparedness and Management

During 2017, the Central Bank undertook work to review and update its financial crisis preparedness and management arrangements. This included updating the Central Bank's internal protocols for managing a potential financial crisis and conducting crisis management exercises, involving a cyber-attack scenario, to examine the new arrangements.

At a national level, the Central Bank was also involved in crisis preparedness and management work with the Department of Finance and the National Treasury Management Agency (NTMA) under the auspices of the Financial Stability Group (FSG). A proposed crisis co-ordination framework was developed by the FSG agencies to support a proactive and co-ordinated response to any event that could result in major disruption to the stability or operation of the financial system in Ireland.

In November 2017, the FSG agencies conducted an inter-agency crisis management exercise, which built on the Central Bank's internal cyber-attack exercises, to examine the proposed framework.

The Central Bank will continue to build its financial crisis preparedness and management capability during 2018, which will include updating the financial crisis management arrangements based on findings from the exercises and carrying out further internal and inter-agency exercises.

The Macro-Financial Review is a key communication mechanism on financial stability risks, which helps to promote an informed dialogue on the macro-financial environment in Ireland and beyond. These reviews were published in June and December and support the Central Bank's stakeholders – including the public, national and international authorities, and financial market participants - in their assessment of financial risks.

As a complement to the Central Bank's ongoing assessment and communication of financial risks, a Systemic Risk Pack was published for the first time in 2017. The Pack compiles key indicators for tracking systemic risk in the Irish financial system. It will be published twice yearly in the alternate quarters to the Macro-Financial Reviews, and its introduction ensures further continuity in the provision of risk monitoring information to the public.

Additionally, the Central Bank published two editions of both the Household Credit Market report and the Small and Medium-Sized Enterprises (SME) report, which focus on specific developments in these sectors.

As the designated macro-prudential authority for Ireland, the Central Bank introduced a number of forward-looking measures aimed at strengthening the resilience of the domestic financial system so that it can withstand adverse movements in credit and property prices, and other macroeconomic shocks. It reviewed all deployed measures in 2017.

The Review of the Loan to Value (LTV) and Loan to Income (LTI) limits conclued that the core parameters of the measures will remain unchanged in 2018, although some changes were made to the extent to which banks can allow lending in excess of these limits (see BOX 3 below).

BOX 3

Annual Review of Macro-prudential Mortgage Market Measures

In November 2017, the Central Bank published the outcome of the second annual review of the mortgage market measures.

The measures, introduced in February 2015, restrict high LTV and high LTI mortgage lending. The aim of the measures is to enhance the resilience of both borrowers and banks to future shocks and to mitigate the potential for credit-driven price spirals to develop in the property market.

The primary focus of the annual review was to evaluate whether the calibration of the measures remained appropriate given the Central Bank's assessment of the risks in the mortgage and property markets. The analysis indicated that aggregate mortgage credit dynamics remain subdued, with increases in new lending offset by the paying down of existing mortgages. The distributions of new lending in relation to LTI and LTV ratios were broadly in line with expected patterns, with the measures limiting the scale of higher-risk types of lending.

The core parameters of the measures remain unchanged following the review. The LTI limit of 3.5 is the anchor of the framework, reinforced by the ladder of LTV limits for first-time buyers (FTBs), second and subsequent buyers (SSBs) and buy-to-let investors (BTLs). However, the review concluded that the overall effectiveness and sustainability of the measures could be improved by introducing one revision to the allowances permitted to exceed the LTI limit and by making one technical amendment to clarify the treatment of certain collateral valuations.

From January 2018, there are separate LTI allowances for FTBs and SSBs. Specifically, up to 20% of the value of new lending to FTBs and up to 10% of the value of new lending to SSBs is permitted above the 3.5 LTI limit from 1 January 2018. This is a change from 2017 where 20% of the value of all primary dwelling home lending, regardless of buyer status, was permitted above the 3.5 LTI limit.

The technical amendment to the Regulations regarding collateral valuation provides clarity on the appropriate valuation to use for mortgages that relate to construction works being done on a property, such as in the case of renovations. This amendment better aligns the Regulations with the prudent practice that is most common in the market.

The Central Bank will continue to monitor developments through its annual cycle of reviews and stand ready to adjust these borrower-based measures and/or other macro-prudential policy tools as may be appropriate to safeguard the long-term sustainability of Irish mortgage lending and the stability of the wider financial system.

The countercyclical capital buffer (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". The CCyB can then be released, partially or fully, either in the case of a period of systemic stress or when credit growth and associated systemic risks recede. The Central Bank reviews the CCyB on a quarterly basis, or as required. At end 2017, the rate was set at 0 %.

The objective of the Other Systemically Important Institutions (O-SII) buffer is to reduce the potential impact of a systemically important financial institution's failure on the domestic economy. The Central Bank, together with the ECB, is responsible for identifying O-SIIs for Ireland and setting buffer rates. During its annual review of the other O-SII buffer, six institutions were identified as systemically important in Ireland, The relevant O-SII buffer that has been set for each of these banks will be phased in between July 2019 and July 2021.

The Macro-prudential Measures Committee (MMC) advises on the regular review of Central Bank-related national macro-prudential measures and makes recommendations about revisions to these rules. The MMC met ten times in 2017 and summaries of these meetings are published on the Central Bank's website[10]. The Central Bank's Financial Stability Committee (FSC) which co-ordinates and assesses financial stability issues in relation to Ireland and the euro area, and advises the Governor in this regard, met 12 times during 2017.

[10] See https://www.centralbank.ie/financial-system/financial-stability/macro-prudential-policy/macroprudential-measures-committee

BOX 4

Brexit Task Force

In 2017, the Central Bank increased its monitoring of risks arising for the Irish economy and financial system as a result of the UK's decision to leave the EU (Brexit). This included extensive expert analysis and supervisory engagement by divisions across the Central Bank, covering its supervisory, policy, operational and economics functions. This work is coordinated by the Central Bank's Brexit Task Force (BTF). In addition to providing expert assessment, the BTF facilitates information sharing and allows the Bank to take an integrated approach in dealing with challenges that may arise.

The Task Force produced four quarterly reports which were presented to the FSC, the Central Bank Commission and subsequently published on the Central Bank's website.

Each of these reports examines risks arising in the real economy, real estate markets and across firms supervised by the Central Bank. In addition to this, each report also includes in-depth analysis of a number of important Brexit-related issues. Over the course of 2017, these have included examination of the impact of Sterling depreciation on Irish consumer prices[11], the use of UK law in financial contracts, and the impact of possible firm migration on Dublin real estate. The Task Force also maintains ongoing interaction with key external stakeholders such as the Department of Finance, as well as engagement with other relevant external parties.

Over the course of 2018, the Task Force will continue to meet on a quarterly basis to facilitate information sharing across the Central Bank and to conduct expert assessments of developments affecting the Irish economy and firms supervised by the Central Bank as the Brexit process proceeds.

[11] The can also be found in "Exchange Rate Pass-Through to Domestic Prices," Reddan and Rice, Vol 2017, No.8.

Financial stability-related research publications of the Bank focused on the areas of macro-prudential policy, non-performing loans (NPLs), and mortgage and SME lending. Staff economists regularly presented their contributions at domestic and international conferences and at other central banks during 2017. These included, for example, the American Economic Association, the Irish Economics Association, University of Chicago, European Banking Authority (EBA), ECB and the IMF.

The Bank actively participated in relevant European financial stability-related committees during 2017. These included, the ESCB Financial Stability Committee (ESCB-FSC), the European Systemic Risk Board (ESRB) and its substructures on macro-prudential analysis, policy and stress testing.

Central Credit Register

The Central Credit Register (CCR) is a national mandatory database of credit information that is maintained and operated by the Central Bank. It is recognised as an important tool for analysis and policy development with regard to financial stability.

When fully established, credit reporting obligations will apply to over 500 lenders including banks, credit unions, local authorities, the NTMA, asset finance houses, and licensed moneylenders.

Phase 1 began on 30 June 2017 with the submission of information on consumer loans, such as credit cards, mortgages, personal loans and overdrafts by lenders. The initial submission period for Phase 1 concluded on 31 December 2017. Lenders will continue to submit personal and credit information on a monthly basis.

Phase 2 commenced on 31 March 2018 with the submission of information on consumer loans by moneylenders and local authorities. Business loans were also included at this time. The initial submission period for Phase 2 will conclude on 30 September 2018. It is anticipated that information on hire purchase agreements and similar type loans may also be collected in 2018, subject to an appropriate legislative amendment.

[12] The CCR is being established by the Central Bank in accordance with the Credit Reporting Act 2013, on a phased basis.

The Central Bank undertook a public information and awareness campaign which included announcements on radio and newspaper prior to the commencement of data submission. It also launched a website (*www.centralcreditregister.ie*) to support awareness and provide consumers with further information. The consumer information pages include a consumer guide which has achieved the Plain English mark. Further to guidance issued by the Central Bank, lenders communicated with approximately four million individual borrowers to provide information in respect of the CCR.

The quality of data submitted by lenders is an important aspect in the establishment of the Register and this was taken into account when deciding the precise date upon which the CCR would commence providing credit reports to consumers and lenders. Following a satisfactory review, the initial enquiry phase has now commenced and since 20 March 2018, credit reports are available on request for individual borrowers, free of charge, subject to fair usage.

Deposit Guarantee Scheme

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

Following the introduction of the European Union (Deposit Guarantee Schemes) Regulations 2015 (S.I. No. 516 of 2015), new funding arrangements, requiring the DGS to reach a target fund level of 0.8% of covered deposits by 2024, were introduced resulting in the establishment of the DGS Contributory Fund in 2016. The second year of annual contributions to the new fund, totalling €104m, were levied at end-2017.

On 13 October 2017, following the appointment of joint provisional liquidators, the DGS was invoked for Charleville Credit Union Limited. Following invocation of the Scheme, the DGS issued compensation payments of approximately €40m to nearly 11,000 members of the credit union.

Over the course of 2017, the DGS carried out stress tests of its systems and processes in line with EBA guidelines. These end-to-end simulation tests involved a broad range of relevant scenarios to ensure the ability of the DGS to compensate depositors in the event of an invocation.

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

Market Based Finance

The Central Bank is a member of the Financial Stability Board's (FSB) Shadow Banking Expert Group. Shadow banking is defined by the FSB as credit intermediation involving entities and activities (fully or partly) outside of the regular banking system.

This activity is a welcome source of credit diversification but can become a source of systemic risk in certain circumstances and thus requires monitoring. The Central Bank contributed to the FSB's Global Shadow Banking Monitoring Report, which was published in May 2017. The report assesses the global trends and risks in the shadow banking system.

Ireland is classified in the report as one of six international financial centres; the others being Canada, the Cayman Islands, the Netherlands, Switzerland, and the UK. International financial centres are hosts to financial activities carried out by foreign-owned entities. The report indicated that, globally, Ireland is the second largest domicile for structured financial vehicles after the US and ranks in the top four for Money Market Funds, with the US, China and France. The Irish shadow banking sector was the fourth largest globally (estimated to be $2.2tn at end-2015), after the US ($13.8tn), Cayman Islands ($4.3tn) and Japan ($3.2tn). The FSB's Global Shadow Banking Monitoring Report for 2018 was published on 5 March. As Luxembourg and China submitted granular data for the first time, Ireland's position moved down to sixth largest shadow banking sector globally, while total assets remain static ($2.2tn).

Although much of the risk is not directly connected to the domestic economy, the Central Bank recognises the need to analyse and understand the activities in this sector. As such, it took part in a range of internationally focused initiatives. These included hosting an international conference on the sector, contributing to international fora such as European Systemic Risk Board (ESRB) and European Securities and Markets Authority (ESMA) initiatives and issuing a number of publications. Topics included liquidity management practices of fund managers and preliminary fund stress tests.

Consumer Protection

Within the Central Bank's "5Cs" Framework - Consumer, Confidence, Compliance, Challenge, Culture - it works to ensure that regulated firms act in the best interests of consumers.

The Central Bank's consumer protection framework puts the consumer at its centre and works to ensure the focus of firms is on delivering positive outcomes within a regulatory framework that is fit-for-purpose. This is underpinned with an appetite for challenge and appropriate regulatory action where compliance standards are not being met. Further information on how the Consumer Protection mandate is supported by a range of areas within the Central Bank is contained in the Annual Performance Statement 2017, which is published on the Central Bank's website.

The Central Bank's Consumer Protection Outlook Report, published in early 2017, set out its priority themes for the year to:

- Work to develop a positive consumer focused culture within regulated firms, including by undertaking targeted Consumer Protection Risk Assessments.
- Ensure the consumer protection framework remains effective by undertaking consumer research to inform future developments, review, develop and enhance the protections in place, and to influence and shape European and international developments.
- Monitor and enforce compliance with the required standards through themed reviews and inspections.

Consumer

In September 2017, the revised Minimum Competency requirements were published which take account of developments in various EU Directives and enhance the existing requirements to include a new specified function for persons directly involved in the design of retail financial products. The Central Bank also continued to progress its engagement and influence on various consumer protection committees at the European Supervisory Authorities (ESAs), while also providing technical support to the Department of Finance on the negotiation and transposition of EU legislation into Irish law. During 2017, this included the transposition of the Payments Services Directive (PSD2), Markets in Financial Instruments Directive and the Markets in Financial Instruments Regulation (together MiFID II), the Insurance Distribution Directive (IDD) and the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation.

The Central Bank contributed to the work of FinCoNet, the international organisation of financial consumer protection supervisory authorities as a member of its Governing Council and through chairing FinCoNet's Standing Committee 2 - Digitalisation of high cost lending, which published a Report on the Digitalisation of Short-Term, High-Cost Consumer Credit in December 2017.

To raise awareness and inform wider policy discussion, three Consumer Protection Bulletins were published during 2017 covering Motor Insurance, Social Media Monitoring and Current Accounts and Switching.

Confidence

The overriding objective of the Tracker Mortgage Examination is to ensure the fair treatment of tracker mortgage customers by ensuring that lenders conduct a complete review of their mortgage loan books to assess compliance with both contractual and regulatory requirements relating to tracker mortgages. Where necessary, the Central Bank requires lenders to provide the appropriate redress and compensation in line with the Principles for Redress developed by the Central Bank, which seek to ensure fair outcomes for affected customers.

BOX 5

Tracker Mortgage Examination

The Tracker Mortgage Examination is the largest, most complex and significant supervisory review that the Central Bank has undertaken to date in respect of its consumer protection mandate. The Examination involved an initial review of more than two million mortgage accounts by lenders to identify the number of in-scope accounts.

The Tracker Mortgage Examination Framework requires lenders to identify all affected customers and to address customer detriment in line with the Central Bank's Principles for Redress. These Principles along with supplemental guidance clearly set out the Central Bank's expectations of the lenders to provide appropriate redress and compensation to affected customers when tracker mortgage related issues are identified.

The end-2017 figures show that lenders have been forced to pay €316m in redress and compensation. More will follow, as the remainder of the 33,700 customers that were denied tracker products or charged the wrong rates receive redress and compensation and as claims submitted to the independent appeals processes are adjudicated.

While the Central Bank's view is that the vast majority of customers have now been identified, it will continue in 2018 to review, challenge and verify the work undertaken by the lenders and complete the intrusive inspection programme. This work aims to ensure that all affected customers are identified; that all Tracker Mortgage Examination Framework requirements including stopping the harm have been met; and that any emerging issues are addressed. On-site work may also assist in the gathering of evidence for enforcement investigations and inform additional actions the Central Bank may take.

Compliance

The Central Bank continued to target retail intermediaries that were not meeting the minimum standards in terms of complying with reporting and other obligations. The objective was to target a culture of non-compliance, which can often signal other issues in those firms, which can affect negatively on consumers. As of 31 December 2017, the compliance rate for the submission of Annual Returns reached 97%.

During 2017, the series of thematic inspections undertaken included reviews of insurance brokers acting as managing general agents on behalf of insurance companies, firms' compliance with minimum competency standards and the sale of add-on/niche insurance, such as gadget insurance.

As well as requiring enhancements to firms' practices, the Central Bank's supervisory interventions resulted in a number of voluntary and involuntary revocations of firms' authorisations, and enforcement actions against firms that failed to meet minimum regulatory standards.

Challenge

As well as processing applications for authorisation in line with published service standards and statutory obligations, the Central Bank introduced PSD2-compliant application forms so firms could make an application under that Directive ahead of time, and moved from granting mortgage intermediary authorisations for a fixed period to issuing authorisations for an indefinite term. These measures provide greater certainty for applicants and so facilitate greater competition in both the payments and mortgage markets, while also ensuring that the highest standards are set and met by the firms authorised.

Applications were reviewed from credit servicing firms (i.e. firms that service loans sold by regulated lenders to third parties) under the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015. This included assessment of those firms against the detailed Authorisation Requirements and Standards introduced by the Central Bank on foot of that legislation. The Central Bank expects to progress the remaining applications to decision stage in 2018.

Culture

In March 2017, the Central Bank published its new Consumer Protection Risk Assessment (CPRA) Model, setting out its approach to carrying out CPRAs and describing its expectations of firms in implementing or enhancing their frameworks for managing risks to consumers. Over the course of the year, the Central Bank conducted targeted CPRAs at eight firms, with a specific focus on elements of the culture module.

The boards and senior management of firms continued to be challenged to demonstrate how they are managing risks and delivering the right outcomes for their customers. In 2017, meetings were held with CEOs and/or boards of credit institutions/other lenders dedicated to current and emerging consumer protection risks and culture. The Central Bank also emphasised, at a number of external speaking events throughout the year, the importance of implementing a fit-for-purpose consumer risk management framework.

Supervision and Enforcement[13]

The Central Bank has an assertive risk-based, intrusive approach to supervision, underpinned by appropriate credible enforcement action where necessary, consistent with European and international good practice. This includes day-to-day supervision and high quality analysis with particular focus on key risks to help ensure that regulated firms and markets are financially sound and safely managed.

The Central Bank Commission approved an expansion of regulatory staff to ensure we have the resources to both authorise and supervise changes to existing regulated firms or new entrants to the market.

The Central Bank's supervisory approach is anchored by its Probability Risk and Impact System (PRISM) and Single Supervisory Mechanism (SSM) methodologies. It is risk-based, structured and underpinned by the credible threat of enforcement. The approach also includes a framework for recovery and resolution where firms face difficulties.

The Central Bank's supervisory approach is consistent with European and international good practice. This is important as financial services operate in a broader European and international environment. The Central Bank is committed to shaping and influencing the international regulatory framework and environment and plays an active role in European and International bodies, including through its participation in the SSM and the ESAs.

In 2017, the Central Bank continued to enhance its resources in key areas and implemented and embedded significant improvements to its regulatory toolkit. Through enforcement action, the Central Bank continued to hold to account firms and individuals who breach the regulatory framework. It has also defended the integrity of its enforcement processes in the face of challenges by those against whom the Central Bank has taken action.

Arising from the UK's decision to leave the EU (Brexit), there has been a significant increase in enquires from regulated firms regarding material expansions of their existing Irish operations or for new authorisations.

The Central Bank Commission approved an expansion of regulatory staff to ensure the Central Bank has the resources to both authorise and supervise changes to existing regulated firms or new entrants to the market. During the year the Central Bank challenged firms to demonstrate the sufficiency of their capital resources, the appropriateness of their governance frameworks, the sustainability of their business models and development of recovery and resolution plans, and that they were conducting themselves in a manner that complies with applicable legislation and safeguards the integrity of the market. The Central Bank continued to assess regulatory applications from firms and approve individuals under the Fitness and Probity (F&P) regime. Significant supervisory issues in 2017 included the Tracker Mortgage Examination, Brexit, enhancing the regulatory framework including MiFID II and in the insurance sector, Solvency II, and other sector specific priorities including non-performing loans (NPLs) and IT risk in firms.

[13] Detailed reporting on the Central Bank's supervisory and regulatory functions, including its consumer protection and regulatory policy responsibilities is included in the Annual Performance Statement 2017

Detailed reporting on the Central Bank's supervisory and regulatory function, including its consumer protection and regulatory policy responsibilities, is included in the Annual Performance Statement 2017.

Credit Institutions Supervision

Significant supervisory emphasis in 2017 was on ensuring that regulated firms make the necessary improvements to be more resilient against emerging risks. Credit institutions are implementing change programmes to manage cost base, support revenue generation, improve IT and Fintech capabilities and strengthen their overall business models. The Central Bank, through its on-site inspections and macro–prudential policy mortgage measures, continued to ensure that credit institutions' loan underwriting remains prudent thus ensuring compliance with resilience enhancing measures for borrowers and credit institutions. Profitability is recovering for most Irish credit institutions, although conduct costs, which includes costs relating to consumer protection failings and low interest rates, continue to affect earnings.

The large stock of NPLs on credit institutions' balance sheets heightens the susceptibility of these institutions to future shocks to the Irish economy. The Central Bank's approach to NPL resolution has focused on ensuring credit institutions are sufficiently capitalised, hold appropriately conservative provisions, and have fit-for-purpose resolution strategies and operations, while ensuring the fair treatment of customers. During 2017, the resolution of the large stock of NPLs remained a key supervisory priority. Ongoing supervisory activities coupled with improved economic circumstances have continued to drive reductions in NPLs, which have reduced for 15 consecutive quarters; nevertheless, despite a 60% reduction since peak, NPL levels remain elevated.

The financial strength of Irish credit institutions, measured by their capital ratios, continued to improve over the course of 2017. A key deliverable during the year involved supporting the ECB's targeted review of internal risk models (TRIM), ensuring that the internal models used by credit institutions are fully in line with European best practice and that credit institutions are holding capital levels that are reflective of their risks.

BOX 6

Supervisory Focus on Non-Performing Loans (NPLs)

During 2017, the resolution of the large stock of NPLs remained a key supervisory priority for the Central Bank and, more broadly, the ECB. The large stock of NPLs on Irish financial institutions' balance sheets heightens the susceptibility of these institutions to future shocks to the Irish economy. Therefore, continued momentum on resolving these loans builds resilience into the financial sector in Ireland. More immediately, from a consumer perspective, these NPLs represent borrowers who are in financial difficulties and the fair treatment of these borrowers is a key concern for the Central Bank.

Given the Central Bank's experience in tackling institutions with high NPLs, Deputy Governor Donnery continued as chair of the ECB's NPL High Level Group (HLG), whose remit is to develop a consistent supervisory methodology across Europe for institutions with high NPLs. As a result, the Central Bank took a leading role in developing the supervisory approach to NPLs at a European level. Publication of the "SSM Guidance to credit institutions on non-performing loans"[14] was a key achievement for the ECB's NPL HLG in 2017. The guidance builds upon the supervisory approach adopted post-financial crisis by the Central Bank in tackling the problem in Ireland and includes good practice observed in some Irish institutions, and across the euro area. The ECB's NPL HLG also completed a "Stocktake of national supervisory practices and legal frameworks related to NPLs"[15] in 2017 to highlight some of the roadblocks preventing the speedy resolution of NPLs in each jurisdiction.

The Central Bank has adopted a deliberate and phased approach to tackling this issue, with significant progress made to date[16]. Figure 1 highlights some of the important milestones during Ireland's NPL resolution journey and the NPL ratio over time. The sequencing of supervisory actions was important and involved: (i) ensuring institutions had sufficient financial resources (both capital and provisions); (ii) the implementation of NPL specific strategies; (iii) the assessment of operational capabilities; and (iv) the formulation of NPL reduction targets. At every stage of the process, the Central Bank of Ireland communicated supervisory expectations (via publication of relevant guidelines such as Provisioning Guidelines, Collateral Valuation Guidelines, etc.), challenged institutions' progress and completed detailed on-site inspections. All of this prudential activity was supported by the development and implementation of a robust consumer protection framework. The publication of the revised Code of Conduct on Mortgage Arrears in 2013 ensures borrowers are given appropriate protections in relation to their Primary Dwelling Homes (PDHs) to ensure they are treated fairly and remain in their family home in the vast majority of cases.

CONTINUED

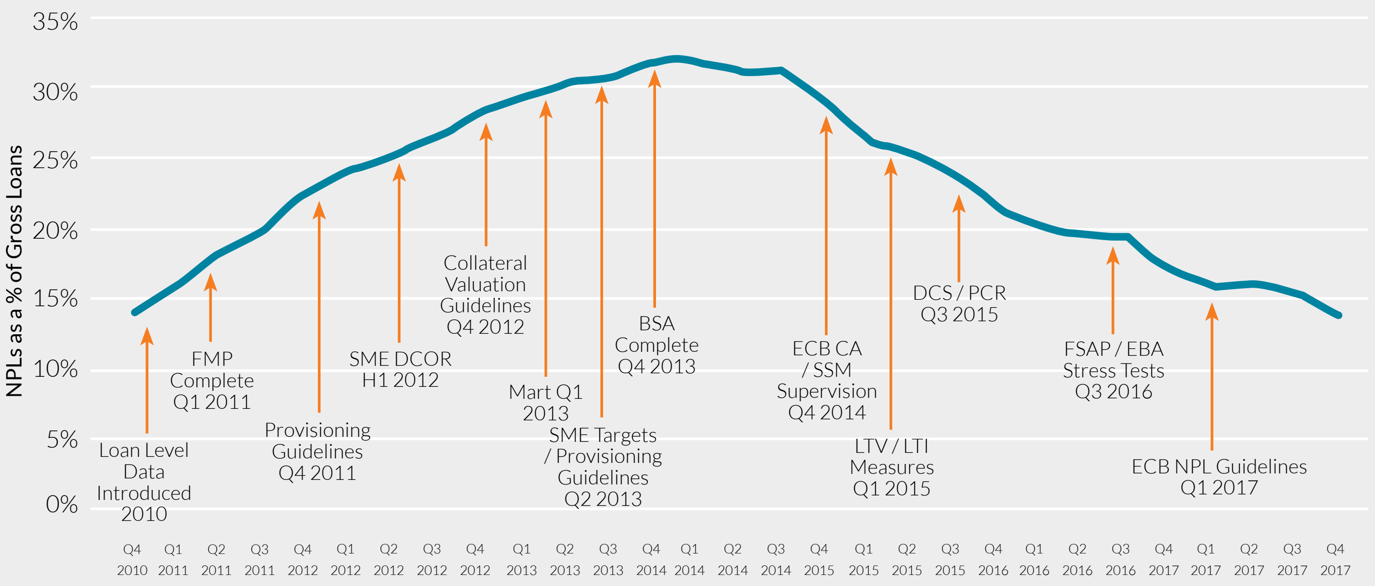
[14] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf
[15] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.stock_taking2017.en.pdf
[16] https://centralbank.ie/publication/quarterly-bulletins/quarterly-bulletin-2-2018

To ensure institutions continue to progress towards a minimal level of NPLs, the Central Bank's intensive supervisory engagement ensured ambitious and realistic NPL resolution strategies were in place for 2017, and beyond. The Central Bank continues to monitor individual institution's performance and has challenged where required. The Central Bank also completed two intrusive credit on-site inspections in 2017 relating to NPLs and identified instances of supervisory expectations not being met. These inspections have led to formal risk mitigation plans being put in place.

The total stock of NPLs across the retail credit institutions has declined by €7.9bn[16] (minus 20.6% in volume terms) year-on-year but remains at an elevated level with an aggregate NPL ratio of 13.7% despite intense supervisory focus. Reducing NPLs, while continuing to ensure borrowers are treated fairly and improving the resilience of financial institutions balance sheets to future shocks, will remain a key priority for the Central Bank in 2018.

FIGURE 1

Retail Bank's NPL Ratio and Important Milestones



Source: Central Bank of Ireland regulatory returns based on data provided by AIB, BoI, PTSB, Ulster Bank and KBC Ireland.[17]

[16] At Q3 2014 the EBA's harmonised definition of non-performing was introduced. Prior to this date an internal definition was used, which was equivalent to impaired loans and/or arrears > 90 days.
[17] All figures based on Q4 2017 aggregated regulatory data.

Embedding the Solvency II regulatory framework remained a key focus during the year, with the embedding of annual reporting under the Solvency II commencing in mid-2017.

Credit Unions Supervision

The Central Bank regulates and supervises credit unions to help ensure a financially stable credit union sector that operates in a transparent and fair manner and safeguards its members' funds. Credit unions are supervised in a manner that is proportionate and appropriate to the nature, scale, and complexity of each individual credit union. In light of sectoral restructuring, emergent sector risks and viability challenges, the Central Bank has continued to adapt and evolve its inspection and supervisory strategy for credit unions. During 2017, the Central Bank was engaged on a number of proposals from stakeholders concerning changes to credit union business models and balance sheets. This included mortgage lending; asset finance; shared service facilities; retail investment intermediation; and digitised operational models. To assist credit unions in analysing their performance relative to their peers and to provide insights to them on key trends based on its analysis of data submitted, the Central Bank commenced publication of statistical information. As part of its approach to proactive engagement with stakeholders, five Information Seminars were hosted during the year. These seminars provide an opportunity for the Central Bank to engage with credit union directors and management; to provide updates on its regulatory and supervisory work; and to hear credit unions' views on current issues.

During the year, the Central Bank liquidated Charleville Credit Union Limited in accordance with the relevant legislation. This action was deemed the only viable solution available and was undertaken in order to safeguard members' savings (see BOX 11).

Insurance Supervision

Embedding the Solvency II regulatory framework remained a key focus during the year, with the embedding of annual reporting under Solvency II commencing in mid-2017. There has been extensive supervisory engagement on cross-border business undertaken by Irish regulated insurers. This occurred through a combination of foreign branch inspections, additional reviews of regulatory reporting, the development of new environmental risk analyses of key markets in which Irish firms are operating, and engagement with regulatory peers including a revision to the "General Protocol" which governs the sharing of information between regulatory authorities. In November, the Central Bank issued a consultation paper on the authorisation and supervision of branches of third country insurance undertakings[18]. The assessment of the sustainability of business models was an area of focus in 2017. Detailed work was completed in the non-life area focusing on commercial liability business. Cyber risk threatens data integrity and business continuity in an ever-interconnected financial system and, given the amount of personal data insurers hold, they are vulnerable to a potential attack.

[18] https://www.centralbank.ie/docs/default-source/publications/Consultation-Papers/cp115/cp115-consultation-on-the-authorisation-and-supervision-of-branches-of-third-country-insurance-undertakings-by-the-central-bank-of-ireland.pdf?sfvrsn=4

Asset Management Supervision

The revised MiFID II came into effect on 3 January 2018 and about 90 investment firms under supervision are affected by the implementation of the legislative framework. In this regard, during 2017, the Central Bank engaged with firms on a continual basis to assess their preparedness for the impending regulations.

The 2017 programme of Full Risk Assessments, on-site and thematic inspections in the asset management sector included thematic reviews, which focused specifically on strengthening governance and internal controls within supervised entities, and an evaluation of investment firm compliance with the ESMA 2012 Guidelines on Suitability. Elsewhere, work continued on completion of Supervisory Review and Evaluation Process (SREP) reviews across the universe of Low Impact firms.

BOX 7

MiFID II Heatmapping Project – Assessment of MiFID II Preparedness of Asset Management Investment Firms with a key focus on the primary impact areas of the impending regulations

In order to assess the key changes that MiFID II imposed on each investment firm, a gap analysis of the impending regulations against the existing regulations was completed. From this analysis, an assessment framework was developed to assist supervisors in devising agendas for MiFID II engagement meetings with Medium-High Impact firms. Upon completion of these meetings, the MiFID II assessment framework was refined and focused on key high-level topics, including areas such as Product Governance, Best Execution, Client Reporting, Suitability and Appropriateness and Transaction Reporting. Arising from this work, supervisors created a MiFID II Heatmap in order to assess the industry's overall preparedness and identify the high impact areas that may be a challenge for relevant firms.

This exercise was subsequently extended to the Medium Low and Low Impact firms, which included the issue of a comprehensive MiFID II questionnaire which asked firms to both self-assess their own MiFID II preparedness and highlight the key areas of the regulation impacting on their business models.

Following the creation of the MiFID II Heatmap, there was continuous engagement with these firms seeking updates on the key areas that were affecting them. As supervisors sought to drive the investment firms' agenda in their preparation for the impending regulations/legislation, there was increased focus on firms that were highly impacted by the regulations, and whom supervisors felt were behind in their preparations for MiFID II.

Findings from the MiFID II Heatmapping project are a key element in the development of the Central Bank's supervisory strategy for MiFID II compliance in 2018.

Securities and Markets Supervision

The Central Bank continued to focus on ensuring that the processes in place for assessing applications for the authorisation of funds and the approval of prospectuses meet the highest standards. In 2017, this included the authorisation of 829 investment funds, including 1,763 related assessments of the Fitness and Probity (F&P) of individuals running such funds, and 1,099 prospectuses approvals.

A variety of supervisory tasks in the securities markets the Central Bank supervises were completed. These tasks ranged from the surveillance of transactions through individual transaction reports (240m), conducting enquiries into reports of potentially suspicious trading activity and providing assistance to other EU authorities in relation to potential market abuse.

Anti-Money Laundering (AML) and Counter Terrorist Financing (CFT) Risk-Based Supervision

AML supervision was assessed by the Financial Action Task Force (FATF) as part of its evaluation of Ireland's AML framework during 2017. The evaluation led to positive findings and limited recommendations for improvements for the Central Bank's AML supervision, which led to a "substantial" level of effectiveness rating for Ireland's overall AML supervisory framework. This was a significant achievement as Ireland is only the second EU member to achieve such a rating for AML supervision under the Fourth Round of Mutual Evaluations. A bespoke AML/CFT risk assessment module was rolled out in 2017, this AML/CFT supervisory engagement is separate from prudential and consumer supervisory engagements and risk ratings. The Central Bank carried out 77 on-site inspections, held 83 review meetings and issued 309 Risk Evaluation Questionnaires to firms for completion in 2017.

Data Analytics

The Central Bank continued to develop and enhance the infrastructure to receive all data related to market surveillance, market abuse and investment fund supervision. These data are a key driver of the supervisory strategy for securities and markets supervision, including informing supervisory judgements and actions concerning particular firms or funds. New reporting technology was also implemented to receive the vastly increased volume of data under MiFID II.

As part of its data analytics and supervisory strategy, the Central Bank procured a global debt securities dataset and fully integrated it onto its data network. This external data is used to validate investment fund regulatory reporting and is a powerful tool in improving data quality within the industry. The Central Bank now has the capability to carry out more focused research on investment funds and consider cross-cutting themes like credit quality, liquidity, duration and volatility.

Enforcement Outcomes

Where firms and individuals fail to comply with their regulatory requirements, enforcement action serves to impose dissuasive and proportionate sanctions in order to achieve widespread compliance. The Central Bank's enforcement powers include:

- Revocations and Refusals of Authorisations: The Central Bank revoked the authorisations of six firms which failed to comply with their authorisation requirements in 2017. In addition, one application for authorisation was refused from an applicant regulated financial service provider.
- Administrative Sanctions: During 2017, the Central Bank sanctioned 11 financial institutions pursuant to its Administrative Sanctions Procedure (ASP) and imposed fines totalling €7,239,970. Four of the ASP cases concerned breaches of AML obligations, resulting in fines totalling €6,550,000. The firms sanctioned comprised two retail credit institutions (The Governor and Company of the Bank of Ireland, Allied Irish Banks, plc.), a credit union (Drimnagh Credit Union Limited) and a cross-border insurer (Intesa Sanpaolo Life dac), highlighting that AML compliance is a continuing priority for the Central Bank across all financial services sectors.
- Fitness & Probity – Gatekeeper: As part of the Central Bank's Gatekeeper function, the Central Bank was involved in 25 F&P assessments in 2017. In seven of these cases, the applicant withdrew their application during the process. The Central Bank also defended a refusal of an individual's application for approval as an authorised person, on F&P grounds, before the Irish Financial Services Appeals Tribunal (IFSAT) in 2017. Following submissions from the Central Bank, the appellant withdrew the appeal and IFSAT awarded costs to the Central Bank.
- Fitness & Probity – Investigations: The Central Bank prohibited two individuals from holding any role in the financial services sector indefinitely. These types of prohibition are the most serious outcome to a F&P investigation.

The Central Bank issues public statements at the conclusion of enforcement actions. These statements are vital to the delivery of the strategy of credible deterrence. They ensure that enforcement operates in a transparent manner, informing the financial sector and consumers about the issues identified, how a firm or individual fell below the expected standard, why a particular regulatory response was adopted and what lessons are available generally from the particular case.

BOX 8

Sanctions - Breaches of the Criminal Justice Act

The Central Bank fined and reprimanded the Governor and Company of the Bank of Ireland (BoI) in May 2017 for 12 breaches of the Criminal Justice Act 2010. This was the Central Bank's third enforcement action for AML/CFT failures by a retail bank.

The Central Bank's investigation identified significant failures in the firm's AML/CFT framework, including:

- Inadequate risk assessment
- Delays in reporting suspicious transactions
- Weaknesses in the firm's policies and procedures in relation to customer due diligence, trade finance and correspondent banking.

The fine of €3,150,000 reflected the high volume and range of breaches uncovered, the higher Money Laundering (ML)/Terrorist Financing (TF) risk of the retail banking sector and BoI's central role in the Irish financial services system.

Cases at Inquiry

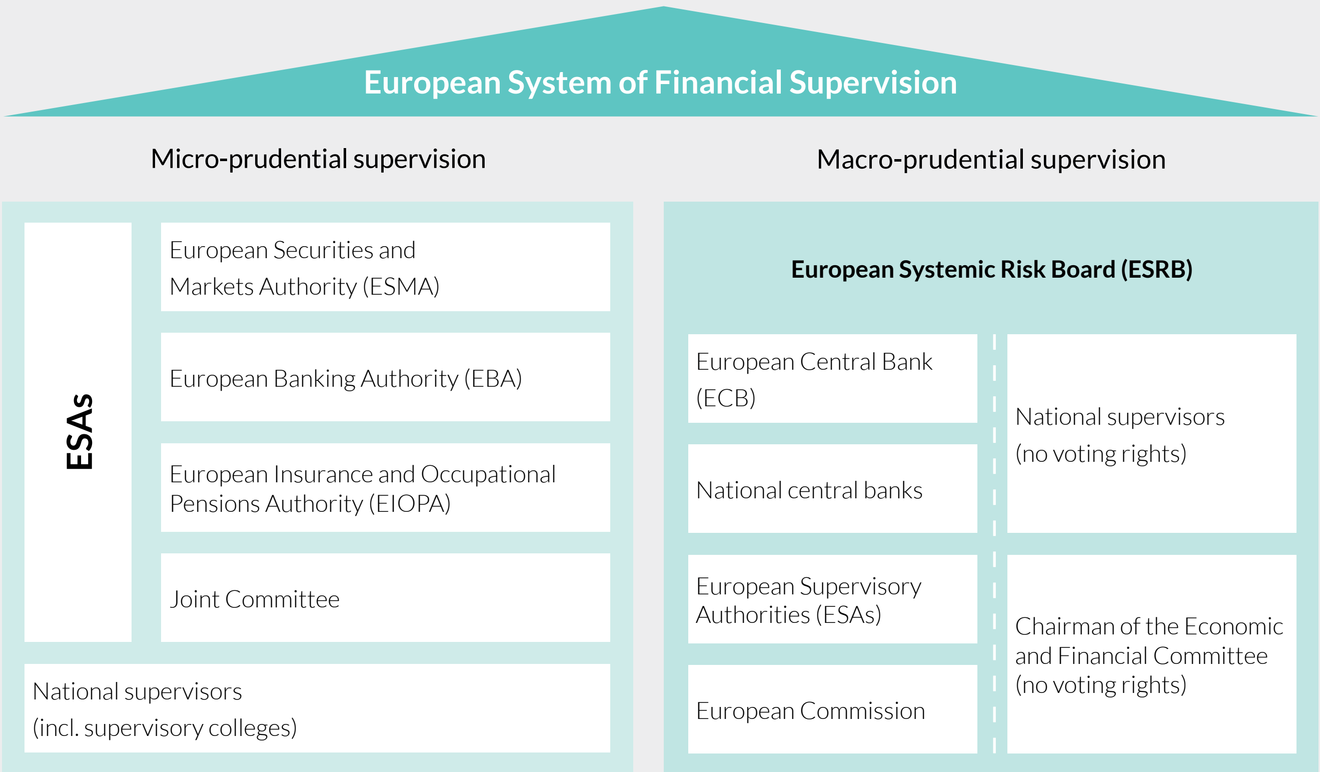
The substantive oral hearing in the Inquiry concerning alleged regulatory breaches by Irish Nationwide Building Society (INBS) and five persons formerly concerned in its management commenced in late 2017 and will continue throughout 2018. Mr Michael Fingleton, former CEO of INBS, is one of the individuals whose conduct is being considered by the Inquiry.

The Inquiry into various alleged regulatory breaches by Quinn Insurance Limited (QIL) and two persons formerly concerned in its management continued throughout 2017. Mr Liam McCaffrey and Mr Kevin Lunney instituted proceedings seeking to challenge the Inquiry on a number of grounds. The High Court heard these proceedings in June 2017, and ultimately dismissed all of the challenges brought, confirming that the Inquiry process is constitutional, and that the power of the Central Bank to recover its investigative and Inquiry costs is lawful.

Regulatory Policy Development

A high quality and effective regulatory framework is essential in ensuring regulated firms operate to high standards. It provides the basis for supervising and enforcing key principles of organisational and financial soundness, consumer protection and effectively functioning markets.

The three European Supervisory Authorities (ESAs) - the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA) - working within a network of national competent authorities (NCAs), the Joint Committee of the ESAs (JC) and the European Systemic Risk Board (ESRB), constitute the European System of Financial Supervision (ESFS). The structure of these institutions is illustrated below (see the Annual Performance Statement 2017 for a full description of the Central Bank's role in the broader European System of Financial Supervision available on the Central Bank's website).



Source: The European Commission

The Central Bank plays an active role in networks and working groups to share knowledge and experience with the aim of delivering high-quality regulation both from a prudential and consumer perspective. These engagements play an important role in monitoring and analysing developments at EU level and ensuring there is an effective flow of information across the Central Bank

In the banking sector, the ECB is ultimately responsible for supervision, discharged through the SSM, which comprises the ECB and the NCAs. In the insurance and markets sectors, supervision is the responsibility of the NCAs, operating as part of the wider European regulatory environment.

The Central Bank also participated in the consumer protection and financial innovation work of the three ESAs and FinCoNet, to influence the future shape of consumer protection.

PRISM – The Central Bank's Risk-Based Supervisory Framework

In 2017, the Central Bank continued to develop and enhance its risk- based supervisory framework (PRISM) and related IT tools, used for the supervision of authorised firms. In that regard, in December 2017, it rolled out a new engagement model within PRISM for credit unions.

The PRISM framework includes the performance of regular quality assurance reviews to assess the Central Bank's supervisory engagement with regulated firms. The quality assurance work seeks to ensure that risks within firms are properly identified, understood and mitigated in a timely manner, and that consistency and quality of supervisory decisions and judgements are maintained.

The Central Bank completed a series of specific Environmental Risk Assessments (ERAs). ERAs assist senior management and supervisors in conducting their forward-looking risk assessments of regulated firms. The impact of Brexit, regulatory developments, financial market valuation, political instability, and the domestic and international economies were all key drivers of ERAs in 2017.

Payments, Settlements and Currency

The Central 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 Central 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

One of the Central Bank's statutory obligations is to ensure that Ireland has a safe and efficient national payments and settlements infrastructure. This role has both domestic and Eurosystem aspects. The payment systems currently in use in Ireland are the TARGET2 Real-Time Gross Settlement (RTGS) system for large value payments, the pan-European STEP2 system for retail electronic payments and the Irish Paper Clearing Company Limited (IPCC) for paper-based payment instruments.

During 2017, an oversight assessment of the IPCC was completed and follow up actions were agreed and completed. A key enabler for the Central Bank in terms of meeting its obligations with regard to these systems has been to develop good working relationships with key stakeholders such as the ECB/other Eurosystem NCBs, Banking and Payments Federation Ireland (BPFI) (the representative body of the payments industry in Ireland) and the Department of Finance. The Central Bank continued to maintain and further develop all of these relationships throughout 2017.

The most noteworthy payment systems-related matter arising in 2017 was the introduction of euro denominated "instant payments". The European Payments Council's SEPA Instant Credit Transfer (SCT Inst) scheme became operational in November 2017, allowing credit transfers in euro in commercial bank money up to an initial maximum amount of €15,000 per transaction, with the money becoming available in the account of the recipient within ten seconds. Unlike the SEPA credit transfer (SCT) and SEPA direct debit (SDD) schemes, participation by payment services providers in SCT Inst is not mandatory and the Irish banking community has decided not to join the scheme for the time being. However, notwithstanding this, the Central Bank followed SCT Inst developments throughout 2017 at Eurosystem level in order to keep up-to-date with this important development. In particular, the Central Bank facilitated a presentation to the Irish market by the ECB on the topic of its new TARGET Instant Payment Settlement Service (TIPS), which will offer final and irrevocable settlement for instant payments in central bank money on a 24/7/365 basis and engaged regularly with the Irish banking community on the topic generally.

With regard to securities settlement systems, Euroclear UK and Ireland (EUI) provides the infrastructure used to settle trades in Irish equities and Euroclear Bank settles trades in Irish Government bonds. The Bank of England and the National Bank of Belgium are the primary overseers of these respective infrastructures and the Central Bank maintained regular, ongoing contact throughout 2017 with both of these authorities in relation to the oversight of EUI and Euroclear Bank. The Central Bank also continued to be actively involved in the development and implementation of policies and oversight standards in relation to payment and securities settlement systems generally throughout 2017. Its work in this regard is carried out through the active participation of Central Bank staff in relevant international groups/meetings, such as those of the ESCB's Market Infrastructure and Payments Committee (MIPC) and its associated working groups, the EBA and the EU Commission.

BOX 9

Securities Settlement System-Related Issues

Two securities settlement system-related issues were significant areas of focus for the Central Bank during 2017. The first of these was Regulation (EU) No 909/2014 (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. The second was "Brexit", which has implications for the continued use by the Irish market of the UK-based EUI system for the settlement of trades in Irish equities. Ireland has no indigenous securities settlement system and therefore relies on the CREST system operated by EUI for the settlement of trades in Irish corporate securities on the Irish Stock Exchange (ISE); therefore, in the absence of transitional arrangements, settlement via EUI would no longer be feasible after end-March 2019. In this regard, the Minister for Finance issued a statement on 27 July 2017 encouraging applications for authorisation to establish a central securities depository (CSD) in Ireland.

The Central Bank considers that the ongoing provision of effective securities settlement services is critically important for the Irish market. As a competent authority under the CSD Regulation, the Central Bank engages with all interested parties and stands ready to assess any applications for authorisation.

TARGET2 Payments System

TARGET2 is an interbank payment system for the real-time processing of payment transfers throughout the EU. In 2017, the TARGET2 system processed over 181m transactions composed of 89.5m RTGS transactions and 91.6m transactions on Dedicated Cash Accounts (DCAs) - the latter relating to TARGET2 Securities[19] (T2S).

The average daily volume of RTGS transactions was 348,534 and on DCAs was 356,261. The RTGS increase is up 1.7% compared to 2016 and the T2S transactions are up 209% - this large increase in T2S figures is due to the migration of several countries to the platform during the year[20] and also due to the increased familiarity of the system to those countries who had migrated prior to 2017[21].

The total value of RTGS transactions decreased in comparison to 2016, by almost 2.5% to €435tn, with an average daily value of €1.69tn. In contrast, T2S related payments increased in value by over 79% from €78.06bn in 2016 to over €140bn in 2017.

The Irish TARGET2 component, TARGET2-Ireland, processed just over 839,000 transactions; this represented a decrease of almost 2.8% compared to 2016. The value of transactions processed via the Irish component decreased by almost 1.82% to a total value of €3.289tn. In 2017, the number of direct participants in the payments module of TARGET2-Ireland increased by 1 to 15.

Ireland has not yet migrated to T2S, due to lack of demand from the Irish market to gain access to the platform, therefore all data quoted relate to regular RTGS TARGET2 transactions. There is currently a project underway in the Central Bank to provide the Irish market with access to the platform.

The Governing Council approved two key Eurosystem projects in the area of payments infrastructure in 2017. The first was the development of the TARGET Instant Payment Settlement (TIPS) - a service that will enable payment service providers to offer fund transfers in real time 24 hours a day, 365 days a year in central bank money and is due to go live in November 2018. The second is the T2/T2S consolidation project. This project aims to deliver a future RTGS platform that will consolidate and optimise the provision of the TARGET2 and T2S services. It is due to go live in Q4 2021.

[19] T2S (TARGET2-Securities) is a European securities settlement engine which offers centralised delivery-versus-payment (DvP) settlement in central bank money across all European securities markets. Migration of CSDs to the T2S platform took place in five waves between June 2015 and September 2017.
[20] Germany, Spain, Austria, Hungary, Slovakia, Slovenia and the Baltic nations migrated during 2017
[21] Most notably France, Belgium, Luxembourg and the Netherlands, which migrated in September 2016

Banking Services

The Central 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 NTMA). It is responsible for the maintenance of correspondent accounts for other NCBs and institutions such as the European Commission and the Asian Development Bank. The Central 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 20 December 2017, following instruction from the NTMA, the Central Bank repaid in full the outstanding balance on Ireland's IMF loan of €4.5bn.

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Bond Register

In its role as Registrar, the Central 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 the Euroclear Bank, which is based in Belgium.

At the end of 2017, the nominal value of bonds on the Register amounted to €127bn, an increase of €5.3bn over the value outstanding at end-2016 (€121.7bn). One bond (5.50% 2017) matured during 2017 resulting in redemption payments of €6.2bn. The NTMA issued two new bonds with a value of €8.7bn (0% 2022 and 1.7% 2037) during the year. There remains one outstanding HFA bond which is due to mature in 2018.

Currency Issue and Production

Banknotes

In 2017, the Central Bank supplied the market with 269m banknotes. This represents an 18% decrease on the 328m banknotes issued in 2016.

TABLE 1

Banknote Issues

No. of Banknotes (m)			Value €m	
Denomination	2017	2016	2017	2016
€5	49	54	245	272
€10	44	61	437	608
€20	47	77	934	1,537
€50	129	135	6,466	6,749
€100	1	1	55	67
€200*	0	0	3	8
€500*	0	0	21	41
Total	**269**	**328**	**8,162**	**9,282**

Note: Figures may not sum due to rounding

* The actual number of notes issued:

2017	2016
€200: 17,000	€200: 38,050
€500: 42,000	€500: 81,025

The Europa Banknote Series

The fourth banknote in the Europa Series 2 (ES2), the €50, was launched on 4 April 2017, continuing the gradual introduction of the Europa series of banknotes. This ES2 series is circulating in parallel with the first series (ES1) of euro banknotes. As ES1 banknotes will continue to be legal tender, they will retain their value and can be exchanged for an unlimited period at Eurosystem NCBs. The €100 and €200 banknotes will be the final denominations released in this Europa series.

Coin

The Central Bank, acting as agent for the Minister for Finance, issued 58m coins into circulation in 2017. This represents a 54% decrease in coins issued when compared with the 126m coins issued in 2016.

TABLE 2

Coin Issues

No. of Coin (m)			Value €m	
Denomination	2017	2016	2017	2016
1c	0	0	0	0
2c	0	0	0	0
5c	29	39	1	2
10c	2	26	0	3
20c	6	26	1	5
50c	6	12	3	6
€1	5	9	5	9
€2	10	14	21	29
Total	**58**	**126**	**31**	**53**

Note: Figures may not sum due to rounding

Work continued with the industry (such as retail banks and cash-in-transit (CIT) companies) to drive stricter discipline in relation to stock management by customers and thus minimise unnecessary coin issuance. Benchmark stock levels for 1c and 2c coins were realigned reflecting lower demand for these coins following the introduction of voluntary rounding. Excess stock of 1c and 2c coins were swapped with other Member States and resulted in the largest coin-swap within Europe to date. The President of the Euro Coin Sub-Committee commended the Central Bank's efforts involved in this arrangement, as it has contributed to an overall reduction in excess coin stocks.

Significant events in Irish history, heritage and culture are marked by the issue of Irish commemorative coin products on behalf of the Minister for Finance. In 2017, there were five commemorative coin products issued generating over 33,000 sales. An online sales channel for collector coin offering 24/7 availability went live in August 2017. This system has improved customer interaction and data management, strengthening compliance with Payment Card Industry (PCI) standards, Data Protection standards, and the Official Languages Act.

The 2017 Annual Mint Set

Annual Mint Set

The 2017 Annual Mint Set, which was the final part of the "Island Nation" series, paid tribute to the vital work carried out by the Irish Coast Guard and Irish Lighthouses. The set was originally scheduled to issue in March 2017, but was held back following the tragic loss of the crew of Rescue 116 on 14 March 2017.

Following this tragedy the Central Bank Commission proposed that the proceeds from the sale of the Annual Mint Set 2017 could be donated to a nominated charity and the Minister for Finance agreed to this proposal. The RNLI (Royal National Lifeboat Institution) was selected as the main beneficiary of this donation, as its work closely aligns with the work of the Irish Coast Guard and the Commissioners of Irish Lights. Total funds available for donation are in excess of €82,000. The initial donation to the RNLI to fund Irish projects is approximately €74,000. A further 10% of total funds is held by the Central Bank in the event that a community commemorative initiative emerges, which could also receive funding from the sale of these coins. Should an initiative not present within a period of two years, the funds withheld will revert to the RNLI for Irish projects.

The Central Bank has been working closely with the RNLI to source the appropriate projects to direct the funds. The main project relates to funding for a lifesaving vessel, which will be stationed in Ballyglass, Co. Mayo. The balance of the donation will go towards Lifeboat kit equipment and crew training.

The Irish Cash Cycle

Through its programme of engagement with the major cash cycle stakeholders, the Central Bank continues to drive efficiencies in the Irish cash cycle. Service Level Agreements have been formalised with the four main distributors providing a solid basis for further development of National Cash Cycle strategy and oversight. The Central Bank continues to facilitate the National Cash Cycle Contingency Group to enhance and monitor the overall resilience of the cash cycle.

Economic Advice and Statistics

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

Economic Analysis and Commentary

The Central Bank plays an important role in the formation of evidence-based national economic policy through the provision of independent economic advice via regular commentaries, forecasts, research and the provision of high-quality financial statistics. These were communicated through publications and research papers, other domestic and international journals, statements and speeches by the Governor 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 macro-prudential reviews. Within the Eurosystem, the Central 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 Central Bank's Quarterly Bulletin series. In addition, the Central Bank participated in other forecasting and policy forums e.g. Organisation for Economic Co-operation and Development (OECD) and the EU, and consulted with visiting half-yearly External Partner[22] 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[23] model, with detailed macro-financial and labour market components, has been developed and enhanced with the addition of migration and fiscal sub-models. The model has been used to support macroeconomic and macro-prudential analysis and was used to assess the impact of various macro-prudential policies, including the mortgage rules and countercyclical buffers. The structural econometric model of the Irish economy, COSMO[24], has also been enhanced. It has also been used for macro-prudential policy analysis, assessing the potential impact of Brexit and, more generally, to enhance the Central Bank's economic analysis and forecasting capabilities.

[22] The European Commission, the IMF and the ECB
[23] Dynamic stochastic general equilibrium model
[24] Core structural model

To take due account of the impact of external factors in a small, open economy, COSMO continues to be used in conjunction with the global econometric model NiGEM[25], developed by the National Institute for Economic and Social Research (NIESR) 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.

Twelve research technical papers were published in 2017 and the full papers are available for download from the Central Bank's website. Some of the recent themes explored in these papers include: the resolution of non-performing loans; countercyclical capital regulation; deleveraging; SME collateral risk; global and domestic modelling of macroeconomic shocks; issues in relation to monetary pass-through; and, the drivers of systemic bank risk in Europe.

Sixteen Economic Letters were released in 2017 (available for download from the Central Bank's website). Some of the topics covered in this series include: the measurement of slack in the labour market; exchange rate pass-through to prices; the treatment of global firms in the National Accounts; the financial vulnerability of Irish SME's; an examination of mortgage modifications; and, borrower-lender engagement on mortgage arrears. A number of Letters were related to the review of the macro-prudential regulations in the mortgage market.

The Central Bank also published a number of signed articles with economic and statistical content in the Quarterly Bullet which can also be downloaded. Among the topics examined in these articles were: the labour market and wage growth; non-standard monetary policy measures and the balance sheets of Eurosystem central banks; household indebtedness; and the aircraft leasing industry in Ireland.

Active participation continued in several research networks examining household finances, international banking, wage formation and econometric modelling. Central Bank staff have continued to publish in peer-reviewed economic journals and have also presented extensively externally at a range of domestic and international conferences and institutions.

[25] National Institute Global Econometric Model

BOX 10

Irish Economic Outlook

The Irish economy continues to perform well, supported by the buoyancy of domestic economic activity and a broadly improving international growth environment. On the domestic side, strong and broad-based growth in employment, particularly full-time employment, has provided a stimulus to incomes, which has been augmented both by some pick-up in wage growth and the further boost to real purchasing power from subdued inflation. In addition to the positive impact of these gains, underlying economic activity has also benefitted from continuing favourable financial conditions and the ongoing improvement in sectoral balance sheets.

As the economy gets closer to full employment, wages should rise at a faster pace. While the latest data show a modest pick-up in the growth rate of average hourly earnings during the second half of last year, Central Bank forecasts are for further increases during this year and next. With inflation expected to remain modest over the next two years, rising wages will translate into higher real incomes and purchasing power for households.

Looking ahead, the outlook remains positive and the central forecast is that the economy will continue on a favourable growth path. At the same time, it is important to recognise the intrinsic volatility of the Irish economy, given its high openness and extensive trade, technological and financial linkages to other economies. As such, unexpected events can trigger upside or downside revisions to the Central Bank's forecasts, especially in relation to the longer-term path for the economy. It follows that public and private decision makers should ensure that choices are robust to unanticipated outcomes, rather than putting an excessive and unrealistic reliance on the Central Bank's central projections.

For Ireland, the location decisions of multinational firms are an important driver of overall economic prospects. While the recent US tax reform has some clear implications for the treasury operations of US multinationals, the net impact on geographical distribution of the productive activities of these firms is not clear, given the complex, multi-dimensional nature of the new tax law. More broadly, it will be important to assess the implications of other possible changes in international tax systems, including in relation to the taxation of digital activities. A related international risk is the threat to the international trading system if there were a widespread adoption of (explicit or implicit) protectionist measures.

A persistent shift in the dollar-euro rates would also be an influential factor in determining the location decisions of US multinational firms. While the current dollar-euro rate appears broadly in line with fundamentals, a more substantial and prolonged depreciation of the dollar would be a material influence in determining future location decisions.

CONTINUED

Taken together, these trade, taxation and currency concerns mean that US-related downside risks require continuous monitoring and reinforce the importance of making decisions that are robust to such adverse outcomes.

Turning to Brexit, any increase in trade frictions between the UK and EU27 will generate a reduction in long-term living standards, compared to the counterfactual of maintaining the status quo. So far, the main channel by which Brexit has had a macroeconomic impact has been through the depreciation of Sterling against the euro since the referendum. This has affected exporters to the UK but also contributed to a decline in goods prices in Ireland, given the important role of imports from the UK in the Irish consumption basket. However, the recovery in domestic demand and the positive global economic conditions have allowed the Irish economy to absorb the impact of Brexit so far.

As March 2019 draws closer, the resolution of the current uncertainty about the nature of future UK-EU relations has the potential to generate further economic and financial volatility, especially if there is an increasing likelihood of a harder version of Brexit. At a macroeconomic level, Ireland is especially exposed compared to other EU27 countries, especially if there is a downward shift in the prospects for UK economic growth or a further sustained depreciation in the value of Sterling.

Furthermore, if there is a substantial shift in the regime governing UK-EU trade, there will be a costly diversion of resources to setting up new logistics and trade-processing systems. If the costs of importing and exporting go up (including extra transit time and additional administrative burdens), the range of imported goods available to Irish consumers and firms may shrink, while domestic firms will find it more difficult to access export markets.

In terms of domestic policy, a balancing act is required. In one direction, the accumulation of good news about the trend path for the Irish economy calls for proportionate decisions about the paths for public spending and taxation, given the extra fiscal capacity to meet social preferences for increased provision of public services, increased transfers, expanded public investment or an adjustment in the tax burden. In the other direction, downside risks (together with the still-high level of public debt) call for a prudent approach that recognises the importance of building fiscal buffers during good times in order to enable more vigorous counter-cyclical fiscal interventions in the event of a future economic downturn.

It is important to emphasise that fiscal prudence can be fully reconciled with ambitious fiscal plans. However, it is necessary to recognise the genuine trade-offs that exist, especially if the labour market returns to full employment.

Expansion of the Statistical Framework

The Central Bank continued to expand its statistical framework during 2017 in line with developments within the Eurosystem and the ESCB. The remit of ESCB statistics has expanded over recent years to support the supervisory functions of the ECB and the tasks of the ESRB, in addition to the more traditional monetary policy requirements. Central to this expansion is the development of new granular data sources, which facilitate the expansion of statistical outputs in an efficient and cost-effective way. A key element of this strategy is the development of Anacredit (a granular database of credit and credit risk information) on individual bank loans to corporates and legal entities. This allows in-depth analysis of bank exposures and vulnerabilities, which is not possible from aggregated data. The Central Bank worked extensively with reporting banks to define requirements and data definitions in line for first reporting in 2018. A series of regular meetings was organised with reporting banks, and detailed briefing material on reporting requirements was circulated.

A key element of this strategy is the development of Anacredit (a granular database of credit and credit risk information) on individual bank loans to corporates and legal entities.

Work continued on the linked Register of Affiliated Databases (RIAD) project, a detailed register of financial institutions, which is now being expanded to cover all corporates and legal entities, which are counterparties to bank loans. This expansion is necessary to support the Anacredit project. First data will be delivered in mid-2018, and the ECB database went live in March 2018.

The expansion of granular data sources will also include banking groups in the next module of Securities Holding Statistics due for implementation in 2019. Workshops with four Irish banks were held in 2017, in addition to the dissemination of guidance material, and initial testing of data transmission. This work is being undertaken in parallel, with steps to enhance the coverage and accuracy of the Centralised Securities Database (CSDB).

Staff from the Central Bank participate in all statistical committees and working groups responsible for developing and enhancing the statistical frameworks, both at ESCB level and in other international forum. There have been a number of significant developments in ESCB statistics during 2017. First statistics on insurance corporations, in accordance with Regulation ECB/2014/50, were published. These data provided detailed instrument, geography and sectoral breakdowns for the balance sheet of the insurance sector, as well as transactions data, on a quarterly basis. The ECB also published euro area money market statistics for the first time, covering turnover and weighted average rates for the unsecured market segment. A Regulation to extend statistical reporting to Pension Funds was published in January 2018, with the first reporting due from industry in Q3 2019.

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, and reducing the reporting burden. Two main initiatives in this area are the Banks' Integrated Reporting Dictionary (BIRD), which standardises definitions and transformation rules for statistical and supervisory reporting, and the European Reporting Framework, a project aimed at integrating reporting requirements over time.

The ECB also signed a Memorandum of Understanding with Eurostat, on the quality assurance of Macro-Imbalance Procedures (MIP) in the fields of balance of payments and financial accounts.

Data provided by the Central Bank feeds directly into euro area statistical aggregates, which are a key input for informing monetary policy and other statutory tasks of the ESCB. During 2017, the Central Bank continued to meet all its statistical reporting obligations to the ECB. Data provided includes detailed information on the funding and lending activities of credit institutions (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 Central Bank also provides monthly and quarterly data to the ECB on the non-bank financial sector, primarily for investment funds and Financial Vehicle Corporations (FVCs) engaged in securitisation activities. Irish data are particularly significant for these entities, as Ireland is a prime location within the euro area for funds and FVCs and its contribution to euro area statistical aggregates are disproportionately large in relation to the size of the economy. 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, and provided to the ECB. Data on securities issuance and holdings are also collected on a security-by-security basis, and work is underway to link these data with Anacredit, to enhance information on exposures, linkages and vulnerabilities within the economy.

Financial Data and Statistics

Statistical data constitute a key component of the Central Bank's assessment of financial stability, facilitating the 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. These data are used to publish statistics and analysis across a range of statistical domains, including mortgage arrears and restructures, funding of SMEs and household borrowing and deposits.

The mortgage arrears publication provides detailed information on the level and type of restructure solutions implemented, and whether these are abiding by the terms agreed. Data are collected for both banks and non-banks holding mortgage assets. Interest rate statistics are published for new and outstanding mortgages, broken down between fixed and variable rates and period of fixation. The regular series of statistical releases provide detailed information on household savings and borrowings, which helps monitor household balance sheets, and particularly, developments in addressing the current high levels of indebtedness and arrears.

Data are also collected and published for much of the financial sector, including investment funds and financial vehicles, sub-divided between securitisation and non-securitisation entities. First data on the balance sheet and transactions of the insurance sector will be published during 2018.

Data initiatives during 2017, included expansion of consolidated banking statistics, enhanced money and banking tables and new data collections on Personal Contract Plans (PCPs) and the car finance market. Internationally, the Central Bank provides data to other international organisations[26] and participates in international forums on financial statistics, including initiatives to address data gaps arising from the crisis. Ireland is a significant location for non-bank entities, many of which fall under the definition of shadow banks. The Central Bank now provides detailed data templates and risk metrics as part of the FSB shadow banking monitoring exercise, and also contributes to the ESRB's shadow banking monitoring report. It was heavily involved in the ESRB's Safe Asset Taskforce, contributing three technical papers, and helping to draft the final report.

IMF Policy and Constituency Issues

The Governor holds the position of Alternate Governor for Ireland on the IMF's Board of Governors. In this role, he attended the IMF/World Bank Group Spring and Annual Meetings held in Washington in April and October 2017.

Discussions at the Spring Meetings focused on sustaining the recovery in the global growth and the policies needed to ensure a more inclusive global economy. Similarly, the agenda for the October meeting covered global prospects and policies, including the role of the IMF at the centre of the global financial safety net, together with a review of the IMF's toolkit to strengthen the IMF.

In December 2017, the Central Bank facilitated the arrangements for the Irish authorities to complete the early repayment of the outstanding IMF loan facility. The repayment of approximately €4.5bn discharged all of the remaining IMF principal loan obligations that were originally to fall due from January 2021 to December 2023.

Other International Activities and Relations

The Central Bank continued to contribute to the work of the International Relations Committee (IRC). This is a high-level Eurosystem forum for exchanging views on matters of common interest in the field of international relations, e.g. G20/IMF issues, the functioning of the international monetary system, the global financial system and global financial market risks.

The Committee is also responsible for preparing the ESCB's position for the negotiation and conclusion of international agreements concerning monetary or foreign exchange regime matters. A new IRC taskforce on the implications of Brexit, set up in 2017, provided regular updates on the Brexit institutional process from a central banking perspective, including the withdrawal agreement and transitional issues as well as providing input on the economic, trade and financial implications assessment of Brexit in collaboration with other Eurosystem/ESCB Committees.

[26] IMF, OECD, Bank for International Settlements (BIS) etc.

Engagement continued with international institutions such as the IMF, the World Bank and the OECD and, in partnership with the Department of Finance, the Central Bank helped formulate Ireland's national position on IMF policy and constituency issues. In addition, the Central Bank met its Post Programme Monitoring and Surveillance (PPS) obligations to the EU funding partners, which included two Post Programme review missions.

External engagements by the Governor during 2017 included the delivery of a speech on "The European Monetary and Financial System: The Role of the Central Bank of Ireland" to the Irish embassy in Tokyo, and remarks on "International Policy Trilemmas" to the London Irish Business Society. The Governor also delivered addresses at international seminars and conferences in Frankfurt, Paris and Washington, and he also participated in the panel on Global Excess Imbalances at the IMF/World Bank Annual meetings.

Recovery and Resolution

The Central Bank is Ireland's National Resolution Authority (NRA) and is responsible for embedding the EU resolution framework within the in-scope firms, and, where necessary, resolving failed or failing firms in an orderly manner.

The Central Bank was designated as Ireland's NRA in 2015, following the transposition of the EU Bank Recovery and Resolution Directive (BRRD) into Irish law. In 2017, the Central Bank focused on advancing resolution plans for all in-scope institutions and addressing impediments to resolvability, while fulfilling the Central Bank's obligations under the EU resolution framework. The functions of the Central Bank, as NRA, are structurally separated from the supervisory and other functional areas. The structural separation ensures operational independence and the avoidance of conflicts of interest.

In the 2017 resolution planning process, there was a focus on the identification and removal of impediments to resolvability, identification of critical functions and the operationalisation of the bail-in tool.

Single Resolution Mechanism

The Single Resolution Mechanism (SRM), which has been in operation for two years, established a centralised decision-making body, the Single Resolution Board (SRB), together with a resolution financing arrangement, the Single Resolution Fund (SRF).

In November 2017, the SRB finalised its first multi-annual programming document, which sets out the roadmap over the next three years. By 2020, the SRB envisages having developed complete resolution plans for all banking groups under its remit. Work will also continue to focus on the operationalisation of the SRF's three main functions - contributions, investments, and funding. In its role as NRA, the Central Bank will work together with the SRB, ECB, and other national authorities to achieve this ambitious plan. In relation to the ongoing development of the EU resolution framework, the Central Bank actively contributed to EU and SRM resolution policy development in 2017 through its membership of the EBA and SRB committees and working groups.

Resolution Planning

Resolution plans are renewed and progressed on at least an annual basis to ensure that they remain up-to-date. As part of the resolution planning process, resolution authorities are required to carry out a 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 is required to address or remove those impediments.

Credit Institutions

In 2017, the Central Bank, in conjunction with the SRB, further developed resolution plans for the Irish licensed banks. In addition to the establishment of holding companies by the two largest domestic retail banks, which significantly enhances their resolvability, resolution plans for all Irish banks and in-scope investment firms were further developed. In the 2017 resolution planning process, there was a focus on the identification and removal of impediments to resolvability, identification of critical functions and the operationalisation of the bail-in tool.

In line with the BRRD, institutions are required to meet a minimum requirement for own funds and eligible liabilities (MREL) to ensure a sufficient level of loss absorbing capacity to support the preferred resolution strategy. In its 2017/2018 planning cycle, the SRB set MREL targets and transition periods at a consolidated level for the major banking groups under its remit, including the domestic retail banks in Ireland.

In order to ensure resolution actions can be executed effectively, close cooperation between the resolution and other relevant authorities is required. In order 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 resolution matters for the relevant institution. The Central Bank participated in and hosted a number of resolution colleges in 2017 for Irish and non-Irish parented institutions.

Investment Firms

The Central Bank, in its capacity as NRA, developed resolution plans for the 11 Irish investment firms within the scope of 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 progressed on an annual basis to ensure that they remain up-to-date. 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 relevant investment firm is required, where possible, to remove or address those impediments, which in some cases will take a number of years to effect.

Resolution Funds

From 1 January 2016, Irish credit institutions were required to contribute to the SRF, which is managed by the SRB. Irish licensed investment firms and third country branches that come within the scope of the BRRD are required to make contributions to the Bank and Investment Firm Resolution Fund (the BIFR Fund), a domestic resolution fund established in accordance with the BRRD.

For the 2017 contribution period, the SRB calculated the levies payable by Irish licensed banks. The Central Bank issued levy notices and collected the levy contributions on behalf of the SRF. In April 2017, c.€105.5m was levied on Irish licensed banks and transferred to the SRF in June. Levy contributions were calculated and collected by the Central Bank in respect of all institutions within the scope of the BIFR Fund for the 2017 levy period. In 2017, BIFR Fund levy contributions of c.€2.3m 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 Central Bank has needed to take resolution action under the Central Bank and Credit Institutions (Resolution) Act 2011, in order to protect members' savings. In 2017, the Central Bank undertook resolution action in relation to Charleville Credit Union Limited, resulting in the liquidation of the credit union. This particular resolution action was necessitated as the credit union breached regulatory directions and was unable to avail of an alternative solution to address its difficulties.

BOX 11

Liquidation of Charleville Credit Union Limited

Charleville Credit Union Limited (CCU) had been the subject of intensive regulatory and supervisory scrutiny for a period of more than ten years. Since 2009, the Central Bank had extensive regulatory engagement with CCU concerning its reserve position, credit risk, governance, and viability. CCU failed to address these matters in a sustained manner and failed to comply with its obligation to raise and maintain the required minimum reserve of 10% of total assets. Regulatory directions were issued to CCU in June 2016 and May 2017 directing the credit union to raise and maintain its regulatory reserves.

CCU twice sought and obtained financial support from the Irish League of Credit Unions (ILCU) in the form of funding from the Saving Protections Scheme (SPS). Despite receiving SPS funding, CCU was unable to raise and maintain its reserves to 10% as required by law in order to protect members' savings.

During 2016 and 2017, CCU sought to address its difficulties by attempting to identify and complete a voluntary transfer of engagements (ToE) with another ILCU-affiliated credit union. Additional SPS funding was available to CCU in order to support a ToE however, on three separate occasions, efforts to negotiate and implement a ToE were ultimately unsuccessful.

Notwithstanding the significant financial support received from the ILCU and the issuance of regulatory directions by the Central Bank, CCU failed to raise its reserves to the standard required by law.

On 13 October 2017, the Central Bank applied to the High Court to appoint David O'Connor and Jim Hamilton of BDO as joint provisional liquidators to CCU. The High Court granted a full winding up order on 13 November 2017. The liquidation of CCU was deemed the only viable solution available in the circumstances as the credit union remained in breach of the regulatory directions without any prospect of being able to resolve its situation. The Central Bank undertook this action in the interests of protecting members and their savings. All members' savings were fully protected in CCU.

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

Credit union services were restored to the Charleville area through two credit unions - Mallow Credit Union Limited and Kilmallock Credit Union Limited.

People and Knowledge

The Central Bank is a knowledge-based organisation that aims to attract, develop and retain skilled people who collaborate to deliver its mandate. The Central Bank's vision to be a fulfilling and progressive workplace for our people continues to be developed through our culture of lifelong learning and an employee value proposition that makes the Central Bank an attractive place to work.

In 2017, a net increase of 139 staff (on a full time equivalent (FTE) basis) was achieved and 1,738 FTEs were employed at 31 December 2017.

In February 2018, the Bank was awarded the Chartered Institute of Personnel and Development (CIPD Ireland) Special Recognition Award, recognising that the Bank has undergone significant organisation change over the last number of years against a challenging and dynamic external backdrop and that the HR function has played a key role in helping business leaders to manage these changes and to engage their people in the journey. The building of HR capabilities and the redesign of the HR function, structures and practices has been a significant enabler of this ambitious change programme. The judges commented that the award reflected strong entries in the categories of HR leadership, Organisation Development/Learning and Development and Wellness.

Resourcing in 2017

A new resourcing strategy was approved in April 2017 which focuses on creating a greater awareness of the employer brand, using targeted recruitment campaigns and social media to attract applicants and developing and managing its staff through purposeful internal moves.

Competition for seasoned professionals across many disciplines in the Central Bank remains a challenge in a very competitive labour market. Interest in the new Graduate Programme (commencing Autumn 2018) was above expectations with over 1,500 applications received and the targeted approach to supervisory recruitment resulted in 74 roles being filled across the supervisory job family. The careers pages of the Central Bank's website became one of the most frequently visited sections of the website in 2017.

In 2017, a net increase of 139 staff (on a full time equivalent (FTE) basis) was achieved and 1,738 FTEs were employed at 31 December 2017. This compares with an increase of 83 FTEs in 2016 and represents an 8.7% increase in staff year-on-year. A total of 620 roles were filled during the year compared to 520 in 2016 and the ratio of internal to external hires was 53% to 47%. However, some areas of the Central Bank have seen more significant resourcing challenges. For instance, 168 new staff joined the Central Bank, working in Regulation. This is a net increase of 84 in 2017. Over 100 vacancies are to be filled, at both senior and entry levels due to the growth in approved headcount, to address turnover and to support increased activity such as Brexit.

Average turnover for the Central Bank increased slightly to 6.4% during 2017, compared to 6.2% in 2016 with some areas experiencing higher turnover levels linked to skills and qualifications which are in high demand. The average turnover continues to compare favourably with financial services generally. Providing excellent career development opportunities for staff emphasises the need for accelerated learning and development programmes to ensure there is a strong pipeline to replace staff who are making career moves within the Central Bank, to the ECB or with the ESAs.

Developing and Retaining Staff in 2017

A new Learning and Development Strategy was introduced in October 2017 which sets Leadership and Management Development as the top HR priority for 2018. The OneBank Technical Curriculum Programme (Foundation, Condensed and Interim), was delivered to over 530 staff during the year, and an "invitation to tender" for the next phases of the Curriculum was issued in November. This programme, once fully implemented, will enable accelerated training and development of staff.

A total of 354 employees were supported to completed further education through the Central Bank's Academic and Professional Training Scheme and, on average, each employee availed of two days training during the year.

A clearer articulation of the Central Bank's employee value proposition, Central Life – One Bank, Many Horizons, was launched in May and brings together all the elements that makes the Central Bank a fulfilling and attractive place to work. The Central Life themes of knowledge, variety, opportunity and pride are incorporated into the Central Bank's resourcing strategy and the Central Bank's Graduate Programme recruitment campaign in particular showcased how the Central Bank is a progressive and fulfilling place to work.

The Central Bank is covered by the Financial Emergency Measures in the Public Interest (FEMPI) legislation and by the new Public Service Pay and Pensions legislation and reversal of previous pay cuts continued in 2017.

Code of Ethics

All staff are required to abide by the principles and standards set out in the Central Bank's Code of Ethics. The current Code of Ethics was updated in 2016 and builds upon our earlier requirements and guidelines issued by the ECB.

During the course of 2017, a new e-learning module was prepared, which all staff were required to complete. The e-learning module provides practical examples of situations where ethical issues can arise and outlines the supports available to staff dealing with ethical issues.

The Central Bank Remembers

Over the past 12 months, three serving Central Bank colleagues have passed away. The Governor, the Commission and all staff offer their deepest sympathies to the families and friends of Paul Hannon, Laura Massini and Brian Carty.

BOX 12

Organisation Design

The Central Bank's Organisation Review Programme formally closed in May 2017. The Programme was initiated to assess and implement improvements in the organisational structure and work practices and it resulted in changes to the Central Bank's approach and methodology to role and organisation design. In addition to new organisational structures, role profiles, job families and a progressive career framework were created to enable change and open up opportunities for staff development and collaboration.

The new design methodology was used in the creation of new functions in the Central Bank as well as in the re-design of the expansion of existing areas where necessary. Further, the new methodology enhanced consistency in role definition and linkages between roles in disparate areas of the organisation.

Improvements in work practices are linked to further defining the Central Bank's desired culture and ways of working and this work is progressing and will continue into 2018. The desired culture links together the Central Bank's ongoing focus on a OneBank approach, diversity and inclusion, leadership capability and the priority behaviours as modelled by leaders. In November, the Central Bank also participated in the Great Places to Work Survey in order to identify opportunities to further develop its culture. The leadership of the Central Bank is conscious of the effect culture can have on organisation effectiveness and performance from its work with regulated entities in the Financial Services Industry.

Investment Portfolio Management

The Central Bank's 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.

The Central Bank's investment portfolio is managed in line with approved parameters 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-2017, the investment portfolio comprised assets of €19bn, including an allocation of €450m equivalent in a US dollar MTM portfolio for diversification purposes. This value represents an increase of €0.3bn on the portfolio value at end-2016 (€18.7bn). The size of the investment portfolio is also subject to the Central Bank's obligations under the Eurosystem's Agreement on Net Financial Assets (ANFA), however these obligations did not contribute to any changes in 2017. 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 2017, the Central Bank's net financial assets (NFA) stood at €17.0bn under the ANFA[27]. The components of the Central Bank's NFA position are outlined in Table 3 below. In addition, the ECB publishes annual average NFA data for each NCB on its website during the first quarter of each year.

Total earnings on the Central Bank's investment portfolio amounted to €272.5m in 2017 compared to €336.4m in 2016. Returns on the investment portfolio, calculated on a valuation basis, were 1.42% in 2017 compared with 1.68% in 2016.

At end-2017, the investment portfolio comprised assets of €19bn. This value represents an increase of €0.3bn on the portfolio value at end-2016 (€18.7bn).

[27] For further details of the Eurosystem's Agreement on Net Financial Assets, see the ECB's website at http://www.ecb.europa.eu/explainers/tell-me-more/html/anfa_qa.en.html

TABLE 3

Central Bank of Ireland Balance Sheet as at 31 December 2017

(All figures in EUR '000s)

ASSETS

ITEM	DESCRIPTION	AMOUNT
A1	**Gold and gold receivables**	**209,381**
A2	**Claims on non-euro area residents in foreign currency**	**3,467,534**
A3	**Claims on euro area residents in foreign currency**	**5,031**
A4	**Claims on non-euro area residents in euro**	**4,503,427**
A5	**Lending to euro area credit institutions related to monetary policy operations in euro**	**7,478,000**
A5.1	Main refinancing operations	0
A5.2	Longer-term refinancing operations	7,478,000
A5.3	Fine-tuning reverse operations	0
A5.4	Structural reverse operations	0
A5.5	Marginal lending facility	0
A5.6	Credits related to margin calls	0
A6	**Other claims on euro area credit institutions in euro**	**535,111**
A7	**Securities of euro area residents in euro**	**70,219,087**
A7.1	Securities held for monetary policy purposes	32,102,027
A7.1.1	Covered Bond Purchase Programme	0
A7.1.2	Securities Markets Programme	1,660,572
A7.1.3	Covered Bond Purchase Programme 2	0
A7.1.4	Outright Monetary Transactions	0
A7.1.5	Covered Bond Purchase Programme 3	3,554,257
A7.1.6	ABS Purchase Programme	0
A7.1.7	Public Sector Purchase Programme - Government securities	21,456,727
A7.1.8	Public Sector Purchase Programme - Supranational securities	5,430,471
A7.1.9	Auxiliary instrument 9	0
A7.2	Other securities of euro area residents in euro	38,117,060
A8	**General government debt in euro**	**0**
A9	**Intra-Eurosystem claims**	**2,801,349**
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)	1,888,412
A9.5	Other claims within the Eurosystem	41,278
A10	**Items in course of settlement**	**0**
A11	**Other assets**	**1,098,993**
A999	**TOTAL ASSETS**	**90,317,913**

LIABILITIES

ITEM	DESCRIPTION	AMOUNT
L1	**Banknotes in circulation**	**17,759,762**
L1.1	Euro banknotes	17,759,762
L1.2	Banknotes in national euro area currencies	0
L2	**Liabilities to euro area credit institutions related to monetary policy operations in euro**	**23,192,124**
L2.1	Minimum Reserve Deposits	15,937,532
L2.2	Overnight deposits	7,254,592
L2.3	Fixed-term deposits	0
L2.4	Fine tuning reverse operations	0
L2.5	Deposits related to margin calls	0
L3	**Other liabilities to euro area credit institutions in euro**	**0**
L4	**Debt certificates issued**	**0**
L5	**Liabilities to other euro area residents in euro**	**12,846,289**
L6	**Liabilities to non-euro area residents in euro**	**1,430,995**
L7	**Liabilities to euro area residents in foreign currency**	**0**
L8	**Liabilities to non-euro area residents in foreign currency**	**0**
L9	**Counterpart of special drawing rights allocated by the IMF**	**920,896**
L10	**Intra-Eurosystem liabilities (net)**	**17,645,540**
L10.1	Liabilities equivalent to the transfer of foreign reserves	0
L10.2	Liabilities related to the issuance of ECB debt certificates	0
L10.3	Other liabilities within the Eurosystem (net)	0
L10.4	Liabilities related to the allocation of euro banknotes within the Eurosystem	17,645,540
L11	**Items in course of settlement**	**0**
L12	**Other liabilities**	**2,673,673**
L13	**Provisions**	**627,840**
L14	**Revaluation accounts**	**9,033,978**
L15	**Capital and reserves**	**4,186,816**
L999	**TOTAL LIABILITIES**	**90,317,913**

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 at31 December 2017). These items are highlighted in GREEN in the table.
2. All figures correspond to those reported in the Statement of Accounts for year ended 31 December 2017.
3. "Other liabilities" is the sum of "Other Liabilities" (€2,367,792) & "Superannuation Liabilities" (€305,881) as reported in the Balance Sheet in the Statement of Accounts for year ended 31 December 2017.
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 2017 but the corresponding figure is shown in Note 17 of the Statement of Accounts for year ended 31 December 2017 as "Other Securities".
5. Elements of the NFA calculation which are zero as at 31 December 2017, are not reported in the Statement of Accounts for year ended 31 December 2017.

BOX 13

The sensitivity of the Central Bank's potential interest rate mismatch to balance sheet movements

The Eurosystem's ongoing non-standard monetary policy measures have led to changes in central bank balance sheets. While these measures are necessary to enable the euro area to meet its monetary policy objectives, they also result in increased risks for the Central Bank. In particular, the APP has resulted in an increased potential interest rate mismatch on the Central Bank's balance sheet.

Such a mismatch arises as low (or negative) yield bonds purchased under this programme generate relatively static income, while the increased liabilities resulting from the programme are linked to the ECB's short-term policy interest rates. As market expectations grow that there will be a sustained adjustment in the path of inflation towards the ECB's euro area inflation target, of below, but close to, 2%, over the medium term, policy rates are expected to increase.

Once rates rise, the cost of funds on the Central Bank's liabilities will also rise; however, the overall return generated by APP assets will likely remain low. This could lead to net losses for the Central Bank if policy rates were to rise rapidly, as other traditional sources of central bank income may not be sufficient to offset the increased liability costs. While the Central Bank continues to purchase low yielding assets under the APP, an increase (or decrease) in the Central Bank's liabilities that are linked to ECB policy rates will lead to an increase (or decrease) in potential interest rate mismatch[28].

The assets side of the Central Bank's balance sheet will be a factor in determining whether there will be sufficient income to offset any losses from an interest rate mismatch. The Central Bank holds a portfolio of Floating Rate Notes (FRNs), which were acquired in 2013 following the liquidation of IBRC. The Central Bank has committed to disposing of these assets as soon as possible, provided financial stability conditions permit. In recent years, these disposals have generated significant realised gains, which, alongside the interest income earned on the assets, has resulted in substantial profits for the Central Bank. In future years, subject to market conditions and the continued ability to dispose of the FRNs, prudent risk management would suggest it appropriate to use a portion of such profits to offset those losses should they arise. Once the FRN portfolio is disposed of entirely, however, the Central Bank's profits are expected to normalise to more modest levels. It may not then be possible to offset any losses, generated via an interest rate mismatch, with income from other traditional sources of Central Bank profits. Hence, a faster pace of FRN disposals may increase the possibility of net losses due to an interest rate mismatch, as profits from the FRN portfolio will have effectively been front loaded and will not be present to offset potential losses in later years.

[28] For instance deposits held by credit institutions, government deposits and intra-Euro system liabilities are linked to policy rates set by the ECB.

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Disposals from the FRN portfolio, however, further affect the Central Bank's risk profile in a number of ways. The FRNs are held on a Mark-to-Market (MTM) basis and are currently subject to revaluation gains, meaning that their earlier disposal will turn these into realised capital gains. As with all bonds, the Central Bank is also exposed to a certain level of credit risk from the FRNs, which will reduce as they are sold.

Furthermore, the significant profits generated from disposals of FRNs may also allow an increase in the Central Bank's financial buffers, due to the ability of the Bank to transfer a maximum of 20% of its overall profit in a given year to its General Reserve.

In summary, the Central Bank's exposure to potential interest rate mismatch has grown as the APP has continued. Quicker disposals from the Central Bank's portfolio of FRNs may contribute to the potential for net losses, arising from an interest rate mismatch, due to the front-loading effect on profit currently arising on the FRNs. This, however, will also most likely lead to a reduction in market and credit risk for the Central Bank, and a potential increase in its general reserves. Nonetheless, since 2016, the Central Bank has prudently set aside a provision to cover losses that may occur in the event that this mismatch was to materialise.

Assets Acquired as part of the Liquidation of the IBRC

During 2017, the Central Bank's holdings of assets acquired as part of the liquidation of the IBRC, referred to as the Special Portfolio, declined to €15.5bn (nominal) by year-end. This reduction reflected the purchase by the NTMA of €0.5bn of the Irish FRN 2043, €3bn of the Irish FRN 2045 and €0.5 m of the Irish FRN 2047 and the redemption by NAMA of €80m of its bonds (all nominal amounts).

ECB Reserves

At the end of 2017, the ECB's reserves amounted to €65.7bn (market value) equivalent. Each NCB manages a proportion of the ECB's foreign exchange reserves in line with its capital key share. Following a request from the Central Bank of Malta, since 1 January 2008, the Central Bank has also managed Malta's share of the US dollar reserves in conjunction with its own share. The ECB reserves under management by the Central Bank amounted to €816.3m (market value) equivalent at year-end 2017, which is proportionate to the sum of the two countries' capital key shareholdings in the ECB.

Information and Resources

Analysis of data and information is a core competency for the Central Bank in delivering on its mandate. In the performance of its responsibilities, the Central 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 are facilitated for staff.

Enhancements to organisational information security are ongoing to deliver improved governance and continued focus on the risk landscape of the Central Bank's system and data.

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 Central Bank and is a key organisational objective. The Data Strategy Programme (known as the Unity Programme) was established to deliver on this vision with specific deliverables in 2017, including:

- Selection of the technology solutions to underpin two key elements of the architecture, i.e. a portal to facilitate interactions with regulated entities and master data management. These technologies will come into production in 2018.
- Procurement of an Enterprise Document Management Solution and selection of an implementation partner. Work on the implementation of this solution to initial divisions will complete in 2018 and planning for a full enterprise-wide rollout will commence.
- Delivery of a Large Data Platform achieving the goal to meet immediate and future data analytics demands, including the mandatory MiFIR Transaction Reporting requirement.
- Embedding of the Data Operations Function (DOF) to continue to provide secure and direct access to data, tools, and expertise in a collaborative environment. This enables the Central Bank to make better, faster and more informed decisions, producing analytical dashboards specific to their business needs. There are currently over 350 business users with access to almost 4bn records.

Developments in Information Security

Enhancements to organisational information security are ongoing to deliver improved governance and continued focus on the risk landscape of the Central Bank's systems and data.

A SWIFT Assurance Programme was launched in 2017 to upgrade the Central Bank's SWIFT systems and infrastructure in line with new SWIFT standards.

BOX 14

Significant IT Projects Delivered in 2017

A significant number of IT projects were successfully delivered during 2017 to support the implementation of regulatory directives and to better meet needs of the Central Bank to utilise technology for the effective and efficient delivery of its mandate.

Projects implemented included:

- The move to North Wall Quay was a seamless exercise from a technology perspective, with no interruption to services in transition. The move afforded the opportunity to upgrade staff of the Central Bank to mobile technology. This enhances collaboration within the Central Bank's campus and provides the ability for staff to work effectively when working remotely or on-site with firms.
- The new Central Bank website was designed to increase the effectiveness of this channel as a key communications tool for the organisation.
- New Capital Requirements Directive (CRD IV) requirements necessitated systems updates, which were implemented in 2017.
- Regulated entities are required to submit mandatory reports to the Central Bank, which required an upgrade of the Central Bank's Online Reporting system (ONR) platform.
- Online provision of Board Papers was implemented for Commission Members to securely access the latest board papers in electronic rather than paper copy.
- A new Enterprise Information Archiving system was implemented in 2017.
- An Information Classification system for efficient classification of all documents and emails within the Central Bank and aligned with ECB guidelines was implemented.
- MiFIR Transaction reporting changes were implemented in line with the January 2018 target.
- MiFID II Reporting system was also implemented to support the requirement from January 2018 for the Central Bank to receive reports from firms.

The Central Bank continues to review and maintain the highest levels of IT Security and a number of significant Security Remediation upgrades were delivered.

Operational Risk Management

The Central Bank maintains a defined Operational Risk Management Framework (ORMF) for the identification, assessment, control, reporting and day-to-day management of risks that may adversely impact the people, processes, systems, physical assets and information involved in the performance of the Central Bank's wide-ranging activities.

Under the ORMF, a three-lines of defence model is maintained for the allocation of responsibilities for the management of operational risk. In accordance with this model, first line divisions are required to maintain up- to- date registers of the risks and controls within their remit and to manage the exposures to these risks in the pursuit of their business objectives. The second line of defence is provided by the Organisational Risk Division which is responsible for defining and implementing policies and frameworks to ensure the consistent application of approved risk management standards within the first line. The Internal Audit Division acts as the third line of defence by providing independent, reasonable, risk-based assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defence achieve their risk management and control objectives.

In addition to the ongoing maintenance of risk and control registers, the Operational Risk Team, conducted quality assurance of divisional risk and control assessments. Operational risks are assessed and prioritised for remediation on the basis of their potential impact and likelihood of occurrence. The Central Bank has defined specific tolerances in respect of this assessment approach to ensure operational risk exposures are actively managed and controlled in accordance with the Commission's approved risk appetite.

A further component of the ORMF relates to a defined policy for the management, reporting and remediation of the consequences of operational risk incidents. The requirements under this policy were met throughout 2017.

In addition to the activities and developments under the ORMF, the Central Bank maintains a dedicated Business Continuity Management Framework (BCMF) to mitigate and manage the potential impacts of disruptive events on normal operations. As part of maintaining the BCMF during 2017, the Central Bank's second line Business Continuity Management team facilitated business impact analyses within a number of divisions to validate the criticality and resilience of their processes, recovery objectives and contingency arrangements in the event that defined disruption scenarios were to occur. These impact assessments provide the basis for the development of divisional continuity plans. Additionally, continuity and recovery tests were conducted to assess the feasibility and effectiveness of these plans, including tests on the Central Bank's alternate work areas to ensure the continuity of operations for disruption scenarios in which the Central Bank's normal premises are unavailable.

The Central Bank's business continuity incident management team was invoked to manage the consequences of Storm Ophelia in October, at which time normal business operations were interrupted for one day, and resumed the following day, without any notable disruption to essential services.

During the year, the Central Bank also progressed the development of a Non-Financial Risk Management Programme (NFRP), focused on designing an appropriate maturity path to ensure full coverage of all non-financial risks, and to enable clear management insight into the relationship between risks, controls, incidents and remedial actions. The NFRP will clearly define responsibilities, ensure risk treatments are proportionate to the Central Bank's mandate and risk appetite. It will also provide mechanisms for assessing the performance and effectiveness of risk management and ensure efficiency of risk management practices and processes.

Project and Programme Management

In 2017, the Central Bank completed 31 projects under its standardised project management process. This represented a 19% increase on 2016 project completions. Additionally, the number and complexity of projects under management, but not due for completion in 2017, was also higher than in previous years signalling continued buoyant project demand.

In addition to the move to North Wall Quay and the Organisation Development Programme, there was significant focus on projects which enhanced regulatory controls and projects designed to improve the internal Operational Risk Management infrastructure. Major project completions in 2017 included: Regulatory Transactions Programme; Organisation Development Programme; Solvency II Implementation; Database Security and Strategic Security Improvements; Support for Large Datasets; Windows 10 Upgrade and IT Device Refresh; Enterprise Mobility Programme.

The Central Bank is committed to applying good practice standards and continuous improvement in the governance, management and delivery of its project and programme portfolio and to this end is compliant with the ISO 21500 best practice Project Management standard. In 2017 the Central Bank further strengthened its resource pool of professional project and programme managers, assigning them to the more complex Central Bank projects. Additionally, the Central Bank continued to invest in its in-house project management training and a number of participants successfully progressed to the award of Project Management Institute (PMI) project management accreditation. During the year, the Central Bank hosted a number of information sharing sessions with Irish public sector organisations and NCBs and will continue sharing its experiences with interested parties.

Expenditure and Procurement Policy Approval Frameworks

The Central 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 Central Bank are monitored and reported to senior management on a monthly and quarterly basis in accordance with that framework.

The key principles of the Central 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 Central 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.

The key principles of the Central 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.

Legal Services

A number of Regulations were prepared during 2017, including those on residential mortgage lending, credit unions and investment firms. Legal assistance was provided on the transposition of a number of EU Directives, including MiFID II. The Central Bank's legal resources also assisted with the SSM and provided assistance to the supervisory divisions on authorisations, ongoing supervision and regulatory actions. In addition, various legal proceedings taken by the Central Bank and against it during the year, including the liquidation of Charleville Credit Union Limited were managed by the organisation's legal resources.

Legal advice was provided on a number of large projects, including the development of the Central Bank's new office at North Wall Quay and the sale of the premises on Dame Street. In-house legal resources also supported the Central Bank's ESCB activities. For example, documentation on monetary policy instruments and procedures and its terms and conditions for participation in TARGET2-Ireland were both 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 Asset Backed Securities with Eurosystem eligibility criteria. In addition, the Bank was represented on the Legal Committee of the ESCB.

Regulatory Decisions

The Regulatory Decisions Unit continued to provide support to the Central Bank's decision-making functions in connection with the refusal or revocation of authorisations, decisions under the F&P regime (such as suspension and prohibition notices), and the Administrative Sanctions Procedure (ASP) under Part IIIC of the 1942 Act. In 2017, ASP Inquiries relating to Quinn Insurance Limited (Under Administration) and Irish Nationwide Building Society (INBS) and certain persons concerned in their management were ongoing. The first public hearings commenced in the INBS Inquiry. The Central Bank has leased an external venue at the DMG Business Centre, Blackhall Place, Dublin 7 in order to provide appropriate facilities for the running of ASP Inquiries.

Protected Disclosures

The receipt of protected disclosures reports is 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 Central Bank. Supervisory actions have been commenced by the Central Bank following the receipt of protected disclosures reports including enforcement action, on-site inspections conducted, RMPs issued and firms placed on a watch list.

The Central Bank receives protected disclosures under a number of distinct regimes at both European and domestic level. A particular area of focus over the past year has been to ensure that processes are adapted to take account of these different emerging regimes (e.g. European Union (Market Abuse) Regulations 2016 and Directive (EU) 2015/2366 (Payment Services Directive (PSD2)).

In 2017, the Central Bank experienced a substantial increase in the number of disclosures made to the Protected Disclosures Desk; 93 protected disclosures were received in 2017 compared to 50 in 2016.

The Central Bank has dedicated email, telephone and a postal address for persons wishing to make protected disclosure reports. Details are contained on a dedicated section of the Central Bank's website.

Facilities Management

BOX 15

Dockland Campus

The Central Bank commenced occupation of its new building on North Wall Quay (NWQ) in late 2016, and completed the relocation of all staff from the existing city centre premises to the Dockland Campus[29] by early April 2017. The Central Bank's objectives when designing the new building were that it would:

- Be highly efficient, flexible, and cost effective
- Reflect the ambition and public service ethos of the organisation
- Facilitate improvements in the Central Bank's capacity to deliver its mandate
- Promote internal communication, openness and transparency
- Provide a dynamic, progressive and sustainable workspace that could support the development of the organisation
- Be delivered to the agreed quality standards, budget and time line.

The strategy to deliver these objectives in the building required alterations to cores in the building, the redesign of the atrium to allow it to be open, the provision of bridges across the atrium with meeting and social spaces around it, and establishing a collaborative heart in the atrium of building. Staff input was a key influence on the design, including a staff survey to "listen" to what staff wanted, workshops with staff across the wide range of "customer experiences" in the building (e.g. meetings, dining, travel, sustainability, health and safety, workstations, visitors, end of journey facilities, etc.) so that staff views influenced how they worked in the building.

The Central Bank's objectives have been achieved through the physical design of the building, its energy and resource efficiency systems[30], combined with a significant technology enhancement to enable the creation of a completely new and supportive environment for staff.

The design also took into account maximising the potential of the existing structure, its river views, orientation and setting up a dialogue with the city. In addition, it succeeded in achieving a flexible work place, and creating a civic identity reflecting the independence of the Central Bank.

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Central Bank Dockland Campus

Photograph by: Hufton & Crow

[29] The Central Bank's Dockland campus comprises its NWQ and Spencer Dock premises
[30] The NWQ building has received a Building Energy Rating of "A2"

The implementation of certified energy management system (ISO 50001) and environmental management system (ISO 14001) supports a focus on continuous improvement to ensure the long-term sustainability and enhanced energy performance of the building. The Central Bank expects that energy usage will be significantly lower in 2018 than in 2016 and 2017 due to the energy sustainability rating of the NWQ Building.

The new building has been positively received by staff and the public. Demonstration of this is the number of awards that the building programme has received, including The Royal Institute of Architects of Ireland Universal Design Award for 2017. The feedback from staff is that they consider the building is a workplace where they can give of their best, that they are proud of, and meets their requirements. In August 2017, the Central Bank launched a new Archive Service, including a dedicated reading room and online catalogue, making the organisation's historical records over 30 years old available to the public for the first time.

After 40 years of occupation in Dame Street, in January 2017, the Central Bank completed the sale of the Dame Street premises (the Tower Building, Commercial Buildings, 9 College Green and 6-8 College Green). The Central Bank also completed its lease of premises at Iveagh Court, Harcourt Street in May 2017. The challenge to relocate all city centre staff to the Dockland Campus and decommission the previous city centre premises required detailed planning. The execution of the plan was completed on time and within budget.

The Central Bank implemented a new Facilities Management operating model with the move to the Dockland Campus, with greater emphasis on partner suppliers providing a range of facilities related services.

Environment, Health and Safety

The majority of staff members (approximately 91%) 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 (94.4%) by end-year. A key performance objective for 2017 was to implement and achieve certification for an integrated management system at the North Wall Quay building 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 the Currency Centre in 2018.

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 Central Bank works. With the help of significant stakeholder engagement, new operating procedures have been implemented 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, steps have been taken 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 Central Bank was awarded the Royal Institute of Architects Ireland Universal Design award for 2017. The award recognised the accessibility focused design principles that were adopted in creating an inclusive environment at its North Wall Quay facility.

The Central Bank was awarded the top prize in the “Financial and Insurance Services” category for the fourth consecutive year at the National Irish Safety Organisation’s 25th Annual Occupational Safety Awards in October 2017. The award was an external endorsement of the strength of its management systems (policies, procedures, forms and records), measured against its business category. The Central 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 16

Energy, Safety and Environmental Performance – Central Bank Initiatives

Actions Undertaken in 2017

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

- Delivered a complete programme of fire safety induction and workstation training and assessment for over 1,500 staff relocated at our Dockland Campus.
- Supported the mobilisation and relocation of 1,500 staff with zero lost time incidents arising.
- Extended 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.
- Achieved recertification to ISO14001:2004 (Environmental) management system standard in the Currency Centre.
- Introduced mobile technologies and managed printing to reduce paper and stationery use.
- Advanced the Accessibility Strategy through a programme of disability awareness training for staff and the set-up of BankAbility, a network for staff directly and indirectly impacted by disability.
- Commenced participation in the OPW Optimising Power @ Work scheme in the Currency Centre reducing energy consumption by 11% or 832,262kWh, 443,595 kgCO2 or saving €59,731.
- Completed BREEAM In Use pre-assessment report for our operations at the North Wall Quay site.
- Promoted energy saving and biodiversity awareness through expert lead sessions for staff.
- Hosted the Sustainable Energy Authority of Ireland and the Irish Green Building Council at our North Wall Quay site to showcase best practice in sustainability.
- Updated and streamlined management system procedures in the Currency Centre in line with Dockland Campus to enhance consistency, efficiency and user engagement.
- Engagement with Environmental Network of European Central Banks on sustainability performance (sharing ideas and best practice on sustainability).

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Actions Planned for 2018

The Central Bank intends to further improve its energy, safety and environmental performance in 2018 by undertaking the following initiatives:

- Promote sustainability awareness for all staff through a Green Week event, to help reduce energy, water and paper use at home and at work.
- Launch new online EHS Induction eLearning module for all staff.
- Expand the OPW sponsored optimising power @ work programme and introduce energy metering to our Spencer Dock site to help reduce energy use.
- Embed sustainability into the procurement cycle.
- Explore water use reduction initiatives in the Currency Centre.
- Reduce the use of compostable and disposable cups through sustainable alternatives.
- Update the Currency Centre environmental management system to meet the requirements of the new ISO 14001:2015 standard.
- Achieve ISO 50001:2011 energy management certification for the Currency Centre by the end of 2018.

TABLE 4

Energy Usage

	Currency Centre		City Centre Sites		Overall	
	2017 kWh	% change against actual 2016	2017kWh	% change against actual 2016	2017 kWh	% change against actual 2016
Electricity	3,392,137	-4%	6,540,668	15%	9,932,805	8%
Gas*	2,681,185	-11%	7,654,590	43%	10,335,775	40%
Oil	438,558	-41%	38,324	82%	476,882	-36%
Total Energy	**6,511,880**	**-11%**	**14,233,582**	**25%***	**20,745,462**	**25.1%**

*A number of factors led to an increase in the gas, electricity and oil consumption at our city centre sites in 2017:
(1) Commissioning of the new building, services and generators in North Wall Quay;
and (2) Operating the Dame Street and Iveagh Court offices in parallel with the early occupation of the North Wall Quay

Communication and Transparency

The Central Bank is developing and broadening its communications channels in order to promote more actively its role to internal, domestic and international stakeholders.

Communications

The Central Bank aims to be an open, credible and responsible organisation and wants all its stakeholders to understand what it does – and why. Timely, effective and accessible communications are vital in achieving this goal with its stakeholders, which include the public, regulated firms, the media, the Oireachtas and staff.

Interacting with the Public

The Central Bank meets regularly with the public to raise awareness of what it does. In 2017, a new outreach initiative was launched, which saw the Governor and senior staff visit schools in counties across Ireland. The Central Bank participates in The Generation €uro Students' Awards, which challenges schools to simulate the role of the Governing Council of the ECB. More than 350 students from 83 teams around the country entered the competition this year - another way to enhance understanding of the Central Bank's work.

The new Central Bank Visitor Centre opened its doors to the public in March, displaying two exhibitions on the history of currencies - the "Euro Exhibition" and "Pounds, Shillings and Independence". More than 3,700 people visited these exhibitions in 2017, which were also showcased at the Central Bank's stand at the National Ploughing Championships held in Screggan, Tullamore, Co. Offaly in September.

In 2017, the Central Bank responded to 14,036 direct contacts from members of the public, addressing a wide range of banking and financial services topics. These consumer queries continue to inspire the development of content on the Consumer Hub section of the Central Bank's website.

Interacting with the media and other stakeholders

The Central Bank expanded its proactive engagement with national and international media in 2017 through increased provision of content suitable for digital channels and the facilitation of interviews with national and international media.

The Central Bank issued 179 press releases and supported a programme of roundtables for stakeholders. There continues to be significant engagement with the Oireachtas and responses were provided to 384 parliamentary questions in 2017.

BOX 17

Central Bank-Transparency Initiatives

Accountability and transparency are key to building understanding and to raise levels of public trust in the Central Bank and to explain the Bank's work and decisions. In addition to ensuring it meets all of its statutory accountability requirements, the Central Bank has also pro-actively provided information to the public on a wide range of items in order to ensure it is as transparent as possible.

Developments in Transparency Initiatives

- The Central Bank was the first Eurosystem NCB to publish the minutes of meetings of its board, the Commission. This publication builds an understanding of the Central Bank's work.
- Transcripts of key media interviews have helped ensure that complex messages are accessible to all stakeholders.
- While being subject to Freedom of Information, the Central Bank has expanded on this obligation and has also taken other initiatives such as the publication of:
    - Senior executives' work diaries and corporate travel expenses
    - Salary costs of staff
    - Payments for goods and services
    - Records of the Macro-prudential Measures Committee
    - The Central Bank's correspondence with Oireachtas Committees
- A new website was introduced in March 2017 which is built on a 'user first' principle with specific content aimed at the public. *www.centralbank.ie*
- The Central Bank has also published details of its engagements with stakeholder groups.
- A programme of explainer articles commenced in 2017 on the Central Bank's website new Consumer Hub which seek to convey complex financial topics in a clear and easily understood way.

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Dockland Campus

The Central Bank's new building reflects in its design both how the organisation wants to work and engage with the public:

- A Visitor Centre was opened to the public in 2017. The exhibition and materials are available in Irish and English.
- A Public Archive was launched in August 2017 and will be releasing records of the Central Bank each year based on a 30 year disclosure basis.
- Both of these services are open free of charge to the public.
- The Central Bank plans to increase its presence in the regions throughout Ireland as part of its outreach strategy. With initiatives such as participating at the largest agricultural event in Europe – the Ploughing Championships.

Building transparency and accountability as an organisation supports the Central Bank's vision of being trusted by the public, respected by our peers and creating a fulfilling organisation for our people to work in.

Roundtable Discussions

The Central Bank also hosted three Roundtable discussions to enhance communication and engagement with stakeholders to discuss economic issues and challenges on selected topics within the Central Bank's policy remit. The Economics Roundtable discussions focused on the labour market; the resolution of NPLs; and non-standard monetary policy in the euro area. A Brexit Roundtable discussed supply chain issues, the import channel and the related forces driving inflation in the context of Brexit. A Roundtable discussion with civil society representatives discussed issues in relation to the economic recovery and outlook, developments in household credit, consumer protection and prudential regulation.

Enhancing Digital Content

In 2017, the Central Bank launched a revamped website, created with a user-focused approach, delivering content designed for consumers, academics and researchers, central bank watchers and regulated entities.

A key innovation is the Consumer Hub section which is a consumer-facing archive of "explainer-style" articles. It attracted more than 62,000 unique and organic page views in the first five months after launch.

The new site also features an expanded careers section, which has been at the heart of a number of recruitment campaigns during 2017 and is managed in-house.

In 2017, the Central Bank also refreshed its corporate branding including its logo, creating a new look and feel appropriate for digital publishing.

Corporate Social Responsibility

The Central Bank strives to be a good corporate citizen. In 2017, real progress was made across the Corporate Social Responsibility pillars of Environment, Community and Workplace, under its guidance of the business partner, Business in the Community Ireland (BITC).

Under the Environment pillar, the Central Bank operates in an environmentally responsible and energy efficient manner. How this is achieved is detailed in the Central Bank's Environmental, Health and Safety annual report, presented at both the Operations Committee and Commission meetings in July 2017.

Initiatives under the Community banner included the Central Bank's North Wall Quay building being an Open House and Culture Night venue for the first time. Both events were over-subscribed, with visitors selected by lottery.

Central Bank staff continue to work with local schools to support financial literacy through both the Early Learning Initiative (ELI) and Junior Achievement Ireland (JAI). Staff volunteered in two local schools to back the ELI in the Docklands with a focus on numeracy and future employability. The Central Bank's JAI involvement saw more than 30 staff volunteering in over 20 schools, teaching understanding money and life skills.

The Central Bank also held two 'Schools-to-Work' events in NWQ in June and December 2017, which involved the use of interactive games to help students build awareness of the importance of managing finances.

Pictured at the launch of the Rainbow Network to support LGBTQ colleagues and allies: *left to right*, are Tom Lowth, Nuala Crimmins, Ed Sibley, Fergal Quill, Lisa Carroll and Grainne McEvoy.

Steering Groups and Networks

The Bank recognises the value that the diversity of experience and background among our employees brings and our aim is to provide a fulfilling and inclusive workplace for all our people, regardless of their differences. The Diversity and Inclusion Steering group has met on a number of occasions during 2017 to set the D&I agenda and is focused on understanding the Central Bank's demographics and statistics, supporting the Banks 4 Diversity and Inclusion Networks now in place and advocating the importance of diversity in organisation we regulate.

Two new employee-led Diversity & Inclusion Networks were launched in 2017. In May, the Governor launched the Rainbow Network to support LGBTQ colleagues and allies. The Central Bank wishes to promote a culture in which LGBTQ colleagues can live and work openly – being their authentic selves. Margot Slattery who is LGBTQ Businesswoman of the year spoke at the launch. During 2017, the LGBTQ Network ran a number of events including; a lunch time session in conjunction with BelongTo, one of the Central Bank's Partner Charities, for parents, carers and others on how to support family members at a sensitive time in their lives and also an event to mark Pride Week.

In September, the BankAbility Network was launched to support and enable staff impacted by disability, to promote disability awareness among all staff and to ensure that persons with a disability are afforded an equal opportunity to progress and develop. Sinead Kane (who is a solicitor and the first visually impaired athlete to complete the World Marathon Challenge) addressed the network and the Central Bank of Ireland was presented with a national award for Universal Design from The Royal Institute of the Architects of Ireland in recognition of the accessibility of the North Wall Quay building.

The Parents and Carers, and the Women's network continue to be very active, hosting a number of internal and external speakers and events. In 2017, the Women's Network hosted a number of internal and external speakers including: Sharon Donnery, Deputy Governor, Central Banking; Derval McDonagh, Head of HR; Nuala Crimmins, Head of Insurance Supervision; and Deirdre Walsh, Head of the Central Credit Register.

From an external perspective, the Central Bank advocates the importance of diversity in the organisations that we regulate, recognising the risks a lack of diversity can bring, particularly to decision-making and cultural issues in firms. The importance of diversity was highlighted in a number of speeches given by senior leaders from the Central Bank over the past year.

The Central Bank published research in March 2017 that showed that approximately 80% of the most senior and influential appointments in regulated firms in Ireland between 2012 and 2016 were male. We have committed to carrying out similar research on an annual basis. The Central Bank also carried out an analysis of the diversity policies of credit institutions and insurance firms and noted the lack of ambition in the vast majority of these policies. The Central Bank expect regulated firms to meaningfully address diversity and inclusion in the boardroom, at the executive level and the pipeline of talent needed to run the organisation in the long-term.

Measuring and Reporting on Organisational Performance

Balanced Scorecard Process

The Balanced Scorecard (BSC) methodology is used in the Central Bank as a means of measuring organisational performance and, particularly, to ensure that the goals and objectives set out in the its 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 Central 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%. Merit leave was awarded on 1 April 2017 for PMDP 2016. The total number of merit leave days awarded was 2,401, at an overall cost of €649,229 (an estimated 0.51% of the Bank's total salary cost).

Freedom of Information

The provisions of the Freedom of Information Act (FOI) 2014 apply to the Central Bank. As an FOI body, it regularly publishes a range of financial and corporate information on its website . In the interests of accountability and openness, the Central Bank voluntarily publishes Commission minutes six weeks after each meeting, accounts of the quarterly meetings of the Macro-Prudential Measures Committee, and correspondence between the Governor and members of the Oireachtas.

During 2017, 98 FOI requests were received, 35 of which were granted/part-granted and 39 refused under the various exemption provisions of the FOI Act. Seventeen requests were withdrawn, or dealt with outside FOI by the Central Bank's Media Relations Unit; and at end year, seven requests were in progress.

The majority of requests (just over 55%) were received from the media, with approximately 30% being received from members of the public. The remainder of the requests were received from Members of the Oireachtas and legal/commercial firms. Requests related mainly to records concerning individual financial service providers, regulatory records and to Central Bank expenditure, in particular on its new headquarters and on the sale of the Dame Street premises.

In 2017, the Central Bank implemented strategic communication plans for projects including the move to the Dockland Campus and the official opening of North Wall Quay, the Mortgage Measures Review, the visit of ECB President Mario Draghi, the Tracker Mortgage Examination, the Central Credit Register and other supervisory and resolution projects.

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

Philip R. Lane
Governor

24 April 2018

Neil Whoriskey
Secretary

24 April 2018

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Chapter 3: Governance

Chapter 3: Governance

This chapter sets out the procedures and processes applicable to the governance of the Central Bank during 2017, including Internal Audit.

Legal Framework and Statutory Objectives

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

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

The Central Bank Commission

The Act provides that the activities and affairs of the Central Bank (other than ESCB functions) are managed and controlled by the Central Bank Commission (the Commission). The Commission has the following statutory functions: management and control of the affairs and activities of the Central Bank; ensuring that the Central Bank's financial regulation and central banking functions are co-ordinated and integrated; and ensuring that the statutory powers and functions conferred on the Central Bank are properly exercised and discharged. The Commission has adopted its own terms of reference which sets out how it can best deliver on those responsibilities. The Commission reviewed its Terms of Reference during 2017 and adopted revised Terms of Reference at its meeting on 18 October 2017.

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 Central Bank.

In the interests of the efficient and effective management of the Central Bank and the exercise of its powers and functions, the exercise of most of the Central 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 Central Bank's internal controls. In addition, where operational matters are brought before the Commission for decision, the Commission ensures that the Central Bank is acting in an appropriate manner consistent with its statutory functions and powers.

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 Central Bank's internal controls.

The Commission engages with management members on issues of strategic importance to the Central 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 Central Bank to achieve its statutory functions and reviews the Bank's performance in relation to this strategy.

Additional details on Commission members' responsibilities and further details on, *inter alia*, the role and structure of the Commission including Commission and Commission sub-committee meeting attendance are set out in the Governance Statement and Commission Members' Report in this Annual Report (Financial Statements, Part 2). The remuneration of Commission members is reported in the Statement of Accounts.

Members of the Commission

The Governor is the Chairperson of the Commission. The other ex-officio members comprise the Deputy Governor (Central Banking), the Deputy Governor (Prudential 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 hold office for a term of five years, which may be extended by one additional term. In 2017, six such appointed members served on the Commission.

As at 31 December 2017, the following were members of the Central Bank 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 is the 11th Governor of the Central Bank, taking office on 26 November 2015. He is also a member of the ECB's Governing Council and chair of the ESRB's Advisory Technical Committee (ATC).

The Governor, or an Alternate, 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 Central 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.

Prior to his appointment, he was on the academic staff at Trinity College Dublin and he remains affiliated with the university as Whately Professor of Political Economy (on leave).

After his undergraduate education at 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 during 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. His work has been published in the American Economic Review, Review of Economics and Statistics, Journal of Economic Perspectives, Journal of International Economics, NBER Macroeconomics Annual and many other journals.

In 2001, he was the inaugural recipient of the Germán Bernácer Award in Monetary Economics for outstanding contributions to European monetary economics; in 2010, he was co-recipient of the Bhagwati Prize from the Journal of International Economics. He is a former managing editor of Economic Policy.

Prior to joining the Central Bank, he also chaired the Advisory Scientific Committee of the 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, IMF, World Bank, OECD, Asian Development Bank and a number of national central banks. In September 2016, he was appointed as chair of the ESRB High-Level Task Force on Safe Assets. In March 2017, he was appointed as Chair of the Advisory Technical Committee (ATC) of the ESRB for a three-year term.

Deputy Governor (Central Banking)
Sharon Donnery was appointed to the position of Deputy Governor, Central Banking with effect from 1 March 2016. She is an ex-officio member of the Central Bank Commission and the Governor's Alternate on the Governing Council of the ECB. She also represents the Central Bank at the ESRB.

She is the Chair of the SSM High Level Group on NPLs, and was also appointed Chair of the ECB Budget Committee (BuCom) in December 2016. She previously served as the Central Bank's Alternate Member of the Supervisory Board of the SSM.

Deputy Governor Donnery joined the Central 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 (Prudential Regulation)[30]

Ed Sibley was appointed Deputy Governor, Prudential Regulation on 1 September 2017. He is an ex-officio member of the Central Bank Commission and is also a member of the Supervisory Board of the SSM. As Deputy Governor, Prudential Regulation, he is responsible for leading the supervision of credit institutions, insurance firms and the asset management industry.

Prior to this appointment, Deputy Governor Sibley was Director of Credit Institutions Supervision, responsible for overseeing the Central Bank's supervisory work for all banks and credit unions operating in Ireland. He joined the Central Bank in 2012 in the Banking Supervision area. He has more than 20 years' experience working in the financial services sector. His previous experience includes working for the UK Financial Services Authority (FSA), leading the supervision of European banks operating in the UK; and a variety of risk management roles in Bank of Ireland and PwC. He has an MBA from Smurfit Business School, and a first class honours BA Economics degree.

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 NTMA, 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.

[30] Deputy Governor Sibley succeeded Deputy Governor Cyril Roux who resigned on 31 August 2017; he announced his intention to resign in April 2017, at which point, under interim reporting and accountability arrangements, Bernard Sheridan, currently Director of Corporate Affairs, was appointed Acting Deputy Governor from 8 April 2017 to 31 August 2017.

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 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. Alan 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 (MIBI) 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 European Securities and Markets Authority Takeover Bids Network. She is the Irish representative on the OECD Corporate Governance Committee and is a member of the European Commission's Informal Company Law Expert Group. Previously, she was one of the founding members of the Institute of Directors' Centre for Corporate Governance at University College Dublin and a member of the European Commission's Reflection Group on the Future of EU Company Law.

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

John FitzGerald is Chairman of the Government's Climate Change Advisory Council and he is an Adjunct Professor in both Trinity College Dublin and in 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 (ESRI) until October 2014.

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

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

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

Michael Soden was CEO of 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 was appointed Secretary of the Bank on 1 January 2011. He is also Head of the General Secretariat Division with responsibility for Governance, Strategy, Freedom of Information, Briefing and Support to the Governor's Committee members.

Commission Procedures

Meetings of the Commission are scheduled on a monthly basis (except August) and are presided over by the Governor, as Chairperson. Further meetings are scheduled as necessary for the proper performance of the functions of the Commission. Minutes of the Commission meetings are published on the Central Bank's website.

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 Central Bank, and may determine the procedure and define the functions and powers of such committees.

The Commission has established the following committees:

- Audit Committee
- Budget and Remuneration Committee
- Risk Committee.

Reviews of their own effectiveness were commenced in Q4 2017, by each of the sub-committees for the year 2017.

Audit Committee

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

Meetings of the Audit Committee are held at least four times per year. In 2017, 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 can also convene a meeting if requested by the Comptroller and Auditor General or by the external auditors. In addition, at least once a year the Committee meets with the Comptroller and Auditor General and with the external auditors without the presence of the executives. The Chair also holds 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.

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 Central 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 and approve the Charter and annual work plan of the Internal Audit Division, ensuring that adequate attention is given to value-for-money auditing.
- Monitor the effectiveness and independence of the Internal Audit Division in the overall context of the Central Bank's financial risk management systems and, where appropriate, review and ensure follow-up of the reports of the Division.
- 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.
- Ensure that the provisions of the Central Bank's Confidential Disclosures Policy are appropriate to ensure a proper approach to dealing with reports by staff of "wrongdoing".
- Assist the Commission in fulfilling its responsibilities in ensuring the appropriateness and completeness of the systems of internal control and risk management. This includes reviewing the framework by which management ensures and monitors the adequacy of the nature and extent of the internal control systems and the effectiveness of the system of internal control.
- Consider the Central Bank's application of the Code of Practice for the Governance of State Bodies.
- Report to the Commission on its annual assessment of the operation of the system of internal control, to make any recommendations to the Commission thereon and to review the Central Bank's annual statements on internal control and risk management prior to endorsement by the Commission.
- Ensure the provisions of the Central Bank's Fraud Management Policy and Procedure are adequate to ensure reporting on fraud, or suspected fraud within the Central Bank.
- Provide assurance to the Commission in relation to the management of risk and corporate governance requirements for the Central Bank.

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 membership of the Budget and Remuneration Committee, as at 31 December 2017, comprised Alan Ahearne (Chair), Blanaid Clarke, Sharon Donnery and Ed Sibley.

Meetings of the Budget and Remuneration Committee are held at least four times per year. In 2017, there were four 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.

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 and, in addition, the Director General, Financial Conduct.
- Review on at least an annual basis the Central 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 Central Bank's Balanced Scorecard process on an annual basis.
- Review its own terms of reference and its effectiveness on an annual basis.
- Consider other topics as requested by the Commission.

Risk Committee

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

Meetings of the Risk Committee are held at least four times per year. In 2017, there were six meetings of the Risk Committee. There was also one additional meeting held jointly with the Audit 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.

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 Central Bank focusing particularly on:
  - the currency composition and other risk parameters of the investment assets.
  - the security criteria for management of the Central Bank's investment assets.
  - the rate of return earned on the Central Bank's investment assets including an assessment of the performance benchmarks used.
- Consider and advise the Commission on any matters relating to the Central Bank's investment policies and practices, which may be referred to the Committee by the Commission from time to time.
- Review and anticipate the Central Bank's current risk exposures and the overall risk management strategy for the Central Bank.
- Review the current financial situation of the Central 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 Central Bank, drawing also on reports of the Audit Committee.

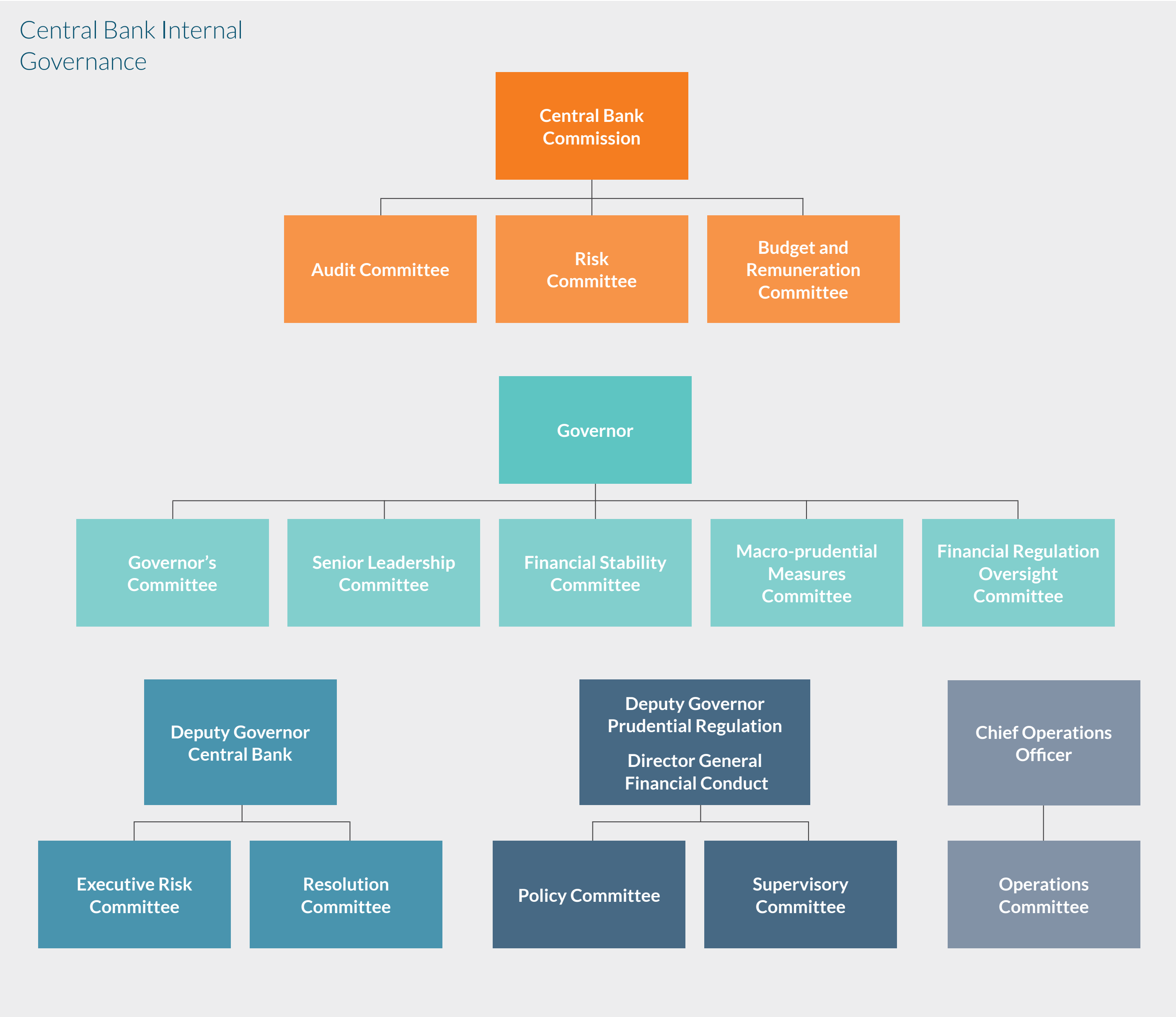
- Monitor implementation of the operational risk and business continuity risk management frameworks, approve interim updates to the respective frameworks, review significant incidents, and consider whether risks or incidents merit discussion at the Commission.
- Review its own terms of reference and its effectiveness on an annual basis.
- Consider other topics as requested by the Commission.

Code of Ethics for Members of the Central Bank Commission

The Commission has adopted a Code of Conduct and Ethics. The Commission reviewed the Code at its meeting on 18 October 2017 and adopted a revised Code in line with the Code of Practice for the Governance of State Bodies 2016. The Code is published on the Central Bank's website.

Internal Governance Structures

While the Commission has overall responsibility for the management and control of the Central 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.


Central Bank Internal Governance
Central Bank Commission
Audit Committee
Risk Committee
Budget and Remuneration Committee
Governor
Governor's Committee
Senior Leadership Committee
Financial Stability Committee
Macro-prudential Measures Committee
Financial Regulation Oversight Committee
Deputy Governor Central Bank
Deputy Governor Prudential Regulation
Director General Financial Conduct
Chief Operations Officer
Executive Risk Committee
Resolution Committee
Policy Committee
Supervisory Committee
Operations Committee

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

- The Governor's Committee is the key executive decision-making committee of the Central Bank for matters of an administrative and management nature that have strategic, organisation-wide or external significance. The Governor is identified as the key decision maker. The Committee's role is to assist and support the Governor in fulfilling his responsibilities, as delegated by the Commission, to manage the Central Bank.
- The Financial Regulatory Oversight Committee ensures effective coordination of regulatory work and related cross-Central Bank policy initiatives. The Committee does not consider ESCB tasks or operational matters.
- The Senior Leadership Committee facilitates the inclusion and involvement of the Directors in the implementation of the Central Bank's strategic agenda. Members of this Committee ensure alignment of all activities and the successful execution of the Central Bank's strategy through the development and review of the Organisational Balanced Scorecard (BSC).
- The Financial Stability Committee advises the Governor on issues central to the fulfilment of the mandate of the Central 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 macro-prudential policy instruments as well as consideration of recommendations from and to the Central Bank's Macro-prudential Measures Committee.
- The Macro-prudential Measures Committee was established in 2016. The Committee's role is to advise on the regular reviews of bank-related national macro-prudential measures and make recommendations about maintaining or revising these rules as appropriate. The Central Bank is the designated national macro-prudential authority in Ireland. In recent times, several macro-prudential 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 macro-prudential policy measures taken by other Member States. Accounts of all Committee meetings held in 2017 are published on the Central Bank's website.

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.

Other high-level internal committees include:

- The Operations Committee: chaired by the Chief Operations Officer, a sub-committee of the Senior Leadership Committee to formulate and deliver the plans that relate to the efficient functioning of the Central 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: co-chaired by the Deputy Governor, Prudential Regulation and the Director General, Financial Conduct, advises them 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: co-chaired by the Deputy Governor, Prudential Regulation and the Director General, Financial Conduct, advises them on regulatory policy issues and initiatives including consultation papers, feedback statements, codes, guidelines, and regulations before their adoption in accordance with relevant delegations.
- The Executive Risk Committee: chaired by the Deputy Governor Central Banking, supports the Governor, the Commission, and Commission Risk Committee in assessing, monitoring and reporting the Central Bank's financial risks and associated management activities.

Accountability

In accordance with Section 32K of the Act, the Central 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 Central 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 Central Bank's financial accounts are also audited by independent external auditors as required by Article 27 of the ESCB/ECB Statute.

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

- A Regulatory Performance Plan outlining the aims and objectives of regulatory activity planned for the current year.
- A review of regulatory performance during the preceding year having regard to the Regulatory Performance Plan for that year, including activities carried out by the Internal Audit function and the Registrar of Credit Unions and any other relevant matters.
- Report of any international peer review on the Central 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 Central 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 Central Bank published a three-year Strategic Plan for the period 2016-2018. During 2017, the Commission undertook an annual review of the appropriateness of the Central 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 going into the final year of the strategy. This is reported on in this Annual Report. Preparatory work has commenced for the next three-year Strategic Plan for the period 2019-2021.

Subject to the requirements of the Maastricht Treaty and the confidentiality provisions imposed by law, the Governor or the Deputy Governors of Central Banking and Financial Regulation will appear before Joint Committees of the Oireachtas on request. In 2017, representatives of the Central Bank appeared at nine Oireachtas Committee meetings.

TABLE 5

Appearances before Oireachtas Committees in 2017

Date	Oireachtas Committee	Attended by
28 February	Committee on Budgetary Oversight Report on the Revised Macroeconomic Indicators	Governor Lane, John Flynn, Head of Irish Economic Analysis Divisions.
9 March	Committee on Finance, Public Expenditure and Reform, and Taoiseach	Gerry Cross, Director Policy and Risk Patrick Casey, Head of Resolution Division
23 March	Committee on Finance, Public Expenditure and Reform, and Taoiseach Engagement with Registrar of Credit Unions	Anne Marie McKieran, Registrar Credit Unions Elaine Byrne, Deputy Registrar of Credit Unions Frank Brosnan, Deputy Registrar of Credit Unions
4 April	Committee on Finance, Public Expenditure and Reform, and Taoiseach Quarterly engagement with Central Bank	Governor Lane Derville Rowland, Director of Enforcement Bernard Sheridan, Acting Deputy Governor (Financial Regulation) and Director of Consumer Protection
4 May	Seanad Select Committee on the Withdrawal of the United Kingdom from the European Union 2017	Gabriel Fagan, Chief Economist Mark Cassidy, Head of Financial Stability Division Mary-Elizabeth McMunn, Head of Supervisory Risk Division
30 May	Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach	Ed Sibley, Director of Credit Institutions Supervision and acting Registrar of Credit Unions Gerry Cross, Director of Policy and Risk John Flynn, Head of Irish Economic Analysis Division
5 July	Joint Oireachtas Committee on Housing, Planning, Community and Local Government Finance for Social Housing: Irish League of Credit Unions (Resumed)	Ed Sibley, Director of Credit Institutions Supervision and acting Registrar of Credit Unions Elaine Byrne, Deputy Registrar of Credit Unions Anna Marie Finnegan, Registry of Credit Unions
19 October	Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach	Governor Lane Sharon Donnery, Deputy Governor, Central Banking Ed Sibley, Deputy Governor, Prudential Regulation Derville Rowland, Director General, Financial Conduct
28 November	Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach	Gerry Cross, Director of Policy and Risk Gráinne McEvoy, Head of Securities and Market Authorisations Division Martina Kelly, Head of Markets Policy Division

Internal Audit

The objective of the Internal Audit Division (IAD) is to act as the independent "third line of defence" within the Central Bank's governance framework. It is the responsibility of the Central Bank's operational management to establish an appropriate system of internal control. 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 Central Bank's tasks and activities. In doing so, it assists the Central 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 2017, IAD conducted a range of audits across the Central Bank. Topics covered included audits of Culture, Procurement of Legal Services, Collateral Management and Local Collateral Management System (LCMS), Data Protection Compliance, IT Strategy and Delivery Model, Banknote Destruction, and Currency Stock Management. In addition, IAD participated in a number of ESCB-wide audits. Topics of these audits included reviews of: IT Security Management (Cybersecurity) and Operation of Value Added Network (VAN). 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 intelligence 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.

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

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. Demonstrating IAD's significant contribution at an IAC level and efforts to raise the Irish profile, IAD were invited to Chair the IAC Statistics Audit Task Force (ATF). The first pan-European audit, which looks at AnaCredit, commenced in January 2018 and will be completed in the first half of 2018.

Appendix 1: Statements and Published Papers by the Bank in 2017

Key Publications 2017

Quarterly Bulletin – January, April, July and October 2017

Macro Financial Review – June and December 2017

Annual Report 2016 – May 2017

Annual Performance Statement (Financial Regulation) 2016-2017 – May 2017

APPENDIX 1 STATEMENTS AND PUBLISHED PAPERS BY THE BANK IN 2017

January

Address/Speech/Presentation	Presenter
Address to Irish Funds Breakfast Briefing and Central Bank's Independent Fund Directors Briefing	Gráinne McEvoy Acting Director of Securities & Markets Supervision
Address to Association of Compliance Officers in Ireland (ACOI)	Sylvia Cronin Director of Insurance Supervision
Address to Brexit and Asia: Implications for Financial Services in Ireland Event	Gerry Cross Director of Policy and Risk
"Globalisation and Innovation in Finance: Policy Challenges" at the European Financial Forum	Governor Philip R. Lane
"IT and cybersecurity risks facing the financial service sector" at Industry Breakfast Event	Gerry Cross Director of Policy and Risk
Address to Credit Union Development Association (CUDA) AGM	Elaine Byrne Deputy Registrar of Credit Unions
"International Policy Trilemmas" at London Irish Business Society	Governor Philip R. Lane

February

Address/Speech/Presentation	Presenter
Address to PwC's Alternative Investment Funds Seminar	Michael Hodson Director of Asset Management Supervision
"Setting the standard: Non-Performing Loans workout in the Euro area" - Bruegel	Sharon Donnery Deputy Governor Central Banking
Address to KPMG Seminar	Michael Hodson Director of Asset Management Supervision
"Globalisation and Innovation in Finance: Policy Challenges" at the European Financial Forum, Dublin Castle	Governor Philip R. Lane
"Some perspectives on Brexit" at the Irish Centre for European Law, Royal Irish Academy	Sharon Donnery Deputy Governor Central Banking
"The Role of Financial Regulation in Protecting Consumers" at University College Cork	Governor Philip R. Lane
"Prospects for the Irish Economy" at the Cork Chamber	Governor Philip R. Lane
Opening Statement at the Committee on Budgetary Oversight	Governor Philip R. Lane

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March

Address/Speech/Presentation	Presenter
Opening Statement at the Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach	Gerry Cross Director of Policy and Risk
"Mind the Gap" at the Credit Union Managers Association (CUMA) Spring Conference 2017	Anne Marie McKiernan Registrar of Credit Unions
"Towards certainty in uncertain times" at KPMG Event	Sylvia Cronin Director of Insurance Supervision
"The Banking Landscape" at the ACOI Conference	Ed Sibley Director of Credit Institutions Supervision
"Brexit and Global Capital Markets" at Chatham House	Sharon Donnery Deputy Governor Central Banking
Introductory Statement at the Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach on "Credit Unions: Challenges and the need for Transformation"	Anne Marie McKiernan Registrar of Credit Unions
"European Financial Integration: Implications of Brexit" at Barclays European Financial Capital Summit	Governor Philip R. Lane

April

Address/Speech/Presentation	Presenter
"MiFID II: Challenges Ahead" at Bloomberg	Michael Hodson Director of Asset Management Supervision
"The long-term well-being of Irish Credit Unions: turning aspirations into reality" at the Irish League of Credit Unions Conference	Ed Sibley Director of Credit Institutions Supervision
Address at Inauguration of the Dockland Campus	Governor Philip R. Lane
"Financial Regulation in a Time of Uncertainty" at University of Limerick	Gerry Cross Director of Policy and Risk

APPENDIX 1 STATEMENTS AND PUBLISHED PAPERS BY THE BANK IN 2017

May

Address/Speech/Presentation	Presenter
Introductory Statement on the Publication of the Central Bank of Ireland Annual Report 2016	Governor Philip R. Lane
Address to Duff & Phelps Seminar	Michael Hodson Director of Asset Management Supervision
Opening Statement at the Seanad Committee on Brexit	Gabriel Fagan Chief Economist
"The European Monetary and Financial System: The Role of the Central Bank of Ireland", at the Irish Embassy, Tokyo	Governor Philip R. Lane
Remarks on Brexit Issues at a New York Brexit Seminar	Gerry Cross Director of Policy and Risk
"External and Internal Spillovers" at the 56th ACI FMA World Congress	Governor Philip R. Lane
"Communication, Collaboration and Coordination: Challenges Implementing Macro-Prudential Policy in the Euro Area" at the second annual ECB Macro-Prudential Policy and Research Conference	Sharon Donnery Deputy Governor Central Banking
"Drivers of Change in the Banking Sector" at the Banking and Payments Federation of Ireland (BPFI)	Governor Philip R. Lane
"Protecting and enhancing the Single Market for financial services: a regulatory perspective" at the European Insurance Forum	Gerry Cross Director of Policy and Risk
Opening Statement at the Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach	Ed Sibley Director of Credit Institutions Supervision,

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June

Address/Speech/Presentation	Presenter
"Anti-Money Laundering Supervision" at the Banking Payments Federation of Ireland (BPFI) Conference	Derville Rowland Director of Enforcement
Opening remarks on "The macro-financial outlook for Ireland" at the launch of the Macro-Financial Review	Sharon Donnery Deputy Governor Central Banking
"Financial Markets and Institutions: Collaboration and Knowledge Dissemination" at the Central Bank Policy Research Meeting on Financial Markets and Institutions	Sharon Donnery Deputy Governor Central Banking
Address on Regulatory Challenges in the "New Normal" at the FIBI International Banking Conference	Gerry Cross Director of Policy and Risk
"Enforcement insights: attitudes and behaviours" at the Milliman seminar	Derville Rowland Director of Enforcement
"Asset and Liability Management: A Supervisory Perspective" at the Asset and Liability Management Association International Summer Conference	Ed Sibley Director of Credit Institutions Supervision

July

Address/Speech/Presentation	Presenter
Opening Statement at the Oireachtas Committee on Housing, Planning, Community and Local Government	Ed Sibley Director of Credit Institutions Supervision & Acting Registrar of Credit Unions
"An update on industry preparedness for MiFID II and regulatory implications stemming from Brexit"	Michael Hodson Director of Asset Management Supervision

August

Address/Speech/Presentation	Presenter
Address at Launch of the Central Bank Archives	Governor Philip R. Lane

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September

Address/Speech/Presentation	Presenter
"Macro-Financial Risk Management" at the Central Bank Economics Roundtable	Governor Philip R. Lane
"Transparency and the Drive for Supervisory Convergence" at PwC/Insurance Ireland CEO Breakfast Briefing	Sylvia Cronin Director of Insurance Supervision
"Non-Performing Loans: The Irish perspective on a European problem" at the ESRB Conference	Ed Sibley Deputy Governor Prudential Regulation
"Central bank risk management in a changing institutional and regulatory environment" at the joint Banco de Portugal – European Central Bank Conference on Risk Management	Sharon Donnery Deputy Governor Central Banking
"Financial Regulation today and an insight on Asset Management Supervision" at the Cork Financial Services Forum Briefing	Michael Hodson Director of Asset Management Supervision
"Innovation and the use of digital technology, cyber risk as a core disrupter and the importance of culture" at OSG Vericlaim/Sedgwick Insurance Innovation Summit	Sylvia Cronin Director of Insurance Supervision

APPENDIX 1 STATEMENTS AND PUBLISHED PAPERS BY THE BANK IN 2017

October

Address/Speech/Presentation	Presenter
"Brexit and other current issues in financial services regulation" at the International Financial Services Regional Forum (South-East)	Gerry Cross Director of Policy and Risk
"Regulation in a changing Environment: some regulatory issues relevant to the Irish funds sector" at the Irish Fund Directors Association	Gerry Cross Director of Policy and Risk
"Brexit: The drive for supervisory convergence" at IDA Ireland	Sylvia Cronin Director of Insurance Supervision
"The Irish Financial Services Sector: A Prudential Regulation Perspective" at the Financial Centres Summit 2017	Ed Sibley Deputy Governor Prudential Regulation
Introductory Statement at the Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach	Governor Philip R. Lane
"The board's role of achieving compliance with CP86, Fund Management Companies Guidance" at Mazars Conference	Michael Hodson Director of Asset Management Supervision
"Transforming banking for customers: A regulatory perspective" at the BPFI Conference	Ed Sibley Deputy Governor Prudential Regulation
Opening Address at the Annual Insurance Briefing	Sylvia Cronin Director of Insurance Supervision
"Asset Management Supervision: The Landscape today and 2018 supervision priorities", at A&L Goodbody Seminar	Michael Hodson Director of Asset Management Supervision

APPENDIX 1 STATEMENTS AND PUBLISHED PAPERS BY THE BANK IN 2017

November

Address/Speech/Presentation	Presenter
Address to the National Supervisors Forum	Frank Brosnan Deputy Registrar of Credit Unions
Address to the Association of Compliance Officers in Ireland	Ed Sibley Deputy Governor Prudential Regulation
"Investment funds, securities lending, and European Capital markets" at the International Securities Lending Association Securities Lending Roundtable	Gerry Cross Director of Policy and Risk
"The Central Bank and Sustainability" at the CEO Breakfast Forum, Business in the Community Ireland	Governor Philip R. Lane
"High Priests and Politics: building public understanding through changing Central Bank communications" at the European Central Bank Communication Conference	Sharon Donnery Deputy Governor Central Banking
"The Importance of Diversity" at the ECB Inspiring Leaders Series	Ed Sibley Deputy Governor Prudential Regulation
"Macro-prudential policy making: where's the evidence?" at the joint Banco de Portugal – European Central Bank conference on macro-prudential policymaking	Sharon Donnery Deputy Governor Central Banking
"The Evolving Regulatory Architecture: A Supervisory Perspective" at the Banking and Payments Federation Ireland (BFPI) Conference – November	Gerry Cross Director of Policy and Risk
Statement on the Review of the Mortgage Measures 2017	Governor Philip R. Lane
Opening statement at the Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach	Gerry Cross Director of Policy and Risk
"Exchange Traded Funds: stability and growth", at the Central Bank's Exchange Traded Funds Conference	Derville Rowland Director General Financial Conduct
"Innovation and insurance in Ireland: a supervisory perspective" at the Insurance Ireland Annual President's Conference	Ed Sibley Deputy Governor Prudential Regulation
"Some Regulatory Priorities for 2018" at the Institute of Bankers in Ireland Certified Bank Director Annual Seminar	Gerry Cross Director of Policy and Risk
"Is it legal? A Question of Culture" at the Eversheds Sutherland Conference	Ed Sibley Deputy Governor Prudential Regulation

December

Address/Speech/Presentation	Presenter
Remarks at FSI Financial Services Forum	Ed Sibley Deputy Governor Prudential Regulation

Articles in Central Bank Quarterly Bulletins

Article	Author
The Aircraft Leasing Industry in Ireland: Cross Border Flows and Statistical Treatment *No. 1 of 2017*	Jenny Osbourne Kinch Dermot Coates Luke Nolan
Securities Holdings Statistics in Ireland: introducing the Enhanced Quarterly Statistics *No. 1 of 2017*	Dermot Coates Jenny Osbourne Kinch Brian Power
The Policy Framework of the International Monetary Fund (IMF): An overview of Recent Developments *No. 1 of 2017*	Mary J. Keeney
The Balancing Act: Household Indebtedness Over the Lifecycle *No. 2 of 2017*	Apostolos Fasianos Reamonn Lydon Tara McIndoe-Calder
The Role of Macro-Prudential Indicators Monitoring Systemic Risk and Settling Policy *No. 2 of 2017*	Ellen Ryan
Monitoring Ireland's Payments using TARGET2 *No. 2 of 2017*	Claire Downey Paul Lyons Terry O'Malley
Liquidity and Risk Management: Results of a Survey of Large Irish-Domiciled Funds *No. 3 of 2017*	Pierce Daly Kitty Moloney
Consolidating Banking Data: Introducing Enhanced Statistics for Ireland *No. 3 of 2017*	Kenneth Devine Jennifer Dooley Ciaran Meehan Aisling Menton
Non-standard Monetary Policy Measures and the Balance Sheets of Euro-system Central Banks *No. 3 of 2017*	Sharon Donnery David Doran Ruth Gleeson Konstantina Carroll
Strategic Stimulus: Analysis of Euro-system Monetary Operations *No. 4 of 2017*	John Graham Anthony Nolan Paul Kane
The Labour Market and Wage Growth after a Crisis *No. 4 of 2017*	Suzanne Linehan Reamonn Lydon Tara McIndoe-Calder Paul Reddan Diarmaid Smyth

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Boxes in Central Bank Quarterly Bulletins

Box	Author
Recent Trends in Personal Consumption Expenditure *No. 1 of 2017*	Paul Reddan Diarmaid Smyth Graeme Walsh
Labour Force Participation of the under-25 Age group: An Analysis of Recent Developments *No. 1 of 2017*	Suzanne Linehan Tara McIndoe-Calder
Exchange Rate Pass through to Consumer Prices *No. 1 of 2017*	Jonathan Rice Paul Reddan
Developments in Data Collection on Credit and Debit Cards *No. 1 of 2017*	Stephen Byrne Colman McGann
Exchange Traded Funds – Insights on statistical reporting *No. 1 of 2017*	Siobhan O'Connell
Do all oil price shocks have the same impact? Evidence from the Euro Area *No. 1 of 2017*	Anastasios Evgenidis
Is there a 'new normal' relationship between trade and global growth *No. 1 of 2017*	Mary Keeney
Custodian (indirect) Reporting and Estimates of the holdings of the Insurance Corporations Sector *No. 1 of 2017*	Dermot Coates Jenny Osborne-Kinch Brian Power
Securities Holding Statistics – Securities Holdings Statistics Database (SHSDB) and Third-Party Holdings (TPH) *No. 1 of 2017*	Dermot Coates Jenny Osborne-Kinch Brian Power
The International Economic Outlook *No. 2 of 2017*	Monetary Policy Division
GNI* A better measure of Domestic Economic activity *No. 2 of 2017*	John Flynn
Exploring recent drivers of personal consumption expenditure *No. 2 of 2017*	Jonathon Rice Stephen Byrne
Sectoral Specialisation of Irish Exports *No. 2 of 2017*	Suzanne Linehan Paul Reddan Diarmaid Smyth
Recent Trends in long-term unemployment and inactivity in the Irish Labour market *No. 2 of 2017*	Thomas Conefrey
The Irish Funds sector – Flows as an Investor Sentiment Indicator *No. 2 of 2017*	Eduardo Maqui

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The International Economic Outlook *No. 3 of 2017*	International Relations Division
The 2016 National Income and Expenditure accounts (NIE) and GNI* *No. 3 of 2017*	Paul Reddan Diarmaid Smyth
A modified measure of Ireland's Current Account *No. 3 of 2017*	Stephen Byrne Suzanne Linehan
Job vacancy Rate and the Irish Labour Market *No. 3 of 2017*	Suzanne Linehan Tara McIndoe Diarmaid Smyth
Assessing the Irish Real Rate from the recently issued inflation linked bond *No. 3 of 2017*	Thomas Brophy
Competition in the Irish Mortgage market *No. 3 of 2017*	Martina Sherman
Recent Developments in Irish Resident real estate funds *No. 3 of 2017*	Bara McCarthy
The International Economy Outlook *No. 4 of 2017*	Monetary Policy Division
Ireland's Current account balance with the UK *No. 4 of 2017*	Stephen Byrne Thomas Conefrey
Ireland's Non-Employment Index *No. 4 of 2017*	Stephen Byrne Thomas Conefrey
Irish Government Revenue Developments in 2016 *No. 4 of 2017*	Linda Kane Ronan Hickey
Revisiting the Impact of Redomiciling Entities on the Market Capitalisation *No. 4 of 2017*	Conor Kelly Dermot Coates Breda McLoughlin

Research Technical Papers 2017

Paper	Author
Investment Fund Risk: The Tale in the Tails *January*	Frances Shaw Peter G. Dunne
Observables and residuals: exploring cross-border differences in Small and Medium Enterprise borrowing costs *February*	James Carroll Fergal McCann
Countercyclical Capital Regulation in a Small Open Economy DSGE Model *February*	Matija Losej Luca Onorante Ansgar Rannenberg
How does monetary policy pass-through affect mortgage default? *March*	David Byrne Robert Kelly Conor O'Toole
The Great Irish Deleveraging *April*	Reamonn Lydon Tara McIndoe-Calder
SME Collateral risk borrowers or risky behaviour *May*	James Carroll Fergal McCann
The Portfolio Rebalancing Effects of the ECB Asset Purchase Programme *June*	Giovanna Bua Peter G. Dunne
What Drives Systemic Bank Risk in Europe: The Balance Sheet Effect *October*	Michael Wosser
Global and Domestic Modelling of Macroeconomic Shocks: A GVAR analysis of Ireland *November*	Michael O'Grady Jonathan Rice Graeme Walsh
Resolving a Non-Performing Loan Crisis. The Ongoing Case of the Irish Mortgage Market *December*	Fergal McCann
Bank Asset Quality and Monetary Policy Pass Through *December*	David Byrne Robert Kelly
News, noise and oil price swings *December*	Laura Moretti Luca Gambetti

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Economic Letters 2017

Paper	Author
The Treatment of Global Firms in National Accounts *February*	Governor Philip R. Lane
Home purchases, down payments, and Savings *February*	Jane Kelly Reamonn Lydon
Identifying Inter-Sectoral Exposures in Ireland using Network Analysis *February*	Mary Cussen
The macroeconomic effects of the regulatory LTV and LTI ratios in the Central Bank of Ireland's DSGE model *March*	Matija Losej Ansgar Rannenberg
The income distribution and the Irish mortgage market *April*	Reamonn Lydon Fergal McCann
Macro-prudential and Irish Mortgage Lending: An Overview of Lending in 2016 *May*	Christina Kinghan Paul Lyons Yvonne McCarthy Conor O'Toole
Quantitative Easing and Portfolio Rebalancing: Micro evidence from Irish resident banks *June*	Katharina Bergant
Exchange rate pass-through to domestic prices *July*	Paul Reddan Jonathon Rice
A non-employment index for Ireland *August*	Stephen Byrne Thomas Conefrey
Liquidity analysis on Bond and Money Market Funds *September*	Naoise Metadjer Kitty Moloney
Debt giveth and debt taketh away - mortgage debt burden in Ireland *October*	Tara McIndoe-Calder
Impact of Financial Sector Support on Public Finances in Ireland and the EU *October*	Ronan Hickey Linda Kane Diarmuid Smyth
Macro-Prudential Measures and Irish Mortgage Lending: Insights from H1 2017 *October*	Christina Kinghan Paul Lyons Yvonne McCarthy
The Financial Vulnerability of Irish Small and Medium Enterprises, 2013 to 2017 *November*	John McQuinn Fergal McCann
Motivating the Use of Different Macro-Prudential Instruments. The Countercyclical Capital Buffer vs. Borrowed-Based Measures *November*	Eoin O'Brien Ellen Ryan
Mortgage Modification in Ireland. A Recent History *December*	Fergal McCann
Borrower-Lender Engagement during the Irish Mortgage Arrears Crisis *December*	Fergal McCann

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Peer Reviewed Articles

Journal Articles

Article	Author
"Understanding Irish Labour Force Participation," Economic and Social Review, 2017, 48 (1), 27–60	Stephen Byrne Martin D. O Brien
"Indirect Convertibility, Equity-Based Banking and Financial Stability," Economic Affairs, 2017, 37 (3), 357–364	David Cronin
"Fortune or fortitude? Determinants of successful adjustment with IMF programs," OECD Journal: Economic Studies, 2017 (1), 37–69	Martin Larch Kristin Magnusson Bernard Peter McQuade
"Hyperinflation in Zimbabwe: Money demand, seigniorage and aid shocks," Applied Economics, 2017, pp. 1–17.	Tara McIndoe-Calder
"The great moderation in international capital flows: A global phenomenon?" Journal of International Money and Finance, 2017, 73, 188–212	Peter McQuade Martin Schmitz
"Co-movements in stock market returns, Ireland and London, 1869-1929," Financial History Review, 2017, 24 (2), 167–184	Rebecca Stuart
"Return Migration, Self-Selection and Entrepreneurship," Oxford Bulletin of Economics and Statistics	Catia Batista Tara McIndoe-Calder Pedro C. Vicente

Consultation Papers 2017

No.	Paper	Month
CP107	Consultation on the Protection of Retail Investors in relation to the Distribution of CFDS	March
CP108	New Methodology to Calculate Funding Levies, Credit Institutions, Investment Firms, Fund Service Providers and EEA Insurers	March
CP109	Consultation on Potential Changes to the Investment Framework for Credit Unions	May
CP110	Consultation on the Implementation of Competent Authority Options and Discretions in the European Union (Capital Requirements) Regulations 2014 and Regulation (EU) No 575/2013	June
CP111	Consultation Paper on the Second Edition of the Central Bank Investment Firms Regulations including changes related to MiFID II	July
CP112	Enhanced Mortgage Measures: Transparency and Switching	Aug
CP113	Consultation on Potential Amendments to Fitness and Probity Regime for Credit Unions	September
CP114	Consultation Paper on Non-Life Insurance Amendments to the Non-Life Insurance (Provision of Information) (Renewal of Policy of Insurance) Regulations 2007	November
CP115	Consultation on the Authorisation and Supervision of Branches of Third-Country Insurance Undertakings by the Central Bank of Ireland	November
CP116	Intermediary Inducements - Enhanced Consumer Protection Measures	November

Statistical Publication

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

Glossary

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.

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 Central 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.

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.

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.

GLOSSARY

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

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".

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

CFT – Countering the Financing of Terrorism - Measures to be taken to prevent terrorist financing are set out in the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 as amended by the Criminal Justice Act 2013. Credit and financial institutions are obliged to take measures to prevent the financing of terrorism such as carrying out customer due diligence, ongoing monitoring, reporting of suspicious transactions, training and having in place effective policies and procedures.

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

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.

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.

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

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.

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.

F&P – Fitness and Probity - The core function of the Fitness and Probity Regime is to ensure that persons in senior positions within regulated financial service providers are competent and capable, honest, ethical and of integrity and also financially sound.

FSB – Financial Stability Board – The FSB is responsible for macroprudential actions aimed at preventing and mitigating systemic risks to financial stability.

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.

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

IBRC – Irish Bank Resolution Corporation - The IBRC was the name given to the entity formed in 2011 by the court-mandated merger of the state-owned banking institutions Anglo Irish Bank and Irish Nationwide Building Society.

IMF – International Monetary Fund – The IMF is an organisation of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

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.

GLOSSARY

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 which 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.

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

NCB – National Central Bank – Typically a NCB provides financial and banking services for its country's government and commercial banking system, as well as implementing the government's monetary policy and issuing currency.

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

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

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.

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.

PRISM - Probability Risk and Impact System – The Central Bank's risk-based framework for the supervision of regulated firms.

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.

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

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.

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 SSM refers to the system of banking supervision in Europe. It comprises the ECB and the national supervisory authorities of the participating countries.

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.

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Part 2:
Financial Operations

Financial Results for 2017

Context

The Bank's balance sheet continues to reflect the wide-ranging measures it has taken in response to the global financial crisis, as part of fulfilling its mandate to contribute to financial system and price stability.

During 2017, key developments in this regard included:

- Continued implementation of Eurosystem non-standard monetary policy measures via the Expanded Asset Purchase Programme (EAPP), 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 EAPP is expected to continue until at least September 2018 or until there is a sustained adjustment in the path of inflation consistent with the objective of achieving inflation rates below, but close to, 2 per cent over the medium term, in the Eurosystem;
- Further disposals of the Bank's holdings in the Special Portfolio of Floating Rate Notes (FRNs), which arose from the liquidation of Irish Bank Resolution Corporation (IBRC). The interest income and gains from these disposals[1] made a substantial contribution to the Bank's profits in 2017. During the course of 2017, a total of €4.0 billion of nominal holdings of the FRNs was redeemed by the NTMA;

1. 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: 2018 (€0.5 billion per annum), 2019-2023 (€1.0 billion per annum) and from 2024 on (€2.0 billion per annum until all bonds are sold).

- The final allotment in the second series of Targeted Longer Term Refinancing Operations (TLTRO II) aimed at reinforcing the ECB's accommodative monetary policy stance and fostering new lending. In parallel, the continuation of the 'fixed-rate full–allotment' approach at Eurosystem level to support liquidity provision and bank lending in the euro area; and
- The Eurosystem's retention of securities purchased under the Securities Markets Programme (SMP), and the maturity of the remaining securities purchased under the first and second Covered Bond Purchase Programmes (CBPP). The aim of these programmes centred on ensuring depth and liquidity in dysfunctional segments of the euro area debt securities markets and restoring an appropriate monetary policy transmission mechanism.

Looking ahead, the Bank's financial risk exposures are likely to increase as it continues to implement the Eurosystem's Expanded Asset Purchase Programme during 2018 and as market conditions continue to adjust. The ECB Guideline allows National Central Banks to make provisions for risks including foreign exchange rate, interest rate, credit and gold price risks. In line with this Guideline, the Bank increased the provision to €500.0 million in the 2017 accounts in respect of exposures to foreign exchange rate, interest rate, credit and gold price risks.

Financial Results

Profit for the year to 31 December 2017 amounted to €2,628.6 million, a 15 per cent increase (€333.6 million) against a corresponding amount of €2,295.0 million in 2016.

Realised gains on the sales of securities held in the Special Portfolio increased by €594.4 million in 2017. This was offset by a provision charge of €296.5 million (2016 €145.6 million) primarily in respect of foreign exchange rate, interest rate, credit and gold price risks. In addition, net interest income decreased by €103.7 million driven by lower holdings in a lower interest rate environment.

Interest Income

Interest income of €1,123.5 million was €62.3 million lower than the comparable amount of €1,185.8 million in 2016.

The decrease was primarily attributable to significantly lower interest earned on securities held in the Bank's Special Portfolio (2017: €432.3 million, 2016: €552.2 million) due to a combination of lower average holdings and lower average interest rates. Income on the Bank's own Held-To-Maturity (HTM) portfolio also declined by €28.9 million (2017: €305.0 million, 2016: €333.9 million) due to lower average interest rates.

Income earned on securities held for monetary policy purposes increased by €32.9 million in 2017 to €237.8 million (2016: €204.9 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 €71.3 million (2016: €43.3 million) and €67.5 million (2016: €47.8 million) respectively during 2017.

Interest Expense

Interest expense amounted to €68.2 million, an increase of €41.4 million in the year. A significant driver of the change is attributable to the interest expense of €28.8 million (2016: €5.4 million) on the TLTRO II operations for the full year in 2017 and the interest expense on securities classified as MTM of €16.1 million (2016: €9.5 million).

Net Result of Financial Operations, Write-Downs and Provisions

The net result of financial operations, write-downs and provisions in 2017 was a gain of €1,649.3 million which compares with a gain of €1,253.9 million in 2016. Realised price gains on the Bank's investment portfolio amounted to €1,953.5 million (2016: €1,372.6 million) and primarily reflect realised gains of €1,953.7 million on partial sales of the Special Portfolio offset by a loss on sales of other securities of €0.2 million.

There was an unrealised exchange rate loss of €7.1 million in 2017 primarily on the US Dollar portfolio.

Unrealised price losses increased by €0.5 million at end 2017.

A provision charge of €296.5 million in 2017 reflects the provision for foreign exchange rate, interest rate, credit and gold price risks of €335.0 million (2016: €165.0 million) offset by the release of €40.0 million of the provision for risks relating to securities held for monetary policy purposes and investments (2016: €20.0 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 €25.0 million in 2017 (2016: €2.5 million) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares.

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 2017 of €276.4 million (2016: €233.4 million). These comprise pay, non-pay, banknote raw materials and depreciation costs.

Staff costs, including pay, increased by €25.7 million (18 per cent). Higher salary costs, reflect increased staff numbers and the partial restoration of salaries under Financial Emergency Measures in the Public Interest (FEMPI).

Other operating expenses and banknote raw materials increased by €13.1 million (17 per cent). Depreciation charges amounted to €14.9 million (2016: €10.8 million) reflecting the additional depreciation arising from the completion of the North Wall Quay premises.

After transfers to reserves and adjustments related to the recognition of a net actuarial gain on the Bank's pension scheme, as required under Financial Reporting Standard 102 (FRS 102), the Bank's Surplus Income payable to the Exchequer amounted to €2,101.3 million (2016: €1,836.2 million).

Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2017 were €90.3 billion, an increase of €7.5 billion (nine per cent) over the corresponding balance for end 2016 (€82.8 billion).

Assets

A net increase of €9.7 billion in securities held for monetary policy purposes reflects ongoing purchases under the Expanded Asset Purchase Programme.

This increase has been offset by a €5.9 billion decrease in the value of assets acquired following the liquidation of IBRC (the Special Portfolio) due to partial sales of €4.0 billion (nominal).

In addition, the ECB Target balance was an asset of €1.9 billion at the end of 2017 compared to a liability of €1.0 billion at end 2016.

Liabilities

Credit Institutions' (commercial banks) and Government deposits increased by €4.0 billion and €2.4 billion respectively in 2017.

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 €1.1 million was redeemed in 2017 (2016: €1.3 million) leaving €226.0 million in Irish banknotes outstanding at end 2017 (2016: €227.1 million) and a balance of €6.3 million in the provision at year-end (2016: €7.4 million).

Proceeds of Coin

During 2017, the net value of euro coin redeemed was €2.2 million (2016: €6.0 million issued) reflecting a decrease in demand from the public. After deduction of coin production expenses, net proceeds of €4.4 million were repaid by the Exchequer (2016: €4.7 million paid by the Bank to the Exchequer). The Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2017, Irish coin redeemed totalled €0.4 million (2016: €0.2 million). Full details are incorporated in Note 25 of the Statement of Accounts.

Prompt Payment of Accounts 2017

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 2017, with corresponding figures for 2016.

	2017	2016
Total number of Late Payments	270	143
Total Value of All Late Payments (A)	€1,809,988	€2,366,113
Total Value of All Payments (B)	€116,702,745	€162,031,768
A as % of B	1.55%	1.46%
Total Amount in Interest Paid on Late Payments	€19,398	€20,485

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Statement of Accounts of the Central Bank of Ireland for the year ended 31 December 2017

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

Governance Statement and Commission Members' Report

Introduction

The Central Bank of Ireland (the Bank) was established by the *Central Bank Act*, 1942 (the Act). The Bank has essentially two functions. Firstly, it is Ireland's central bank and a member of the European System of Central Banks (ESCB). Secondly, the Bank is responsible for the regulation of Ireland's financial services sector. The functions of the Bank are set out in section 18B of the Act (as amended). The Act provides that the activities and affairs of the Bank (other than ESCB functions) are managed and controlled by the Central Bank Commission (the Commission).

Role of the Commission

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

Section 18F of the 1942 Act provides that any of the statutory functions vested in the Commission may be delegated 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.

The Commission shall retain the power to exercise any of those functions and powers of the Bank delegated from time to time by the Commission where it considers it appropriate to do so. Further, the Commission approved in July 2017 an updated Plan of Assignment of Responsibility (the Plan) in respect of delegations made.

While the Commission has delegated the exercise of the majority of the functions and powers of the Bank and has approved the Plan of the Assignment for Responsibility for the assignment of such responsibilities, the Commission retains accountability for the effective oversight of the performance of such functions and for ensuring that the powers and functions conferred on the Bank (other than those in respect of which responsibility is conferred solely on the Governor) are being effectively managed and controlled. Where a power has been assigned in accordance with the Plan of the Assignment of Responsibility, that person is accountable to the Governor and to any other person specified in the assignment for its performance.

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 approves the strategy to allow the Bank to achieve its statutory functions and it reviews the Bank's performance in relation to this strategy.

Commission Responsibilities

In summary, the 1942 Act provides that, except as expressly provided by that Act, the affairs and activities of the Bank are to be managed and controlled by the Commission and, as such, the Commission is vested with the statutory functions and powers provided to the Bank. A list of the powers retained by the Commission is set out in the Plan of Assignment of Responsibilities.

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

The Commission has overall responsibility for the system of internal 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 these are 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.

Commission Structure

The Commission is made up of the following ex-officio members:

- Governor (Chairman)
- Deputy Governor (Central Banking)
- Deputy Governor (Prudential Regulation)
- Secretary General of the Department of Finance

In addition, at least six but no more than eight other members are appointed by the Minister for Finance.

The table below lists the members and their appointment, or re-appointment dates (Commission members may be re-appointed for one additional term of five years):

Commission Members	Date Appointed (or Re-appointed)
Philip R Lane*	26 November 2015
Alan Ahearne	1 March 2015
Patricia Byron	1 January 2013
Blanaid Clarke	1 October 2013
Sharon Donnery*	1 March 2016
John FitzGerald	1 October 2015
Des Geraghty	1 October 2014
Derek Moran*	15 July 2014
Ed Sibley*	1 September 2017
Michael Soden	1 October 2014

** Ex-officio members*

GOVERNANCE STATEMENT AND
COMMISSION MEMBERS' REPORT

The Commission regularly arranges for reviews of its own performance and that of its three sub committees – Audit, Budget and Remuneration and Risk – and commenced a self-evaluation review at the end of 2017, which is due to be finalised at its meeting in March 2018. An external evaluation of the effectiveness of the Commission is carried out at least every three years. The last such external review of the Commission's effectiveness took place at the end of 2015 and the next review will be conducted at the end of 2018.

Schedule of Attendance

A schedule of attendance at the Board and Committee meetings for 2017 is set out below.

Commission Members	Commission meetings attended during 2017	Audit Committee	Risk Committee	Budget & Remuneration Committee
Philip R Lane	11/11	-	-	-
Alan Ahearne	11/11	-	6/6	4/4
Patricia Byron	9/11	5/6	-	-
Blanaid Clarke	11/11	6/6	-	4/4
Sharon Donnery	11/11	-	6/6	4/4
John FitzGerald	11/11	6/6	-	-
Des Geraghty	10/11	-	6/6	-
Derek Moran	10/11	-	-	-
Cyril Roux**	3/3	-	2/2	1/1
Bernard Sheridan**	3/4	-	2/2	2/2
Ed Sibley	4/4	-	1/2	1/1
Michael Soden	10/11	-	6/6	-

Membership Changes

One member of the Commission resigned during the year.

**Cyril Roux resigned as Deputy Governor, Financial Regulation, on 31 August 2017. Under interim reporting and accountability arrangements, Bernard Sheridan was appointed Acting Deputy Governor, Financial Regulation for the period 8 April 2017 to 31 August 2017.

Ed Sibley was appointed Deputy Governor, Prudential Regulation on 1 September 2017.

Disclosures Required by Code of Practice for the Governance of State Bodies (2016)

The following disclosures are included in Note 9 – Expenses:

- Employee Short-Term Benefits Breakdown;
- Remuneration and Expenses paid to Commission Members in 2017;
- Travel and Subsistence Expenditure;
- Legal Costs and Settlements;
- Consultancy Costs; and
- Hospitality Expenditure.

Statement of Compliance

The Commission has adopted the Code of Practice for the Governance of State Bodies adapted in some instances to take account of the Bank's particular governance framework and the statutory requirements of the *Central Bank Acts* and the ESCB Treaties, including the requirement for the Bank to be independent. The Commission has put procedures in place to ensure the application of relevant principles with the Code. In that context, each provision has been assessed, and the Bank is either currently applying the provision, adopting the provision, or adapting the provision to take account of the Bank's statutory requirements. Certain provisions have been assessed as not applicable to the Bank.

Where certain provisions are adapted or not applicable, this is to recognise the statutory regime that the Bank is subject to. The 1942 Act provides the statutory regime for the Bank, including how it is to interact with the Minister for Finance taking into account the Bank's independence requirements.

A copy of the Bank's implementation plan for the Code of Practice is available on the Bank's website.

Philip R. Lane
Governor

Patricia Byron
Member of the Commission

20 March 2018

Statement on Internal Control

The Commission has adopted the *Code of Practice for the Governance of State Bodies* (2016) (the 2016 Code), adapted in some instances to take account of the Bank's particular governance framework and the statutory requirements of the *Central Bank Acts* and the ESCB Treaties, including the requirement for the Bank to be independent. The Commission has put procedures in place to ensure the application of relevant provisions of the Code. In that context, each provision has been assessed, and the Bank is either currently applying the provision, adopting the provision, or adapting the provision to take account of the Bank's statutory requirements. Certain provisions have been assessed as not applicable to the Bank. In accordance with the Code, the Commission is required to prepare a statement on the operation of the Bank's system of internal control for the annual reporting period, ending 31 December 2017.

On behalf of the Commission, we confirm our overall responsibility for the Bank's system of internal control, its intended alignment with our approved risk appetite and the assurance processes established to maintain and assess its adequacy and integrity. The Bank's system of internal control comprises an extensive set of policies, procedures, and management and oversight activities. It aims to ensure proportionate measures are in place to manage the risks which inevitably arise in the fulfilment of its wide-ranging statutory mandate and Strategic Plan. These control measures do not seek to eliminate risks, and as such, can only provide reasonable rather than absolute assurance against material loss, error or failure.

To ensure the system of internal control is commensurate with the risks to which the Bank is exposed; the Commission has established a consistent risk identification and assessment process, which considers the likelihood of risks materialising and their potential operational, financial and reputational implications. Throughout 2017, the Commission and its sub-committees received reports on the Bank's strategic, financial and operational risk exposures and various aspects of the system of internal control, and considered the effectiveness of the system as a whole via an annual review procedure. These reports were prepared by the Bank's Internal Audit (IAD) and Organisational Risk Divisions (ORD). Having reviewed these reports, the Commission is satisfied that the overview provided below accurately reflects the status of the system of internal control in operation during the reporting period.

In what follows, this statement sets out information regarding the Bank's system of internal control including the main features of the control environment, risk identification and assessment, key control activities, risk and controls monitoring and the annual review of the system of internal control.

Control Environment

The main features of the control environment established by the Commission include: a comprehensive internal governance structure, an embedded code of ethical conduct, clear management and staff roles and responsibilities, and a continuous performance management system aligned to the achievement of the objectives set out in the Bank's Strategic Plan.

The Bank has adapted specific aspects of the 2016 Code to fulfil the statutory requirements of the Act, which gives rise to a limited number of explanations, which, in each case, achieve the objectives of the 2016 Code in maintaining a robust control environment via alternative statutory or governance measures. In accordance with the *Central Bank Reform Act*, 2010, the Bank maintains a single, integrated structure with a unitary board, the Commission, which is chaired by the Governor. The Act provides that the functions of the Commission are to:

- manage and control the affairs and activities of the Bank (other than European System of Central Bank (ESCB) functions);
- ensure that the Bank's central banking functions and financial regulation functions are integrated and coordinated; and
- ensure that the statutory powers and functions conferred on the Bank are properly exercised and discharged.

The Act provides that any of the Commission's functions may be delegated to the Governor, a Deputy Governor or an employee of the Bank. In ensuring the efficient and effective management of the Bank and the fulfilment 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, and other senior management employees.

Where functions are so delegated, the responsibility and accountability for the performance of these functions lies with that management member. However, the Commission, through its three sub-committees (Audit, Budget and Remuneration and Risk Committees), monitors and reviews the performance of these delegations including the operation of the Bank's system of internal controls. The functions of the Commission and its sub-committees are set out in separate Terms of Reference.

The responsibilities of the Audit Committee include the oversight and review of the financial statements, the external auditors, internal audit and financial risk management, compliance and internal control. The responsibilities of the Risk Committee include, the review of the Bank's current risk exposures and risk management strategy, and monitoring of the internal control environment.

In the reporting period, the Commission has overseen the maintenance of procedures for clearly assigning management responsibilities and annual objectives within the Bank. Management and staff responsibilities and objectives are defined via a comprehensive role profile framework and a performance management system. Executive management, in conjunction with the Commission, specify the Bank's overarching ('entity level') objectives within a three-year Strategic Plan. The Bank's current three-year strategic planning cycle commenced in 2016, and progress reviews of the Strategic Plan are undertaken on an annual basis. The Strategic Plan is approved by the Commission and submitted to the Minister for Finance. The current Strategic Plan defines 11 entity level strategic objectives which relate to the Bank's strategic responsibilities and critical enablers. These objectives form the basis of a Bank-wide Balanced Scorecard which facilitates the disaggregation of sub-objectives to Pillar, Directorate, Divisional, Functional and Individual level goals.

The Commission has in addition, overseen the implementation and adherence to the Bank's Code of Ethics which seeks to ensure the highest standards of ethical conduct amongst staff and officers of the Bank. The Commission has also established a Confidential Disclosures ('Whistleblowing') Policy which it reviews annually. This policy provides employees with a set of channels to confidentially disclose information regarding possible wrongdoing within the Bank without fear of any personal repercussions.

Risk Identification and Assessment

Central to the effective operation of the Bank's system of internal control are procedures to identify and assess risks which may adversely impact the achievement of the Bank's objectives at both an overall enterprise level and divisional level. Identification and assessment of financial, operational and compliance risks provides the basis for determining how they are to be managed in terms of both, the prioritisation and the allocation of resources. The risk assessment procedures also specifically incorporate consideration of the potential impact of material planned and unplanned changes on the effectiveness of the system of internal control.

The assessment of requirements for additional controls and mitigation is also informed by a Risk Appetite Statement (RAS) which includes sub-tolerances for the Bank's principal risks. The RAS specifies the amounts and types of risk the Bank is willing to accept in the pursuit of its objectives. The Commission has reviewed the extent to which the Bank has operated within the parameters of the RAS and are satisfied that management have taken the necessary actions to ensure that risks exposures remain within defined tolerances in so far as possible.

A Strategic Risk Assessment (SRA) is undertaken by the Senior Leadership Committee (SLC) on an annual basis, which aims to identify enterprise level risks which may impede the achievement of the Bank's strategic objectives as set out in its Strategic Plan. The findings of the SRA are subsequently reviewed and challenged by the Risk Committee. The risks are prioritised and lead accountability is assigned to specific directors to ensure appropriate mitigating actions are progressed. A quarterly progress report on these mitigating actions is discussed at the meetings of the SLC, and as part of the annual review of the Bank's Strategic Plan.

ORD is mandated to provide an approach for risk and control identification and assessment for all divisions within the Bank. The approach approved by the Commission comprises a divisional risk and control assessment process which forms an integral part of the Bank's Operational Risk Management (ORM) framework. The risk and control assessment ensures that every division within the Bank establishes and maintains a register of current operational risk exposures and associated controls and countermeasures. A full set of all divisional risk registers is maintained, reviewed and analysed for reporting purposes by ORD and to inform the Bank's SRA.

The Head of the respective division and the Director attest to the completeness of their registers as part of this quality assurance procedure. The Risk Committee of the Commission has reviewed reports on the status of these divisional risks and considered the actions undertaken by management to implement remedial actions and enhance controls throughout the reporting period.

The Risk Committee also oversees a dedicated financial risk assessment framework maintained by ORD. The financial risk assessment framework principally focusses on current and emerging financial risks impacting the Bank's Balance Sheet arising from the implementation of monetary policy and discretionary investment activities. In the reporting period, the Commission has reviewed reports on the status of these financial risks and considered proposals on the effective control and management of these risks in accordance with the tolerances set out in its approved RAS.

Key Internal Control Activities

In the reporting period, the Commission has overseen the implementation of a wide range of control activities to ensure that risks to the achievement of objectives are effectively mitigated, in so far as is operationally and economically feasible. These control activities are performed at all levels of the Bank encompassing control of its financial, physical and information assets, its business processes, and its technology environment, and its compliance with various legal and regulatory obligations. While controls activities can take a number of different forms, each type aims to provide reasonable assurance that a particular control objective is achieved. The key control activities include:

- **Defined Roles and Responsibilities**: A clearly defined organisation and committee structure that is aligned to the Bank's statutory functions, with clearly defined lines of responsibility and authority levels, which are periodically reviewed and approved by the Commission;
- **Human Resource Management:** A human resources governance framework which includes a Commission approved resourcing plan, a robust recruitment policy, formal training programmes for staff, annual performance appraisals and other relevant procedures in place to ensure that staff are competent and adequately trained in carrying out their responsibilities;
- **Financial Management**: Financial planning and annual budgeting processes approved by the Commission, with a comprehensive financial and budget management information system, incorporating accounts payable controls, and regular management and Commission reporting on various aspects of the Bank's expenditure framework;
- **Business Continuity**: A framework to ensure the Bank is able to manage disruptive scenarios, provide contingency premises, recover technologies, maintain in so far as possible the continuity of critical operations, and resume normal business operations in a timely manner;
- **Program and Project Management**: Control activities including a defined governance framework to manage material change within the Bank incorporating procedures for change and project management, investment approval and prioritisation;
- **Physical and Information Security**: Control activities designed to protect staff, premises and physical assets and the confidentiality, integrity and accessibility of information assets from unauthorised alteration, loss or compromise due to accidents, negligence or criminal acts;
- **Fraud Management**: Fraud prevention policies and procedures dealing with fraud risk identification 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;

- **Risk Management**: 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;
- **Internal Audit**: An independent and objective Internal Audit function which uses a risk-based internal audit plan, prepared annually and approved by the Audit Committee; and
- **Procurement**: A centralised procurement function responsible for maintaining effective and compliant procedures for the tendering and approval of vendors in accordance with Public Procurement requirements, incorporating regular reporting to the Audit Committee of the Commission.

The Bank operates a Corporate Procurement Policy (the Policy) that is approved by the Commission. The procurement requirements of the Bank are met in line with this policy and the internal governance framework it establishes.

The Policy is consistent with the principles of the procurement rules and guidelines as set out by the Office of Government Procurement (OGP) save in respect of competitive tenders for goods and services below the EU Threshold (€209,000) where the Bank has decided to operate a National Tender threshold entry point of €50,000 and not €25,000, for the reasons of operating efficiency and effectiveness. Three or more written quotes are obtained for all supply/service tenders between €5,000 and €50,000.

In certain instances, it is deemed appropriate to grant a direct award (without recourse to an appropriate tendering process). Such instances follow an appropriate governance process, as per the Policy. Reporting to both the Operations and Audit Committees on any such awards takes place periodically.

During 2017, expenditure of €1.0 million was incurred across 23 contracts (2016: €1.6 million across 23 contracts), seven of which were put in place in 2017. This represents 1.2 per cent of the Bank's committed spend (2016: 2 per cent). Of these 23 contracts, nine were regularised[1] during the year and there are action plans in place to address the remaining 14 contracts.

A breakdown of these direct awards is provided in the table below. Of the 23 contracts listed, the cumulative spend on ten contracts exceeded the EU threshold, of which seven were closed in 2017. The cumulative spend on five contracts exceeded the adapted national threshold (€50,000), of which one was closed in 2017. Eight contracts were awarded with a value below the adapted national threshold (€50,000), of which one closed in 2017.

1. This is achieved either by completing a tender process, as per the Corporate Procurement Policy; consideration of an allowable exemption for the direct award in place; or where the direct award has run to term and there is no continuing business requirement, the direct award would cease.

TABLE 1.1

Direct awards granted in-line with Corporate Procurement Policy

Reason for direct award	Number of contracts 2017	Spend € 2017	Number of contracts 2016	Spend € 2016
Sensitive or confidential nature of work prohibited a competitive tender process	1	102,065	1	-
Urgent nature of work required	2	-	2	122,400
Rollover of existing contract pending conclusion of tender process	14	743,127	14	1,383,930
Rollover of existing contract which will run to term	6	178,466	6	90,589
TOTAL	**23**	**1,023,658**	**23**	**1,596,919**

Risk and Controls Review and Monitoring

To ensure that the system of internal control is operating in accordance with its expectations, the Commission has established independent assurance procedures to review and monitor the performance and effectiveness of the Bank's risk management and control activities. The review and monitoring procedures are principally undertaken by IAD and include the evaluation and timely reporting of internal control deficiencies to those responsible for taking corrective action, including senior management and the Commission, or its sub-committees where appropriate.

IAD reports directly to the Governor, with unrestricted access to the Audit and Senior Leadership Committees. The activities of IAD are guided by its Internal Audit Charter and Annual Audit Plan that are approved by the Audit Committee. IAD evaluates compliance with the Bank's policies and procedures and applicable laws and regulations, and provides independent and objective assurance on the adequacy and effectiveness of risk management, systems of internal control and governance processes by conducting regular audits and continuous assessment.

IAD reports its findings directly to the Audit Committee. These reports highlight deficiencies and weaknesses, if any, in the systems of internal control and document the agreed corrective measures to be taken where deemed necessary. The Audit Committee receives updates, on a regular basis, on the status of issues raised by the internal and external auditors and follows up to ensure appropriate and timely action is being taken in respect of the issues raised.

Annual Review of the System of Internal Control

We confirm that there was an operating system of internal control in place for the financial year ending 31 December 2017 and that there have been no weaknesses in internal control that have resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements.

We also confirm that the Commission has reviewed the effectiveness of the Bank's system of internal control for the financial year ending 31 December 2017. A detailed review of the effectiveness of the system of internal control was performed by the Audit Committee, which reported its findings to the Commission in February 2018. This review of the effectiveness of the system of internal control included:

- Consideration of the work of the IAD and consideration of its reports and findings;
- Overview of regular reports from the IAD on the status of the Bank's internal control environment and the status of issues raised previously from their own reports and matters raised by the external auditors; and
- Consideration of internal financial control issues identified by the external auditors.

Philip R. Lane	**Patricia Byron**
Governor	Member of the Commission

20 March 2018

Profit and Loss and Appropriation Account for year ended 31 December 2017

	Note	2017 €000	2016 €000
Interest Income	2	*1,123,491*	*1,185,756*
Interest Expense	3	*(68,199)*	*(26,758)*
Net Interest Income		**1,055,292**	**1,158,998**
Net Realised Gains arising from Financial Operations	4	*1,953,494*	*1,399,646*
Write-downs on Financial Assets and Positions	4	*(7,637)*	*(70)*
Transfer to Provisions	4	*(296,521)*	*(145,667)*
Net Result of Financial Operations, Write-downs and Provisions		**1,649,336**	**1,253,909**
Income from Fees And Commissions	5	2,562	2,184
Income from Equity Shares & Participating Interests	6	23,179	22,699
Net Result of Pooling of Monetary Income	7	24,992	2,499
Other Net Income	8	149,629	88,110
TOTAL NET INCOME		**2,904,990**	**2,528,399**
Staff Expenses	9	(171,655)	(145,907)
Other Operating Expenses	9	(85,351)	(72,584)
Depreciation	9	(14,945)	(10,776)
Banknote Raw Materials	9	(4,472)	(4,176)
TOTAL EXPENSES		**(276,423)**	**(233,443)**
PROFIT FOR THE YEAR BEFORE UNREALISED GAIN MOVEMENTS, ACTUARIAL GAIN/(LOSS) AND APPROPRIATION OF PROFIT		**2,628,567**	**2,294,956**
Net Movement in Unrealised Gains	34	(1,853,152)	68,102
Transfers to Revaluation Accounts	34	1,853,152	(68,102)
Actuarial Gain/(Loss) on Pension Scheme	32	60,577	(172,940)
Transfer to General Reserve	35	(587,832)	(285,791)
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	**10,31**	**2,101,312**	**1,836,225**

The accounting policies together with Notes 1 to 44 form part of these accounts.
Banc Ceannais na hÉireann

Philip R. Lane
Governor

Sharon Donnery
Deputy Governor

20 March 2018

Balance Sheet as at 31 December 2017

ASSETS	Note	2017 €000	2016 €000
Gold and Gold Receivables	11	209,381	212,471
Claims on Non-Euro Area Residents in Foreign Currency	12	3,467,534	3,191,361
Claims on Euro Area Residents in Foreign Currency	13	5,031	-
Claims on Non-Euro Area Residents in Euro	14	4,503,427	2,653,307
Lending to Euro Area Credit Institutions Related to Monetary Policy Operations in Euro	15	7,478,000	7,418,000
Other Claims on Euro Area Credit Institutions in Euro	16	535,111	160,432
Securities of Euro Area Residents in Euro	17	70,219,087	67,254,966
Other Securities		*38,117,060*	*44,820,787*
Securities Held for Monetary Policy Purposes		*32,102,027*	*22,434,179*
Intra-Eurosystem Caims		2,801,349	890,090
Participating Interest in ECB	*18*	*199,021*	*199,021*
Claims Equivalent to the Transfer of Foreign Reserves	*19*	*672,638*	*672,638*
Other Claims within the Eurosystem (net)	*20*	*1,929,690*	*18,431*
Other Assets	21	1,098,993	1,005,374
TOTAL ASSETS		**90,317,913**	**82,786,001**

The accounting policies together with Notes 1 to 44 form part of these accounts.
Banc Ceannais na hÉireann

Philip R. Lane
Governor

Sharon Donnery
Deputy Governor

20 March 2018

Balance Sheet as at 31 December 2017

LIABILITIES	Note	2017 €000	2016 €000
Banknotes in Circulation	23	17,759,762	17,084,697
Liabilities to Euro Area Credit Institutions Related to Monetary Policy Operations in Euro	24	23,192,124	19,224,845
Liabilities to Other Euro Area Residents in Euro	25	12,846,289	10,406,599
Liabilities to Non-Euro Area Residents in Euro	26	1,430,995	587
Liabilities to Euro Area Residents in Foreign Currency	27	-	224
Counterpart of Special Drawing Rights Allocated by the IMF	28	920,896	988,353
Intra-Eurosystem Liabilities (net)		17,645,540	17,831,709
Liabilities related to the Allocation of Euro Banknotes within the Eurosystem	*29*	*17,645,540*	*16,879,982*
Other Liabilities within the Eurosystem (net)	*30*	*-*	*951,727*
Other Liabilities	31	2,367,792	2,096,727
Superannuation Liabilities	32	305,881	332,903
Provisions	33	627,840	333,243
Revaluation Accounts	34	9,033,978	10,887,130
Capital and Reserves	35	4,186,816	3,598,984
TOTAL LIABILITIES		**90,317,913**	**82,786,001**

The accounting policies together with Notes 1 to 44 form part of these accounts.
Banc Ceannais na hÉireann

Philip R. Lane
Governor

Sharon Donnery
Deputy Governor

20 March 2018

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[2] 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)[3]. The Bank's Statement of Accounts for 2017 was prepared in line with the provisions set out in the Guideline, which includes preparation on a going concern basis. In cases where the Guideline does not provide specific direction, accounting standards generally accepted in Ireland and relevant statutory provisions[4] 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:

a. 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;

b. No statement of cashflows is required; and

c. 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 judgement or complexity are disclosed in Note 1(n) 'Critical Accounting Estimates and Judgements'.

2. 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 2017 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
3. The Guideline refers to the Guideline of the European Central Bank (03 November 2016) on the legal framework for accounting and financial reporting in the ESCB (ECB/2016/34)
4. 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

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

(i) Trade Date Accounting[5]

The Guideline states that trade date accounting may be implemented either by the 'regular approach' or the 'alternative approach'. The Bank uses the alternative approach and as such, transactions in assets and liabilities are generally booked at the settlement date (usually the trade date plus two business days), as opposed to the regular approach[6] whereby transactions are booked on the trade date.

(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 20, 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 (net)' (Note 20) 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) Note 1(c)(iv), 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), Note 18).

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), Note 1(c)(vii), Note 19).

5. 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)
6. NCBs who use the regular approach book securities off balance sheet on the trade date. At settlement date the off balance sheet entries are reversed and on balance sheet entries are booked

(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 2017.

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 2017.

(iv) Banknotes in Circulation

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

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 (net)' (Note 1(c)(ii), Note 20). The liabilities, in the case of excess issuance relevant to the banknote allocation key, are presented on the Balance Sheet under 'Intra-Eurosystem liabilities (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[9]. 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.

7. 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
8. The banknote allocation key refers to the percentages that result from taking into account the ECB's share of the total euro banknote issue (eight per cent) and applying the Eurosystem capital key to the participating NCBs' share (92 per cent)
9. ECB decision of 3 November 2016 on the allocation of monetary income of the NCBs of Member States whose currency is the euro (recast) (ECB/2016/36), OJ L 347, 20.12.2016, p. 1

(v) Distributions by ECB

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the eight per cent share of euro banknotes allocated to the ECB, as well as the income arising from the securities held under (a) the Securities Markets Programme (SMP), (b) the third Covered Bond Purchase Programme (CBPP3), (c) the Asset-Backed Securities Purchase Programme (ABSPP), and (d) the Public Sector Purchase Programme (PSPP) is due to the euro area NCBs in the financial year it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim distribution of profit[10]. 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 20(iii)).

(vi) Net Result of Pooling of Monetary Income

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

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

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

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

Gold is considered to generate no income. Securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the first covered bonds purchase programme[11], Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme[12] and under Decision ECB/2015/10 of 4 March 2015 on a secondary markets public sector asset purchases programme[13] are considered to generate income at the latest available marginal interest rate[14] used by the Eurosystem in its tenders for main refinancing operations.

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

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

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

(vii) Claims Equivalent to the Transfer of Foreign Reserves

The *Treaty on the Functioning of the European Union*, 1992 and Section 5(A) of the *Central Bank Act*, 1942 (as amended) provides that the Bank has the power to 'transfer assets, income or liabilities to the European Central Bank where required under the ESCB Statute'. Accordingly, the Bank transferred an amount equivalent to €424.8 million to the ECB in January 1999, at the commencement of the European Monetary Union, and received in turn a corresponding claim on the ECB equivalent to this amount. A total amount of €672.6 million has been transferred since 1 January 1999. The resulting claim on the ECB is remunerated at the latest available interest rate for the main refinancing operations adjusted to reflect a zero return on the gold component (Note 1(c)(ii), Note 1(c)(vi), Note 19).

11. ECB Decision (EU) 2009/522 of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L 175, 4.7.2009
12. ECB Decision (EU) 2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17), OJ L 297, 16.11.2011
13. 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
14. 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

(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 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[15] (CBPP1, CBPP2 and CBPP3), debt securities acquired in the scope of the Securities Markets Programme[16] (SMP), and the Public Sector Purchase Programme[17] (PSPP). The securities are measured at amortised cost and are subject to impairment (Note 2(iii), Note 17(ii), Note 33(ii)). 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.

15. ECB Decision of 2 July 2009 on the implementation of the Covered Bond Purchase Programme (ECB/2009/16), OJ L 175, 4.7.2009, p. 18, 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
16. ECB Decision of 14 May 2010 establishing a Securities Markets Programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8
17. 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

(d) Income and Expense Recognition

Income and expenses are recognised on an accruals basis.

(e) Property, Plant and Equipment, Intangible Assets and Heritage Assets

Property, Plant, Equipment and Intangible 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 Assets

Computer Software	-	3 - 5 years

(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 2017 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(ii)). 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. 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 and Presentational Currency

The functional and presentational 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. Monetary assets and liabilities denominated in foreign currency are converted at the spot rate on the balance sheet date (Note 1(c)(i), Note 34).

(i) Amortised Income

Premiums and/or discounts arising on securities are amortised on a straight-line basis over the period to their maturity and are included in net interest income (Note 2, Note 3).

(j) Valuation Policy

(i) Assets and liabilities denominated in foreign currency, un-matured investments, foreign currency contracts outstanding and shares in the Bank for International Settlements are valued at mid-market closing exchange rates at year end (Note 34). The exchange rate valuation of assets and liabilities is performed on a currency-by-currency basis.

(ii) In accordance with the 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 considered unreliable, fair values are determined using mark-to-model valuation techniques including discounted cash flow models which, to the extent possible, use observable market inputs in accordance with FRS 102. A mark-to-model valuation approach inevitably incorporates a high level of management judgement in the absence of observable market data or when observable market data is judged to be unreliable. This judgement includes but is not limited to: evaluating available market information for comparator instruments; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread; adjusting the methodology when observable market inputs become unavailable or are unreliable (Note 12(ii)(a), Note 13(i), Note 14(ii), Note 17(i)(a)).

(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 14(ii), Note 17(i)(b)).

(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. All mark-to-market investments are classed as Level 1 financial instruments unless otherwise stated (Note 12(ii)(a), Note 13(i), Note 14(ii), Note 17(i)(a)).

(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.

The movement in 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 (Note 26(i)). Securities sold under such an agreement remain on the Balance Sheet of the Bank, reflecting the transaction's economic substance as a loan to the Bank. The Bank retains substantially all of the risks and rewards of ownership. The difference between the sale and repurchase price is treated as interest income or interest expense and is accrued over the life of the agreement (Note 2).

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 14(i), Note 16(i)) but are not included in the Bank's securities holdings, reflecting the transaction's economic substance as a loan by the Bank. They give rise to interest income or an interest expense in the Profit and Loss and Appropriation Account. The difference between the purchase and resale prices is treated as interest income or interest expense and is accrued over the life of the agreement (Note 2(vi), Note 3(iv)).

(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) 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, Note 33(ii)).

(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 recognise 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(i)).

(iii) Restructuring Provision

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

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, Note 33(v)).

(iv) Provision for ECB Losses

In accordance with the decision of the Governing Council taken under Article 32.4 of the ESCB Statute, the provision against credit risks in monetary policy operations is allocated between the National Central Banks (NCBs) of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in the year when the initial impairment occurred (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)(i), Note 4, Note 33(ii), Note 33(iv))
- Provisions: (Note 33)
- Depreciation rates (Note 1(e)(ii), Note 22)
- Defined Benefit Pension Scheme valuation (Note 32)
- Valuation of the Special Portfolio (Note 1(j), Note 17(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, 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(vii)).

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

NOTE 2: Interest Income

	2017 €000	2016 €000
Securities - MTM (i)	432,318	552,208
Securities - HTM (ii)	305,022	333,964
Securities for Monetary Policy Purposes (iii)	237,818	204,877
Government Deposits (iv)	71,286	43,298
Credit Institutions Deposits (iv)	67,487	47,755
SDR (v)	3,967	543
Repurchase Agreements (vi)	2,268	37
Rental Income (vii)	1,958	1,950
Other (viii)	476	(9)
Deposit Income	272	231
Deposit Protection/Guarantee Income (ix)	611	695
Reverse Repurchase Agreements (vi)	8	-
Monetary Policy Operations	-	136
Income from Transfer of Foreign Reserve Assets to ECB	-	60
TARGET Income	-	11
TOTAL	**1,123,491**	**1,185,756**

(i) Income earned on securities held in the Special Portfolio amounted to €432.3 million (2016: €552.2 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 17(i)(a)).

Securities - MTM	2017 €000	2016 €000
Special Portfolio	432,318	552,208
- Floating Rate Notes	*432,318*	*551,649*
- NAMA Bond	-	*559*
TOTAL	**432,318**	**552,208**

(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 14(ii), Note 17(i)(b)).

(iii) This item incorporates income on securities held for monetary policy purposes broken down as follows: (Note 1(c)(ix), Note 17(ii)).

Securities for Monetary Policy Purposes	2017 €000	2016 €000
PSPP	128,456	83,844
SMP	93,907	102,122
CBPP3	13,454	13,659
CBPP1	1,547	3,141
CBPP2	454	2,111
TOTAL	**237,818**	**204,877**

The change in the level of income earned in 2017 is a reflection of the associated levels of activity under each programme (Note 17(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 Government deposits and Credit Institution deposits amounting to €71.3 million (2016: €43.3 million) and €67.5 million (2016: €47.8 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 at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations[18] (Note 24, Note 25).

Credit Institution Deposits	2017 €000	2016 €000
Current accounts (covering the minimum reserve system)	42,035	25,049
Deposit Facility	25,452	22,706
TOTAL	**67,487**	**47,755**

(v) This relates to interest on Ireland's Quota in the IMF and Ireland's SDR holdings (Note 12(i)). The increase in interest earned on this holding reflects the aggregate increase in underlying yields in the constituents of the SDR basket, over the course of 2017, and the inclusion of the relatively high yielding Chinese renminbi for the first full year in 2017.

(vi) This relates to income earned by the Bank as part of the management of its investment assets. The Bank uses repurchase/reverse repurchase transactions with approved counterparties under Global Master Repurchase Agreement (GMRA) legal agreements. Income generated represents the difference between the sale and repurchase/purchase and subsequent sell prices (Note 1(l), Note 14(i), Note 26(i)).

18. The marginal interest rate used by the Eurosystem in its tenders for main refinancing operations is currently 0.00%

(vii) 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)).

(viii) Included in Other is an amount of €0.3 million in relation to income on foreign currency swaps (2016: €0.3 million). Also included in Other is an amount of €0.01 million relating to the daily income on futures contracts. This item was an expense in 2016 (Note 38(ii)).

(ix) This relates to income on the Deposit Guarantee Scheme (DGS) Contributory Fund and the DGS Legacy Fund (Note 31(ii)).

NOTE 3: Interest Expense

	2017 €000	2016 €000
Monetary Policy Operations (i)	28,752	5,355
Securities - MTM (ii)	16,136	9,468
Swap Expenses (iii)	14,366	5,409
Reverse Repurchase Agreements (iv)	7,472	3,297
Other (v)	865	1,030
Deposits (vi)	608	477
Remuneration of Liability in respect of allocation of Euro Banknotes in Circulation (vii)	-	1,667
Intra-Eurosystem Balances (net)	-	55
TOTAL	**68,199**	**26,758**

(i) This item consists of the net expense on Longer Term Refinancing Operations (LTROs) held by the Bank during 2017. Previously income was earned on all of these operations, however in 2016 and 2017, a series of Targeted Longer Term Refinancing Operations (TLTRO II) operations were introduced on which interest is being charged at the deposit facility rate. Included within these amounts is income of €0.1 million (2016: €4.2 million) (Note 15).

(ii) This item relates to interest expense on securities classified as MTM in the Bank's investment portfolio during 2017. Many of the securities are currently trading at negative yields. (Note 2(i), Note 12(ii)(a), Note 13(i), Note 14(ii), Note 17(i)(a)).

(iii) This expense is in relation to foreign currency swaps held by the Bank. The increase in expenses is due to the first full year of inclusion of Chinese renminbi in the SDR basket (included since October 2016), and a general increase in the forward points in the underlying basket of currencies that make up the SDR (Note 37, Note 38).

(iv) This item represents interest incurred on Reverse Repurchase Agreements. The Bank uses repurchase/reverse repurchase transactions with approved counterparties under GMRA legal agreements. Expenses generated represent the difference between the purchase and subsequent sell prices. (Note 1(l), Note 14(i), Note 16(i)).

(v) This primarily relates to interest expense payable on current bank account balances (Note 12(ii), Note 14).

(vi) This relates to interest expense payable on deposit bank account balances (Note 16).

(vii) Remuneration of the liability in respect of banknotes in circulation has fallen from €1.7 million in 2016 to nil in 2017. This liability is remunerated at the prevailing MRO rate, which was 0.00% for all of 2017 (Note 23).

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

Net Realised Gains arising from Financial Operations	2017 €000	2016 €000
Realised Price Gains/(Losses) on Securities	1,953,484	1,372,598
- Special Portfolio (i)	*1,953,700*	*1,359,350*
- MTM Portfolio	*(216)*	*13,248*
Realised Exchange Rate Gains (ii)	10	27,048
TOTAL	**1,953,494**	**1,399,646**

(i) This reflects the realised gains on the sales of the Floating Rate Notes (FRNs) (Note 17(i)(a)).

(ii) The decrease in realised exchange rate gains in 2017 reflects a gain in 2016 related primarily to the forward sale of our net SDR exposure following the IMF Quota increase (Note 12(i)(a), Note 37, Note 38).

Write-Downs on Financial Assets and Positions	2017 €000	2016 €000
Unrealised Price Losses on Securities	(572)	(70)
Unrealised Exchange Rate Losses (i)	(7,065)	-
TOTAL	**(7,637)**	**(70)**

(i) The unrealised exchange rate losses primarily relate to unrealised losses on the US dollar MTM portfolio.

Transfer to Provisions	2017 €000	2016 €000
Provision for foreign exchange rate, interest rate, credit, and gold price risks (Note 33(i))	(335,000)	(165,000)
Provision Release for Securities (Note 33(ii))	40,000	20,000
Provision Release for Dilapidations (Note 33(vi))	75	-
Restructuring Provision (Note 33(v))	(460)	(667)
Provision for Eurosystem Monetary Policy Operations Counterparty Risk (i) (Note 33(iv))	(1,136)	-
TOTAL	**(296,521)**	**(145,667)**

(i) This item represents the Bank's share in the provision against losses in monetary policy operations, which was established in relation to a security held by the Eurosystem in its CSPP portfolio (Note 33(iv)).

NOTE 5: Income from Fees and Commissions

	2017 €000	2016 €000
Securities Lending	1,463	949
TARGET2 Distribution of Pooled Income	621	626
Service Fees and Charges	478	609
TOTAL	**2,562**	**2,184**

NOTE 6: Income from Equity Shares and Participating Interests

	2017 €000	2016 €000
Share of ECB Profits (i)	20,028	20,379
BIS Dividend (ii)	3,151	2,320
TOTAL	**23,179**	**22,699**

(i) This item represents the Bank's share of the ECB's profit (Note 1(c)(v)). In 2017, the Governing Council of the ECB decided not to transfer any of the ECB's profits to the ECB risk provision (2016: Nil). The ECB risk provision is maintained at the limit of the paid up share capital of the euro area NCBs.

An amount of €987.7 million (2016: €966.2 million) was paid to the Eurosystem NCBs on 31 January 2018 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 €16.3 million (2016: €15.9 million) (Note 20(iii)). The final distribution of profit for 2016 paid in February 2017, amounting to €3.7 million, is also presented in the 2017 figures (the corresponding figure in 2015, paid in 2016 was €4.4 million).

(ii) This item represents a dividend received on shares held in the Bank for International Settlements (Note 21(iv), Note 36(i)).

NOTE 7: Net Result of Pooling of Monetary Income

	2017 €000	2016 €000
Monetary income pooled	*(152,861)*	*(161,217)*
Monetary income reallocated	*177,902*	*163,372*
Net Receiver of Monetary Income (Note 20, Note 30)	25,041	2,155
Previous Years' Eurosystem Adjustments (Note 20)	(49)	344
TOTAL	**24,992**	**2,499**

This represents the difference between the monetary income pooled by the Bank of €152.9 million (2016: €161.2 million) and that reallocated to the Bank of €177.9 million (2016: €163.4 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 the previous year of €0.05 million (2016: €0.3 million) (Note 1(c)(vi)).

NOTE 8: Other Net Income

	2017 €000	2016 €000
Financial Regulation Net Industry Funding (i)	104,355	74,468
Profit on Sale of Property, Plant and Equipment (Note 22(i))	38,954	-
Expected Return on Pension Fund Assets (Note 32(i))	12,100	16,400
Financial Regulation Monetary Penalties (ii)	7,240	12,076
Other Financial Regulation Income (Note 41)	3,570	3,296
Other	1,818	2,055
Interest on Pension Scheme Liabilities (Note 32(i))	(18,408)	(20,185)
TOTAL	**149,629**	**88,110**

(i) The composition of Financial Regulation Net Industry Funding is provided in Note 41.

(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 €7.2 million in 2017 (2016: €12.1 million), is included in Surplus Income payable to the Exchequer following approval of the Statement of Accounts (Note 10).

NOTE 9: Expenses

	Total Head Office & Printworks*		Mint**		Total	
	2017 €000	2016 €000	2017 €000	2016 €000	2017 €000	2016 €000
Salaries/Allowances (i)	116,004	105,418	372	349	116,376	105,767
PRSI	10,599	9,652	29	25	10,628	9,677
Pensions (Note 32 (i))	45,052	30,837	48	63	45,100	30,900
Staff Expenses	**171,655**	**145,907**	**449**	**437**	**172,104**	**146,344**
Communications & IT	30,415	22,670	8	(9)	30,423	22,661
Business Travel (ii)	2,780	2,790	4	5	2,784	2,795
Office Administration Expense	929	1,436	2	2	931	1,438
Professional Fees (iii)	18,099	14,668	3	2	18,102	14,670
External Research & Corporate Subscriptions	2,293	2,523	3	2	2,296	2,525
Publishing & Public Relations	1,037	419	-	-	1,037	419
Payments & Asset Management Charges	5,180	6,025	6	31	5,186	6,056
Currency Supplies & Machine Maintenance	662	833	10	54	672	887
Training, Education & Conferences	3,082	2,812	1	2	3,083	2,814
Recruitment & Other Staff Costs (iv)	5,715	3,637	-	1	5,715	3,638
Facilities Management & Maintenance	7,116	5,832	1	20	7,117	5,852
Rent & Utilities	6,115	7,290	-	-	6,115	7,290
Miscellaneous (v)	1,928	1,649	-	-	1,928	1,649
Other Operating Expenses	**85,351**	**72,584**	**38**	**110**	**85,389**	**72,694**
Depreciation	**14,945**	**10,776**	**146**	**144**	**15,091**	**10,920**
Currency Production Raw Materials (vi)	**4,472**	**4,176**	**309**	**3,166**	**4,781**	**7,342**
TOTAL EXPENSES	**276,423**	**233,443**	**942**	**3,857**	**277,365**	**237,300**

*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), Note 25(ii)).

(i) 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 per cent of their available working time. Payments made under this policy totalled €94,264 (2016: €180,348), and were made to 44 (2016: 47) staff during the year. Staff in receipt of this allowance are subject to normal taxation.

In 2017, a settlement was made with one individual for €8,289 in relation to a termination payment (2016: €6,961 for one termination payment). There are no payments in 2017 in relation to expiry of fixed term contracts (2016: one payment of €32,919). Payments in lieu of notice were made during the year to two individuals, totalling €1,504 (2016: two payments totalling €19,964).

In 2017, the Bank did not make any retention payments (2016: €449,089 to 28 staff). The 2016 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 in 2016 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.

One Executive Commission member was placed on garden leave (2016: Nil). Garden leave, as a term and condition of employment is standard practice across the ECB and NCBs. Such periods, often also called 'cooling off periods', are necessary in ensuring that actual or perceived conflicts of interest, including post-employment conflicts of interest, are avoided or minimised following the resignation of a staff member. In this case, the individual's contract of employment provided that for any duration of garden leave, base salary would be payable. This amounted to €122,278 and is included as part of the overall salary in the remuneration to Executive Commission members table below.

An amount of €6.0 million (2016: €5.8 million) was payable to the Department of Finance in respect of the pension levy from staff salaries.

Staff Expenses are further analysed into the following -

Staff Expenses (including Mint)	2017 €000	2016 €000
Staff short-term benefits	116,366	105,707
Termination benefits	10	60
Pensions	45,100	30,900
Employer's PRSI	10,628	9,677
TOTAL	**172,104**	**146,344**
Staff Numbers (FTE) at 31 December	**1,816**	**1,697**

FTE – full time equivalents inclusive of maternity cover and interns

Staff Salaries and Allowances are analysed into the following -

Staff Short-Term Benefits (including Mint)	2017 €000	2016 €000
Basic pay	113,470	102,236
Overtime	1,055	1,264
Allowances	1,841	2,207
TOTAL	**116,366**	**105,707**

Included in Basic Pay is an accrual in respect of untaken annual leave of €7.4 million (2016: €7.0 million) (Note 31(iv)).

Remuneration of the Executive Commission members in 2017[19]

Name	Period 2017	Salary	Period 2016	Salary
Philip R Lane Governor (a)	1 January - 31 December	€259,619	1 January - 31 December	€254,048
Sharon Donnery Deputy Governor (Central Banking) (a)	1 January - 31 December	€225,755	1 March - 31 December	€184,093
Ed Sibley Deputy Governor (Prudential Regulation) (a)	1 September - 31 December	€75,790	1 January - 31 December	Nil
Cyril Roux* Deputy Governor (Financial Regulation)	1 January - 31 August	€206,667	1 January - 31 December	€310,000
Bernard Sheridan Acting Deputy Governor (Financial Regulation) (a)	8 April - 31 August	€74,487	1 January - 31 December	Nil

Remuneration of Non-Executive Commission Members

NAME	2017	2016
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	€14,936

Expenses of Non-Executive Commission Members

Name	Travel	Accommodation & Subsistence	Total 2017	Total 2016
Blanaid Clarke	Nil	Nil	Nil	Nil
Alan Ahearne	Nil	Nil	Nil	€546
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

19. * Cyril Roux resigned as Deputy Governor, Financial Regulation, on 31 August 2017. Under interim reporting and accountability arrangements, Bernard Sheridan was appointed Acting Deputy Governor, Financial Regulation for the period 8 April 2017 to 31 August 2017. During this period, Mr Roux was on garden leave.

Remuneration of Key Management Personnel[20]

	2017	2016
Salary	€9,018,026	€8,114,637
TOTAL	**€9,018,026**	**€8,114,637**

Employees Short-term Benefits in excess of €60,000[21]

Pay Bands	2017 No of People	2016 No of People
60,000 - 70,000	286	276
70,000 - 80,000	177	161
80,000 - 90,000	203	148
90,000 - 100,000	55	61
100,000 - 110,000	30	52
110,000 - 120,000	50	32
120,000 - 130,000	28	27
130,000 - 140,000	19	14
140,000 - 150,000	17	11
150,000 - 160,000	2	5
160,000 - 170,000	4	4
170,000+	12	10
	883	**801**

a) Governor Philip R. Lane's, Deputy Governor Sharon Donnery's, Deputy Governor Ed Sibley's and Acting Deputy Governor Bernard Sheridan'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 (2016: two members) for costs incurred due to their absence on Commission business. During 2017, an expense of €14,936 (2016: €14,936) was incurred in relation to Trinity College Dublin, and an expense of €19,396 (2016 €14,936) in relation to the National University of Ireland, Galway (includes €4,460 in travel related expenses incurred in 2017).

d) The Bank operates a Revenue approved holiday loan scheme for all staff. Advances totalling €42,575 (2016: €33,250) were made to one Executive Commission Member and nine Key Management Personnel (2016: one Executive Commission Member and seven Key Management Personnel). As at 31 December 2017 all advances under this scheme have been fully repaid (2016: all repaid).

20. Key Management Personnel refers to staff at Head of Division and above, and includes the Executive Commission Members disclosed separately in Note 9, as prescribed in the Code of Practice for the Governance of State Bodies 2016. The amount disclosed in the 2016 Annual Accounts excluded Executive Commission Members. Other than those disclosed in this note, no further benefits have been received by Key Management Personnel.
21. Short-term benefits includes Basic Pay, Allowances and Overtime payments to staff.

The Bank provided mortgages to staff at preferential interest rates up until 2008. At 31 December 2017, one Key Management Person had an outstanding mortgage balance of €491 (2016: one Key Management Person, €4,728). Benefit-in-Kind taxation on the preferential interest rate was applied to this mortgage in line with Revenue approved procedures.

(ii) The spend on Travel is analysed as follows-

Travel (including Mint)	2017 €000	2016 €000
Domestic		
Commission	15	7
Staff	473	415
International		
Commission	121	120
Staff	2,175	2,253
TOTAL	**2,784**	**2,795**

(iii) Included in Professional Fees are Auditors' fees payable to Mazars and the Comptroller and Auditor General which amounted to-

Audit Fees	2017 €000	2016 €000
Audit of Individual Accounts	**279**	**276**
Mazars	151	151
Comptroller & Auditor General	128	125
Other Assurance Services	**57**	**57**
Mazars	57	57
Other Non-Audit Services	**231**	**19**
Mazars	231	-
Grant Thornton	-	19
TOTAL	**567**	**352**

Included in Professional Fees in Note 9 are Consultancy costs totalling €12.0 million (2016: €7.8 million). Additionally, €0.2 million (2016: €0.9 million) is offset against the profit on disposal of PPE included in Other Net Income (Note 8). The balance of €2.4 million (2016: €5.1 million) is included in PPE and Intangible Assets (Note 22).

Consultancy	2017 €000	2016 €000
Business Improvement	1,106	1,487
Financial	4,787	2,765
IT	4,982	3,028
Legal Advice	1,643	1,063
Other	695	468
Pensions & HR	223	1,428
Premises	1,165	3,558
TOTAL CONSULTANCY COSTS	**14,601**	**13,797**
Consultancy Costs Capitalised	2,404	5,092
Consultancy Costs Charged to the Income & Expenditure/Profit on Disposal & Retained Revenue Reserves*	12,197	8,705
TOTAL	**14,601**	**13,797**

* All consultancy costs associated with the disposal of the Property, Plant & Equipment are offset against the profit on disposal of the Dame St. premises

Included in Professional Fees are Legal costs in relation to legal proceedings totalling €5.3 million (2016: €5.3 million).

Legal Fees	2017 €000	2016 €000
Legal Fees – Legal Proceedings	5,150	5,318
Conciliation, Mediation & Arbitration	114	-
Settlements	-	-
TOTAL	**5,264**	**5,318**

The above Legal proceedings costs include all legal costs incurred in relation to legal proceedings initiated by or taken against the Bank. The cost in relation to legal proceedings above relates to 15 separate legal cases (2016: 18). There was €113,868 paid out for the settlement of costs in relation to one mediation in 2017 (2016: Nil), of which €66,205 related the Bank's legal costs, with the balance relating to settlement of the third party's legal costs. Additional legal costs and settlements were paid in full by the Bank's insurance company in relation to one case in 2017 (2016: Nil).

(iv) Included in Recruitment & Other Staff Costs above is Hospitality Expenditure of €0.2m for 2017, analysed as follows-

Hospitality Expenditure	2017 €000
Staff Hospitality	185
Client Hospitality	-
TOTAL	**185**

The hospitality expenditure disclosed above is classified in accordance with the *Code of Practice for the Governance of State Bodies* (2016).

The Bank does not engage in Client Hospitality. The above amounts do not include expenditure on refreshments / hospitality associated with business operations such as conference hosting, events and meetings.

Following the adoption of the Code of Practice for the Governance of State Bodies (2016), we have analysed the hospitality expenditure as set out above for 2017. However, the same level of detail is not available for 2016, and therefore a comparative is not available.

(v) Included in Miscellaneous are the expenses of the Financial Services Appeals Tribunal €0.1 million (2016: €0.1 million) which the Bank discharges, in accordance with the provisions of Section 57AX(4) of the *Central Bank Act*, 1942 (as amended).

(vi) Currency Production Raw Materials expense relates to the production of Banknotes €4.4 million (2016: €4.2 million) and Coin €0.3 million (2016: €3.2 million). The decrease in coin costs is due to the reduction in the number of commemorative coin products issued during 2017 and the fact that a large portion of the expenditure in 2016 related to the purchase of the gold and silver for the coin products marking the centenary of the 1916 Easter Rising and Proclamation of the Irish Republic.

NOTE 10: Surplus Income payable to the Exchequer

Surplus income of €2,101.3 million is payable to the Exchequer in respect of the year ended 31 December 2017 (2016: €1,836.2 million) (Note 1(o), 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

	2017 €000	2017 Fine Ounces of Gold	2016 €000	2016 Fine Ounces of Gold
Gold and Gold Receivables	209,381	193,535	212,471	193,499
TOTAL	**209,381**	**193,535**	**212,471**	**193,499**

Gold and gold receivables consist of coin stocks held in the Bank, together with gold bars held at the Bank of England. The decrease in the balance at year end 2017 is primarily due to the change in the market value of gold holdings from the year end 2016 to 2017 (Note 1(j)(iv), Note 34).

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

	2017 €000	2016 €000
Receivables from the IMF (i)	1,733,791	1,858,393
Balances with Banks and Security Investments, External Loans and other External Assets due within one year (ii)	1,733,743	1,332,968
TOTAL	**3,467,534**	**3,191,361**

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

	2017 €000	2016 €000
Quota	4,096,765	4,451,425
Less IMF Holdings maintained by the Bank	(3,138,678)	(3,423,158)
(a) Reserve Position in IMF	958,087	1,028,267
(b) SDR Holdings	775,704	830,126
TOTAL	**1,733,791**	**1,858,393**

(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[22]. 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 (2016: 77 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 and Euro) (Note 28).

22. 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

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

	2017 €000	2016 €000
Security Investments - MTM (a)	1,138,833	955,415
Balances with Banks	594,910	377,553
TOTAL	**1,733,743**	**1,332,968**

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

The increase compared to 2016 reflects the commencement of investment in US dollar securities as part of the Bank's foreign currency portfolios during 2017.

Included are US dollar FixBis[23] securities of €141.5 million. In the absence of an active market for US dollar FixBis securities, the Bank uses prices provided by the Bank for International Settlements (BIS) to value these securities. These are classified as Level 2 type securities (Note 1(j)(v)).

Maturity Profile	2017 €000	2016 €000
0 - 3 months	1,234,026	808,072
3 months - 1 year	499,717	524,896
TOTAL	**1,733,743**	**1,332,968**

23. Fixed-Rate Investments at the BIS (FixBis) are BIS tradable instruments with maturities between 1 week and 1 year

NOTE 13: Claims on Euro Area Residents in Foreign Currency

	2017 €000	2016 €000
Security Investments - MTM (i)	5,030	-
Balances with Banks	1	-
TOTAL	**5,031**	**-**

Maturity Profile	2017 €000	2016 €000
0 - 3 months	5,031	-
TOTAL	**5,031**	**-**

(i) These securities comprise debt issued by euro area issuers in foreign currency (Note 1(j)).

These arise due to the commencement of investment in US dollar securities as part of the Bank's foreign currency portfolios during 2017.

NOTE 14: Claims on Non-Euro Area Residents in Euro

	2017 €000	2016 €000
Reverse Repurchase Agreements (i)	2,490,419	-
Security Investments - HTM (ii)	1,325,919	1,197,079
Security Investments - MTM (ii)	601,013	726,927
Balances with Banks	86,076	729,301
TOTAL	**4,503,427**	**2,653,307**

Maturity Profile	2017 €000	2016 €000
0 - 3 months	2,677,733	5,052
3 months - 1 year	310,450	1,064,631
1 - 5 years	958,078	1,121,719
5 - 10 years	557,166	461,905
TOTAL	**4,503,427**	**2,653,307**

(i) As part of the management of its investment assets, the Bank uses reverse repurchase transactions with approved counterparties under GMRA legal agreements. The asset represents the consideration paid for securities purchased under agreements to resell at a specified future date, including accrued interest. It is recognised as an asset reflecting the transaction's economic substance as a loan by the Bank as there is an obligation on the seller to return the consideration plus interest when repurchasing the assets. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the effective interest rate.

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

NOTE 15: Lending to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

	2017 €000	2016 €000
Longer Term Refinancing Operations *of which*		
TLTROs	7,478,000	6,268,000
LTROs	-	1,150,000
TOTAL	**7,478,000**	**7,418,000**

Maturity Profile of LTROs and TLTROs	2017 €000	2016 €000
0 - 3 Months	-	1,150,000
3 months - 1 year	75,000	-
1 - 5 Years	7,403,000	6,268,000
TOTAL	**7,478,000**	**7,418,000**

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[24]. As at 31 December 2017, total Eurosystem monetary policy-related advances amounted to €764.3 billion (2016: €595.9 billion), of which the Bank held €7.5 billion (2016: €7.4 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 (Note 37).

Longer-Term Refinancing Operations (LTROs) aim to provide counterparties with additional longer-term refinancing. In 2017, operations were conducted with maturities between 3 and 48 months and were conducted with full allotment of the total amount bid. While the Bank conducted regular 3-month LTROs with the applicable interest rate equal to the average MRO rate over the relevant period on a monthly basis throughout the year, no balance was outstanding on these at 31 December 2017.

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.

24. http://www.ecb.europa.eu/mopo/assets/html/index.en.html

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 the course of 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 2017, in the absence of the actual rate, as this is deemed a prudent approach (Note 3(i)).

NOTE 16: Other Claims on Euro Area Credit Institutions in Euro

	2017 €000	2016 €000
Maturities less than one year:		
Reverse Repurchase Agreements (i)	360,000	-
Balances with Banks	175,111	160,432
TOTAL	**535,111**	**160,432**

(i) As part of the management of its investment assets, the Bank uses reverse repurchase transactions with approved counterparties under GMRA legal agreements. The asset represents the consideration paid for securities purchased under agreements to resell at a specified future date, including accrued interest. It is recognised as an asset reflecting the transaction's economic substance as a loan by the Bank as there is an obligation on the seller to return the consideration plus interest when repurchasing the assets. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the effective interest rate.

NOTE 17: Securities of Euro Area Residents in Euro

	2017 €000	2016 €000
Other Securities (i)	38,117,060	44,820,787
Securities Held for Monetary Policy Purposes (ii)	32,102,027	22,434,179
TOTAL	**70,219,087**	**67,254,966**

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.

(i) Other Securities

	2017 €000	2016 €000
Security Investments - MTM (a)	27,603,653	34,500,568
Security Investments - HTM (b)	10,513,407	10,320,219
TOTAL	**38,117,060**	**44,820,787**

Maturity Profile	2017 €000	2016 €000
0 - 3 months	595,823	1,109,689
3 months - 1 year	2,008,489	2,460,136
1 - 5 years	8,170,196	6,480,428
5 - 10 years	2,960,326	4,542,424
10 - 15 years	-	-
> 15 years	24,382,226	30,228,110
TOTAL	**38,117,060**	**44,820,787**

(a) Security Investments - MTM

	2017 Closing Market Value €000	2016 Closing Market Value €000
Special Portfolio (i)	24,382,226	30,311,163
Government Issue Bonds	1,587,421	1,631,260
Treasury Bills	1,120,505	1,849,346
Financial Issue Bonds	513,501	708,799
TOTAL	**27,603,653**	**34,500,568**

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	2016 Closing Balance	Purchases	Sales/ Redemptions	2017 Closing Balance	2016 Closing Balance	Opening Revaluation on Disposal	Movement on Retained Portfolio	2017 Closing Balance	2016 Closing Market Value	2017 Closing Market Value
Floating Rate Notes	19,534,000	-	(4,000,000)	15,534,000	10,694,110	(1,957,245)	111,361	8,848,226	30,228,110	24,382,226
NAMA Bonds	83,000	-	(83,000)	-	53	(53)	-	-	83,053	-
TOTAL	**19,617,000**	**-**	**(4,083,000)**	**15,534,000**	**10,694,163**	**(1,957,298)**	**111,361**	**8,848,226**	**30,311,163**	**24,382,226**

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: 2018 (€0.5 billion per annum), 2019-2023 (€1 billion per annum), and from 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 ranged in maturity from 2038 to 2053. These are classified as Level 3 type securities (Note 1(j)(v)). During 2017, the Bank sold €4.0 billion nominal of the FRNs (2043 FRN €0.5 billion, 2045 FRN €3.0 billion and 2047 FRN €0.5 billion) realising gains amounting to €2.0 billion (Note 4). On a cumulative basis, the Bank has disposed of €9.5 billion nominal of the FRNs; all holdings of the 2038, 2041, 2043 and 2045 FRNs have now been disposed of. As at 31 December 2017, the remaining FRNs were valued at €24.4 billion (2016: €30.2 billion) giving rise to an unrealised gain of €8.8 billion (2016: €10.7 billion) (Note 34(i)).

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 in valuation by approximately €1.2 billion (2016: €1.6 billion). A twenty-five basis point decrease in the Irish discount curve used in the pricing model will result in an increase in valuation by approximately €1.3 billion (2016: €1.7 billion).

NAMA Bonds

In 2013, the Bank acquired €13.7 billion nominal of NAMA Bonds following the IBRC liquidation. The remaining €0.08 billion (2016: €0.4 billion) was redeemed or sold by NAMA in 2017 at par, realising no gain or loss.

In 2016, and in the absence of an active market, the Bank valued these Bonds using prices derived from the Common European Pricing Hub (CEPH). The CEPH was used for collateral pricing purposes in the context of Eurosystem monetary policy operations. These were classified as Level 2 type securities (Note 1(j)(v)).

(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 2017, these categories of securities relate to acquisitions by the Bank within the scope of the purchase programmes for covered bonds[25] (CBPP1, CBPP2, and CBPP3), public debt securities acquired within the scope of the SMP[26] and debt securities acquired within the scope of the PSPP[27]. All of the Bank's holdings under the CBPP1 and CBPP2 programmes matured during 2017.

Securities purchased under all of these programmes are measured on an amortised cost basis subject to impairment (Note 1(c)(ix)).

25. 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
26. ECB Decision of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8
27. 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

The amortised cost of the securities held by the Bank, as well as their market values[28] (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:

	2017 €000	2017 €000	2016 €000	2016 €000
	Amortised Cost	**Market Value**	**Amortised Cost**	**Market Value**
Covered Bonds Purchase Programme 1 (CBPP1)	-	-	61,637	63,204
Covered Bonds Purchase Programme 2 (CBPP2)	-	-	45,463	45,897
Covered Bonds Purchase Programme 3 (CBPP3)	3,554,257	3,596,022	3,174,440	3,209,788
Securities Markets Programme (SMP)	1,660,572	1,870,891	1,712,483	2,000,627
Public Sector Purchase Programme (PSPP) *of which*	26,887,198	27,232,524	17,440,156	17,713,039
Government Sector (Own-Risk)	*21,456,727*	*21,813,437*	*16,275,110*	*16,561,870*
Supranational (Shared-Risk)	*5,430,471*	*5,419,087*	*1,165,046*	*1,151,169*
TOTAL	**32,102,027**	**32,699,437**	**22,434,179**	**23,032,555**

Maturity Profile	2017 €000	2016 €000
	Amortised Cost	**Market Value**
0 - 3 months	160,646	42,498
3 months - 1 year	221,503	2,199,074
1 - 5 years	12,055,367	5,654,592
5 - 10 years	12,377,084	10,177,865
10 - 15 years	3,591,329	2,104,591
> 15 years	3,696,098	2,255,559
TOTAL	**32,102,027**	**22,434,179**

Purchases under CBPP1 were completed on 30 June 2010, while CBPP2 ended on 31 October 2012. Purchases under the SMP were terminated on 6 September 2012.

In 2017, the Eurosystem continued its securities purchases under the Expanded Asset Purchase Programme (EAPP)[29] which constitutes the CBPP3, the Asset-Backed Securities Purchase Programme (ABSPP)[30], the Public Sector Purchase Programme (PSPP)[31] and the Corporate Sector Purchase Programme (CSPP)[32].

28. 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
29 Further details of the APP can be found on the ECB's website https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html
30. Decision ECB/2014/45 of 19 November 2014 on the implementation of the asset backed securities purchase programme
31. 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
32. Under this programme, the 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 €60.0 billion on average. From April 2016 until March 2017, this increased to €80.0 billion on average. In December 2016, the Governing Council decided to continue the net EAPP purchases after March 2017 at a monthly pace of €60.0 billion. In October 2017, the Governing Council decided that purchases would continue at a new monthly pace of €30.0 billion from January 2018 until the end of September 2018 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.

The securities purchased under all of these programmes are measured 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 held under the SMP, ABSPP, CBPP3 and PSPP programmes as at 31 December 2017 (2016: Nil).

In the context of the impairment test conducted as at the end of 2017 on securities purchased across the Eurosystem under the CSPP programme, the Governing Council identified one impairment indicator relating to the holdings of a security, which was triggered in the course of 2017.

In accordance with Article 32.4 of the Statute, losses from securities holdings purchased under the CSPP programme, if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to their prevailing ECB capital key shares. As a result of the impairment test conducted on the above-mentioned security, the Governing Council has deemed it appropriate to establish a buffer against credit risks in monetary policy operations during 2017 (Note 33(iv)).

The Eurosystem aggregate holdings of monetary policy securities at end December 2017 amounted to €2,386.0 billion of which the Bank held €32.1 billion (2016: €1,654.0 billion of which the Bank held €22.4 billion) (see table below) (Note 1(c)(ix)):

Amortised cost €m	Year	SMP	CBPP1	CBPP2	CBPP3	PSPP	ABSPP	CSPP	Total
Eurosystem	2017	89,134	6,065	4,754	240,687	1,888,764	25,015	131,593	2,386,012
	2016	102,274	12,789	6,913	203,516	1,254,635	22,830	51,069	1,654,026
Bank	2017	1,661	-	-	3,554	26,887	-	-	32,102
	2016	1,713	62	45	3,174	17,440	-	-	22,434

NOTE 18: Participating Interest in ECB

	2017 €000	2016 €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 2017 (2016: 1.1607) (Note 1 (c)(ii), Note 1(c)(iii)).

NOTE 19: Claims Equivalent to the Transfer of Foreign Reserves

	2017 €000	2016 €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 when the Bank joined the Eurosystem. The Bank's claims in respect of those assets is €672.6 million (2016: €672.6 million), which is fixed in proportion to its Eurosystem capital key share (Note 1(c)(ii), Note 1(c)(iii), Note 1(c)(vii)).

The Bank's Eurosystem capital key at 31 December 2017 is 1.6489 per cent (2016: 1.6489 per cent).

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.

NOTE 20: Other Claims within the Eurosystem (net)

	2017 €000	2016 €000
TARGET2 Balance (net) (i)	1,888,411	-
Net Result of Pooling of Monetary Income (ii)	24,992	2,499
Share of ECB Profits (iii)	16,287	15,932
TOTAL	**1,929,690**	**18,431**

(i) This item represents the Bank's net asset 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 €1,888.4 million at end 2017 (2016: Net Liability €951.7 million) (Note 1(c)(ii), Note 30). At end 2017, 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.

(ii) This represents the Bank's monetary income receivable (2016: €2.5 million) (Note 1(c)(iii), Note 1(c)(vi).

(iii) This represents the Bank's share of the ECB's interim distribution of profit for 2017 (Note 1(c)(v), Note 6(i)).

NOTE 21: Other Assets

	2017 €000	2016 €000
Accrued Interest Income (i)	635,945	541,810
Property, Plant, Equipment and Intangible Assets (Note 22)	220,434	237,293
- Tangible - Plant, Property, Equipment (Note 22(i))	*205,011*	*224,039*
- Intangible - Computer Software (Note 22(ii))	*15,423*	*13,254*
Other (ii)	158,695	143,535
Investment Property (iii)	55,170	55,000
Shares in the Bank for International Settlements (iv)	19,953	21,604
Stocks of Materials for Banknote Production	4,580	3,301
Prepayments	4,215	2,815
Banking & Investment Firm Resolution Fund	1	16
TOTAL	**1,098,993**	**1,005,374**

(i) This item includes the accrued income earned on the securities. 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 €45.3 million (2016: €67.8 million) which represents the interest income due on securities at the date a purchase of that security is made by the Bank.

A further €7.0 million (2016: €6.0 million) relates to deficits due from certain Industry Funding sub-categories at end 2017 (Note 41(i)).

During 2017, the Bank acquired 3,325 shares (0.25 per cent of issued share capital) in Europafi at a cost of €0.3 million. Europafi is a securities paper production company which is a subsidiary of Banque de France.

(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.

During the year, the investment property was let to a number of third parties. On 21 December 2017, one of these parties surrendered their lease for a portion of the building. Subsequently, the Bank elected to retain this portion for its own use, and in accordance with FRS 102 transferred this asset into Property, Plant and Equipment at its carrying value on that date of €6.25 million. A revaluation reserve totalling €0.25 million has been recognised at year-end, representing the difference between the original purchase price and the carrying value at transition (Note 34). This reserve will be written off over the remaining useful life of the asset. The lease on the remainder of the building let to a third party has a remaining term of 18 years, with a break clause of 10 years. This lease includes a provision for a five-yearly rent review according to prevailing market conditions.

The fair value of the remainder of the investment 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 €6.2 million (2016: €3.5 million, full property). 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(vii), Note 34).

Future Minimum Lease Payments	2017 €000	2016 €000
Not Later than One Year	1,583	1,882
After One Year but Not More Than Five Years	6,332	7,528
After Five Years	19,564	24,699
TOTAL	**27,479**	**34,109**

(iv) The Bank holds 8,564 shares (2016: 8,564 shares) in the Bank for International Settlements, the euro equivalent of which is €19.9 million (2016: €21.6 million) (Note 6(ii), Note 36(i)).

NOTE 22: Property, Plant, Equipment and Intangible Assets

(i) Tangible Property, Plant and Equipment (PPE)

€000	Premises		Plant and Machinery		Computer Equipment		Other Equipment		Furniture, Fixtures & Fittings		Assets Under Constructions (c)		Total Fixed Assets	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
At Cost- 1 January	125,952	125,969	49,368	49,241	3,620	1,147	13,327	13,174	10,599	10,609	119,658	33,102	322,524	233,242
Transfer (c)	76,091	-	30,601	-	11,195	-	-	-	9,853	-	(127,740)	-	-	-
Acquisitions (+)	7,075	147	88	127	502	2,473	25	159	-	(1)	11,007	86,556	18,697	89,461
Disposals (a)	(45,410)	(164)	-	-	(928)	-	(5,246)	(6)	(4,831)	(9)	-	-	(56,415)	(179)
At Cost- 31 December	163,708	125,952	80,057	49,368	14,389	3,620	8,106	13,327	15,621	10,599	2,925	119,658	284,806	322,524
Accumulated Depreciation at 1 January	31,256	28,478	42,610	41,491	1,237	1,065	12,941	12,591	10,441	10,015	-	-	98,485	93,640
Depreciation for Year (b)	3,296	2,834	2,740	1,119	2,194	172	207	355	1,511	436	-	-	9,948	4,916
Disposals	(17,741)	(56)	-	-	(928)	-	(5,246)	(5)	(4,723)	(10)	-	-	(28,638)	(71)
Accumulated Depreciation at 31 December	16,811	31,256	45,350	42,610	2,503	1,237	7,902	12,941	7,229	10,441	-	-	79,795	98,485
Net Book Value at 31 December	**146,897**	**94,696**	**34,707**	**6,758**	**11,886**	**2,383**	**204**	**386**	**8,392**	**158**	**2,925**	**119,658**	**205,011**	**224,039**

(a) Disposals primarily relate to the disposal of the Bank's Dame Street premises during the year. A profit on the disposal of these assets is included within Other Net Income (Note 8).

Following a review of the Fixed Asset Register during the year, PPE with an historic cost of €0.9 million, which was fully depreciated, were written off in 2017 with no proceeds arising (2016: €0.1 million).

(b) Of the total depreciation charge of €9.9 million (2016: €4.9 million), €0.1 million in respect of Mint machinery was charged to the Currency Reserve (2016: €0.2 million).

(c) Assets Under Construction primarily related to expenditure on the North Wall Quay project and also includes capital expenditure incurred on assets which have not yet come into use by the year end. During the year, €129.4 million of these assets (primarily related to the Bank's new headquarters at North Wall Quay) came into use, and accordingly has been transferred to the appropriate depreciation heading asset category.

The remaining amount of €1.7 million has been transferred from the Assets Under Construction account to the appropriate depreciation heading under Intangible Assets.

(d) The Bank currently holds an Art Collection valued at €2.0 million based on a 2016 valuation (2016: €2.0 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)).

(ii) Intangible Computer Software

	Computer Equipment		Assets Under Construction (c)		Total Intangible Fixed Assets	
	2017 €000	2016 €000	2017 €000	2016 €000	2017 €000	2016 €000
At Cost- 1 January	39,447	36,278	255	27	39,702	36,305
Transfer (c)	1,705	-	(1,705)	-	-	-
Acquisitions (+)	581	3,169	6,776	228	7,357	3,397
Disposals (b)	(925)	-	-	-	(925)	-
At Cost- 31 December	40,808	39,447	5,326	255	46,134	39,702
Accumulated Depreciation at 1 January	26,448	20,444	-	-	26,448	20,444
Depreciation for Year (a)	5,143	6,004	-	-	5,143	6,004
Disposals	(880)	-	-	-	(880)	-
Accumulated Depreciation at 31 December	30,711	26,448	-	-	30,711	26,448
NET BOOK VALUE AT 31 DECEMBER	**10,097**	**12,999**	**5,326**	**255**	**15,423**	**13,254**

(a) The total depreciation charge in 2017 was €5.1 million (2016: €6.0 million) (Note 1(e)(ii)).

(b) Following a review of the Fixed Asset Register during the year, intangible assets with an historic cost of €0.5 million (2016: Nil), which were fully depreciated, were written off with no proceeds arising. Additionally, intangible assets with a carrying value of less than €0.1 million (2016: Nil) were written off to Other Operating Expenses (Note 9) with no proceeds arising.

(c) An amount of €1.7million has been transferred from the Assets Under Construction account to the appropriate depreciation heading under Intangible Assets.

NOTE 23: Banknotes in Circulation

	2017 €000	2016 €000
Total Value of Euro Banknotes Issued into Circulation by the Bank	35,405,302	33,964,679
Liability Resulting from the ECB's Share of Euro Banknotes in Circulation	(1,544,334)	(1,485,633)
Liability according to the Bank's Weighting in the ECB's Capital Key	(16,101,206)	(15,394,349)
TOTAL	**17,759,762**	**17,084,697**

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 2017 increased by 4.2 per cent from, €33.9 billion to €35.4 billion. The total value of banknotes in circulation within the Eurosystem increased by 4.0 per cent (2016: 3.9 per cent). According to the allocation key, the Bank had euro banknotes in circulation worth €17.8 billion at the end of the year, compared to €17.1 billion at the end of 2016. As the banknotes actually issued by the Bank were more than the allocated amount, the difference of €17.6 billion (compared to €16.9 billion in 2016) is shown in 'Liabilities related to the allocation of euro banknotes within the Eurosystem' (Note 1(c)(iv), Note 29).

NOTE 24: Liabilities to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

	2017 €000	2016 €000
Current Accounts (covering the minimum reserve system) (i)	15,937,532	13,508,518
Deposit Facility (ii)	7,254,592	5,716,327
TOTAL	**23,192,124**	**19,224,845**

(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 2017, 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

	2017 €000	2016 €000
General Government Deposits (i)	12,842,232	10,403,604
Currency Reserve Relating to Net Proceeds of Coin (ii)	4,057	2,995
TOTAL	**12,846,289**	**10,406,599**

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:

	2017 €000	2016 €000
Coin (Redeemed)/Issued into Circulation	(2,209)	6,035
Specimen Coin Sets	377	3,167
Withdrawn Irish Coin	(424)	(195)
	(2,256)	**9,007**
Less Operating Costs (Note 9)	**(942)**	**(3,857)**
Net Proceeds of Coin Issue	**(3,198)**	**5,150**
Interest on Pension Liability	(92)	(115)
Superannuation Employer Contribution	(54)	(55)
Transfer from / (to) the Exchequer	4,406	(4,660)
Opening Balance	2,995	2,675
CLOSING BALANCE	**4,057**	**2,995**

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 redemption of coin amounting to €2.2 million (2016: net issuance €6.0 million) from the Bank to the commercial banks in 2017. As a result, the net deficit generated a transfer of €4.4 million which was paid to the Bank from the Exchequer on 22 December 2017 (2016: €4.7 million paid by the Bank to the Exchequer).

NOTE 26: Liabilities to Non-Euro Area Residents in Euro

	2017 €000	2016 €000
Repurchase Agreements (i)	1,430,419	-
EU Agencies	505	521
International Financial Institutions	71	66
TOTAL	**1,430,995**	**587**

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

(i) As part of the management of its investment assets, the Bank uses repurchase transactions with approved counterparties under GMRA legal agreements. The liability represents the cash received from the sale of securities under agreements to repurchase at a specified future date. The cash received is recognised as a liability as there is a corresponding obligation to return it, including accrued interest as a liability, which reflects the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate (Note 1(l)).

NOTE 27: Liabilities to Euro Area Residents in Foreign Currency

	2017 €000	2016 €000
Liabilities to Euro Area Residents in Foreign Currency	-	224
TOTAL	**-**	**224**

This liability primarily related to a deposit placed by the National Treasury Management Agency to fund a minimum balance requirement in an account with the Federal Reserve Bank of New York used for the transfer of funds with the IMF relating to the Financing Programme for Ireland. The IMF borrowings were repaid in full on 20 December 2017 and the balance on the account cleared at that time (Note 42).

NOTE 28: Counterpart of Special Drawing Rights Allocated by the IMF

	2017 €000	2016 €000
Counterpart of SDR Allocated by the IMF	920,896	988,353
TOTAL	**920,896**	**988,353**

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

	2017 €000	2016 €000
Liability According to the Bank's Weighting in the ECB's Capital Key	16,101,206	15,394,349
Liability Resulting from the ECB's Share of Euro Banknotes in Circulation	1,544,334	1,485,633
TOTAL	**17,645,540**	**16,879,982**

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), 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 30: Other Liabilities within the Eurosystem (net)

	2017 €000	2016 €000
TARGET2 Balance (net)	-	951,727
TOTAL	**-**	**951,727**

In 2016, this item represented 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, and amounted to €951.7 million (Note 1(c)(ii)). The balance represents total TARGET claims netted against total TARGET liabilities, where positive values represent a net NCB claim on the ECB and negative values a net NCB liability. At end 2017, this item is shown under claims related to TARGET and corresponding accounts (net) (Note 20(i)) as the balance represents the Bank's net asset to the ECB as a result of euro cross-border payments transacted over the TARGET2 system by all NCBs participating in the ESCB, and amounted to €1,888.4 million (2016: Net Liability €951.7 million) (Note 1(c)(ii)).

NOTE 31: Other Liabilities

Other Liabilities	2017 €000	2016 €000
Profit & Loss Appropriation (i)	2,101,312	1,836,225
Deposit Protection Scheme (ii)	154,301	156,008
Other (iii)	45,402	48,157
Interest Accruals (iv)	40,083	9,566
Other Accruals (v)	26,152	31,813
Credit Institutions Resolution Fund (vi)	541	14,958
Banking & Investment Firm Resolution Fund	1	-
TOTAL	**2,367,792**	**2,096,727**

(i) This represents the amount of surplus income payable to the Exchequer (Note 1(o), Note 10).

(ii) Under the *European Union (Deposit Guarantee Schemes) Regulations*, 2015 (S.I. No. 2016) (the 'DGS Regulations'), the Bank established the DGS Contributory Fund in 2016. The Deposit Guarantee Scheme must reach an available financial means of 0.8 per cent of covered deposits by 2024. In order to reach this target level, credit institutions are required to contribute to the Fund annually based on their covered deposits and degree of risk. The 2017 contributions were payable via a combination of deductions from balances remaining in the Legacy Fund together with direct payments by Credit Institutions to the Contributory Fund in the event of any shortfalls between the required contribution and balances held in the DGS Legacy Fund.

In 2017, compensation payments of €39.5 million were made to approximately 10,900 depositors in respect of the liquidation of Charleville Credit Union, and were charged to the DGS Contributory Fund (Note 2(ix)).

	2017 €000	2016 €000
DGS Contributory Fund	154,276	93,421
DGS Legacy Fund	25	62,587
	154,301	**156,008**

Movement in DGS Contributory Fund	2017 €000	2016 €000
Balance at 1 January	93,421	-
Contributions	100,858	93,421
Payments	(39,654)	-
Interest- pay out	(349)	-
BALANCE AT 31 DECEMBER	**154,276**	**93,421**

Movement in DGS Legacy Fund	2017 €000	2016 €000
Balance at 1 January	62,587	394,965
Contributions	-	-
Payments	(62,562)	(332,378)
Interest- pay out	-	-
BALANCE AT 31 DECEMBER	**25**	**62,587**

(iii) Included in Other is an amount of less than €0.1 million (2016: €6.3 million) representing surpluses due to certain Industry Funding sub-categories at end 2017 (Note 41(i)).

(iv) This figure primarily relates to the accrued interest expense on TLTRO II operations which is being accrued at the deposit facility rate (Note 15).

(v) Included in other accruals is an accrual of €7.4 million (2016: €7.0 million) in respect of untaken annual leave (Note 9(i)).

(vi) A Credit Institutions Resolution Fund was established in 2011 under the *Central Bank and Credit Institutions (Resolutions) Act*, 2011. The balance of €0.5 million (2016: €15.0 million) represents funds deposited with the Bank on behalf of the Fund. The decrease relates to the movement of funds from the Bank to the NTMA. 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 2017 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 carried out on a triennial basis. The last full actuarial valuation was carried out as at 31 December 2016 by Lane Clark Peacock (LCP) the Bank's actuaries, to comply with section 56 of the *Pensions Act*. An actuarial report was completed by LCP as at 31 December 2017 to comply with disclosure requirements under FRS 102.

(i) Amount charged to Profit, Loss and Appropriation Account/Currency Reserve

	Profit and Loss 2017 €000	Currency Reserve 2017 €000	Total 2017 €000	Total 2016 €000
Expected Return on Assets	12,100	-	12,100	16,400
Interest on Pension Scheme Liabilities	(18,408)	(92)	(18,500)	(20,300)
Current Service Cost	(45,052)	(48)	(45,100)	(30,900)
TOTAL PENSION COST OF DEFINED BENEFIT SCHEME	**(51,360)**	**(140)**	**(51,500)**	**(34,800)**

Current Service costs charged to the Profit and Loss and Appropriation accounts in 2017 was €45.1 million (2016: €30.9 million) and is based on actuarial assumptions set at the beginning of each year. The increase in the charge compared to 2016 was primarily due to the reduction in the discount rate used at the end of 2016 of 1.9 per cent (2015: 2.7per cent) used to calculate the charge for the following year (Note 32(vi)).

As at 31 December 2017, there was no previously unrecognised surplus deducted from settlements or curtailments and no gains or losses on any settlements or curtailments.

(ii) Actuarial Gain/(Loss) on Pension Scheme

	2017 €000	2016 €000	2015 €000	2014 €000	2013 €000
Actuarial Gain/(Loss) on Pension Liability	35,345	(177,207)	160,058	(198,670)	(11,410)
Actuarial Gain on Plan Assets	25,232	4,267	21,001	11,828	32,624
TOTAL	**60,577**	**(172,940)**	**181,059**	**(186,842)**	**21,214**

(iii) Balance Sheet Recognition

The amounts recognised in the balance sheet are as follows:

Year Ended 31 December	2017 €000	2016 €000	2015 €000	2014 €000	2013 €000
Present Value of Wholly or Partly Funded Obligations (iv)	(993,442)	(971,598)	(750,095)	(853,883)	(615,766)
Fair Value of Plan Assets (v)	687,561	638,695	608,714	567,945	531,198
NET PENSION (LIABILITY)/ASSET	**(305,881)**	**(332,903)**	**(141,381)**	**(285,938)**	**(84,568)**

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

	2017 €000	2016 €000	2015 €000	2014 €000	2013 €000
Opening Present Value of Scheme Obligations	(971,598)	(750,095)	(853,883)	(615,766)	(571,218)
Current Service Cost	(45,100)	(30,900)	(44,299)	(25,356)	(20,255)
Past Service (Cost)/Credit	-	-	-	(27)	3,957
Pensions Paid	12,314	11,908	13,109	13,325	10,468
Employee Contributions	(5,631)	(4,979)	(4,379)	(4,173)	(4,121)
Transfers Received	(272)	(25)	(635)	(433)	(909)
Interest on Pension Scheme Liabilities	(18,500)	(20,300)	(20,066)	(22,783)	(22,278)
Actuarial Gain/(Loss)	35,345	(177,207)	160,058	(198,670)	(11,410)
CLOSING PRESENT VALUE OF SCHEME OBLIGATIONS	**(993,442)**	**(971,598)**	**(750,095)**	**(853,883)**	**(615,766)**

(v) Movement in Fair Value of Plan Assets

	2017 €000	2016 €000	2015 €000	2014 €000	2013 €000
Opening Fair Value of Plan Assets (Bid Value)	638,695	608,714	567,945	531,198	473,793
Expected Return	12,100	16,400	13,280	17,423	16,276
Actuarial Gain	25,232	4,267	21,002	14,241	32,624
Employer Contribution	17,945	16,218	14,582	13,802	13,943
Employee Contributions	5,631	4,979	4,379	4,173	4,121
Pensions Paid	(12,314)	(11,908)	(13,109)	(13,325)	(10,468)
Transfers Received	272	25	635	433	909
CLOSING FAIR VALUE OF PLAN ASSETS (BID VALUE)*	**687,561**	**638,695**	**608,714**	**567,945**	**531,198**

* Included in the fair value of plan assets are two bank accounts - the Superannuation Capital Account and the Superannuation Working Account held with the Bank. The balance on the Superannuation Capital Account and Superannuation Working Account at 31 December 2017 was €0.6 million (2016: €0.6 million) and €6.0 million (2016: €2.7 million) respectively.

(vi) Financial Assumptions

	2017 %	2016 %	2015 %	2014 %	2013 %
Discount Rate	1.90	1.90	2.70	2.35	3.70
Rate of Increase in Pensionable Salaries	3.30	3.30	3.20	3.40	3.50
Rate of Increase in Pensions	3.30	3.30	3.20	3.40	3.50
Rate of Price Inflation	1.90	1.90	1.80	2.00	2.00

The impact of a 0.1 per cent increase/decrease in the discount rate would be a corresponding decrease/increase of approximately 2.6 per cent (2016: 2.6 per cent) in scheme liabilities.

Demographic and Other Assumptions

Demographic Assumptions	2017	2016
Mortality Pre Retirement	73% ILT15 (males) 77% ILT15 (females)	73% ILT15 (males) 77% ILT15 (females)
Mortality Post Retirement	58% ILT15 (males) 62% ILT15 (females)	58% ILT15 (males) 62% ILT15 (females)
Allowance for Future Improvements in Mortality	Yes	Yes
Retirements	Evenly spread over age 60 to 65 (for those with options to retire at 60)	Evenly spread over age 60 to 65 (for those with options to retire at 60)
Ill Health Retirement	Allowance made	Allowance made
Early Retirement	No allowance	No allowance
Withdrawals	No allowance	No allowance
Percentage Married	90%	90%
Age Difference between Spouses	A male is assumed to be 3 years older than his spouse	A male is assumed to be 3 years older than his spouse
Life Expectancy of member aged 65 at accountancy date		
Age between 60 and 65 at which 40 years' service completed (for those with option to retire at 60)	Male: 86.3 Female: 88.8	Male: 86.2 Female: 88.7

ILT15 (males) and ILT15 (females) are both published mortality tables prepared by the Central Statistics Office in Ireland.

(vii) Plan Assets of the Scheme

The asset distribution of the Scheme as at 31 December 2017 is as follows:

Class	Distribution %	Long-term Distribution %
Bonds	38.0	40.0
Cash	1.2	-
Equities	41.9	40.0
Multi Asset Funds (MAF)	9.6	10.0
Property	9.3	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 2017:

	Opening Balance 1 Jan 2017 €000	Created €000	Utilised €000	Released to P&L €000	Closing Balance 31 Dec 2017 €000
Provision for Foreign Exchange Rate, Interest Rate, Credit, and Gold Price Risks (i)	165,000	335,000	-	-	500,000
Provision for Securities (ii)	160,000	-	-	(40,000)	120,000
Unredeemed Irish Pound Banknotes (iii)	7,454	-	(1,118)	-	6,336
Provision for ECB Losses (iv)	-	1,136	-	-	1,136
Restructuring Provision (v)	589	460	(681)	-	368
Provision for Dilapidation (vi)	200	-	(125)	(75)	-
TOTAL	**333,243**	**336,596**	**(1,924)**	**(40,075)**	**627,840**

(i) The Bank has a provision for foreign exchange rate, interest rate, credit and gold price risks (Note 37). The provision follows a comprehensive assessment of the relevant financial risks to which the Bank is exposed and which fall within the scope of the Guideline. The assessment identified an exposure associated with interest rate risks and utilised a financial model to quantify a range of potential loss figures relating to this risk. The analysis was conducted based on the Bank's 2017 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. Considering the current Balance Sheet position, one such extreme scenario to which the Bank is exposed is a rapid increase in interest rates in the medium term, and the provision corresponds to such a scenario. The risk was measured over the medium term with reference to both value-at-risk and expected shortfall, and both one-year and cumulative losses were considered in the analysis. 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.

A provision of €500.0 million is included in the 2017 Statement of Accounts, which represents an increase of €335.0 million compared to the provision made for the same risk in 2016 (2016: €165.0 million). The increase is primarily driven by an increase in both EAPP holdings and liabilities linked to ECB policy rates, which results in an increased level of interest rate risk for the Bank.

(ii) The Bank has retained a provision for securities in the amount of €120.0 million (2016: €160.0 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 €40.0 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 2017 (Note 1(c)(ix), Note 1(m), Note 4, Note 17(ii)).

(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 €1.1 million was redeemed in 2017 leaving the balance in the provision at €6.3 million as at 31 December 2017 (2016: €7.4 million) (Note 36 (iii)).

(iv) As a result of the impairment test conducted on its CSPP portfolio, the Governing Council has deemed it appropriate to establish a buffer totalling €68.9 million against credit risks in monetary policy operations, in relation to a security held by the Eurosystem. In accordance with Article 32.4 of the ESCB Statute, this provision will be funded by all the NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in 2017. Accordingly, the Bank created a provision for €1.1 million, equivalent to our capital key share of the total provision (Note 1(m)(iv)).

(v) An overtime restructuring provision was created in 2014 for administrative and currency staff. The provision at the end of 2016 was €0.57 million. During 2017, an additional provision of €0.17 million was created, and €0.39 million was utilised in relation to this provision, leaving a balance of €0.35 million at 31 December 2017. This amount is payable in 2018.

An opening provision of €0.02 million for a Voluntary Severance Scheme (VSS) for specific technical and general staff was utilised during 2017. This Scheme, which began in 2015, was open to staff who meet the specific criteria and staff could apply for the scheme up to six months after the move to the North Wall Quay premises. During 2017, a further provision for VSS of €0.28 million was created, of which €0.27 million was utilised, leaving a balance of €0.01 million at 31 December 2017, payable in 2018. While a number of staff have applied for this scheme they have not yet been approved so no further provision has been created during 2017 for them (Note 1(m)(iii), 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.

(vi) A dilapidation provision €0.2 million for the Iveagh Court premises was created in 2013. During the year €0.1 million was utilised and the remainder was released to the Profit and Loss and Appropriation Account (Note 4).

NOTE 34: Revaluation Accounts

	2017 €000	2016 €000	Net Movement in Unrealised Gains €000
Securities (i)	8,858,317	10,712,947	(1,854,630)
Gold	161,389	164,518	(3,129)
Investment Property	9,622	3,452	6,170
Foreign Currency	4,400	6,213	(1,813)
PPE Revaluation (Note 21(iii))	250	-	250
AT 31 DECEMBER	**9,033,978**	**10,887,130**	**(1,853,152)**

(i) The revaluation on securities relates primarily to unrealised capital gain movements arising from the end year valuation of the securities acquired following the liquidation of the IBRC. The decrease in unrealised gains is due to sales of €4.0 billion nominal of the FRNs in 2017, partially offset by an increase in FRN prices. (Note 1(j)(i), Note 17(i)).

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

Currency	2017 Rate	2016 Rate
US Dollar	1.1993	1.0541
Japanese Yen	135.0100	123.4000
Sterling	0.8872	0.8562
Swiss Franc	1.1702	1.0739
Danish Krone	7.4449	7.4344
Swedish Krona	9.8438	9.5525
Canadian Dollar	1.5039	1.4188
SDR	0.8420	0.7846
The gold prices used were:		
Euro per fine ounce	1,081.8810	1,098.0460

NOTE 35: Capital and Reserves

	Capital (i)	General Reserve	Currency Reserve	Total
	€000	€000	€000	€000
At 31 December 2016	**30**	**3,247,306**	**351,648**	**3,598,984**
Retained Profit for the Year (ii)	-	587,832	-	587,832
AT 31 DECEMBER 2017	**30**	**3,835,138**	**351,648**	**4,186,816**

(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 €587.8 million comprising of €527.2 million from the Profit and Loss and Appropriation Account and an actuarial gain of €60.6 million, which was recognised in the Profit and Loss and Appropriation Account (Note 32(ii)).

NOTE 36: Contingent Liabilities and Commitments

Contingent Liabilities

(i) Bank for International Settlements

The Bank holds 8,564 shares in the Bank for International Settlements, each of which is 25 per cent paid up. The Bank has a contingent liability in respect of the balance (Note 6(ii), 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 2017, Irish pound banknotes to the value of €226.0 million (2016: €227.1 million) were still outstanding, against which the Bank has a provision of €6.3 million (2016: €7.4 million) (Note 33(iii)).

(iv) Litigation

The Bank has two on-going legal cases (2016: two) which may result in a liability for the Bank where claims are being made against the Bank. These contingent liabilities are not quantifiable. The Bank is defending these actions and accordingly no amount has been provided for.

Commitments

(i) Operating Leases

The lease on the Iveagh Court premises ceased in May 2017. The total rental payments under this operating lease during 2017 were €1.1 million (2016: €2.8 million).

During 2017, the Bank entered into a number of operating leases for equipment, car spaces and for the rental of office space in Blackhall Place. These leases are for periods of between one and three years.

Future Minimum Lease Payments	2017 €000	2016 €000
Not Later than 1 Year	380	1,100
After One Year but Not More than Five Years	699	-
After Five Years	-	-
	1,079	1,100
Actual Lease Payments	1,148	2,800

(ii) North Wall Quay Project

As at 31 December 2017, all contracted commitments for the design, construction and fit out of the existing structure were completed (Note 22(i), Note 22(iii)). Total contracted commitments as at 31 December 2017 were Nil (2016: €11.3 million).

NOTE 37: 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 (i) monetary policy implementation within the domestic financial sector, (ii) investment activities relating to the management of the Bank's reserves, (iii) operation of payments and settlement activities and (iv) as a constituent Eurosystem NCB participating in broader monetary policy initiatives such as the EAPP. From an overall Balance Sheet perspective, these risks typically include credit, market, liquidity and foreign exchange risks.

The Bank aims to control these exposures by maintaining a range of financial risk management processes to identify, assess, manage and monitor these risks within defined, internal risk management policies and by reference to Eurosystem risk-management frameworks and procedures where relevant. The Risk Committee of the Commission, 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.

Four main 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), monitor the liquidity position of the domestic banks and provide Emergency Liquidity Assistance where necessary, carry out investment activities to manage the Bank's investment reserves and the allocated 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 Financial Control Division (FCD) ensures accurate accounting of the Bank's financial position and financial reporting.

The Organisational Risk Division (ORD), as the second line of defence, is responsible for, inter alia, defining the risk management policies and assessing and monitoring financial risks in conjunction with FMD, PSSD and FCD. 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, FCD report to the Chief Operations Officer (COO), whereas ORD is functionally independent and reports for operational purposes to the Director of Corporate Affairs. Additionally, in accordance with the Terms of Reference of the Risk Committee of the Commission, the Head of Organisational Risk has free and confidential access to the Chair of the Committee, and the Committee has the authority to ensure that the division has adequate resources and access to information to perform its function effectively and with adequate independence.

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. 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 credit operations (i.e. liquidity providing monetary policy operations and intraday credit) are based on adequate collateral. To further control this risk, the Eurosystem Credit Assessment Framework (ECAF) ensures that the Eurosystem requirement of high credit standards for all eligible assets is met. In addition, on-going risk control measures including valuation haircuts, initial and variation margins are also applied. Where 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 NCBs. In the case of monetary policy operations collateralised by Additional Credit Claims, however, 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 (SMP), the Corporate Sector Purchase Programme (CSPP) and the third Covered Bond Purchase Programme (CBPP3), 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. Separately, the Bank's holdings of Irish government securities under the Public Sector Purchase Programme (PSPP) are held on an own-risk basis. Following a collective asset impairment assessment, the Bank has deemed it prudent to set aside a provision of €120.0 million in its 2017 annual accounts in respect of exposures to credit risks on certain held-to-maturity assets. In addition, the Bank has set aside a provision of €1.1million in its 2017 annual accounts, as a result of an impairment in the Eurosystem's CSPP portfolio (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 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 ORD to the ERC and the Risk Committee of the Commission.

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 hold-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 (VaR)[33] 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 portfolio of standard marketable Irish Government bonds (floating rate notes or FRNs) which were acquired following the liquidation of IBRC (Note 17(i)). Furthermore, portfolios that are held at amortised cost are not sensitive to interest rate movements - this includes the Bank's exposures to the Eurosystem's non-standard monetary policy EAPP.

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 EAPP while at the same time is exposed to liabilities which are tied to (variable) 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 and Expected Shortfall are used, alongside 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 increase its general risk provision to €500 million, resulting in an additional charge of €335.0 million in 2017 (2016: €165.0 million) (Note 33).

33 The Value-at-Risk is the maximum loss that can be expected within a specified holding period with a specified confidence level

Foreign Exchange Risk

Foreign exchange 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 end December 2017, 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. In addition, the Bank has an exposure to foreign currency fixed income assets on an unhedged basis (Note 12, Note 13). The Bank is also exposed to currency risk through a net-asset position in IMF SDRs. This exposure was held on a hedged basis. (Note 12(i), Note 28). All currency hedging is done by way of swaps and foreign exchange forward contracts which match the value of the underlying assets - i.e. the Bank's Quota in the IMF and its SDR holdings.

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 due to the potential of ratings to be downgraded below the Bank's approved investment grade threshold.

NOTE 38: Off-Balance Sheet Items

(i) Unmatured Contracts in Foreign Exchange

	31 December 2017				31 December 2016			
	DKK 000	EUR 000	JPY 000	SDR 000	DKK 000	EUR 000	JPY 000	SDR 000
Unmatured Purchases	11,308	2,134,742	33,537	-	7,497	2,231,948	134,546	-
Unmatured Sales	(2,641,058)	(1,777)	(127,049,366)	(682,284)	(2,645,397)	(2,141)	(120,784,546)	(682,284)
Unmatured Purchases & Sales	**(2,629,750)**	**2,132,965**	**(127,015,829)**	**(682,284)**	**(2,637,900)**	**2,229,807**	**(120,650,000)**	**(682,284)**

The outstanding amounts relate to foreign exchange contracts used for hedging certain foreign exchange exposures.

All foreign exchange contracts are scheduled to mature by 20 September 2018.

(ii) Unmatured Contracts in Futures

	2017 €000	2016 €000
Unmatured Purchases	335,000	-
Unmatured Sales	(100,000)	-
Unmatured Purchases & Sales	**235,000**	**-**

These contracts are used for hedging interest rate exposure as well as making investments within approved limits.

NOTE 39: 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 2017 were:

- provision of banking services including holding the principal accounts of Government;
- provision and issue of coin; and
- 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. During 2017, the Bank recovered costs of €0.7 million (2016: €0.5 million). At 31 December 2017, a balance of €47,393 was due from ICCL (2016: €43,010) (Note 21(ii)) in relation to direct costs. This was paid in full in February 2018 (2016: February 2017). Managed service costs of €64,168 were prepaid as at 31 December 2017 (2016: Nil) (Note 21). The ICCL prepares its own Annual Report and audited Financial Statements.

(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, 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, Note 31(vi)).

(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 funds are set out in Note 32.

NOTE 40: Events after the End of the Reporting Period

ECB Final Distribution of Profits

The Governing Council of the ECB decided on 17 January 2018 to distribute its remaining profit for 2017, amounting to €287.0 million, to the euro area NCBs, in proportion to their paid-up shares. The Bank's share of this final distribution of profits was €4.7 million, which was paid on 23 February 2018, and will be accounted for in the 2018 Statement of Accounts.

NOTE 41: Financial Regulation Activities

				2017 €000	2016 €000
Funding of Financial Regulation Activities	Levy Income	Levy Income (i)		98,242	73,259
		Deferred Levy Income (ii)		6,491	1,198
		Levy Income	A	**104,733**	**74,457**
	Provisions	Opening Provisions for Unpaid Levies		1,540	1,914
		Levies Written Off		(306)	(363)
		Closing Provisions for Unpaid Levies (iii)		(1,612)	(1,540)
		Charge for Year	B	**(378)**	**11**
	Financial Regulation Net Industry Funding (Note 8(i))		**C (A+B)**	**104,355**	**74,468**
	Other Income	Securities Market Fees		2,875	2,738
		Licensing Fees		500	500
		Additional Supervisory Levy		123	-
		Miscellaneous		72	58
		Other Income (Note 8)	D	**3,570**	**3,296**
	Total Income		**E (C+D)**	**107,925**	**77,764**
	Subvention	Securities Market Supervision Activities		8,920	6,789
		Other Financial Regulation Costs not Recovered		68,007	70,501
		Subvention from Central Bank (iv)	F	**76,927**	**77,290**
	Total Funding of Financial Regulation Activities (vi)		**G (E+F)**	**184,852**	**155,054**
Costs of Financial Regulation Activities	Direct Expenses	Salaries / Allowances		58,906	52,275
		PRSI		5,436	4,893
		Pension Provision		23,010	15,328
		Staff Expenses	H	**87,352**	**72,496**
		Training, Recruitment & Other Staff Costs		1,285	1,077
		Equipment, Stationery & Requisites		63	68
		Business Travel		1,577	1,630
		Publishing & Consumer Advertising		56	39
		Professional Fees		11,061	7,819
		Miscellaneous		4,082	4,188
		Non-Pay Operating Expenses	I	**18,124**	**14,821**
		Total Direct Expenses	**J (H+I)**	**105,476**	**87,317**
	Support Services	Premises & Facilities		8,706	14,160
		Information Technology Services		22,460	22,703
		Human Resources		7,311	8,898
		Other Services		40,729	21,620
		Total Support Services (v)	K	**79,206**	**67,381**
	Provisions	**Restructuring Charge for Year (vi)**	L	**170**	**356**
	Total Costs of Financial Regulation Activities		**M (J+K+L)**	**184,852**	**155,054**

(i) Levy Income

Levy Income	2016 Deficit / (Surplus) A €000	Amount Levied in 2017 B €000	2017 Deficit* /(Surplus) C €000	**2017 Levy Income D (B+C-A) €000**
Credit Institutions	(6,115)	34,149	1,490	**41,754**
Insurance Undertakings	1,854	26,138	2,133	**26,417**
Intermediaries & Debt Management Firms	1,107	4,416	880	**4,189**
Securities & Investment Firms	2,016	16,475	1,209	**15,668**
Investment Funds	649	5,000	680	**5,031**
Credit Unions	-	1,599	-	**1,599**
Moneylenders	(81)	523	67	**671**
Approved Professional Bodies	13	12	4	**3**
Bureaux de Change	15	11	7	**3**
Home Reversion, Retail Credit & Credit Servicing Firms	383	1,637	333	**1,587**
Payment Services & E-Money Institutions	(155)	946	219	**1,320**
TOTAL FUNDING	**(314)**	**90,906**	**7,022**	**98,242**

At the end of each year, budgeted income and expenses are compared with actual income and expenses, on a category by category basis, in order to arrive at the amount over (surplus) or under (deficit) recovered from Industry. Deficits are added to the amount to be raised from Industry in the following year while surpluses are deducted.

* The aggregate of the gross deficits (€7.0 million) and surpluses (less than €0.1 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, deferred levy income of €6.5 million (2016: €1.2 million) has been recognised in 2017.

(iii) Closing Provisions 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 from Central Bank

By agreement with the Minister for Finance, since 2007 approximately 50-65 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 €11.1 million in the current year (2016: €9.5 million) were excluded from the Net Industry Funding levies issued to the industry in 2017. Securities Market fees (included in Other Net Income) are shown as 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 2017 was €79.2 million (2016: €67.4 million). Allocation is based on well-recognised industry practice including occupied floor space, personal computer numbers and headcount (staff numbers) as appropriate.

(vi) Restructuring Provision

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 4, Note 1(m)(iii)).

NOTE 42: Safe Keeping of the Promissory Note Backing Ireland's Borrowing from the International Monetary Fund for Direct Budget Support

Under the *Bretton Woods Agreement Acts*, the Bank is the fiscal agent for the Minister of Finance and, in this capacity, it is responsible for conducting financial transactions with the IMF. Under this arrangement, funds equivalent to SDR 19,465.8 million (€21,749.5 million) were provided by the IMF to the Minister for Finance, who has the sole obligation to repay debt to the IMF. This promissory note was entered into on 16 December 2010. On 20 December 2017, the National Treasury Management Agency paid up the remaining balance of SDR 3,772.8 million (€4,506.8 million) owed to the IMF in the context of borrowings made from the IMF.

NOTE 43: Comparatives

Certain comparative information has been reclassified for consistency with current year disclosures.

Daily changes in the variation margins on futures are taken to the Profit and Loss and Appropriation Account. These variations can be income or expense. In 2016, this item was classified as an interest expense in Note 3. In 2017, this item is being recognised in Note 2 as interest income.

The Assets Under Construction account has now been reclassified to include both Tangible and Intangible assets (Note 22) to ensure consistency with current year disclosures. This resulted in an update to the 2016 Tangible and Intangible Asset balances in both Note 22: Property, Plant & Equipment and Note 21: Other Assets.

NOTE 44: Approval of Accounts

The Commission approved the Statement of Accounts on 20 March 2018.

MAZARS

INDEPENDENT AUDITORS' REPORT

TO THE COMMISSION OF

THE CENTRAL BANK OF IRELAND

Report on the audit of the Statement of Accounts

Opinion

We have audited the Statement of Accounts of the Central Bank of Ireland ('the Bank') for the year ended 31 December 2017, which comprise the Profit and Loss and Appropriation Account, the Balance Sheet and the related notes 1 to 44. The financial reporting framework that has been applied in their preparation is the Guideline of the European Central Bank on the legal framework for the accounting and financial reporting in the European System of Central Banks ('the Guideline') 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 FRS 102.

In our 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 2017 and of the Surplus Payable to the Exchequer for the year then ended;
- has been properly prepared in accordance with the Guideline and where silent FRS 102; and
- has been properly prepared in accordance with the relevant financial reporting framework.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described in the Auditor's responsibilities for the audit of the Statement of Accounts section of our report. We are independent of the Bank in accordance with ethical requirements that are relevant to our audit of the Statement of Accounts in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT

TO THE COMMISSION OF

THE CENTRAL BANK OF IRELAND

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the Commission Members' use of the going concern basis of accounting in the preparation of the Statement of Accounts is not appropriate: or
- the Commission Members have not disclosed in the Statement of Accounts any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Statement of Accounts are authorised for issue.

Other information

The Commission Members are responsible for the other information. The other information comprises the information included in the annual report other than the Statement of Accounts and our auditor's report thereon. Our opinion on the Statement of Accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Statement of Accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Statement of Accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Statement of Accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Respective responsibilities

Responsibilities of Commission Members for the Statement of Accounts

As explained more fully in the Governance Statement and Commission Members' Report, the Commission is responsible for the preparation of the Statement of Accounts and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of Statement of Accounts that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITORS' REPORT

TO THE COMMISSION OF

THE CENTRAL BANK OF IRELAND

Auditor's responsibilities for the audit of the Statement of Accounts

Our objectives are to obtain reasonable assurance about whether the Statement of Accounts as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Statement of Accounts.

A further description of our responsibilities for the audit of the Statement of Accounts is located on the IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description of auditors responsibilities for audit.pdf . This description forms part of our auditor's report.

The purpose of our audit work and to whom we owe our responsibilities

Our report 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. 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.

Michael Tuohy **Date: 20 March 2018**

for and on behalf of Mazars
Chartered Accountants & Statutory Audit Firm
Harcourt Centre, Block 3
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Dublin 2

Ard Reachtaire Cuntas agus Ciste
Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

Central Bank of Ireland

Opinion on the statement of accounts

I have audited the statement of accounts of the Central Bank of Ireland for the year ending 31 December 2017 as required under the provisions of the Central Bank Act 1942 (as amended). The statement of accounts comprise

- the profit and loss and appropriation account
- the balance sheet
- the related notes, including a summary of significant accounting policies.

In my opinion, the statement of accounts gives a true and fair view of the assets, liabilities and financial position of the Central Bank of Ireland at 31 December 2017 and of its income and expenditure for the year then ended in accordance with the financial reporting framework set out in note 1(b) of the notes to the accounts.

Basis of opinion

I conducted my audit of the statement of accounts in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are described in the appendix to this report. I am independent of the Central Bank of Ireland and I have fulfilled my other ethical responsibilities in accordance with the *Code of Ethics of the International Organisation of Supreme Audit Institutions.*

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Report on information other than the statement of accounts, and on other matters

The Central Bank of Ireland has presented certain other information together with the statement of accounts. This comprises the annual report, the governance statement and Commission members' report, and the statement on internal control. My responsibilities to report in relation to such information, and on certain other matters upon which I report by exception, are described in the appendix to this report.

Non-competitive procurement

The statement on internal control discloses that during 2017, goods and services to the value of €1 million were procured by the Bank without appropriate public procurement tender processes.

Seamus McCarthy.

Seamus McCarthy
Comptroller and Auditor General

20 March 2018

Appendix to the report

Responsibilities of Commission members

The governance statement and Commission members' report sets out the Commission members' responsibilities. The members of the Commission are responsible for

- the preparation of the statement of accounts in the form prescribed under section 32J(3) of the Central Bank Reform Act 2010.
- ensuring that the statement of accounts gives a true and fair view
- ensuring the regularity of transactions
- assessing whether the use of the going concern basis of accounting is appropriate, and
- such internal control as they determine is necessary to enable the preparation of a statement of accounts that is free from material misstatement, whether due to fraud or error.

Responsibilities of the Comptroller and Auditor General

I am required under the provisions of the Central Bank Act 1942 (as amended) to audit the statement of accounts of the Central Bank of Ireland and to report thereon to the Houses of the Oireachtas.

My objective in carrying out the audit is to obtain reasonable assurance about whether the statement of accounts as a whole is free from material misstatement due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the statement of accounts.

As part of an audit in accordance with the ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. In doing so,

- I identify and assess the risks of material misstatement of the statement of accounts whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.
- I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.
- I conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Central Bank of Ireland's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the statement of accounts or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Central Bank of Ireland to cease to continue as a going concern.
- I evaluate the overall presentation, structure and content of the statement of accounts, including the disclosures, and whether the statement of accounts represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Information other than the statement of accounts

My opinion on the statement of accounts does not cover the other information presented with that statement, and I do not express any form of assurance conclusion thereon.

In connection with my audit of the statement of accounts, I am required under the ISAs to read the other information presented and, in doing so, consider whether the other information is materially inconsistent with the statement of accounts or with knowledge obtained during the audit, or if it otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

Reporting on other matters

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation. I report if there are material matters relating to the manner in which public business has been conducted.

I seek to obtain evidence about the regularity of financial transactions in the course of audit. I report if there is any material instance where public money has not been applied for the purposes intended or where transactions did not conform to the authorities governing them.

I also report by exception if, in my opinion,

- I have not received all the information and explanations I required for my audit, or
- the accounting records were not sufficient to permit the statement of accounts to be readily and properly audited, or
- the statement of accounts is not in agreement with the accounting records.

Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Central Bank of Ireland

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