Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Central Bank of Ireland
Annual Report 2018

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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
Re-appointed
Jan 2019 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

Niamh Moloney
Appointed
Sept 2018 for 5 years

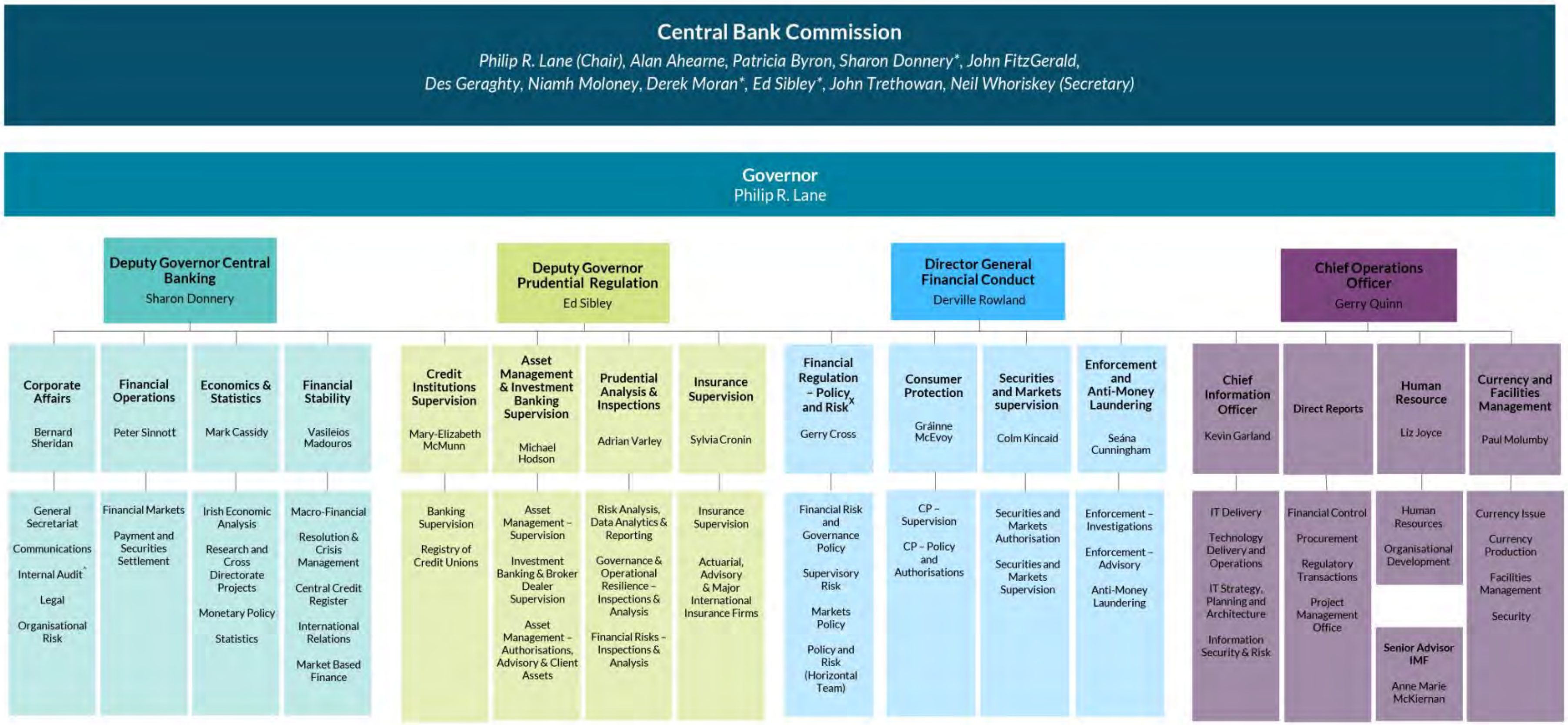
Derek Moran
Secretary General
Dept. of Finance

Ed Sibley
Deputy Governor
Prudential Regulation

John Trethowan
Appointed
Sept 2018 for 5 years

Neil Whoriskey
Secretary
of the Central Bank

Organisation Chart



* Ex-officio

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

x The Policy and Risk Directorate supports the work of both pillars but is part of the Financial Conduct pillar for administrative purposes.

Foreword by Philip R. Lane, Governor

The Central Bank of Ireland (the Central Bank) marked its 75th anniversary in 2018. Since its foundation, the Central Bank's priority has been to serve the public interest. We do this by safeguarding monetary and financial stability and by working to ensure that the financial system operates in the best interests of consumers and the wider economy. This annual report sets out how we delivered on that mission in 2018 across our wide mandate of responsibilities.

Much of our work is undertaken in partnership with our colleagues in the Eurosystem and the European System of Financial Supervision. In relation to price stability, the Governing Council of the ECB continued to maintain an accommodative monetary policy stance. The Central Bank continued to manage its own balance sheet in a prudent manner, including in the context of the monetary policy related assets we hold.

A core element of our role is to ensure that the financial system is resilient, so that it can better withstand adverse shocks. To help build resilience, we have continued to develop our macro-prudential tools. Over the past year, we reviewed and maintained our mortgage measures to enhance lender and borrower resilience and mitigate the risk of credit-house price spirals. We also activated the countercyclical capital buffer (CCyB), with the objective that extra capital will enable banks to be better prepared for future downturns.

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The protection of consumers is a Central Bank-wide priority. It is underpinned by ensuring that firms are prudentially sound and meet robust requirements concerning their conduct and interaction with their customers. Failure to meet these standards are subject to enforcement actions.

During 2018, the Central Bank made significant progress in the tracker mortgage examination. By end-year, redress and compensation payments to affected customers were nearing completion, while enforcement cases against the six main lenders are ongoing. We also published a detailed assessment of the behaviour and culture of the Irish retail banks and set out related reform proposals to enhance the individual accountability of senior bank executives.

The departure of the UK from the EU will be damaging for Ireland. Recognising these risks, the Central Bank has been strongly focused on this, even in advance of the 2016 referendum. Throughout 2018, our priorities were to mitigate the related risks to the financial system and handle the relevant applications from firms through an efficient but rigorous authorisation framework.

Looking to the future, we finalised our new Strategic Plan for the period 2019-2021. In tandem with our statutory responsibilities, the plan identifies five priority themes that will help guide our work; Strengthening Resilience; Brexit; Strengthening Consumer Protection; Engaging and Influencing; and Enhancing Organisation Capability. The Central Bank is exiting the post-crisis phase and entering a period of consolidation; we will be flexible in the delivery of this strategy through effective prioritisation in order to both safeguard the delivery of our core duties and respond as necessary to shifts in the external environment.

The Central Bank is reporting a financial profit of €2.98bn for 2018. After retained earnings, surplus income amounting to approximately €2.38bn will be paid over to the Exchequer. With the fading out of the temporary impact of the special portfolio of floating rate notes, headline profits will normalise over the medium term.

I would like to thank the members of the Central Bank Commission for their contributions and support throughout the year, and in particular to recognise the contributions of Blanaid Clarke and Michael Soden who stepped down as Commission members in 2018.

I am very grateful to all the staff members of the Central Bank for their continued dedication to public service in working to deliver our mandate.

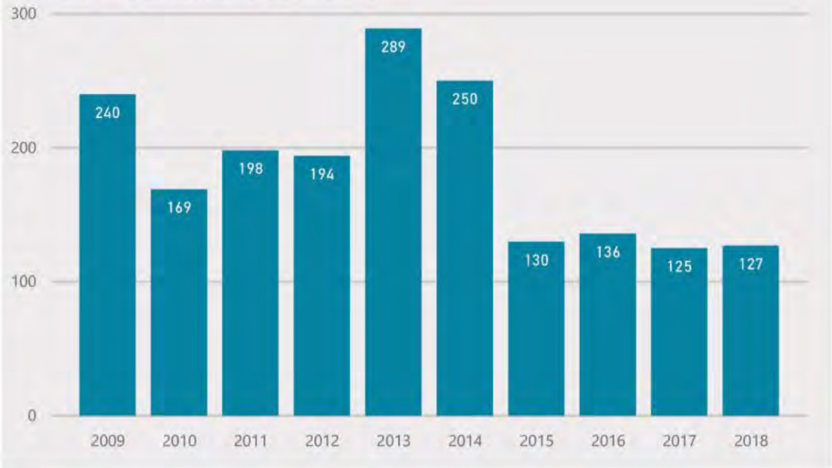
Philip R. Lane
Governor
8 April 2019

2018: The Central Bank at a Glance

Issuance of Banknotes and Coin

242 MILLION NOTES & 76 MILLION COINS ISSUED IN 2018

Number of Open Market Operations[1]

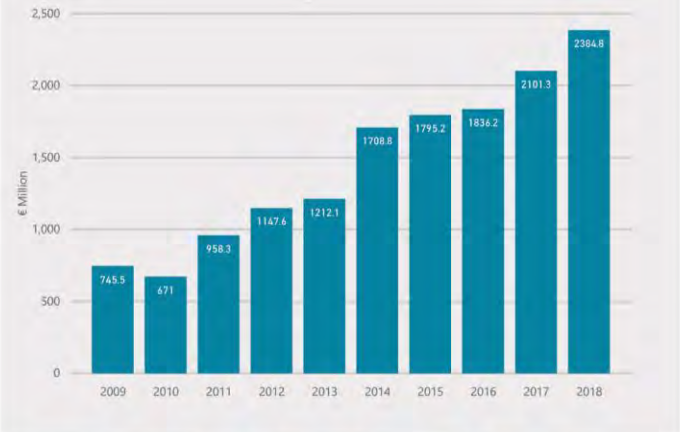


127 OPEN MARKET OPERATIONS IN 2018

€2,384.8 MILLION SURPLUS INCOME PAID TO THE EXCHEQUER IN 2018

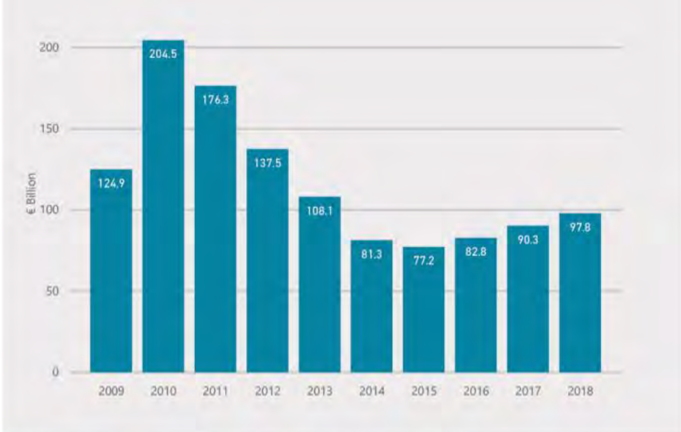
€97.8 BILLION TOTAL ASSETS IN 2018

Surplus Profits Paid to Exchequer



Surplus income paid to the Exchequer increased to €2,384.8m (€2,101.3m in 2017).

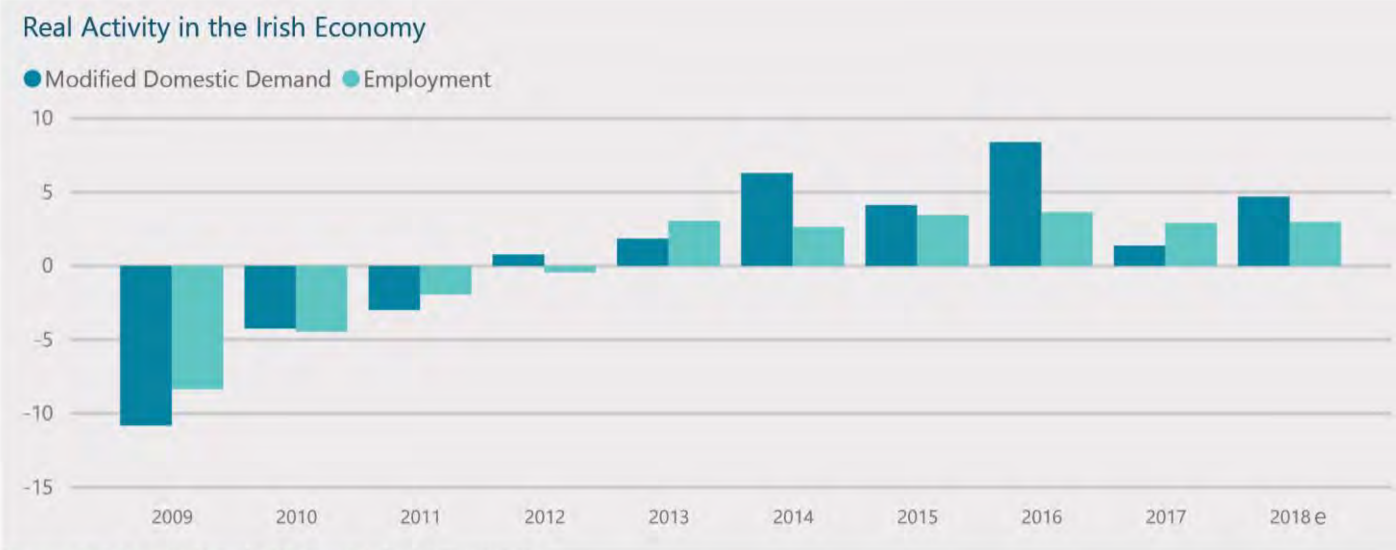
Total Assets



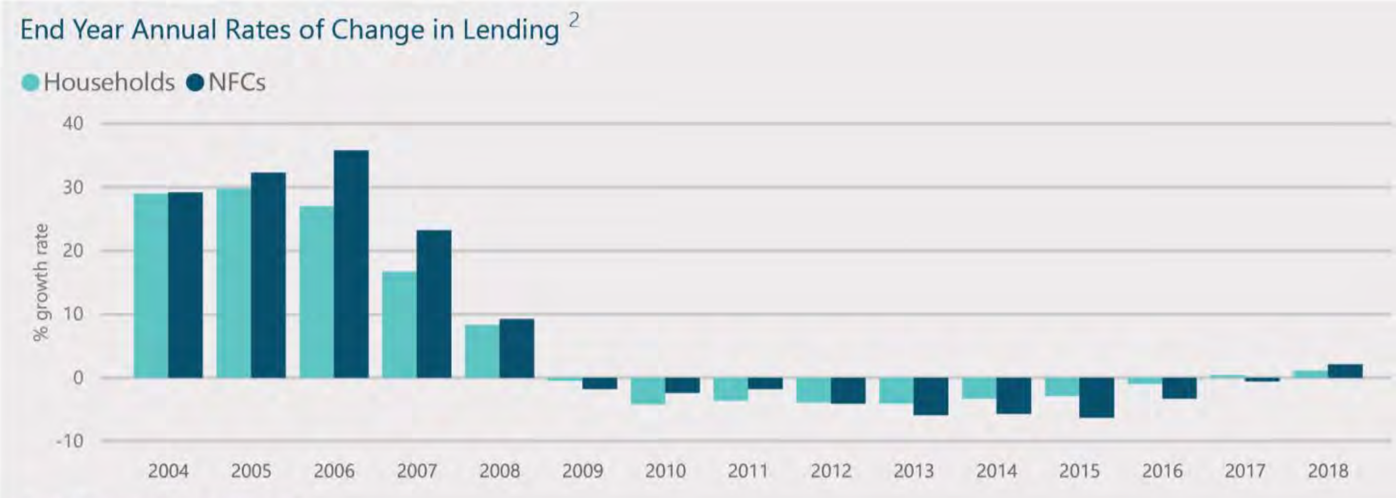
Total Assets increased to €97.8bn (€90.3bn in 2017).

[1] Five types of tools, or instruments, are available to the Eurosystem when carrying out open market operations: reverse transactions; outright transactions; issuance of debt certificates; foreign exchange swaps and collection of fixed-term deposits.

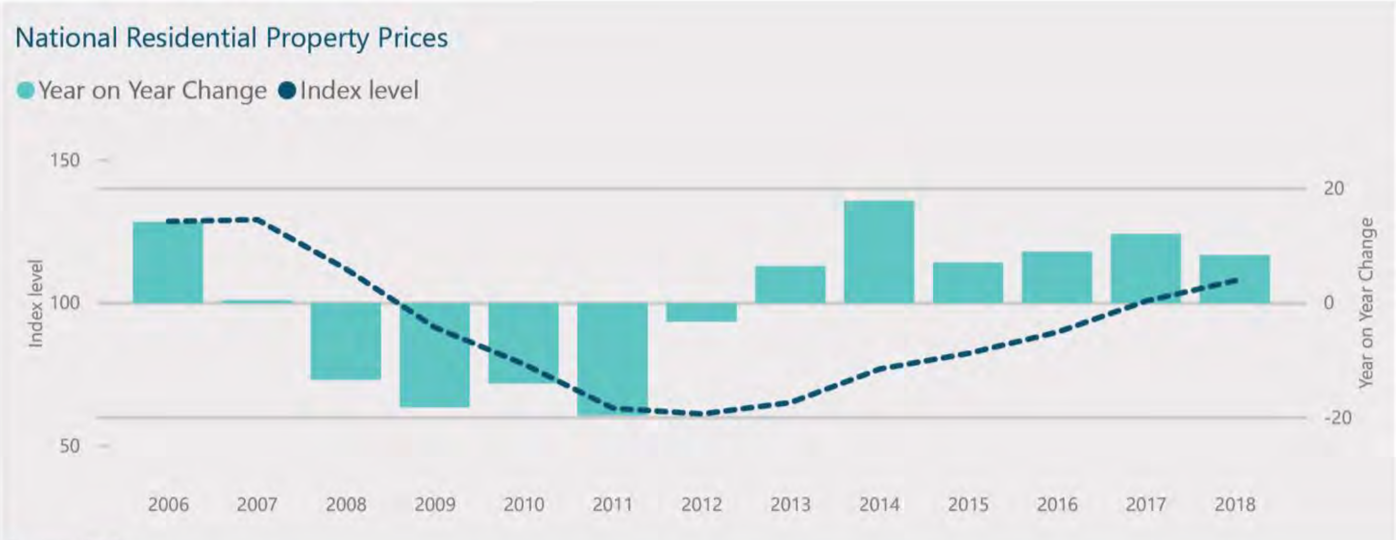
2018: The Irish Economy at a Glance



Source: CSO, Central Bank of Ireland. e denotes estimate.

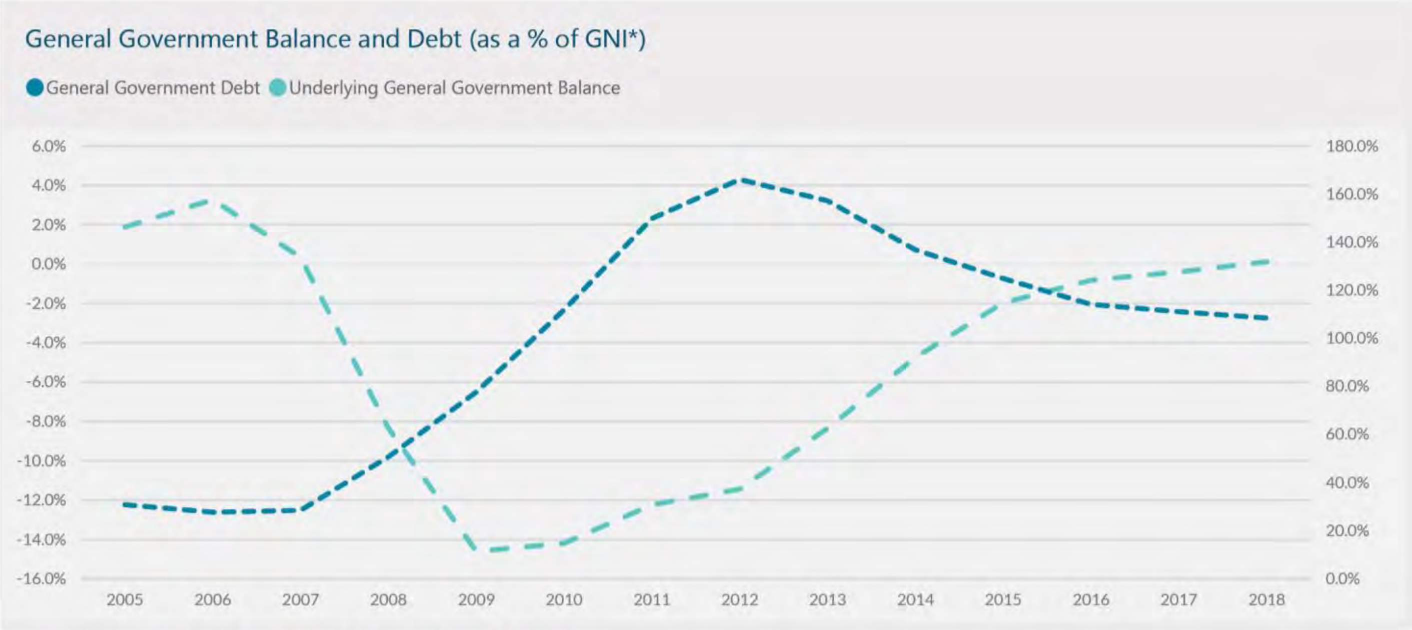


Source: Central Bank of Ireland.

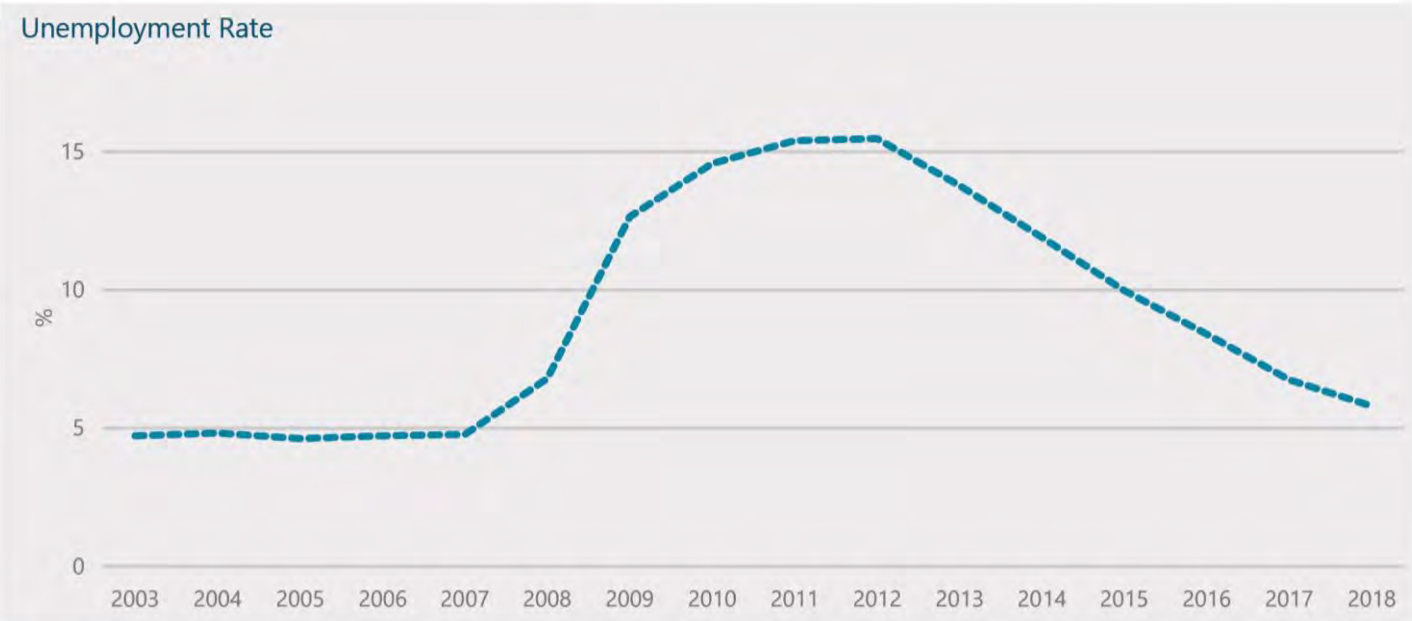


Source: CSO.
Index: January 2005 = 100

[2] Loans advanced to the Irish private sector granted by within-the-State offices of credit institutions.



Source: Department of Finance, CSO, Central Bank of Ireland.



Source: CSO.
Note: 2018 data does not include Q4.

Chapter 1: Strategic Plan – Review of Implementation

Chapter 1: Strategic Plan – Review of Implementation

Introduction

The Central Bank's 2016-2018 Strategic Plan was developed in the context of the legacy of the crisis and a dynamic policy environment. Despite the emergence of some significant new challenges over this period, the scope of the 2016-2018 Strategic Plan remained largely appropriate, helping to guide the Central Bank in meeting its broad mandate.

Strategic Responsibilities

During this period, monetary policy was aimed at ensuring inflation continued to move towards the Governing Council of the ECB stated aim of maintaining inflation rates below, but close to, 2% over the medium term. Net asset purchases for monetary policy purposes have led to changes in the size and composition of the balance sheets of national central banks (NCBs) and the Central Bank has taken prudent steps to manage its own balance sheet risks. Net purchases under the ECB's Asset Purchase Programme (APP) ended in December 2018.

The Central Bank enhanced its macro-prudential policy framework aimed at building resilience thereby safeguarding financial stability and protecting consumers. This included the setting of additional capital buffers for banks and the further refinement of the mortgage measures that are designed to enhance the resilience of borrowers and banks. A further development in this respect was the successful establishment of the Central Credit Register (CCR). There was also a continued focus on addressing the outstanding stock of non-performing loans (NPLs). Another important element undertaken throughout the 2016-2018 period was the work, in cooperation with Europe's Single Resolution Board (SRB), to ensure that any future resolution of troubled financial institutions minimises the need for taxpayer support. This also included work to introduce new European requirements on resolution in the Bank Recovery and Resolution Directive (BRRD). Resolution plans for all Irish banks were developed. In July 2016, the IMF Financial Sector Assessment Programme (FSAP) delivered a positive assessment of Ireland's financial sector resilience, regulatory and supervisory framework and capacity to manage and resolve financial crises.

In terms of supervisory activity, this was a very busy period of policy formation and transposition as Ireland's supervisory approach became ever more closely aligned to that of the EU. Significant new regulatory measures, such as Solvency II, the Markets in Financial Instruments Directive (MiFID II) and the Payments Services Directive (PSD2) were successfully introduced. There were many enhancements made to proactive supervisory engagement across all sectors, including the ECB's Single Supervisory Mechanism (SSM).

In order to better meet the growing regulatory demands, there was a significant restructuring within the Central Bank during this period, with the reorganisation of supervisory directorates and the establishment of new Prudential Regulation and Financial Conduct Pillars. The Central Bank developed a new financial conduct strategy to further enhance protections for consumers and investors. One of the key areas of work was the Tracker Mortgage Examination (TME). This spanned the full strategic planning period and was a complex, resource intensive undertaking. It resulted in very significant redress and compensation for impacted customers of the lenders. It also shone a light on the negative cultural behaviours within the banking sector. The Central Bank concluded and published a comprehensive review of culture in the five main Irish retail banks. Each lender was issued with specific findings to remedy. The Central Bank also continued to pursue a credible and effective approach to enforcement during this period.

Challenges and Risks

The Central Bank had to deal with new challenges during this period. The management of the economic and financial risks arising from the departure of the UK from the EU emerged as a key priority. This covered multiple functions across the Central Bank, coordinated by a Brexit Task Force (BTF) established in 2015, and included extensive expert analysis and supervisory engagement, ensuring supervised firms made appropriate preparations and contingency plans. The Central Bank also provided its own ongoing analysis and views to wider domestic policy makers. A very significant element of this workload was dealing with authorisation applications across all sectors, including large, complex, and in some cases new financial services for Ireland, such as broker dealers and market infrastructure firms.

Strategic Enablers

The 2016-2018 period has been one of significant growth for the Central Bank arising from a wider mandate, more intensive approach to supervision and in meeting the challenges from the departure of the UK from the EU. The workforce has grown by approximately 27% in this period. The Central Bank consolidated its city centre accommodation through the development of a new Dockland Campus. In addition, there was significant investment made in technology and an enhanced focus on staff development and diversity and inclusion, to ensure the right skills and capabilities are in place. Data management was enhanced through the development of a Data Strategy. The Central Bank also enhanced its approach to transparency and accountability during this period. This incorporated a review of governance, including the adoption of the new Code of Practice for the Governance of State Bodies. There was a greater emphasis on communications, including the design and launch of a new Central Bank website and public outreach campaigns.

Conclusion

Key objectives under the 2016-2018 Strategic Plan were achieved, while also dealing with new developments, challenges and risks, such as the departure of the UK from the EU and an evolving approach to financial conduct supervision. Many of the key areas of focus from the 2016-2018 Strategic Plan will continue to feature over the coming period as the Central Bank continues to deliver on its mission of serving the public interest by safeguarding monetary and financial stability and by working to ensure that the financial system operates in the best interests of consumers and the wider economy.

Chapter 2:
Key Activities and Developments in 2018

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Price Stability

As part of the European System of Central Banks (ESCB), the primary objective of the Central Bank is to maintain price stability. The Maastricht Treaty confers this objective on all NCBs of the Eurosystem. The Governing Council of the 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[3] 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 primary objective of monetary policy in the euro area is to maintain price stability. In the pursuit of price stability, the ECB aims at maintaining the annual change in the Harmonised Index of Consumer Prices (HICP) index below, but close to, 2% over the medium term.

In 2018, the euro area experienced continued economic expansion, although at a lower-pace than the strong economic growth witnessed in 2017. The inflation rate in 2018 in the euro area increased from low levels in 2016 (0.2%) and 2017 (1.5%) to an average rate of inflation of 1.7%. Inflation is expected to continue to move towards the Governing Council's inflation aim.

In light of the economic environment and outlook, monetary policy accommodation took the form of both continued low interest rates (standard monetary policy) and non-standard monetary policy measures. Non-standard or unconventional monetary policy measures include the expanded APP and 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)[4].

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[3] The euro area consists of those Member States of the 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.

[4] Purchases of assets began in March 2015, and the programme was adjusted several times since then as the economic situation evolved. In 2018, the Eurosystem continued to purchase private sector securities and public sector securities under the APP.

In 2018, the Eurosystem purchased €30bn of assets per month until September. In line with expectations, and incoming data confirming the medium-term outlook for inflation, the monthly net amount of purchases was reduced to €15bn between October and December. On 13 December 2018, the Governing Council confirmed that monthly net asset purchases would end that same month. At the same time, the Governing Council enhanced its forward guidance on the reinvestment policy surrounding asset purchases. It announced that it will reinvest the principal payments from maturing securities purchased under the APP for an extended period of time, past the horizon of interest rate increases and, in any case, for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. This decision was taken with a view to contributing to favourable liquidity conditions and to maintaining an appropriate monetary policy stance.

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 credit institutions in order to further ease private sector credit conditions and stimulate 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 2018 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.

Throughout 2018, the Governing Council decided to leave its benchmark interest rates unchanged. 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 banks two standing facilities: (i) the Marginal Lending Facility (MLF) 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. 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. Throughout 2018, the interest rate on the MRO remained at 0.00%, the MLF rate at 0.25% and the

Throughout the year, the Central Bank actively contributed to and influenced key debates related to monetary policy and its implementation through its membership of the Eurosystem.

Deposit Facility rate at -0.40%[5]. Fixed rate full allotment is currently in place for the Eurosystem's MROs and three-month Long-Term Refinancing Operations (LTRO).

An important policy tool for the Governing Council in 2018 was the provision of forward guidance, where communication about future monetary policy intentions, based on the assessment of the outlook for price stability was provided. In the opening months of 2018, 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". On 14 June 2018, the Governing Council's forward guidance removed the reference to "an extended period of time and well past the horizon of the net asset purchases", and was adapted to "at least through the summer of 2019 and in any case for as long as necessary to ensure that the evolution of inflation remains aligned with the current expectations of a sustained adjustment path". The recalibration of wording implied continued monetary policy stimulus through low interest rates and increased guidance on the expected future path of interest rates to ensure continued convergence of inflation towards the inflation objective.

Throughout the year, the Central Bank actively contributed to and influenced key debates related to monetary policy and its implementation through its membership of the Eurosystem committees. For example, the Monetary Policy Committee (MPC), on which the Central Bank is represented, assesses strategic and other long-term issues relating to the conduct of euro area monetary policy, with a view to providing research 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, the implementation of the APP, and contributes to reporting, analysing, assessing and interpreting financial market developments within and outside the EU. The MOC is also involved in the management of the ECB's foreign reserves.

Eurosystem Monetary Policy Operations

In 2018, the Eurosystem implemented the APP smoothly. Net Eurosystem APP purchases decreased to €314.1bn, from €781.6bn in

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[5] 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 TLTRO.

2017, reflecting the reduction in the pace of purchases from an average of €60bn - €80bn per month in 2017 to an average of €15bn - €30bn in 2018. Of the €314.1bn[6] of APP purchases, €240.1bn related to the PSPP, €47.8bn to the CSPP, €23.6bn to the CBPP3 and €2.5bn to the ABSPP.

On 26 September 2018, €8.9bn outstanding across the Eurosystem in TLTRO-I matured. It is worth noting that the vast majority of counterparties had previously rolled their outstanding TLTRO-I borrowings into TLTRO-II, due to the more favourable terms and incentives of the second programme. Therefore, the maturity of TLTRO-I had a very limited impact on the overall level of excess liquidity in the euro area, which remained elevated.

During 2018, counterparties also had the opportunity to repay their borrowings early on a voluntary basis under the various TLTRO-II operations - in June (TLTRO-II.1), September (TLTRO-II.1 and II.2) and December (TLTRO-II.1, II.2, and II.3)[7]. However, repayments were limited, with only €17.8bn out of a total of €736.6bn repaid over the three dates.

At the end of 2018, total outstanding borrowings under the TLTRO-II series stood at €718.8bn (representing circa 98% of total outstanding Eurosystem borrowings of €733.4bn)[8] following the €17.8bn of early repayments from TLTRO-II and the €8.9bn that matured from TLTRO-I programme. The remaining TLTRO-II liquidity begins to mature on 24 June 2020 (TLTRO-II.1), with the final operation (TLTRO-II.4) maturing on 24 March 2021.

Regular euro liquidity providing operations, in the form of weekly MROs and monthly three-month LTROs, were conducted throughout the year, as well as the weekly US Dollar (USD) liquidity providing operations. However, volumes were muted, with an average of €3.5bn allotted per week in the MROs and €2.0bn per month in the three-month LTROs, down from €13.3bn and €2.5bn respectively in 2017. Participation in the weekly USD operations also fell, with an average allotment of USD$0.3bn per week, down from USD$0.6bn in 2017.

[6] Figures will not sum due to rounding.
[7] The first opportunity to repay TLTRO-II.4 borrowings was in March 2019.
[8] This figure does not include USD$4.2bn (€3.68bn equivalent) which was outstanding over year-end, after Eurosystem counterparties participated in the final USD operation of the year.

Excess liquidity[9] in the Eurosystem fell slightly from €1,758bn on 29 December 2017 to €1,725bn on 31 December 2018, while the daily average level of excess liquidity rose from €1,622bn in 2017 to €1,868bn in 2018. The Eurosystem's APP served to increase the size of the Eurosystem's balance sheet, and thus excess liquidity, a reflection of the continued high levels of monetary policy accommodation. Box 1 examines the impact of the introduction of the APP on the Central Bank's balance sheet in more detail.

The average daily recourse to the Deposit Facility, for the Eurosystem as a whole, increased from €587bn in 2017 to €659bn in 2018. Current account holdings in excess of minimum reserve requirements averaged €1,209bn in 2018, up from €1,036bn in 2017. In 2018, the average daily use of the MLF decreased slightly to €0.1bn, from €0.25bn in 2017.

Monetary policy-related loans to Irish banks fell from €20.7bn at end-2014 to €3.0bn at end-2018, as the need for banks 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.

Box 1: Asset Purchase Programme and the Balance Sheet of the Central Bank

The Eurosystem balance sheet has increased considerably in size over the last few years, due primarily to the introduction of various non-standard monetary policy measures, the most prominent of which is the APP. When compared to the Eurosystem's balance sheet[10], the increase in the Central Bank's balance sheet since 2014 has not been as striking, although the composition has changed considerably.

The ECB announced the expansion of the APP in January 2015, in response to a prolonged period of persistently low inflation in the euro area. Aimed at fulfilling the ECB's price stability mandate, the APP included a new PSPP in addition to its existing private sector asset purchase programmes, encompassing the ABSPP and the CBPP3, both of which were launched in late 2014. The CSPP was introduced in 2016.

[9] 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, less marginal lending facility balances.

[10] The Eurosystem balance sheet is the combined balance sheets of all NCBs and the ECB.

The Eurosystem holdings of securities under the APP at end-December 2018 amounted to €2.6tn, comprising of €2.1tn held under PSPP, €262.2bn held under CBPP3, €178.1bn held under CSPP and €27.5bn held under ABSPP.

As is the case with other monetary policy operations, the APP is implemented on a decentralised basis. Therefore, each NCB is primarily responsible for conducting asset purchases in its own jurisdiction[11]. Of the four programmes in the APP, the Central Bank only purchases securities under PSPP and CBPP3[12]. Holdings under PSPP increased to €30.9bn at end-2018, up from €26.9bn at end-2017. The PSPP holdings are comprised of both Irish government bonds and supranational bonds. Holdings of Irish government bonds increased to €25.5bn from €21.5bn in that period. Holdings of supranational bonds remained broadly unchanged at €5.4bn. Meanwhile, holdings of covered bonds under CBPP3 increased to €4.1bn at end-2018, up from €3.6bn at end-2017.

Despite these extensive APP purchases, the Central Bank's balance sheet has only grown by €16.6bn during this period (€97.9bn at end-2018 vs €81.3bn at end-2014). PSPP-related purchases were partially offset by a combination of reduced reliance by Irish banks 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 the Irish Bank Resolution Corporation (IBRC).

Overall, 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 37% of total assets at end-2018, as illustrated in Chart 1 below.

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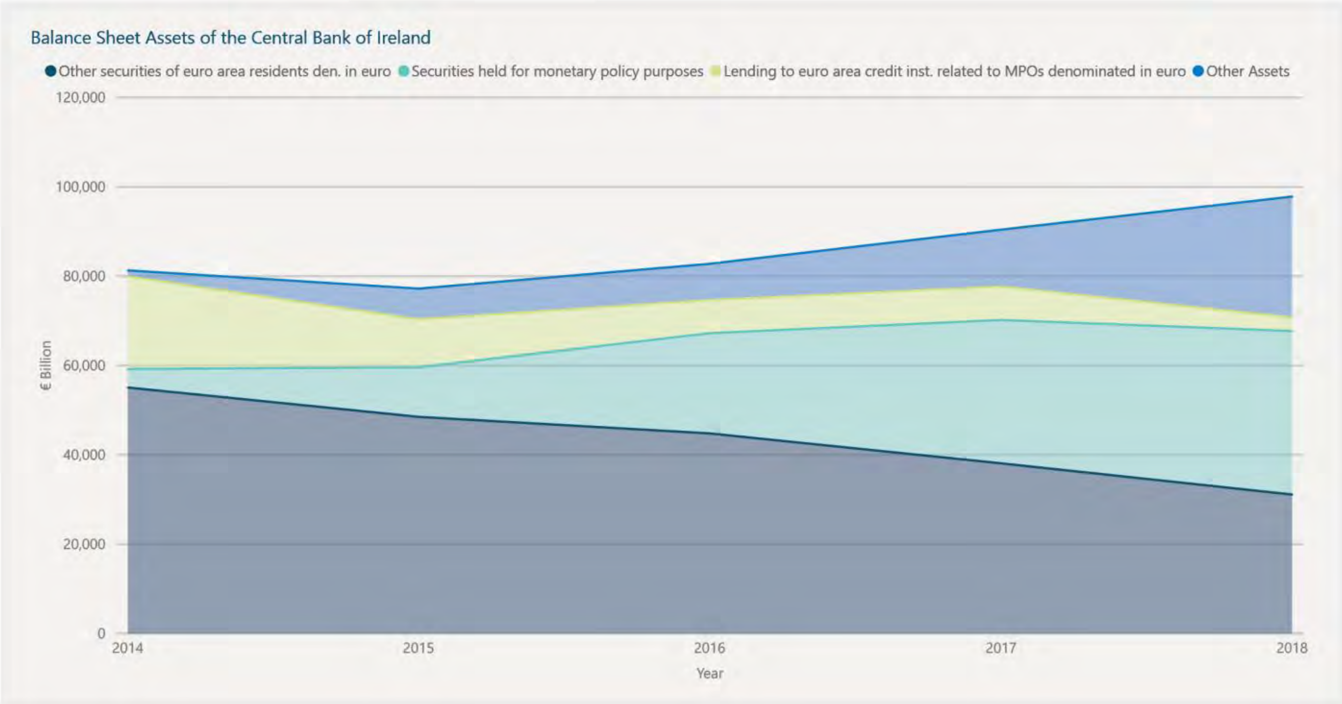
[11] The ECB also conducts purchases of securities from all jurisdictions under the PSPP.

[12] The Central Bank does not conduct purchases under the ABSPP and the CSPP. For reasons of efficiency, and as these programmes are risk shared, a smaller number of Eurosystem NCBs are involved.

Chart 1: Balance Sheet Assets of the Central Bank



Irish Monetary Policy Operations

The Central Bank conducted 113 liquidity providing operations on behalf of the Eurosystem in 2018, of which 63 were euro providing and 50 were US dollar providing. However, there were no bids from Irish counterparties in the majority of cases. In addition, 14 TLTRO-linked early repayment operations were implemented. The number of Irish counterparties eligible to participate in liquidity providing operations at end-2018 remained at 19, unchanged from 2017. Total outstanding monetary policy borrowings by Irish counterparties stood at approximately €3.0bn as at end-2018, compared to €7.5bn as at end-2017.

Participation in the weekly MROs was infrequent and limited to a small number of the Central Bank's counterparties. The continued decline in participation throughout the year comes against a backdrop of ample longer term market 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, the Central Bank monitored the fulfilment of minimum reserve requirements for credit institutions, in compliance with ECB procedures.

Collateral for Irish Monetary Policy Operations

At end-2018, 19 eligible counterparties had signed up to the Central Bank's pooling agreement[13], with collateral to a value of €7.65bn held with the Central Bank. Overall, for 2018, the average month-end value of collateral submitted to the Central Bank was €9.98bn. The downward trend in collateral holdings seen in 2016 and 2017 continued in 2018, with average monthly holdings down by an average of €2.2bn per month compared to 2017. This is in line with the continued reduction in monetary policy borrowings by counterparties.

Work has begun on the Eurosystem Collateral Management System (ECMS) project. 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 late 2022.

[13] 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 a mandate in both domestic and European legislation to contribute to financial stability in Ireland and across the euro area. In carrying out its mandate, the Central Bank conducts financial stability analyses that contributes to the prevention and mitigation of financial sector risks. This analyses is undertaken at a system-wide level (macro-prudential); at individual-institution level (micro-prudential); and also examines the interlinkages between the various components of the financial system and the real economy. The Central Bank contributes to macro-prudential oversight within the EU via participation in the European Systemic Risk Board (ESRB).

Stability of the Financial System

As the designated macro-prudential authority for Ireland, the Central Bank has deployed a suite of macro-prudential measures, which aim to prevent and mitigate system-wide risks. These measures are reviewed on a regular basis, consistent with the Central Bank's macro-prudential policy framework. A number of these instruments were activated in 2018, or will be phased in during the course of 2019, covering capital-based measures and borrower-based measures (see Box 2 below).

Financial stability decision making in the Central Bank is underpinned by two committees. The Central Bank's Macro-prudential Measures Committee (MMC) acts as an advisory committee for regular reviews of domestic macro-prudential measures and makes recommendations about maintaining or revising any deployed measures. A summary of the outcomes of meetings of the MMC is published on the Central Bank website. The Central Bank's Financial Stability Committee (FSC) coordinates and assesses financial stability issues and advises the Governor in this regard in relation to Ireland and the euro area. The FSC met 11 times during 2018, while the MMC met 8 times.

At a national level, financial stability issues are discussed in the Financial Stability Group (FSG). The FSG is a forum for senior officials from the Department of Finance, the National Treasury Management Agency (NTMA) and the Central Bank[14]. Work on crisis preparedness was also conducted under the auspices of the FSG and an inter-agency crisis management simulation exercise was undertaken in November 2018.

Similar to other years, the Central Bank published its biannual Macro-Financial Reviews in June and December. These reviews provide an overview of the current state of the macro-financial environment in

[14] https://www.gov.ie/en/publication/633c6c-financial-stability-group-fsg/

Ireland and are published to help financial market participants, other authorities and the public evaluate financial system risks. Further, the Household Credit Market report and the SME market report were published in July and September, respectively. These reports aim to communicate the latest credit market developments in the household and SME sectors, respectively. Finally, the Systemic Risk Pack, a visualisation tool for indicators regularly monitored for financial stability purposes, was published in both February and August.

In order to enhance the Central Bank's communication on, and transparency around, financial stability topics, the Financial Stability Notes publication series was launched in April 2018. There were 11 Notes published in 2018, focusing on mortgage lending, NPL resolution, bank profitability, the distribution of housing prices, international banking, long-term mortgage arrears, and cyclical risk measurement. Further research was published on the counter cyclical capital buffer (CCyB), bank loss modelling under IFRS9 accounting reforms, and crisis probability measurement. Staff economists regularly presented their contributions at domestic and international conferences and at other central banks during 2018. These included, for example, the University of Zurich, Swiss National Bank, Bank of England, Central Banking Research Association, Bank of Finland, de Nederlandsche Bank and the ECB.

The Central Bank actively participated in relevant European financial stability-related committees during 2018. These included, the ESCB's Financial Stability Committee (ESCB-FSC), the ESRB and its substructures on macro-prudential analysis, policy and stress testing. In 2018, the ESCB-FSC continued its regular review of main risks and macro-prudential policy measures through the Financial Stability Review and the Macro-Prudential Monitor.

Box 2: Macro-Prudential Framework

The Central Bank's macro-prudential framework includes a number of instruments currently used in pursuing the Central Bank's financial stability mandate. Each instrument has a different purpose and is used either individually or in combination with others to promote financial stability.

One of these instruments is the CCyB. The Central Bank's objective with the CCyB is to build resilience within the banking system to support the sustainable provision of credit to the real economy throughout the financial cycle, with the buffer reviewed on a quarterly basis. The Central Bank expects to maintain a positive CCyB rate when there is a sustained trajectory in indicators related to emerging cyclical systemic risk, with the rate expected to be above 1% where the trajectory becomes more persistent or there are emerging imbalances. The CCyB rate will be reduced or fully released when a downturn or the materialisation of cyclical systemic risk occurs. The decision to raise the CCyB to 1% CET1[15] in July 2018 (effective July 2019) was based on the strengthening credit environment, developments in house prices, and overall economic activity moving closer to its potential output level.

A second macro-prudential instrument is the mortgage measures which aim to strengthen both bank and borrower resilience and to reduce the likelihood and impact of a credit-house price spiral. To achieve this, the measures limit the amount of high loan-to-value (LTV) and loan-to-income (LTI) lending in the market. The mortgage measures enhance the resilience of households by providing a level of protection against a shock to household income or a decline in property values. They also build bank resilience through limiting the flow of more risky new lending. The 2018 review, published in November, found little evidence of a credit house price spiral emerging, nor of a generalised deterioration in lending standards to the detriment of bank and borrower resilience. As a result, no change to the calibration of the measures has been made for 2019.

The Other-Systemically Important Institutions (O-SII) buffer is a capital-based instrument and is aimed at reducing the potential for systemically important banks to adopt destabilising strategies and to hold them to higher capital standards given their systemic importance. Systemically important banks are larger or have a high degree of interaction with the real economy. The Central Bank has identified six O-SIIs in Ireland and has set buffer rates between 0 and 1.5% CET1 depending on the systemic importance of the individual bank. These buffers are being phased in between July 2019 and July 2021, and were confirmed by the annual O-SII review published in November 2018.

[15] Common Equity Tier 1

Market Based Finance

Market based finance is a source of credit diversification but can become a source of systemic risk in certain circumstances.

Although much of the risk is not directly connected to the domestic economy, the Central Bank recognises the need to analyse, monitor and understand the activities in this sector. As such, it took part in a range of internationally focused initiatives. This included participation in relevant work in European Securities and Markets Authority (ESMA), International Organisation of Security Commissions (IOSCO), ESRB and the Financial Stability Board (FSB), taking leadership positions in some of these fora. Issues addressed during 2018 as part of this engagement include investment fund stress testing, the interconnectedness of banks, non-banks and financial markets, contagion risk, as well as leverage and liquidity management in investment funds.

The Central Bank is a member of the FSB's Shadow Banking Expert Group. The FSB's Global Shadow Banking Monitoring Report for 2017 was published on 5 March 2018. Based on the FSB's definition, Ireland's non-bank financial sector is the sixth largest globally, estimated at USD$2.3tn.

The FSB recently announced that it will move away from the term "shadow banking" and will instead use the term "non-bank financial intermediation". Non-bank financial intermediation is defined by the FSB as credit intermediation involving entities and activities (fully or partly) outside of the regular banking system.

Central Credit Register

The Central Credit Register (CCR) is a national mandatory database of credit information maintained and operated by the Central Bank under the Credit Reporting Act 2013. The CCR contributes to financial stability, builds resilience and protects consumers by facilitating informed credit decisions by lenders. The Central Bank will use CCR data to improve insights into the overall level and pattern of lending in the economy.

Since 30 December 2017, lenders providing consumer loans for €500 or more have been submitting personal and credit information on those loans to the CCR on a monthly basis. Since 20 March 2018, individual borrowers have been able to request their own credit report free of charge at any time, subject to fair usage. A dedicated website providing consumer information on the CCR is available at www.centralcreditregister.ie.

The Central Credit Register contributes to financial stability, builds resilience and protects consumers by facilitating informed credit decisions by lenders.

Since 30 September 2018, lenders must request a credit report when considering consumer loan applications for €2,000 or more. Lenders will be charged for enquiries from July 2019. It is intended that the cost of establishing and operating the CCR will be recouped over time through this mechanism.

Licensed moneylenders, local authorities and lenders who provide business loans for €500 or more are also obliged to submit personal and credit information on those loans to the CCR.

A legislative amendment obliging lenders to submit information on hire purchase and similar type financing to the CCR was included in the Market in Financial Instruments Act 2018. Lenders will commence submitting information to the CCR on these loans from June 2019.

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 EU (Deposit Guarantee Schemes) Regulations 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. A risk-based methodology, in line with European Banking Authority (EBA) guidelines, is used to calculate contributions for each institution based on their degree of risk and level of covered deposits. The third year of annual contributions to the fund, totalling c.€104.8m, were levied at end-2018.

Over the course of 2018, 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.

Insurance Compensation Fund

Following the enactment of the Insurance (Amendment) Act 2018, in July 2018 the Central Bank took on responsibility for administration of the Insurance Compensation Fund (the Fund) from the President of the High Court acting through the Accountant of the Courts of Justice. The Fund is financed through contributions from insurance companies in respect of non-life insurance gross premiums.

In the event of a liquidation of an insurance company and on High Court approval, the Central Bank, as administrator of the Fund, will pay the relevant amount to the liquidator (in the case of an insurance company in Ireland) or to the State Claims Agency (SCA), in respect of an insurance company in another Member State, for distribution to claimants.

Payments are capped at 65% or €825,000 of verified claims (whichever is lowest) except in the case of third party motor insurance claims where the Fund pays the full amount of the claim and recoups the balance over 65%/€825,000 from the Motor Insurers Bureau of Ireland.

The first payment of €20.6m, in respect of Setanta Insurance Company Limited (in liquidation) was made from the Fund to the SCA on 27 November 2018 on foot of a High Court Order issued to the SCA.

The Departure of the UK from the EU

While at the time of preparation of this Annual Report, the final nature of the new EU-UK arrangements remained unclear, the departure of the UK from the EU has considerable short-term and long-term implications for the structure of the Irish economy and the financial system. The successful handling of the impact of the departure of the UK from the EU remains a high strategic priority for the Central Bank.

Since 2015, the Central Bank has been assessing the potential implications for the economy and the financial system arising from a UK departure from the EU. Following the UK referendum, a Brexit Task Force was established on a permanent basis at the request of the Central Bank's FSC. It meets and reports quarterly to the FSC and the Central Bank Commission regarding related political, economic and financial market developments, risks arising for firms supervised by the Central Bank, and issues arising for the Central Bank itself, in particular with respect to authorisations. In September 2018, the Central Bank established a Brexit Steering Committee to oversee the final stages of the Central Bank's preparations for the UK's departure from the EU, focusing on cliff-edge risks and the adoption of mitigation actions where possible and appropriate.

Throughout 2018, the work of the Central Bank focused primarily on ensuring:

1. Risks to the Irish economy and consumers were understood and mitigated.
2. Required policy and legal adjustments were prepared to ensure continuity of services in the event of a no-deal Brexit.
3. Regulated firms[16] took appropriate steps to strengthen resilience and protect their customers.
4. The Central Bank delivered a proportionate, robust, efficient and effective authorisation process in line with European regulatory norms, for those firms seeking authorisation in Ireland as a result of the departure of the UK from the EU.

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[16] Regulated firms include all entities and individuals regulated by the Central Bank of Ireland.

1. **Risks to the Irish economy and consumers were understood and mitigated to the greatest extent possible**

   The interconnectivity of the Irish and UK financial systems means that the departure of the UK from the EU poses significant challenges and risks to consumers, businesses and financial institutions.

   The Central Bank's aim has centred on seeking to ensure that financial stability and consumer protection risks were mitigated to the greatest extent possible, particularly in relation to the cliff-edge risks associated with a no-deal Brexit.

   The Central Bank worked with European and UK authorities to seek to ensure that those firms providing services to Irish consumers are able to continue to do so in the event of a no-deal Brexit.

   The Central Bank worked with the Department of Finance to support the drafting of legislation to create a temporary run-off regime that will ensure service continuity for insurance customers in event of a no-deal Brexit.

2. **Required policy and legal adjustments were prepared to ensure continuity of services in the event if a no-deal Brexit**

   (a) Inter-agency cooperation

   Throughout 2018, the Central Bank provided views and analysis to wider domestic policy makers, including through participation in the monthly meetings of the Brexit Contact Group (BCG) with DoF and the NTMA. The BCG discussed contingency planning across parts of the financial sector as well as the latest economic and political developments relating to the departure of the UK from the EU.

   The Central Bank also engaged with relevant authorities, including DoF, Bank of England and ECB on potential solutions for the continuity of access to financial market infrastructures for Irish corporate securities following the departure of the UK from the EU.

   (b) Actively engaging in Europe to contribute to Brexit-related policy

   The Central Bank engaged at European level to promote a consistent approach across the different Member States in the context of Brexit-related decision-making, contingency planning and communications. The Central Bank has been focused on agreeing European-wide approaches to key policy and supervisory issues that have arisen from the departure of the UK from the EU in order to address the concern of regulatory divergence and the risk of regulatory arbitrage.

3. **Regulated firms took appropriate steps to strengthen resilience and protect their customers**

   Supervision teams across the Central Bank continued to engage with firms to ensure they were appropriately planning for plausible worst-case scenarios. This involved ensuring that existing Irish firms understood and were planning for the impact that the departure of the UK from the EU will have on their businesses and their customers and continuing to engage with those firms that were executing plans to move to Ireland, or changing their business models in Ireland.

4. **Delivering a proportionate, robust, efficient and effective authorisation process in line with European regulatory norms for those firms seeking authorisation in Ireland**

   Significant authorisation activity arose due to the departure of the UK from the EU, involving high volumes of applications and complex cases. The Central Bank continued to act as gatekeeper by rigorously assessing applications from all firms seeking to provide financial services in Ireland. Firms were required to clearly demonstrate that they met the required standards for authorisation. The authorisation teams continued to assess applications in line with statutory and service standard timeframes, operating a clear, straightforward and facilitative process for applicants seeking authorisation.

Financial Stability and Consumer Protection

The Central Bank continued to prepare for plausible worst-case scenarios, including a no-deal Brexit. The Central Bank identified a number of cliff-edge risks, which had the potential to negatively affect consumers and investors, and cause significant disruption to the Irish financial system.

Box 3: Consumer and Investor Protection Related to the Departure of the UK from the EU

Lack of service continuity was identified as the most serious threat to consumers. As a result, the following key actions were taken to address this and other Brexit-related consumer and investor protection risks:

- **Reinforcing firm level preparedness** – The Central Bank, through active supervisory engagement with firms (including banks, insurers, investment firms, intermediary firms, payment and e-money institutions) required evidence of effective contingency planning. Furthermore, the Central Bank emphasised the need to adhere to the guidance issued by the European Supervisory Authorities (ESAs) to inform customers and investors about the impact of the departure of the UK from the EU on their financial products and services.

- **Engaging with the Department of Finance –** The Central Bank provided technical advice on the required legislative change to protect insurance policyholders. Legislation was required to deliver a temporary run-off regime to mitigate the risk of lack of service continuity for insurance contracts.

- **Issuing communications relating to the departure of the UK from the EU** – The Central Bank's communications to industry included direct engagement with firms, publication of the ESA Opinions and speeches, while communications to consumers and investors included detailed Consumer FAQs on the Central Bank's consumer hub website.

- **Publishing reports** - The Central Bank published four reports relating to the departure of the UK from the EU in 2018 providing expert assessments of the related risks.

The Central Bank is seeking to ensure consistent and predictable consumer and investor protections and will continue to work with financial institutions and at EU level to guide firms toward preparedness so that consumers and investors are protected regardless of the outcome of the UK/EU negotiations regarding the departure of the UK from the EU.

Supervision

The Central Bank was closely involved in developing a common European approach to the regulatory and supervisory issues arising from the departure of the UK from the EU.

The Central Bank's focus included seeking to mitigate against regulatory and supervisory arbitrage; to ensure continued supervisory cooperation and information sharing with UK authorities; and consideration of possible regulatory solutions to mitigate against potential cliff-edge risks.

Authorisation activity increased significantly including large and complex authorisations and changes to business plans of existing firms seeking to materially expand the scale of their existing operations.

Teams were mobilised to respond proactively to the demands of new authorisations, underpinned by rigorous authorisation processes. In addition, supervisory emphasis centred on ensuring that existing firms made the necessary improvements to be more resilient against current and emerging risks.The Central Bank continued to monitor firms' contingency planning to ensure effective plans were established to serve the needs of the economy and consumers in the longer-term.

The Central Bank was closely involved in developing a common European approach to the regulatory and supervisory issues arising from the departure of the UK from the EU.

Box 4: Preparing for and Managing the Impacts of the Departure of the UK from the EU – Deeper Insights

Insurance

Authorisation activity relating to the departure of the UK from the EU increased significantly and included the processing of a number of large and complex authorisations and a significant number of changes to business plans of authorised firms. During 2018, 23 applications were reviewed, six firms were authorised and the remaining applications completed the authorisation process in early 2019. In addition, there was a significant increase in regulatory transactions arising from changes to business plans, acquiring transactions and portfolio transfers.

A new authorisation process was implemented with a pre-application phase, enabling more exploratory dialogue with firms. Supervisors challenged firms on macro risks, business models and policyholder impacts such as contract continuity. Examples of risks mitigated through this process include the lack of substantive presence, risk retention, counterparty risk, outsourcing risks and risks to policyholder protection such as recovery and resolution.

Asset Management and Investment Banking

Driven by the impact of a number of new complex entities seeking authorisations to establish in Ireland, a new division was established in November 2018, the Investment Banks and Broker Dealers Division (IBBD), sitting alongside the supervision of asset management firms in Asset Management International Banking Directorate (AMIB).

The impact of the departure of the UK from the EU on the asset management sector has resulted in a significant increase in authorisations activity. In 2018, 56 authorisations, including five extensions to existing authorised firms were completed (this compares to an average of 18 in the previous two years) and significant authorisation activity is ongoing in the first quarter of 2019.

IBBD will supervise approximately ten banks and investment firms by end-June 2019 and its resources will be supplemented by supervisors who have worked on the authorisation or expansion of activity of existing firms to retain knowledge of firms' business models and conditions of authorisation. Three significant credit institutions will be supervised by joint supervision teams resourced by Central Bank and ECB staff.

Central Securities Depository

At present, all Irish equity and many Exchange Traded Fund (ETF) transactions are settled through a UK-based Central Securities Depository (CSD). If the UK becomes a "third country", there could be a legal restriction around passporting of CSD services into the Irish market and a risk that Irish transactions would be unable to settle.

To mitigate this risk, the Central Bank in conjunction with relevant Irish authorities engaged and continues to engage with key domestic market stakeholders and European authorities on this issue. Focus has centred on identifying a suitable long-term CSD provider following the departure of the UK from the EU and in establishing a UK equivalence arrangement in the short-term.

In December 2018, the European Commission issued a statement that a 24-month temporary equivalence period for UK CSDs would be provided for in the event of a no-deal Brexit. This means that the proposed long-term arrangement must be in place once this 24-month period comes to an end on 29 March 2021. The Central Bank and the relevant Irish authorities are now engaged closely with the Market Operator and other market stakeholders to move towards the implementation of the long-term CSD model.

Conduct and Consumer Protection

The Central Bank regulates financial conduct to ensure that the best interests of consumers and investors are protected, and that markets operate in a fair, orderly and transparent manner. In this section, the focus is on the regulation of firms undertaken in 2018 in order to protect consumers.

The Central Bank aims to ensure the best interests of consumers and investors are protected. Amongst the Central Bank's desired outcomes are that regulated firms develop a consumer-focused culture that delivers fair outcomes for consumers, that consumers understand the products and services being offered to them and that vulnerable consumers are protected.

The Central Bank aims to achieve these outcomes through high quality regulation, purposeful engagement, effective gatekeeping, assertive supervision and robust enforcement.

Consumer Protection is embedded in every area of the Central Bank's work across our financial conduct, prudential regulation and central banking mandates, recognising the importance of statutory codes of conduct, that firms are financially sound and that the stability of the financial system is upheld.

Strengthening consumer protection continued to be central to the Central Bank's work in 2018, with a specific and strategic focus on the conduct of firms. The Central Bank's strategic commitment is to elevate the regulation of the behaviour of firms. This is essential given the wide range of financial misconduct scandals internationally and domestically, including the Tracker Mortgage scandal, and is why the Central Bank has evolved its supervisory approach in recent years to strengthen its focus on conduct and cultural issues. The Behaviour and Culture report of the Irish Retail Banks was another important step in that process in 2018.

Beyond the retail banking sector, the Central Bank expects to see a consumer-focused culture embedded in all regulated firms. Effective organisational culture builds on shared purpose and standards such as professionalism, honesty, integrity and accountability to deliver fair outcomes that have the interests of consumers at heart. The increased emphasis on culture has informed how the Central Bank regulates firms, ensuring such firms act in the best interests of consumers.

The Central Bank intervenes where it sees widespread consumer detriment. During 2018, the Central Bank continued to progress the Tracker Mortgage Examination (TME). By end-December, lenders had paid out €647m in redress and compensation to customers denied a tracker mortgage or put on an incorrect rate. Enforcement investigations are being conducted in parallel with supervisory work.

The Central Bank introduced the Code of Conduct on Mortgage Arrears (CCMA) in 2009 in the midst of an economic and employment crisis to provide statutory safeguards for vulnerable, financially-distressed borrowers in arrears or at risk of falling into arrears. Further strengthened in subsequent years, the CCMA, and within it, the Mortgage Arrears Resolution Process (MARP), is one part of the national policy framework of supports and protections to assist people with mortgage arrears difficulties. In 2018, the Central Bank further reviewed the effectiveness of the CCMA - another important step in ensuring that lenders are fair and transparent in how they deal with borrowers or those facing mortgage arrears. The main finding from this review is that for borrowers who engage in the process that the Code is working effectively.

More generally, the Central Bank continued to press banks to reduce NPLs in a sustainable way that provided strong protections for borrowers. Considerable progress has been made in this regard. The approach taken by the Central Bank and other parts of the national consumer protection framework have ensured that the reduction in the level of non-performing mortgages has been primarily achieved through the restructuring of loans rather than repossessions.

The Central Bank has undertaken a number of initiatives to highlight and address potential risks to consumers. Extensive work has been undertaken in directing regulated firms to make contingency plans for the departure of the UK from the EU. The ongoing programme of thematic inspections continues to identify risks to consumers across sectors and financial products. Industry engagement ensures that regulated firms are kept abreast of regulatory issues and developments. All of this work is underpinned by consumer protection research, ensuring the consumer’s voice is kept at the heart of supervisory activities.

Box 5: Behaviour and Culture Review

The Behaviour and Culture Review was another important step in the process of ensuring that banks embed a consumer-focused culture.

In July 2018, the Central Bank published the findings from the review, which assessed the current culture at the five retail banks. The review focused on the leadership behaviour of the executive committee of these banks, specifically their group dynamics and mind-set; and the interplay between the executive committee and relevant internal stakeholders in the context of strategic decision-making.

The review found that while all five banks are working to embed a consumer-focused organisational culture, some are more advanced than others, and all have some distance to travel. A consumer focus was not always embedded in the banks' structures, processes and systems. Specifically, there was not always a collective understanding of what consumer focus means or what behaviour it requires.

Some banks continued to display remnants of the crisis-era mindset resulting in occasional reversal to directive leadership styles when the emphasis should be on collaborative approaches. The review also found over-optimism about the successful transition to a consumer focused culture meaning banks underestimated the work required to deliver on the change agenda.

On foot of the review, the Central Bank required the board of each bank to create an action plan to address the concerns identified and mitigate the associated risks. These actions plans have been received by the Central Bank and will be an important component in our ongoing supervision of these retail banks.

The Behaviour and Culture Review was another important step in the process of ensuring that banks embed a consumer-focused culture.

Tracker Mortgage Examination

The TME is the largest, most complex and significant supervisory review the Central Bank has undertaken in respect of its consumer protection mandate. The TME covers all mortgage lenders that sold tracker mortgages in Ireland at any time in the past.

The overriding objective of the TME 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. In situations where customer detriment is identified, the

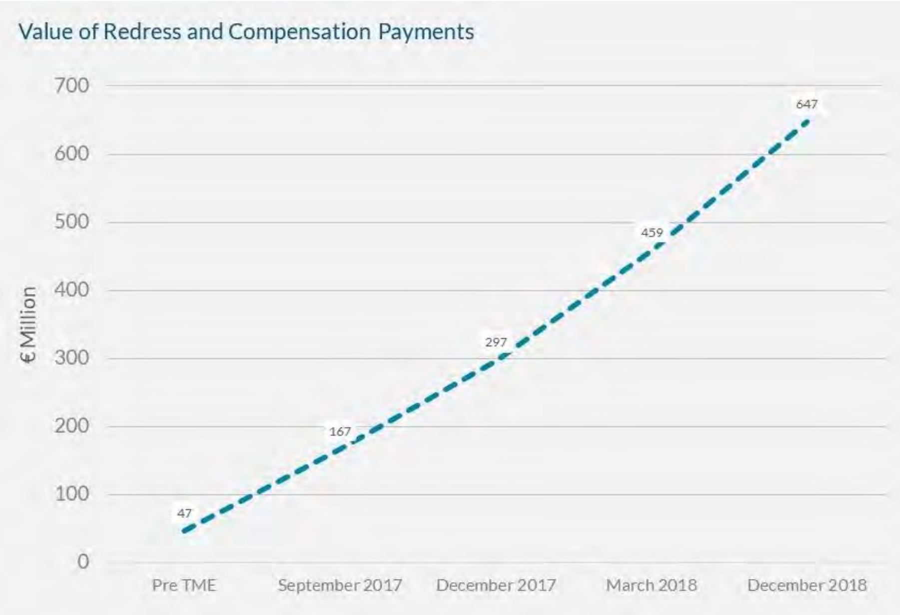
Central Bank requires lenders to provide the appropriate redress and compensation in line with the Principles for Redress it developed.

Key outcomes of the TME in 2018 included:

- Rigorous supervisory work to ensure lenders identified all groups of impacted customers. By end-December 2018, lenders had identified 39,800 affected customers.
- Driving lenders to complete redress and compensation programmes as swiftly as possible. By the end of 2018, 97% of customers identified and verified as impacted had been remediated.
- €647m in redress and compensation paid by lenders to end-December 2018.

The supervisory work has now entered in its final phases and enforcement investigations are being progressed in parallel. The Central Bank expects to publish a final report on the TME in 2019.

Chart 2: Value of Redress and Compensation Payments



Consumer Advisory Group

The Central Bank Reform Act 2010 provides that the Central Bank shall establish an advisory group to advise the Central Bank on the performance of its functions and the exercise of its powers in relation to consumers of financial services. The Consumer Advisory Group (CAG) was established in 2011 and, in accordance with the Act, its function is to advise the Central Bank in relation to: the effects of the Central Bank's strategic plans on consumers of financial services; initiatives aimed at further enhancing the protection of consumers of financial services; and if the CAG so requests, documents, consultation papers or other materials prepared by the Central Bank.

At end-December 2018, the membership of the CAG comprised: Theodor Kockelkoren, John Mark McCafferty and Anne-Marie O'Connor. Niamh Moloney served as Chair of the CAG prior to her appointment to the Central Bank Commission in September 2018.

The CAG met four times in 2018. The format for each meeting included a discussion on topical issues, followed by discussion on relevant policy and strategic matters. In seeking input from the CAG on policy and strategic matters, the Central Bank's approach was to seek such input at the appropriate stage in its work so that CAG insights could be considered and included before bringing policy and strategic matters through the formal governance process in the Central Bank. In 2018, the CAG input was sought on three significant items: the Report into "Behaviour and Culture of Irish Retail Banks"; the Central Bank's Strategic Plan 2019-2021; and the proposed Consumer Protection Strategy 2019-2021, which would underpin the consumer protection elements of the Strategic Plan. In addition to these strategic issues, a wide range of relevant topics were discussed at CAG meetings. Reports on the activities of the CAG are submitted to the Commission on an annual basis. Information on the membership of the group and minutes of its meetings are available on the Central Bank website.

Supervision and Enforcement

The Central Bank has an assertive, risk-based, intrusive approach to supervision, underpinned by robust enforcement powers, 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 continued its programme of risk-based, intrusive, outcome focused and analytical supervision anchored in the PRISM (and IMAS for the banks in the SSM) supervisory methodologies, and underpinned by enforcement action where necessary and appropriate. This included day-to-day supervisory engagement with regulated firms and inspections and analysis to support and challenge the supervisory work, with particular focus on key risks such as the departure of the UK from the EU, financial resilience and consumer protection.

Ongoing supervision involved assessing and challenging firms in relation to capital adequacy, business models and governance. Resolution of NPLs remained a key priority in banking. On-site inspection activity on the insurance side increased in 2018 and the Central Bank noted and acted on deficiencies in relation to Solvency II obligations around Risk Management Frameworks. Asset management supervision focused on MiFID II implementation, compliance with Investor Money Regulations, cyber risk, governance and internal controls.

Strong regulatory and supervisory frameworks play a vital role in delivering a resilient financial system that fosters trust, where investors and consumers are protected, deposits are safe and insurance reserves are adequate to meet liabilities. The Central Bank's work in 2018 has shown that ongoing focus is required to achieve the aspiration of a resilient and trustworthy financial system, which sustainably serves the needs of the economy and its customers, in which firms and individuals adhere to a culture of fairness and high standards.

Deeper sectoral insights into the work programme in 2018 are set out in the following sections.

Credit Institutions Supervision

The Central Bank made substantive progress against its supervisory objectives - providing core supervision, responding to the departure of the UK from the EU, enhancing its view of banks' resilience, driving to improve banks' culture, progressing recovery planning of banks, and ensuring banks identified relevant customers affected by tracker mortgages. This progress was achieved through regular intensive and intrusive supervision of, and engagement with the banks, on-site inspections and comprehensive supervisory risk assessments covering all key risks.

Key areas of focus included:

- Building Resilience (see below)
- Resolution of NPLs (see Box 6 below)
- The Departure of the UK from the EU (see earlier section)
- Consumer Protection Collaboration (see section on Tracker Mortgage Examination under Conduct and Consumer Protection).

Building Resilience

In 2018, there was a significant supervisory emphasis on ensuring that regulated firms make the necessary improvements to be more resilient against current and emerging risks. Profitability continues to recover in most Irish banks, although elevated cost bases and low interest rates remain a drag on earnings. Many banks are implementing change programmes to manage their cost base, support revenue generation, improve information technology (IT) and Fintech capabilities (including implementation of PSD2), and strengthen their overall business models.

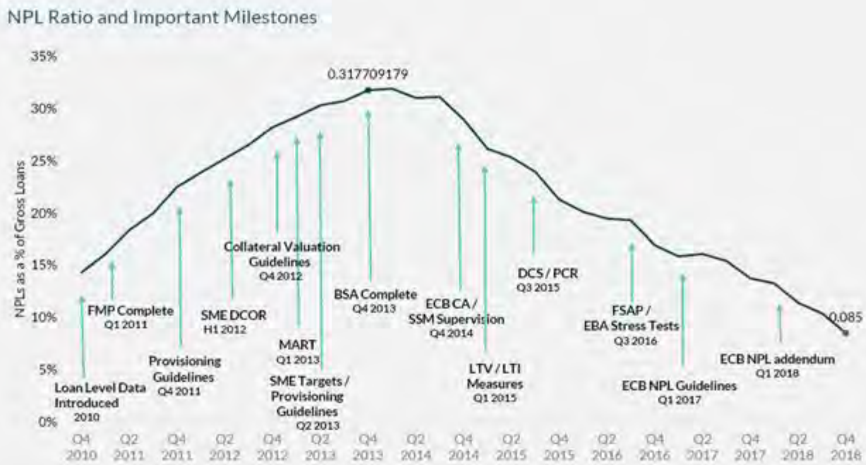
Work involved assessing the adequacy of capital and liquidity ratios, supporting the ECB's Targeted Review of Internal Models project, participating in the 2018 EU-wide stress test and assessing the strength of recovery and resolution plans.

Box 6 : Supervisory Focus on Non-Performing Loans

From both a financial stability and a consumer protection perspective, the Central Bank must take a full spectrum view of financial distress. Elevated levels of NPLs impinge on the capacity of both lenders and debtors to weather future downturns. Reducing NPLs in a sustainable way that provides strong protections for borrowers is therefore essential.

During 2018, 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 in resolving these loans builds resilience into the financial system in Ireland. More immediately, from a consumer perspective, these NPLs represent borrowers who are in, or who have been in, financial difficulties and the fair treatment of these borrowers is a key concern for the Central Bank.

Chart 3: Retail Banks – NPL Ratio and Important Milestones



Source: Central Bank Regulatory returns based on data provided by AIB, BoI, PTSB, UBI and KBCI.

The Central Bank has adopted a deliberate and phased approach to tackling the issue of NPLs, with significant progress made to date. The chart plots the NPL ratio over time and highlights some of the important milestones during Ireland's NPL resolution journey. At every stage of the process, the Central Bank communicated supervisory expectations (via publication of relevant guidelines such as Provisioning Guidelines, Collateral Valuation Guidelines etc.), challenged institutions on progress and conducted detailed on-site inspections. Prudential activity was supported by the development and implementation of a robust consumer protection framework. The publication of the CCMA in 2009 established protections for borrowers in relation to their primary residence to ensure they were treated fairly and positioned to remain in their family home in the vast majority of cases.

In 2018, the pace of NPL resolution varied for different asset classes with mortgage NPLs reducing at the slowest pace, consistent with trends over the last number of years. This reflects a greater propensity to restructure mortgage NPLs and the relatively slower legal process for mortgage NPLs. Consequently, mortgage NPLs now represent 71% of all NPLs held by retail banks in Ireland.

Against this backdrop, in 2018 a number of retail banks engaged in the sale of mortgage NPL portfolios as a resolution strategy. In response to this development, the Minister for Finance and Public Expenditure and Reform, requested a review of the CCMA to ensure its effectiveness in the context of the sale of loans by regulated lenders. The Central Bank published the "Report on the Effectiveness of the CCMA in the context of the Sale of Loans by Regulated Lenders" in November 2018.

To ensure institutions continue to progress towards a minimal level of NPLs, the Central Bank maintained intensive supervisory engagement throughout 2018, ensuring ambitious and realistic NPL resolution strategies were in place for 2018, and beyond. The Central Bank continues to monitor individual institution's performance and raise challenges where necessary. The Central Bank completed two intrusive on-site inspections in 2018 relating to NPLs and identified instances of supervisory expectations not being met, imposing risk mitigation plans as a result.

The stock of NPLs across retail credit institutions stands at €22.5bn, a reduction of €11.9bn year-on-year resulting in an aggregate NPL ratio of 10.4% which remains unacceptably high. 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 2019.

Credit Unions Supervision

The Central Bank regulates and supervises credit unions to ensure that they are financially sound; have sustainable business models which serve the needs of their members (and the wider financial system) over the long-term; are well governed and safely managed; and can recover if they get into difficulty and if not, are resolvable in an orderly manner.

The Central Bank's risk-based supervision in 2018 focused on continuing to strengthen credit union core foundations across governance, risk management and operational capabilities. On-site inspection activity focused on ensuring minimum standards are met by credit unions and that risk mitigation plans are in place to address key risk vulnerabilities. In 2018, the Central Bank continued to facilitate sectoral restructuring in line with its objective of placing weaker and non-viable credit unions on a financially and operationally sound basis, with 16 transfers of engagement completed during the year, four of which required private sector financial support to restore their reserves prior to completion of the transfer.

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. As part of its continued stakeholder engagement, the first series of credit union workshops was delivered, aimed at board members. These workshops, underpinned by a clear articulation of supervisory expectations, aim to support improved risk understanding by boards, and by extension strengthening of core foundations and compliance standards across the sector.

The Central Bank's overall focus is to ensure that the credit union regulatory framework remains appropriate, up-to-date and evolves where prudentially justified. Multi-channel interaction with the sector includes engagement on evolving an already tailored and proportionate regulatory framework for credit unions, where prudentially justified, through regulatory responsiveness. The Central Bank continued to enhance the credit union regulatory framework, taking account of credit union risks and capabilities – issuing updated regulations (investments), guidance (provisioning) and a consultation paper (lending framework).

During 2018, the Central Bank noted a discernible focus by credit unions on developing inter-credit union collaboration systems, including credit union owned shared services business models. The development by credit unions of a collaborative infrastructure is considered important. The Credit Union Regulatory Forum, which is

CEO-led, under the independent chairmanship of Professor Donal McKillop, is designed to help CEOs address the need for business model change by facilitating increased collaboration on new initiatives to support sector sustainability. This is an important initiative to support credit unions as they focus on addressing their sustainability.

Insurance Supervision

Delivering on core supervisory activities against the backdrop of the departure of the UK from the EU brought new challenges to insurance supervision throughout 2018. Risk-based supervisory prioritisation brought focus to key risks within the cross-border market and core domestic risks.

Intensive supervision was targeted on specific firms such as CBL Insurance Europe DAC (CBLIE) and RSA Insurance Ireland DAC. In order to avoid a disorderly failure, the Central Bank issued a direction to CBLIE instructing it to cease writing business with immediate effect and an application was made to the High Court to have a provisional administrator appointed to CBLIE. The Central Bank took this action to protect CBLIE policyholders. Also in 2018, RSA Insurance Ireland DAC was fined €3.5m in respect of serious breaches relating to the failure to have sound and adequate reserves, internal control mechanisms and governance arrangements.

Supervisors were mobilised throughout 2018 to respond proactively to new authorisations and changes in firms' strategy and structure.

Alongside delivering on core supervisory activities, supervisors responded proactively to an increase in new authorisations and changes in firms' strategies and structures brought about by firms responding to the challenges from the departure of the UK from the EU.

The Central Bank engaged on wider international themes through EIOPA and international supervisory colleges and strongly supported the coordination of cross-border supervisory responses to emerging risks. The Central Bank led a number of cross-border platform meetings between national supervisory authorities and collaborated with EIOPA to improve supervisory outcomes. The Central Bank also led one and participated in three other peer reviews of supervisory practices including internal models, authorisations, key function holders, and propriety of AMSB[17] members. All reviews noted a comprehensive approach by the Central Bank and highlighted best practices in Ireland and some other national supervisory authorities.

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[17] Administrative, management or supervisory body (AMSB) members is a term relating to Solvency II regulations. They are persons who effectively run the undertaking, typically from our perspective it would relate to Boards of undertakings.

The Irish insurance market is one of the most important cross-border markets within the EU. In 2018, the Central Bank revised its engagement model for medium-low risk firms to increase the effectiveness of cross-border supervision.

Branch on-site inspections were utilised to assess the strength of firms' systems and controls with specific focus on risks:

- In relation to risk management frameworks, a core pillar required under Solvency II, the Central Bank's work highlighted deficiencies three years post Solvency II implementation. These included instances where there was a disconnect between the front line of the business and the risk function, as well as inconsistent practices across business units.

- On regulatory reporting, inspections highlighted fundamental issues relating to regulatory reporting requirements under Solvency II, including issues such as basic reporting policies not being in place and deficiencies relating to the responsibilities of the risk function and internal audit function. Arising from concerns in this area, the Central Bank published a statement on its website and issued a letter to industry.

Solvency II reporting requirements increased supervisors' capabilities to monitor firms' financial resilience and capital strength. A new consolidated data series based on Solvency II public disclosures was published in 2018. The Central Bank leverages such data with analytics capabilities to support more effective risk assessment, to benchmark with domestic and international peers and to support publication of aggregate insights across the market. The data also provides insights into new risks entering the Irish market through newly authorised firms arising from the nature and complexity of firms with new speciality lines of business, characterised by low frequency, high severity insured events.

Asset Management and Investment Banking Supervision

Work in 2018 was dominated by preparations for the departure of the UK from the EU. Driven by the impact of a number of new complex entities seeking authorisation to establish in Ireland, in addition to existing incumbent entities seeking to materially expand their activities, the Asset Management Supervision Directorate was restructured and expanded to become the Asset Management and Investment Banking (AMIB) Directorate.

The restructure involved the creation of a new division with responsibility for supervision of large complex investment banks, some of which are supervised jointly with the SSM, in addition to investment firms engaged in broker dealer activities.

The departure of the UK from the EU, has resulted in large volumes of applications, requiring changes, both completed and ongoing, in a number of areas, including:

- Improvements to application and authorisation processes
- The development of a new client asset regime for large complex investment banks
- Work on a new authorisation and supervision framework for CSDs.

Ongoing supervisory focus on MiFID II implementation continued throughout 2018. This involved proactive engagement with regulated firms on the status of their implementation of the new requirements and with other key stakeholders. The core elements of MiFID II, namely the improvement of consumer outcomes and increased transparency in market trading, were areas of focus with targeted firm engagements and the commencement of two thematic reviews in this area.

The 2018 supervisory work programme included a number of full risk assessments, on-site and thematic inspections. The work programme focused specifically on compliance with Investor Money Regulations and cyber risk, in addition to strengthening governance and internal controls within supervised entities. There was an increased level of consolidation in the investment firm sector. This was, in part, due to the elevated focus by supervisors on the efficacy of firms' business models. As part of these assessments, further analysis was conducted on the recovery plans of medium-high impact firms.

Driven by the expansion of the asset management sector, a new Operational/Thematic Risk inspections unit was established in 2018 and an inspection framework and methodology was developed. This team has formed part of a centralised inspection unit under the remit of the Prudential Analysis and Inspections Directorate since Q1 2019.

In relation to the Central Bank's goal to enhance the effectiveness of fund management companies, the Central Bank introduced new rules and guidance (see Box 7 below) on its expectations of the Directors of Fund Management Companies.

Box 7: Fund Management Company Guidance

CP86 sets out the Central Bank's requirements and guidance in relation to the organisation of fund management companies. CP86 came into full effect on 1 July 2018 as Fund Management Company Guidance, with the purpose of enhancing fund management company effectiveness. The guidance introduced important changes to how fund management companies should structure themselves, with a heavy emphasis on the critical managerial roles (designated persons).

In H1 2018, a project group was established within the Central Bank to manage the implementation of the guidance. This included the development of a comprehensive supervisory handbook to support supervisors, and to facilitate a consistent approach to assessing compliance. The launch of this handbook coincided with the rolling out of a training programme to Central Bank supervisory staff and to other internal stakeholders on the guidance. Supervisors also engaged extensively with industry in advance of the implementation on 1 July. This engagement began with an industry preparedness questionnaire, which issued to all fund management companies. The results of this questionnaire allowed supervisors to assess the level of engagement at industry level, while identifying those of most concern and addressing these areas through firm specific engagement.

Increasing volumes of applications for authorisation driven by the departure of the UK from the EU have led to the Central Bank gaining a deeper understanding of how firms are implementing the guidance and has resulted in an increased focus on the amount of time required to effectively carry out the designated person role.

Looking to 2019, the Central Bank plans to include the guidance in its thematic review programme with the aim of identifying and publicising observed standards of industry compliance. Supervisory engagement in relation to the guidance over the next 12 months will be aimed at promoting the highest possible standards for how fund management companies operate in Ireland.

Securities and Markets Supervision

In line with the objective of ensuring an effectively supervised securities market and fostering a trusted financial system which supports the wider economy, the Central Bank's key securities and markets supervision priorities in 2018 included:

- Continuing to process substantial volume of applications for fund authorisations and prospectus approvals.
- Continuing to enhance our surveillance of market activity and the deployment of assertive risk-based supervision, including in the funds sector.
- The development of a strategy and framework to supervise the conduct of firms operating in wholesale markets.
- Improving our supervisory capacity through greater use of data.
- Implementing and operationalising new legislation in the field of securities and markets.

Development of a Wholesale Market Conduct Supervision Model

As the nature, scale and complexity of securities markets continues to grow, it is essential that the Central Bank advances its supervisory approach and capabilities to meet the risks and challenges presented by the evolving securities market activity carried on in and from Ireland, particularly in a post-Brexit landscape. In 2018, the Central Bank embarked upon the development of a proportionate risk-based supervisory framework, consistent with PRISM that focuses on supervising conduct risk in wholesale market firms. The supervisory model focuses on a structural assessment of the conduct risk management framework at firms undertaking a diverse range of MiFID activities and is supported by a comprehensive assessment of primary controls. In 2018, this model was primarily deployed in the assessment of applications for authorisation by a number of large and complex investment firms and credit institutions, resulting in the early identification and mitigation of potential market conduct risks.

Box 8: Thematic Review of UCITS Performance Fees

The area of performance related fees has been the subject of increased attention from European bodies and global regulators. A performance fee is a payment made, usually to an investment manager, for generating positive returns for funds and their investors.

The Central Bank carried out a thematic review of UCITS performance fees in 2018 to establish whether the procedures used to calculate and pay performance fees in UCITS ensure that investors' interests are protected at all times. The review examined the methodologies used to calculate performance fees to ascertain if they are in line with the Central Bank's UCITS Performance Fees Guidance. Of the 3,420 UCITS sub-funds reporting to the Central Bank in 2017, 350 indicated that they had accrued a performance fee during 2017. Of these, a random selection of 100 sub-funds (circa 30%) formed the sample for the thematic review.

The review was undertaken in parallel with the Central Bank's Consultation Paper CP119, which proposed to incorporate existing guidance into the Central Bank UCITS Regulations.

Review Findings
While the inspection identified a number of good practices across the majority of UCITS reviewed, it also identified instances of non-compliance with the guidance including:

- Cases where performance fees were calculated based on Gross Asset Value contrary to the guidance to pay UCITS performance fees based on Net Asset Value.
- Instances of UCITS calculating performance fees based on the outperformance of a benchmark or index, which did not appear to be relevant in the context of the UCITS policy, as set out in the guidance.
- Instances where UCITS calculating performance fees on the basis of the High Water Mark approach were not using the initial offer price as the starting price for calculations, as set out in the guidance.
- Performance fees where underperformance of an index was only clawed back for a limited period, i.e. where the UCITS underperformed the index it set a limited period in which it must recoup this underperformance instead of applying it for the life of the UCITS.

In respect of poor practices at fund service providers, the review identified:

- Depositaries verifying UCITS performance fees post payment
- Depositaries verifying a sample of UCITS performance fee payments, rather than all payments.

Industry Letter
The Central Bank published an Industry Letter which highlighted the key supervisory issues identified. UCITS fund management companies were required to carry out a review of their performance fee methodologies to ensure that performance fees charged comply with the guidance and report their findings to the Central Bank. UCITS fund management companies were required to report any changes to existing performance fee methodologies that were identified, any changes to prospectus disclosure that were identified, any instances of improper payment of performance fees that were identified and actions being taken to remedy these. Over 200 responses were received from UCITS fund management companies. The Central Bank has commenced supervisory engagement with those UCITS fund management companies where instances of supervisory concern have been identified. At the time of writing, 11 risk mitigation programmes have issued across UCITS, UCITS fund management companies and fund service providers and over €1.245m is in the process of being refunded to impacted investors.

Anti-Money Laundering and Countering the Financing of Terrorism Risk-Based Supervision

In order to meet the key objective of protecting the integrity of the financial system and preventing its illicit use by criminals and terrorist organisations, the Anti-Money Laundering Division is responsible for the effective risk-based supervision of AML/CFT and financial sanctions (FS) compliance and contribution and input into domestic and international AML/CFT legislative and policy development.

In November 2018, the Oireachtas transposed the Fourth EU Anti-Money Laundering Directive (4AMLD) into Irish law thereby strengthening Ireland's AML/CFT legal framework. In December 2018, the Central Bank published draft Guidelines for industry which reflect the updated legal requirements and commenced a consultation process to seek industry's views on the content of the guidelines.

The Central Bank continued to apply a graduated risk-based approach to AML/CFT supervision throughout 2018. This risk-based approach ensures that firms with a higher level of risk of being exposed to money laundering or terrorist financing activity are subject to more frequent and comprehensive supervision, while also providing for responsive inspections based on specific intelligence. In 2018, the Central Bank carried out 72 on-site inspections, held 59 review meetings and issued 259 Risk Evaluation Questionnaires to firms for completion.

Enforcement Outcomes

The Central Bank uses its suite of enforcement tools to hold firms and individuals to account, achieve the highest regulatory standards of compliance, promote the behaviours the Central Bank expects of firms and individuals and change culture in firms from the top down. Following intrusive investigations that involved numerous interviews and complex data analysis, the Central Bank achieved a number of notable enforcement outcomes in 2018: it sanctioned and completed ten enforcement actions against regulated firms under the Administrative Sanctions Procedure (ASP) and imposed fines totalling €7.441m. Under the Fitness and Probity (F&P) regime, the Central Bank prohibited two individuals from holding any role in the financial services sector indefinitely. The Central Bank also revoked the authorisation of one firm which failed to comply with its authorisation requirements, in circumstances where the firm objected to withdrawal.

Notable enforcement outcomes included: a fine of €3.5m imposed on RSA Insurance Ireland following an investigation that found failings in the firm's governance arrangements, accounting procedures and internal control mechanisms; and a fine of €443,000 imposed on Appian Asset Management for serious deficiencies in its risk management, compliance oversight, and systems of internal control, which exposed the firm to cyber-fraud.

The Central Bank issues public statements at the conclusion of enforcement actions, including those mentioned above. These statements are an integral part of the enforcement mission and play a crucial role in promoting compliance and increasing public trust in the system of regulation.

In 2018, the Central Bank also engaged with domestic and international partners in its efforts to strengthen the enforcement framework. Most notably, the Central Bank proposed an Individual Accountability Framework, which will set out what are reasonable and expected standards of behaviour of individuals working in financial services and oblige firms to clearly delineate responsibilities. If implemented, the proposals will also serve to increase the Central Bank's ability to hold individuals to account and deter misconduct.

Protected Disclosures

The receipt of confidential protected disclosure reports is an important supervisory tool. These reports assist the Central Bank in discharging its supervision and enforcement mandate and in particular, the protected disclosures regime plays a unique role in the promotion of high standards within regulated entities by extending the Central Bank's supervisory reach and positively influencing behaviours. The Central Bank received 128 protected disclosures in the 12 months to December 2018 compared to 93 in the previous year.

Each protected disclosure report received by the Central Bank is thoroughly assessed. Various actions followed the receipt of protected disclosures reports during 2018, including assisting an enforcement action, on-site inspections, and risk mitigation programmes.

Cases at Inquiry

The oral hearings into the first of four modules of the Inquiry into INBS and five persons formerly concerned in its management continued in 2018. In January and December 2018, the Central Bank concluded enforcement actions against two of the five persons, Michael P. Walsh and Tom McMenamin. Following admissions in January 2018, the Central Bank disqualified Dr Walsh, a former non-executive Chairman of INBS, from being concerned in the management of a regulated financial service provider for three years, reprimanded him and imposed a fine of €20,000. In December 2018, following admissions by Mr McMenamin, the Central Bank disqualified him for 18 years, reprimanded him and imposed a fine of €23,000. The breaches admitted by Mr McMenamin merited a monetary penalty of €250,000. However, the monetary penalty was reduced to €23,000 based on an assessment of Mr McMenamin's financial circumstances pursuant to section 33AS(2) of the Central Bank Act 1942, which does not permit the Central Bank to impose a monetary penalty on an individual that would be likely to cause the person to be adjudicated bankrupt. The Central Bank's Inquiry into the three other persons formerly concerned in the management of INBS (Michael Fingleton, Stan Purcell, and Gary McCollum) is continuing.

The Inquiry into various alleged regulatory breaches by Quinn Insurance Limited and two persons formerly concerned in its management continued throughout 2018, with two Inquiry Management Meetings being held in private during 2018.

Box 9: Protected Disclosure

In one case, a senior individual working in a regulated firm contacted the Central Bank with concerns about the operation of the firm's board. As part of their assessment of these concerns, supervisors met with the senior individual and conducted a focused inspection of the entity. The Central Bank reviewed numerous documents and interviewed a number of employees. Following their assessment, supervisors issued a risk mitigation programme, which was implemented in full by the firm.

Box 10: Gatekeeper Process and Fitness and Probity Regime Outcomes

The key objective of the Central Bank's cross-sectoral F&P regime is to ensure that regulated firms and individuals who work in these firms are committed to high standards of competence, integrity and honesty, and are held to account when they fall below these standards. This helps to build trust and confidence in the industry. As part of the Central Bank's gatekeeper function, it assesses the F&P of individuals seeking to work in senior positions in firms. In addition, the Central Bank's Enforcement Directorate has responsibility to ensure consistency in F&P assessments of senior management within Irish authorised credit institutions under the EU's SSM. The Enforcement Directorate participated in 74 F&P assessments in 2018; this entailed attendance at 71 interviews with applicants. In 18 cases, the applicants withdrew their application during the process, typically before, during or after an interview.

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 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).

Through our Policy and Risk Directorate, the Central Bank plays an active role in:

1. **Contributing to the development of relevant laws, regulations and technical standards in Europe**.

   The Central Bank engages actively in the European regulatory policy process, contributing to the development of regulatory frameworks and supporting the work to transpose those rules into Irish law.

2. **Developing and maintaining the Central Bank's regulations, standards and guidance for regulated firms and markets**.

   The Central Bank ensures that prudential and conduct regulation is maintained and implemented on an ongoing basis, having regard to the changing environment and new activities and products developed by firms and markets. It provides and maintains the policy framework to support effective supervision of regulated firms and markets, including the issuance of guidance and policy positions.

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

   The Central Bank's risk-based framework for the supervision of regulated firms provides a systematic and structured means of assessing different types of risk. Potential risks are analysed for the higher impact firms using a common framework. This framework supports our challenge of firms, judging the risks they pose to the economy and the consumer and mitigating those risks we judge to be unacceptable.

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

In 2018, the Central Bank continued to develop and enhance its risk-based supervisory framework and related IT tools (PRISM) for the supervision of regulated firms, by rolling out a series of enhancements to maintain and improve PRISM during 2018. This work ensures the Central Bank's supervisory framework and PRISM are kept up-to-date and relevant in the context of regulated firms' business models and risk profile, which continue to evolve in an ever-changing financial landscape. As required in the PRISM framework, the Central Bank performed regular quality assurance reviews to assess its 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.

A dedicated PRISM IT support team dealt with over 387 queries from supervisors in 2018. The Financial Regulation - Policy and Risk Directorate also responded to 1,240 queries from both internal and external stakeholders on policy issues.

The Directive on Security of Network and Information Systems was successfully transposed on 18 September 2018, wherein the Central Bank was designated as the Competent Authority responsible for aspects of the Directive applicable to the Irish financial system. Operators of essential services in the financial system were identified by the Central Bank ahead of the deadline on 9 November 2018.

Box 11: FinTech - Innovation Hub

On 20 April 2018, the Central Bank launched its Innovation Hub, a direct point of contact for innovative firms. It provides an opportunity for innovative firms to engage with the Central Bank on a one-to-one basis outside of the existing channels, while allowing the Central Bank to learn about new innovations/technologies in financial services.

The Innovation Hub facilitated over 79 engagements, including 58 enquiries.

The majority of contacts were from payments and regulatory technology (RegTech) firms. Firms contacting the Innovation Hub were generally earlier stage start-ups or more developed unauthorised FinTech/RegTech firms. Questions regarding authorisations were the most frequent, including a number of authorisation-related enquiries from firms authorised in other jurisdictions.

In Q3, the Central Bank launched its FinTech industry engagement initiative, building on the Innovation Hub by facilitating engagement with stakeholders more broadly.

The Central Bank hosted its first FinTech information seminar on 22 October, with a presentation on issues relevant to smaller FinTech firms. The event's target audience was FinTech firms that are considering seeking authorisation from the Central Bank, and those who support them. Over 43 individuals attended the event including 17 FinTech firms.

The Innovation Hub hosted a half-day RegTech firm event on 8 November, with three Irish RegTech firms each separately presenting on their business model to Central Bank staff. As RegTech firms are typically outside of the regulatory perimeter, the event gave the Central Bank a broader understanding of the Irish RegTech landscape.

Payment Systems and Currency

The Central Bank, in conjunction with the ECB and other national competent authorities (NCAs), is responsible for ensuring that payment, settlement and clearing 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 objectives 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 used 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. To carry out its payment systems policy and oversight role effectively, the Central Bank has always attached significant importance to having good working relationships with key stakeholders such as the ECB, other Eurosystem NCBs, the Department of Finance and the Banking and Payments Federation Ireland (BPFI – the representative body of the payments industry in Ireland). Throughout 2018, the Central Bank continued to work on maintaining and further developing these relationships.

Through its participation in various international fora, such as the ESCB's Market Infrastructure and Payment's Committee (MIPC), EBA, EU Commission and ESMA, the Central Bank was actively involved in the development and implementation of policies and oversight standards in relation to payment and securities settlement systems at EU level throughout 2018.

The most noteworthy payment systems-related development in 2018 was the establishment by the Central Bank of the Irish Retail Payments Forum (IRPF). This Forum provides a means for payment services providers (PSPs) and payment services users (PSUs) to engage in an open and constructive dialogue in relation to the development of Irish retail payment services generally. The principal aims of the IRPF are to promote the continued safety and efficiency of retail payments in Ireland and to foster cooperation between all stakeholders in relation to the development and provision of new and improved payment services and payment instruments. The IRPF will seek to ensure that the views of all retail payment systems stakeholders are taken into account and in particular, that the needs of PSUs are considered as well as those of PSPs and the authorities. The IRPF is chaired by the Central Bank, which also provides a secretariat function. The inaugural meeting took place on 11 October. Details of the IRPF, including its participants, are available on the Central Bank's website.

With regard to securities settlement systems, Euroclear UK and Ireland (EUI) provides the infrastructure used to settle trades in Irish equities and some ETFs, and Euroclear Bank settles trades in Irish Government bonds and the majority of Irish ETFs. The Central Bank maintained regular contact with the Bank of England and the Banque Nationale De Belgique (primary overseers) throughout 2018 in relation to the oversight of EUI and Euroclear Bank respectively.

There were two main areas of focus relating to securities settlement systems for the Central Bank in 2018. The first of these was the Central Securities Depository Regulation, (CSDR), (EU) No. 909/2014, which aims to harmonise certain aspects of the securities settlement cycle/settlement discipline and to provide a set of common requirements for CSDs operating in the EU. The Central Bank continues to maintain regular contact with the Banque Nationale De Belgique and the Bank of England with regard to the CSDR applications currently progressing for Euroclear Bank and EUI respectively. The second was the departure of the UK from the EU, which has implications for the continued use of the UK-based system by the Irish market, for the settlement of trades in Irish equities and some ETFs (see Box 4).

TARGET2 Payment Systems

TARGET2 is an interbank payment system for the real-time processing of payment transfers throughout the EU. In 2018, the TARGET2 system processed almost 195m transactions comprised of almost 88.7m RTGS transactions and 106.1m transactions on Dedicated Cash Accounts (DCAs) - the latter relating to TARGET2 Securities[18] (T2S). The average daily volume of RTGS transactions was 344,859 and on DCAs was 412,651. The RTGS figure is down just over 1% compared to 2017 and the T2S transactions are up over 15.5% - this increase in T2S figures is due to the increased familiarity and use of the system since its waived introduction between 2015 and 2017.

[18] 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.

The total value of RTGS transactions decreased slightly in comparison to 2017, by 0.2% to €434tn, with an average daily value of €1.69tn. In contrast, T2S-related payments increased in value by over 23.5% from €140tn in 2017 to over €173tn in 2018.

The Irish TARGET2 component, TARGET2-Ireland, processed over 866,000 transactions; this represented an increase of almost 3.2% compared to 2017. The value of transactions processed via the Irish component decreased by 8.5% to a total value of €3.01tn. In 2018, the number of direct participants in the payments module of TARGET2-Ireland remained static at 15.

On 29 October 2018, the Central Bank, along with Danmarks Nationalbank and ID2S, a French CSD, successfully connected to the T2S platform. Work continues to allow the Central Bank provide a full T2S service offering to potential counterparties within the local market on request.

TARGET Instant Payment Settlement (TIPS) - a service that enables payment service providers to offer fund transfers in real time 24 hours a day, 365 days a year in Central Bank money, went live in November 2018. No Irish participant banks are availing of this service.

Work has begun on a project for the future development of TARGET services in the form of the TARGET2/T2S Consolidation platform, which will optimise the provision of the TARGET2 and T2S services.

Box 12: Vision 2020

The Eurosystem's Markets Infrastructure Board Vision 2020 projects are a strategic initiative in the areas of payments, securities settlement and the mobilisation of assets for use as collateral in monetary policy operations. Approved by the Governing Council in 2017, they aim at increasing integration and harmonisation.

The Vision 2020 projects comprise the following:

- *TIPS* is a pan-European instant payments solution to enable citizens and firms to transfer money between each other in real time 24/7/365. This initiative went live in November 2018.
- *T2-T2S Consolidation* is a project to enhance and consolidate the separate platforms for the Eurosystem's TARGET2 RTGS system with the T2S settlement system with a view to increasing functionality, strengthening resilience and cybersecurity while

reducing costs for participants. This is scheduled to go-live in Q4 2021.

- *European Capital Markets* aims at replacing/centralising 19 Eurosystem NCB's local collateral management systems, bringing cost savings and improved operational efficiencies and contributing to the European Capital Markets Union by simplifying the process for mobilisation of collateral to the Eurosystem both domestically and cross-border. This is scheduled to go-live in Q4 2022.

These projects have resulted in a suite of mandatory projects for all the Eurosystem NCBs and for local market participants. Preparations for a programme of works to be undertaken by the Central Bank has been ongoing for some time and will intensify in 2019 until completion in 2022. Irish market participants need to engage with the Central Bank to retain access to TARGET services and payments. The Central Bank will provide support and guidance to these market participants, by establishing a number of project stakeholder groups, to ensure that they are in a position to complete mandatory project tasks and to go-live as scheduled.

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 central banks and institutions such as the EU Commission and Asian Development Bank. The Central Bank also administers all financial transactions between Ireland and the European Financial Stability Fund (EFSF) and European Financial Stability Mechanism (EFSM).

Bond Register

In its role as Bond Registrar, the Central Bank makes dividend and redemption payments to account holders on bonds issued by the NTMA. The Central Bank assumed the roles of Bond Registrar and Paying Agent of Irish Treasury bills in September 2018.

At the end of 2018, the nominal value of bonds on the Bond Register amounted to €133bn, an increase of €6bn over the value outstanding at end-2017 (€127bn). Two bonds (8.75% 2018 and 4.50% 2018) matured in 2018, resulting in redemption payments of €8.93bn. Ten

Irish amortising bonds partially redeemed in 2018 resulted in partial redemption payments of €17.5m. The NTMA issued three new Government bonds with a nominal value of €15bn (0.9% 2028, 1.3% 2033 and 1.35% 2031) during 2018.

Transactions in respect of Irish Government Bonds are settled in Euroclear Bank, which is based in Belgium.

Currency Issue and Production

Banknotes

In 2018, the Central Bank supplied the market with 242m banknotes (value €7,439m) representing a 10% decrease on the 269m banknotes (value €8,162m) issued in 2017. The Central Bank also continues to experience a reduction in the volumes of banknote lodgements. These reductions are indicative of a higher level of recirculation of good quality banknotes in the market thus reducing the issuance demands on the Central Bank.

Table 1: Banknote Issues

No. of Banknotes (m) Issued			Value €m	
Denomination	**2018**	**2017**	**2018**	**2017**
€5	45	49	225	245
€10	37	44	372	437
€20	40	47	807	934
€50	119	129	5971	6466
€100	0	1	45	55
€200*	0	0	2	3
€500*	0	0	17	21
Total	242	269	7439	8162

Note: Figures may not sum due to rounding

** The actual number of notes issued:*

2018	2017
€100: 450,000	€100: 552,000
€200: 10,000	€200: 17,000
€500: 33,000	€500: 42,000

The Europa Banknote Series

In 2018, the Central Bank commenced preparations for the launch of the final two banknotes of the Europa Series 2 (ES2). The launch date for the ES2 €100 and €200 banknotes is 28 May 2019 and the banknotes will go into circulation from this date. A significant amount of preparatory work has been completed to support the effective introduction of the new notes into circulation. The new banknotes will contain enhanced security features in line with the Europa series. The €100 and €200 banknotes completes the Europa Series as the Governing Council of the ECB announced on 4 May 2016 its decision to exclude the €500 banknote from this series. However, the €500 banknote will remain legal tender and can continue to be used for payments and as a store of value. As legal tender, these banknotes will retain their value and may be exchanged for an unlimited period, at euro area NCBs.

Printing of Euro Banknotes in Ireland

In March 2018, the Central Bank Commission accepted a management recommendation to cease printing euro banknotes and, instead, to fulfil its Eurosystem obligation for the provision of banknotes by sourcing them from a third party in the euro area. This decision followed a strategic review which identified and considered a number of options. On the basis of the financial benefits associated with the cessation of banknote printing, and sourcing them from a third party, operations at the Print Works will cease in an orderly manner. Sourcing banknotes from a third party in line with the approach taken in many NCBs in the euro area.

In January 2019, an Industrial Relations Agreement was reached with the union and staff on the terms for staff relating to the cessation of euro banknote printing. The Agreement involves an orderly wind down of print operations, concluding with the completion of the 2018 banknote production allocation. It is expected that the Print Works will cease all banknote production operations, with impacted staff either electing to depart the Central Bank on a severance arrangement, or being redeployed, by end-April 2019. Various supports and arrangements are in place to assist the directly impacted staff with the decisions they face as a consequence of the Agreement.

The process to decide on a potential provider for the supply of the annual banknote allocation of the Central Bank is currently underway (see Box 13). It is important to note that there will be no impact on the supply of cash to the national cash cycle as a result of this decision.

Box 13: Central Bank Annual Allocation of Euro Banknotes

The printing of euro banknotes for the euro area operates under a pooled system whereby the ECB, with the exclusive right to authorise the issue of euro banknotes within the Eurosystem, allocates responsibility to the NCBs of the euro area for provision of banknotes in accordance with their contribution to the ECB's subscribed capital for the relevant financial year, i.e., the capital key. Since the introduction of the euro, the Central Bank has had responsibility for the production of a single denomination each year with all other denominations for issuance in Ireland already sourced from elsewhere in the euro area. This sourcing of banknotes from elsewhere in the euro area is therefore already part of business-as-usual and the use of third party providers for the production of annual allocations is in line with the approach taken by many other NCBs.

The process underway to decide on a potential provider for the annual banknote allocation of the Central Bank is in line with the legal framework established by the ECB for the printing and procurement of euro banknotes. The framework requires the Eurosystem to act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and, on the other hand, take into account the particular nature of euro banknotes, which are produced in order to be issued by the Eurosystem as a safe means of payment. It also has to take into account the fact that some NCBs use their own in-house printing works to produce euro banknotes. In view of these principles, the ECB adopted a system called the Eurosystem Production and Procurement System (EPPS). Through the operation of two pillars, a group of in-house printing works and a group of NCBs which procure their euro banknotes, the EPPS ensures continuity of supply, maintenance of internal know-how within the Eurosystem, the fostering of competition and reasonable cost levels, as well as the ability to take advantage of innovation from the private and public sector. Options to join in-house printing works and tendering groups are being considered by the Central Bank.

Coin

The Central Bank, acting as agent for the Minister for Finance and issued 76m coins (value €27m) into circulation in 2018. This represents a 31% increase in coins issued when compared with the 58m coins (value €31m) issued in 2017. The significant increase in the number of coins issued during 2018 is not indicative of any overall increase in demand, rather is reflective of the demand for particular denominations in a given period.

Throughout 2018, the Central Bank continued to work with industry (such as retail banks and cash-in transit companies) to drive further efficiency in the management of coin stocks in the market. The primary focus of this work is to further reduce the unnecessary production and issuance of coin by promoting increased recirculation of existing coin in the market.

Following the introduction of voluntary rounding in 2015, there was sharp decline in demand for 1 cent (c) and 2c coin. Consequently, the Central Bank has seen excess stocks of 1c and 2c coin returning from the market. In 2017, the Central Bank cooperated with another Member State and swapped a significant amount of these excess stocks to satisfy their demand. The Central Bank accepted higher denomination coin in return. To meet demand for 5c coin, a further swap concluded in 2018 whereby the Central Bank was able to accept 5c coin in return for further excess stocks of 1c and 2c coins returned from the market. While the arrangements and completion of these swaps are a significant logistical exercise for the Central Bank, it also ensures that these coins, which are no longer in demand in Ireland, are effectively utilised elsewhere in the euro area. The Central Bank continues to absorb 1c and 2c excess stock returned from the market and will continue to engage in coin swaps to improve the efficiency of the cash cycle, both locally and across the euro area.

Table 2: Coin Issues

No. of Coin (m)			Value €m	
Denomination	**2018**	**2017**	**2018**	**2017**
1c	0	0	0	0
2c	0	0	0	0
5c	35	29	2	1
10c	11	2	1	0
20c	12	6	2	1
50c	6	6	3	3
€1	4	5	4	5
€2	8	10	15	21
Total	**76**	**58**	**27**	**31**

Collector Coins

The Central Bank marks significant events in Irish history, heritage and culture by the issuance of Irish commemorative coin products on behalf of the Minister for Finance. In 2018, the Central Bank issued five unique commemorative coins and coin sets that proved popular with the public and coin collectors, generating almost 6,000 orders. The themes in 2018 were diverse covering Irish music, culture, literature and history.

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In 2018, almost 2,000 new customers registered and created an account on the Central Bank's online sales system.

Donal Gallagher with President Michael D. Higgins at the launch of the Rory Gallagher commemorative coin in Áras an Uachtaráin.

Box 14: Annual Mint Set – Donation of Proceeds of Sale

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. Following the tragedy in March 2017, with the loss of lives of the crew of Rescue 116, the Minister for Finance agreed that the proceeds from the sale of the Annual Mint Set 2017 could be donated to the Royal National Lifeboat Institution (RNLI). The donation was set at 90% of the proceeds from coin sales up to end-January 2018. The remaining 10% is held with the Central Bank, in the event that a community commemoration initiative emerged, could also benefit from funding from the sales of these coins. Sales generated a donation of €74,221 to the RNLI. The donation provided funding for a D Class lifeboat, for Ballyglass lifeboat station in County Mayo. In October 2018, the Central Bank Chief Operations Officer and the Secretary General Department of Finance officiated at a naming ceremony in Ballyglass Co Mayo where the lifeboat was officially named Clann Lir. The name is a fitting tribute as the Annual Mint Set 2017 pays tribute to Irish myths and legends, and refers to the ancient tale of Clann Lir. The donation also provided for lifeboat kit equipment and crew training associated with the D Class Lifeboat, an essential element of support for the vessel.

The Irish Cash Cycle

In 2018, the Central Bank continued its programme of engagement with the cash cycle stakeholders focused on increasing the efficiency, effectiveness and resilience of the cash cycle. The Central Bank monitors compliance of Professional Cash Handlers in the recirculation of cash to maintain high quality banknotes in circulation. In addition, the Central Bank has worked with key stakeholders in the cash cycle to minimise unnecessary duplication in the operation, driving efficiency in the cash cycle, at a time when the digital payment landscape is evolving very quickly. As the payment landscape evolves, cash has an important role as a contingency payment method. To this end, the resilience of the cash cycle is critical and the Central Bank continues to facilitate the National Cash Cycle Contingency Group to monitor and identify areas to enhance the 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

Box 15: 2018 Macro Developments

The Irish economy grew robustly in 2018, supported by the strength of domestic activity and a relatively favourable international growth environment. A strong labour market performance reflected corresponding strength in the domestic economy. Robust employment growth stimulated incomes and supported growth in consumer spending. Underlying investment grew strongly reflecting a rebound in machinery and equipment spending and continuing recovery in building and construction activity. Underlying inflationary pressures remained subdued despite the strength of the domestic economy. Average HICP inflation of 0.7% for the year reflected a 0.2% decline in goods prices offset by a 1.6% increase in service prices driven mainly by growth in housing rents. Robust growth in pharmaceutical exports drove a strong export performance last year. Growth in services exports, which was below average in the first half of the year, picked up strongly in the second half led by robust growth in exports of computer services and business services. The geographical spread of export demand reflected the relative performance the main trading partners, with strong demand in the EU (excluding the UK) and the rest of the world contrasting with a significant slowdown in the UK market.

The Central Bank continued to play an important role in the formation of national economic policy through the provision of independent economic advice via regular commentaries, forecasts, research and the provision of high-quality financial statistics. These were communicated through Central Bank 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. Within the Central Bank, economic analysis and research provided important inputs to ongoing financial stability assessments and macro-prudential reviews. In the Eurosystem, the Central Bank contributed to macroeconomic forecasting exercises and 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 Cooperation and Development (OECD) and the EU; and consulted with visiting half-yearly External Partner[19] missions, rating agencies and others.

Significant progress was made in 2018 to enhance the Central Bank's suite of modern macroeconomic models of the Irish economy suitable for policy analysis. The core DSGE[20] model has been enhanced and used for scenario analysis in the context of the review of the CCyB to examine the impact of changes in minimum capital requirements. The DSGE model has also been used to assess overheating risks and to examine the effects of government investment on Gross Domestic Product (GDP) and public debt under different financing scenarios. The structural econometric model of the Irish economy, COSMO[21], has also been considerably enhanced and linked to the global econometric model NiGEM[22], 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. COSMO has been used in a number of studies assessing the potential impact of the departure of the UK from the EU, for macro-prudential policy analysis, and, more generally, to enhance the Central Bank's economic analysis and forecasting capabilities.

In terms of macroeconomic analysis, work has focused on new analysis to inform policy and enhance communication with regard to key macro risks, such as overheating and external risks related to the tax and trading environment. With regard to overheating risks, work has been undertaken on the analysis of labour market slack, wage developments, a study of the availability of construction workers and the impact of government investment spending under different financing scenarios. With regard to external risks, modelling work using COSMO to look at

[19] The European Commission, the IMF and the ECB.
[20] Dynamic stochastic general equilibrium model.
[21] Core structural model.
[22] National Institute Global Econometric Model

various scenarios relating to the departure of the UK from the EU has been used to inform policy analysis and has also been central to the Central Bank's communication on the potential impact of the UK's withdrawal. An examination of risks related to corporation tax flows has been completed. In addition, a new business cycle indicator, which forecasts underlying domestic demand, has been developed and published as a new leading indicator of new housing output.

A total of 16 research technical papers were published in 2018 and the full papers are available on the Central Bank website. Some of the recent themes explored in these papers include: non-tariff barriers on goods trade; estimates of household wealth; migration and business cycles; the impact of repossession risk on mortgage default, and monetary policy communication and the macroeconomy.

In 2018, 14 Economic Letters were released and these are also available on the Central Bank website. Some of the topics covered in this series include: a monthly indicator of economic activity for Ireland; using the CCyB; an overview of the Irish Personal Contract Plan market; the effect of ECB policy announcements on sovereign yields and two studies on Irish-resident Special Purpose Entities.

The Central Bank also published a number of signed articles with economic and statistical content in the Quarterly Bulletin. The topics examined in these articles included: resolving NPLs; Irish Government investment, financing and the public capital stock; assessing the financial risks and buffers of the Central Bank; and an assessment of employment in the construction sector.

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.

Financial Data and Statistics

The Central Bank collects, compiles and disseminates a wide range of statistics to support the ESCB and external users such as market participants, public institutions, media and the general public. 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 expanded Residential Mortgage Arrears and Repossessions Statistics provide 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. Significant work was undertaken throughout 2018 to continue to collect statistics on mortgages as loans were transferred or sold to non-bank entities. Interest rate statistics are published for new and outstanding retail loans and deposits, 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.

The Central Bank collects and publishes data for much of the non-bank financial sector, including insurance corporations, investment funds and financial vehicles, sub-divided between securitisation and non-securitisation entities. The Central Bank also publishes much expanded statistics and insights into the structure of the Special Purpose Entity sector in Ireland and continues to take a lead role internationally to further improve transparency and dissemination of the activities of the sector.

Data initiatives during 2018, included publishing new data on the insurance sector and enhancing the data on mortgage arrears. Internationally, the Central Bank provides data to other international organisations and participates in international forums on financial statistics. Ireland is a significant location for non-bank entities, many of which fall under the definition of non-bank financial intermediation. The Central Bank now provides detailed data templates and risk metrics as part of the FSB shadow banking monitoring exercise.

Data initiatives during 2018, included publishing new data on the insurance sector and enhancing the data on mortgage arrears.

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 2018, 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 banks and money market funds. The Central Bank also provides monthly and quarterly data to the ECB on the non-bank financial sector, primarily for insurance companies, investment funds and Financial Vehicle Corporations (FVCs) engaged in securitisation activities. Irish data are particularly significant for funds and FVCs, as Ireland is a prime location within the euro area 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.

Expansion of the Statistical Framework

The statistical framework continued to expand during 2018 in line with developments within the Eurosystem and the ESCB. The remit has expanded over recent years to cover insurance corporations and supports the ESRB and supervisory functions of the ECB.

Central to this expansion is the development of new granular data sources, which facilitate the growth of statistical outputs in an efficient and cost-effective way. Granular data sources also allow fast and flexible analysis that would not be possible under the traditional aggregated data collections. 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. The Central Bank worked extensively with reporting banks to define requirements and data definitions in line for first reporting in October 2018. The Central Bank was among the first NCBs to transmit data to the ECB and the regular monthly collection process is underway.

The expansion of granular data sources also extends to securities holdings statistics. Security-by-security reporting by banking groups extended in 2018 to include all banking groups directly supervised by the ECB. This work is being undertaken in parallel, with steps to enhance the coverage and accuracy of the Centralised Securities Database (CSDB).

Preparations are underway to collect new data on the pension fund sector under the new ECB Regulation ECB/2018/231. The unique structure of the Irish pension fund sector will make this a challenging project for the Central Bank and industry. The resulting data will provide, for the first time, granular insights into the pensions sector, which represents one of the largest financial assets of the household sector. The first data will be collected in Q4 2019.

Staff from the Central Bank participate in statistical committees and working groups responsible for developing and enhancing the statistical frameworks, both at ESCB level and in other international forum. Major developments during 2018 include amending the ECB

Guideline on external statistics and the ECB Guideline on monetary and financial statistics. The amended Guidelines will further integrate balance of payments and sectoral accounts and introduce adjustments for loan sales and securitisations.

The Central Bank has played an active role in the continuing development of an Integrated Reporting Framework (IReF) for banks. The aim is to develop a single reporting framework for banks which will meet all ESCB data needs. Once in place, the IReF will streamline and simplify reporting to NCBs across the euro area and hence reduce reporting burden for industry and improve consistency for users.

International Monetary Fund Policy and Constituency Issues

The Governor holds the position of Alternate Governor for Ireland on the International Monetary Fund (IMF) Board of Governors. In this role, he attended the IMF/World Bank Group Spring and Annual Meetings held in Washington in April and Bali, Indonesia in October 2018.

Discussions at the Spring Meetings focused on shifts in global manufacturing activity and labour force developments including productivity and technology spillovers across countries and their drivers. Financial conditions and macro-financial stability related to cross-sectional credit quality also featured strongly. The agenda for the October meeting marked a decade after the Global Financial Crisis. Governors discussed the resilience of the global financial system in the context of a less balanced global economic expansion and more downside risks including via high debt levels, stretched asset valuations and trade tensions.

Other International Activities and Relations

The Central Bank continued to contribute to the work of the ECB's International Relations Committee (IRC). This is a high-level forum for exchanging views on matters of common interest in the field of international relations, e.g. G20/IMF issues, the global economic outlook, implications of the departure of the UK from the EU, the global financial system and global financial market risks. The IRC is also responsible for preparing the ESCB's position for the negotiation and conclusion of international agreements concerning monetary or foreign exchange regime matters.

Engagement continued with international institutions such as the IMF and the World Bank and, in partnership with the Department of Finance, the Central Bank helped formulate Ireland's national position on IMF policy and constituency issues. The Central Bank met its Post

Programme Monitoring and Surveillance (PPS) obligations to the EU funding partners, which included two PPS review missions.

The Central Bank hosted the eighth Whitaker lecture in September, delivered by the Governor of the Bank of England, Mark Carney. The Central Bank, the IMF and the IMF Economic Review organised a joint conference on "The Euro at 20" in June 2018, which was attended by the IMF Managing Director, Christine Lagarde. Klaus Regling, Managing Director of the European Stability Mechanism (ESM), delivered a speech at the Central Bank on 9 May 2018, to celebrate Europe Day. This speech was also attended by a group of pupils from a Dublin-based secondary school who engaged with the Managing Director and the Governor on the future challenges of Europe. Former Governor of the Croatian Central Bank, Dr Marko Škreb, delivered the Ante Čičin-Šain lecture at the Central Bank of Ireland in May 2018. The Central Bank also co-hosted an ECB Workshop on Economic and Monetary Union (EMU) Deepening, which was attended by euro area NCBs.

Resolution and Crisis Management

The Central Bank is Ireland's national resolution authority (NRA) and it has responsibility for the orderly resolution of failing credit institutions, certain investment firms and credit unions. It works with the Single Resolution Board (SRB) in accordance with the Single Resolution Mechanism (SRM) for those credit institutions under the remit of the SRB. Recognising that regulated firms may fail, the Central Bank seeks to ensure that this happens in an orderly manner. As part of its mandate to safeguard financial stability, the Central Bank also has a key role in financial crisis preparedness and management, working closely with the Department of Finance and NTMA.

The functions of the Central Bank, as NRA, are structurally separated from the Central Bank's supervisory and other functional areas. This structural separation ensures operational independence and the avoidance of conflicts of interest.

In advancing its responsibility to embed the EU resolution framework domestically, the Central Bank published its proposed 'Approach to Resolution for Banks and Investment Firms' in December 2018. This outlined the resolution framework, including the SRM system in which the Central Bank operates; the approach to resolution planning and setting 'minimum requirement for own funds and eligible liabilities' (MREL); and how the Central Bank could exercise its resolution and liquidation powers in a failure event. Through this initiative, the Central Bank aims to increase transparency around how it will exercise its key discretions and enhance stakeholders' general awareness of the resolution framework.

On 5 February and 16 November 2018, the Central Bank held two resolution-related industry briefings for stakeholders. These sought to enhance understanding of certain resolution issues and demonstrate the Central Bank's commitment to transparency. The first industry briefing outlined the EU resolution framework, recent and imminent regulatory developments, and data quality. The second industry briefing expanded on these themes, covering data reporting and collection, impediments to resolvability and progress on new initiatives relevant to the domestic and EU resolution frameworks.

Single Resolution Mechanism

The SRM, which has been in operation since 1 January 2016, established a centralised decision-making body for the banking union area, the SRB, together with a resolution financing arrangement, the SRF, to manage the resolution of failing banks or banking groups. The SRB works together with NRAs to this end.

In 2018, the SRB further developed its policies with respect to setting MREL. It also published a position paper on 15 November 2018 outlining its expectations around the resolvability of banks in the context of the departure of the UK from the EU. The SRB highlighted the risk, amongst others, that MREL debt instruments governed by English law may cease to be MREL-eligible post-Brexit and the appropriate steps that should be taken by regulated firms in that regard.

The Central Bank played a role in shaping the evolving EU resolution framework throughout 2018, including via its participation in SRB and EBA committees and working groups. The Central Bank also provided technical support to the Department of Finance in EU-level negotiations, such as on the legislative package amending aspects of the BRRD and the Single Resolution Mechanism Regulation (SRMR), known as the 'risk reduction measures' package and in negotiations on a 'common backstop' to the SRF.

Resolution Planning

Resolution plans are renewed 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 regulated firms are required to address or remove those impediments. MREL are also set in the course of resolution planning.

In 2018, the Central Bank focused on updating and progressing resolution plans, which included the formalisation of MREL decisions for firms in-scope of the BRRD (see Box 16 below for further details). The Central Bank also worked with firms on enhancing operational continuity in resolution. The possible impact of the departure of the UK from the EU was a focal point of resolution planning in 2018, including in the assessment of new authorisation applications.

Box 16: Minimum Requirements for Eligible Liabilities

The BRRD requires institutions to meet a MREL so that, in the event of resolution, the institution will be able to absorb losses and restore its capital position, allowing the institution to continuously perform its critical functions during and after a resolution event.

MREL is calculated on an institution-specific basis, based on the resolution strategy determined for the institution. If it is determined that an institution is 'failing or likely to fail', and meets the criteria for resolution, its MREL should absorb losses (loss absorption amount) and provide new capital (recapitalisation amount) to the institution or a successor entity, depending on the resolution strategy.

MREL facilitates the use of the bail-in resolution tool; it is designed to ensure that the cost of an institution's failure will be borne by the institution's investors and should reduce the need for State support. MREL-eligible instruments can be in the form of capital or other eligible liabilities, including debt instruments which can be converted to capital in the event of resolution.

In 2018, MREL requirements were determined for Ireland's in-scope banks and investment firms. The SRB, which is responsible for determining MREL for Ireland's significant institutions, set MREL targets for the banks under its remit. As MREL is a new requirement, and in many cases necessitates the issuance of new debt instruments, the SRB has included firm-specific transition periods to allow banks a period of time to meet any potential shortfall.

Resolvability of Credit Institutions and Investment Firms

In 2018, the Central Bank, in conjunction with the Single Resolution Board for significant banks/groups, further developed resolution plans for all of the Irish licensed banks. In addition to the formalisation of MREL targets for the domestic retail banks, there was a focus on enhancing operational continuity in resolution and planning for the departure of the UK from the EU from a resolution perspective.

The Central Bank, in conjunction with the Single Resolution Board for significant banks/groups, further developed resolution plans for all of the Irish licensed banks.

In order to ensure resolution actions can be executed effectively, close cooperation between the responsible resolution authority and other relevant authorities is required. To facilitate decision-making with respect to cross-border institutions, the BRRD provides for forums known as 'resolution colleges', at which relevant authorities share their views on resolution matters regarding the relevant institution. The

Central Bank participated in all resolution colleges relating to Irish banks in 2018.

In view of the departure of the UK from the EU, the landscape of the Irish financial sector has changed somewhat with new entrants to the market and with some firms expanding considerably. The Central Bank, in its capacity as NRA, has been actively preparing for these changes, with preliminary resolution assessments undertaken and preparations made to foster resolution planning for new or expanded firms.

The Central Bank, in its capacity as NRA, also further developed and updated resolution plans for the BRRD in-scope investment firms during 2018. As is the case with resolution plans for the Irish-authorised banks, the process involves developing a preferred resolution strategy for each of the in-scope investment firms. 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.

Resolution Funds

From 1 January 2016, Irish licensed banks were required to contribute to the SRF, which is managed by the SRB. Irish licensed investment firms and Irish branches of banks authorised in non-EEA jurisdictions (third country branches) that come within scope of the BRRD are required to make contributions to the Bank and Investment Firm Resolution Fund (BIFR Fund), a domestic resolution fund established in accordance with the BRRD. The Credit Institutions Resolution Fund (CIRF) was originally set up to provide a source of funding for the resolution of financial instability in, or an imminent serious threat to the financial stability of, an authorised credit institution. However, since the migration of banks to the SRF, the CIRF now only covers the resolution of credit unions.

For the 2018 contribution period, the SRB calculated €107.3m of levies payable by Irish banks. The Central Bank issued levy notices, collected the levy contributions on behalf of the SRB and transferred the levies to the SRF. Levy contributions of €6.1m were calculated and collected by the Central Bank in respect of all institutions within scope of the BIFR Fund for the 2018 contribution period.

On 30 November 2018, upon request of the Minister for Finance, the Central Bank returned €240m of a €250m loan previously advanced to the CIRF under the Central Bank and Credit Institutions (Resolution) Act 2011. A target level for the CIRF will be determined in the course of 2019.

Financial Crisis Preparedness and Management

Building on work undertaken in 2017, a new function was established during 2018 to coordinate the Central Bank's work on financial crisis preparedness and management. The 2018 priorities included updating Central Bank crisis management arrangements to take account of recommendations from a 2017 cyber-attack simulation exercise and conducting a further exercise to examine the updated arrangements using an alternative financial crisis scenario.

People and Knowledge

The Central Bank is a knowledge-based organisation that aims to attract, develop and retain skilled people who collaborate to deliver on its mandate. The Central Bank's vision to be a fulfilling and progressive workplace for its people continues to be developed through a culture of lifelong learning, a commitment to diversity and inclusion and an employee value proposition, Central Life – One Bank, Many Horizons.

Resourcing in 2018

Recruiting people with relevant skills and experience continued to be a key priority for the Central Bank throughout 2018. A strategic workforce plan was approved in 2018 to support the Central Bank's Strategic Plan 2019-2021, incorporating a revised resourcing model and a stronger focus on internal mobility of staff.

In 2018, the Central Bank employed 1,927 full time equivalents (FTEs), reflecting a net increase of 189 staff (on a FTE basis). This compares with an increase of 139 FTEs in 2017 and represents a 10.8% increase in staff year-on-year. A total of 700 roles were filled in 2018 compared to 620 in 2017, and the ratio of internal to external hires was 48% to 52%.

Average turnover for the Central Bank increased marginally to 6.5% during 2018 compared to 6.4% in 2017, 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.

The Central Bank's employer brand continues to develop through a planned approach to promoting and advertising, which includes targeted recruitment campaigns, continued focus on online presence as well as targeted media profiling.

Interest in the Central Bank's Graduate Programme (autumn 2019 intake) was above expectations for the second year running with over 1,500 applications received. More than 50 graduate positions were offered and accepted.

Excellent career development opportunities continue to be part of the employee value proposition the Central Bank offers, with 255 staff promoted, and an additional 81 staff changing roles within the organisation during the year. A further 39 staff availed of secondment or career break opportunities, with the majority of seconded employees being deployed to the ECB.

The Central Bank is covered by the Financial Emergency Measures in the Public Interest (FEMPI) legislation as well as the new Public Service Pay and Pensions legislation and restoration of previous pay cuts continued in 2018.

Developing and Retaining Staff in 2018

Employee Engagement - Great Place to Work (GPTW)

In 2017, the Central Bank commenced a three-year engagement with the GPTW Programme. The main objective of the Programme is to create a fulfilling workplace for staff. On an annual basis, the Central Bank is assessed via a Culture Audit and a Trust Index Employee Survey. The Culture Audit examines the key people policies and practices in place e.g. work/life balance. This part of the assessment found that the Central Bank compares well against other organisations which have been accredited as Great Workplaces. More than 1,100 employees (64% of staff) took part in the Trust Index Employee Survey; positive feedback was received in areas such as learning and development and work/life. To address key findings from the survey, and heavily informed by GPTW, priority was given to a number of areas such as: reviewing the Bank's Performance Management and Development Programme; the development of the Strategic Plan 2019-2021 and empowering the Central Bank's Leadership Network.

In November 2018, the Central Bank commenced the second year participating in the GPTW Programme. The outputs of this assessment will inform key priority areas for the Central Bank in 2019.

Employee Wellbeing

The Central Bank's Health and Wellbeing focus for 2018 was mental health. The Central Bank partnered with See Change and adopted their six-step workplace programme. The See Change pledge was signed in October, which recognises the Central Bank as an employer with an open culture around mental health in the workplace, working to reduce the stigma associated with mental health problems. The IBEC Keep Well Mark was also achieved in 2018, demonstrating the Central Bank's commitment to support employee wellness.

Developing Staff in 2018

A new Leadership Development Programme –One Bank Leadership - was launched in October 2018 and will be rolled out across the organisation in 2019.

The One Bank Technical Curriculum Foundation Programme was delivered to more than 330 attendees in 2018. A total of 469 employees were supported to complete further education through the

Central Bank's Academic and Professional Training Scheme and on average each employee availed of one day professional skills training.

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 2018 and is based on guidelines issued by the ECB to all Eurosystem NCBs. As in prior years, during 2018, a new mandatory e-learning module was developed. The module sought to reinforce awareness amongst staff of their specific ethical and conduct obligations, such as avoiding conflicts of interest and reporting wrongdoing. The Policy on Receipt of Business Hospitality and Gifts was also updated during the course of 2018.

Data Protection

Further to the General Data Protection Regulations (GDPR) coming into force in 2018, the Central Bank continued to implement measures to ensure its readiness to comply with its obligations via a dedicated GDPR Readiness Project. This project concluded its work in December 2018 after delivering a wide range of critical enablers to permit the Central Bank to progressively achieve and maintain compliance with the GDPR. While the project delivered on the majority of the planned deliverables, it is anticipated that during 2019 further work will be required to fully embed the Central Bank's revised data protection operation model.

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 optimize the risk-adjusted long-term return on these.

The Central Bank's investment portfolio is managed in line with parameters approved by the Central Bank Commission, which are kept under constant review. Optimising the return on investment assets within agreed risk parameters is an important aspect of the Central Bank's ability to maintain its financial independence. 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 in Table 3 are based on the market value of all assets as at year-end.

At end-2018, the investment portfolio comprised assets of €19.1bn, including an allocation of €1.2bn equivalent to foreign currency denominated portfolios (US dollar, Australian dollar and Chinese renminbi) for diversification purposes. This value represents an increase of €0.1bn on the portfolio value at end-2017 (€19bn). 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 2018. 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 end-2018, the Central Bank's net financial assets (NFAs) under the ANFA stood at €5.69bn[23]. The components of the Central Bank's NFA position are outlined in Table 3. 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 €261.8m in 2018 compared to €272.5m in 2017.

[23] For further details of the Eurosystem's Agreement on Net Financial Assets, see the ECB's website at 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 2018

All figures in EUR'000s

Assets

Item	Description	Amount
A1	**Gold and gold receivables**	**216,947**
A2	**Claims on non-euro area residents in foreign currency**	**4,370,065**
A3	**Claims on euro area residents in foreign currency**	**31**
A4	**Claims on non-euro area residents in euro**	**4,217,836**
A5	**Lending to euro area credit institutions related to monetary policy operations in euro**	**3,023,000**
A5.1	Main refinancing operations	0
A5.2	Longer-term refinancing operations	3,023,000
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**	**1,780,144**
A7	**Securities of euro area residents in euro**	**67,739,504**
A7.1	Securities held for monetary policy purposes	36,601,922
A7.1.1	Covered Bond Purchase Programme	0
A7.1.2	Securities Markets Programme	1,634,173
A7.1.3	Covered Bond Purchase Programme 2	0
A7.1.4	Outright Monetary Transactions	0
A7.1.5	Covered Bond Purchase Programme 3	4,094,636
A7.1.6	ABS Purchase Programme	0
A7.1.7	Public Sector Purchase Programme - Government securities	25,514,484
A7.1.8	Public Sector Purchase Programme - Supranational securities	5,358,629
A7.1.9	Auxiliary instrument 9	0
A7.2	Other securities of euro area residents in euro	31,137,582
A8	**General government debt in euro**	**0**
A9	**Intra-Eurosystem claims**	**15,188,485**
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)	14,290,401
A9.5	Other claims within the Eurosystem	26,425
A10	**Items in course of settlement**	**0**
A11	**Other assets**	**1,302,238**
A999	**Total Assets**	**97,838,250**

Liabilities

Item	Description	Amount
L1	**Banknotes in circulation**	**18,676,303**
L1.1	Euro banknotes	18,676,303
L1.2	Banknotes in national euro area currencies	0
L2	**Liabilities to euro area credit institutions related to monetary policy operations in euro**	**22,800,553**
L2.1	Minimum Reserve Deposits	13,135,671
L2.2	Overnight deposits	9,664,882
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**	**719,471**
L4	**Debt certificates issued**	**0**
L5	**Liabilities to other euro area residents in euro**	**19,347,068**
L6	**Liabilities to non-euro area residents in euro**	**2,085,319**
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**	**942,453**
L10	**Intra-Eurosystem liabilities (net)**	**18,247,585**
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	18,247,585
L11	**Items in course of settlement**	**0**
L12	**Other liabilities**	**3,075,294**
L13	**Provisions**	**808,102**
L14	**Revaluation accounts**	**6,385,177**
L15	**Capital and reserves**	**4,750,925**
L999	**Total Liabilities**	**97,838,250**

Notes:
1) Net Financial Assets (NFAs) are calculated as A1+A2+A3+A4+A5.6+A6+A7.2+A8+A9.1+A9.2+A9.3+A10+A11-L1.2-L2.5-L3-L5-L6-L7-L8-L9-L10.1-L10.2-L11-L12-L13-L14-L15 adjusted for liquidity providing operations denominated in foreign currency (which amounted to zero as at 31 December 2018). 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 2018.
3)"Other liabilities" is the sum of “Other Liabilities” (€2,714,775) & “Superannuation Liabilities” (€364,251) as reported in the Balance Sheet in the Statement of Accounts for year ended 31 December 2018.

Box 17: Increase in the General Risk Provision in the 2018 Annual Accounts

In recent years, the Central Bank has implemented targeted measures with the objective of strengthening the resilience of its balance sheet and safeguarding its financial independence. These measures reflect a prudent approach to managing a heightened exposure to specific financial risks, which have arisen in the course of the Central Bank carrying out its monetary policy mandate. As part of this, in accordance with ESCB Accounting Guidelines, the Central Bank introduced a general risk provision in 2016, under the category of “foreign exchange rate, interest rate, credit, and gold price risks”.

The Central Bank set aside this risk provision to cover losses that may occur due to the effect of interest rate dynamics on the assets and liabilities on its balance sheet. The exposure to interest rate risk stems from the large scale asset purchases conducted by the Eurosystem under its APP since 2015. In participating in the APP, the Central Bank purchased a range of public sector and sovereign bonds at fixed rates, many of which were at low or negative yields. By holding these assets over time, a potential interest rate mismatch may arise on the Central Bank’s balance sheet. An interest rate mismatch relates to the fact that, the interest income from the APP assets (which are held at amortised cost) will remain broadly static at low or even negative levels, and if policy interest rates rise, the expense associated with the Central Bank’s liabilities will increase. This mismatch between income on the assets and the costs of liabilities could lead to net losses for the Central Bank, particularly in the event that interest rates were to increase very rapidly.

In 2018, a provision of €750m was set aside in the Central Bank’s annual accounts to prudently mitigate against this interest rate risk. This amount reflects an additional €250m to the provision made for the same risk in 2017. The increase in the provision is primarily driven by the increased exposure arising from asset purchases that took place over the course of 2018 under the APP. These additional asset purchases resulted in a corresponding increase in the Central Bank’s liabilities, which has increased the exposure to an interest rate mismatch on the balance sheet. Looking forward, the financial risks to the Central Bank will continue to be monitored closely, while the scale of the interest rate risk exposure will remain highly sensitive to the future path of interest rates, any potential further increase in the Central Bank’s net asset holdings under the purchase programmes and other market developments. For more information on the interest rate mismatch and the Bank’s general risk provision, see "Non-standard Monetary Policy Measures and the Balance Sheets of Eurosystem Central Banks" by Donnery et al[24].

Assets Acquired as part of the Liquidation of the IBRC

During 2018, the Central Bank's holdings of assets acquired as part of the liquidation of the IBRC, referred to as the Special Portfolio, declined to €11.5bn (nominal) by year-end. This reduction reflected the purchase by the NTMA of €2.5bn of the Irish Floating Rate Note (FRN) 2047 and €1.5bn of the Irish FRN 2049 (all nominal amounts).

ECB Reserves

At the end of 2018, the ECB's reserves amounted to €69.6bn (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 €875.6m (market-value) equivalent at year-end 2018, which is proportionate to the sum of the two countries' capital key shareholdings in the ECB.

[24] Donnery, S., Doran, D., Gleeson, R. and Carroll, K. (2017). 'Non-standard Monetary Policy Measures and the Balance Sheets of Eurosystem Central Banks'. Quarterly Bulletin 03, Central Bank of Ireland.

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 also facilitated for staff.

Data Strategy

One of the Central Bank's key organisational objectives is to have an effective data management solution that meets the current and future needs of the Central Bank. The Data Strategy Programme (known as the Unity Programme) continued to progress work on this objective and elements delivered in 2018 include:

- The Master Data Governance Framework, which identifies data owners and establishes processes to ensure key regulatory data is managed effectively.
- Components of AnaCredit, a European system for credit counterparties, by leveraging from the Unity Programme's Master Data and Case Management capabilities.
- The first phase of Enterprise Document Management Solution was successfully implemented for two divisions.

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.

In 2018, the Information Security Awareness Programme continued with sessions for staff hosted throughout the year, a programme of activities during October (security awareness month) and the launch of an updated e-learning module.

Box 18: Significant IT Projects Delivered in 2018

In addition to the Data Strategy Programme, a number of other significant IT projects were successfully delivered during 2018. These include:

- Stock Exchange Authorisations (SMX) system which processes applications under the Prospective and Transparency directives.

- SWIFT Assurance, which will enable the Central Bank to comply with SWIFT's new operating standards. A significant milestone was achieved at end-2018 when an independent review found the Central Bank is fully compliant with all required SWIFT CSF controls.
- T2S settlement system which will optimise the provision of cross-border securities settlement by ensuring this is identical to domestic settlement in terms of cost, technical processing and efficiency, reducing complexity for the industry.
- SRB Resolution system which will deliver the collection of liability returns from institutions in a secure, managed and consistent way and in a standard format.
- C2D9 Collateral and Counterparty management system which aims to bring harmonisation by meeting new ECB requirements in respect of regular reporting on collateral and securities.
- An upgrade of the Bank's Online Reporting system (ONR), the platform used by regulated firms to submit mandatory reports to the Central Bank.
- Markets in Financial Instruments Regulation (MiFIR) Transaction Machine to Machine functionality, which enables large regulated firms automate transmission of regulatory returns.

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 its wide-ranging activities.

Under the ORMF, a three lines of defence model is used to allocate responsibility for the day-to-day management of operational risk. In accordance with this model, first line managers are responsible for controlling risks within their respective divisions. The Organisational Risk Division (ORD) acts as the second line of defence and is responsible for defining the risk management frameworks and policies and supporting divisions to ensure they are consistently applied. The risk profile is periodically monitored relative to the defined Risk Appetite Framework thresholds as approved by the Central Bank Commission and performance is reported to risk oversight committees at executive and Commission level. 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 accordance with the risk management methodologies, both enterprise risks and divisional level process risks are assessed and actions defined to ensure these are adequately controlled. During the year, the Central Bank progressed the phased deployment of an enhanced operating model for operational risk management. The focus of enhancements to this model were on ensuring full coverage of non-financial risks, and to improve management insight into the relationship between risks, controls, incidents and remedial actions. In addition to the ongoing maintenance and enhancement of the risk management frameworks and policies, quality assurance reviews were conducted of first line divisional risk and control assessments. Operational risks were assessed and prioritised for remediation on the basis of their potential impact and likelihood of occurrence. Along with the identification and grading of risks, it was ensured that all operational risk incidents were reported, remediated and, where necessary, escalated.

During 2018, a specific assessment was carried out on the potential risks and implications of the departure of the UK from the EU for the Central Bank's own operations. The assessment found that elevated operational risk exposures are predominantly related to an increase in the volume and complexity of the work of impacted divisions as well as necessary reprioritisation of certain activities to address issues arising from the departure of the UK from the EU.

The Central Bank also maintains a dedicated Business Continuity Management Framework (BCMF) which seeks to identify, manage and mitigate the potential impacts of disruptive events on normal operations. During 2018, the BCMF was applied in the context of managing various disruptive incidents including the impact of severe weather events associated with Storm Emma and Storm Ophelia. Following each invocation, formal After Action Reviews were produced and recommendations for further enhancing the Central Bank's ability to manage continuity incidents were submitted to the appropriate governance committees and improvement plans initiated.

As part of maintaining the BCMF during 2018, the Central Bank's second line Business Continuity team facilitated business impact analyses within a number of divisions in order to validate the criticality and resilience of their respective processes, recovery objectives and contingency arrangements in the event that defined disruption scenarios were to materialise. These processes were collated to provide the risk committees with oversight of Central Bank-wide critical processes and contingency measures. At a divisional level, the business impact assessments provide the basis for the development of divisional continuity plans. Continuity and recovery tests are then conducted, on a risk prioritised basis, 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.

Project and Programme Management

In 2018, the Central Bank successfully completed 26 projects under its standardised project management methodology and governance. While the number of project completions in the year was lower than 2017, the scale and complexity of completed projects was at higher levels than prior years. This trend is continuing and reflected in the profile of projects currently under development. There remains strong demand for projects in the Central Bank driven by requirements to support new or improved business activities and to enable it to fully meet its statutory responsibilities.

In 2018, there was significant focus on projects which enhanced regulatory controls and improved the Central Bank's internal risk management infrastructure. Major projects completed in 2018 included: Information Security Programme; Implementation of MiFID II; Enterprise Information Archiving; Information Classification; Web-site Redevelopment; GDPR and improvement in the management of Central Bank joiners, movers and leavers. Additionally, significant progress was made on new projects currently under development including data and document management projects and a number of major regulatory projects.

The Central Bank is committed to good practice standards and continuous improvement in the governance, management and delivery of its project and programme portfolio. To this end, the Central Bank is compliant with the ISO 21500 best practice Project Management standard and expansion of standards to incorporate good practice change and process management frameworks was progressed in 2018. In support of continuous improvement efforts, an end-user survey to measure satisfaction levels with project standards and support and an independent audit of PMO operating processes, was undertaken in 2018. Results from both were very positive and identified opportunities for further enhancement.

In 2018, the Central Bank further strengthened its resource pool of professional project and programme managers and continued to invest in its in-house project management training programme. A total of 90 staff participated in the training programme in 2018, and a number of participants successfully progressed to the award of Project Management Institute project management accreditation.

The Central Bank also hosted a number of information sharing sessions with Irish public sector organisations and NCBs and remains committed to 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. Information on the Central Bank's procurement policy is available from the website.

Legal Services

Internal legal resources support the Central Bank in the overall management of legal risk, including through active contribution to the Central Bank Commission and decision-making committees.

The Central Bank liaised with the Department of Finance on legislative matters and influenced and advocated on primary legislation impacting on its mandate, including the Consumer Protection (Regulation of Credit Servicing Firms) Act 2018, the Insurance (Amendment) Act 2018 and the Central Bank (National Claims Information Database) Act 2018. The Central Bank also liaised with the ECB on various ECB consultations on legislation.

The Central Bank continued to strengthen the regulatory framework through Central Bank regulations in 2018 and a number of new regulations were prepared. These included regulations related to credit unions, non-life insurance policy renewals and investment market conduct. The Central Bank also assisted the Department of Finance with the transposition and implementation of a number of EU directives and regulations, including the Network and Information Security Directive, the Insurance Distribution Directive, the Prospectus Regulation and the Securitisation Regulation.

In-house legal resources supported the Central Bank in managing the legal risks arising from key priorities such as preparing for the departure of the UK from the EU, activity in relation to the SSM, authorisations, regulatory actions and GDPR. Advice was provided on policy measures necessary for the Central Bank to achieve its objectives, the use of supervisory powers to deliver effective supervision and robust decision-making.

A number of legal proceedings taken by and against the Central Bank during 2018 were managed successfully, including the administration of CBL Insurance Europe dac.

Internal Legal resources influenced the Central Bank's strategic engagement with the ECB, ESCB and SSM and actively contributed to the Legal Committee of the ESCB, which advises the Governing Council on legal considerations.

Regulatory Decisions

The Regulatory Decisions Unit (RDU) 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 ASP under Part IIIC of the 1942 Act.

Irish Nationwide Building Society

The RDU continued to provide support to the INBS Inquiry which has been divided into four modules. In 2018, the first module, concerning the operation of the Credit Committee of INBS, completed hearing evidence in public from 26 witnesses over 52 days. This was the first time evidence has been heard in public in an ASP Inquiry hearing. The former Chairperson of INBS, Mr Michael Walsh, entered into a settlement agreement with the Central Bank in early 2018. Mr Tom McMenamin, former Commercial Lending Manager, INBS, gave evidence to the Inquiry in June 2018, and subsequently settled with the Central Bank in December 2018. The Inquiry is currently proceeding in relation to three persons concerned in the management of INBS.

Quinn Insurance Limited

The RDU continued to provide support to the Inquiry relating to certain persons concerned in the management of Quinn Insurance Limited (Under Administration) in 2018 during which two Inquiry Management Meetings were held in private.

Fitness & Probity

In 2018, RDU advised and supported decision makers in a number of cases proceeding under the F&P regime. In respect of two individuals, Prohibition Notices were issued prohibiting them from carrying out any functions, including pre-approval controlled functions, in any regulated financial service provider for an indefinite period.

Facilities Management

The Central Bank primarily operates out of two locations (the Dockland Campus buildings at North Wall Quay and Spencer Dock, and the Currency Centre at Sandyford). The Central Bank also leases property at Blackhall Place to support hearings related to Administrative Sanctions Procedures.

Dockland Campus

The Programme to relocate to the Dockland Campus (from Dame Street and other city centre locations in 2017), including the new building at North Wall Quay was completed over 5 years and cost just under €140m which is within the approved budget set in 2013. This cost covers all aspects of the programme, including purchase of the North Wall Quay site, design, fees, construction works, premises fit-out, technology refresh, all furniture, move costs, public art, project communications, etc. All the snags and defects normally associated with such a significant construction project were substantially completed by end of 2018. The success of the programme has been recognised by staff and visitors alike, and the North Wall Quay premises has received a number of awards for design, fit-out, sustainability and accessibility. Following completion of the relocation, the Campus is performing as expected. The Central Bank has a number of facilities management services which were delivered to a high standard. The Central Bank welcomed circa 25,000 visitors to the North Wall Quay building in 2018 and facilitated a number of high profile events such as the Economic Conference to recognise the 75th Anniversary of the Central Bank, the Irish Economic Association Annual Conference, the 'Euro at 20' IMF conference and the Department of Finance/European Investment Bank conference. The Central Bank's new archive service, launched in 2017, was awarded "Record-Keeping Service of the Year 2018" by the Archives and Records Association (UK and Ireland). Work on reducing energy consumption to meet the National Energy Efficiency Action Plan 2020 continued with a reduction of 24% in energy costs year-on-year largely driven by the efficiency of the North Wall Quay building.

In 2018, the Central Bank announced that, following a design competition, it will seek planning permission to install a public art commission at the Dockland Campus. The provision of a piece of public art by the Central Bank fulfils a planning requirement of the North Wall Quay building. The submission from Dublin born and internationally renowned artist Eva Rothschild was selected by a panel of independent experts, for her proposal to produce a new public sculpture titled "A Double Rainbow". The Central Bank has a proud and long standing commitment to supporting public art and corporate social responsibility and it is hoped that this piece, which will be placed outside in the open space on the northeast side of the North Wall Quay building, will be enjoyed by the local community and visitors alike. It will also act as a centrepiece for the Central Bank's continued participation in public events such as Open House and Culture Night. The installation is in line with Dublin City Council's Cultural Strategy.

In 2018, the Central Bank decided to purchase additional premises at Dublin Landings adjacent to the North Wall Quay building, and sell the Spencer Dock premises, and the contracts to conclude the purchase were signed in early 2019. This development will ensure that the long-term accommodation needs of an increasingly complex Central Bank are met, and will enable the Central Bank to provide the most cost effective additional expansion capacity for its future needs, if required. It is anticipated that the new accommodation will become available for use in late 2020.

Environment, Health and Safety

The majority of staff members (approximately 92%) are engaged in office-based activities at the Dockland Campus with the remainder involved in manufacturing activities at the Currency Centre. The building in North Wall Quay has an A2 energy rating and its design achieved an Outstanding Building Research Establishment Environmental Assessment Method (BREEAM) rating. An integrated health and safety, fire, environmental and energy policy is in place and is supported by up-to-date management systems. These management systems are independently certified to OHSAS 18001 (Safety), ISO 14001 (Environmental) and ISO 50001 (Energy) standards.

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 achieved (at 95%) by end-year.

A key performance objective for 2018 to expand the Optimising Power @ Work (OPW) sponsored programme and introduce energy metering to the Spencer Dock site to help reduce energy use was completed. Significant work in preparation for achieving certification for our energy management system at the Currency Centre to the ISO 50001:2018 standard was undertaken and an external audit in December confirmed that certification for the system was on target, and was achieved in January 2019.

With the help of significant stakeholder engagement, these systems and infrastructure have facilitated the continual optimisation of energy and other resources across all of the Central Bank's buildings with energy efficiencies detailed in Table 4 below. The proactive approach to managing its environmental impact played a significant part in the Central Bank achieving the Business in the Community Ireland (BITCI) Corporate Social Responsibility Business Working Responsibly mark in September.

Table 4: Energy Use Comparison 2017 and 2018

	Currency Centre		City Centre Sites*		Overall	
	2018 kWh	% change against actual 2017	2018 kWh	% change against actual 2017	2018 kWh	% change against actual 2017
Electricity	3,062,141	-10%	4,152,432	-36%	7,214,573	-27%
Gas	2,440,893	-9%	3,703,078	-51.6%	6,143,971	-40.5%
Oil	339,428	-22%	40,716	+6%	380,144	-20%
Total Energy	**5,842,462**	**-10%**	**7,896,226***	**-44.5%***	**13,738,688**	**-33%**

*Commissioning of the new building in North Wall Quay and running the Dame Street and Iveagh Court Offices for the duration of the move period in 2017 led to a significant increase in the gas and electricity consumption for the year. This presented a unique opportunity to demonstrate savings but it does not represent a standard operational year.

Box 19: Energy, Safety and Environmental Performance – Central Bank Initiatives

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

- Achieved recertification and transition to ISO14001:2015 Environmental management system standard in the Currency Centre.
- Achieved an international accessibility award for Innovative Practice in Universal Design, Project Zero and United Nations HQ in Vienna.
- Reduced energy consumption by 9% or 570,288kWh, 200 tonnes CO_2 saving €50K as part of the OPW Programme in the Currency Centre. Reduced energy consumption by 28.4% or 1.7 million kWh, 600 tonnes CO_2 saving €150k in the North Wall Quay building.
- Presented at a national SEAI Conference on the Central Bank's experience of BREEAM and energy saving opportunities.
- Engagement with the Environmental Network of European Central Banks on sustainability performance (sharing ideas and best practice on sustainability).
- Signed up to the BITCI Low Carbon Pledge to reduce scope one and two carbon emissions by 50% by 2030.
- Hosted energy and waste awareness days across all sites, promoting initiatives at home and at work and highlighting the impacts of climate change.
- The progressive mechanical and electrical design of the North Wall Quay building won Green Project of the Year at the Construction Industry Federation Awards.
- Completed baseline ecology surveys across all sites.

The Bank will strive to improve its energy, safety and environmental performance throughout 2019.

Communication and Transparency

The Central Bank, as a public service body, is committed to being an open, transparent and accountable organisation.

Communications

The Central Bank aims to help its stakeholders, including the wider public, to understand what it does - and why. Timely, effective and accessible communication is vital to achieving this goal.

Box 20: 75 Years of Public Service

1 February 2018 marked the 75th anniversary of the foundation of the Central Bank. To commemorate the milestone, the Central Bank delivered an expanded outreach programme focused on the theme "75 Years of Public Service". The programme saw the delivery of the following public outreach initiatives designed to tell the story of the institution's 75-year history.

- **75th anniversary exhibition**
  A specially curated 75th anniversary exhibition opened to the public in the Visitor Centre in North Wall Quay. The exhibition tells the story of the Central Bank from its creation in 1943 until the present day featuring key events from the institution's history including: decimalisation, Ireland's accession to the Euro, the financial crisis and the Central Bank's current role in Ireland and the Eurosystem.

- **Documentary film**
  A documentary film charting the history of the Central Bank was produced for the public. The 12-minute film uses rare video footage and previously unseen photographs, many drawn from our historical archives. The documentary complements the 75th anniversary exhibition and serves as a standalone educational tool for Central Bank staff to use in outreach events. It is also available as an online resource for the public.

- **Schools art competition**
  The 75th anniversary was the central theme of a successful national schools art competition. Schools were invited from across the country to submit coin designs based on significant historical events of the past 75 years. The competition garnered 1,261 entries from hundreds of schools around Ireland. The winning designs went on public display in large 3D formats in the Visitor Centre.

- **Anniversary booklet**
  The Central Bank published an anniversary booklet to serve as a key historical document marking the 75th anniversary. Largely based on the 75th anniversary exhibition, the booklet is available in both hard copy and PDF format. The booklet, which combines both English and Irish language editions into a single copy, was provided to the libraries of every school in the country.

75th Anniversary Schools Art Competition

Engaging with the Public

Engagement with the public helps build trust and confidence in the role played by the Central Bank. In 2018, 10,901 direct contacts from members of the public were responded to, addressing a wide range of banking and financial services topics notably: conduct of business, authorisations and currency. There was also a steady volume of queries in relation to collector coins prompted by the release of the Rory Gallagher, Bram Stoker's Dracula and the women's right to vote commemorative coins. These queries also help to inform the continued development of content on the Consumer Hub section of the Central Bank's website.

More than 4,000 visitors were welcomed to the Central Bank visitor centre and 43 tours were facilitated throughout the year. The doors were opened to the public for Culture Night and the Open House events.

In addition to the schools art competition, further school outreach included the Governor and senior staff visiting and holding Q&As with classes in a number of schools around the country.

Staff of the Central Bank met with more than 4,000 members of the public who visited our exhibition stand at the 2018 National Ploughing Championships. The event was an opportunity to connect with people on a wide range of topics including the 75th anniversary, banknotes and coins, the Central Credit Register, the role of the ECB, financial stability and supervision of financial institutions.

The Central Bank's Archive team opened up its historical collections on 29 occasions in 2018. These included visits by the public (Culture Night, Open House, Whitaker Lecture) as well as peer institutions (Banque Nationale De Belgique, the Royal Dutch Mint, Banco Central do Brasil, the ECB). More than 1,000 files were also declassified during the year, making them available to the public for the first time for research.

The National Ploughing Championships

Stakeholder and Media Relations

There was significant engagement with other external stakeholders including the Oireachtas, Government departments, and the media during 2018. The Central Bank participated in eight Oireachtas Committees hearings, assisted with 15 bills and routinely provided assistance and views to Government departments on various issues. Responses were provided to 384 parliamentary questions during the year and 20 responses to correspondence and requests for Central Bank views from Oireachtas members and committees were published on the Central Bank website.

The Central Bank continued its proactive engagement with domestic and international media during 2018 in order to build understanding of what it does and to support well-informed reporting on topics relating to the Central Bank. Throughout 2018, there was a continued focus on enhancing content on centralbank.ie, the facilitation of interviews with national and international media and the publication of 156 press releases.

Box 21: Roundtable Discussions

As part of the Central Bank's ongoing engagement with external stakeholders, a series of roundtables are held with stakeholders throughout the year. This provides a listening platform on a range of current issues, summaries of which are published on the Central Bank's website. Roundtables held in 2018 include:

Economics Roundtable
The Economics Roundtable presented an opportunity for external stakeholders to meet with senior policy makers, including the Governor and Deputy Governors, to discuss economic issues and challenges facing Ireland in the near-to-medium term.

Stakeholder Policy and Regulatory Roundtable
The Stakeholder Policy and Regulatory Roundtable allowed the Central Bank to meet with Irish financial sector stakeholders. Topics under discussion were key EU and domestic developments including preparedness for the departure of the UK from the EU and cultural change as a key to delivering positive conduct outcomes.

Civil Society Roundtable
The Civil Society Roundtable enabled the Central Bank to engage with representatives from a range of not-for-profit civil society and societal groups. Discussions centred around the Irish economy, the prudential regulation of financial firms in Ireland, and consumer protection issues.

Enhancing Digital Content

In 2018, the Central Bank continued to refine its approach to digital content on centralbank.ie as the primary digital channel providing information to all our stakeholders on who we are and what we do.

The Central Bank puts plain language – in English and Irish – at the heart of its digital communications and uses visual content to explain its mandate in easy-to-understand formats. Infographics and videos supplement detailed reports and press releases, while Consumer Hub explainers allow the Central Bank to build further trust and understanding with the public. During 2018, the Central Bank used plain language explainers to inform the public on topics such as the TME, mortgage switching, the Central Credit Register and the CCyB. Many national media outlets repurposed the Central Bank's content during 2018 creating further awareness of our messages and endorsing the content strategy. Traffic to the online explainers increased by 107% in April-Dec 2018 (vs same period in 2017) while the Central Bank's LinkedIn followers increased by 46% in 2018, highlighting that our approach to digital channels is bringing the work of the Central Bank to a widening audience.

The Central Bank has also established a strong employer brand on centralbank.ie, with 124,000 unique page views of the Careers homepage in 2018.

Corporate Social Responsibility

Box 22: CSR Initiatives and the "Business Working Responsibly" Mark

The Central Bank is committed to delivering on its mission and mandate in a socially responsible and sustainable way. The Central Bank's Corporate Social Responsibility (CSR) activities are guided by Business in the Community Ireland's five strategic key pillars of "Environment, Workplace, Marketplace, Community and Governance and Communications".

In November 2018, the Central Bank successfully achieved Business in the Community's Business Working Responsibly mark. The application process involved completing a detailed questionnaire of more than 250 questions examining all aspects of how the organisation operates under each of the pillars, followed by an external independent audit. Achieving the required standard to receive this accreditation is a positive public endorsement of the CSR work happening across the Central Bank.

Environment
The Central Bank operates in an environmentally responsible and energy efficient manner, detailed in the Central Bank's Environmental, Health and Safety annual report.

Workplace
The Central Bank places particular emphasis on learning and development, Diversity and Inclusion (D&I), flexible working, managing organisational change and reward. The Central Bank aims to create a diverse and inclusive workplace, where all colleagues feel respected,

valued and included; and where diverse talent is utilised effectively to enhance organisational outcomes.

Governance

The Central Bank's CSR Working Group, governed by a CSR Policy and Terms of Reference, meet on a monthly basis to advance CSR issues.

Marketplace

The Central Bank is committed to being an open and transparent organisation. It consults with the public on all major policy initiatives including its Strategic Plan. It publishes much information, including minutes of the Commission meetings on its website.

Community

The Central Bank's partner charities for the 2018/2019 period, selected by the Charity Committee and a staff vote are ALONE, The Alzheimer's Society of Ireland, Childhood Cancer Foundation, the Irish Motor Neurone Disease Association, and the Peter McVerry Trust. Each organisation receives a donation and staff volunteering support for a two-year period. The Central Bank also works with key community partners The Early Learning Initiative (National College of Ireland) and Junior Achievement Ireland (JAI). The Central Bank also participated in the Career LEAP youth employment programme.

Future CSR activities will be guided by the five strategic pillars outlined above.

Steering Groups and Networks

In 2018, a new D&I vision, strategy and two-year action plan for the Central Bank, were finalised. This is aligned with the Central Bank's vision of having a fulfilling workplace for its people, "where our people are committed to excellence in the delivery of our mandate, have the opportunity to build fulfilling careers and reach their potential, and feel valued in an environment that supports diversity and inclusion".

The Central Bank has a D&I Steering Group and four active employee-led diversity networks (Women's Network, Rainbow-LGBTQ+ Network, BankAbility Network and Parents & Carers Network).

During 2018, key D&I activities included building inclusive recruitment and onboarding practices to attract and welcome diverse talent, enhancing D&I data, measures and reporting and improving maternity leave supports. In June 2018, the Central Bank participated in the Dublin Pride Parade – led by the Rainbow Network and the Central

Bank flew the rainbow flag on its North Wall Quay building in recognition of Pride Week.

The Central Bank's gender diversity profile is healthy with roughly 50/50 gender breakdown in total staff and more than 40% female representation at leadership level. In 2018, the Central Bank published a gender pay gap report showing a gap of 2.7% in favour of males.

During 2018, the Central Bank was shortlisted for the CIPD HR Award in the "Inclusion and Diversity" category. The submission focused on gender diversity and was presented to an expert judging panel in January 2019. The Bank was shortlisted as a finalist in this strongly contested category.

The Central Bank also has a dual role in promoting diversity in regulated firms, in recognition of the role diversity plays in enhancing healthy corporate culture and reducing group-think. The Central Bank continued to increase its focus on D&I across regulated firms. This included the publication of a demographic analysis of applications for regulatory approval of senior financial roles and the inclusion of a D&I assessment in the Behavior and Culture Review of the five main retail banks in Ireland. Furthermore, many of our senior leaders continued to raise awareness of the importance of D&I across the financial services sector, and more broadly, through speeches, participation on panels, interviews and other methods. This focus on D&I will continue in 2019.

Measuring and Reporting on Organisational Performance

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 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 Central Bank's Commission monitors the organisational BSC on behalf of the Central Bank Commission. Bi-annual reports are prepared for the BRC 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. One day's merit leave is awarded on the overall outcome of the organisational BSC reaching at least 85%.

The year-end assessment was that the performance of the Central Bank in meeting its objectives in 2018 was satisfactory. There had been good delivery on some key priority issues – in particular on issues around Brexit, the TME and the work on driving forward a consumer-focused and risk-focused culture agenda – but the Central Bank did not make as much progress in some other areas. For 2018, the Commission agreed with the overall assessment of the Governor's Committee that the Central Bank did, on balance, achieve a performance that was in excess of the 85% rating.

Merit leave for PMDP 2018 is due to be awarded in April 2019. The total number of merit leave days awarded will be 2671, at an overall equivalent cost of €876,445 (an estimated 0.61% of the Central Bank's total salary cost).

In 2017, the Central Bank did not achieve the 85% target for effective performance against the BSC and consequently no merit leave was awarded in respect of organisational performance for that year. The BRC subsequently approved the award of one additional day's merit leave for relevant staff in settlement of a claim made by the Unite trade union concerning an earlier change in the distribution of performance ratings. In 2018, the Central Bank awarded 1985.5 merit leave days, equivalent to a financial cost of €648,426.52 (an estimated 0.45% of the Central Bank's total salary cost).

Freedom of Information

The provisions of the Freedom of Information (FOI) Act 2014 apply to the Central Bank. As an FOI body, the Central Bank regularly publishes a range of financial and corporate information on its website. In line with the principles of the FOI Act, the Central Bank also voluntarily publishes a range of information such as the Commission minutes, accounts of the quarterly meetings of the Macro-Prudential Measures Committee, reports of the Brexit Task Force, correspondence between the Governor and members of the Oireachtas, etc.

During 2018, the Central Bank received 86 FOI requests, 26 of which were granted/part-granted and 23 were refused under the various exemption provisions of the FOI Act. A total of 31 requests were withdrawn, or dealt with outside the FOI process by another division in the Central Bank. At end-2018, six requests were in progress.

Approximately half of the requests (53%) were received from individuals and approximately 30% of all requests were categorised as personal. Media requests amounted to 27% of the total, with the remainder of the requests received from others such as members of the Oireachtas, legal/commercial firms and interest groups. While the subject matter of requests can be varied, many requests related to records concerning individual financial service providers, regulatory records and correspondence between the Central Bank and other organisations.

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

Philip R. Lane
Governor

8 April 2019

Neil Whoriskey
Secretary

8 April 2019

Chapter 3: **Governance**

Chapter 3: Governance

This chapter sets out the procedures and processes applicable to the governance of the Central Bank during 2018.

Governance Framework

The Central Bank has a clearly defined governance framework, as described in the Governance Framework document that is published on the website. The framework takes account of the requirements of the Central Bank Acts and the EU Treaties (including the requirement for the Central Bank to be independent), the Code of Practice for the Governance of State Bodies 2016 and other internal governance arrangements in the Central Bank.

Legal Framework and Statutory Objectives

The Central Bank was established as Ireland's central bank on 1 February 1943 under the Central Bank Act, 1942 (the Act).

As a member of the ESCB, the Central Bank performs ESCB tasks provided for by the Treaty on the Functioning of the EU (the TFEU) and the Statute of the ECB and of the ESCB (the ESCB Statute). In addition, it performs certain non-ESCB tasks mandated by national law, which includes its responsibility for the regulation of Ireland's financial services sector.

Many of the Central Bank's functions derive from European law. The Central Bank's European role is most apparent in relation to its central banking functions, which are defined by the EU treaties. These Treaties define the European financial services sector as being a part of Europe's internal market. As a result, many elements of Irish financial services legislation implement EU laws and it is for the Central Bank to ensure compliance with the relevant legislation. With the establishment of the SSM a number of supervisory responsibilities and decision making powers moved to the ECB. Banks in Ireland that are classified as Significant Institutions are directly supervised by Joint Supervisory Teams, each led by the ECB and consisting of both ECB and Central Bank supervisors.

The Central Bank Commission

The Act provides that the affairs and activities of the Central Bank are to be managed and controlled by the Commission (with the exception of functions for which the Governor has sole responsibility, including the ESCB functions of the Central Bank and resolution functions). The Commission has the following statutory functions:

- Management and control of the affairs and activities of the Central Bank for which it is responsible.
- Ensuring that the Central Bank's financial regulation and central banking functions are coordinated and integrated.
- 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 set out how it can best deliver on those responsibilities.

In April 2018, the Commission considered its formal annual review for 2017 and agreed that the Terms of Reference adopted at its meeting on 18 October 2017 remained appropriate.

Delegation of Powers and Functions

Section 18F of the Act provides the Commission with a power to delegate its functions and powers to the Governor, a Deputy Governor, or an employee of the Central Bank. Such delegations are made in the interests of the efficient and effective management of the Central Bank, and to ensure the proper exercise and discharge of the Central Bank's functions and powers. To that end, the exercise of most of the Central Bank's statutory functions and powers have been delegated by the Commission.

Section 32A of the Act sets out the legislative provisions regarding the establishment of a framework for the assignment of responsibilities within the Central Bank. This is referred to as the Plan of Assignment of Responsibility (the Plan). The Plan provides an operational method through which the Governor proposes to the Commission the assignment of responsibility for specified powers and functions of the Central Bank to the Governor role, a Deputy Governor and/or an officer or employee of the Central Bank.

While the Commission has delegated the exercise of the majority of the functions and powers of the Central Bank and has approved the Plan for the assignment of such responsibilities, the Commission retains overall responsibility for the performance of such functions and for ensuring that the powers and functions conferred on the Central Bank (other than those in respect of which responsibility is conferred solely on the Governor) are being effectively managed and controlled.

Furthermore, the Commission retains the power to exercise any of those functions and powers of the Central Bank that it has delegated from time to time where it considers it appropriate to do so. In this regard, the Commission may impose conditions, limitations, or restrictions on the performance or exercise of functions or powers delegated. In appropriate cases, the Commission may review decisions taken or things done in the performance or exercise of any delegated function or power.

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

Members of the Commission

The Governor is the Chair of the Commission. The other ex-officio members comprise the Deputy Governor (Central Banking), the Deputy Governor (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 typically hold office for a term of five years, which may be extended by one additional term. In 2018, six such appointed members served on the Commission.

As at 31 December 2018, the following are 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 Governing Council and Chair of the ESRB's Advisory Technical Committee.

The Governor, or an alternate, must attend all meetings of the Governing Council. The roles and responsibilities of the Governor in this respect are set out by the EU Treaties, the ESCB Statute and the Act.

The Governor discharges his ESCB functions independently of the Commission and has sole responsibility for the performance of the functions imposed on him and the exercise of powers conferred on the Bank, by or under the EU Treaties or the ESCB Statute. The independence of his role is enshrined in the EU Treaties and takes precedence over Irish law. Prior to his appointment as Governor, Philip R. Lane was on the academic staff at Trinity College Dublin and he remains affiliated with the university as Whately Professor of Political Economy (on leave).

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 from 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 German Bernacer 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 has also acted as an academic consultant for the ECB, European Commission, IMF, World Bank, OECD, Asian Development Bank and a number of NCBs. 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). 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 the Governor's Alternate on the Governing Council of the ECB. She also represents the Central Bank at the ESRB.

She was 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. She was also Chair of the SSM’s High Level Group on NPLs.

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. 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 (UCD).

Deputy Governor - Prudential Regulation

Ed Sibley was appointed Deputy Governor, Prudential Regulation on 1 September 2017. He 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. Ed 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 the private sector.

He has an MBA from Smurfit Business School, and a BA in Economics.

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 services policy matters. He previously held the position of Assistant Secretary General with responsibility for the Fiscal Policy and Budget and Economic divisions and led on tax policy issues between 2006 and 2014. He is currently a member of the Board of the National Treasury Management Agency, the Civil Service Management Board, the EU's High Level Group on Financing Sustainability Transition, an external member of the Exchequer Board of Scotland and a Council Member of the Foundation for Fiscal Studies. He has previously served on the National Economic and Social Council, National Statistics Board and the EU's Economic Policy and Tax Policy Committees.

Appointed Members

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

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

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

Patricia Byron (Appointed on 1 January 2014 for 5 years and re-appointed 1 January 2019 for 5 years)

Patricia Byron has worked as a senior executive in the insurance and related financial services sector over many years. She was the first CEO of the Personal Injuries Assessment Board (PIAB), an independent State body, established in 2004 to reform a costly personal injury claims environment. As Chairperson of the Motor Insurers Bureau of Ireland, she led a reform programme, focusing on business transformation and effectiveness. As Chairperson of the Association of Chief Executives of State Bodies, she became actively involved in a number of cross-cutting public sector reform initiatives. Since leaving the PIAB in 2015, she led a Strategic Review programme at Chartered Surveyors Ireland. Patricia is a graduate of UCD, a Chartered Insurer and the first female President of the Insurance Institute.

She was reappointed to the Commission on 1 January 2019 for a five year term.

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 UCD. 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 UCD 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.

Niamh Moloney (Appointed on 11 September 2018 for 5 years)
Niamh Moloney is Professor of Financial Markets Law and Head of the Department of Law at the London School of Economics and Political Science. She was elected a Fellow of the British Academy in summer 2018. She specialises in EU financial market regulation and consumer financial protection and has written several books on these subjects. She has been a Visiting Professor in several leading Law Schools internationally, including Columbia Law School, New York and is a member of the Editorial Boards of a number of internationally-recognised journals.

She is currently a Member of the Board of Appeal of the ESAs and has previously been a member of the Securities and Markets Stakeholder Group of ESMA, Chair of the Central Bank's Consumer Advisory Group and a Member of the UK FCA's Financial Services Consumer Panel. She has also acted as Special Adviser to the 2014-2015 inquiry by the UK House of Lords into the EU's regulatory response to the financial crisis, and as an Expert Witness for UK Parliament Select Committee Inquiries on financial market regulation and Brexit-related matters and for the European Parliament's Economic and Monetary Affairs Committee.

She holds degrees from Harvard Law School and Trinity College Dublin.

John Trethowan (Appointed on 11 September 2018 for 5 years)
John Trethowan is a career banker with over 40 years of experience. He is currently the State appointed Credit Reviewer which assists

viable SMEs and farms get access to credit from banks. John is a Fellow of the Institute of Banking, and was its President in 2006. He has served in various financial institutions at all levels, including at both executive and non-executive board roles.

He has an MBA from the University of Ulster Business School and has extensive board experience. He currently is a member of the EirGrid plc board, and chairs its Audit Committee. He has previously served on boards in the public, private, and voluntary sectors including financial services, public transport, health and social care, and in various business related charities.

Secretary of the Central Bank

Neil Whoriskey was appointed Secretary of the Central 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. He was previously responsible for heading up the Central Bank's communications function. Prior to joining the Central Bank in 1998 he worked in the private sector. He holds degrees from NUIG and UCD.

Gender Balance

Four of the Central Bank Commission members are appointed in an ex-officio capacity. One of the four ex officio members is female. Of the remaining six Board members, two or 33%, are female. Overall the Commission is at 30% female representation. The most recent appointments by the Minister for Finance were undertaken in line with the DPER Guidelines on Appointments to State Boards 2014 and in cognisance of the 40% gender balance targets, and were made on a 50:50 female:male basis. The Minister has indicated that any future appointments to the Commission will continue with this approach.

Commission Procedures

Meetings of the Commission are scheduled on a monthly basis (except August) and are presided over by the Governor, as Chair. Further meetings are scheduled as necessary for the proper performance of the functions of the Commission. Minutes of the Commission meetings are published on the Central Bank's website. In 2018, the Commission met on 12 occasions.

Committees of the Commission

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

The Commission has established the following committees:

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

Audit Committee

The Audit Committee is appointed by the Commission and comprises three non-executive members. The membership of the Audit Committee, as at 31 December 2018, comprised Patricia Byron (Chair), John FitzGerald and John Trethowan.

Meetings of the Audit Committee are held at least four times per year. In 2018, there were six meetings of the Committee. There were also two additional meetings held jointly with the Risk Committee.

All members of the Commission have the right of attendance as observers at meetings of the Audit Committee. The Chair of the Committee can also convene a meeting if requested by the Comptroller and Auditor General (C&AG) or by the external auditors. In addition, at least once a year the Committee meets with the C&AG and with the external auditors without the presence of the executives. The Chair also holds regular meetings with the Head of Internal Audit (IAD). 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 role of the Committee is expressed in terms of oversight and review. Its key responsibilities are as follows:

Financial Statements

- Review and make recommendations to the Commission on the integrity of the Bank's Financial Statements including the significant accounting judgements made in the preparation of these Statements.

External Auditors

- Advise on the appointment and reappointment of the independent external auditor (the External Auditor), their remuneration, and questions of resignation or dismissal and monitor compliance with the policy on the engagement of the External Auditor.

- Review the annual audit plans, reports and management letters of both the C&AG and the External Auditor and ensure that they are consistent with the scope of the audit engagement.

- Periodically consult with the External Auditor regarding the operation of IAD, with particular reference to the staffing of the unit, the audit work programme being applied and the testing carried out in relation to compliance with the Code.

Internal Audit

- Review and approve the Charter and annual work plan of IAD, ensuring that adequate attention is given to value-for-money auditing.

- Monitor the effectiveness and independence of IAD in the overall context of the Bank's financial risk management systems, and where appropriate, review and ensure follow-up of the reports of the division.

- Consider the findings of IAD's investigations and management's response.

Financial Risk Management and Internal Control

- Assist the Commission in fulfilling its responsibilities in ensuring the appropriateness and completeness of the systems of internal control and risk management.

- Consider the Bank's application of the Code of Practice for the Governance of State Bodies.

- To receive and review periodic reports from management in respect of fraud, i.e., 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 Bank.

Other Responsibilities

- Provide assurance to the Commission in relation to the management of risk and corporate governance requirements for the Central Bank.

- Ensure the provisions of the Central Bank's Confidential Disclosures Policy are appropriate to ensure proper approach to dealing with reports by staff of "wrongdoing" in the Central Bank.

The Committee shall make whatever recommendations to the Commission it deems appropriate on any area within its remit where action or improvement is needed.

In addition to the responsibilities outlined above the Committee may perform other activities related to this mandate, if so requested by the Commission.

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 2018, comprised Niamh Moloney (Chair), Des Geraghty, Sharon Donnery and Ed Sibley.

Meetings of the Budget and Remuneration Committee are held at least four times per year. In 2018, there were four meetings of the 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 role of the Committee is expressed in terms of oversight and review. Its key responsibilities are as follows:

Budget / expenditure

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

Remuneration

- Review and make recommendations to the Commission for the remuneration of management members of the Commission, including the Governor.
- Review and make recommendations to the Commission for the remuneration of Director General, Financial Conduct.
- Review, on at least an annual basis, the Bank's overall remuneration policy and procedures and make recommendations to the Commission where necessary.

Balanced Scorecard

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

In addition to the responsibilities outlined above, the Committee may consider other topics, if so requested by the Commission.

Risk Committee

The Risk Committee is appointed by the Commission and comprised three non-executive members and the two Deputy Governors. The membership of the Risk Committee, as at 31 December 2018, comprises Alan Ahearne (Chair), Sharon Donnery, Des Geraghty and Ed Sibley.

Meetings of the Risk Committee are held at least four times per year. In 2018, there were five meetings of the Committee. There were also two additional meetings 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 role of the Committee is expressed in terms of oversight and review. Its key responsibilities are as follows:

- 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:
    - (i) The currency composition and other risk parameters of the investment assets.
    - (ii) The security criteria for management of the Central Bank's investment assets.
    - (iii) 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.
- 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, consider whether risks or incidents merit discussion at the Commission.

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

Code of Conduct and Ethics for Members of the Central Bank Commission

The Commission has adopted a Code of Conduct and Ethics. Commission members are expected to read and sign the Code of Conduct and Ethics to indicate their understanding and acceptance of its provisions. Furthermore, Commission members must observe and uphold the collective responsibility of the Commission and any committee of which they are a member.

The objectives of the Code of Conduct and Ethics are:

- To set out standards of ethical conduct
- To promote confidence and trust in the Commission
- To prevent the development or acceptance of unethical practices.

Commission members are required to discharge their duties and responsibilities with high standards of integrity and should always be guided in their actions by the provisions of the Central Bank's legislative environment. The Commission most recently reviewed the Code at its meeting on 18 October 2017 and adopted a revised Code in line with the Code of Practice for Governance of State Bodies 2016. The Code is published on the Central Bank's website.

Ethics in Public Office

Section 17 of the Ethics in Public Office Act 1995 imposes certain disclosure requirements on persons who are members of boards of state bodies whose directorships have been prescribed in regulations made by the Minister. Such persons are known as designated directors and include members of the Commission. This means any person holding a designated directorship is subject to the disclosure of interests provisions of the Ethics Acts and may have to furnish an annual statement of interests and/or a statement of a material interest.

Commission Meetings

The procedure of the Commission is provided for by Schedule 1 of the 1942 Act. Meetings of the Commission are scheduled on a monthly basis (except August) and are presided over by the Governor, as Chairperson of the Commission. Further meetings are scheduled as necessary for the proper performance of the functions of the

Commission. All or some members may participate in meetings of the Commission by telephone.

In accordance with the Commission's Terms of Reference, the Director General, Financial Conduct and the Chief Operations Officer attend Commission meetings to provide updates on their respective areas and for other relevant items. The General Counsel is invited to attend meetings of the Commission as legal advisor to the Central Bank.

Commission Review

The Chair of the Commission initiates a review of the performance of the Commission on an annual basis to assess the extent to which responsibilities are being met, the Commission is operating efficiently, and that the scope, membership and terms of reference remain appropriate. In addition, an external review of the effectiveness of the Commission is required under the Code of Practice for the Governance of State Bodies to be carried out every three years.

Decision-making Procedures

Decisions of the Commission are made on the basis of a majority of the votes cast by the members of the Commission present on the vote in question, or by a resolution approved in writing by a majority of members.

Professional Advice

In the furtherance of its duties, the Commission may take independent professional advice, if necessary, at the expense of the Central Bank where they deem it necessary to discharge their responsibilities as Commission members.

Organisational Structure

The organisational structure of the Central Bank is determined largely by the Central Bank Acts 1942 – 2015. These Acts establish the Central Bank as an organisation, and set out its functions and provides for the structures within which the Central Bank carries out such functions. The Central Bank's functions come from various legal sources, including the EU Treaties, the Central Bank Acts, and other financial services legislation. While some of these functions may be assigned to specific statutory officers, the Central Bank Commission is, in the first instance, tasked with the performance of most of the Central Bank's functions (with the exception of ESCB functions). However, this is subject to statutory delegations and assignments of responsibility.

The Organisational Chart shows how the Central Bank is structured in order to deliver on its strategic objectives.

The Central Bank operates across four pillars each of which is headed by a Deputy Governor, the Director General–Financial Conduct, or the Chief Operations Officer, each of whom reports directly to the Governor. The four pillars are:

- Central Banking
- Prudential Regulation
- Financial Conduct
- Operations.

Each pillar is divided into a number of directorates headed by a Director, and each Director has responsibility for a number of business divisions.

Responsibilities of Senior Leaders at the Central Bank of Ireland (RSL)

The Central Bank's RSL provides an overview of the responsibilities of those holding senior leadership positions within the Central Bank, together with the relevant governance arrangements in place that support decision making across the Central Bank. Senior leaders are identified as the Governor, the Deputy Governors, the Director General, Financial Conduct, the Chief Operations Officer and the Directors. Furthermore, because of their statutory responsibilities, the RSL includes the Registrar of Credit Unions and the Secretary of the Central Bank. In addition, the positions of the General Counsel, the Head of Internal Audit and the Head of Organisational Risk are included as they have some direct accountabilities to the Commission and/or the Governor. Information on RSL is also available on the Central Bank website.

Internal Governance Structures

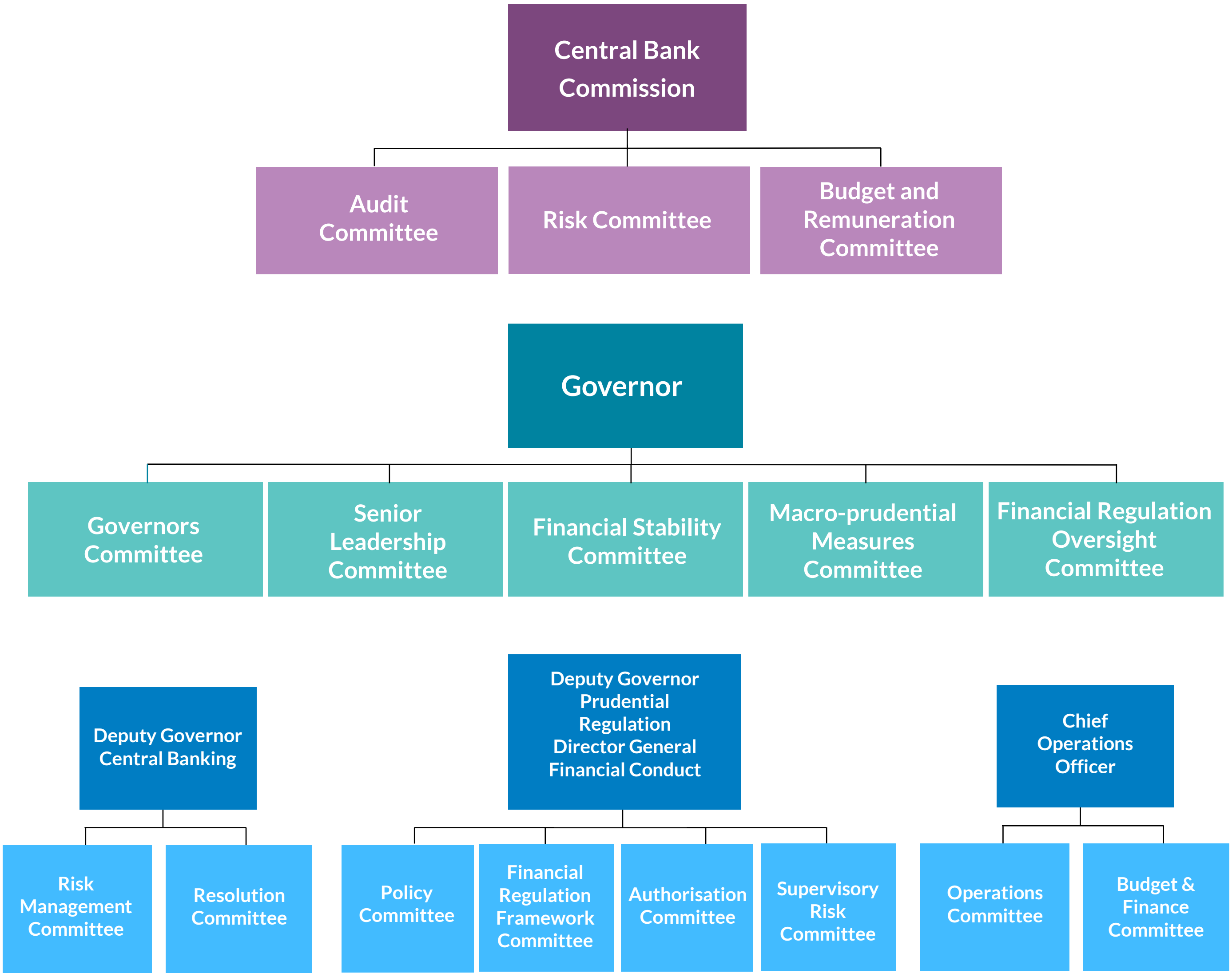
While the Commission has overall responsibility for the management and control of the Central Bank, there are a number of cross-organisational committees with responsibility for coordinating the development and implementation of policies, and advising on major issues.

The Central Bank's cross-organisational committee structure comprises both operational and mandate related committees, all with approved terms of reference, which are reviewed on an annual basis. It is through involvement with cross-organisational committees that the Central Bank's senior management team contribute, among other things, towards the development and execution of the Central Bank's strategy, risk appetite and organisational culture.

The Governor's Committee (chaired by the Governor) is the key executive decision-making body on matters of an administrative and management nature, and that have strategic, bank-wide or external significance. The role of the Committee is to advise, assist and support the Governor in fulfilling the responsibilities of the role, including those functions delegated by the Commission to the Governor. For the purposes of this Committee the Governor is identified as the key decision maker.

The Governor's Committee is supported in this role by other high-level committees, which in part reflect the structures in place at Commission and Commission sub-committee level. A list of cross-organisational committees (both operational and mandate-related) is set out in Figure 1.

Figure 1: Central Bank Internal Governance



Organisational Committees

- The **Senior Leadership Committee** (chaired by the Governor), and which comprises the senior leadership team including all Directors and Governor's Committee members, is responsible for owning the strategic plan and collectively leading its successful implementation; as well as delivering the Central Bank's vision through unified, values-driven leadership.

- The **Operations Committee** (chaired by the Chief Operations Officer) advises on key operational processes, including relevant policies, with a view to ensuring the Central Bank manages its operational functions in an efficient and effective manner and oversees the portfolio of programmes and projects required to implement the Central Bank's Strategic Plan.

- The **Risk Management Committee** (chaired by the Deputy Governor, Central Banking) oversees the design, maintenance and continuous development of effective frameworks for the management of the Central Bank's principal internal risk exposures. A key objective is to ensure risks are managed within the Commission's approved risk appetite and associated tolerances. The Committee also reviews relevant risk items before they are submitted to the Commission's Risk Committee.
- The **Budget and Finance Committee** (chaired by the Chief Operations Officer) was established to formulate and monitor the Central Bank's annual budget, oversee and advise (within delegated limits) on the approval of investment envelope items, and consider industry levy financing matters from a process perspective. The Committee will also review relevant finance items before they are submitted to the Commission's Budget and Remuneration Committee.

Mandate-Related Committees

- The **Financial Stability Committee** (chaired by the Governor) advises on issues related to the Central Bank's financial stability mandate. The Committee monitors and assesses domestic and international economic and financial developments, highlights potential areas of concern relevant to the Irish financial system and draws 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 Committee. 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** (chaired by the Governor) advises on the regular reviews of relevant national macro-prudential measures and makes 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 CCyB; the other systemically important institution buffers; and reciprocation of macro-prudential policy measures taken by other Member States.

- The **Financial Regulatory Oversight Committee** (chaired by the Governor) ensures effective coordination of regulatory work and related cross-Central Bank policy initiatives.
- The **Supervisory Risk Committee** (co-chaired by the Deputy Governor, Prudential Regulation and the Director General, Financial Conduct) advises on issues central to the management of supervisory risks and on the development and enhancement of risk-based supervision and supervisory engagement.
- The **Policy Committee** (co-chaired by the Deputy Governor, Prudential Regulation and the Director General, Financial Conduct) advises on regulatory policy issues and initiatives including consultation papers, feedback statements, codes, guidelines, and regulations before their adoption in accordance with relevant delegations.
- The **Resolution Committee** (chaired by the Deputy Governor, Central Banking) advises the Governor on issues central to the fulfilment of the Central Bank's role in the resolution of: the Central Bank and Credit Institutions (Resolution) Act 2011; the EU (Bank Recovery and Resolution) Regulations 2015; the EU (Single Resolution Mechanism) Regulations 2015; and those regulated firms categorised as 'Category 1' firms[25] or MiFID firms, Insurance and Reinsurance firms categorised as 'Category 2A' firms[26] in the Central Bank's Authorisations and Revocations Framework.
- The **Authorisation Committee** (co-chaired by the Deputy Governor, Prudential Regulation and the Director General, Financial Conduct) is convened as necessary to consider the authorisation of certain regulated entities as required.
- The **Financial Regulation Framework Committee** (co-chaired by the Deputy Governor, Prudential Regulation and the

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[25] Category 1 firms are credit institutions, central securities depositories, insurance and reinsurance undertakings that are likely to be allocated a medium high or above PRISM rating, central clearing houses, branches of credit institutions established outside of the European Economic Area, and MiFID firms deemed to be category 1 firms by the Director of Asset Management Supervision.

[26] Category 2A firms in the context of the Resolution Committee are insurance and reinsurance undertakings that are likely to be allocated a medium low or low PRISM rating, and MiFID firms deemed to be category 2A firms by the Director of Asset Management Supervision.

Director General, Financial Conduct) centralises oversight of the fitness and probity regime. The Committee drives the effectiveness of the F&P regime and direct its impact on the financial services industry. The Committee considers Central Bank strategy and policy (to include regulatory, supervisory and enforcement policy, including implementation of regulatory or legislative change) and facilitates co-ordination, cooperation and consistency in relation to the operation of the F&P regime across the Central Bank.

Accountability

Strategic Plan

In accordance with section 32B of the 1942 Act, the Central Bank is obliged to prepare and publish a strategic plan every three years. The Minister has the power to define the form of a strategic plan but not its content. When he or she receives the strategic plan, the Minister must lay it before the Oireachtas. As soon as practicable after becoming aware that a strategic plan has been laid before the Oireachtas, the Central Bank must publish and take all reasonable steps to implement it.

During 2018, the Commission engaged in the formulation of the Central Bank's three-year Strategic Plan 2019-2021 which was published in November 2018.

Annual Report and Annual Performance Statement

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 Bank to prepare and transmit to the C&AG a Statement of Accounts for the financial year concerned. The C&AG 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 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.

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

Appearances before Oireachtas Committees

The Governor, a Deputy Governor or the Registrar of Credit Unions may be obliged to attend before a Joint Committee of the Oireachtas responsible for examining matters relating to the Central Bank and to provide that Committee with such information as it requires, subject to the TFEU and the ESCB Statute and to the Central Bank's professional secrecy and confidentiality obligations.

The Governor or a Deputy Governor may also be requested to attend before an Oireachtas Committee to provide that Committee with information relating to the Central Bank's performance statement. In such circumstances, the Governor or Deputy Governor shall appear before the committee and provide the committee with such information as it can about the Central Bank's performance statement, subject to the Central Bank's professional secrecy and confidentiality obligations.

Table 5 – Appearances before the Oireachtas Committees in 2018

Date	Oireachtas Committee	Attended by
18/01/2018	Oireachtas Finance Committee Quarterly engagement with the Central Bank and Tracker Examination	Philip R. Lane, Governor; Ed Sibley, Deputy Governor, Prudential Regulation; Derville Rowland, Director General, Financial Conduct; Helena Mitchell, Head of Consumer Protection Supervision Division
08/03/2018	Oireachtas Finance Committee General Scheme of the Insurance (Amendment) Bill 2017	Gerry Cross, Director of Policy & Risk; Sylvia Cronin, Director of Insurance Supervision
10/05/2018	Oireachtas Finance Committee Quarterly engagement with the Central Bank	Philip R. Lane, Governor; Ed Sibley, Director General Prudential Regulation; Derville Rowland, Director General Financial Conduct; Helena Mitchell, Head of Consumer Protection Division
29/05/2018	Oireachtas Finance Committee Resolution of Non-Performing Loans, EU legislative proposals	Gráinne McEvoy, Director of Consumer Protection; Adrian Varley, Head of Banking Supervision - Analysis Division
04/10/2018	Oireachtas Finance Committee Quarterly engagement with the Central Bank	Philip R. Lane, , Governor; Ed Sibley, Deputy Governor, Prudential Regulation; Derville Rowland, Director General, Financial Conduct
26/10/2018	Oireachtas Finance Committee Report on local public banking	Ed Sibley, Deputy Governor, Prudential Regulation; Patrick Casey, Registrar of Credit Unions; Anne Marie Finnegan, Registry of Credit Unions Division
08/11/2018	Oireachtas Finance Committee European Monetary Policy: Exchange of view with Mr Mario Draghi	Mario Draghi, President of the ECB; Philip Lane, Governor
29/11/2018	Oireachtas Finance Committee Central Bank (National Claims Information Database) Bill 2018: Committee Stage	Michael O'Sullivan, Statistics Division

Statutory Inquiries

The Central Bank and its officers and employees are from time to time called upon to provide evidence to inquiries established under Statute. In its dealings with any such inquiry, the Central Bank must comply with the confidentiality obligations imposed under Section 33AK of the 1942 Act.

Peer Reviews

The Central Bank must arrange, at least every four years, for performance of its regulatory functions to be reviewed by another national central bank, or another person or body whom the Governor has certified as appropriate, following consultation with the Minister.

In practice, peer reviews, in accordance with the legislation, are carried out on a regular basis. Details of these reviews are reported on annually every year in the Annual Performance Statement.

Internal Audit

The objective of the Internal Audit Division (IAD) is to act as the independent "third line of defence" function 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 act in the capacity of 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 the evaluation and improvement of the effectiveness of risk management, control and governance processes.

During 2018, IAD conducted a range of audits across the Central Bank. Topics covered included audits on Data Transfer Security, Software Development Lifecycle, Internal Network & Server Security, Management of CBI Reserves and Associated Systems, Fraud Risk Management Policy, Currency Control Functions, Coin Operations, Collector Coin, the Deposit Guarantee Scheme, the Central Credit Register, Investment funds, Investment firms and Markets, Anti Money Laundering Framework and Inspection Model. In addition, IAD participated in a number of ESCB-wide audits including AnaCredit and IT Security Management.

All issues identified are routinely followed up by IAD to ensure that approved action plans are implemented. In 2018, IAD received a fully compliant rating with regard to an external quality assessment of IAD's compliance with the Chartered Institute of Internal Auditors (IIA) Standards.

As part of its intelligence gathering, IAD attended a number of senior executive committee meetings and meetings with divisional representatives from across the Central Bank in order to keep abreast of developments and risks within the organisation. The Head of IAD also met with the Governor regularly to discuss audit-related issues.

IAD submitted regular reports to the Audit Committee detailing the outcome of audits and the progress made by management in addressing previously identified issues. Additionally a three-year plan was prepared on a rolling basis which was approved by the Audit Committee.

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. IAD continued to Chair the IAC Statistics Audit Task Force (ATF) throughout 2018.

Appendix:
Senior Leadership Team Speeches

Appendix: Senior Leadership Team Speeches

January

Presenter	Address/Speech/Presentation	To
Gerry Cross	Financial regulation, technological innovation and change	Speech to Association of Compliance Officers in Ireland Event: Are you Fit for FinTech?
Philip R. Lane	Introductory statement by Philip R. Lane at the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach	Joint Committee on Finance
Patrick Casey	Remarks by Registrar of Credit Unions	CUDA annual conference
Philip R. Lane	The Development of the European and Irish Financial Systems	Speech delivered to the European Financial Forum, Dublin Castle

February

Presenter	Address/Speech/Presentation	To
Philip R. Lane	Financial Globalisation and Central Banking in Ireland	Remarks delivered to the Financial Globalisation Symposium as part of the programme to commemorate the 75th anniversary of the Central Bank of Ireland
Derville Rowland	We continue to challenge the effectiveness of the underlying culture in banks	Speech by Derville Rowland, Director General Financial Conduct, to the UCD Behavioural Science ResearchGroup, University College Dublin
Ed Sibley	The Importance of Diversity in Financial Services	Remarks prepared for address to FuSIoN (the Financial Services Inclusion Network)
Sylvia Cronin	The role of the INED: a regulatory perspective	Insurance Ireland

March

Presenter	Address/Speech/Presentation	To
Gerry Cross	Opening statement of Gerry Cross, Director Policy and Risk, at the Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach	Oireachtas Committee on Finance
Philip R. Lane	The Macro-Financial Environment in Ireland in Spring 2018	Speech delivered to the Institute for International and European Affairs (IIEA), Dublin
Gerry Cross	Integration, Interconnection, Innovation: some current themes in European Financial Regulation	Barclays Capital Conference in London
Gerry Cross	Enhancing the Culture of Risk-Taking in Financial Firms	Comments in response to the Inaugural Lecture in the Distinguished Visitor Public Lecture Series: “Corporate Governance of Risk-Taking in Systemically Important Financial Firms” by Professor Steven L. Schwarcz, Duke University School of Law
Gerry Cross	Tomorrow’s yesterday: financial regulation and technological change	Speech at Joint Session: Banknotes / Identity High Meeting 2018 Security Printers, International Conference & Exhibition Hosted by Intergraf
Derville Rowland	“Our culture assessments will analyse the leadership behaviour of management in banks”	Address by Derville Rowland, Director General, Financial Conduct, Central Bank of Ireland to The European Consumer Protection Conference in Prague,

April

Presenter	Address/Speech/Presentation	To
Colm Kincaid	RegTech in Securities and Markets Regulation	Remarks delivered to RegTech Sprint Technology Roundtable hosted by the Central Bank of Ireland
Ed Sibley	Brexit: Where to Next?	Speech delivered by Deputy Governor Ed Sibley to the DCU Brexit Institute
Derville Rowland	The Role of the Central Bank in Consumer Protection	Seminar by Derville Rowland, Director General, Financial Conduct, Galway Mayo Institute of Technology
Gerry Quinn	Welcome Address	European Cash Cycle Seminar (ICCOS)
Patrick Casey	Developing Business Models	Credit Union Managers Association Spring Conference
Michael Hodson	The Asset Management Sector– supervisory insights with a changing landscape	Event organised by Duff and Phelps
Derville Rowland	Innovation and technology in financial services: a regulatory perspective	Speaking at the Cork University Business School | University College Cork Financial Services Innovation Centre (FSIC)
Gerry Cross	Capital Markets Union - An updated regulatory perspective	Remarks delivered to the British Irish Chamber of Commerce Event, International Financial Services in Ireland and the UK in a post-Brexit world
Patrick Casey	Reflecting, Renewing and Reinvigorating	Irish League of Credit Unions' Annual General Meeting

May

Presenter	Address/Speech/Presentation	To
Michael Hodson	The Asset Management Sector – insights on the regulatory landscape	Speaking at the FOW Trading Dublin Conference
Sharon Donnery	The importance of diversity in central banks and supervised entities	Speech delivered by Deputy Governor Sharon Donnery at the Central Bank of Malta 50th Anniversary Conference, Valetta, Malta
Philip R. Lane	Introductory Statement by Governor Philip R. Lane on the publication of the Annual Report 2017	Media Briefing at Central Bank
Philip R. Lane	Introductory statement by Governor Philip R. Lane at the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach	Joint Committee on Finance
Philip R. Lane	Remarks by Governor Philip R. Lane at Conference of African Ministers of Finance, Planning and Economic Development, Addis Ababa	Remarks delivered to Conference of African Ministers of Finance, Planning and Economic Development United Nations Economic Commission for Africa Addis Ababa
Ed Sibley	The provision of financial services in Ireland and from Ireland after Brexit	Speaking at the Institute of International and European Affairs
Derville Rowland	Remarks by Derville Rowland, Director General Financial Conduct at Irish Funds Global Annual Conference	Derville Rowland - Director General, Financial Conduct: Speaking at the Irish Funds Global Annual Conference
Martin Moloney	Transforming Culture in Regulated Financial Services in Ireland	Speech delivered at Alvarez & Marsal / Byrne Wallace Solicitors Seminar on Transforming Culture in Regulated Financial Services in Ireland

Gráinne McEvoy	Opening Statement by Gráinne McEvoy, Director of Consumer Protection, at the Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach	Oireachtas Committee on Finance
Sharon Donnery	When is the right time? Macroprudential policy and the cycle	Remarks by Sharon Donnery, Deputy Governor, Central Banking, at Maynooth University, National University of Ireland
Mark Cassidy	Ireland's Experience after an Adjustment Programme	Remarks delivered at the Economic Chamber of Greece's 2nd International Conference

June

Presenter	Address/Speech/Presentation	To
Ed Sibley	The Irish Mortgage Market – 2018 and beyond	Remarks delivered to the Institute of Banking Breakfast briefing "The Irish Mortgage Market - past, present and future"
Sylvia Cronin	Diversity of Thought	Milliman breakfast briefing
Philip R. Lane	The Macroeconomics of Price and Wage-Setting	2018 ECB Forum on Central Banking, Sintra - Panel Remarks
Colm Kincaid	Conduct Risk, Culture and RegTech	Remarks by Colm Kincaid, Director of Securities and Markets Supervision at Deloitte Ireland Breakfast Briefing 2018
Philip R. Lane	Macro Financial Stability and the Euro	Remarks delivered to the IMF / IMFER / Central Bank of Ireland Euro at 20 Conference

July

Presenter	Address/Speech/Presentation	To
Philip R. Lane	20 Years of ESCB Statistics: What's Next?	Speaking at the European Central Bank Conference on Statistics
Philip R. Lane	Macro-Financial Policies for the Short Term and the Long Term	Speaking at the MacGill Summer School

August

Presenter	Address/Speech/Presentation	To
Seana Cunningham	Individual accountability – our approach	Speaking at Deloitte Ireland event

September

Presenter	Address/Speech/Presentation	To
Philip R. Lane	Macro-Financial Risk Management	Remarks by Governor Philip R. Lane at Central Bank Economics Roundtable
Colm Kincaid	'A Properly and Effectively Supervised Private Equity Market'	Remarks delivered to the SuperReturn CFO/COO Regulation and Compliance Summit
Ed Sibley	The Banking Crisis – A Decade On	Speaking at the Trinity College Dublin "Behind the Headlines" series
Seana Cunningham	Enforcement and AML – our approach and priorities	ACOI
Sylvia Cronin	'Going Digital and Remaining Safe'	Remarks delivered to AZN Annual Conference
Sharon Donnery	10 years on – What have we learned?	Dublin Economics Workshop
Michael Hodson	Taking stock of the past and insights on the future of the asset management sector	Remarks delivered at IDA Event, New York
Philip R. Lane	The Management of Systemic Risks: Current Priorities	Address to ESRB 2018 Annual Conference

Philip R. Lane	Monetary Strategy in the Euro Area	The Society of Professional Economists' Annual Conference, London

October

Presenter	Address/Speech/Presentation	To
Ed Sibley	The need for resilience in the face of disruption: Regulatory expectations in the digital world	Financial Centre Summit
Gerry Cross	Fit for the future: some current issues in the regulation of Irish investment funds	Speech at the Dublin Fund Administration Forum - Bloomberg
Philip R. Lane	Introductory statement by Governor Philip R. Lane at the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach	Joint Committee on Finance
Gráinne McEvoy	Building a Consumer Focused Culture – What the Central Bank Expects of Leaders	Address by Gráinne McEvoy, Director of Consumer Protection, to Chartered Accountants Ireland Risk Management and Internal Audit Conference
Derville Rowland	Learning to Lead: Cultural Change, Ethical Behaviour and Consumer Protection	Address by Derville Rowland to the Institute of Banking
Gerry Cross	Hubs and spokes: remarks on innovation and outsourcing	Remarks at Industry event: Authorisations & Consumer Protection
Ed Sibley	Introductory statement by Deputy Governor Ed Sibley the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach	Joint Committee on Finance
Colm Kincaid	The Supervision of Conduct in the Funds Market	Remarks delivered to the Asset Management and Investment Funds Group Seminar hosted by A&L Goodbody

Derville Rowland	Rapid Technology Developments and Conduct Risk – What does the Future look like through the Regulator's Eyes	Speaking at the European Insurance Forum, Trinity College Dublin
Ed Sibley	Culture, diversity and the way forward	Speaking at the Central Bank/Trinity College Dublin School of Law conference "Culture, diversity and the way forward for corporate governance in Ireland"
Derville Rowland	Bad Apples or Bad Barrels? How Effective Culture Mitigates Conduct Risk	Speaking at the Conference on Culture, Diversity and the Way Forward for Corporate Governance, Trinity College Dublin.
Philip R. Lane	Trends and Cycles in Financial Intermediation	Remarks delivered to Banco de Espana – SUERF Conference: 'Financial Disintermediation and the Future of the Banking Sector'

November

Presenter	Address/Speech/Presentation	To
Patrick Casey	Governance and the credit union future	Address to the National Supervisors Forum AGM
Sylvia Cronin	The Regulatory Framework and Drive for Supervisory Convergence	Remarks delivered to IDA Jurisdictional Insights Event
Gráinne McEvoy	Culture and Consumer Protection	Address to the Association of Compliance Officers Ireland 2018 Conference on Culture Conduct and Compliance
Philip R. Lane	The Business Environment in Ireland	Address to Dublin Chamber of Commerce
Derville Rowland	'Leadership, Accountability and Culture in Financial Services'	Speaking at the Eversheds Sutherland Conference on 'Leadership, Accountability and Culture in Financial Services'

Philip R. Lane	Globalisation and the Irish Economy: A Macro-Financial Perspective	Governor Philip R. Lane delivered the Annual Geary Lecture at the Economic and Social Research Institute, Dublin.
Derville Rowland	"Safeguarding the best interests of investors in a changing landscape"	Speaking At the Irish Funds London Symposium
Philip R. Lane	Irish Economic Developments: An Update	Remarks prepared for Consulate General of Ireland event, New York City
Sharon Donnery	'Citizenship, participation and diversity'	Remarks at the launch of the €15 Silver Proof Commemorative Coin, marking 100 Years since Irish women won the right to vote. Leinster House, Dublin
Philip R. Lane	Macroeconomics and Banking in Ireland	Address to Certified Bank Director Annual Conference, Institute of Banking

December

Presenter	Address/Speech/Presentation	To
Michael Hodson	Brexit and the evolving landscape of the asset management sector	Speech delivered to the Brexit Solutions and Trends in the Funds Industry, London Seminar
Derville Rowland	The Central Bank has begun analysis on 2000-plus Irish domiciled UCITS funds that report to be actively managed	EY 'Funds Forum', Shelbourne Hotel, Dublin
Colm Kincaid	The role of RegTech in financial services	Opening Remarks at the 8th DCU Fintech Symposium

Glossary

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

APP – **Asset Purchase Programme -** The Eurosystem's expanded asset purchase programme (APP) includes all purchase programmes under which private sector securities and public sector securities are purchased by the Eurosystem to address the risks of a too prolonged period of low inflation. It consists of the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP), the public sector purchase programme (PSPP) and the corporate sector purchase programme (CSPP).

ASP – Administrative Sanctions Procedure - Where a concern arises that a prescribed contravention has been or is being committed, the Bank may investigate. The Administrative Sanctions Procedure provides that, any time before the conclusion of an Inquiry, the matter may be resolved by entering into a settlement agreement. Administrative Sanctions Procedure – Is the procedure provided for under Part IIIC of the Central Bank Act 1942, as amended, which gives the Bank power to administer sanctions in respect of the commission of prescribed contravention(s) by regulated financial service providers and by persons presently or formerly concerned in their management who have participated in the prescribed contravention(s) committed by the regulated financial service provider.

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 - This establishes a common approach within the EU to the recovery and resolution of banks and investment firms.

BTF – Brexit Task Force - The BTF was established in 2016 to monitor developments and assess implications arising from Brexit. They report on a quarterly basis to the Financial Stability Committee and Commission.

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

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

CCP - Central Counterparty Clearing House - This is a financial institution that takes on counterparty credit risk between parties to a transaction and provides clearing and settlement services for trades in foreign exchange, securities, options and derivative contracts.

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

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'.

CET1 – Common Equity Tier 1 - The Tier 1 common capital ratio is a measurement of a bank's core equity capital compared with its total risk-weighted assets.

CIRF – The Credit Institutions Resolution Fund - The CIRF was established under the Central Bank and Credit Institutions (Resolution) Act 2011 for the purpose of providing a source of funding for the resolution of financial instability in, or an imminent serious threat to the financial stability of currently credit unions.

CSD - Central Securities Depository - A central securities depository is an institution that holds financial instruments, including equities, bonds, money market instruments and mutual funds. It allows ownership of those instruments to be transferred in electronic form through updating electronic records, which are often known as 'book-entry records.

CSDR – Central Securities Depositories Regulation - This is one of the key regulations adopted in the aftermath of the financial crisis. CSDR introduces new measures for the authorisation and supervision of EU

Central Security Depositories (CSDs) and sets out to create a common set of prudential, organisational and conduct of business standards at a European level.

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. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.

EC - European Commission.

ECB – European Central Bank - The ECB is the central bank for the euro and administers monetary policy of the eurozone.

ECMS - Eurosystem Collateral Management System - A new common Eurosystem Collateral Management System for managing eligible assets as collateral in Eurosystem credit/liquidity absorbing operations that will replace 19 local systems including the Bank's local collateral management system (LCMS).

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

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

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

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 is responsible for the macroprudential oversight of the EU financial system and the prevention and mitigation of systemic risk. The ESRB therefore has a broad remit, covering banks, insurers, asset managers, shadow banks, financial market infrastructures and markets. In pursuit of its macroprudential mandate, the ESRB monitors and assesses systemic risks and, where appropriate, issues warnings and recommendations.

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

ETF - Exchange-Traded Fund - This is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund.

FRNs – Floating Rate Notes - Floating Rate Note: A financial instrument for which the coupon is periodically reset relative to a reference index to reflect changes in short or medium-term market interest rates.

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

FSB – Financial Stability Board - The FSB is responsible for macro-prudential policy aimed at preventing and mitigating systemic risks to financial stability.

FSC - The Financial Stability Committee - Chaired by the Governor, the 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.

FSPs – Fund Service Providers - Funds service providers is the collective term used to describe the parties providing services to a fund/collective investment scheme.

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

GDPR - General Data Protection Regulation - The GDPR is a regulation by which the European Parliament, the Council of the EU and the European Commission intend to strengthen and unify data protection for all individuals within the EU. (Regulation (EU) 2016/679). The GDPR emphasises transparency, security and accountability by data controllers and processors, while at the same time standardising and strengthening the right of European citizens to data privacy.

HICP – Harmonised Index of Consumer Prices - HICP is an indicator of inflation and price stability for the ECB. It is a consumer price index which is compiled according to a methodology that has been harmonised across EU countries. It measures the changes over time in the prices of consumer goods and services acquired by households.

HTM - **Held-To-Maturity** - Assets that are purchased with the intention of holding them until they redeem and as such they are valued on an amortised cost basis.

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 International Monetary Fund is an international organization 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.

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

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

IRC - International Relations Committee - The International Relations Committee of the ECB. The IRC is responsible for forming policy views and advising the ECB Governing Council or General Council on external issues to the EU (including the IMF). It meets in 28 NCB format.

IRPF - Irish Retail Payments Forum - The Irish Retail Payments Forum (IRPF) has been established by the Bank in order to provide a forum in which payment services providers (PSPs) and payment services users (PSUs) can come together to engage in an open and constructive dialogue with each other in relation to Irish retail payment services generally.

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 - The markets in financial instruments directive (MiFID) aims to increase the transparency across the EU's financial markets and standardise the regulatory disclosures required for particular markets. MiFID implemented new measures, such as pre- and post-trade transparency requirements, and set out the conduct standards for financial firms. The directive has been in force across the EU since 2008. MiFID has a defined scope that primarily focuses on over the counter (OTC) transactions.

MLF – Marginal Lending Facility – The MLF is a monetary policy instrument of the Eurosystem which offers commercial banks the opportunity to procure liquidity (overnight loans) from the ECB, against eligible collateral and at a specified interest rate for one business day.

MMC - The Macro-prudential Measures Committee - Chaired by the Governor, 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; other systemically important institution buffer; and reciprocation of macro-prudential policy measures taken by other Member States.

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

MPC – Monetary Policy Committee - The Monetary Policy Committee assists in the fulfilment of the Eurosystem's statutory task as regards the single monetary policy and the exchange rate policy of the euro area. In addition, the Committee assists in the fulfilment of ESCB tasks relating to the coordination of the monetary and foreign exchange policies of the ECB and the central banks of the Member States which have not adopted the euro. The Committee performs its Eurosystem tasks in conformity with the Mission Statement, Strategic Intents and Organisational Principles of the Eurosystem.

MREL - Minimum Requirement for Own Funds and Eligible Liabilities - The minimum requirement for own funds and eligible liabilities (MREL) is a new requirement for banks and investment firms that was introduced under Article 45 of the Bank Recovery and Resolution Directive to facilitate bail-in and to increase the loss absorbing capacity of the bank.

MRO – Main Refinancing Operations - The main refinancing operations, with a weekly frequency and a maturity of one week, are the most important monetary policy instruments used by the Eurosystem for money market management. Eurosystem's regular open market operations consisting of one-week liquidity-providing operations in euro.

MTM – Marked-to-Market - The practice of revaluing a portfolio of securities using current market prices, usually on a daily basis.

NCA – National Competent Authority - The NCA is the legally delegated or invested authority that has the power to perform a designated function. National competent authorities are organisations that have the legally delegated or invested authority, or power to perform a designated function, normally monitoring compliance with the national statutes and regulations.

NCB – National Central Bank (within the Eurosystem)

NPL – Non-Performing Loans - A bank loan is considered non-performing when more than 90 days pass without the borrower paying the agreed instalments or interest. Non-performing loans are also called 'bad debts'.

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

NTMA - National Treasury Management Agency - The NTMA provides a range of asset and liability management services to Government. These services include borrowing on behalf of the Government and management of the National Debt, the State Claims Agency, NewERA, the Ireland Strategic Investment Fund and the National Development Finance Agency. It also assigns staff and provides business and support services and systems to the National Asset Management Agency and the Strategic Banking Corporation of Ireland.

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.

PDH - Private Dwelling Home Loan

PSD2 – Payment Services Directive 2 - Directive 2015/2366/EU on payment services - PSD2 reflects developments in payment services and ensures that these new services and providers are required to be authorised and regulated. PSD2 is a key Directive in EU plans for moving towards a single competitive payments market

PSP – Payment Service Providers - A PSP offers shops and online services for accepting electronic payments by a variety of payment methods including credit card, bank-based payments such as direct debit, bank transfer, and real-time bank transfer based on online banking.

PSPP – Public Sector Purchases Programme - This is carried out by the Eurosystem under which public sector securities are purchased to address the risks of a too prolonged period of low inflation.

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

SRB – Single Resolution Board - The SRB is a European Agency set up to ensure an effective resolution regime for banks, to avoid future bailouts. It 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.

SRM – Single Resolution Mechanism - The single resolution mechanism is a central institution for bank resolution in the EU, and one of the pillars of the banking union.

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

T2S – Target2Securities - A European securities settlement engine which offers centralised delivery-versus-payment (DvP) settlement in central bank money across all European securities markets. The fundamental objective of the T2S project was to integrate and harmonise the highly fragmented securities settlement infrastructure in Europe. It aim is to reduce the costs of cross-border securities settlement and increase competition and choice among providers of post-trading services in Europe.

TIPS - TARGET Instant Payments Settlements - This is a new market infrastructure service that the ECB will launch in November 2018. It will enable payment service providers to offer their customers the possibility to transfer funds in real time and around the clock, every day of the year. TIPS is being developed as an extension of TARGET2 and will settle payments in central bank money.

TLTRO – Targeted Longer Term Refinancing Operations - The targeted longer-term refinancing operations (TLTROs) are Eurosystem operations that provide financing to credit institutions for periods of up to four years. They 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.

Part 2:

Financial Operations

Financial Results for 2018

Context

The size and composition of the Central Bank's balance sheet continues to reflect the non-standard measures implemented by the Eurosystem, particularly those in recent years, as part of fulfilling its mandate to contribute to the financial system and price stability.

Key developments during 2018, in this regard included:

- Continued implementation of Eurosystem non-standard monetary policy measures via the Expanded Asset Purchase Programme (EAPP), resulting in exposure to covered bonds, asset backed securities, corporate sector securities and public sector securities issued by central governments, municipalities, agencies and supra-national institutions. It is envisaged that on cessation of net purchases under the EAPP at end-2018, the Eurosystem will reinvest payments from maturing securities purchased under these programmes for an extended period.

- Further disposals of the Central 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 Central Bank's profit in 2018. During the course of 2018, prevailing market conditions permitted a total of €4.0bn of nominal holdings of the FRNs to be disposed of by the Central Bank, and were purchased by the NTMA.

- The continued retention of securities purchased by the Eurosystem under the Securities Markets Programme (SMP) and the maturing of the remaining securities purchased under the first and second Covered Bond Purchase Programmes (CBPP). The aim of these programmes was 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 Central Bank's assessment of its financial risk exposures is for these to remain broadly consistent with the assessment at end-2017,

[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 Central Bank has indicated that it will sell a minimum of these securities in accordance with the following schedule: 2019-2023 (€1bn per annum), and 2024 on (€2bn per annum until all bonds are sold).

as the reinvestment phase of the EAPP commences. Nevertheless, a high degree of uncertainty regarding these exposures arises from geopolitical and economic factors which may impact financial market conditions in the medium term. The ECB Guideline allows National Central Banks to make provisions for certain risks including foreign exchange rate, interest rate, credit and gold price risks. In line with this guideline, the Central Bank set aside a provision of €750.0m in the 2018 accounts in respect of exposures to interest rate risk, representing an increase of €250.0m (2017: €500.0m).

Financial Results

Profit for the year to 31 December 2018 amounted to €2,982.8m, a 13 % increase (€354.2m) against a corresponding amount of €2,628.6m in 2017.

Realised gains on the sales of securities held in the Special Portfolio increased by €297.4m in 2018 to €2,251.1m (2017: €1,953.7m). This was partially offset by a provision charge of €180.5m (2017: €295.4m). This charge is primarily made up of an increase in the provision for foreign exchange rate, interest rate, credit and gold price risks of €250.0m and a release in respect of the provision for securities of €70.0m.

Interest Income

Interest income of €1,090.9m was €32.6m lower than the comparable amount of €1,123.5m in 2017.

The decrease was primarily attributable to significantly lower interest earned on securities held in the Central Bank's Special Portfolio (2018: €331.7m, 2017: €432.3m) mainly due to lower average holdings. Income on the Central Bank's own held-to-maturity (HTM) portfolio also declined by €26.0m (2018: €279.0m, 2017: €305.0m) due to lower average interest rates.

Income earned on securities held for monetary policy purposes increased by €47.7m in 2018 to €285.5m (2017: €237.8m) reflecting the increase in average holdings due to purchases under the Eurosystem's Expanded Asset Purchase Programme.

The Central Bank earned interest income on government deposits and credit institution deposits amounting to €84.7m (2017: €71.3m) and €84.4m (2017: €67.5m) respectively during 2018.

Interest income on repurchase agreements increased by €7.1m in 2018 to €9.4m (2017: €2.3m) reflecting an increase in activity in repurchase agreements.

Open market operations of €4.6m (2017: €Nil) consists of the net income on Longer Term Refinancing Operations (LTROs) held by the Central Bank during 2018, this was an expense in 2017.

Interest Expense

Interest expense amounted to €37.4m in 2018 (2017: €68.2m), a decrease of €30.8m in the year. A significant driver of the change is attributable to the interest expense of €Nil (2017: €28.8m) on the TLTRO-II operations. On a prudence basis, interest was accrued at the deposit facility rate of -0.4 % during 2016 and 2017 on the full outstanding balance of TLTRO-II operations. The actual rate was set by the ECB in 2018, at either the MRO rate of 0.0 % or the deposit facility rate, depending on whether or not counterparties had met certain criteria. This resulted in a reversal in 2018 of a significant proportion of the accrued interest recognised in 2016 and 2017, leaving a net interest income in this category in 2018.

The interest expense on securities classified as MTM fell to €4.5m in 2018 (2017: €16.1m) due to the increased investment in foreign currency portfolios, as well as improved yields on euro investments.

Interest expense on reverse repurchase agreements increased by €8.3m in 2018 to €15.8m (2017: €7.5m) reflecting an increase in activity in reverse repurchase agreements.

Net Result of Financial Operations, Write-Downs and Provisions

The net result of financial operations, write-downs and provisions in 2018 was a gain of €2,045.0m which compares with a gain of €1,650.5m in 2017. Realised price gains on the Central Bank's investment portfolio amounted to €2,255.2m (2017: €1,953.5m) and primarily reflect realised gains of €2,251.1m on partial sales of the Special Portfolio.

An unrealised loss on the Equity Fund, which is new in 2018, of €21.2m (2017: €Nil) was due to lower equity prices at 2018 year-end.

There was also an unrealised exchange rate loss of €8.3m in 2018 primarily on the Australian dollar portfolio.

A provision charge of €180.5m in 2018 encompasses an increase to the provision for foreign exchange rate, interest rate, credit and gold price risks of €250.0m (2017: €335.0m) partially offset by the release of €70.0m of the provision for risks relating to securities held for monetary policy purposes and investments (2017: €40.0m 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 €6.8m in 2018 (2017: €25.0m) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares.

Included within this section in 2018 is the creation of a provision for the Central Bank's share of impaired Eurosystem securities of €2.7m (2017: €1.1m). This was presented under "Net Result of Financial Operations, Write-Downs and Provisions" in 2017.

Operating Expenses

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

In recent years, the Central 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 2018 of €299.8m (2017: €276.4m). These comprise pay, non-pay, banknote raw materials and depreciation costs.

Staff costs, including pay, increased by €11.5m (7%). Higher salary costs, reflect increased staff numbers and the partial restoration of salaries under Financial Emergency Measures in the Public Interest (FEMPI). These have been partially offset by a decrease in pension costs arising from a slightly updated methodology used by the Central Bank's actuaries to calculate the pension costs.

Other operating expenses and banknote raw materials increased by €10.0m (11 %), reflecting increases in Communications and IT costs due to investment in new systems and additional Professional Fees. Depreciation charges amounted to €16.8m (2017: €14.9m) reflecting the additional depreciation arising from the completion of the North Wall Quay premises.

Surplus Income Payable to the Exchequer

After transfers to reserves and adjustments related to the recognition of a net actuarial gain on the Central Bank's pension scheme, as required under Financial Reporting Standard 102 (FRS 102), the Central Bank's Surplus Income payable to the Exchequer amounted to €2,384.8m (2017: €2,101.3m).

Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2018 were €97.8bn, an increase of €7.5bn (8%) over the corresponding balance for end-2017 (€90.3bn).

Assets

The ECB TARGET 2 balance increased to €14.3bn at end-2018, compared with €1.9bn at end-2017, an increase of €12.4bn.

A net increase of €4.5bn in securities held for monetary policy purposes reflects ongoing purchases under the Expanded Asset Purchase Programme.

These increases have been partially offset by a €6.7bn decrease in the value of assets acquired following the liquidation of IBRC (the Special Portfolio) due to sales of €4.0bn (nominal).

The TLTRO-II balance also decreased to €3.0bn at 31 December 2018 (2017: €7.5bn) due to early repayments on some operations.

Liabilities

Government deposits increased by €6.5bn to €19.3bn in 2018 (2017: €12.8bn).

Revaluation accounts fell by €2.6bn to €6.4bn in 2018 (2017: €9.0bn). This is largely due to a decrease in the revaluation on the Special Portfolio.

Redemption of Irish Banknotes

Irish pound banknotes formerly issued by the Central Bank ceased to be legal tender with effect from 9 February 2002. Since then the Central Bank has maintained a provision for outstanding IEP banknotes from which €0.9m was redeemed in 2018 (2017: €1.1m) leaving €225.1m in Irish banknotes outstanding at end-2018 (2017: €226.0m) and a balance of €5.4m in the provision at year-end (2017: €6.3m).

Proceeds of Coin

During 2018, the net value of euro coin issued was €7.6m (2017: €2.2m redeemed) reflecting an increase in demand from the public. After deduction of coin production expenses, net proceeds of €6.7m were paid by the Central Bank to the Exchequer (2017: €4.4m paid by the Exchequer to the Central Bank). The Central Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2018, Irish coin redeemed totalled €0.2m (2017: €0.4m). Full details are incorporated in Note 26 of the Statement of Accounts.

Prompt Payment of Accounts 2018

The Central 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 2018, with corresponding figures for 2017.

	2018	2017
Total Number of Late Payments	51	270
Total Value of All Late Payments (A)	€945,312	€1,809,988
Total Value of All Payments (B)	€123,616,548	€116,720,745
A as a % of B	0.76%	1.55%
Total Value of Interest Paid on Late Payments	€6,473	€19,398

Statement of Accounts of the Central Bank of Ireland

for the year ended 31 December 2018

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 Central Bank) was established by the Central Bank Act, 1942 (the Act). The Central 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 Central Bank is responsible for the regulation of Ireland's financial services sector. The functions of the Central Bank are set out in section 18B of the Act (as amended). 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).

Role of 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.

Section 18F of the 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 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. The Commission shall retain the power to exercise any of those functions and powers of the Central Bank delegated from time to time by the Commission where it considers it appropriate to do so. Further, the Commission has adopted a Plan of Assignment of Responsibility (the Plan) in respect of delegations made. The Plan was most recently revised in 2017 to take into account the restructuring of the financial regulation pillar of the Central Bank. The Central Bank is currently developing a revised Strategic Measurement Framework, to be rolled out in H1, 2019. Following this, the Central Bank's Plan of Assignment of Responsibility will be updated.

While the Commission has delegated the exercise of the majority of the functions and powers of the Central Bank and has approved the Plan 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 Central 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, 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 Central Bank (other than ESCB functions) and advises, supports and constructively challenges them as appropriate. It also approves the strategy to allow the Central Bank to achieve its statutory functions and it reviews the Central Bank's performance in relation to this strategy.

Commission Responsibilities

The main statutory provisions relating to the role and duties of the Commission members are covered in Part III of the Act. Moreover, under Section 32J of the Act, the Central 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 ESCB and of the European Central Bank.

The Commission has overall responsibility for the system of internal control in the Central Bank, which is designed to safeguard the assets of the Central Bank and to prevent and detect fraud and other irregularities. To discharge this responsibility, the Commission has established appropriate structures. In this regard, the Audit Committee meets periodically with the internal and external auditors and members of the management of the Central 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 Central 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 Central 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 Central Bank's statutory auditors are aware of that information.

Commission Structure

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

- Governor (Chair)
- 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 Reappointed)**
Philip R. Lane*	26 November 2015
Alan Ahearne	1 March 2015
Patricia Byron	1 January 2019
Blanaid Clarke	1 October 2013[2]
Sharon Donnery*	1 March 2016
John FitzGerald	1 October 2015
Des Geraghty	1 October 2014
Niamh Moloney	11 September 2018
Derek Moran*	15 July 2014
Ed Sibley*	1 September 2017
Michael Soden	1 October 2014[3]
John Trethowan	11 September 2018

** Ex-officio members*

[2] Blanaid Clarke's term of office ended 30 September 2018.

[3] Michael Soden retired from the Commission on 21 September 2018.

The Commission regularly arranges for reviews of its own performance and that of its three sub committees – Audit, Budget & Remuneration, and Risk. Under the Code of Practice for the Governance of State Bodies, an external evaluation of the effectiveness of the Commission is to be carried out every three years. The next such external review of the Commission's effectiveness is scheduled for end-2019.

Committees of the Commission

The Commission has established the following committees:

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

Audit Committee

The Audit Committee is appointed by the Commission and comprises three non-executive members. The membership of the Audit Committee, as at 31 December 2018, comprised Patricia Byron (Chair), John FitzGerald and John Trethowan.

The Commission has established the Committee as a sub-committee to provide support to the Commission in meeting its responsibilities for issues relating to financial risk, control and governance. The Committee achieves this through reviewing the comprehensiveness, reliability and integrity of assurances to the Commission.

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. The membership of the Budget and Remuneration Committee, as at 31 December 2018, comprised Niamh Moloney (Chair), Des Geraghty, Sharon Donnery and Ed Sibley. Executive members are not present at meetings of the Committee when matters relating to their remuneration or the remuneration of the Governor is being discussed.

The Commission has established the Committee as a sub-committee to provide support to the Commission in meeting its responsibilities for issues relating to budget management, remuneration policy, remuneration for management members of the Commission and the Central Bank's Balanced Scorecard. The Committee achieves this through reviewing the comprehensiveness, reliability and integrity of assurances to 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 2018, comprised Alan Ahearne (Chair), Sharon Donnery, Des Geraghty and Ed Sibley.

The Commission has established the Committee as a sub-committee to review and advise the Commission on: investment of the investment assets of the Central Bank, investment policies and practices, reviewing risk exposures and strategy, monitoring operational and business continuity risk and overseeing risk management in the Central Bank.

Full details on the role and responsibilities of the Committees can be found in Chapter 3 of the Annual Report (Part 1).

Schedule of Attendance

A schedule of attendance at the Commission and Committee meetings for 2018 is set out below.

Commission Member	Commission	Audit Committee	Risk Committee	Budget and Remuneration Committee	Joint meetings of Audit and Risk Committees
Philip R. Lane	12/12	-	-	-	
Alan Ahearne	12/12	-	4/5	4/4	1/1
Patricia Byron	10/12	6/6	-	-	1/1
Blanaid Clarke	8/8	5/6		3/4	1/1
Sharon Donnery	12/12	-	4/5	4/4	1/1
John FitzGerald	12/12	6/6	-	-	1/1
Des Geraghty	10/12	-	5/5	1/1	0/1
Niamh Moloney	4/4	-	-	1/1	
Derek Moran	10/12	-	-	-	
Ed Sibley	12/12	-	4/5	4/4	1/1
Michael Soden	8/8	-	3/3	-	1/1
John Trethowan	3/4	1/1		-	

Membership Changes

Michael Soden retired from the Commission on 21 September 2018.
Blanaid Clarke's term of office ended on 30 September 2018.

Niamh Moloney and John Trethowan were appointed as Commission members on 11 September 2018.

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
- Consultancy Costs
- Legal Costs and Settlements
- Travel and Subsistence Expenditure
- Hospitality Expenditure
- Remuneration and expenses paid to Commission members in 2018.

Statement of Compliance

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

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

A copy of the Central Bank's implementation of the Code of Practice for the Governance of State Bodies is available in the publications section of the Central Bank's website.

Philip R. Lane
Governor

Sharon Donnery
Deputy Governor
Central Banking

19 March 2019

Statement on Internal Control

In April 2017, the Central Bank Commission (the Commission) decided to adopt certain provisions of the Code of Practice for the Governance of State Bodies, 2016 (the Code). In some instances, the 2016 Code was adapted to take account of the Central Bank's particular governance framework and the statutory requirements of the Central Bank Acts and the ESCB Treaties, including the requirement for the Central Bank to be independent.

In accordance with the 2016 Code, the Commission is required to prepare a statement on the operation of the Central Bank's system of internal control for the annual reporting period, ending 31 December 2018. On behalf of the Commission, we confirm our overall responsibility for the Central 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 Central 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 the Central Bank's wide-ranging statutory mandate and the objectives under the Central Bank's Strategic Plan. These control measures do not seek to eliminate risks (as this would not be possible). Rather, they seek to provide reasonable (as opposed to absolute) assurance against material loss, error or failure.

To ensure the system of internal control is commensurate with the risks to which the Central 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 2018, the Commission and its sub-committees received reports outlining the Central 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 Central Bank's General Secretariat (GSD), Organisational Risk (ORD) and Internal Audit (IAD) divisions. 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.

Furthermore, in line with the three lines of defense, ORD (second line) support the operation of the SIC, ensuring the systematic application of the Commission approved risk management frameworks, including applying assertive challenge to first line divisions, on a scheduled cyclical basis, to ensure consistency in risk identification and grading, facilitating risk-prioritised reporting.

This statement sets out information regarding the Central 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 Central Bank's Strategic Plan.

The Central Bank has, in some instances, adapted the Code to take account of the Central Bank's particular governance framework and the statutory requirements of the Central Bank Acts and the ESCB Treaties, including the requirement for the Central Bank to be independent. This has given rise to the Central Bank providing a limited number of explanations where it has had to adapt a particular provision of the Code. Notwithstanding the foregoing, the Central Bank believes that it has achieved the objectives of the Code in maintaining a robust control environment via specific statutory or governance measures.

In accordance with the Central Bank Reform Act 2010, the Central 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 Central Bank (other than ESCB functions).
- Ensure that the Central Bank's central banking functions and financial regulation functions are integrated and coordinated.
- Ensure that the statutory powers and functions conferred on the Central Bank are properly exercised and discharged.

The Act provides the Commission with a power to delegate functions and powers of the Central Bank to the Governor, a Deputy Governor, or an employee of the Central Bank. Such delegations are made in the interests of the efficient and effective management of the Central Bank, and to ensure the proper exercise and discharge of the Central Bank's functions and powers. The exercise, therefore, of most of the Central Bank's statutory functions and powers has been delegated by the Commission. Each of the above persons is empowered to act on behalf of the Central Bank in the discharge of the functions, powers and responsibilities from time to time assigned to them, including forming opinions, making decisions, taking action, exercising powers and carrying out the performance of functions of the Central Bank delegated from time to time. A person to whom the responsibility for the performance of a function has been assigned is accountable for the performance of that function to the Governor. The Commission, through its three sub-committees (Audit, Budget and Remuneration, and Risk), monitors and reviews the performance of these delegations including the operation of the Central 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, and governance oversight. The responsibilities of the Risk Committee include, the review of the Central Bank's current risk exposures and risk management strategy, and monitoring of the internal control environment.

In the reporting period, the Commission approved the roll out of a Governance Framework that establishes a centralised framework for the Central Bank; with enhanced clarity on organisational governance structures and in relation to ownership of governance in the Central Bank, and around decision-making, accountabilities and responsibilities. To provide clarity around the roles and responsibilities of the Central Bank's senior leaders the Framework documents these, and outlines the relevant governance arrangements in place that support decision-making across the Central Bank, including the role of cross-organisational committees. The Framework also introduced a register of Corporate Policies, based on a hierarchy structure, supported by relevant templates and guidance, and the development of similar guidance and a register for Memoranda of Understanding.

In addition, the Governance Framework brought about the establishment of an executive level Risk Management Committee (RMC) tasked with maintaining oversight and providing challenge across all risk categories and internal compliance and conduct related matters. The Governance Framework also brought about the establishment of an executive level Budget and Finance Committee (BFC). The purpose of the BFC is to formulate, propose and monitor the Central Bank's annual budget, oversee and advise the Chief Operations Officer (within delegated limits) on the approval of investment envelope items, and consider industry levy financing matters from a process perspective.

The Commission continues to oversee procedures for the assignment of management responsibilities and annual objectives within the Central 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 Central Bank's overarching (entity level) objectives within a three-year Strategic Plan. The Central Bank's three-year strategic planning cycle, for the Strategic Plan (2016-2018), commenced in 2016. 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 Strategic Plan for (2016-2018) defined 11 entity level strategic objectives which relate to the Central Bank's strategic responsibilities and critical enablers. These objectives form the basis of an organisation-wide Balanced Scorecard which facilitates the disaggregation of sub-objectives to Pillar, Directorate, Divisional, Functional and Individual level goals. The Central Bank's new Strategic Plan (2019-2021) will take effect as at 1 January 2019. Throughout 2018, in developing the Central Bank's new Strategic Plan, and in determining where the Central Bank's focus should be, in terms of its strategic priorities, the Central Bank undertook engagement with both internal and external stakeholders. Following on from the development of the new Strategic Plan, it was considered timely to commence a review of the Central Bank's process for measuring performance against objectives. To this end, GSD is engaging with the Senior Leadership Committee (SLC) to develop a revised Strategic Measurement Framework, to be rolled out in H1, 2019. Following this, GSD will update the Central Bank's Plan of Assignment of Responsibility.

In addition, the Commission continues to oversee the implementation and adherence to the Central Bank's Code of Ethics which seeks to ensure the highest standards of ethical conduct amongst staff and officers of the Central 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 Central Bank without fear of any personal repercussions.

Risk Identification and Assessment

Central to the effective operation of the Central Bank's system of internal control are procedures to identify and assess risks which may adversely impact the achievement of the Central Bank's objectives at both an overall enterprise level and divisional level.

The assessment of risk exposures is firstly informed by an approved Risk Appetite Framework (RAF), which includes sub-tolerances for the Central Bank's principal risks. This RAF specifies the amounts and types of risk the Central Bank is willing to accept in the pursuit of its objectives. From a governance perspective, an annual review is completed of adherence to the thresholds set out within the RAF, and where any deviations arise, action is progressed to address such deviation. For 2018, the Commission has reviewed the extent to which the Central Bank has operated within the parameters of the RAF and are satisfied that management have taken the necessary actions to ensure that risk exposures remain within defined tolerances insofar as possible.

Allied to the RAF, is the requirement to ensure accurate identification and assessment of financial, operational and compliance risks, as this provides the basis for comparing risk profile exposures to the RAF, and consequently determining where deviations are or have the potential to become of risk management concern. The risk assessment procedures also seek to incorporate consideration of the potential impact of material planned and unplanned changes on the effectiveness of the system of internal control.

From a top-down enterprise level, a Strategic Risk Assessment (SRA) is designed and coordinated by ORD, with inputs collated from the SLC on an annual basis and which aims to identify enterprise level risks which may impede the achievement of the Central 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. An update on the progress in mitigating these risks is included in the Integrated Risk Report presented to the executive RMC and Risk Committee. The strategic risks are also discussed as part of the annual review of the Central Bank's Strategic Plan.

From a bottom-up perspective, ORD is mandated to design and maintain the operational risk framework for consistently coordinating the risk and control identification and assessment for all divisions within the Central Bank. The approach approved by the Commission comprises a divisional risk and control assessment (RCSA) process. The RCSA ensures that every division within the Central Bank establishes and maintains a standardised register of current operational risk exposures and associated controls. A full set of all divisional risk registers is maintained, reviewed and analysed for reporting purposes by ORD and reported on to RMC and Risk Committee.

The Central Bank processes personal data in the course of carrying out a number of its statutory functions, and also processes personal data in relation to the employment of staff and its engagement with service providers. The Data Protection Acts 1998, 2003 and 2018 and the General Data Protection Regulation (the GDPR) lay down rules about the way in which personal data and sensitive personal data are to be collected, processed and disclosed. The Central Bank's Data Protection Policy was developed in order to ensure compliance with these requirements. This policy documents the roles and responsibilities in relation to data protections, provides examples of personal data held and processed in the Central Bank and outlines the seven principles of data protection. In accordance with data protection requirements, the Central Bank has appointed a Data Protection Officer (DPO), whose role includes monitoring and assessing compliance with the various data protection legislation and requirements, coordinating any data protection related incidents, and regularly reporting to oversight committees.

In addition to the RCSAs, divisions maintain an incident register, and any operational incidents graded as medium or above are presented to the Risk Committee. The Central Bank maintains a "no blame" approach to incidents, to reduce any incentive for under reporting. A root cause analysis is completed for all incidents, identifying opportunities to enhance the control environment and thereby minimise the probability of incident reoccurrence.

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 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 Central 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 RAF.

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 Central 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:

- **Governance Framework:** A Governance Framework document to consolidate and clearly articulate the governance arrangements within the Central Bank; a formally defined organisation and committee structure that is aligned to the Central Bank's statutory functions, with clearly defined lines of responsibility and authority levels; a Corporate Policy Framework to define what constitutes a Corporate Policy and produce a register of Corporate Policies identifying the relevant approval authority; and a document to detail the roles and responsibilities of senior leaders together with outlining the relevant governance arrangements in place that support decision-making across the Central Bank.

- **Principal Statutory Obligations of the Central Bank:** In compliance with the 2016 Code, the Commission was provided with a list of the Central Bank's most pertinent statutory and governance obligations, together with a Responsibilities Map identifying, at a high level, the applicable legislation, assignment of responsibility and how compliance is monitored.

- **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 Central Bank's expenditure framework.

- **Risk Management:** Comprehensive frameworks for risk management, which include organisation-wide operational risk and incident management, financial risk management relating to the Central Bank's investment assets and monetary policy operations and overall balance sheet management.
- **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 Central Bank.
- **Business Continuity:** A framework to ensure the Central 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 Central 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. Furthermore, the Information Management and Technology Division are developing a longer term strategy and plan for the Central Bank to ensure technologies can continue to support the Central Bank's objectives.
- **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.
- **Procurement:** A centralised procurement function responsible for maintaining effective procedures for the tendering and approval of vendors in accordance with Public Procurement requirements, incorporating regular reporting to the Audit Committee.

The Central Bank operates a Corporate Procurement Policy (the Policy) that is approved by the Commission. The procurement requirements of the Central Bank are met in line with the 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 European Union (EU) Threshold (€221,000) where the Central 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 sought 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 Budget and Finance Committee and Audit Committee on any such awards takes place periodically.

During 2018, expenditure of €0.83m was incurred across 19 direct award contracts (2017: €1.0m across 23 contracts), six of which were created in 2018. This represents 0.9% of the Central Bank's committed spend (2017: 1.2%). Of these 19 contracts, 12 were regularised[4] during the year and there are action plans in place to address the remaining seven contracts.

A breakdown of these direct awards is provided in the table below. Of the 19 contracts listed, the cumulative spend on four contracts exceeded the EU threshold, of which three were closed in 2018. The cumulative spend on seven contracts exceeded the adapted national threshold (€50,000), of which two were closed in 2018. Eight contracts were awarded with a value below the adapted national threshold (€50,000), of which seven were closed in 2018.

Table 1.1 Direct awards granted in-line with Corporate Procurement Policy

Reason for direct award	Number of contracts 2018	Spend € 2018	Number of contracts 2017	Spend € 2017
Sensitive or confidential nature of work prohibited a competitive tender process	1	0	1	102,065
Urgent nature of work required	2	0	2	0
Rollover of existing contract pending conclusion of tender process	11	689,862	14	743,127
Rollover of existing contract which will run to term	5	137,643	6	178,466
Total	**19**	**827,505**	**23**	**1,023,658**

[4] 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.

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 Central 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 Committee and the SLC. 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 Central 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 December 2018 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 Central Bank's system of internal control for the financial year ending 31 December 2018. 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 2019. This review of the effectiveness of the system of internal control included:

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

Philip R. Lane
Governor

Sharon Donnery
Deputy Governor
Central Banking

19 March 2019

PROFIT AND LOSS AND APPROPRIATION ACCOUNT FOR YEAR ENDED 31 DECEMBER 2018

	Note	2018 €000	2017 €000
Interest income	2	*1,090,866*	*1,123,491*
Interest expense	3	*(37,415)*	*(68,199)*
Net interest income		1,053,451	1,055,292
Net realised gains arising from financial operations	4	*2,255,242*	*1,953,494*
Write-downs on financial assets and positions	4	*(29,870)*	*(7,637)*
Transfer to provisions	4	*(180,455)*	*(295,385)*
Net result of financial operations, write-downs and provisions		2,044,917	1,650,472
Income from fees and commissions	5	3,115	2,562
Income from equity shares and participating interests	6	26,810	23,179
Net result of pooling of monetary income	7	5,260	23,856
Other net income	8	149,081	149,629
TOTAL NET INCOME		3,282,634	2,904,990
Staff expenses	9	(183,174)	(171,655)
Other operating expenses	9	(96,433)	(85,351)
Depreciation	9	(16,770)	(14,945)
Banknote raw materials	9	(3,422)	(4,472)
TOTAL EXPENSES		(299,799)	(276,423)
PROFIT FOR THE YEAR BEFORE UNREALISED GAIN MOVEMENTS, ACTUARIAL (LOSS)/GAIN AND APPROPRIATION OF PROFIT		2,982,835	2,628,567
Net movement in unrealised gains	33	(2,648,801)	(1,853,152)
Transfers to revaluation accounts	33	2,648,801	1,853,152
Actuarial (loss)/gain on pension scheme	31	(33,911)	60,577
Transfer of retained profit to general reserve	34	(564,104)	(587,832)
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	10,30	2,384,820	2,101,312

The accounting policies together with Notes 1 to 42 form part of these accounts.
Banc Ceannais na hÉireann

Philip R. Lane
Governor

Sharon Donnery
Deputy Governor
Central Banking

19 March 2019

BALANCE SHEET AS AT 31 DECEMBER 2018

ASSETS	Note	2018 €000	2017 €000
Gold and gold receivables	11	**216,947**	**209,381**
Claims on non-euro area residents in foreign currency	12	**4,370,065**	**3,467,534**
Claims on euro area residents in foreign currency	13	**31**	**5,031**
Claims on non-euro area residents in euro	14	**4,217,836**	**4,503,427**
Lending to euro area credit institutions related to monetary policy operations in euro	15	**3,023,000**	**7,478,000**
Other claims on euro area credit institutions in euro	16	**1,780,144**	**535,111**
Securities of euro area residents in euro	17	**67,739,504**	**70,219,087**
Securities Held for Monetary Policy Purposes		*36,601,922*	*32,102,027*
Other Securities		*31,137,582*	*38,117,060*
Intra-Eurosystem claims		**15,188,485**	**2,801,349**
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	*14,316,826*	*1,929,690*
Other assets	21	**1,302,238**	**1,098,993**
Total Assets		**97,838,250**	**90,317,913**

The accounting policies together with Notes 1 to 42 form part of these accounts.
Banc Ceannais na hÉireann

Philip R. Lane
Governor

Sharon Donnery
Deputy Governor
Central Banking

19 March 2019

BALANCE SHEET AS AT 31 DECEMBER 2018

LIABILITIES	Note	2018 €000	2017 €000
Banknotes in circulation	23	**18,676,303**	**17,759,762**
Liabilities to euro area credit institutions related to monetary policy operations in euro	24	**22,800,553**	**23,192,124**
Other liabilities to euro area credit institutions denominated in euro	25	**719,471**	**-**
Liabilities to other euro area residents in euro	26	**19,347,068**	**12,846,289**
Liabilities to non-euro area residents in euro	27	**2,085,319**	**1,430,995**
Counterpart of special drawing rights allocated by the IMF	28	**942,453**	**920,896**
Intra-Eurosystem liabilities		**18,247,585**	**17,645,540**
Liabilities related to the allocation of euro banknotes within the Eurosystem	29	*18,247,585*	*17,645,540*
Other liabilities	30	**2,711,043**	**2,367,792**
Superannuation liabilities	31	**364,251**	**305,881**
Provisions	32	**808,102**	**627,840**
Revaluation accounts	33	**6,385,177**	**9,033,978**
Capital and reserves	34	**4,750,925**	**4,186,816**
Total Liabilities		**97,838,250**	**90,317,913**

The accounting policies together with Notes 1 to 42 form part of these accounts.
Banc Ceannais na hÉireann

Philip R. Lane
Governor

Sharon Donnery
Deputy Governor
Central Banking

19 March 2019

Notes to the Accounts

Note 1: Accounting Policies and Related Information

(a) Legal Framework

Throughout the Statement of Accounts the term "Central 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 Central 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 Central Bank within the framework of the ESCB[5] and its diverse range of activities.

(b) Accounting Principles

The Central Bank, as a participating member of the ESCB, complies with the accounting policies laid down by the Governing Council[6] in its Accounting Guideline (the Guideline)[7]. The Central Bank's Statement of Accounts for 2018 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[8] which apply to the Central 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.

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[5] The use of the term European System of Central Banks (ESCB) refers to the 28 National Central Banks (NCBs) of the Member States of the European Union as at 31 December 2018 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.

[6] The Governing Council is the main decision-making body of the ECB. It consists of the six members of the Executive Board plus the governors of the national central banks of the 19 euro area countries.

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

[8] The principal statutes governing the Central 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 Central 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 Central 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.

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 Central 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.

c. A provision for foreign exchange rate, interest rate, credit and gold price risks is included under liability item “Provisions”.

The preparation of the Central 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 Central Bank’s accounting policies. The areas involving a higher degree of judgement or estimation are disclosed in Note 1(n) “Critical Accounting Estimates and Judgements”.

(c) Eurosystem Accounting Guideline

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

(i) *Trade Date Accounting*[9]

The Guideline states that trade date accounting may be implemented either by the “regular approach” or the “alternative approach”. The Central Bank uses the alternative approach and as such, transactions in assets and liabilities are booked at the settlement date (usually the trade date plus two business days), as opposed to the regular approach[10] 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

[9] 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).

[10] 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.

Trans-European Automated Real-time Gross settlement Express Transfer system (Note 20(i)), 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 Central 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 Central Bank as a single net asset or liability position and disclosed under "Other claims within the Eurosystem (net)" (Note 20). Intra-ESCB balances versus non-euro area NCBs arising from TARGET2 are disclosed under "Liabilities to non-euro area residents in euro" where relevant (Note 27).

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a single net liability under "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 Central 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).

(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 Central Bank's share of the ECB's subscribed capital remained at 1.1607% in 2018.

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 Central Bank's share in the capital key remained at 1.6489% for 2018.

(iv) *Banknotes in Circulation*

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes[11]. 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[12].

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% 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 "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[13]. 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.

(v) *Distributions by ECB*

The Governing Council has decided that the seigniorage income of the ECB, which arises from the 8% 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

[11] 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.

[12] The banknote allocation key refers to the percentages that result from taking into account the ECB's share of the total euro banknote issue (8%) and applying the Eurosystem capital key to the participating NCBs' share (92 %).

[13] 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. 26.

January of the following year by means of an interim distribution of profit[14]. 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.

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[15], Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme[16] and under Decision ECB/2015/10 of 4

[14] 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).

[15] 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.

[16] 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.

March 2015 on a secondary markets public sector asset purchases programme[17] are considered to generate income at the latest available marginal interest rate[18] 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 Central Bank and that reallocated to the Central 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 5A of the Central Bank Act, 1942 (as amended) provides that the Central Bank has the power to "transfer assets, income or liabilities to the European Central Bank where required under the ESCB Statute". Accordingly, the Central Bank transferred an amount equivalent to €424.8m 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 €672.6m 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).

(viii) *Off-Balance Sheet Items*

Gains and losses arising from off-balance sheet instruments are recognised and treated in a similar manner to on-balance sheet instruments (Note

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[17] 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.

[18] 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.

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 the 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 accounts on a security-by-security basis.

Unrealised trade date gains/losses on foreign exchange forward contracts are recorded under "Other assets" (Note 21) or "Other liabilities" (Note 30) 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, under "Interest income" (Note 2) or "Interest expense" (Note 3).

(ix) *Securities Held for Monetary Policy Purposes*

These securities were acquired by the Central Bank within the scope of the purchase programmes for Covered Bonds[19] (CBPP1, CBPP2 and CBPP3), debt securities acquired in the scope of the SMP[20], and the PSPP[21]. The securities are measured at amortised cost and are subject to impairment (Note 2(ii), Note 17(i), Note 32(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.

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[19] 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.

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

[21] 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, Equipment, Intangible Assets and Heritage Assets

Property, Plant, Equipment and Intangible Assets

(i) Measurement

Property, Plant, 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 Central 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 estimate 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 as at the date of the transaction.

Heritage Assets

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

(f) Superannuation

Under the Central Bank's superannuation scheme, Central Bank staff obtain the same superannuation benefits as established civil servants. Up to 30 September 2008, the Central 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 €400m, on the advice of the Central Bank's actuaries at that time (Willis), was transferred from the Central Bank's resources to the fund to purchase pension fund assets. The Pension 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 Central 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. Pension 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[22]. Actuarial gains and losses are recognised in the Profit and Loss and Appropriation Account (Note 31(ii)).

In determining the value of scheme liabilities, assumptions are made as to price inflation, pension increases, earnings growth and demographics. The assumptions underlying the 2018 liabilities and pension costs are set out in Note 31.

(g) Coin Provision and Issue

The Central 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 26(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 Central Bank, the Minister reimburses the difference to the Central Bank.

(h) Functional and Presentational Currency

The functional and presentational currency of the Central 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 33).

(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).

[22]The Central Bank acts as an agent of the Minister of Finance in the production and issue of euro coins. All seigniorage received is returned to the Irish Exchequer. Expenses incurred at the Mint relating to the provision and issue of coin are charged directly to the Currency Reserve.

(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 33). 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 unless these securities are, in substance, investments in equity funds which are valued on a net 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(i)(a), Note 13(i), Note 14(ii), Note 17(ii)(a)).

In accordance with the Guideline applicable to marketable equity instruments, the revaluation of investments in equity funds is performed on a net basis, and not on an individual share basis. 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.

(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(ii)(b)).

(iv) Gold is valued at the closing mid-market price (Note 11, Note 33).

(v) The financial assets and liabilities of the Central 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(i)(a), Note 13(i), Note 14(ii), Note 17(ii)(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 Central Bank's valuation policy (Note 1(j)) is 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, or on a net basis in respect of equity funds. 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 Central 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 27(i)). Securities sold under such an agreement remain on the Balance Sheet of the Central Bank, reflecting the transaction's economic substance as a loan to the Central Bank. The Central 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(v), Note 3(ii)).

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 Central Bank's securities holdings, reflecting the transaction's economic substance as a loan made by the Central Bank. They give rise to interest income or 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(v), Note 3(ii)).

(m) Provisions

(i) Impairment

All provisions are reviewed annually (Note 32). 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 Central 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

(vi) adverse national or local economic conditions or adverse changes in industry conditions.

The Central 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 Central 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 Central 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(iii), Note 32(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 Central 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 Central Bank, with due consideration given to the expected impact on the Central Bank's Balance Sheet. The size of and continuing requirement for this provision is reviewed annually, based on the Central 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(iii), Note 32(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 Central Bank accounts for restructuring costs in accordance with FRS 102 (Note 4(iii), Note 32(v)).

(iv) *Provision for Eurosystem Monetary Policy Operations Counterparty Risk*

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 32(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 Central 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(iii), Note 32(ii), Note 32(iv))
- Provisions: (Note 32)
- Depreciation rates: (Note 1(e)(ii), Note 22)
- Defined Benefit Pension Scheme valuation: (Note 31)
- Valuation of the Special Portfolio: (Note 1(j), Note 17(ii)(a)(i)).

(o) Surplus Income

The Central Bank complies with Statutory Instrument 93/1943 - Central Bank of Ireland (Surplus Income) Regulations, 1943. The Central Bank may retain up to a maximum of 20% 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 30(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(iv)).

Subsequent Measurement

Investment properties whose fair value can be measured reliably are measured at fair value. In accordance with the Central Bank's accounting policies, management undertake an annual review to determine the fair value of the Central 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(viii)).

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

	2018 €000	2017 €000
Securities - MTM (i)	331,702	432,318
Securities for Monetary Policy Purposes (ii)	285,474	237,818
Securities - HTM (iii)	278,995	305,022
Government Deposits (iv)	84,708	71,286
Credit Institutions Deposits (iv)	84,403	67,487
Repurchase Agreements (v)	9,366	2,268
SDR (vi)	7,180	3,967
Open Market Operations (vii)	4,585	-
Rental Income (viii)	1,583	1,958
Deposit Income (ix)	1,155	272
Reverse Repurchase Agreements (v)	761	8
Other (x)	606	476
Deposit Protection / Guarantee Income (xi)	348	611
Total	**1,090,866**	**1,123,491**

(i) Income earned on securities held in the Special Portfolio amounted to €331.7m (2017: €432.3m). This portfolio of securities is comprised of floating rate notes and was acquired following the Irish Bank Resolution Corporation (IBRC) liquidation in February 2013.

The decrease in interest earned on the Special Portfolio reflects lower average balances as a result of sales during the period (Note 17(ii)(a)).

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

Securities Held for Monetary Policy Purposes

	2018 €000	2017 €000
PSPP	180,400	128,456
SMP	91,815	93,907
CBPP3	13,259	13,454
CBPP1	-	1,547
CBPP2	-	454
Total	**285,474**	**237,818**

The change in the level of income earned in 2018 is a reflection of the associated levels of activity under each programme and the relative returns on the assets (Note 17(i)).

(iii) This relates to income earned on bonds classified as HTM in the Central Bank's investment portfolio. Interest earned on these securities has decreased as a result of lower yields (Note 14(ii), Note 17(ii) (b)).

(iv) In June 2014 the ECB introduced a negative deposit facility rate which applies to certain deposits held with the Central Bank. The Central Bank earned interest income on Government deposits and Credit Institution deposits amounting to €84.7m (2017: €71.3m) and €84.4m (2017: €67.5m) respectively. Prior to the introduction of the negative interest rate, the Central Bank paid interest on these deposits. The Central 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[23] (Note 24, Note 26).

Credit Institution Deposits

	2018 €000	2017 €000
Current accounts (covering the minimum reserve system)	56,845	42,035
Deposit Facility	27,558	25,452
Total	**84,403**	**67,487**

(v) This relates to income earned by the Central Bank as part of the management of its investment assets. The Central 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 27(i)).

(vi) This relates to interest on Ireland's Quota in the IMF and Ireland's SDR holdings (Note 12(ii)). 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 2018.

(vii) This item consists of the net income on Longer Term Refinancing Operations (LTROs) held by the Central Bank during 2018. Beginning in 2016, a series of Targeted Longer Term Refinancing Operations (TLTRO-II) were introduced. These operations are one of the ECB's non-standard monetary policy tools. The amount of money that banks could borrow and the cost of borrowing depended on the amount of loans that they provided to the real economy. The

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

applicable interest rate for TLTRO-II operations was dependent on the individual lending benchmark of the respective counterparties between the date of allotment and January 2018. The actual rate was set in June 2018, with the MRO rate (0%) being applied to the lending of some counterparties, and the deposit facility rate (-0.4%) being applied to the lending of other Eurosystem counterparties. Before the rate was known on the TLTRO, interest was being charged at the deposit facility rate as this was deemed most prudent. Interest income for that period resulting from the difference between the deposit facility rate and the actual rate is recorded in the Profit and Loss and Appropriation Account under interest income in 2018.

(viii) 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(iv)).

(ix) Deposit income primarily relates to income earned on foreign exchange deposits.

(x) Included in Other is an amount of €0.4m in relation to income on foreign currency swaps (2017: €0.3m).

(xi) This relates to income on the Deposit Guarantee Scheme (DGS) Contributory Fund (Note 30(ii)).

Note 3: Interest Expense

	2018 €000	2017 €000
Swap Expenses (i)	16,037	14,366
Reverse Repurchase Agreements (ii)	15,760	7,472
Securities - MTM (iii)	4,543	16,136
Deposits (iv)	608	608
Other (v)	457	865
Repurchase Agreements (ii)	10	-
Open Market Operations (vi)	-	28,752
Total	**37,415**	**68,199**

(i) The increase in this expense is due to a general increase in the interest rates of the underlying basket of currencies that make up the SDR (Note 37(i)).

(ii) These items represent interest incurred on reverse repurchase/repurchase transactions. The Central Bank uses repurchase/ reverse repurchase transactions with approved counterparties under GMRA legal agreements. Expenses generated represent the difference between the sale and repurchase/purchase and subsequent sell prices. The increase compared to 2017 is as a result of a higher volume of reverse repurchase transactions (Note 1(l), Note 14(i), Note 16(i), Note 27(i)).

(iii) This item relates to the interest expense on securities classified as MTM in the Central Bank's investment portfolio during 2018. The decrease in the expense compared to 2017 is largely due to lower negative yields on euro investments, as well as greater diversification into foreign currency investments with the inclusion of the Australian Dollar (AUD) portfolio, Chinese Renminbi (CNY) deposits and increased investment in US Dollar (USD) assets (Note 2(i), Note 12(i)(a), Note 13(i), Note 14(ii), Note 17(ii)(a)).

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

(v) The decline in other interest expense primarily relates to a decrease in the negative interest charged on credit balances held by the Central Bank at the Bank for International Settlements (BIS) which is included within Balances with Banks in "Claims on non-euro area residents in euro" (Note 12(i), Note 14).

(vi) This item is income in 2018 due to the interest on the TLTRO-II operations being accrued in previous years at the deposit facility rate

(-0.4%) until the actual rate was set in June 2018 and the accrual recognised previously was reversed (Note 2(vii), Note 15).

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

(i) Net Realised Gains arising from Financial Operations

	2018 €000	2017 €000
Realised Price Gains on Securities	2,255,229	1,953,484
- Special Portfolio (i)	*2,251,100*	*1,953,700*
- Monetary Policy Portfolio (ii)	*4,091*	*-*
- MTM Portfolio	*38*	*(216)*
Realised Exchange Rate Gains	13	10
Total	**2,255,242**	**1,953,494**

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

(ii) This reflects the realised gains on the sale of assets from the monetary policy portfolio. Sales are carried out on the monetary policy portfolio, when necessary, to ensure continued compliance within the limit framework. Such sales are then offset by additional purchases (Note 17(i)).

(ii) Write-Downs on Financial Assets and Positions

	2018 €000	2017 €000
Unrealised Price Losses Equity Fund (i)	(21,165)	-
Unrealised Exchange Rate Losses (ii)	(8,348)	(7,065)
Unrealised Price Losses on Securities	(357)	(572)
Total	**(29,870)**	**(7,637)**

(i) Losses on the equity fund occurred due to lower equity prices at the Balance Sheet date. The equity fund tracks the MSCI World Index (Note 21(ii)).

(ii) The unrealised exchange rate losses primarily relate to unrealised losses on the AUD portfolio.

(iii) Transfer to Provisions

	2018 €000	2017 €000
Provision Release for Securities (Note 32(ii))	70,000	40,000
Restructuring Provision (Note 32(v))	(455)	(460)
Provision for Foreign Exchange Rate, Interest Rate, Credit and Gold Price Risks (Note 32(i))	(250,000)	(335,000)
Provision Release for Dilapidations	-	75
Total	**(180,455)**	**(295,385)**

Note 5: Income from Fees and Commissions

	2018 €000	2017 €000
Securities Lending	1,788	1,463
Service Fees and Charges	676	478
TARGET2 Distribution of Pooled Income	651	621
Total	**3,115**	**2,562**

Note 6: Income from Equity Shares and Participating Interests

	2018 €000	2017 €000
Share of ECB Profits (i)	24,377	20,028
BIS Dividend (ii)	2,433	3,151
Total	**26,810**	**23,179**

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

In 2018, the Governing Council decided not to transfer any of the ECB's profits to the ECB risk provision (2017: Nil). The ECB risk provision is maintained at the limit of the paid up share capital of the euro area NCBs.

An amount of €1,191.4m (2017: €987.7m) was paid to the Eurosystem NCBs on 31 January 2019 in accordance with their Eurosystem capital key as an interim distribution of the ECB's profits for the year. The Central Bank's share amounted to €19.6m (2017: €16.3m) (Note 20(iii)). The final distribution of profit for 2017 paid in February 2018, amounting to €4.7m, is also presented in the 2018 figures (the corresponding figure in 2016, paid in 2017 was €3.7m).

(ii) This item represents a dividend received on shares held in the Bank for International Settlements (Note 21(v), Note 35(i)).

Note 7: Net Result of Pooling of Monetary Income

	2018 €000	2017 €000
Net Result of Pooling of Monetary Income (i)	6,780	24,992
Creation of provision for Share of Impaired Eurosystem Securities (ii) (Note 32(iv))	(2,656)	(1,136)
Utilisation of provision for Share of Impaired Eurosystem Securities (ii) (Note 32(iv))	1,136	-
Total	**5,260**	**23,856**

(i) This represents the difference between the monetary income pooled by the Central Bank of €182.9m (2017: €152.9m) and that reallocated to the Central Bank of €201.3m (2017: €177.9m) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares, together with interest. Included within the monetary income reallocation figure is the Central Bank's share in the realised loss in relation to the sale in 2018 of a security held by the Eurosystem in its CSPP portfolio. An adjustment on net results for previous years of €11.6m due to the revision of monetary income calculations for 2016 and 2017 following the setting of the rate on TLTRO-II operations is also included (2017: €0.05m) (Note 1(c)(vi)).

	2018 €000	2017 €000
Monetary income pooled	*(182,861)*	*(152,861)*
Monetary income reallocated	*201,276*	*177,902*
Net Receiver of Monetary Income (Note 20)	**18,415**	**25,041**
Previous Years' Eurosystem Adjustments (Note 20)	(11,635)	(49)
Total	**6,780**	**24,992**

(ii) This item contains the Central Bank's share in the provision against losses in monetary policy operations, which was established in relation to securities held by an NCB of the Eurosystem in its CSPP portfolio as well as the dissolving of the provision established in 2017 against losses in the monetary policy operations portfolio (Note 32(iv)).

Note 8: Other Net Income

	2018 €000	2017 €000
Financial Regulation Net Industry Funding Levy (i)	140,007	104,355
Expected Return on Pension Fund Assets (Note 31(i))	13,100	12,100
Financial Regulation Monetary Penalties (ii)	7,440	7,240
Other Financial Regulation Income (Note 40)	5,008	3,570
Other (iii)	2,426	1,818
Profit on Sale of Property, Plant and Equipment (Note 22(i))	-	38,954
Interest on Pension Scheme Liabilities (Note 31(i))	(18,900)	(18,408)
Total	**149,081**	**149,629**

(i) The composition of Financial Regulation Net Industry Funding Levy is provided in Note 40.

(ii) Monetary penalties represent amounts payable to the Central 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 €7.4m in 2018 (2017: €7.2m), is included in Surplus Income Payable to the Exchequer following approval of the Statement of Accounts (Note 10).

(iii) Included in other income is net income of €0.4m (2017: Nil) arising from an indirect taxes review undertaken by the Central Bank and agreed with Revenue.

Note 9: Expenses

	Total Head Office & Printworks*		Mint **		Total	
	2018 €000	2017 €000	2018 €000	2017 €000	2018 €000	2017 €000
Salaries/Allowances (i)	131,525	116,004	477	372	132,002	116,376
PRSI	12,393	10,599	40	29	12,433	10,628
Pensions (Note 31 (i))	39,256	45,052	44	48	39,300	45,100
Staff Expenses	**183,174**	**171,655**	**561**	**449**	**183,735**	**172,104**
Communications and IT	36,093	30,695	10	8	36,103	30,703
Business Travel (ii)	3,080	2,780	7	4	3,087	2,784
Office Administration Expense	455	649	1	2	456	651
Professional Fees (iii)	21,597	18,099	7	3	21,604	18,102
External Research & Corporate Subscriptions	2,569	2,506	3	3	2,572	2,509
Publishing & Public Relations	1,073	1,037	-	-	1,073	1,037
Payments & Asset Management Charges	7,272	4,968	14	6	7,286	4,974
Currency Supplies and Machine Maintenance	333	662	17	10	350	672
Training, Education & Conferences	3,342	3,082	-	1	3,342	3,083
Recruitment & Other Staff Costs (iv)	6,723	5,714	-	-	6,723	5,714
Facilities Management & Maintenance	6,724	7,116	1	1	6,725	7,117
Rent & Utilities	4,816	6,115	-	-	4,816	6,115
Miscellaneous (v)	2,356	1,928	46	-	2,402	1,928
Other Operating Expenses	**96,433**	**85,351**	**106**	**38**	**96,539**	**85,389**
Depreciation	**16,770**	**14,945**	**165**	**146**	**16,935**	**15,091**
Currency Production Raw Materials (vi)	**3,422**	**4,472**	**806**	**309**	**4,228**	**4,781**
Total Expenses	**299,799**	**276,423**	**1,638**	**942**	**301,437**	**277,365**

*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 26(ii)).

(i) In June 2015, a Single Supervisory Mechanism (SSM) On-Site Allowance Policy was approved and this was reviewed in June 2016. A further review is planned for Q1 2019. This policy applies to staff who are assigned to work on-site in credit institutions carrying out inspections (preparation, execution and reporting) under the SSM for 65-85% of their available working time. Payments made under this policy totalled €91,631 (2017: €94,264), and were made to 42 (2017: 44) staff during the year. Staff in receipt of this allowance are subject to normal taxation.

No termination payments were made in 2018 (2017: €8,289 for one termination payment).

There was one payment of €28,671 in relation to the expiry of a fixed term contract (2017: Nil). Payments in lieu of notice were made during the year to three individuals, totalling €29,085 (2017: two payments totalling €1,504).

No employees were placed on garden leave during 2018 (2017: one individual total payments €122,278). 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.

An amount of €7.2m (2017: €6.0m) 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)

	2018 €000	2017 €000
Staff short-term benefits	131,944	116,366
Termination benefits	58	10
Pensions	39,300	45,100
Employers PRSI	12,433	10,628
Total	183,735	172,104
Staff Numbers (FTE) at 31 December	2,011	1,816

FTE – full time equivalents inclusive of maternity cover and interns

Staff Salaries and Allowances are analysed into the following:

Short Term Benefits (including Mint)

	2018 €000	2017 €000
Basic Pay	128,544	113,470
Overtime	1,052	1,055
Allowances	2,348	1,841
Total	131,944	116,366

Included in Basic Pay is an accrual in respect of untaken annual leave of €7.6m (2017: €7.4m) (Note 30(iv)).

Remuneration of the Executive Commission members in 2018

Name	2018	Salary	2017	Salary
Philip R. Lane Governor (a)	1 January - 31 December	€270,501	1 January - 31 December	€259,619
Sharon Donnery Deputy Governor Central Banking (a)	1 January - 31 December	€235,218	1 January - 31 December	€225,755
Ed Sibley Deputy Governor Prudential Regulation (a)	1 January - 31 December	€235,218	1 September- 31 December	€75,790

Fees of Non-Executive Commission Members

Name	2018	2017
Blanaid Clarke (Retired - 30 Sep 2018)	Nil (b) (c)	Nil (b) (c)
Alan Ahearne	Nil (b) (c)	Nil (b) (c)
Derek Moran	Nil (b)	Nil (b)
John Trethowan (Appointed - 11 Sep 2018)	Nil (b)	-
Des Geraghty	€14,936	€14,936
Michael Soden (Retired - 21 Sep 2018)	€10,829	€14,936
John FitzGerald	€14,936	€14,936
Patricia Byron	€14,936	€14,936
Niamh Moloney (Appointed – 11 Sep 2018)	€4,564	-

Expenses of Non-Executive Commission Members

Name	Travel	Accommodation and Subsistence	Total 2018	Total 2017
Blanaid Clarke	€19	Nil	€19	Nil
Alan Ahearne	€243	Nil	€243	Nil
Derek Moran	Nil	Nil	Nil	Nil
John Trethowan	€237	Nil	€237	-
Des Geraghty	Nil	Nil	Nil	Nil
Michael Soden	€18	Nil	€18	Nil
John FitzGerald	Nil	Nil	Nil	Nil
Patricia Byron	Nil	Nil	Nil	Nil
Niamh Moloney	€471	Nil	€471	-

(a) Governor Philip R. Lane's, Deputy Governor Sharon Donnery's and Deputy Governor Ed Sibley's pension scheme entitlements do not extend beyond the standard entitlements in the Central Bank's defined benefit superannuation scheme (Note 31).

(b) In keeping with the One Person One Salary principle, four (2017: 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 (2017: two members) for costs incurred due to their absence on Commission business. During 2018, an expense of €11,202 (2017: €14,936) was incurred in relation to Trinity College Dublin, and an expense of €17,626 (2017: €19,396) in relation to the National University of Ireland, Galway (includes €2,690 in travel related expenses incurred in 2018 (2017: €4,460)).

Remuneration of Key Management Personnel[24]

	2018	2017
Salary	€9,360,536	€9,018,026
Total	**€9,360,536**	**€9,018,026**

[24] 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. Other than those disclosed in this note, no further benefits have been received by Key Management Personnel.

Employees Short-term Benefits in excess of €60,000[25]

Pay Bands	2018 No. of People	2017 No. of People
60,000-70,000	323	286
70,000-80,000	175	177
80,000-90,000	141	203
90,000-100,000	170	55
100,000-110,000	56	30
110,000-120,000	55	50
120,000-130,000	41	28
130,000-140,000	21	19
140,000-150,000	17	17
150,000-160,000	2	2
160,000-170,000	6	4
170,000+	12	12
Total	**1,019**	**883**

The Central Bank operates a Revenue approved holiday loan scheme for all staff. Advances totalling €38,650 (2017: €42,575) were made to one Executive Commission Member and twelve Key Management Personnel (2017: one Executive Commission Member and nine Key Management Personnel). As at 31 December 2018 all advances under this scheme have been fully repaid (2017: fully repaid).

The Central Bank provided mortgages to staff at preferential interest rates up until 2008. As at 31 December 2018, no Key Management Persons had an outstanding mortgage balance (2017: one Key Management Person, €491). Benefit in Kind taxation on the preferential interest rate was applied to this mortgage in line with Revenue approved procedures.

[25] Short term benefits includes Basic Pay, Allowances and Overtime payments to staff.

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

Travel (including Mint)

	2018 €000	2017 €000
Domestic		
Commission	15	15
Staff	515	473
International		
Commission	121	121
Staff	2,436	2,175
Total	**3,087**	**2,784**

Commission includes both executive and non-executive members.

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

Audit Fees

	2018 €000	2017 €000
Audit of Individual Accounts	**294**	**279**
Mazars	155	151
Comptroller and Auditor General	139	128
Other Assurance Services	**78**	**57**
Mazars	78	57
Other Non-Audit Services	**224**	**231**
Mazars	224	231
Total	**596**	**567**

Included in Professional Fees in Note 9 are Consultancy costs totalling €15.9m (2017: €12.0m). In 2018, there was no offset (2017: €0.2m) against the profit on disposal of PPE included in other net income (Note 8). The balance of €1.2m (2017: €2.4m) is included in PPE and Intangible Assets (Note 22).

Consultancy

	2018 €000	2017 €000
Business Improvement	8,863	1,106
Financial	3,423	4,787
IT	1,995	4,982
Legal Advice	2,225	1,643
Other	157	695
Pensions & HR	161	223
Premises	288	1,165
Total	**17,112**	**14,601**
Consultancy Costs Capitalised	1,171	2,404
Consultancy costs charged to the Income and Expenditure / Profit on Disposal and Retained Revenue Reserves	15,941	12,197
Total	**17,112**	**14,601**

Included in Professional Fees are Legal costs in relation to legal proceedings totalling €4.2m (2017: €5.3m).

Legal Fees

	2018 €000	2017 €000
Legal fees – legal proceedings	4,217	5,150
Conciliation, mediation and arbitration	-	114
Settlements	-	-
Total	**4,217**	**5,264**

The above Legal proceedings costs include all legal costs incurred in relation to legal proceedings initiated by or taken against the Central Bank. The cost in relation to legal proceedings above relates to 14 separate legal cases (2017: 15). There were no payments for the settlement of costs in relation to mediations in 2018 (2017: €113,868). No additional legal costs or settlements were paid by the Central Bank's insurance company in 2018 (2017: one case).

(iv) Included in Recruitment & Other Staff Costs above is Hospitality Expenditure of €0.2m for 2018, analysed as follows:

Hospitality Expenditure	2018 €000	2017 €000
Staff Hospitality	231	185
Client Hospitality	-	-
Total	**231**	**185**

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

The Central 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.

(v) Included in Miscellaneous are the expenses of the Financial Services Appeals Tribunal €0.1m (2017: €0.1m) which the Central 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 €3.4m (2017: €4.5m) and Coin €0.8m (2017: €0.3m). The decrease in cost of Banknotes relates to the lower production volume in 2018 compared to 2017. The increase in coin costs relates mainly to the increase in purchase of coin blanks in 2018.

Note 10: Surplus Income payable to the Exchequer

Surplus Income of €2,384.8m is payable to the Exchequer in respect of the year ended 31 December 2018 (2017: €2,101.3m) (Note 1(o), Note 30(i)). The gross amount is payable to the Exchequer as, under Section 6J of the Central Bank Act, 1942 (as amended), the Central Bank is exempt from Corporation Tax and Capital Gains Tax.

Note 11: Gold and Gold Receivables

	2018 €000	2018 Fine Ounces of Gold	2017 €000	2017 Fine Ounces of Gold
Gold and Gold Receivables	216,947	193,537	209,381	193,535
Total	**216,947**	**193,537**	**209,381**	**193,535**

Gold and gold receivables consist of coin stocks held in the Central Bank, together with gold bars held at the Bank of England. The increase in the balance at year-end 2018 is primarily due to the change in the market value of gold holdings from the year-end 2017 to 2018 (Note 1(j)(iv), Note 33).

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

	2018 €000	2017 €000
Balances with Banks and Security Investments, External Loans and other External Assets due within one year (i)	2,591,217	1,733,743
Receivables from the IMF (ii)	1,778,848	1,733,791
Total	**4,370,065**	**3,467,534**

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

	2018 €000	2017 €000
Security Investments - MTM (a)	1,707,598	1,138,833
Balances with Banks	883,619	594,910
Total	**2,591,217**	**1,733,743**

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

The increase compared to 2017 reflects the commencement of investment in AUD securities and the commencement of CNY deposits as well as an increase in the investment of USD securities as part of the Central Bank's foreign currency portfolios during 2018.

Maturity Profile

	2018 €000	2017 €000
0 - 3 months	1,513,839	1,234,026
3 months - 1 year	745,392	499,717
1 - 5 years	331,986	-
Total	**2,591,217**	**1,733,743**

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

	2018 €000	2017 €000
Quota	4,188,621	4,096,765
Less IMF Holdings maintained by the Bank	(3,207,024)	(3,138,678)
Reserve Position in IMF (a)	981,597	958,087
SDR Holdings (b)	797,251	775,704
Total	**1,778,848**	**1,733,791**

(a) Reserve Position in the IMF:

This asset represents the difference between Ireland's Quota in the IMF and the IMF's holdings of euro maintained by the Central 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[26]. The holdings of euro by the IMF, maintained with the Central Bank, which initially were equal to 75% 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% (2017: 77%).

(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).

[26] As a result, Ireland's IMF quota increased by SDR 2,192.3m from SDR 1,257.6m to SDR 3,449.9m on 19 February 2016.

Note 13: Claims on Euro Area Residents in Foreign Currency

	2018 €000	2017 €000
Balances with Banks	31	1
Security Investments - MTM (i)	-	5,030
Total	**31**	**5,031**

Maturity Profile

	2018 €000	2017 €000
0 - 3 months	31	5,031
Total	**31**	**5,031**

(i) These securities comprise debt issued by euro area issuers in foreign currency (Note 1(j)). There were no foreign currency bonds issued by EU residents held at year-end 2018.

Note 14: Claims on Non – Euro Area Residents in Euro

	2018 €000	2017 €000
Reverse Repurchase Agreements (i)	2,084,319	2,490,419
Security Investments - HTM (ii)	1,679,175	1,325,919
Security Investments - MTM (ii)	426,953	601,013
Balances with Banks	27,389	86,076
Total	**4,217,836**	**4,503,427**

Maturity Profile

	2018 €000	2017 €000
0 - 3 months	2,305,349	2,677,733
3 months - 1 year	285,800	310,450
1 - 5 years	794,311	958,078
5 - 10 years	832,376	557,166
Total	**4,217,836**	**4,503,427**

(i) As part of the management of its investment assets, the Central 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 Central 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 under "Interest income" (Note 2(v)) and "Interest expense" (Note 3(ii)) 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

	2018 €000	2017 €000
Longer Term Refinancing Operations of which TLTROs	3,023,000	7,478,000
Total	**3,023,000**	**7,478,000**

Maturity Profile of TLTROs

	2018 €000	2017 €000
0 - 3 months	-	-
3 months - 1 year	-	75,000
1 - 5 years	3,023,000	7,403,000
Total	**3,023,000**	**7,478,000**

These balances consist of advances to local credit institutions and reflect the Central Bank's participation in Eurosystem monetary policy operations. All the advances are fully secured by collateral approved by the Eurosystem[27]. As at 31 December 2018, total Eurosystem monetary policy-related advances amounted to €734.4bn (2017: €764.3bn), of which the Central Bank held €3.0bn (2017: €7.5bn). 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 (Note 36).

Losses can only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient. 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.

[27] http://www.ecb.europa.eu/mopo/assets/html/index.en.html

On 5 June 2014, the Governing Council 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. These operations were one of the ECB's non-standard monetary policy tools. The interest rate on the TLTROs was fixed over the life of each operation at the Eurosystem's MRO rate prevailing at the time of take up, plus a fixed spread. All of the outstanding Eurosystem lending from the first round of TLTRO operations matured in September 2018.

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 was dependent on the individual lending benchmark of the respective counterparties between the date of allotment and January 2018. The actual rate was set in June 2018, with the MRO rate (0%) being applied to the lending of some counterparties, and the deposit facility rate (-0.4%) being applied to the lending of other Eurosystem counterparties. There were 14 Early Repayment Operations, over the year, where counterparties could repay TLTRO-II borrowings.

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

	2018 €000	2017 €000
Maturities less than one year:		
Reverse Repurchase Agreements (i)	1,626,471	360,000
Balances with Banks	153,673	175,111
Total	**1,780,144**	**535,111**

(i) As part of the management of its investment assets, the Central 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 Central 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 under "Interest income" (Note 2(v)) and "Interest expense" (Note 3(ii)), and is accrued over the life of the agreement using the effective interest rate.

Note 17: Securities of Euro Area Residents in Euro

	2018 €000	2017 €000
Securities Held for Monetary Policy Purposes (i)	36,601,922	32,102,027
Other Securities (ii)	31,137,582	38,117,060
Total	**67,739,504**	**70,219,087**

This item comprises two portfolios:

(i) "Securities Held for Monetary Policy Purposes", introduced to reflect the euro-denominated CBPP3 portfolio which began in October 2014, the SMP, which began in May 2010, and the PSPP which began in March 2015.

(ii) "Other Securities", which includes marketable securities that are not related to the monetary policy operations of the Eurosystem.

(i) Securities Held for Monetary Policy Purposes

As at 31 December 2018, these categories of securities relate to acquisitions by the Central Bank within the scope of the CBPP3[28], public debt securities acquired within the scope of the SMP[29] and debt securities acquired within the scope of the PSPP[30].

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

The amortised cost of the securities held by the Central Bank, as well as their market values[31] (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:

[28] 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.

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

[30] 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.

[31] 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.

	2018 €000 Amortised Cost	2018 €000 Market Value	2017 €000 Amortised Cost	2017 €000 Market Value
Covered Bonds Purchase Programme 3 (CBPP3)	4,094,636	4,127,928	3,554,257	3,596,022
Securities Markets Programme (SMP)	1,634,173	1,747,011	1,660,572	1,870,891
Public Sector Purchase Programme (PSPP)	30,873,113	31,158,308	26,887,198	27,232,524
of which				
Government Sector (Own-Risk)	*25,514,484*	*25,830,783*	*21,456,727*	*21,813,437*
Supranational (Shared-Risk)	*5,358,629*	*5,327,525*	*5,430,471*	*5,419,087*
Total	**36,601,922**	**37,033,247**	**32,102,027**	**32,699,437**

Maturity Profile	2018 €000 Amortised Cost	2017 €000 Amortised Cost
0 - 3 months	1,053,138	160,646
3 months - 1 year	409,835	221,503
1 - 5 years	13,944,088	12,055,367
5 - 10 years	12,112,115	12,377,084
10 -15 years	5,045,021	3,591,329
> 15 years	4,037,725	3,696,098
Total	**36,601,922**	**32,102,027**

Purchases under the SMP were terminated on 6 September 2012.

Throughout 2018, the Eurosystem continued its securities purchases under the Expanded Asset Purchase Programme (EAPP)[32] which constitutes the CBPP3, the ABSPP[33], the PSPP[34] and the Corporate Sector Purchase Programme (CSPP)[35].

From March 2015 until March 2016, the combined monthly EAPP purchases by the NCBs and the ECB amounted to €60.0bn on average. From April 2016 until March 2017, this increased to €80.0bn on average. In December 2016, the Governing Council decided to continue the net EAPP purchases after March 2017 at a monthly pace of €60.0bn. In October

[32]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.

[33] Decision ECB/2014/45 of 19 November 2014 on the implementation of the asset backed securities purchase programme.

[34]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.

[35]Under this programme, the NCBs may purchase investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area.

2017, the Governing Council decided that net purchases would continue at a new monthly pace of €30.0bn 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. In June 2018, the Governing Council decided that from October 2018 it would reduce net purchases under the asset purchase programme to €15bn until the end of December 2018. It also stated that it was the intention to reinvest the principal payment from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases, and in any case, for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

On 13 December 2018, the Governing Council confirmed that the Eurosystem would end the net asset purchase phase of the EAPP (PSPP, CBPP3, CSPP and ABSPP) after December 2018. It also confirmed that it will aim to maintain the size of its cumulative net purchases under each constituent programme of the EAPP at their respective levels at the end of December 2018.

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 2018 (2017: Nil).

In the context of the impairment test conducted as at the end of 2018 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 2018.

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 2018 (Note 32(iv)).

The Eurosystem aggregate holdings of monetary policy securities at end December 2018 amounted to €2,651.3bn of which the Central Bank held

€36.6bn (2017: €2,386.0bn of which the Central Bank held €32.1bn) (see table below) (Note 1(c)(ix)):

Amortised Cost €m	Year	SMP	CBPP1	CBPP2	CBPP3	PSPP	ABSPP	CSPP	Total
Eurosystem	2018	73,138	4,309	4,024	262,201	2,102,048	27,511	178,050	2,651,281
	2017	89,134	6,065	4,754	240,687	1,888,764	25,015	131,593	2,386,012
Bank	2018	1,634	-	-	4,095	30,873	-	-	36,602
	2017	1,661	-	-	3,554	26,887	-	-	32,102

(ii) Other Securities

	2018 €000	2017 €000
Security Investments - MTM (a)	20,802,946	27,603,653
Security Investments - HTM (b)	10,334,636	10,513,407
Total	**31,137,582**	**38,117,060**

Maturity Profile

	2018 €000	2017 €000
0 - 3 months	856,937	595,823
3 months - 1 year	2,136,489	2,008,489
1 - 5 years	8,029,249	8,170,196
5 - 10 years	2,406,991	2,960,326
10 - 15 years	-	-
> 15 years	17,707,916	24,382,226
Total	**31,137,582**	**38,117,060**

(a) Security Investments - MTM

	2018 Closing Market Value €000	2017 Closing Market Value €000
Special Portfolio (i)	17,707,916	24,382,226
Government Issue Bonds	1,809,824	1,587,421
Treasury Bills	924,106	1,120,505
Financial Issue Bonds	361,100	513,501
Total	**20,802,946**	**27,603,653**

(i) Special Portfolio – Assets acquired following liquidation of IBRC

Floating Rate Notes (FRNs)

In 2013, the Central Bank acquired eight FRNs amounting to €25.0bn 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 2018, the Central Bank sold €4.0bn nominal of the FRNs (2047 FRN €2.5bn and 2049 FRN €1.5bn) realising gains amounting to €2.3bn (Note 4(i)). On a cumulative basis, the Central Bank has disposed of €13.5bn nominal of the FRNs; all holdings of the 2038, 2041, 2043, 2045 and 2047 FRNs have now been disposed of. As at 31 December 2018, the remaining FRNs were valued at €17.7bn (2017: €24.4bn) giving rise to an unrealised gain of €6.2bn (2017: €8.8bn) (Note 33(i)).

As there is no active market in the FRNs, the Central 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.

(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 Central 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 €0.9bn (2017: €1.2bn). 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 €1.0bn (2017: €1.3bn).

€000	BOOK VALUES 2017 Closing Balance	Purchases	Sales/ Redemptions	2018 Closing Balance	REVALUATION MOVEMENTS 2017 Closing Balance	Opening Revaluation on Disposal	Movement on Retained Portfolio	2018 Closing Balance	SUMMARY 2017 Closing Market Value	2018 Closing Market Value
Floating Rate Notes	15,534,000	-	(4,000,000)	11,534,000	8,848,226	(2,153,064)	(521,246)	6,173,916	24,382,226	17,707,916
Total	**15,534,000**	**-**	**(4,000,000)**	**11,534,000**	**8,848,226**	**(2,153,064)**	**(521,246)**	**6,173,916**	**24,382,226**	**17,707,916**

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 Central Bank intends to sell the portfolio of FRNs as soon as possible, provided conditions of financial stability permit. The Central Bank has also indicated that it will sell a minimum of these securities in accordance with the following schedule: 2019-2023 (€1bn per annum) and from 2024 on (€2bn per annum until all bonds are sold).

(b) Security Investment – HTM

Held-to-maturity securities are securities with fixed or determinable payments and a fixed maturity which the Central Bank intends to hold to maturity (Note 1(j)(iii)).

Note 18: Participating interest in ECB

	2018 €000	2017 €000
Participating Interest in ECB	199,021	199,021
Total	**199,021**	**199,021**

This represents the Central 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 Central Bank's share in subscribed capital of the ECB remained at 1.1607% for 2018 (2017: 1.1607) (Note 1 (c)(ii), Note 1(c)(iii)).

Note 19: Claims Equivalent to the Transfer of Foreign Reserves

	2018 €000	2017 €000
Claims equivalent to the transfer of foreign reserves	672,638	672,638
Total	**672,638**	**672,638**

These represent the Central Bank's claims arising from the transfer of foreign reserve assets to the ECB when the Central Bank joined the Eurosystem. The Central Bank's claims in respect of those assets is €672.6m (2017: €672.6m), which is fixed in proportion to its Eurosystem capital key share (Note 1 (c)(ii), Note 1 (c)(iii), Note 1(c)(vii)).

The Central Bank's Eurosystem capital key at 31 December 2018 is 1.6489% (2017: 1.6489%).

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)

	2018 €000	2017 €000
TARGET2 Balance (net) (i)	14,290,401	1,888,411
Net Result of Pooling of Monetary Income (ii)	6,780	24,992
Share of ECB Profits (iii)	19,645	16,287
Total	**14,316,826**	**1,929,690**

(i) This item represents the Central 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 €14.3bn at end-2018 (2017: Net Asset €1.9bn) (Note 1(c)(ii)). The €12.4bn increase in the TARGET2 asset reflects a net inflow of euro into the State, via the Central Bank's TARGET2 account over the period. The inflows were largely channelled through the government deposit account and Irish credit institutions' reserve accounts.

At end-2018, 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 Central Bank's monetary income receivable (2017: €24.9m) (Note 1(c)(iii), Note 1(c)(vi)).

(iii) This represents the Central Bank's share of the ECB's interim distribution of profit for 2018 (Note 1(c)(v), Note 6(i)).

Note 21: Other Assets

	2018 €000	2017 €000
Accrued Interest Income (i)	691,204	635,945
Equity Fund (ii)	218,821	-
Property, Plant, Equipment and Intangible Assets (Note 22)	214,269	220,434
- Tangible - Plant, Property, Equipment (Note 22(i))	*194,603*	*205,011*
- Intangible - Computer Software (Note 22 (ii))	*19,666*	*15,423*
Other (iii)	93,953	158,696
Investment Property (iv)	55,170	55,170
Shares in the Bank for International Settlements (v)	20,593	19,953
Stocks of Materials for Banknote Production	4,553	4,580
Prepayments	3,675	4,215
Total	**1,302,238**	**1,098,993**

(i) This item includes the accrued income earned on the securities. The increase in accrued income reflects the Central Bank's higher holdings under the CBPP3 and PSPP programmes.

(ii) During 2018, the Central Bank invested in an equity fund as part of its investment strategy. The equity fund tracks the MSCI World Index (Note 4(ii)). The fund is managed by an asset management company on behalf of the Central Bank, while the underlying assets are held by a custodian.

(iii) Included in this item is an amount of €14.3m (2017: €45.3m) which represents the interest income due on securities at the date a purchase of that security is made by the Central Bank.

A further €7.2m (2017: €7.0m) relates to deficits due from certain Industry Funding sub-categories at end-2018 (Note 40(i)).

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

(iv) In November 2015, the Central Bank acquired Block R, Spencer Dock. The property, which comprises both commercial and retail space, is partially used by the Central 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 Central Bank's accounting policies, management undertake an annual review to determine the fair value of the Central Bank's investment property.

During the year, the investment property continued to be let to a third party. This lease has a remaining term of 17 years, with a break clause of 10 years. The lease includes a provision for a five-yearly rent review according to prevailing market conditions.

The fair value of the investment property was determined by external, independent property valuers, having recognised professional qualifications and recent experience in the location and category of the property being valued. The fair value measurement provided has resulted in no change in 2018 (2017: €6.2m). 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(viii), Note 33).

Future Minimum Lease Payments

	2018 €000	2017 €000
Not later than one year	1,583	1,583
After one year but not more than five years	6,332	6,332
After five years	17,981	19,564
Total	**25,896**	**27,479**

(v) The Central Bank holds 8,564 shares (2017: 8,564 shares) in the Bank for International Settlements, the euro equivalent of which is €20.6m (2017: €19.9m) (Note 6(ii), Note 35(i)).

Note 22: Property, Plant, Equipment and Intangible Assets

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

Note 22 Fixed Assets - Tangible

	Premises		Plant & Machinery		Computer Equipment		Other Equipment		Furniture, Fixtures & Fittings		Assets Under Construction (c)		Total Tangible Fixed Assets	
	2018 €000	2017 €000	2018 €000	2017 €000	2018 €000	2017 €000	2018 €000	2017 €000	2018 €000	2017 €000	2018 €000	2017 €000	2018 €000	2017 €000
At Cost - 1 January	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
Transfer (c)	-	76,091	33	30,601	300	11,195	146	-	-	9,853	(479)	(127,740)	-	-
Acquisitions (+)	-	7,075	-	88	-	502	29	25	-	-	1,865	11,007	1,894	18,697
Disposals (a)	-	(45,410)	(869)	-	(16)	(928)	(783)	(5,246)	(213)	(4,831)	-	-	(1,881)	(56,415)
At Cost - 31 December	163,708	163,708	79,221	80,057	14,673	14,389	7,498	8,106	15,408	15,621	4,311	2,925	284,819	284,806
Accumulated Depreciation at 1 January	16,811	31,256	45,350	42,610	2,503	1,237	7,902	12,941	7,229	10,441	-	-	79,795	98,485
Depreciation for Year (b)	3,949	3,296	3,369	2,740	2,864	2,194	124	207	1,980	1,511	-	-	12,286	9,948
Disposals	-	(17,741)	(869)	-	-	(928)	(783)	(5,246)	(213)	(4,723)	-	-	(1,865)	(28,638)
Accumulated Depreciation at 31 December	20,760	16,811	47,850	45,350	5,367	2,503	7,243	7,902	8,996	7,229	-	-	90,216	79,795
Net book value at 31 December	**142,948**	**146,897**	**31,371**	**34,707**	**9,306**	**11,886**	**255**	**204**	**6,412**	**8,392**	**4,311**	**2,925**	**194,603**	**205,011**

(a) Disposals across the asset classes primarily relate to the retirement of zero value assets that are no longer in use by the Central Bank, and have been verified as such by the responsible divisions.

Following a review of the Fixed Asset Register during the year, PPE with an historic cost of €1.9m, which was fully depreciated, was written off in 2018 with no proceeds arising (2017: €0.9m). Additionally, there was a disposal of a Computer Equipment asset for less than €0.1m (2017: Nil) with proceeds of less than €0.1m (2017: Nil) arising and this profit on disposal has been recognised in the Profit and Loss account (Note 8).

(b) Of the total depreciation charge of €12.3m (2017: €9.9m), €0.2m in respect of Mint machinery was charged to the Currency Reserve (2017: €0.1m).

(c) Assets Under Construction relates to capital expenditure incurred on assets which have not yet come into use by the year-end. During the year, €0.5 milion (2017: €127.7m) of these assets came into use, and accordingly have been transferred to the appropriate asset category.

(d) The Central Bank currently holds an art collection valued at €2.0m based on a 2016 valuation (2017: €2.0m), which is not recognised in the annual accounts of the Central Bank on the grounds of materiality in either the current or preceding financial years (Note 1(e)).

(ii) Intangible Computer Software

Note 22 Fixed Assets - Intangible

	Computer Equipment		Assets Under Construction (c)		Total Intangible Fixed Assets	
	2018 €000	2017 €000	2018 €000	2017 €000	2018 €000	2017 €000
At Cost - 1 January	40,808	39,447	5,326	255	46,134	39,702
Transfer (c)	1,321	1,705	(1,321)	(1,705)	-	-
Acquisitions (+)	68	581	8,961	6,776	9,029	7,357
Disposals (b)	(23)	(925)	(128)	-	(151)	(925)
At Cost - 31 December	42,174	40,808	12,838	5,326	55,012	46,134
Accumulated Depreciation at 1 January	30,711	26,448	-	-	30,711	26,448
Depreciation for Year (a)	4,650	5,143	-	-	4,650	5,143
Disposals	(15)	(880)	-	-	(15)	(880)
Accumulated Depreciation at 31 December	35,346	30,711	-	-	35,346	30,711
Net Book Value at 31 December	**6,828**	**10,097**	**12,838**	**5,326**	**19,666**	**15,423**

(a) The total depreciation charge in 2018 was €4.7m (2017: €5.1m) (Note 1(e)(ii)).

(b) Following a review of the Fixed Asset Register during the year, intangible assets with a carrying value of less than €0.2m (2017: €0.1m), were written off to Other Operating Expenses (Note 9) with no proceeds arising.

(c) An amount of €1.3m (2017: €1.7m) has been transferred from the Assets Under Construction account to the Intangible Computer Equipment asset category.

Note 23: Banknotes in Circulation

	2018 €000	2017 €000
Total value of euro banknotes issued into circulation by the Central Bank	36,923,888	35,405,302
Liability resulting from the ECB's share of euro banknotes in circulation	(1,624,034)	(1,544,334)
Liability according to the Central Bank's weighting in the ECB's capital key	(16,623,551)	(16,101,206)
Total	**18,676,303**	**17,759,762**

This item consists of the Central 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 Central Bank increased by 4.3% in 2018, from €35.4bn to €36.9bn. The total value of banknotes in circulation within the Eurosystem increased by 5.2% (2017: 4.0%). According to the allocation key, the Central Bank had euro banknotes in circulation worth €18.7bn at the end of the year, compared to €17.8bn at the end of 2017. As the banknotes actually issued by the Central Bank were more than the allocated amount, the difference of €18.2bn (compared to €17.6bn in 2017) 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

	2018 €000	2017 €000
Current accounts (covering the minimum reserve system) (i)	13,135,671	15,937,532
Deposit Facility (ii)	9,664,882	7,254,592
Total	**22,800,553**	**23,192,124**

(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 2018, 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 Central Bank on an overnight basis at the deposit facility rate.

Note 25: Other Liabilities to Euro Area Credit Institutions in Euro

	2018 €000	2017 €000
Other Liabilities to Euro Area Credit Institutions in Euro	719,471	-
Total	**719,471**	**-**

These items have a maturity of less than one year, and relate to transactions by the Central Bank as part of the management of its investment assets with approved counterparties under GMRA legal agreements.

Note 26: Liabilities to Other Euro Area Residents in Euro

	2018 €000	2017 €000
General Government Deposits (i)	19,342,691	12,842,232
Currency Reserve Relating to Net Proceeds of Coin (ii)	4,377	4,057
Total	**19,347,068**	**12,846,289**

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 Central 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 Central Bank, the Minister reimburses the difference to the Central Bank. The balance on the Currency Reserve relating to coin issue is reported as an asset or liability of the Central Bank (Note 1(g)). All expenses in relation to the production of coin are disclosed in Note 9. Superannuation expenses are disclosed in Note 31. Details of net proceeds for the year are included in the table below:

	2018 €000	2017 €000
Coin (redeemed) / issued into Circulation	7,585	(2,209)
Specimen Coin Sets	546	377
Withdrawn Irish Coin	(212)	(424)
Proceeds from Sale of Coin Metal	188	-
	8,107	**(2,256)**
Less Operating Costs (Note 9)	(1,638)	(942)
Net Contribution Adjustment	522	-
Net Proceeds of Coin Issue	**6,991**	**(3,198)**
Interest on Pension Liability (Note 31)	-	(92)
Superannuation Employer Contribution (Note 31)	(6)	(54)
Transfer from / (to) the Exchequer	(6.665)	4,406
Opening Balance	4,057	2,995
Closing Balance	**4,377**	**4,057**

As a result of the Finance Act, 2002, and as directed by the Minister for Finance, the Central Bank is required to transfer the net proceeds from the issue of coin directly to the Exchequer. As noted in the table above, there was a net issuance of coin amounting to €7.6m (2017: net redemption €2.2m) from the Central Bank to the commercial banks in 2018. As a result, the net surplus generated a transfer of €6.7m which was paid to the Exchequer on 20 December 2018 (2017: €4.4m paid by the Exchequer to the Central Bank).

Note 27: Liabilities to Non-Euro Area Residents in Euro

	2018 €000	2017 €000
Repurchase Agreements (i)	2,084,319	1,430,419
EU Agencies	504	505
International Financial Institutions	496	71
Total	**2,085,319**	**1,430,995**

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

(i) As part of the management of its investment assets, the Central 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 Central Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate (Note 1(l)).

Note 28: Counterpart of Special Drawing Rights Allocated by the IMF

	2018 €000	2017 €000
Counterpart of SDR allocated by the IMF	942,453	920,896
Total	**942,453**	**920,896**

This is the liability of the Central Bank to the IMF in respect of the allocation of Special Drawing Rights (SDRs) to Ireland. The Central 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 Central Bank's Reserve Position in the IMF and on the Central Bank's SDR holdings net of SDR allocations (Note 12(ii)).

Note 29: Liabilities Related to the Allocation of Euro Banknotes within the Eurosystem

	2018 €000	2017 €000
Liability according to the Bank's weighting in the ECB's capital key	16,623,551	16,101,206
Liability resulting from the ECB's share of euro banknotes in circulation	1,624,034	1,544,334
Total	**18,247,585**	**17,645,540**

This item consists of the liability of the Central 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 Central 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

	2018 €000	2017 €000
Profit & Loss Appropriation (i)	2,384,820	2,101,312
Deposit Protection Scheme (ii)	165,788	154,301
Insurance Compensation Fund	62,510	-
Other (iii)	53,724	45,403
Other Accruals (iv)	24,686	26,152
Interest Accruals (v)	19,510	40,083
Credit Institutions Resolution Fund (vi)	5	541
Total	**2,711,043**	**2,367,792**

(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 Central Bank established the DGS Contributory Fund in 2016. The Deposit Guarantee Scheme must reach an available financial means of 0.8% 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 2018 contributions were payable via direct payments by credit institutions to the Fund.

Interim dividends arising from the liquidations of Charleville and Rush Credit Unions (€40.3m, €4m respectively) and IBRC of (€11.3m) were transferred to the Fund in 2018.

Under Regulation 18(1) of the DGS Regulations, the DGS Fund is to be managed and administered by the designated authority (the Central Bank) and under Regulation 18(2), the designated authority shall invest the Fund in a low-risk and sufficiently diversified manner.

	2018 €000	2017 €000
DGS Contributory Fund	165,788	154,276
DGS Legacy Fund	-	25
Total	**165,788**	**154,301**

Movement in DGS Contributory Fund	2018 €000	2017 €000
Balance at 1 January	154,276	93,421
Contributions	106,927	100,858
Payments	(583)	(39,654)
Interest - pay out	(361)	(349)
Dividends	55,521	-
Returned Contributions	8	-
NTMA Exchequer Note Programme (a)	(150,000)	-
Balance at 31 December	165,788	154,276

(a) This is money deposited with third parties/NTMA.

Movement in DGS Legacy Fund	2018 €000	2017 €000
Balance at 1 January	25	62,587
Payments	(25)	(62,562)
Balance at 31 December	-	25

(iii) Included in Other is an amount of €0.2m (2017: less than €0.1m) representing surpluses due to certain Industry Funding sub-categories at end-2018 (Note 40(i)).

(iv) Included in other accruals is an accrual of €7.6m (2017: €7.4m) in respect of untaken annual leave (Note 9(i)).

(v) This figure primarily relates to the accrued interest expense on TLTRO-II operations (Note 15).

(vi) A Credit Institutions Resolution Fund was established in 2011 under the Central Bank and Credit Institutions (Resolutions), Act 2011. The balance of €0.01m (2017: €0.5m) represents deposits with the Central Bank on behalf of the Fund. The Central Bank is responsible for the management and administration of the Fund and separate financial statements are prepared by the Central Bank for the Fund.

Note 31: Superannuation Liabilities

The pension entitlements of past and current permanent Central Bank staff arise under a defined benefit pension scheme. Under the Scheme, Central 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 Central Bank operated a pay-as-you-go system in that assets were not separately identified to provide for the Central 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 €400m was transferred to purchase fund assets. The valuation of the fund assets at 31 December 2018 is detailed in section (v) of this note (Note 1(f)).

The Central 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 Central Bank's actuaries, to comply with section 56 of the Pensions Act. An actuarial report was completed by LCP as at 31 December 2018 to comply with disclosure requirements under FRS 102.

(i) Amount charged to Profit and Loss and Appropriation Account/Currency Reserve

	Profit and Loss 2018 €000	Currency Reserve 2018 €000	Total 2018 €000	Total 2017 €000
Expected Return on Assets	13,100	-	13,100	12,100
Interest on Pension Scheme Liabilities	(18,813)	(87)	(18,900)	(18,500)
Current Service Cost	(39,256)	(44)	(39,300)	(45,100)
Total Pension Cost of Defined Benefit Scheme	(44,969)	(131)	(45,100)	(51,500)

Current Service costs charged to the Profit and Loss and Appropriation Account in 2018 was €39.3m (2017: €45.1m) and is based on actuarial assumptions set at the beginning of each year. The decrease in the charge compared to 2017 was primarily due to the significant increase in the number of staff who have joined the Central Bank after 1 January 2013 and who are members of the Career Average Revalued Earnings (CARE) scheme.

As at 31 December 2018, there was no previously unrecognised surplus deducted from settlements or curtailments and no gains or losses on any settlements or curtailments.

(ii) Actuarial (Loss)/ Gain on Pension Scheme

Year Ended 31 December	2018 €000	2017 €000	2016 €000	2015 €000	2014 €000
Actuarial gain/(loss) on pension liability	622	35,345	(177,207)	160,058	(198,670)
Actuarial (loss)/gain on plan assets	(34,533)	25,232	4,267	21,001	11,828
Total	**(33,911)**	**60,577**	**(172,940)**	**181,059**	**(186,842)**

(iii) Balance Sheet Recognition

Year Ended 31 December	2018 €000	2017 €000	2016 €000	2015 €000	2014 €000
Present value of Wholly or Partly Funded Obligations (iv)	(1,043,408)	(993,442)	(971,598)	(750,095)	(853,883)
Fair Value of Plan Assets (v)	679,157	687,561	638,695	608,714	567,945
Net Pension (Liability)/Asset	**(364,251)**	**(305,881)**	**(332,903)**	**(141,381)**	**(285,938)**

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

	2018 €000	2017 €000	2016 €000	2015 €000	2014 €000
Opening Present Value of Scheme Obligations	(993,442)	(971,598)	(750,095)	(853,883)	(615,766)
Current Service Cost	(39,300)	(45,100)	(30,900)	(44,299)	(25,356)
Past Service (Cost)/Credit	-	-	-	-	(27)
Pensions Paid	14,519	12,314	11,908	13,109	13,325
Employee Contributions	(6,632)	(5,631)	(4,979)	(4,379)	(4,173)
Transfers Received	(275)	(272)	(25)	(635)	(433)
Interest on Pension Scheme Liabilities	(18,900)	(18,500)	(20,300)	(20,066)	(22,783)
Actuarial Gain/(Loss)	622	35,345	(177,207)	160,058	(198,670)
Closing Present Value of Scheme Obligations	**(1,043,408)**	**(993,442)**	**(971,598)**	**(750,095)**	**(853,883)**

(v) Movement in Fair Value of Plan Assets

	2018 €000	2017 €000	2016 €000	2015 €000	2014 €000
Opening Fair Value of Plan Assets (Bid Value)	687,561	638,695	608,714	567,945	531,198
Expected Return	13,100	12,100	16,400	13,280	17,423
Actuarial (Loss)/Gain	(34,533)	25,232	4,267	21,002	14,241
Employer Contribution	20,641	17,945	16,218	14,582	13,802
Employee Contributions	6,632	5,631	4,979	4,379	4,173
Pensions Paid	(14,519)	(12,314)	(11,908)	(13,109)	(13,325)
Transfers Received	275	272	25	635	433
Closing Fair Value of Plan Assets (Bid Value)*	**679,157**	**687,561**	**638,695**	**608,714**	**567,945**

* Included in the fair value of plan assets are two bank accounts - the Superannuation Capital Account and the Superannuation Working Account held with the Central Bank. The balance on the Superannuation Capital Account and Superannuation Working Account at 31 December 2018 was €0.01m (2017: €0.6m) and €4.3m (2017: €6.0m) respectively.

(vi) Financial Assumptions

	2018 %	2017 %	2016 %	2015 %	2014 %
Discount Rate	2.00	1.90	1.90	2.70	2.35
Rate of Increase in Pensionable Salaries	3.30	3.30	3.30	3.20	3.40
Rate of Increase in Pensions	3.30	3.30	3.30	3.20	3.40
Rate of Price Inflation	1.90	1.90	1.90	1.80	2.00

The impact of a 0.1% increase/decrease in the discount rate would be a corresponding decrease/increase of approximately 2.6% (2017: 2.6%) in scheme liabilities.

Demographic and Other Assumptions

	2018	2017
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 Age between 60 and 65 at which 40 years' service completed (for those with option to retire at 60)	Male: 86.5 Female: 88.9	Male: 86.3 Female: 88.8

ILT15 (males) and ILT15 (females) are both published mortality tables prepared by the Central Statistics Office in Ireland. The life expectancies are calculated using the mortality rates in these tables.

(i) Plan Assets of the Scheme

Class	Distribution	Long Term Distribution
	%	%
Bonds	40.9	40.0
Cash	1.0	-
Equities	39.1	40.0
Multi asset funds (MAF)	9.3	10.0
Property	9.7	10.0
Total	**100.0**	**100.0**

In 2014, the Commission of the Central 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 Central Bank.

Note 32: Provisions

The following amounts were provided for at 31 December 2018:

	Opening Balance 1 Jan 2018 €000	Created €000	Utilised €000	Released to P&L €000	Closing Balance 31 Dec 2018 €000
Provision for foreign exchange rate, interest rate, credit and gold price risks (i)	500,000	250,000	-	-	750,000
Provision for Securities (ii)	120,000	-	-	(70,000)	50,000
Unredeemed Irish Pound Banknotes (iii)	6,336	-	(917)	-	5,419
Provision for Share of Impaired Eurosystem Securities (iv)	1,136	2,656	(1,136)	-	2,656
Restructuring Provision (v)	368	466	(796)	(11)	27
Total	**627,840**	**253,122**	**(2,849)**	**(70,011)**	**808,102**

(i) The Central Bank has a provision for foreign exchange rate, interest rate, credit and gold price risks (Note 36). The provision follows a comprehensive assessment of the relevant financial risks to which the Central 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 Central Bank's 2018 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 highly varying interest rate paths. Considering the current Balance Sheet position, the Central Bank is exposed to a scenario where interest rates increase rapidly over 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 €750.0m is included in the 2018 statement of accounts, which represents an increase of €250.0m compared to the provision made for the same risk in 2017 (2017: €500.0m). 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 Central Bank.

(ii) The Central Bank has retained a provision for securities in the amount of €50.0m (2017: €120.0m). 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 €70.0m during the year is primarily due to an assessment of a reduction of risks in aggregate, together with reduced 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 2018 (Note 1(c)(ix), Note 1(m), Note 4, Note 17(i)).

(iii) Irish pound banknotes formerly issued by the Central Bank ceased to be legal tender with effect from 9 February 2002. Since then the Central Bank has maintained a provision for outstanding IEP banknotes from which €0.9m was redeemed in 2018 leaving the balance in the provision at €5.4m as at 31 December 2018 (2017: €6.3m) (Note 35(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 €161.1m 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 2018. Accordingly, the Central Bank created a provision for €2.7m, equivalent to our capital key share of the total provision (Note 1(m)(iv), Note 7).

In 2017, a provision totalling €69.0m against losses in monetary policy operations was established in relation to a security held by the Eurosystem. In accordance with Article 32.4 of the Statute, this provision was funded by all of the NCBs in proportion to their subscribed capital key shares in the ECB prevailing in 2017. Accordingly, the Central Bank created a provision for €1.1m, equivalent to our capital key share of the total provision. The size of the provision in the financial statements 2017 was calculated taking into account the information regarding the sale of the security in January 2018 and therefore the loss in 2018 was fully covered by usage of the provision. For disclosure purposes, the utilisation is offset against the creation of the new provision in 2018 (Note 7).

(v) An overtime restructuring provision was created in 2014 for administrative and currency staff. The provision at the end of 2017 was €0.35m. During 2018, €0.32m was utilised in relation to this provision, leaving a balance of €0.03m at 31 December 2018. This amount is payable in 2019.

An opening provision of €0.01m for a Voluntary Severance Scheme (VSS) for specific technical and general staff was utilised during 2018. 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 2018, a further provision for VSS of €0.18m was created which was fully utilised, leaving no balance at 31 December 2018. (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.

During the year, a restructuring provision was created and utilised in relation to the cessation of a role within the organisational structure. A severance payment totalling €0.28m was made (the payment was in line with the terms of the established public service voluntary severance scheme).

Note 33: Revaluation Accounts

	2018 €000	2017 €000	Net Movement in Unrealised Gains €000
Securities (i)	6,180,759	8,858,317	(2,677,558)
Gold	168,954	161,389	7,565
Foreign Currency	25,597	4,400	21,197
Investment Property (Note 21(iv))	9,622	9,622	-
PPE Revaluation (Note 21 (iii))	245	250	(5)
At 31 December	**6,385,177**	**9,033,978**	**(2,648,801)**

(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 €4.0bn nominal of the FRNs in 2018, and a decrease in FRN prices. (Note 1(j), Note 17(ii)(a)).

The foreign exchange rates used vis-à-vis the euro for the end-year valuations are as follows:

Currency	2018 Rate	2017 Rate
Australian Dollar	1.6220	1.5346
Canadian Dollar	1.5605	1.5039
Chinese Yuan Renminbi	7.8751	7.8044
Danish Krone	7.4673	7.4449
Japanese Yen	125.8500	135.0100
SDR	0.8228	0.8420
Sterling	0.8945	0.8872
Swedish Krona	10.2548	9.8438
Swiss Franc	1.1269	1.1702
US Dollar	1.1450	1.1993
The gold prices used were:		
Euro per fine ounce	1,120.9610	1,081.8810

Note 34: Capital and Reserves

	Capital (i) €000	General Reserve €000	Currency Reserve €000	Total €000
At 31 December 2016	30	3,247,306	351,648	3,598,984
Retained profit for the year	-	587,832	-	587,832
PPE Revaluation	-	-	-	-
At 31 December 2017	**30**	**3,835,138**	**351,648**	**4,186,816**

	Capital (i) €000	General Reserve €000	Currency Reserve €000	Total €000
At 31 December 2017	30	3,835,138	351,648	4,186,816
Retained profit for the year (ii)	-	564,104	-	564,104
PPE Revaluation	-	5	-	5
At 31 December 2018	**30**	**4,399,247**	**351,648**	**4,750,925**

(i) The authorised capital of the Central 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 €564.1m comprising of €598.0m from the Profit and Loss and Appropriation Account and an actuarial loss of €33.9m, which was recognised in the Profit and Loss and Appropriation Account (Note 31(ii)).

Note 35: Contingent Liabilities and Commitments

Contingent Liabilities

(i) *Bank for International Settlements*

The Central Bank holds 8,564 shares in the Bank for International Settlements, each of which is 25% paid up. The Central Bank has a contingent liability in respect of the balance (Note 6(ii), Note 21(v)).

(ii) *Capital and Foreign Reserve Assets Pledged to the ECB*

Under the Statute of the ESCB the Central Bank may be called upon in the future, along with all other participating NCBs, to transfer further amounts of capital (Article 28) and foreign reserve assets (Article 30) to the ECB (Note 18, Note 19).

(iii) *Irish Pound Banknotes*

The Central 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 2018, Irish pound banknotes to the value of €225.1m (2017: €226.0m) were still outstanding, against which the Central Bank has a provision of €5.4m (2017: €6.3m) (Note 32(iii)).

(iv) *Litigation*

The Central Bank has two on-going legal cases (2017: two) which may result in a liability for the Central Bank where claims are being made against the Central Bank. The Central Bank is currently defending these actions. The possible outflow of economic resources cannot be reliably estimated and therefore no legal provisions in respect of these cases are recognised in the Statement of Accounts (2017: None).

Commitments

(i) Operating Leases

The Central Bank did not enter into any new operating leases in 2018.

Future Minimum Lease Payments	2018 €000	2017 €000
Not later than one year	450	380
After one year but not more than five years	717	699
After five years	930	-
Total	**2,097**	**1,079**
Actual Lease Payments	473	1,148

Note 36: Financial Risk Management

The Central 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 Central 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 Central 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 Risk Management Committee (RMC) and the Financial Risk Working Group (FRWG) oversees the Central Bank's financial risk-management activities, ensuring adherence to approved standards and policies. The Deputy Governor (Central Banking) is the Chair of the RMC.

Four main divisions of the Central Bank are engaged in the active management of the Central 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 Central 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 Central 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 Central 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 Central 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 the Organisational Risk Division 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 Central 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 Central Bank. The Central Bank is exposed to credit risk associated with the Central Bank's investment activities and through monetary policy operations, including non-standard measures such as the EAPP.

Credit risk in the Central 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 Central 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 Central 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, risks are further mitigated by conducting 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 SMP, the CSPP and the CBPP3, in addition to a certain portion of the PSPP are borne by the Central Bank on a capital key share basis. Separately, the Central Bank's holdings of Irish government securities under the PSPP are held on an own-risk basis. Following a collective asset impairment assessment, the Central Bank has deemed it prudent to set aside a provision of €50.0m in its 2018 annual accounts in respect of exposures to credit risks on certain held-to-maturity assets. In addition, the Central Bank has set aside a provision of €2.7m in its 2018 annual accounts, as a result of an impairment in the Eurosystem's CSPP portfolio (Note 32).

Interest Rate Risk

Interest rate risk refers to the risk of loss arising from adverse changes in interest rates. The Central 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 FRWG, the RMC and the Risk Committee of the Commission.

A key source of interest rate risk exposure for the Central Bank relates to the sensitivity of the value of its investment assets to interest rate changes. The Central 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 Central 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[36] (VaR) and Expected Shortfall are used as supplementary measures of market risk on the Central Bank's portfolios.

The Central 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(ii)). Furthermore, portfolios that are held at amortised cost are not sensitive to interest rate movements - this includes the Central 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 Central Bank's capital and earnings arising from movements in interest rates that

[35] The Value at Risk is the maximum loss that can be expected within a specified holding period with a specified confidence level

affect its Balance Sheet positions. In this respect, the Central Bank is exposed to a potential interest rate mismatch due to its holdings of fixed rate assets under the EAPP while its related liabilities are tied to (variable) monetary policy rates. To assess this risk, the Central Bank considers its Balance Sheet positions regularly in the context of potential interest rate movements 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 Central Bank's Balance Sheet. As part of its assessment of interest rate risk, and the identification of a potential interest rate mismatch, the Central Bank has deemed it prudent to increase its general risk provision to €750.0m, resulting in an additional charge of €250.0m in 2018 (2017: €335.0m) (Note 32).

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 Central 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 2018, the Central 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 Central Bank has an exposure to foreign currency fixed income assets on an unhedged basis (Note 12, Note 13). The Central Bank is also exposed to currency risk through a net-asset position in IMF SDRs. This exposure was held on a hedged basis in 2018 (Note 12(ii), 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 Central 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 Central 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 an issue being downgraded below the Central Bank's approved investment grade threshold.

Note 37: Off-Balance Sheet Items

(i) Unmatured Contracts in Foreign exchange

	31 December 2018				31 December 2017			
	DKK 000	EUR 000	JPY 000	SDR 000	DKK 000	EUR 000	JPY 000	SDR 000
Unmatured Purchases	12,205	2,172,728	47,364	-	11,308	2,134,742	33,537	-
Unmatured Sales	(2,708,905)	(2,004)	(127,347,364)	(682,284)	(2,641,058)	(1,777)	(127,049,366)	(682,284)
Unmatured Purchases and Sales	**(2,696,700)**	**2,170,724**	**(127,300,000)**	**(682,284)**	**(2,629,750)**	**2,132,965**	**(127,015,829)**	**(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 2019.

(ii) Unmatured Contracts in Futures

	2018 €000	2017 €000
Unmatured Purchases	800,000	335,000
Unmatured Sales	(80,000)	(100,000)
Unmatured Purchases and Sales	**720,000**	**235,000**

These contracts are used for hedging interest rate exposure as well as making investments within approved limits.

All futures contracts are scheduled to mature by 7 March 2019.

Note 38: Related Parties

(i) The Central 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 2018 were:

- Provision of banking services including holding the principal accounts of Government
- Provision and issue of coin
- Holding and maintaining the Register of Irish Government securities.

(ii) As a participating member of the ESCB, the Central Bank has on-going relationships with other NCBs and the ECB. The main balances related to other NCBs and the ECB are:

- Interest income and interest expense on items related to monetary policy implementation (Note 2, Note 3, Note 4, Note 5, Note 7, Note 15, Note 17, Note 24)
- Share of ECB profits (Note 6)
- Participating interest in the ECB capital (Note 18)
- Claims equivalent to the transfer of foreign reserves to the ECB (Note 19)
- TARGET2 Balance (Note 20)
- Banknotes in circulation (Note 23, Note 29)
- Provisions (Note 32).

(iii) The Central Bank is one of three shareholders of "The Investor Compensation Company DAC" (ICCL) and provides administrative and other services to it, the costs of which are recovered from the ICCL. The Central 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 2018 the Central Bank recovered costs of €0.7m (2017: €0.7m). At 31 December 2018 a balance of €57,201 was due from ICCL (2017: €47,393) (Note 21(iii)). Managed service costs of €64,167 were prepaid as at 31 December 2018 (2017: €64,168) (Note 21). The ICCL prepares its own Annual Report and audited Financial Statements.

(iv) The Central Bank is responsible for the administration of the Insurance Compensation Fund pursuant to the Insurance

(Amendment) Act 2018 which was enacted on 24 July 2018. A balance of €62.5m was held with the Central Bank on behalf of the Fund as at 31 December 2018 (Note 30).

(v) The Central 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. A balance of €0.01m was held with the Central Bank on behalf of the Fund as at 31 December 2018 (Note 8, Note 30(vi)).

(vi) The Central 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 Central Bank for the benefit of its employees. Details on the Central Bank's contributions to the pension funds are set out in Note 31.

(vii)The Central Bank holds a non-controlling interest in Dublin Landings (Estate Management) Company Designated Activity Company, a company which manages the common areas surrounding the Central Bank's North Wall Quay premises. During the year, a charge totalling €100 in respect of the granting of a leasehold interest of common areas in the wider Dublin Landings development area was made by the Central Bank (2017: Nil). This amount remains outstanding at the year-end (2017: no balances outstanding).

Note 39: Events after the End of the Reporting Period

(i) ECB Final Distribution of Profits

The Governing Council decided on 21 January 2019 to distribute its remaining profit for 2018, amounting to €384.0m, to the euro area NCBs, in proportion to their paid-up shares. The Central Bank's share of this final distribution of profits was €6.3m, which was paid on 22 February 2019, and will be accounted for in the 2019 Statement of Accounts.

(ii) Cessation of Banknote Printing

Subsequent to the year-end, the Central Bank agreed with staff the terms for cessation of the production of Banknotes. Engagement with the staff impacted is ongoing, and accordingly the financial impact of cost of severance associated with this agreement has not yet been fully quantified.

Note 40: Financial Regulation Activities

				2018 €000	2017 €000
Funding of Financial Regulation Activities	Levy Income	Levy Income (i)		136,596	98,242
		Deferred Levy Income (ii)		4,331	6,491
		Levy Income	A	**140,927**	**104,733**
	Provisions	Opening Provisions for Unpaid Levies		1,612	1,540
		Levies Written Off		(706)	(306)
		Closing Provisions for Unpaid Levies (iii)		(1,826)	(1,612)
		Charge for Year	B	**(920)**	**(378)**
	Financial Regulation Net Industry Funding (Note 8(i))		**C** (A+B)	**140,007**	**104,355**
	Other Income	Securities Market Fees		2,720	2,875
		Licensing Fees		-	500
		Additional Supervisory Levy		2,267	123
		Miscellaneous		21	72
		Other Income (Note 8)	D	**5,008**	**3,570**
	Total Income		**E** (C+D)	**145,015**	**107,925**
	Subvention	Securities Market Supervision Activities		10,163	8,920
		Other Financial Regulation Costs not Recovered		57,892	68,007
		Subvention from Central Bank (iv)	F	**68,055**	**76,927**
	Total Funding of Financial Regulation Activities (vi)		**G** (E+F)	**213,070**	**184,852**
Costs of Financial Regulation Activities	Direct Expenses	Salaries / Allowances		68,140	58,906
		PRSI		6,529	5,436
		Pension Provision		20,437	23,010
		Staff Expenses	H	**95,106**	**87,352**
		Training & Conferences		524	824
		Business Travel		1,779	1,577
		Professional Fees		15,225	11,061
		Other Non-Pay		1,832	1,798
		Communications & IT		798	723
		Facilities, Rent, Depreciation		1,874	2,141
		Non-Pay Operating Expenses	I	**22,032**	**18,124**
		Total Direct Expenses	**J** (H+I)	**117,138**	**105,476**
	Support Services	Premises & Facilities		15,416	**15,595**
		Information Technology Services		26,882	22,460
		Human Resources		7,706	**7,311**
		Other Services		46,090	40,729
		Total Support Services (v)	K	**96,094**	**86,095**
	Provisions	**Restructuring Charge for Year (vi)**	L	**137**	**170**
	Other Income	**Miscellaneous Receipts (vii)**	M	**(299)**	**(6,889)**
	Total Costs of Financial Regulation Activities		**N** (J+K+L+M)	**213,070**	**184,852**

(i) *Levy Income*

	2017 Deficit / (Surplus) A €000	Amount Levied in 2018 B €000	2018 Deficit / (Surplus)* C €000	2018 Levy Income D (B+C-A) €000
Credit Institutions	1,490	54,751	6,492	59,753
Insurance Undertakings	2,133	35,647	1,488	35,002
Intermediaries & Debt Management Firms	880	6,098	707	5,925
Securities & Investment Firms	1,209	19,894	4,909	23,594
Investment Funds	680	5,508	590	5,418
Credit Unions	-	1,665	-	1,665
Moneylenders	67	887	(79)	741
Approved Professional Bodies	4	34	(12)	18
Bureaux de Change	7	11	-	4
Home Reversion, Retail Credit & Credit Servicing Firms	333	1,371	1,563	2,601
Payment Services & E-Money Institutions	219	1,270	824	1,875
Total Funding	**7,022**	**127,136**	**16,482**	**136,596**

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 (€16.6m) and surpluses (€0.1m) attributable to each Industry Funding sub-category have been included in Note 21 (iii) and Note 30 (iii) respectively.

(ii) *Deferred Levy Income*

In 2015, the Central 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 €4.3m (2017: €6.5m) has been recognised in 2018.

(iii) *Closing Provisions for Unpaid Levies*

The Central 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 the relevant proportion of the total costs of financial regulation activities has been met by the imposition of levies on the industry. The balance of the total annual costs is provided by the Central Bank in accordance with Section 32I of the Central Bank Act, 1942 (as amended). Since 2007, the Central 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 €12.9m in the current year (2017: €11.1m) 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 Central Bank. The cost of these services in 2018 was €96.1m (2017: €86.1m).

Allocation is based on well-recognised industry practice including occupied floor space, personal computer numbers and headcount (staff numbers) as appropriate.

(vi) *Restructuring Provision*

This represents the portion of restructuring provision attributable to financial regulation activity (Note 4 and Note 1(m)).

(vii) *Miscellaneous Receipts*

This represents the portion of miscellaneous receipts attributable to financial regulation activity (Note 8). In 2017, the share of the profit on the sale of the Dame Street premises was included as a reduction of the Premises & Facilities category. This has been reclassified to miscellaneous receipts along with various other cost recharge receipts attributable to Financial Regulation.

Note 41: Comparatives

Certain comparative information has been reclassified for consistency with current year disclosures.

Note 42: Approval of Accounts

The Commission approved the Statement of Accounts on 19 March 2019.

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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 2018, which comprise the Profit and Loss and Appropriation Account, the Balance Sheet and the related notes 1 to 42. 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 2018 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
for and on behalf of Mazars
Chartered Accountants & Statutory Audit Firm
Harcourt Centre, Block 3
Harcourt Road
Dublin 2

Date: 19 March 2019

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 2018 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 2018 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) as promulgated by the International Organisation of Supreme Audit Institutions. My responsibilities under those standards are described in the appendix to this report. I am independent of the Central Bank of Ireland and have fulfilled my other ethical responsibilities in accordance with the standards.

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 2018, goods and services to the value of €0.8 million were procured by the Bank without appropriate public procurement tender processes.

Seamus McCarthy.

Seamus McCarthy
Comptroller and Auditor General

19 March 2019

Responsibilities of Commission members

The governance statement and Commission members' report sets out the Commission members' responsibilities 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.

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