Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Central Bank of Ireland

Annual Report 2019 and Annual Performance Statement 2019-2020

Contents

“

The welfare of the people as a whole – is at the core of what working at the Central Bank is about.

”

Governor’s Foreword

This Annual Report and Annual Performance Statement looks, for the most part, at the Central Bank’s activities in 2019, a year that now feels a very long time ago. When I took up my role as Governor in September, our focus was on preparations for the UK’s departure from the European Union (which happened at the end of January this year). Today, we are facing the challenges of an economic crisis caused by a global public health emergency.

The actions we have taken in the first half of this year – including with our partners in Europe – to respond to the crisis were built on the collective efforts of many people in the Central Bank throughout 2019. Last year – as in the previous decade – we continued to focus on strengthening the solvency and stability of the banking sector and wider financial system, enhancing regulatory oversight, introducing more effective recovery and resolution regimes, and increasing protections for consumers. The initial resilience of the financial system to the shock of COVID-19, despite the severe dislocation in markets, is a testament to the significant efforts of the Central Bank’s people and those of our European colleagues.

But there is no room for complacency. Our mission is to safeguard monetary and financial stability and ensure that the financial system operates in the best interests of consumers and the wider economy. Our focus over recent weeks has been to ensure the financial system can support households and firms through the crisis and is also ready to support the recovery when it comes. We want the economic shock – and its effects on people’s livelihoods – to be curtailed to the greatest extent possible.

The reality of course is that other significant challenges have not gone away, and new ones will emerge. Although the current crisis is not about the failure of the financial system itself, in the face of a shock – the end-point of which is uncertain – remaining vigilant to risks will remain a significant part of our overall response. Whether facing the challenge of COVID-19, the pace of technological change, the impact of climate change or the consequences of the UK's withdrawal from the EU, the Central Bank will always act in the public interest. In the words of our founding legislation, the Central Bank's "constant and predominant aim shall be the welfare of the people as a whole".

And that aim – **the welfare of the people as a whole** – is at the core of what working at the Central Bank is about. It's what motivates our people to bring their expertise, their professionalism and their commitment to work every day. It is also why I think it is important for the Central Bank to be well-connected to the community across the length and breadth of Ireland, listening and learning about the issues households and firms are facing, and explaining what we do and why we do it.

Moreover, engagement beyond cannot stop at the shore. Ireland is a dynamic, outwardly focused and internationally connected country. The Central Bank needs to be the same: a confident, outward-facing, dynamic, and ambitious institution prepared to influence and shape policy at European and global levels. The financial system is interconnected internationally and it remains essential that its oversight is similarly interconnected.

Engagement is fundamental to delivering on our vision to be trusted by the public, respected by our peers, and a fulfilling workplace for our people.

This report is about the extensive and varied work carried out by the Central Bank's people in 2019. I want to thank all of them for their commitment and their contribution last year and for their response to the challenges posed by the pandemic so far this year.

Gabriel Makhlouf

Governor

30 April 2020

Overview of the Central Bank

Our mission:

To serve the public interest by safeguarding monetary and financial stability and by working to ensure the financial system operates in the best interests of consumers and the wider economy.

Our Strategic Themes:

Strengthening Resilience

The financial system is better able to withstand external shocks and future crises.

Brexit

The risks posed to the economy, financial system, regulatory environment and consumer protection by the impact of Brexit are mitigated.

Strengthening Consumer Protection

The best interests of consumers are protected and confidence and trust in the financial system is enhanced through effective regulation of firms and markets.

Enhancing Organisational Capability

Our culture, resources and capabilities support the effective and efficient delivery of our mandate whilst maintaining the highest standards of governance and risk management.

Engaging and Influencing

We engage with and listen to the public and stakeholders to inform our work and help build trust in, and understanding of, the Central Bank.

We strategically influence and shape key decisions and policies in Europe and internationally.

Building on our statutory mandates:

Price Stability
As part of the European System of Central Banks, the primary objective of the Central Bank is to maintain price stability.

Financial Regulation
The proper and effective regulation of financial service providers and markets, while ensuring that the best interests of consumers of financial services are protected.

Financial Stability
The stability of the financial system overall.

Payments, Settlements and Currency
The efficient and effective operation of payment and settlement systems.

Resolution
The orderly resolution of failing credit institutions, certain investment firms and credit unions.

Economic Analysis and Statistics
The provision of analysis and comment to support national economic policy development.

The discharge of such other functions and powers conferred on the Central Bank by law including:
The operation of the Central Credit Register, the Deposit Guarantee Scheme and the Insurance Compensation Fund.

2019 in review

Monetary Policy:

Key ECB interest rates "lower for longer".

Asset purchase programme restarted.

Financial Stability:

Mortgage Measures unchanged.

Countercyclical Capital Buffer (CCyB) rate of 1% came into effect in July.

Brexit:

Working to mitigate risks to the economy, financial system and consumers.

Climate Change:

Working to ensure that the financial system is resilient to climate-related risks.

Economic Research:

15 Research Technical Papers, 14 Economic Letters, and 17 Financial Stability notes published.

Supervision:

Assertive, risk-based, analytical and outcome focused supervision, supported by robust enforcement powers.

In 2019, work included focus on resilience of firms, culture, new authorisations, emerging risk and ongoing resolution of Non-Performing Loans.

Central Credit Register:

By end-2019, 1.7m credit reports provided to lenders and 9,848 credit reports provided to borrowers.

Tracker Mortgage Examination:

At end-December, c. 40,500 affected customers and €700m in redress and compensation paid.

Errors & Consumer Restitution

In line with the Consumer Protection Code, firms returned €74m to consumers arising from errors across multiple sectors, primarily the banking sector.

Enforcement:

Eight enforcement actions completed under the Administrative Sanctions Procedure (ASP), resulting in fines totalling more than €30m.

Protected Disclosures:

200 protected disclosures received.

Actions taken on foot of information received as a protected disclosure include: undertaking additional supervisory work such as on-site inspections; requiring a firm to fix issues; putting firms under higher supervisory focus; and taking enforcement action.

Collector Coins:

€100 Gold Proof Coin to mark 100 years since the first sitting of Dáil Éireann.

€15 Silver Proof coin to mark 100 years of transatlantic aviation.

€15 Silver Proof coin to mark 70 years since the year of Phil Lynott's birth.

People:

The Central Bank employed over 1,950 people at end-December, including those from our Graduate Programme.

Visitors:

Welcomed 22,500 visitors to North Wall Quay premises, including a Career Fair for the local community, Open House and Culture Night.

Welcomed 18,000 visitors to our exhibition at the National Ploughing Championships.

Community:

The Central Bank participated in various community initiatives, including:

National College of Ireland's Early Learning Initiative.

Junior Achievement Ireland's (JAI) national schools' education programme.

Career LEAP, a work-readiness programme for local young adults not in education, employment or training.

Launching "Bridging the Gap", offering a fully-funded place on a Level 5 course at Rathmines College and a paid internship.

Energy Use & the Environment:

Surpassed the 2020 National Energy Efficiency Action Plan (NEEAP) 33% energy reduction target with a 55% reduction.

The Central Bank Commission*

Gabriel Makhlouf
Governor of the
Central Bank (Chair) **

Patricia Byron
Re-appointed
Jan 2019 for 5 years

Sharon Donnery
Deputy Governor
Central Banking

John FitzGerald
Re-appointed
Oct 2015 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

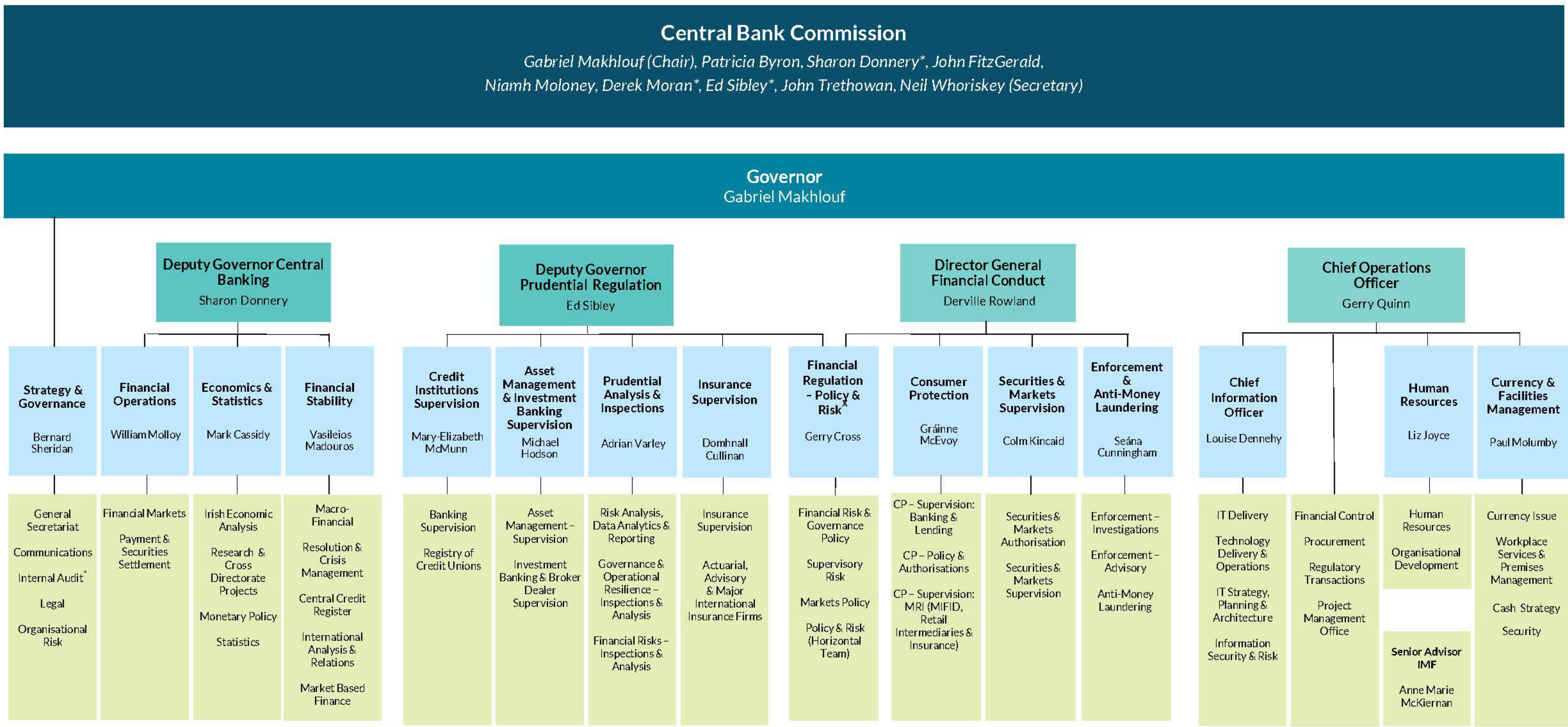
Neil Whoriskey
Secretary
of the Central
Bank

*The composition of the Central Bank Commission as at 31 March 2020.

Des Geraghty was a member of the Commission until 30 September 2019. Alan Ahearne was a member of the Commission until 8 March 2020. Alan Ahearne was appointed to the Risk Committee to serve as Chair of the Risk Committee from 8 March 2020.

**Philip Lane was Governor and Chair of the Commission until 31 May 2019. Sharon Donnery was acting Governor until Gabriel Makhlouf was appointed Governor on 1 September 2019.

Organisation Chart



* Ex-officio

^ Internal Audit Division reports directly to the Governor and only reports to the Director of Strategy & Governance 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.

Governance

This section sets out the processes applicable to the governance of the Central Bank during 2019.

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 European System of Central Banks (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 European Central Bank (ECB) and of the ESCB (the ESCB statute). In addition, it performs certain non-ESCB tasks mandated by national law, including 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. Many elements of Irish financial services legislation implement EU laws and it is for the Central Bank to ensure compliance with relevant legislation. With the establishment of the Single Supervisory Mechanism (SSM), a number of supervisory responsibilities and decision making powers moved to the ECB.

The Central Bank Commission

The Act provides that the affairs and activities of the Central Bank are managed and controlled by the Central Bank 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.

Gender Balance

Four Central Bank Commission members are appointed in an ex-officio capacity. One of the four ex-officio members was female. Of the remaining five Board members in 2019 two, or 40%, were female. Overall, the Commission is at 33.33% female representation. The most recent appointments by the Minister for Finance were undertaken in line with the Department of Public Expenditure and Reform Guidelines on Appointments to State Boards 2014 and, in cognisance of the 40% gender balance targets, were made on a 50:50 basis. The Minister has indicated that any future appointments to the Commission will continue with this approach.

Organisational Structure

The organisational structure of the Central Bank is determined largely by the Central Bank Act 1942 (as amended). The Act establishes the Central Bank as an organisation, sets out its functions and provides for the structures within which the Central Bank carries out such functions. The Central Bank's functions derived from various legal sources, including the EU Treaties, the Central Bank Acts, and other financial services legislation. While some functions may be assigned to specific 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 and resolution functions). However, this is subject to statutory delegations and assignment of responsibility.

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

The Central Bank is organised into a number of directorates and each directorate has responsibility for a number of business divisions.

Governance Framework

The Central Bank has a clearly defined governance framework, as described in the Governance Framework document published on the Central Bank's website. The Governance 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, and other internal governance arrangements in the Central Bank.

Responsibilities of Senior Leaders at the Central Bank

The Central Bank's Responsibilities of Senior Leaders (RSL) document 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. 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 General Counsel, the Head of Internal Audit and the Head of Organisational Risk are included as they have direct accountabilities to the Commission and/or the Governor. Information on the RSL is published on the Central Bank website.

Internal Governance Structures

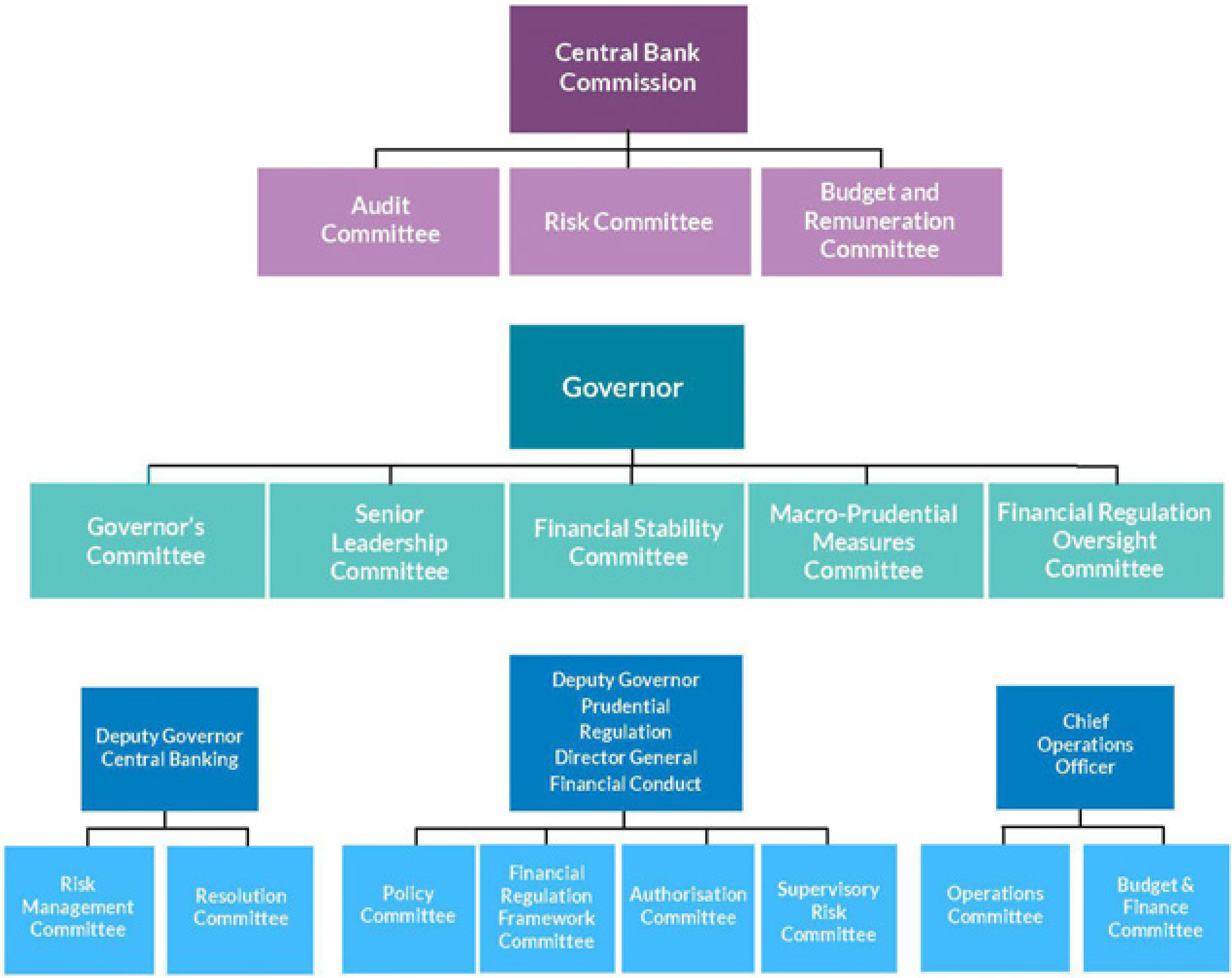
While the Commission has overall responsibility for the management and control of the Central Bank, there are a number of cross-organisational committees with responsibility for coordinating development and implementation of policies and advising on major issues.

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. Through involvement with cross-organisational committees, the Central Bank's senior management 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. The role of the Committee is to advise 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 is set out in Figure 1.

Figure 1: Central Bank Internal Governance



Organisational Committees

- The **Senior Leadership Committee** (chaired by the Governor), comprises the senior leadership team including all Directors and Governor's Committee members and is responsible for owning the Strategic Plan 2019-2021 (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 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 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) formulates and monitors the Central Bank's annual budget, oversees and advises (within delegated limits) on the approval of investment envelope items, and considers industry levy financing matters from a process perspective. The Committee reviews 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. The Committee identifies potential actions that can be taken to mitigate risks to financial stability.

- The **Macro-Prudential Measures Committee** (chaired by the Governor) advises on regular reviews of 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. A summary of the meetings is published on the Central Bank website.

- The **Financial Regulatory Oversight Committee** (chaired by the Governor) ensures effective coordination of regulatory work and related cross-Central Bank policy initiatives.

- The **Supervisory 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 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 implementation of the Central Bank and Credit Institutions (Resolution) Act 2011, the

EU (Bank Recovery and Resolution) Regulations 2015, and those regulated firms categorised as 'Category 1' firms or Markets in Financial Instruments Directive (MiFID) firms, Insurance and Reinsurance firms categorised as 'Category 2A' firms in the Central Bank's Authorisations and Revocations Framework.[1, 2, 3]

- 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.
- The **Financial Regulation Framework Committee** (co-chaired by the Deputy Governor, Prudential Regulation and the Director General, Financial Conduct) centralises oversight of the Fitness and Probity (F&P) 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 F&P strategy and policy (regulatory, supervisory and enforcement policy, including implementation of regulatory or legislative change) and facilitates, cooperation and consistency in relation to the operation of the F&P regime.

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. Following receipt of the Strategic Plan, the Minister must lay it before the Oireachtas. As soon as practicable after becoming aware that the Strategic Plan has been laid before the Oireachtas, the Central Bank must publish and take all reasonable steps to implement it.

Annual Report and Annual Performance Statement

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

[1] Regulated firms includes all entities and individuals regulated by the Central Bank.

[2] 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 & Investment Banking Supervision.

[3] 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.

and reports on the Statement of Accounts and remits 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 Statute.

In accordance with Section 32L of the Act, the Central Bank is required to prepare an Annual Performance Statement (APS) on the regulation of financial services for submission to the Minister for Finance by 30 April each year. In accordance with the Act, the APS 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.
- A report of any international peer review on the Central Bank's performance of its regulatory functions carried out under this legislation during the year.

Within one month of receiving an APS, 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 Central Bank of any of its functions. However, the Minister may not consult with the Governor in relation to his ESCB functions.

Appearances before the 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 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 APS. In such circumstances, the Governor or Deputy Governor shall appear before the Committee and provide the Committee with information as it can, subject to the Central Bank's professional secrecy and confidentiality obligations.

Table 1: Appearances before the Oireachtas Committees in 2019

Date	Oireachtas Committee	Attended by
27/02/2019	Budgetary Oversight Committee to discuss Brexit and other fiscal risks with the Central Bank	Mark Cassidy, Director of Economics and Statistics; John Flynn, Head of the Irish Economic Analysis Division; Thomas Conefrey, Irish Economic Analysis Division
26/03/2019	Oireachtas Finance Committee Regular engagement with the Central Bank	Philip Lane, Governor; Ed Sibley, Deputy Governor, Prudential Regulation; Derville Rowland, Director General, Financial Conduct
02/04/2019	Oireachtas Finance Committee No Consent No Sale Bill 2019	Ed Sibley, Deputy Governor, Prudential Regulation; Gráinne McEvoy, Director of Consumer Protection; Vasileios Madouros, Director of Financial Stability
18/04/2019	Oireachtas Finance Committee Future framework for accountability in the banking sector	Gerry Cross, Director of Financial Regulation – Policy & Risk; Seána Cunningham, Director of Enforcement; Mary-Elizabeth McMunn, Director of Credit Institutions
19/06/2019	Seanad Special Select Committee on the Withdrawal of the UK from the EU	Mark Cassidy, Director of Economics and Statistics; Gina Fitzgerald, Head of Financial Risks and Governance Division
24/10/2019	Oireachtas Finance Committee Tracker Mortgage Examination	Derville Rowland, Director General, Financial Conduct; Gráinne McEvoy, Director of Consumer Protection; Seána Cunningham, Director of Enforcement and Anti-Money Laundering
12/11/2019	Oireachtas Finance Committee Dual pricing	Derville Rowland, Director General, Financial Conduct; Gráinne McEvoy, Director of Consumer Protection; Domhnall Cullinan, Director of Insurance Supervision
05/12/2019	Oireachtas Finance Committee Regular engagement with the Central Bank	Gabriel Makhlouf, Governor; Sharon Donnery, Deputy Governor Central Banking; Ed Sibley, Deputy Governor, Prudential Regulation, Derville Rowland, Director General, Financial Conduct.

Statutory Inquiries

The Central Bank, its officers and employees are called as required 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 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 (NCB), or another person or body whom the Governor has certified as appropriate, following consultation with the Minister.

In practice, peer reviews, in accordance with legislation are carried out on a regular basis. Details of these reviews are reported annually in the APS.

Public Sector Duty

The Central Bank is committed to being a socially responsible and sustainable organisation in how it delivers on its mandate and mission. As a public service organisation, the Central Bank's obligation to meet its public sector duty is a key part of this wider commitment. In preparing the Central Bank's Strategic Plan, an assessment of the human rights and equality issues, relevant to the functions of the Central Bank, was carried out.

The Strategic Plan sets out that the Central Bank will ensure:

- The implementation of its People Strategy promotes and supports the equality and human rights of staff.
- Engagement with the public through communications and outreach strategies as part of its commitment to corporate and social responsibility.
- All members of the public who receive services from the Central Bank are provided a professional, efficient and courteous service as set out in the Customer Charter.
- The public is consulted on Central Bank policy developments and the obligations under the 2014 Act will be considered by the Central Bank, where relevant, in the development of such policies.[4]

A further assessment was conducted across all areas of the Central Bank in 2019 and identified the management of third party

[4] The Irish Human Rights and Equality Commission Act 2014

contractors/providers and supply chain issues, as well as how the Central Bank ensures its buildings are accessible to the public, as being relevant areas to meeting its public sector duty.

The assessment concluded that overall the Central Bank has in place the relevant policies and practices across each of the areas identified. The need to have greater organisation-wide data on the effectiveness of how the Central Bank is engaging directly with members of the public was identified as needing enhancement. The review of the Central Bank's Customer Charter was also identified where further work is required.

Part 1:

Annual Report 2019

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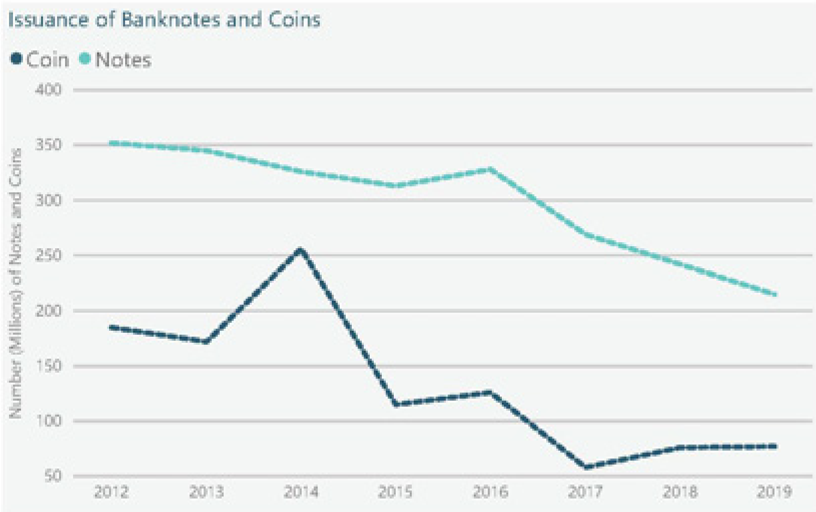
Part 1: Annual Report 2019

2019: The Central Bank at a Glance

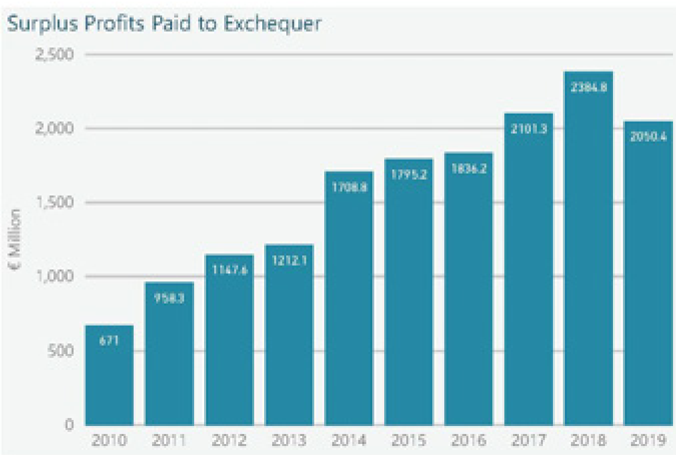


215
MILLION
NOTES &
77
MILLION
COINS ISSUED
IN 2019

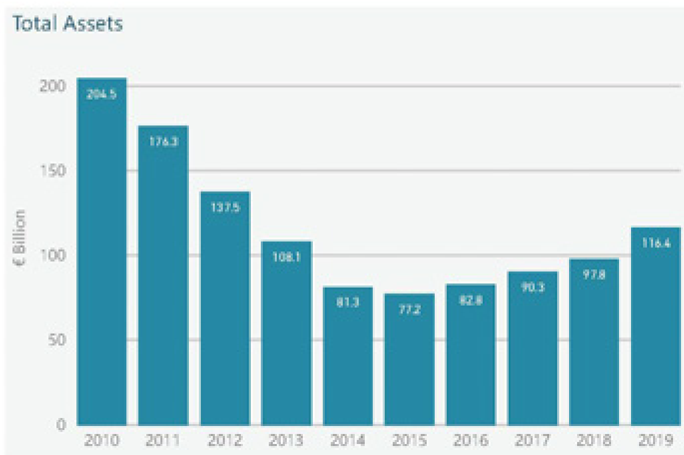
133
OPEN MARKET
OPERATIONS
IN 2019

€2,050.4
MILLION
SURPLUS INCOME
PAID TO THE
EXCHEQUER IN 2019

€116.4
BILLION
TOTAL ASSETS
IN 2019

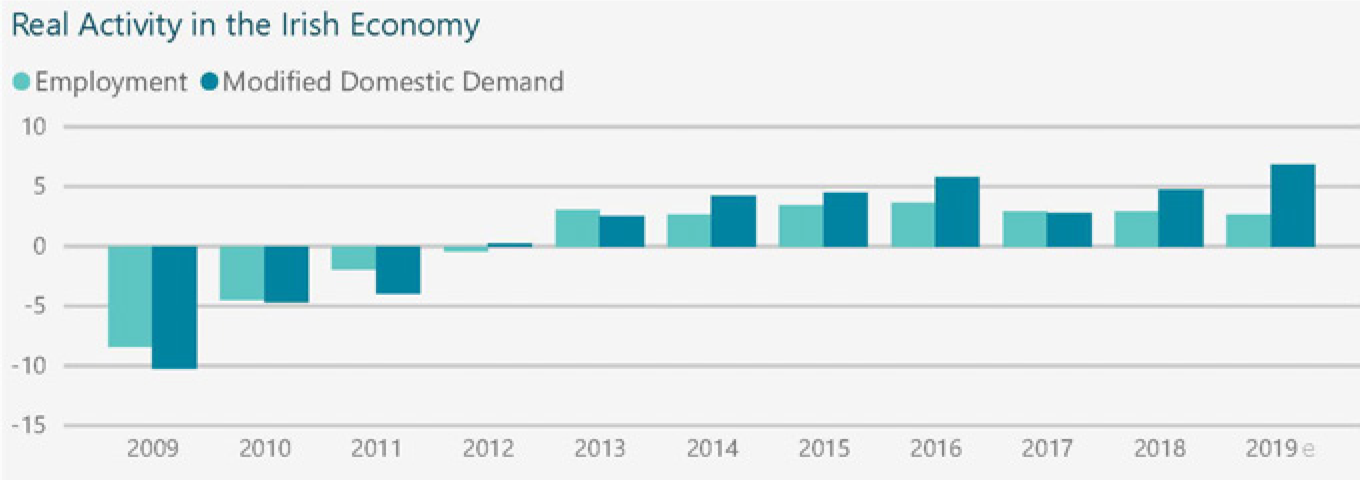


Surplus income paid to the Exchequer decreased to €2,050.4m (€2,384.8m in 2018)

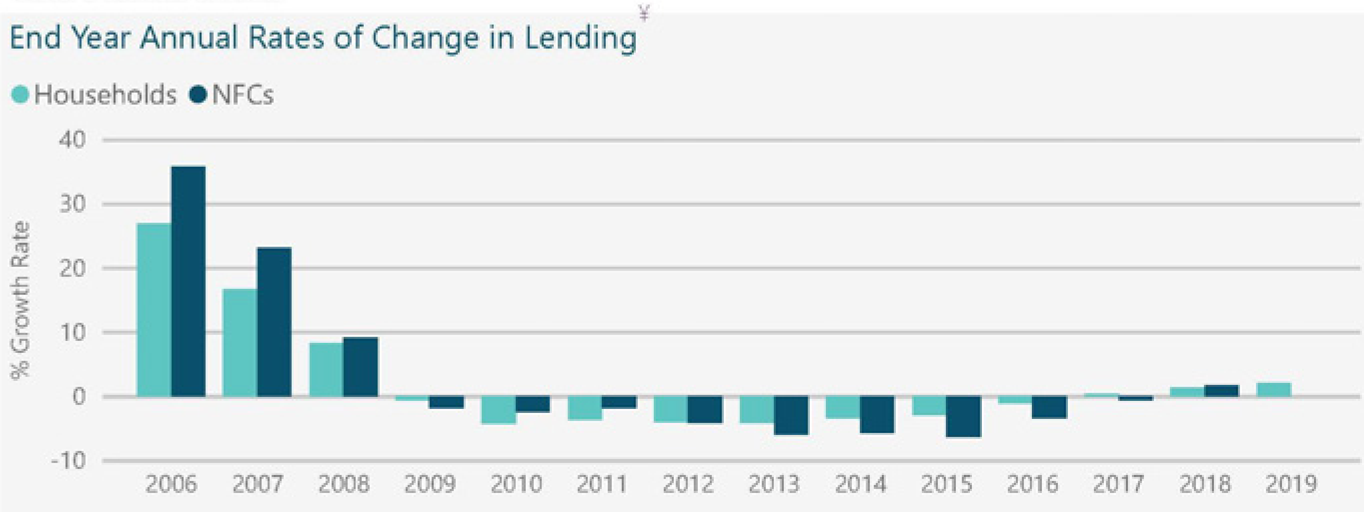


Total Assets increased to €116.4bn (€97.8bn in 2018)

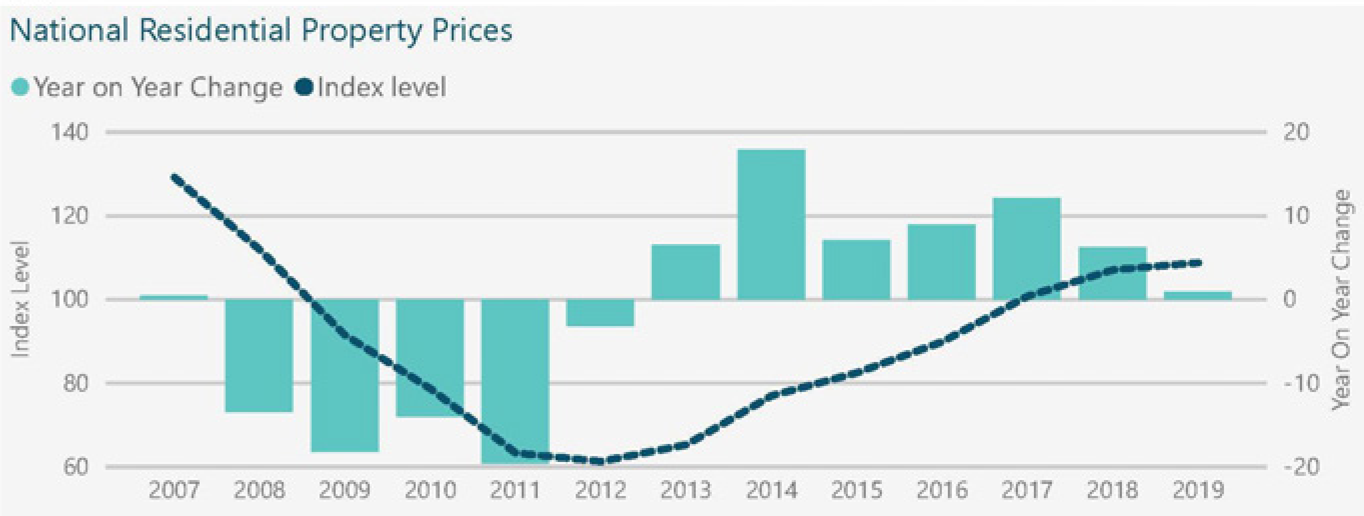
2019: The Irish Economy at a Glance



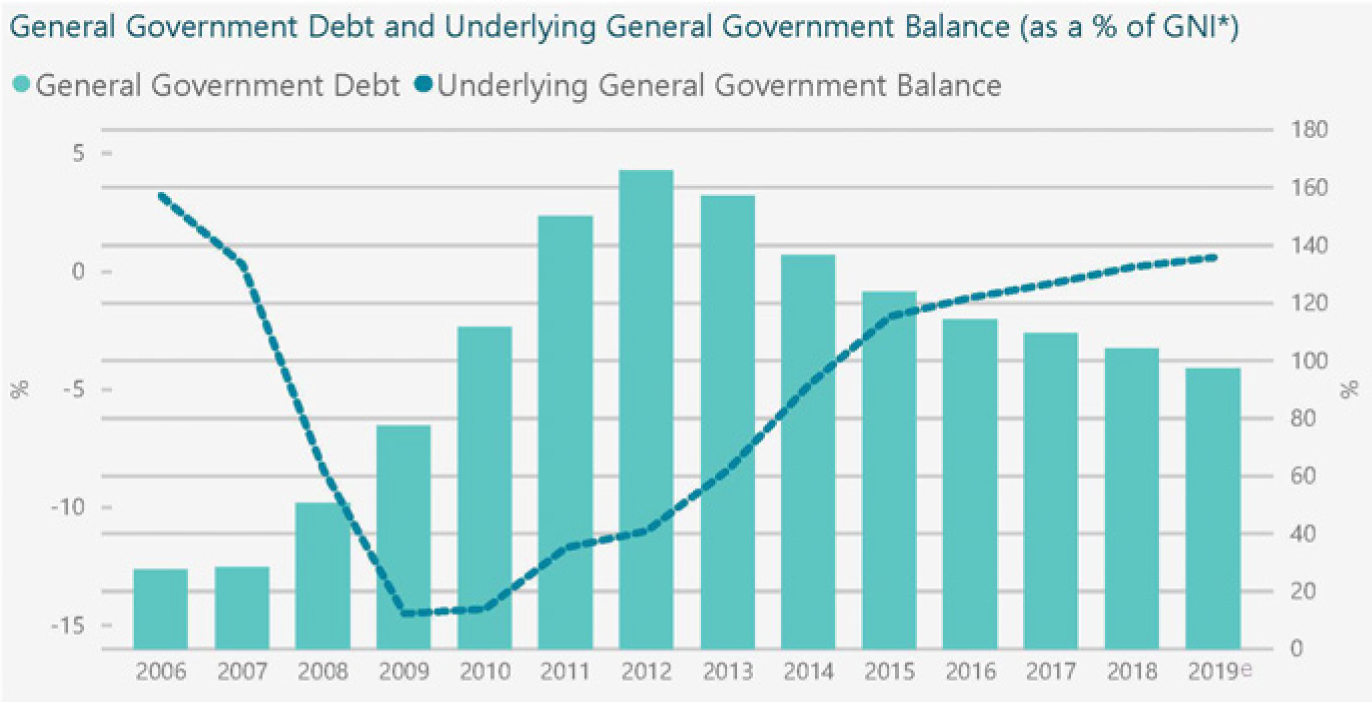
Source: CSO, Central Bank of Ireland.
Note: e denotes estimate



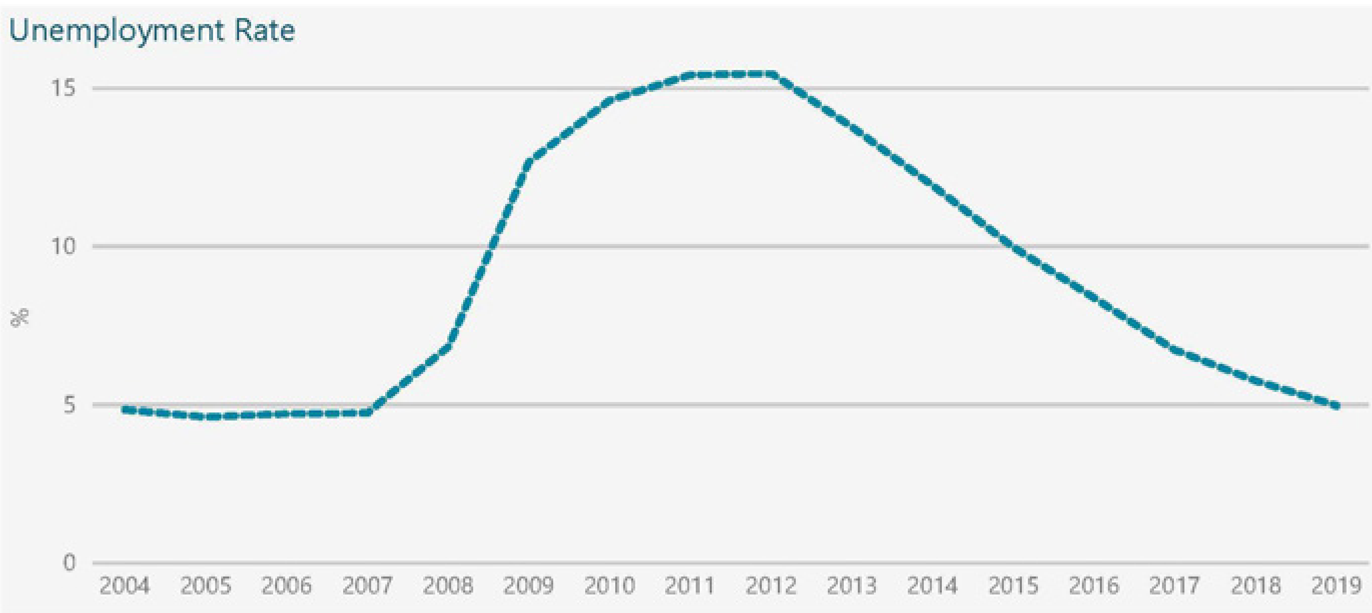
¥ Loans advanced to the irish private sector granted by within-the-State-offices of credit institutions
Source: Central Bank of Ireland
Note: Growth rates are based on underlying transactions, i.e., after adjusting for write-downs, securitisations, and transfers to NAMA, etc.



Source: CSO
Index: January 2005=100



Source: Department of Finance, CSO, Central Bank of Ireland
Note: e denotes estimate

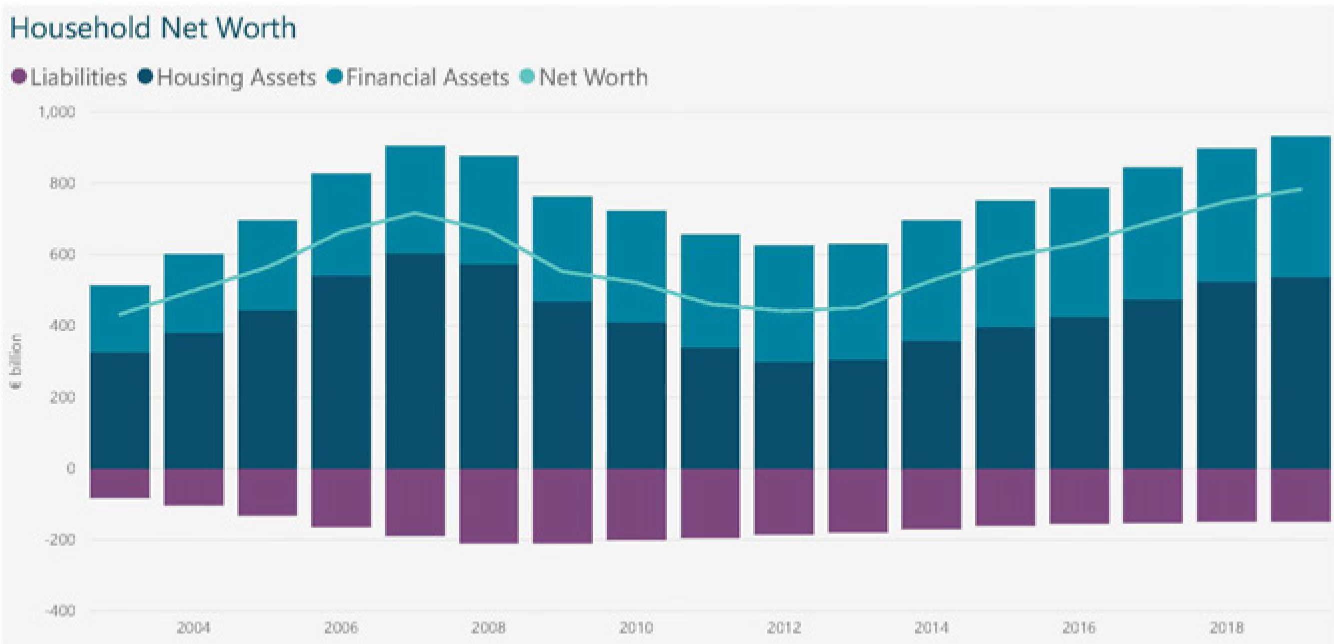


Source: CSO

Source: Central Bank of Ireland

Note: Data for 2019 are the average of the first three quarters of 2019.

* GDP is commonly used as a proxy for the ability of households and businesses to repay debt, however, due to distortions arising from MNEs, Irish GDP may not accurately reflect this. While GNI* adjusts for distortions arising from MNEs in terms of income (denominator), the presence of MNEs also significantly distorts private sector debt (numerator) in Ireland, which is not adjusted for above.



Source: Central Bank of Ireland

Note: Data for 2019 are the average of the first three quarters of 2019

Chapter 1:

Strategic Plan 2019-2021: Review of Implementation

Chapter 1: Strategic Plan 2019-2021: Review of Implementation

Introduction

In 2018, the Central Bank published its Strategic Plan which was based on five thematic priorities. These are closely linked to its mission and vision and will collectively contribute to the delivery of the Central Bank's wider objectives. During 2019, good progress was made across the five strategic themes and more detail on this is set out below. A mid-cycle review of the Strategic Plan is scheduled for later in 2020 to ensure it remains optimal, particularly in light of the COVID-19 pandemic.

Strengthening Resilience

There was continued progress towards strengthening resilience of the financial system in 2019. This strategic theme, which encompasses a range of activities by the Central Bank, including macro-prudential policy, supervision, resolvability and crisis management, aims to ensure that "the financial system is better able to withstand external shocks and future crises".

The Central Bank completed its regular reviews of the macro-prudential mortgage measures as well as the macro-prudential policies it has already activated on bank capital. In combination, these measures aim to strengthen the resilience of both lenders and borrowers, ensuring that they are better able to withstand potential adverse shocks in the future. The Central Bank also sought, and the Minister of Finance agreed to grant, the power to set the Systemic Risk Buffer. Once completed, this will finalise the macro-prudential toolkit for bank capital in Ireland.

In 2019, the Central Bank continued to emphasise the importance of regulated firms strengthening their resilience against current and emerging risks. There is a continued focus on ensuring that banks have sufficient financial resources (capital and liquidity). Progress was also made in dealing with the legacy issues that continue to pose challenges for firms, with a continued reduction in Irish retail banks' non-performing loans in 2019. Supervisory attention focused increasingly on operational resilience, including resilience to potential cyber threats.

Resilience in the Irish banking sector was also strengthened through continued, concrete progress towards resolvability. Irish retail banks issued additional loss-absorbing debt instruments in 2019 and there was further progress towards removing other identified barriers to resolution. The Central Bank's financial crisis preparedness capabilities were tested in practice as part of the Central Bank's contingency planning work around Brexit.

The Central Bank published its new Financial Stability Review in 2019. This set out the Central Bank's judgement on the main risks to financial stability, the resilience of the different parts of the financial system, and the policy actions taken to safeguard financial stability. The revised format of the Financial Stability Review aims to strengthen transparency and accountability around the Central Bank's financial stability policies.

Brexit

During 2019, the Central Bank progressed work to ensure that the risks posed to the economy, financial system, regulatory environment and consumer protection arising from the UK's departure from the EU were understood and mitigated (insofar as possible). In light of the significant work undertaken in relation to Brexit in 2019 (and previously), the Central Bank was well-positioned to understand, assess and respond effectively to Brexit-related developments.

The key cliff-edge risks identified by the Central Bank were considered to be manageable at the point of the various potential Brexit dates in 2019 (March, April and October). In light of the various legal and policy tools developed, this included, inter alia, the development of a domestic temporary "run-off" regime for insurers and brokers mitigating the risk of a disruption to the continuity of insurance contracts from the UK to Ireland, published as part of the Government Brexit Omnibus Bill.

The majority of significant Irish authorised firms had, in line with expectations, taken action to prepare for Brexit and executed appropriate contingency plans. The Central Bank was also satisfied that the Irish financial system was, overall, resilient enough in 2019 to withstand a hard Brexit. However, not all risks were fully resolved and the Central Bank communicated to firms that the additional time offered by the transition period should be used to continue to address risks and prepare for all plausible scenarios.

In 2019, the Central Bank published a number of reports outlining analysis in relation to Brexit risks (Quarterly Bulletins, Financial Stability Review, Economic Letters, Brexit Task Force reports). The Central Bank also commenced a number of initiatives to ensure its regulatory tools and supervisory approaches are fit for purpose for a post-Brexit landscape.

During 2019, the Central Bank maintained its gatekeeper role by ensuring that only those firms that met the expected standards were authorised. Throughout 2019, a number of firms were not authorised either because they did not meet the applicable authorisation standards or because their application was withdrawn. Given the need to prioritise authorisations and short-term risks related to Brexit, other supervisory and policy work had to be reprioritised in 2019.

Strengthening Consumer Protection

During 2019, the Central Bank continued to work across all aspects of strengthening consumer protection with the aim of protecting the best interest of consumers and enhancing confidence and trust in the financial system through effective regulation of firms and markets.

The final report of the Tracker Mortgage Examination was published in July 2019. The report, which concludes the supervisory phase of the Examination, outlines the robust challenge and assurance work undertaken to ensure lenders identified those affected by tracker mortgage-related failings.

The Central Bank published its expectations of regulated firms in relation to their treatment of borrowers in arrears capturing mortgage loan sales/securitisations, the charging of certain costs to borrowers in mortgage arrears, and specifying requirements related to the type of information consumers must receive with an alternative repayment arrangement.

The Central Bank continued to challenge the five main retail banks to implement credible plans to address the findings from the Central Bank's 2018 Behaviour and Culture Review. This is a multi-year programme to hold boards and executive leadership teams to account for embedding consumer-focused cultures in their firms.

The Consumer Protection Framework was further strengthened to include new rules relating to the payment of commission to intermediaries, which came into effect on 31 March 2020. New transparency rules for the insurance sector, effective from 1 November 2019, ensures that enhanced information is provided to consumers when renewing non-life insurance policies. Work also progressed on reviewing the existing consumer protection rules in place for licensed moneylenders, with a view to publishing revised rules for this sector in 2020.

Work commenced in 2019 on a comprehensive review of the Consumer Protection Code 2012 with a view to ensuring protections are in place for consumers to address emerging trends and risks. As part of this project, the Code will be transferred into Central Bank Regulations.

The Central Bank is establishing an articulated risk-based approach to supervising conduct in wholesale securities markets. In 2019, the largest ever data-led review of the Irish funds sector was conducted. The Central Bank continued to review its rulebook to improve it in the area of wholesale conduct risk and to enhance the supervisory framework for wholesale conduct. This work arose from the relocation of large wholesale investment firms in Ireland due to Brexit.

Engaging and Influencing

The Strategic Plan recognises that for the Central Bank to effectively deliver on its mandate, it needs to engage with, and listen to the public and stakeholders to inform its work and help build trust in, and understanding of, the organisation. In 2019, a new three-year communications strategy was developed to help support the delivery of the strategy and strengthen the Central Bank's engagement with the public and external stakeholders as well as with our staff.

Overall, there has been good progress made in delivering on the new strategy which the Central Bank plans to continue. Enhancing engagement with key stakeholders and Central Bank staff will remain a priority for the duration of the current strategy.

As part of the Central Bank's ongoing Outreach programme, the senior team undertook a number of regional visits to engage with local business groups, schools and colleges in Killarney, Donegal, Dundalk, Waterford and Cork. The Central Bank participated in the 2019 National Ploughing Championships and sponsored an inaugural Central Bank Award as part of its new partnership with the Young Economist of the Year competition. The Central Bank welcomed the public into its North Wall Quay building for both Culture Night and Open House.

A new six-part animated explainer series, designed to explain the Central Bank's mandate in a clear, engaging and informative way was launched in 2019. There was a continued focus on enhancing content on centralbank.ie with a particular emphasis on Brexit content for the public and businesses.

There has been continued significant engagement with domestic stakeholders including the Oireachtas, Government departments and the media. The Central Bank also hosted a number of roundtables during the year including with civil society representatives to hear their views. Over the coming period there will be a review of this engagement to further enhance our interaction with civil society.

In addition, the Central Bank has continued with its work to influence key decisions and policies in Europe. The Central Bank has continued to enhance its strategy for impactful engagement in the ECB (including the SSM), the European Systemic Risk Board (ESRB) and the European

Supervisory Authorities (ESAs), amongst others. As part of contributing to the protection of consumers across the EU, the Central Bank hosted the ESA Consumer Protection Day 2019.

Enhancing Organisational Capability

Under this strategic theme, the Central Bank seeks to ensure that its culture, resources and capabilities support the effective and efficient delivery of its mandate whilst maintaining the highest standards of governance and risk management. During 2019, good progress was made on this theme and is broadly in line with expectations for the first year of the plan.

The implementation of the master data platform in September delivered a major foundational element of the overall multi-year data programme (Unity). This, together with the commencement of the rollout of a new document management system (Compass), represent significant progress in terms of improving the Central Bank's capability in the areas of data quality, governance and analytics. Further investment and delivery programmes will be necessary over the next number of years to meet the increase in breadth and volume of data the Central Bank now processes.

The Central Bank is in a consolidation phase in terms of resource numbers (1950 employees at end-December 2019). In 2019, an enhanced performance management and development system, supported by a comprehensive suite of Learning and Development programmes, was implemented. Recognising the critical roles leaders play in the organisation a new One Bank Leadership Development programme was launched in late 2018 with the most senior leaders (over 150 people) attending the core programme in 2019. In line with our focus on diversity and inclusion a number of specific targeted programmes were developed to appeal to a broader range of people. The Central Bank continued to take part in the Great Places to Work survey and a range of improvement initiatives were undertaken in 2019.

The construction phase of the Dublin Landings building was completed and the fit-out will commence in 2020 as well as the integration of this new building with the North Wall Quay building to provide a unified accommodation campus for the Central Bank into the future.

Conclusion

A number of key achievements were made in 2019 to deliver on the strategic objectives. The Central Bank will, at an appropriate point in 2020, review the Strategic Plan to ensure it remains optimal, particularly in light of the COVID-19 pandemic.

Chapter 2:

Key Activities and Developments in 2019

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Price Stability

As part of the 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 (including setting interest rates and the provision of liquidity) in the euro area with the aim of achieving its inflation objective. [5] 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 2019, the euro area experienced weak economic growth, reflecting subdued global trade and elevated political and economic uncertainties. The inflation rate in 2019 in the euro area moderated from levels recorded in 2017 (1.5%) and 2018 (1.8%) to an average rate of 1.2%. In light of the weakening economic environment and the slow progress of inflation to converge towards its aim, monetary policy was recalibrated several times during 2019.

An important monetary policy tool for the Governing Council in 2019 was forward guidance, where communication about future monetary policy intentions was provided, based on the assessment of the outlook for price stability. In March, the Governing Council extended the date of when it expected interest rates to remain at present levels from “at least through the summer of 2019” to “at least through the end of 2019”. Forward guidance on interest rates was adjusted again in July to “at least through the first half of 2020”, before the Governing Council removed

[5] 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.

the date-based element in September and replaced it with state contingent forward guidance (see Box 1).

In order to maintain the smooth transmission of monetary policy and favourable bank lending conditions, in March the Governing Council announced the launch of a new series of Targeted Longer-Term Refinancing Operations (TLTRO-III). TLTROs (series I, II and III) are Eurosystem operations that provide financing to credit institutions for periods of several years. In June, the Governing Council announced the modalities of TLTRO-III, including the pricing parameters, which were linked to the Eurosystem's main refinancing operations and banks' eligible net lending. [6]

In July, the persistent inability of both realised and projected inflation to achieve its aim led the Governing Council to highlight the requirement for an accommodative monetary policy stance for a prolonged period and its commitment to symmetry in its inflation aim.

In September, a more protracted than expected slowdown in economic growth and a subdued inflation outlook led the Governing Council to announce a suite of monetary policy measures, containing five key aspects, to ensure inflation sustains its convergence towards its medium-term aim (see Box 1).

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 Central Bank is represented on the Monetary Policy Committee (MPC), which 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 Asset Purchasing Programme (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

Eurosystem monetary policy operations took place throughout 2019. The APP was implemented smoothly with net asset purchases recommencing in November. The first two operations under TLTRO-III occurred in September and December. Regular euro liquidity providing

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[6] For further details on TLTRO-III, see the ECB website.

operations, in the form of weekly Main Refinancing Operations (MROs) and three-month Long Term Refinancing Operations (LTROs), were conducted throughout the year, as well as the weekly US dollar liquidity providing operation. The average daily recourse to the Deposit Facility, for the Eurosystem as a whole, decreased following the ECB's introduction of a two-tier system for remuneration of excess reserves. Details of these operations at the Eurosystem level are provided in the ECB Annual Report, 2019.

Box 1: Monetary Policy – The Restart of APP and the Low for Longer Environment

This Box provides an overview of the ECB's Governing Council monetary policy package, containing five key elements, announced on 12 September 2019.

First, the Governing Council cut the interest rate on its Deposit Facility by 10 basis points to -0.50%. The interest rates on MROs and the Marginal Lending Facility (MLF) remained at 0.00% and 0.25%, respectively.

Second, forward guidance on interest rates was amended to reinforce the state-contingent element where Governing Council expected "the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics".

Third, the Governing Council announced the restart of its APP. Net asset purchases of €20bn per month commenced in November. They are expected to continue for as long as is necessary to reinforce the accommodative effect of policy interest rates and net purchases will end shortly before Governing Council raises key interest rates. The restart of net purchases under APP complements the forward guidance on interest rates. It also puts downward pressure on long-term interest rates by compressing risk premia.

The Governing Council confirmed that it will reinvest the principal payments from maturing securities purchased under APP for an extended period of time, past the horizon of interest rate increase and, in any case, for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Fourth, the modalities of TLTRO-III were amended from those announced in June to be more accommodative in terms of their pricing and maturity.

Finally, a two-tier system for remuneration of banks' reserves was announced, where part of their holdings of excess reserves is exempt from the negative interest rate on the deposit facility.

Irish Monetary Policy Operations

Of the four APP programmes, the Central Bank only purchases bonds for the Public Sector Purchase Programme (PSPP) and the Covered Bond Purchase Programme (CBPP3). PSPP holdings on the Central Bank's balance sheet, which are held at the Central Bank's own risk, increased to €27.7bn at end-2019, from €25.5bn at end-2018. Holdings of covered bonds under CBPP3, which are risk-shared with the Eurosystem, remained broadly unchanged at €4.0bn at end-2019 relative to a year earlier.

The Central Bank conducted 117 liquidity-providing operations on behalf of the Eurosystem in 2019, of which 66 were euro operations and 51 were US dollar operations. In addition, 16 TLTRO-linked early repayment operations were conducted. The Central Bank had 23 monetary policy counterparties at end-2019, marking a reduction from 25 in 2018. Total outstanding monetary policy borrowings by Irish counterparties stood at approximately €2.0bn as at 31 December 2019, compared to €3.0bn as at 31 December 2018.

Participation in the weekly MRO was infrequent and limited to a small number of the Central Bank's counterparties, while there was no participation in the monthly three-month LTROs from the Central Bank's counterparties. The continued low levels of participation in credit operations throughout the year comes against a backdrop of ample excess liquidity conditions.

Following the introduction of the two-tier system for remuneration of banks' excess reserves from the beginning of the reserve maintenance period commencing on 30 October 2019, banks reacted to optimise the use of their exemption allowances (i.e. the funds in the exempt tier that are remunerated at 0%). This resulted in an increase in the aggregate amount held on reserve accounts at the Central Bank and a corresponding decrease in the amount held on the Deposit Facility.

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 Monetary Policy Operations

At end-2019, 19 eligible counterparties had signed up to the Central Bank's pooling agreement, with collateral to a value of €7.2bn held with the Central Bank. Overall, for 2019, the average month-end value of collateral submitted to the Central Bank was €8.1bn. The downward trend in collateral holdings seen in 2016, 2017 and 2018 continued, with average monthly holdings down by an average of €1.78bn per month compared to 2018. This is in line with the continued reduction in monetary policy borrowings by counterparties.

Work has continued in 2019 on the development of 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.

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 analysis that contributes to the prevention and mitigation of financial sector risks. This analysis 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 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. These instruments cover capital based measures and borrower based measures (see Box 2).

Financial stability decision making in the Central Bank is underpinned by two committees. The Central Bank's Macro-Prudential Measures Committee (MMC) and the Financial Stability Committee (FSC). These committees met nine and 13 times respectively throughout the year. 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. The minutes of the FSG meetings are published on the Department of Finance website.

The Central Bank actively participated in relevant European financial stability-related committees during 2019. These included, the ESCB's Financial Stability Committee (ESCB-FSC), the ESRB and its substructures on macro-prudential analysis, policy and stress testing. In 2019, the ESCB-FSC continued its regular review of main risks and macro-prudential policy measures through the Financial Stability Review (FSR).

Financial Stability Research and Publications[7]

The Central Bank published the first FSR in July and the second in December. The FSR succeeded the previous Macro-Financial Review. The FSR evaluates the main risks facing the financial system and

[7] All Central Bank publications are available from www.centralbank.ie. Some examples include: Financial Stability Reviews; Quarterly Bulletins, Household Credit Market Reports and Economic Letters.

assesses the resilience of the financial system to those risks. The Central Bank is committed to transparency over its judgements around financial stability. This publication is a key vehicle to explain policy actions taken by the Central Bank, within its mandate, to safeguard financial stability.

Furthermore, the Small and Medium Enterprises (SME) market report and the Household Credit Market report were published in April and October, respectively. These reports aim to communicate the latest credit market developments in the SME and household sectors. The Systemic Risk Pack, a visualisation tool for indicators regularly monitored for financial stability purposes, was published in March.

The Central Bank's communication on, and transparency around, financial stability topics continued in 2019 through the publication of the Financial Stability Notes series.

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. One of these instruments is the Countercyclical Capital Buffer (CCyB). The CCyB rate of 1% has been in effect since July 2019.The objective of the CCyB is to increase resilience in the Irish banking system to cyclical systemic risks. The current calibration reflects a balance between the continuing build-up of cyclical systemic risk in Ireland and the downside risks to the Irish economic outlook.

The Central Bank reviews annually the calibration of the mortgage measures. The measures limit the amount of high loan-to-value (LTV) and loan-to-income (LTI) lending in the market. The 2019 review found that the measures continue to meet their objectives of strengthening bank and borrower resilience and reducing the likelihood and impact of a credit-house price spiral emerging. The Central Bank decided that the LTV and LTI limits, and the related allowances will remain unchanged in 2020.

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. As part of the 2019 O-SII review, the Central Bank identified six O-SIIs in Ireland. Buffers ranging from 0.5% to 1.5% are being applied to identified O-SIIs. These buffers are being phased-in over the period to July 2021.

The reciprocation of macro-prudential measures enhances the effectiveness and consistency of macro-prudential policy in the EU. In 2019, the Central Bank decided to reciprocate a French macro-prudential measure. The French measure tightens the limits for large exposures of French systemically important credit institutions to highly indebted large non-financial corporations (NFCs) that have their registered office in France to 5% of eligible capital.

In terms of future macro-prudential measures, the Minister for Finance agreed in 2019, following a request from the Central Bank, to transpose the systemic risk buffer (SyRB) into Irish law and to designate the Central Bank with the powers to implement it at a future date. The discretion to introduce the SyRB will complete the macro-prudential toolkit for bank capital and will enable the Central Bank to calibrate the overall toolkit appropriately to the risks facing Ireland.

Box 3: Climate Change and Financial Stability

Climate change is already having, and is expected to continue to have, a profound effect on the planet, societies and economies.[8] The transition to a low-carbon economy will also require significant adjustments by households and businesses. As a result, climate change can be a source of financial risk.[9]

Broadly, there are two categories of climate-related financial risks: physical and transition risks.

Physical risks include both extreme events, like heatwaves, landslides, floods or storms as well as longer-term structural shifts in the environment such as rising sea levels, growing weather variability, or changes in precipitation. The most direct link to the financial sector is through the insurance sector which covers the losses borne by households and businesses when physical risks crystallise. Banks may also be exposed to physical risks, for example, through mortgage exposures to areas that are at an increasingly high risk of flooding. From the perspective of financial institutions, assessing and managing these physical risks can be challenging in the face of structural changes stemming from climate change.

[8] See, for example, Intergovernmental Panel for Climate Change (2018) ‘Climate change 2014: Synthesis report summary for policymakers’.
[9] See, for example, Sharon Donnery (2019) ‘Risks and Opportunities from Climate Change’ and Philip R Lane (2019) ‘Climate Change and the Irish Financial System’.

Transition risks refer to the impact of the adjustment towards a low-carbon economy. That adjustment is likely to have implications for asset prices, for example the valuation of companies in carbon-intensive sectors or homes with low levels of energy efficiency. The path of the transition to a low-carbon economy matters from a financial stability perspective. A delayed and abrupt transition could result in significant and sudden changes in the valuation of some assets, with adverse implications for the balance sheets of financial institutions and losses for investors.

While climate change is one of many sources of structural change facing the financial system, climate-related risks are unusual for a number of reasons.[10]

- First, the effects of climate change are broad-based in nature. They affect all agents in the economy, across all sectors and across all geographies.
- Second, there is a high degree of certainty that some combination of physical and transition risks will crystallise at some point in the future. At the same time, though the precise horizon, nature and scale of these risks is highly uncertain.
- Third, the horizon over which financial companies need to plan to manage these climate-related risks is probably longer than their typical planning cycle.

Ensuring that the financial system is resilient to climate-related risks falls within the mandate of the Central Bank. The Central Bank will be increasingly embedding climate risk issues into its financial stability assessments and supervision. In 2019, the Central Bank joined the Network for Greening the Financial System, a group of central banks and supervisors that exchange experiences and share best practices, to contribute to the development of climate risk management in the financial sector. The ECB/SSM also identified climate-related risk as a key risk driver and commenced work to address this risk by establishing a Climate Risk Contact Group, on which the Central Bank is represented.

The Central Bank also actively engaged with the Department of Finance on the legislative proposals put forward by the European Commission as part of its *Action Plan on Financing Sustainable Growth*. These included amendment to the Benchmarks Regulation, and two new regulations, one proposing sustainability-related disclosures in the investment and insurance sectors, the other establishing a framework to facilitate sustainable investment - the Taxonomy. The Central Bank also contributed to work at the ESAs to provide advice in respect of

[10] Network for Greening the Financial System (2019) "A Call for Action: Climate Change as a Source of Financial Risk".

integrating environmental, social, and governance risks and factors into relevant insurance, investment firms and funds management legislation, and to report on potential short-term pressures on corporations stemming from the financial sector.

Market-Based Finance

Market-based finance can be defined as "the raising of equity or debt through financial markets, rather than through the banking system". Otherwise referred to as non-bank financial intermediation, market-based finance provides a valuable alternative to bank financing, but – like all forms of financial intermediation – may also give rise to financial vulnerabilities, which need to be monitored and, if needed, addressed.

The main links between the Irish non-bank sector and the domestic economy and financial system are detailed in Box 4. The latest Central Bank FSR, published in December 2019, provides an overview of potential domestic risks stemming from the sector.

The majority of assets of the Irish-resident market-based finance sector are domiciled abroad. In that context, the Central Bank recognises the need to analyse and understand the activities in this sector to contribute to global financial stability. As such, it took part in a range of internationally focused initiatives. These include contributing to EU and global initiatives aimed at strengthening the resilience of market-based finance, through the ESRB, European Securities and Markets Authority (ESMA) and Financial Stability Board (FSB).

As a member of the FSB's Non-bank Monitoring Expert Group (NMEG), the Central Bank contributed to the FSB's annual global monitoring report on non-bank financial intermediation, which was published in January 2020. The report assesses the global trends and risks related to non-bank financial intermediation. The FSB exercise classifies a subset of entities based on economic functions (or activities) that involve bank-like financial stability risks (i.e. credit intermediation that involves maturity/liquidity transformation, leverage or imperfect credit risk transfer). Based on this approach, the report shows that Ireland's non-bank financial sector was the sixth largest globally, estimated at $2.5tn.

Box 4: The Link Between Market-Based Finance and the Domestic Economy

The majority of assets of the Irish-resident market-based finance sector are domiciled abroad, but there are three key mechanisms that link this sector and the domestic economy in a significant way.

First, investment funds are one of the most active investors in the domestic commercial real estate market, and hold around €18bn in Irish property, or about a third of the estimated stock of investable commercial real estate in Ireland. The liabilities of these funds are mainly funded with international capital. To support their investments in property, these funds borrow from a mix of domestic and international banks, shareholders loans, and other financial institutions. These funds typically invest in the office, industrial and logistics sectors, and recently in the private rental segment of the residential market.

Second, Irish entities securitise mortgages for funding and liquidity purposes. At end-2018, around €35bn out of the €118bn Irish residential mortgages outstanding was held by Irish-domiciled Special Purpose Entities (SPEs). The majority of these are linked with retained securitisation, where Irish banks provide loans to sponsored special purpose vehicles, and hold the debt securities issued by these vehicles. This is traditionally used by banks for collateral purposes, for example to access central bank liquidity. Securitisation can also be used as a source of funding. For example, non-bank mortgage lenders with no access to a deposit base can use securitisation markets to access funding that may not otherwise have been available.

Third, SPEs have supported the gradual reduction of non-performing loans (NPLs) on banks' balance sheets, facilitating the post-crisis repair of the banking system. In recent years, banks in Europe, and in Ireland, have made extensive use of securitisation to reduce their exposure to NPLs, as well as selling NPLs to non-securitisation vehicles. Selling these exposures means that the overall credit quality in the balance sheets of Irish banks has improved, allowing the banks to extend new credit lines to customers.

While this has benefitted the banking system, it is also important to note that loans transferred to non-banks are subject to the same regulation as those loans of banks with respect to consumer protection.

Overall, there are important and growing linkages between the Irish domiciled market-based finance sector and the domestic real economy. These are both through direct investments in real property assets and through allowing other financial institutions to lend to domestic households and businesses.

Central Credit Register

The Central Credit Register (CCR) is a national mandatory database of personal and credit information. It is maintained and operated by the Central Bank under the Credit Reporting Act 2013.

The CCR contributes to the stability of the financial system, building resilience and protecting consumers by facilitating informed credit decisions. The CCR provides important granular credit data to the Central Bank which supports financial stability, supervision, statistical and other activities. It also provides reliable credit information to lenders for creditworthiness assessments. Consumers may request their credit report at any time, free of charge, and this will help deepen consumer understanding and foster informed credit decisions.

Lenders are required to submit personal and credit information on credit agreements and credit applications where the amount involved is €500 or more. Lenders are also required to access an applicant's credit report, where the credit application is for €2,000 or more. They may also, if they wish, access an applicant's credit report where the credit application is for less than €2,000, where there are arrears on an existing credit agreement or where there has been a breach of a limit on a credit card or overdraft. Since 1 July 2019, lenders are charged for every credit report accessed. This allows the Central Bank recoup the costs of establishing, maintaining and operating the CCR.

The CCR was implemented on a phased basis as follows:

Loan Type	Start date
Credit cards, Personal loans, Overdrafts, Mortgages	30 June 2017
Business loans	30 March 2018
Moneylender loans	30 March 2018
Local Authority loans	30 March 2018
Hire Purchase and similar type asset finance (includes PCP's)	30 June 2019

At end-2019, 533 lenders were submitting information to the CCR and the CCR now contains information on 5.5m records.

During 2019, 1.7m credit reports were provided to lenders and 9,848 credit reports were provided to borrowers.

For further information, including requesting a credit report, see www.centralcreditregister.ie.

Deposit Guarantee Scheme

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

Following the introduction of the European Union (Deposit Guarantee Schemes) Regulations 2015 (S.I. No. 516 of 2015), new funding arrangements, requiring the DGS to reach a target fund level of 0.8% of covered deposits by 2024, were introduced resulting in the establishment of the DGS Contributory Fund in 2016. A risk-based methodology, in line with European Banking Authority (EBA) guidelines, is employed to calculate contributions for each institution based on their degree of risk and level of covered deposits. The fourth year of annual contributions to the fund, totalling c. €111m, were levied at end-2019.

Over the course of 2019, the DGS carried out stress tests of its systems and processes in line with EBA guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU. These end-to-end simulation tests involved a broad range of relevant scenarios to ensure the ability of the DGS to compensate depositors should it be called upon.

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 was given responsibility for administration of the Insurance Compensation Fund (the Fund) from 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 non-life 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 €825k of verified claims 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%/€825k from the Motor Insurers Bureau of Ireland.

During 2019, on foot of High Court Orders issued to the SCA, payments of €15.3m in respect of Setanta Insurance Company Limited (in liquidation) and €4.8m in respect of Enterprise Insurance Company Plc. (in liquidation) were made from the Fund to the SCA.

Box 5: The Central Bank's Approach to Brexit

Brexit presents one of the most significant challenges for Ireland with risks posed to the economy, financial system, regulatory environment and the protection of consumers. Dealing with the immediate and longer-term impacts of Brexit continues to be one of the Central Bank's key priorities, with preparations underway since before the UK referendum in 2016.

The Central Bank has taken a transparent approach to this work, recognising the importance of and interest in it. The Central Bank publishes the work of its Brexit Task Force, answers to frequently asked questions, has held stakeholder roundtables, and has published numerous reports and speeches.

The Central Bank Brexit work has focused on four main areas:

1. Assessing the risks to the Irish economy, financial stability, consumers and investors

The Central Bank has sought to ensure that financial stability and consumer protection risks are mitigated to the greatest extent possible, particularly in relation to the cliff-edge risks associated with a no-deal Brexit.[11]

Throughout 2019, the Central Bank has published its research and forecasts in relation to the potential impact of Brexit on the Irish economy.[12]

In 2019, the Central Bank's Brexit Steering Committee focused on the mitigation (insofar as possible) of the near-term financial stability and consumer protection-related risks of a no deal Brexit. The Central Bank, working with other authorities domestically and internationally, has taken action to ensure that the most material and immediate risks to the provision of cross-border financial services from a disorderly exit of the UK from the EU's Single Market have been mitigated. However, the possibility remains that pockets of disruption may emerge. Brexit already has, and will continue, to bring significant change for the Irish financial services landscape (e.g. loss of passporting to and from the UK, relocation of firms and impact of settlement systems). The limited period for the negotiation of a future trade relationship between the EU and UK raises

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[11] See FSR 2019 Box 1 Brexit Contingency: Mitigation of 'Cliff Edge' Risks.

[12] https://centralbank.ie/publication/financial-stability-review; https://centralbank.ie/publication/quarterly-bulletins; and https://centralbank.ie/publication/economic-letters

the potential for further 'cliff edge' risks to emerge through the transition period.

2. Mitigating those risks by driving regulated firms to be prepared for the UK leaving the EU

The Central Bank has been engaging with regulated firms since before the referendum to drive preparations. This involved ensuring that existing Irish firms understand and are 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.

The majority of Irish authorised firms have taken action to prepare. However, not all risks are fully resolved and the Central Bank communicated to firms that the additional time offered to 31 January 2020 should have been used to continue to address risks and prepare for all plausible scenarios.

3. Working with the Department of Finance and with European authorities to implement policy and legal changes to mitigate systemic risks

Throughout 2019, the Central Bank provided views and analysis to wider domestic policy makers. The Central Bank supported the Department of Finance in the drafting of legislation to create a temporary "run-off" regime to ensure service continuity for insurance customers in event of a no deal Brexit.

The Central Bank also engaged with the Department of Finance, Bank of England and ECB on potential solutions for the continuity of access to financial market infrastructures for Irish corporate securities post-Brexit.

The Central Bank worked closely 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 trade deal Brexit. At European level, the Central Bank has sought to promote a consistent approach across the different Member States in the context of Brexit-related decision making, contingency planning and communications.

4. Delivering our gatekeeper role effectively, efficiently, transparently and pragmatically

The nature, scale and complexity of the Irish financial system is changing as a result of Brexit. New authorisations and expansions of existing operations are increasing the size of many sectors. The Central Bank's gatekeeping role is important in mitigating financial stability risks and protecting market integrity and customers in Ireland and across Europe.

In this regard, the Central Bank continued to act as gatekeeper by rigorously assessing applications from all firms seeking to provide financial services in Ireland, ensuring that any new business authorised as a result of Brexit meets the high standards that are expected of any such firm authorised in the EU.

Throughout 2019, 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.

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. Chapter 1 of the Annual Performance Statement, which is set out in Part 2 of this document, provides details of the Central Bank's focus in 2019 in relation to its responsibilities on conduct and consumer protection.

Under the Central Bank Reform Act 2010, the Central Bank has established a group to provide advice on the performance of its functions and the exercise of its powers in relation to consumers of financial services, known as the Consumer Advisory Group. Further details on this group are set out in the Consumer Protection section of Part 2: Annual Performance Statement, Chapter 1.

Supervision and Enforcement

The Central Bank has an assertive, risk-based, analytical and outcome focused 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. Chapter 1 of the Annual Performance Statement, which is set out in Part 2 of this document provides details of the Central Bank's focus in 2019 in relation to its responsibilities on supervision and enforcement.

Regulatory Policy and Supervisory Framework

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. Chapter 1 of the Annual Performance Statement, which is set out in Part 2 of this document provides details of the Central Bank's focus in 2019 in relation to its responsibilities in developing regulatory policy.

Payments, Settlements 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.

Payments and Securities Settlement Systems Policy and Oversight

The Central Bank has a statutory obligation to ensure that Ireland has a safe and efficient national payments and settlements infrastructure.

The payment systems/schemes currently in use in Ireland are:

- The Eurosystem owned and operated TARGET2 Real-Time Gross Settlement (RTGS) system for large value euro denominated payments.
- EURO1 (large value payments) and STEP2 the Pan-European Automated Clearing House (PE-ACH) system for retail electronic payments, both of which are owned and operated by a private operator EBA Clearing.
- Visa and Mastercard, privately operated international card payment schemes offering their services in the state.
- The Irish Paper Clearing Company Limited for paper-based payment instruments (such as cheques).

Ireland is different to the majority of EU member states in that it is almost exclusively reliant on non-indigenous infrastructures for the purpose of clearing and settlement of domestic and cross-border payments. Ireland benefits from the reliability and resilience resulting from the very high standard to which these payment systems and schemes are held due to their systemic importance e.g. sophisticated business contingency arrangements.

A key enabler for the Central Bank in terms of meeting its statutory obligation with regard to these systems has been to develop collaborative relationships with key stakeholders such as the ECB, other Eurosystem NCBs, the Department of Finance and Banking and Payments Federation Ireland (BPFI – the representative body of the payments industry in Ireland). In addition, following its establishment in 2018, the Central Bank hosted three meetings of Irish Retail Payments Forum (IRPF) in 2019. Details of the IRPF, including its participants, are available on the Central Bank's website.

One of the most noteworthy and forward-looking payment systems-related matters arising in 2019 was the launch of the Eurosystem's retail payments strategy. The aim of the Eurosystem's strategy is to foster pan-European market initiatives for retail payments at the location of the purchase or interaction (i.e. point-of-interaction). The Eurosystem has signalled that it will support market initiatives that fulfil five key objectives:

1. Pan-European reach and customer experience
2. Convenient and cost-efficient
3. Safety and security
4. European identity and governance
5. Global acceptance

The Central Bank is closely monitoring these developments, continuing to engage with relevant stakeholders and is supportive of all such initiatives that will ensure fast and efficient retail payments and achieve these objectives. The retail payments industry continues to evolve rapidly, driven by digital transformation, regulatory change (e.g. Payments Services Directive (PSD2)) leading to a continuing shift in consumer behaviour.

With regard to securities settlement systems serving the Irish market, Euroclear UK and Ireland (EUI) currently provides the Certificateless Registry for Electronic Share Transfer (CREST) infrastructure used to settle trades in Irish equities and some Exchange Traded Funds (ETFs), and Euroclear Bank settles trades in Irish Government bonds and the majority of Irish ETFs.[13] The remaining ETFs are settled in Central Securities Depositories in other EU countries. The Central Bank fulfilled its obligations under the Central Securities Depositories Regulation (CSDR) (Regulation (EU) No 909/2014), in cooperation with the home competent authorities of those Central Securities Depositories (CSDs) providing services in Ireland. In December 2019, Euroclear Bank obtained its CSDR licence from its respective market regulator.

In Q2 2019, Euroclear announced its proposal for Euroclear Bank to become the 'Issuer CSD' for Irish corporate securities as from March 2021 in response to the risks posed by Brexit. The Central Bank continues to monitor the progress of the migration planning for the transfer of activities from EUI to Euroclear Bank.

[13] CREST is an Ancillary system to TARGET2 operated by Euroclear UK and Ireland which provides infrastructure used to settle Irish equities and some ETFs.

TARGET2 Payments System

TARGET2 is an interbank payment system for the real-time processing of payment transfers throughout the EU. In 2019, the TARGET2 system processed over 197m transactions comprised of almost 87.7m RTGS transactions and 109.6m transactions on Dedicated Cash Accounts (DCAs) - the latter relating to TARGET2 Securities (T2S) and TARGET Instant Payments (TIPs).[14]

The total value of RTGS transactions increased marginally in comparison to 2018, by 0.02% to €441tn, with an average daily value of €1.73tn. T2S-related payments increased in value by 21% from €173tn in 2018 to €209tn in 2019.

The Irish TARGET2 component, TARGET2-Ireland, processed 882,777 transactions; this represented an increase of almost 2.2% compared to 2018. The value of transactions processed via the Irish component decreased by 0.01% to a total value of €2,991tn. As with end-2018, at end-2019 TARGET2-Ireland has 15 direct participants in the payments module but the list has not been static with new joiners and leavers during the year.

Ireland currently has no participants in T2S or TIPs but the Central Bank is connected to both platforms and ready to provide both services to participants upon request.

TARGET2-Ireland no longer provides the connection to TARGET2 for CREST. This migrated to TARGET2-ECB who now provide the connection.

Box 6: Vision 2020

The 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 ECB 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

[14] 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.

functionality, strengthening resilience and cybersecurity while reducing costs for participants. This is scheduled to go-live in Q4, 2021.

- ECMS aims at replacing or centralising 19 Eurosystem NCBs' local collateral management systems, bringing cost savings and improved operational efficiencies and contributing to the European Capital Markets Union (CMU) 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. A portfolio of projects has commenced in the Central Bank and will be ongoing until completion in 2022. Irish market participants have also commenced internal projects to ensure they retain access to TARGET services and payments. The Central Bank provides support and guidance to these market participants through a number of project stakeholder groups, to ensure that they are in a position to complete mandatory ECB mandated milestones 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, and the NTMA. It is also responsible for the maintenance of accounts for other institutions such as the European Commission and Asian Development Bank. The Central Bank also administers all financial transactions between Ireland and the European Financial Stability Fund and European Financial Stability Mechanism.

Bond Register

In its role as Registrar, the Central Bank makes dividend and redemption payments to account holders on bonds and treasury bills issued by the NTMA.

At end-2019, the nominal value of bonds on the Register amounted to €131bn a decrease of €2bn over the value outstanding at end-2018 (€133bn). In 2019, six bonds matured, resulting in redemption payments of €15bn. Ten Irish amortising bonds partially redeemed in 2019, resulted in partial redemption payments of €18.5m. The NTMA issued five new Government bonds with a nominal value of €10bn during the year.

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

Currency Issue and Production

Banknotes

In 2019, the Central Bank supplied the market with 215m banknotes (value €6,636m) representing an 11% decrease on the 242m banknotes (value €7,439m) issued in 2018. The Central Bank continues to experience a reduction in the volumes of banknote lodgements. These reductions are indicative of a higher level of recirculation of banknotes in the market thus reducing the issuance demands on the Central Bank.

Table 2: Banknote Issues

No. of Banknotes (m) Issued			Value €m	
Denomination	**2019**	**2018**	**2019**	**2018**
€5	40	45	198	225
€10	30	37	296	372
€20	39	40	785	807
€50	106	119	5,313	5,971
€100*	0	0	39	45
€200*	0	0	3	2
€500*	0	0	1	17
Total	215	242	6,636	7,439

Note: Figures may not sum due to rounding

*The actual number of notes issued:

2019	2018
€100: 385,100	€100: 450,000
€200: 13,100	€200: 10,000
**€500: 2,000	€500: 33,000

** €500 banknote ceased issuance from 26 January 2019

The Europa Banknote Series

On 28 May 2019, the final two banknotes of the Europa Series, the €100 and €200 banknotes, were successfully launched into circulation. These two banknotes complete the series introduced gradually since 2013, bringing to a close the launches of the Europa Series.

Printing of Euro Banknotes in Ireland

In April 2019, the Central Bank ceased printing banknotes. There is no impact on the supply of cash to the national cash cycle as a result of the decision to cease printing banknotes in Ireland. The majority of banknotes in Ireland are already produced elsewhere and the proposal to source banknotes from a third party in the euro area is in line with the approach taken by many other NCBs.

Coin

The Central Bank, acting as agent for the Minister for Finance, issued 77m coins (value €33m) into circulation in 2019. This represents a 3% increase in coins issued when compared with the 76m coins (value €27m) issued in 2018.

Throughout 2019, the Central Bank continued to work with industry (such as retail banks and cash-in transit companies) to drive further efficiencies in the management of coin stocks in the market.

In 2019, the Central Bank conducted two coin swaps with other Member States to ensure excess stocks of 1c and 2c are being effectively utilised elsewhere in the Eurosystem.

Table 3: Coin Issues

No. of Coin (m)			Value €m	
Denomination	2019	2018	2019	2018
1c	0	0	0	0
2c	0	0	0	0
5c	31	35	2	2
10c	14	11	1	1
20c	13	12	3	2
50c	5	6	3	3
€1	3	4	3	4
€2	11	8	22	15
Total	77	76	33	27

Note: Figures may not sum due to rounding

Collector Coins

The Central Bank marks significant events in Irish arts, history, heritage, and culture by issuing a range of numismatic products on behalf of the Minister for Finance. In 2019, the Central Bank issued five unique collector coins and coin sets covering Irish music, culture and history.

In February, a €100 gold proof coin was issued to mark 100 years since the first meeting of Dáil Éireann. This coin was launched in the Mansion House where the first meeting took place. Secondly, a 2019 proof set was issued containing the €2 commemorative proof coin. This set sold out soon after issuance. In June, a €15 silver proof coin to mark 100 years of transatlantic aviation was launched in Clifden, County Galway at the festival to mark 100 years since the first transatlantic flight taken by John Alcock and Arthur Browne.

Former governor Lane presenting the €100 gold proof coin to the Ceann Comhairle of the Dáil, Seán Ó'Fearghail in the Mansion House, 16 January 2019 .

In November, a second €15 coin in the series of Irish musician commemorative coins was launched, celebrating the life and music of Phil Lynott. President Michael D Higgins and Deputy Governor Sharon Donnery, launched the coin in Phil Lynott's old school, St. Kevin's College, Crumlin. The event was attended by friends, family, local community representatives as well as students and staff from the school.

Deputy Governor Donnery with President Higgins launching the Phil Lynott coin in St Kevin's College, Crumlin on 26 November 2019.

The Irish Cash Cycle

In 2019, the Central Bank continued to engage with cash cycle stakeholders to promote efficiency, effectiveness and resilience in the cash cycle. The Central Bank has responsibility for monitoring the compliance of professional cash handlers with European legislation governing the recirculation of cash. The last 18 months saw a number of developments in the cash cycle with an increased level of outsourcing in cash processing by retail banks and the closure of cash centres reducing the total number of cash centres in the cash cycle. The Central Bank continues its work with the National Cash Contingency Group to monitor and enhance the resilience of the cash cycle.

Economic Analysis and Statistics

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

Economic Analysis and Commentary

The Central Bank plays an important role in the formation of national economic policy through the provision of independent economic advice via regular commentaries, forecasts, research and the provision of high-quality financial statistics. These were communicated through publications such as the Quarterly Bulletin, research papers and economic letters, other domestic and international journals, in statements and speeches by the Governor and other members of senior management, and in contributions to conferences and seminars. Detailed description of the Central Bank's research output is provided in the Central Bank's Research Bulletin 2019.

During 2019, six macroeconomic forecasting exercises were completed: 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., the Organisation for Economic Cooperation and Development (OECD) and the EU, and consulted with visiting half-yearly External Partner missions, rating agencies and others.

Work continued on the development of a suite of modern macroeconomic models of the Irish economy suitable for policy analysis. The core DSGE model was enhanced and used for the analysis of the appropriate level of bank capital in a small open economy. [15] The structural econometric model of the Irish economy, Core Structural Model (COSMO), was considerably enhanced and linked to the global econometric model National Institute Global Econometric Model (NiGEM), developed by the National Institute for Economic and Social Research in the UK. Using this approach, the results of international scenarios generated in NiGEM are used as inputs into COSMO to ensure that global and international effects are incorporated in a consistent manner. This included research on the impact of fiscal windfalls (corporation tax), an analysis of overheating risks and a model-based assessment of risks to the public finances. In addition, the model

[15] Dynamic Stochastic General Equilibrium

continued to be used in a number of studies published in 2019 assessing the potential impact of the departure of the UK from the EU.

In terms of macroeconomic analysis, work 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 employment growth and labour market slack in Ireland. The 2019 Research Bulletin details the research that was produced such as Economic Letters, Research Technical Papers for example. The topics covered are broad, ranging from monetary policy to the outlook for Irish agriculture, and from global capital flows to population change and housing demand for example.

The Central Bank hosted a roundtable discussion to enhance communication and engagement with stakeholders to discuss economic issues and challenges on selected topics within the Central Bank's policy remit. The roundtable discussion with civil society representatives discussed the Irish economic outlook, the housing market and building resilience and consumer protection issues.

Box 7: 2019 Macro Developments

The Irish economy grew strongly in 2019, despite rising uncertainty about economic prospects and increasing external headwinds. Buoyancy in domestic economic activity and a strong export performance supported growth in the economy over the past year. Further gains in employment and rising incomes supported ongoing growth in domestic economic activity in 2019. Consumption continued to perform strongly, despite a marked weakening in consumer sentiment, most likely arising from heightened Brexit uncertainty throughout the year. The impact of heightened uncertainty however, was more evident in some components of investment. Underlying investment growth, which excludes some of the activities of Multinational Enterprises (MNEs) that have limited domestic employment effects – namely investment in aircraft and intangibles – slowed in 2019. Inflationary pressures in Ireland remained subdued last year, with both headline and underlying HICP inflation remaining below 1%. The theme of negative goods inflation offset by positive services inflation continued throughout 2019, with the former declining by 0.8% and the latter increasing by 2.4%. Strong export growth last year belied a very weak external demand environment, but remained concentrated in a small number of sectors and was attributable to a small number of multinational firms. Growth in goods exports was driven by exceptional strength in pharmaceuticals and chemicals with other sectors recording modest growth that was more in line with subdued external demand conditions. A similar pattern was evident in services exports with strong overall growth largely accounted for by computer services and business services.

Financial Data and Statistics

Statistical data constitute a key component of the Central Bank's assessment of the economy and financial stability, facilitating the monitoring of funding and credit developments within the financial sector and across the wider domestic economy. 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. Data initiatives during 2019 included the launch of a Behind the Data (BtD) series, which takes a closer look at specific data series and provides new insights.

The mortgage arrears publication, which covers both banks and non-banks that hold mortgage loans, provides detailed information on the level and type of restructure solutions implemented, and whether these are abiding by the terms agreed. Following a review, a new reporting template was introduced in October 2019 for both banks and non-banks, which provided more detail on, for example, arrears by days past due, legal proceedings, restructures and loss of ownership.

Data are collected and published 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 continued to enhance data on the SPE sector in Ireland, providing insights into the structure of such entities and taking a lead role internationally to further improve transparency and dissemination of the activities of the sector.

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.

The Central Bank published the first annual Private Motor Insurance Report of the National Claims Information Database (NCID). The NCID was established on foot of a recommendation of the Government's Cost of Insurance Working Group (CIWG). The publication of the Report delivered on a key Central Bank commitment to improve transparency and the understanding of the issues affecting the insurance market in Ireland.

The Central Bank published a new dataset on payment service statistics, which present the payment transactions provided by Irish resident payment service providers to non-banks. This annual data contains information on the counterpart location of the transactions, the payment instruments used and the terminals (ATMs, Point of Sale terminals) provided.

Expansion of the Statistical Framework

The Central Bank continued to expand its statistical framework during 2019 in line with developments within the Eurosystem and the ESCB. The remit of ESCB statistics has expanded over recent years to cover a broader range of sectors and supports the supervisory functions of the ECB and the tasks of the ESRB, in addition to traditional monetary policy requirements.

Central to this expansion is the development of new granular data sources. The Central Bank has continued to work extensively with reporting banks during 2019 to improve the data quality of the AnaCredit data set, a key element of the Central Bank's granular data development. Work continued on the Register of Institutions and Affiliates Databases (RIAD) project, a detailed euro area wide register of financial institutions, and all corporates and legal entities that are counterparties to bank loans. The RIAD database was also integrated with the Centralised Securities Database.

Central Bank staff participated on ESCB groups developing the methodology and processes for the new euro short-term rate (€STR). The ECB began publication of €STR on 2 October 2019 reflecting activity on 1 October 2019. It is recommended that market participants gradually make the €STR their standard reference rate.

Preparations continued during 2019 for the collection of new data on the pension fund sector. The unique structure of the Irish pension fund sector made this a challenging project for the Central Bank and industry. The first data was reported to the Central Bank in Q4 2019, which provided granular insights into the pensions sector.

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

International Monetary Fund Policy and Constituency Issues and Related International Activities

The Governor holds the position of Alternate Governor for Ireland on the International Monetary Fund (IMF) Board of Governors. In this role, Governor Makhlouf attended the IMF/World Bank Group Annual Meetings held in Washington in October, while former governor Lane attended the Spring meetings in April 2019.

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. A study visit to the UN Economic Commission for Africa (UNECA) took place in May and a UNECA-led delegation from eight African countries returned to Ireland in November for discussions relating to Irish FinTech developments. 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 continued to contribute to the work of the ECB's International Relations Committee. This is a high-level forum for exchanging views on matters of common interest in the field of international relations. The Central Bank hosted the annual meeting of the ECB's Task Force on Central Bank Cooperation in 2019 and joined an EU Commission-funded project for collaboration with six EU candidate and potential candidate countries during the course of the year.

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 the Central Bank does not operate a zero failures regime and that, therefore, 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 the first edition of its "Approach to Resolution for Banks and Investment Firms" in April 2019. This outlines the resolution framework, including the SRM system in which the Central Bank operates, its 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. On 30 May 2019, the Central Bank held its third resolution-related industry briefing for stakeholders. This sought to enhance understanding of certain resolution issues and demonstrate the Central Bank's commitment to transparency.

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 Single Resolution Fund (SRF), to manage the resolution of failing banks or banking groups. The SRB works together with NRAs to this end. In 2019, the SRB further developed its policies, including on valuation and reporting. It also launched its first public consultation on its "Expectations for Banks". This document sets out the capabilities the SRB expects banks to demonstrate in order to show that they are resolvable. It reflects best practice in, and sets benchmarks for, assessing resolvability.

The Central Bank played a role in shaping the evolving EU resolution framework throughout 2019, 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 relation to transposition into national law of new legislation amending aspects of the BRRD, due by 28 December 2020, as well as in ongoing negotiations on enhancing the financial capacity of the SRF.

The Central Bank held an international resolution readiness seminar on 2 December 2019. This seminar drew resolution authorities from across the globe to discuss and share key practical challenges relating to the implementation of resolution actions.

Resolution Planning

Resolution plans of banks and in-scope investment firms are updated on an annual basis to ensure they remain up-to-date and that the preferred resolution strategy continues to be appropriate for the regulated firm. 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, regulated firms are required to address or remove those impediments. MREL is also set in the course of resolution planning.

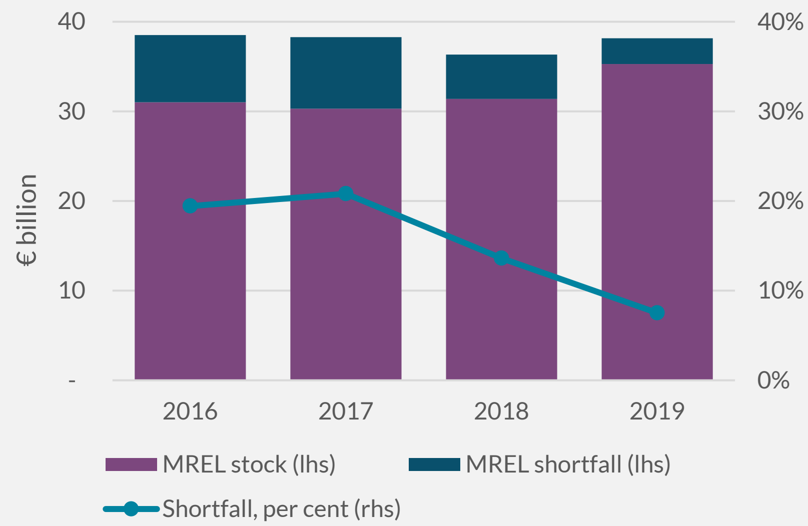
Box 8: Progress on Resolvability

Resilience in the Irish banking sector has strengthened, with significant progress made in enhancing resolvability.

Resolution governance structures in the domestic banks have been enhanced and formalised, there has been progress in respect of operational continuity and there has been significant headway in MREL-eligible debt issuance in 2019.

All of the above has increased the feasibility and credibility of the successful application of resolution tools to the domestic banks in the event of a failure. Certain impediments to resolvability nonetheless remain. Work programme projects within the banks will continue into 2020 and beyond, in order to address issues such as valuation capabilities, continuity of access to financial market infrastructures, and liquidity in resolution.

Chart 1: Retail Banks' progress toward MREL targets



Source: Central Bank of Ireland.

Resolvability of Irish Financial Institutions

Much progress has been made to date on enhancing the resilience of regulated firms to failure. Ensuring that the Central Bank's resolution tools and powers can also be effectively used brings additional comfort on resolvability. To this end, 2019 saw a greater shift towards policy implementation within the Central Bank, with a renewed focus on operationalising the resolution tools for banks and addressing potential impediments to their deployment.

The "bail-in" resolution tool was introduced as a key element of the EU framework, however, to date it remains untested. Domestic retail banks were required to develop bail-in "playbooks" in 2019 detailing the steps necessary to be carried out by them in order to implement a potential bail-in decision. The further development of bail-in playbooks by regulated firms will be carried out in tandem with the Central Bank's own work to develop, and enhance, existing step plans for the implementation of each resolution tool.

In line with the Central Bank's key objectives for the year, an internal dry-run simulation exercise was undertaken, based on a scenario of the failure of a regulated firm. The aim of the exercise was to test internal processes within the Central Bank. Further simulation exercises are planned in 2020.

The resolvability of insurance firms remained a focus for the Central Bank in 2019. Work in this space included continued engagement at an EU level on the need for a harmonised recovery and resolution framework for the sector. The absence of such a framework is a gap in the regulatory architecture, one which constrains EU insurance firms and their respective authorities' ability to prepare for and manage the firms' orderly failure. Enhanced national regulatory and legislative frameworks is a means to mitigate the risks in this area until a comprehensive EU framework is developed and implemented.

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 contribute to the Bank and Investment Firm Resolution (BIFR) Fund, a domestic resolution fund established in accordance with the BRRD. Levy contributions of €6.3m were calculated and collected by the Central Bank in respect of all regulated firms within scope of the BIFR Fund for the 2019 contribution period. The BIFR Fund had reached €16.7m by December 2019.

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.

Following a consultation with industry stakeholders in 2019, the Minister for Finance set a target level of €65m for the CIRF. This target level includes an 8% buffer, established in order to mitigate the risk of requiring *ex-post* contributions due to relatively small claims on the CIRF. The target level is proposed to be reached by 2025, with a levy amount of approximately €5m per annum being raised from the credit union sector. As of December 2019, the CIRF had funds of €45m.

For the 2019 contribution period, the SRB calculated €114.1m 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. The SRF had reached €32.8bn by December 2019.

Financial Crisis Preparedness and Management

During 2019, the Central Bank continued to develop its financial crisis preparedness and management capability in a number of key areas. Priorities in 2019 included further development of the Central Bank's crisis management arrangements to take account of recommendations from previous exercises, and undertaking new exercises involving a number of crisis scenarios.

The Central Bank also participated in interagency crisis preparedness and management work with the Department of Finance and the NTMA under the auspices of the Financial Stability Group. As part of its crisis preparedness work for Brexit, the internal Central Bank and interagency Financial Stability Group crisis management arrangements were invoked during the year.

Investment Portfolio Management

The Central Bank's investment portfolio is managed in line with parameters approved by the Commission, which are kept under regular review. The management of the investment assets 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 below are based on the market value of all assets as at year-end.

At end-2019, the investment portfolio comprised assets of €19.4bn including an allocation of €1.8bn equivalent to foreign currency denominated portfolios (US dollar, Australian dollar, Singapore dollar and Chinese renminbi) for diversification purposes. [16] Holding diversified assets of this nature supports investment returns and reduces volatility in the long run, notwithstanding some potential for raised short-term return volatility. Given the challenging investment environment, in particular in the euro-area fixed income market, the Central Bank will continue to look at opportunities to diversify further its investment assets within a prudent risk management framework.

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 2019. ANFA is an agreement between the NCBs of the euro area and the ECB which sets rules and limits for holdings of financial assets related to national tasks of NCBs. At end-2019, the Central Bank's net financial assets (NFA) under the ANFA stood at €0.6bn. The components of the Central Bank's NFA position are outlined in Table 4 below. In addition, the ECB publishes annual average NFA data for each NCB on its website during the first quarter of each year. [17]

Total earnings on the Central Bank's investment portfolio (ex-gold and equity allocations) amounted to €267.8m in 2019 compared to €261.8m in 2018.

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[16] Based on the cashflow method valuation of HTM assets (€19.7bn based on amortised valuation). This figure does not include gold holdings and equity allocation.

[17] 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 4: Central Bank of Ireland Balance Sheet as at 31 December 2019

All figures in EUR'000s

Assets			Liabilities		
Item	**Description**	**Amount**	**Item**	**Description**	**Amount**
A1	**Gold and gold receivables**	**262,114**	**L1**	**Banknotes in circulation**	**20,082,747**
A2	**Claims on non-euro area residents in foreign currency**	**4,898,882**	L1.1	Euro banknotes	20,082,747
A3	**Claims on euro area residents in foreign currency**	**77,014**	L1.2	Banknotes in national euro area currencies	0
A4	**Claims on non-euro area residents in euro**	**4,159,896**	**L2**	**Liabilities to euro area credit institutions related to monetary policy operations in euro**	**36,672,142**
A5	**Lending to euro area credit institutions related to monetary policy operations in euro**	**2,032,720**	L2.1	Minimum Reserve Deposits	26,992,916
A5.1	Main refinancing operations	0	L2.2	Overnight deposits	9,679,226
A5.2	Longer-term refinancing operations	2,032,720	L2.3	Fixed-term deposits	0
A5.3	Fine-tuning reverse operations	0	L2.4	Fine tuning reverse operations	0
A5.4	Structural reverse operations	0	L2.5	Deposits related to margin calls	0
A5.5	Marginal lending facility	0	**L3**	**Other liabilities to euro area credit institutions in euro**	**955,997**
A5.6	Credits related to margin calls	0	**L4**	**Debt certificates issued**	**0**
A6	**Other claims on euro area credit institutions in euro**	**2,348,406**	**L5**	**Liabilities to other euro area residents in euro**	**21,970,801**
A7	**Securities of euro area residents in euro**	**64,542,578**	**L6**	**Liabilities to non-euro area residents in euro**	**1,892,530**
A7.1	Securities held for monetary policy purposes	37,590,497	**L7**	**Liabilities to euro area residents in foreign currency**	**0**
A7.1.1	Covered Bond Purchase Programme	0	**L8**	**Liabilities to non-euro area residents in foreign currency**	**0**
A7.1.2	Securities Markets Programme	767,126	**L9**	**Counterpart of special drawing rights allocated by the IMF**	**956,791**
A7.1.3	Covered Bond Purchase Programme 2	0	**L10**	**Intra-Eurosystem liabilities (net)**	**18,868,571**
A7.1.4	Outright Monetary Transactions	0	L10.1	Liabilities equivalent to the transfer of foreign reserves	0
A7.1.5	Covered Bond Purchase Programme 3	4,016,411	L10.2	Liabilities related to the issuance of ECB debt certificates	0
A7.1.6	ABS Purchase Programme	0	L10.3	Other liabilities within the Eurosystem (net)	0
A7.1.7	Public Sector Purchase Programme - Government securities	27,656,882	L10.4	Liabilities related to the allocation of euro banknotes within the Eurosystem	18,868,571
A7.1.8	Public Sector Purchase Programme - Supranational securities	5,150,078	**L11**	**Items in course of settlement**	**0**
A7.1.9	Auxiliary instrument 9	0	**L12**	**Other liabilities**	**2,953,806**
A7.2	Other securities of euro area residents in euro	26,952,081	**L13**	**Provisions**	**907,840**
A8	**General government debt in euro**	**0**	**L14**	**Revaluation accounts**	**6,078,784**
A9	**Intra-Eurosystem claims**	**36,315,234**	**L15**	**Capital and reserves**	**5,036,299**
A9.1	Participating interest in ECB	213,449			
A9.2	Claims equivalent to the transfer of foreign reserves	681,157			
A9.3	Claims related to the issuance of ECB debt certificates	0			
A9.4	Claims related to TARGET and corresp. acc. (net)	35,365,028			
A9.5	Other claims within the Eurosystem	55,600			
A10	**Items in course of settlement**	**0**			
A11	**Other assets**	**1,739,464**			
A999	**Total Assets**	**116,376,308**	**L999**	**Total Liabilities**	**116,376,308**

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 2019). These items are highlighted in grey in the table.
2) All figures correspond to those reported in the Statement of Accounts for year ended 31 December 2019.
3) "Other liabilities" is the sum of "Other Liabilities" (€2,343,634) & "Retirement Benefits" (€610,172) as reported in the Balance Sheet in the Statement of Accounts for year ended 31 December 2019.

Box 9: The Central Bank's Balance Sheet

Over the past number of years, an important element of the ECB Governing Council's monetary policy measures has been the Asset Purchase Programmes (APP). Under these programmes, the Eurosystem purchases a wide range of eligible securities. The purchase of these assets aims to ease credit conditions, boost investment and employment, increase liquidity and thereby progressively address persistently low inflation within the euro area. The APP consists of four purchase programmes (CBPP3, ABSPP, PSPP and CSPP). Net purchases under these programmes lasted until December 2018 and, between January 2019 and October 2019, the principal repayments from maturities in these portfolios were reinvested.

These programmes are a critical element of the approach to delivering the Central Bank's mandate of price stability. However, they have resulted in an increase in the financial risks facing the Central Bank. As well as further exposure to credit risk, as noted in prior years, the purchase of these bonds has resulted in a longer-term interest rate mismatch on the Central Bank's balance sheet. This arises as interest income from the APP assets 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 could lead to net losses for the Central Bank, particularly in the event that interest rates were to increase very rapidly. While the expected path for interest rates remains uncertain, the Central Bank prudently assesses its risks under a broad range of scenarios. For more information, see "*Non-standard Monetary Policy Measures and the Balance Sheets of Eurosystem Central Banks*" by Donnery et al.[18]

In September 2019, the ECB announced that net purchases under the ECB's APP programme across the Eurosystem would be restarted at a monthly pace of €20bn, from 1 November 2019, and will continue for as long as necessary to reinforce the accommodative impact of its policy rates. As part of meeting this objective, the Central Bank will purchase securities in accordance with the proportion determined by its capital key share. As at end-December 2019, the Eurosystem's holdings of securities under the APP was €2.6tn. Under the APP, the Central Bank purchases securities under the PSPP and CBPP3, and as at end-December 2019, the Central Bank held €32.8bn under the PSPP and

[18] 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.

€4.0bn under the CBPP3.[19] The additional net purchases from 1 November 2019 will increase the risk facing the Central Bank, in particular the risk of future losses due to the interest rate mismatch. In order to mitigate against this, the Central Bank has set aside a provision of €900m in its 2019 accounts, which represents an increase of €150m from 2018. The continuation of APP at low yields is likely to further increase interest rate mismatch risks on the Central Bank's balance sheet, and will require continued monitoring and potentially further future provisioning.

Assets Acquired as part of the Liquidation of the Irish Bank Resolution Corporation

During 2019, the Central Bank's holdings of assets acquired as part of the liquidation of the Irish Bank Resolution Corporation (IBRC), referred to as the Special Portfolio, declined to €8.5bn (nominal) by year-end. This reduction reflected the purchase by the NTMA of €1.5bn of the Irish Floating Rate Note (FRN) 2049 and €1.5bn of the Irish FRN 2051 (nominal).

ECB Reserves

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 at year-end 2019 were proportionate to the sum of the two countries' capital key shareholdings in the ECB.

[19] Risks relating to certain portfolios under the APP are shared among Eurosystem NCBs. This includes the CSPP, CBPP3 and the purchase of supranational bonds under the PSPP. As a result, the Central Bank's holdings of bonds under the APP does not fully reflect the risk to which it is exposed.

People and Knowledge

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

Capacity and Capability

Resourcing in 2019

The Central Bank employed more than 1,950 people at end-December 2019, which includes the intake of 55 graduates to our Graduate Programme in 2019. The Central Bank has an agreed complement plan of 2,085 Full Time Equivalents (FTE) for the delivery of the current strategy up to 2021, with the workforce growing by 24 FTE in 2019.

While the Central Bank will grow in specific key areas in line with the Strategic Plan, and will strengthen the talent pipeline through programmes such as the Graduate Programme, the volume of recruitment has reduced.

Organisation Culture

Leadership Standard and One Bank Leadership

The One Bank Leadership Development programme was launched in late 2018 with senior leaders (over 150 people) attending the core programme in 2019. The programme recognises the importance of leadership in achieving the Central Bank's vision and strategy.

Diversity and Inclusion

The Central Bank believes that having a workforce made up of people with different backgrounds, experiences and perspectives, enabled by an environment that truly values such diversity, is essential to successfully delivering its complex mandate.

The Central Bank's Diversity and Inclusion (D&I) priorities are set out in the D&I Action Plan 2018-2019. Among the notable highlights throughout the year was the work carried out to enhance the recruitment and selection processes in order to remove unintended barriers, reduce the potential for bias and to attract a wider talent pool to the organisation.

In 2019, a number of specific targeted recruitment programmes were developed including in the areas of disability and social/educational disadvantage.

In April, the Central Bank published its second Gender Pay Gap Report, which highlighted a 2.4% gap in favour of males, down 0.3% from 2018. Gender representation levels remained relatively healthy with the overall workforce comprised of 49% female and 51% male and with over 40% female representation at the leadership level.

Finally, the four employee led networks (BankAbility, Rainbow, Parents & Carers and Women's Network) continued to open up conversations and support progress on issues that really matter for staff.

Performance Management and Development Process Enhancements
A revised performance management process was implemented in 2019. The purpose is "Motivating, recognising and developing our people and consistently and fairly evaluating performance to achieve its strategy". Underpinning this are key aims which include aligning objective setting to the strategy, having high quality performance conversations and focusing on behavioural competencies.

Workplace Experience

Great Places to Work
The 2018 Great Places to Work (GPTW) survey and assessment took place in November 2018 and saw 75% of staff participate. The results of the assessment were communicated in January 2019. The results were broadly in line with 2017 (56% overall score). This remained in line with public sector norms but below GPTW accreditation standard. The results demonstrated that progress had been made at the leadership level, a key priority following the 2017 survey.

The third GPTW survey was completed in November 2019 with a participation rate of 77%. Results were cascaded to staff in January 2020 with the action planning phase now underway. The results were in line with the 2018 scores (56% overall score in both 2018 and 2019).

Smart Working
The Central Bank has commenced research into introducing smart working practices and how to build engagement with measures and policies already implemented to support agility, wellbeing and work life balance for staff.

Box 10: Workplace Experience – Home Working

In August 2018, the Central Bank officially launched its Home Working Policy. Over 250 of staff (almost 13% of headcount) now avail of a structured arrangement under the policy. Home Working is about changing the ways of working and empowering staff to work in smarter ways while delivering needed results and outcomes, and providing staff with more choice in how and where to work, where possible.

Code of Ethics

The Central Bank is committed to ensuring the highest standards of internal conduct. 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. A new policy on Managing Staff Conflicts of Interest was issued during 2019. As in prior years, during 2019, a revised mandatory eLearning module was developed. The module sought to reinforce awareness amongst staff of their specific ethical and conduct obligations, such as avoiding conflicts of interest.

Data Protection

During 2019, the Central Bank continued its work to embed its revised data protection operational model in order to progressively achieve and maintain compliance with its data protection obligations. A key focus of attention was the continued awareness amongst all staff. During 2019, the Central Bank responded to various access requests received and assessed data breaches identified and reported as appropriate to the Data Protection Commission. Work commenced on monitoring compliance across the Central Bank and status of data protection compliance was presented to relevant senior management committees.

Information and Resources

Analysis of data and information is a core competency for the Central Bank in delivering on its mandate. In the performance of its responsibilities, the Central Bank faces a range of risks, which are kept within defined tolerances through risk management frameworks and methodologies. Improved ways of working, collaboration and efficiency are facilitated for staff.

Data Strategy

One of the Central Bank's key organisational objectives is to have an effective data management solution which meets its current and future needs. For 2019, the targets included the rollout of a number of technology components in addition to data governance processes. The Data Strategy Programme, also known as Unity, delivered a new Master Data Management solution in August accompanied by a strategic reporting and analytics capability. This technology and the associated data governance provides a central platform which maximises the integrity and value of the Central Bank's data.

Additionally, a new system, COMPASS, has been implemented in five divisions in the Central Bank to enable effective management and control on documents which underpin many of its processes.

Developments in Information Security

Enhancements to organisational information security are ongoing to ensure the changing threat landscape is being considered and deliver improvements where required. Cyber security targets for this year have been met and the strategic direction has been set for the next two years.

Box 11: Significant IT Projects Delivered in 2019

In addition to the Data Strategy, a number of other significant IT projects were successfully delivered during 2019. These include:

- PSD2 which is the system used to support regulation of payment services and service providers.
- Pension Funds Statistics to meet the ECB regulation on statistical reporting requirements for pension funds.
- Multiple deliveries of mandated updates to banking and insurance taxonomies.

Operational Risk

The Central Bank maintains an Operational Risk Management Framework to ensure the consistent assessment, mitigation and reporting of risks associated with the operational capabilities involved in fulfilling its mandate. Under this framework, risk management responsibilities are assigned using a three-lines-of-defence model, comprising first line divisional management and directors, the Organisational Risk Division and the Internal Audit Division. Through this model, the Central Bank's operational risk profile is assessed and reported on versus risk thresholds approved by the Commission and reviewed by both executive and Commission level committees.

During the year, the Central Bank continued to enhance operational risk control measures within divisions by means of a structured quality assurance schedule, which assesses the status of operational risks, controls, incidents, compliance and business continuity. The outcome of this work is to further embed first line of defence responsibilities, strengthen the governance of operational risk management, and to further improve the consistency, quality and transparency of risk information.

Business Continuity Management

The Central Bank 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 2019 and into early 2020, the BCMF was applied in the context of managing various disruptive incidents including internal and external events which had the potential to interrupt normal business operations relating the Central Bank's technologies, critical processes, third party service providers, premises and key personnel. Following each invocation, under the governance of the Risk Management Committee, formal after action reviews were produced and recommendations for further enhancing the Central Bank's ability to manage continuity incidents were submitted to the relevant governance committees and consequently improvement plans have been initiated. Notably, in response to the COVID-19 pandemic, the Central Bank invoked its incident management structures to enable containment and mitigation of the effects of the virus and thereby sustain and enhance operational resilience in alignment with guidance from the Health Service Executive. At the time of publishing the Annual Report, the COVID-19 situation continues to evolve, and the Central Bank has sought to adapt its operating model to facilitate continuity of critical operations in the context of State-wide disease suppression measures.

As part of maintaining the BCMF during 2019, the Central Bank's second line Business Continuity team quality assured business impact assessments with a number of divisions in order to validate the criticality and resilience of their respective processes, recovery objectives and the readiness of their 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 divisions' continuity plans. Continuity and recovery tests are then conducted, also on a risk prioritised basis, to assess the feasibility and effectiveness of these plans, including tests of the Central Bank's alternate work areas and technology recovery capability to ensure the continuity of operations for disruption scenarios in which the Central Bank's normal premises are unavailable.

Project and Programme Management

In 2019, the Central Bank successfully completed 22 projects under its standard project management methodology and governance arrangements. While the number of project completions in the year was lower than 2018, the scale and complexity of completed projects was at higher levels than prior years. This trend is continuing and is reflected in the profile of projects currently under development.

In 2019, there was significant focus on projects which improved the Central Bank's internal risk management infrastructure and enhanced its regulatory controls. Major projects completed in 2019 included: Central Credit Register, Anacredit, Markets in Financial Instruments Regulation (MiFIR) Transaction Reporting, General Data Protection Regulation, Swift Assurance and Wholesale Conduct development.

In 2019, new structures and processes were introduced to strengthen the practice and governance of project portfolio management in the Central Bank. The Central Bank's Project Management standard was updated and following an audit by National Standards Authority of Ireland, was confirmed as compliant with ISO 21500 best practice. Additionally a new Change Management standard was introduced to support the people change dimensions of projects and progress was made in the piloting of a new Business Process Management framework.

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. The Central Bank manages an end-to-end procurement process. 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 proposed new Central Bank Bill on the Individual Accountability Framework and the Withdrawal of United Kingdom from European Union (Consequential Provisions) Act, 2019.

The Central Bank continued to strengthen the regulatory framework through Central Bank Regulations in 2019 and a number of new regulations were prepared. The Central Bank also assisted with the transposition and implementation of a number of EU directives and regulations.

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, authorisations, regulatory actions and operational matters such as the acquisition of new premises.

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

Regulatory Decisions

The final step in the Central Bank's enforcement processes, if a matter has not been otherwise resolved, for example by way of settlement, is to refer the matter for decision by an impartial decision maker. In this way, appointed decision makers play a key role in delivering on the Central Bank's enforcement mandate.

Fitness and Probity

In 2019, decision makers were appointed in relation to six cases under the fitness and probity regime. In respect of one individual, a prohibition notice issued prohibiting the individual from carrying out any functions, including pre-approval controlled functions (PCFs), in any regulated firms for a period of ten years. In respect of another individual, a prohibition notice issued prohibiting the individual from carrying out any functions, including PCFs, in any regulated firms for a period of two years.

Revocation of Authorisation Cases

In 2019, decision makers were appointed in respect of three proposed revocation of authorisation cases. Three of these cases resulted in firms registered as insurance intermediaries under the EC (Insurance Mediation) Regulations 2005 having their registrations cancelled. In respect of one of these cases, the firm also had its authorisation under the Investment Intermediaries Act 1995 revoked.

Regulatory Decisions Panel

In November 2019, the Central Bank launched a campaign to recruit a new panel of decision makers, who will be responsible for making impartial decisions in the following regulatory regimes:

- Administrative Sanctions Procedure inquiries.
- Securities market assessments under securities markets legislation.
- Certain decisions under the Fitness and Probity regime.

Inquiries

Irish Nationwide Building Society Inquiry

The Irish Nationwide Building Society (INBS) Inquiry, which commenced in July 2015, has been divided into four modules. In 2019, public hearings were held in the second module, concerning reporting obligations to the board of INBS, and in the third module, concerning the alleged lack of a policy governing "profit share" lending by INBS. A number of private hearings were also heard in 2019 in relation to the ill health of one of the three persons concerned in the management of INBS who are the subjects of the Inquiry. The Inquiry Members decided that the Inquiry should be permanently stayed as against Mr Fingleton as a person concerned in the Inquiry. The INBS Inquiry continues in respect of the other two persons concerned, Mr Stan Purcell and Mr Gary McCollum and preparations are underway for the progression of the final module to hearing in 2020.

Quinn Insurance Limited

The Inquiry relating to certain persons concerned in the management of Quinn Insurance Limited (QIL) (Under Administration) also continued during 2019. Following the decision to hold hearings in public, the Inquiry held public hearings from 28 May-6 June 2019 to inquire into the allegation that two persons concerned in the management of QIL had participated in the commission of a prescribed contravention by QIL of Regulation 10(3) of the European Communities (Non-Life Insurance) Framework Regulations 1994 (S.I. 359/1994). In December 2019, the

Central Bank entered into a settlement agreement under its Administrative Sanctions Procedure with Mr. Liam McCaffrey, a former director of QIL and a person formerly concerned in the management of QIL. This concluded the Central Bank's Inquiry into Mr McCaffrey, under Part IIIC of the Central Bank Act 1942 (as amended).

Premises and Facilities Management

The Central Bank of Ireland welcomed approximately 22,500 visitors to its North Wall Quay premises in 2019 and facilitated a number of high profile events. These included a Career Fair for the local community, the public Open House and Culture Night events, the hosting of several major conferences including the European Insurance and Occupational Pensions Authority (EIOPA) Data Seminar and the annual Whitaker Lecture.

In terms of the Central Bank's long-term city centre accommodation strategy, it is centred on the occupation of an integrated campus of premises at North Wall Quay (NWQ). This strategy envisages (i) the full occupation of the existing NWQ premises, (ii) partial occupation of premises at Dublin Landings (adjacent to the NWQ premises), (iii) the leasing of the surplus space of the Dublin Landings premises and (iv) the sale of the currently occupied premises at Spencer Dock.

In January 2019, the Central Bank entered into a contract to purchase two properties at Dublin Landings (adjacent to the existing NWQ premises), from Oxley Docklands Quay Two Ltd (Oxley) for the purchase price of €188.65m plus Stamp Duty and VAT (total of €225.43m). The costs for the design and fit-out works are in addition to the purchase price. The fit-out includes the design and construction of a pedestrian bridge physically linking NWQ and Dublin Landings premises. The fit-out also includes facilities to support hearings related to Administrative Sanctions Procedures, which currently take place in a premises, leased by the Central Bank, at Blackhall Place. Design of the fit out is scheduled to be completed at end-Q1 2020, with completion of the construction anticipated for end-Q2 2021 and occupation to commence thereafter.

The final part of the accommodation strategy is the sale of the Central Bank's Spencer Dock premises which was purchased by the Central Bank as a strategic investment in 2015.

With the growth of the Central Bank's workforce in recent years, a series of ongoing analysis was initiated in 2018 to understand the efficiency in the use of desk estate. This analysis has indicated the consistent availability of in excess of approximately 20% of desks every day due to staff absences on various types of absence (e.g. annual leave, business travel, on-site inspections, etc.) and use of flexible (part-time and remote) working. For this reason, during 2019, the Central Bank implemented desk sharing within its NWQ premises, on a 1:1.2 basis (i.e. 100 desks for every 120 staff) with the ultimate aim of being efficient and effective in the use of its desks, office space and public funds. Allied to the extensive collaboration, break-out spaces and mobile technology, the design approach of the Central Bank, including the implementation of desk sharing, delivers a modern, progressive and efficient workspace for its staff.

The Central Bank's new premises being developed at Dublin Landings will consolidate the city centre accommodation into one connected campus and the same progressive design principles used in NWQ will be replicated in the Dublin Landings premises.

Environment, Health and Safety

The Central Bank operates to up-to-date certified Environmental, Safety and Energy management systems at each location. In addition to the Central Bank's energy performance detailed in Table 5, a range of related indicators are measured and available on the Central Bank's website in the Environmental, Health and Safety Annual Performance Report.

Table 5: Energy Use Comparison 2018 and 2019

	Currency Centre		City Centre Sites*		Overall	
	2019 kWh	% change against actual 2018	2019 kWh	% change against actual 2018	2019 kWh	% change against actual 2018
Electricity	2,468,517	-19.3%	3,994,530	-4%	6,463,047	-10.5%
Gas	2,414,142	-1%	2,696,127	-27%	5,110,269	-17%
Oil	151,713	-55%	30,151	-26%	181,864	-52%
Total Energy	**5,034,372**	**14%**	**6,720,808****	**15%**	**11,755,180**	****-14.5%**

*These figures do not include energy consumption from the 6th floor of R1 Spencer Dock as this building is managed separately.

**Reduced energy consumption by 14.5% across all sites, notwithstanding the cessation of print activities at the Currency Centre during the year i.e. 2019 would not represent a standard operational year.

Box 12: Energy, Safety and Environmental Performance Initiatives

The Central Bank undertook a range of initiatives in 2019 to improve its energy, safety and environmental performance, including:

- Surpassed the 2020 National Energy Efficiency Action Plan 33% energy reduction target with a 55% reduction.[20]
- Achieved Building Research Establishment Environmental Assessment Method-In-Use "Excellent" certification for NWQ.
- Improving the building energy rating (BER) of the Dublin Landings design from A3 to A2.
- Achieved a 43% reduction of scope one and two carbon emissions against its Business in the Community Ireland Low Carbon Pledge of 50% by 2030.
- Developed Biodiversity Action Plan across all sites.

[20] 33% energy reduction from the Central Bank's 2009 baseline year.

Communication, Engagement and Transparency

As set out in the Strategic Plan, we are committed to engaging with the public and stakeholders to inform our work and to help build understanding and trust of the Central Bank.

Engaging with the Public

During 2019, the Governor and other members of the senior team led a number of regional visits in order to help build understanding of the Central Bank and to listen to a range of views from across the country.

- Sharon Donnery, Deputy Governor, Central Banking spoke at the MacGill Summer School in Donegal and engaged with local media.
- Ed Sibley, Deputy Governor, Prudential Regulation visited Killarney where he engaged in a series of public and media engagements and spoke about innovation in financial services at Cork University Business School.
- Derville Rowland, Director General, Financial Conduct met students from Waterford Institute of Technology (WIT) and local schools in Waterford.
- Governor Gabriel Makhlouf visited Dundalk on his first regional outreach visit and met with students in Dundalk Institute of Technology and the local Chamber of Commerce. He also delivered his first address to students and invited media in WIT.
- Former governor Philip Lane hosted a discussion in Donegal, chaired by journalist Richard Curran, with business representatives and a cross section of the local community.

The National Ploughing Championships 2019

The National Ploughing Championships 2019 saw the Central Bank welcome a record 18,000+ visitors to its exhibition in Fenagh, Co. Carlow. Governor Makhlouf, members of the senior team and staff volunteers met with people from all over the country and spoke about key aspects of our work whilst listening to people’s views about the role of the Central Bank. Members of Central Bank staff were also joined by colleagues from the ECB who engaged with the public via its travelling exhibition.

Governor Makhlouf meets the public at the 2019 National Ploughing Championships.

School Competitions

The Central Bank sponsored an inaugural Central Bank Award as part of its new partnership with the Young Economist of the Year competition. Students were asked to explore issues of particular importance to the Central Bank, including Brexit, the Irish economy and monetary policy. Méanscoil Ioghnáid Rìs, Naas won the award with an impressive and extremely relevant project: “The Feasibility of a Cashless Society”. The winning team was welcomed to the Central Bank for two weeks’ work experience as part of the prize.

October saw the launch of the Generation €uro Students’ Award economics competition which ran in conjunction with the ECB and other central banks in the euro area. The competition aims to help secondary school students understand monetary policy and how it relates to the economy as a whole. The final round will take place in 2020 and the winning team will travel to Frankfurt to meet Christine Lagarde, President of the ECB.

Winners of the inaugural Central Bank Award in the 2019 Young Economist of the Year competition with Director of Economics & Statistics Mark Cassidy.

Opening Our Doors to the Public

The Central Bank welcomed the public into its NWQ building for both Culture Night and Open House. Lady Lavery lit up the building as she was projected on to the façade of the building for Culture Night. Visitors were given a tour of the building and viewed pieces from the Central Bank's art collection and historical archive.

Public Contacts Unit

In 2019, the Central Bank responded to 12,968 direct contacts from members of the public (up 19% from 2018), addressing a wide range of banking and financial services topics including conduct of business, authorisations and currency.

Stakeholder and Media Relations

In 2019, the Central Bank participated in eight Oireachtas Committee hearings, assisted with a number of pieces of legislation and routinely provided assistance and views to Government departments on various issues. Responses were provided to 303 parliamentary questions during the year and 11 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 2019 in order to build understanding of what it does and to support well-informed reporting on topics relating to the Central Bank. Throughout 2019, there was a continued focus on enhancing content on www.centralbank.ie with a focus on Brexit, the facilitation of interviews with national and international media and the publication of 162 press releases.

Box 13: Joint European Supervisory Authorities (ESAs) Consumer Protection Day 2019 hosted by the Central Bank

The Joint ESAs Consumer Protection Day is an annual event organised by the Joint Committee of the ESAs. The ESAs comprise the EBA, EIOPA and the ESMA.

The annual event gathers consumers, regulators, industry participants and academics to discuss consumer protection issues in financial services.

This year's event welcomed Emily O'Reilly, the European Ombudsman, Derville Rowland, Director General Financial Conduct and Gabriel Bernardino, EIOPA Chair, as guest speakers. Three panel discussions, were held on:

- The ESAs, their financial education mandate and what they could do differently to better fulfil their financial education mandate.
- Integrating the consumer's sustainability preferences in the distribution of financial products.
- The Packaged Retail Investments and Insurance Products 2019 Level 2 Review and the challenging task involved in reviewing the Delegated Regulation.

Enhancing Digital Content

The Central Bank enhanced its digital content offering in 2019, with plain language – in English and Irish – underpinning many initiatives.

A new six-part animated explainer series, launched in September 2019, has proven to be very popular with the public - with over 120,000 views to date. The series is designed to explain the Central Bank's mandate in a clear, engaging and informative way. The series scooped the top prize in the "Best in Financial Services" category at the prestigious Digital Media Awards 2020.

During 2019, the Central Bank continued to use infographics and plain language to increase the awareness and understanding of important topics and publications, such as the Mortgage Measures, Annual Report and Quarterly Bulletin. A new and well-received "Behind the Data" series provides insights into statistical data that the organisation produces, while "Stats at a Glance" uses strong visuals to better disseminate Central Bank-produced data on Twitter. The Central Bank's third Irish language scheme, effective from 8 April 2019, reinforces its commitment to the Irish language and outlines the objectives and obligations for the duration of the scheme.

The Central Bank continues to grow its audiences on Twitter (surpassing 11,000 followers in 2019) and on LinkedIn (reaching 42,000 followers in December 2019).

Alex from our award-winning animated explainer series.

Corporate Social Responsibility

The Central Bank is committed to being a socially responsible and sustainable organisation. This will help the Central Bank to be trusted by the public, respected by our peers and to provide a fulfilling workplace for our people.

Box 14: Being a Socially Responsible Organisation to Capture Broad CSR Approach

The 2019 CSR Annual Report demonstrates the Central Bank's commitment to being a socially responsible and sustainable organisation under five strategic pillars.

1. Environment

The Central Bank is a signatory to Business in the Community Ireland's 'Low Carbon Pledge', committed to reducing Scope 1 and 2 greenhouse gas emission intensity by 50% by 2030, and aims to become a net zero carbon emissions organisation by 2050. The Currency Centre achieved energy management ISO 50001 accreditation, helping reduce energy consumption and tackle climate change.

2. Workplace

The Central Bank was awarded the:

- Willing Able Mentoring (WAM) Mentored Work Place Programme Recognition Award, which promotes access for graduates with disabilities.
- IBEC Keep Well Mark, and "Large Company of the Year" at the Keep Well Awards.

The Central Bank participated in Pride 2019 as part of the first ever Irish public sector-wide group.

3. Marketplace
The Central Bank engaged in numerous outreach activities including regional visits, Open House, Culture Night, and the National Ploughing Championships. Over 12,000 direct contacts were responded to from the public and over 160 press releases were published.

4. Governance and Communications
The Corporate Social Responsibility Working Group meets on a regular basis (10 times in 2019) to ensure a strategic approach to its responsibilities.

5. Community
The Central Bank participated in various community initiatives, including:

- National College of Ireland's Early Learning Initiative, helping Docklands communities by providing parent and child-learning support programmes.
- Junior Achievement Ireland's national schools' education programme.
- Career LEAP, a work-readiness programme for local young adults not in education, employment or training.
- Worked with Temple Bar Gallery + Studios on an innovative arts-in-education biodiversity project with local St. Vincent's Girls National School.

Measuring and Reporting on the Implementation of the Strategic Plan

In 2019, the Strategy Implementation and Monitoring Framework replaced the Balanced Scorecard as a way of reporting on and measuring progress in the delivery of the objectives set out in the Strategic Plan. Under this Framework, progress on the delivery of the strategic objectives within strategic themes, the statutory objectives and organisational objectives is tracked, measured and reported upon.

On a quarterly basis, assessment reports on progress are prepared for the Senior Leadership Committee and the Governor's Committee. Assessment reports are presented to the Commission on a half-yearly basis for approval, including a year-end assessment of the overall outcome of the implementation of the Strategic Plan. The year-end assessment is linked to the Performance Management and Development Process (PMDP).

The Commission agreed, based on its overall assessment of the Central Bank's performance against the Strategic Plan that merit leave should be awarded to those staff whose performance in 2019 met the required standard.

The total number of merit leave days awarded in 2020, arising from performance in 2019, is 2666.5, at an overall equivalent cost of €916,507 (an estimated 0.64% of the Central Bank's total salary cost). In 2019, the merit leave days awarded were 2671, at an overall equivalent cost of €876,445 (an estimated 0.61% of the Central Bank's total salary cost).

Complaints Handling

Complaints made to the Central Bank by individuals or organisations are handled under the Central Bank's Complaints Handling Procedure. Complaints can be made in relation to an individual staff member of the Central Bank or the way in which the Central Bank conducts its business, i.e., services received from the Central Bank. The investigation of complaints about regulated firms or disclosures made under the Protected Disclosures Act 2014 are dealt with under separate procedures.

In 2019, the Central Bank received 21 complaints from individuals, the majority of which related to issues raised concerning the CCR and the Central Bank's collector coin service. By year-end, 19 of the complaints were closed. A number of complaints raised by individuals were deemed not to fall within the scope of the Complaints Handling Procedure and were managed and responded to separately by the relevant area in the Central Bank.

Freedom of Information

The provisions of the Freedom of Information (FOI) Act 2014 apply to the Central Bank. Aligned with its transparency objectives, the Central Bank regularly publishes a range of financial and corporate information on its website, such as the Commission minutes, accounts of the quarterly meetings of the MMC, reports of the Brexit Task Force, correspondence between the Governor and members of the Oireachtas, etc.

In 2019, 94 FOI requests were received in addition to six requests carried forward from end-2018. A total of 37 requests were granted/part-granted and 37 were refused under the various exemption provisions of the FOI Act. In addition, a total of 21 requests were withdrawn, or dealt with outside the FOI process by another division. At end-2019, five requests were in progress.

Requests were received from individuals (46%), Media (35%) and others such as members of the Oireachtas, legal/commercial firms and interest groups. Approximately 19% of all requests were categorised as personal. While the subject matter of requests can be varied, many requests sought records related to individual financial service providers, regulatory issues and correspondence between the Central Bank and other organisations.

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

Gabriel Makhlouf
Governor

30 April 2020

Neil Whoriskey
Secretary

30 April 2020

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 2019, IAD conducted a range of audits across the Central Bank. Topics covered included audits on IT Security Management, Procurement Strategy, Consultancy Costs, Consumer Protection Supervisions and Inspections Framework, Supervisory Planning, and Fitness and Probity Regime. In addition, IAD participated in a number of ESCB-wide audits including Production of Banknotes, Supervision of Less Significant Institutions, and Operational Risk Management.

All issues identified are routinely followed up by IAD to ensure that approved action plans are implemented.

As part of its intelligence gathering, IAD attended a number of meetings with senior executive committees and with divisional representatives from across the Central Bank in order to keep abreast of developments and risks within the organisation. Regular meetings were also held with the Governor 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 audit plan is prepared on a rolling basis. This 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.

Part 2:

Annual Performance Statement 2019 - 2020

Contents

Part 2:
Annual Performance Statement 2019 - 2020

Introduction

An effective financial regulation framework, underpinned by supervisory and enforcement frameworks, is essential in fostering a resilient financial system. The key elements of these frameworks include comprehensive and enforceable legislation, robust risk-based supervision, a credible threat of enforcement and powers of redress when consumers have suffered detriment. The aim is to deliver a financial system that fosters trust, where the best interests of consumers and investors are protected, deposits are safe and insurance reserves are adequate to meet their liabilities.

The Central Bank delivers on its financial regulation mandate through prudential regulation and financial conduct regulation.

- Prudential regulation focuses on ensuring that regulated firms are financially sound, have sustainable business models and have effective risk management and controls in place.
- Financial conduct regulation focuses on ensuring that the best interests of consumers and investors are protected and markets operate in a fair, orderly and transparent manner.

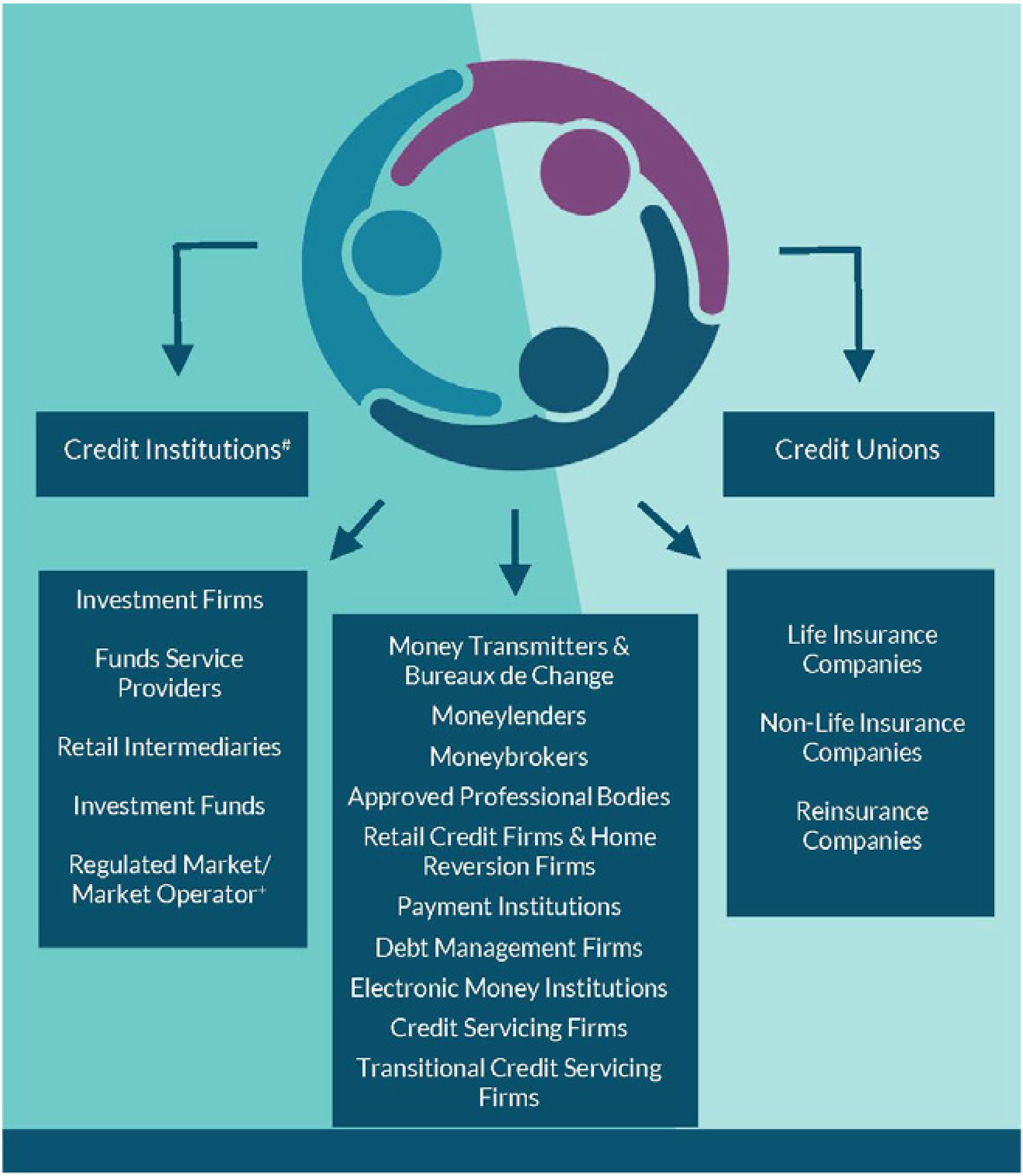
These outcomes are achieved through assertive and risk-based supervision, appropriate enforcement and the development of an effective regulatory framework.

In 2019, the Central Bank continued to progress key supervisory, policy and enforcement priorities across a broad spectrum of areas. This section of the Annual Performance Statement details the work undertaken in financial regulation in 2019 and reports on key outcomes, which should be read in conjunction with Part 1: Annual Report, Chapter 1, which reports on progress against the five strategic themes. While dealing with the economic effects of COVID-19, and the regulatory challenges it poses, are of key focus at the time of writing, the Annual Performance Statement also details some of the other key priorities, domestic and international, for 2020.

Chapter 1:
Review of Regulatory Activities in 2019

Chapter 1: Review of Regulatory Activities in 2019

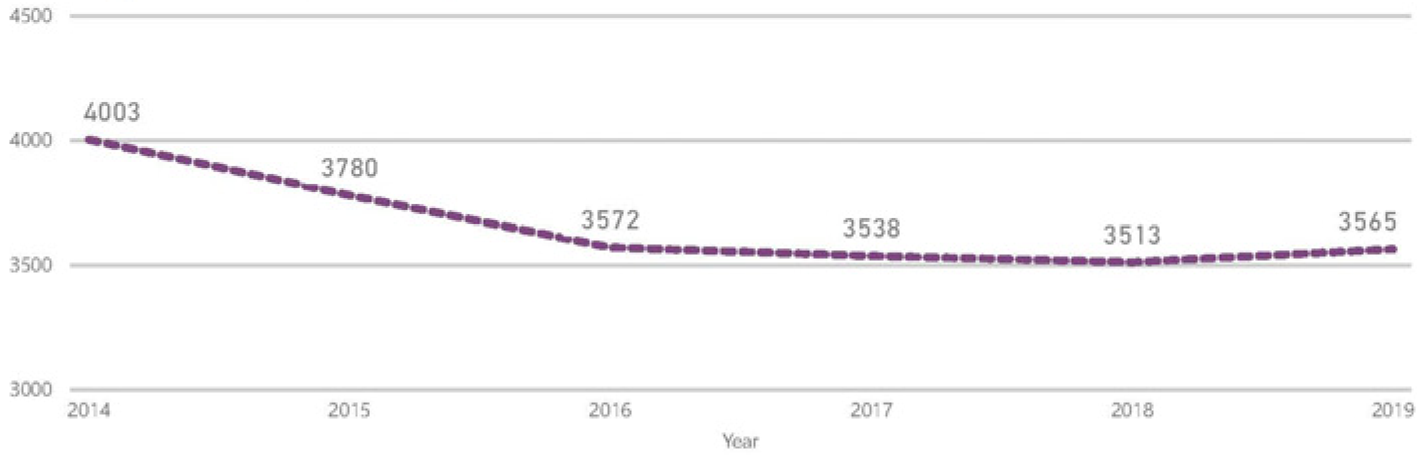
Who the Central Bank Regulates



Regulated as part of the SSM.

+ This firm is also regulated as a benchmark administrator.

Total Regulated Firms (excl. Funds) 2014-2019

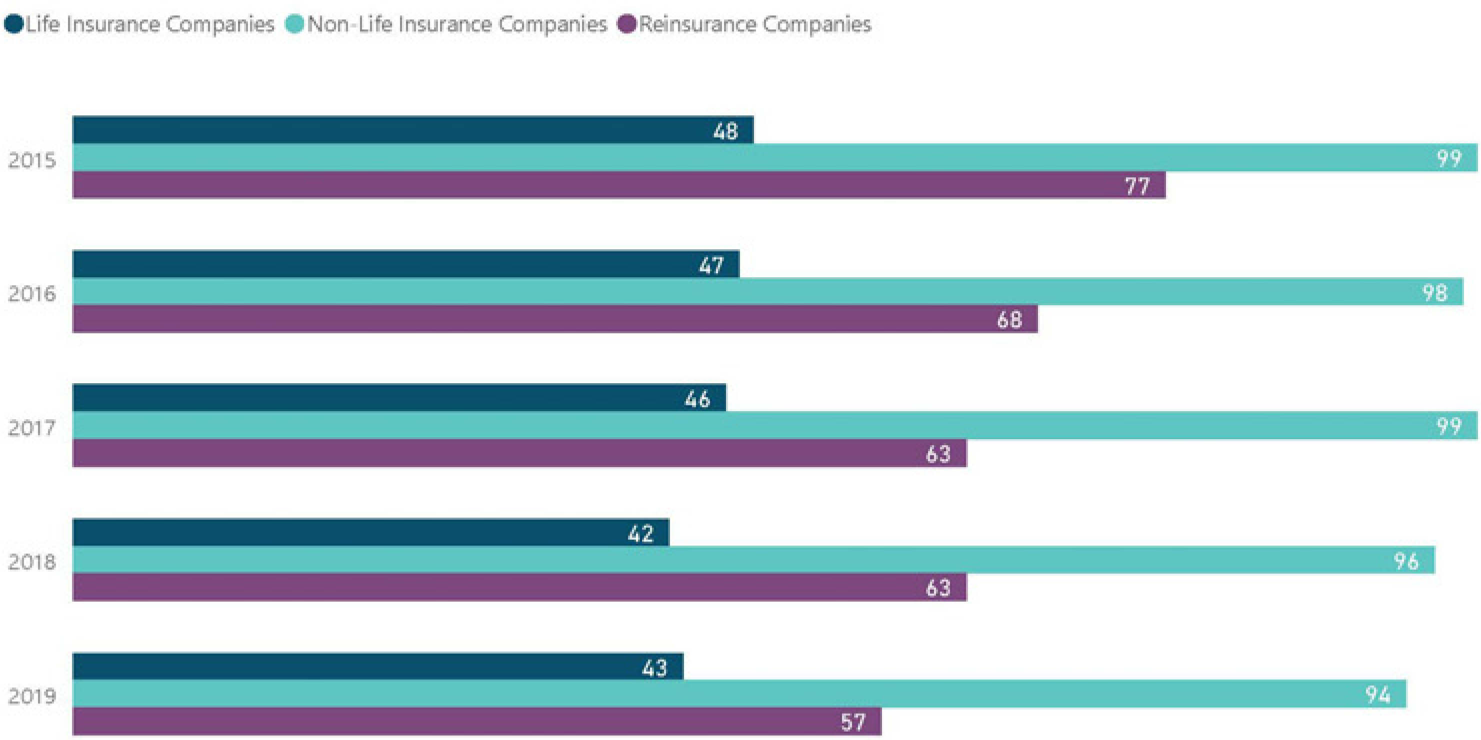


Credit Institutions#

Regulated as part of the SSM

Credit Unions

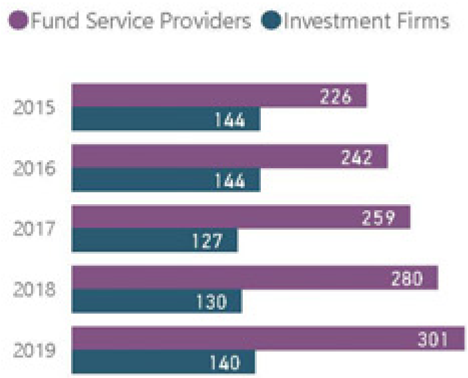
Insurance



Collective Investment Schemes

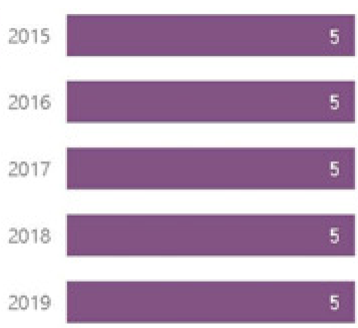
Retail Intermediaries

Investment Firms & Fund Service Providers

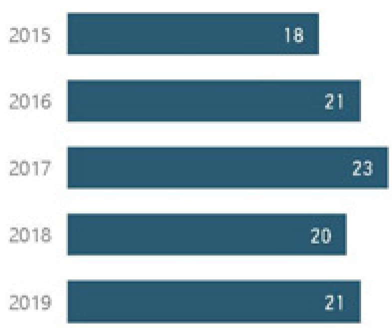


Debt Management Firms

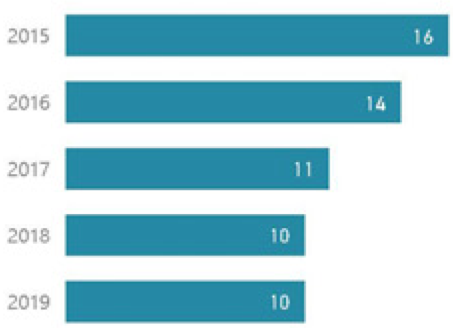
Moneylenders



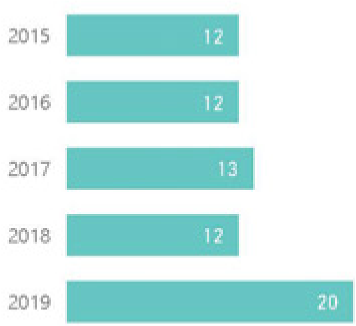
Retail Credit Firms & Home Reversion Firms



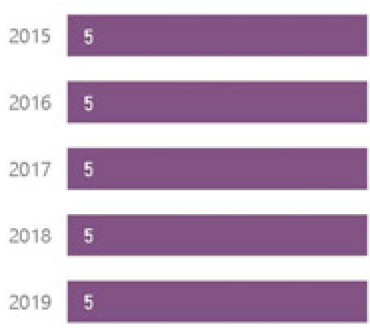
Money Transmitters & Bureaux de Change



Payment Institutions



Moneybrokers



Brexit – Regulatory Focus in 2019

For a detailed description of the Central Bank's Brexit work in 2019, see Part 1: Annual Report, Box 5: The Central Bank's Approach to Brexit.

Given the unprecedented nature of Brexit and its far reaching implications, spanning all aspects of the financial regulation focus in 2019, this section provides an overview of the Central Bank's supervisory response. Subsequent sections then focus on the wider (non-Brexit) consumer protection and supervision and enforcement focus in 2019.

As well as dealing with an exceptional increase in authorisation activity (including new and complex business models) arising from the UK's departure from the EU, supervisory emphasis centred on ensuring that existing firms made the necessary improvements to increase their resilience, and that their contingency plans were appropriate to serve the needs of the economy and consumers in the longer-term. Together with regular supervisory engagement, this involved analysis of key Brexit data to determine firms' preparedness and to understand the possible risks presented to their business models.

The Central Bank was closely involved in developing a common European approach to the regulatory and supervisory issues arising from the UK's departure from the EU via engagement at the ESAs and SSM.

The Central Bank also ensured that firms operating on a cross-border basis had robust contingency plans in place to ensure continuity of service for Irish consumers.

During the run up to the proposed Brexit day on 31 October 2019, and following the extension thereafter, the Central Bank continued to focus on internal preparedness, as well as the resilience of the overall financial system and the resilience of individual firms via continued engagement with firms, EU and UK authorities.

As part of the preparations to mitigate the potential risks of a no deal Brexit in 2019, the Central Bank worked with the Department of Finance to develop a domestic temporary "run-off" regime for insurers and brokers. This legislation enables UK insurers to service existing insurance contracts for a period of three years after the withdrawal date, mitigating the risk of a disruption to the continuity of insurance contracts. Under the temporary "run-off" regime, UK insurers may not write new business without authorisation. The necessary legislation was published as part of the Government's Omnibus Brexit Bill on 22 February 2019.

From a communications perspective in 2019 and together with ongoing supervisory engagement with firms on Brexit issues, the Central Bank held a further stakeholder forum on Brexit, made a number of speeches outlining its supervisory expectations of firms, published firm and consumer Brexit FAQs on its website, and published a range of reports outlining the focus of its Brexit work and analysis. The Central Bank also emphasised the need to adhere to the guidance issued by the ESAs to inform customers and investors about the impact of the departure of the UK from the EU on their financial products and services.

Consumer Protection

Ensuring the best interests of consumers and investors are protected is a fundamental part of the Central Bank's mission. In addition to work focused on the resilience of the financial system, Strengthening Consumer Protection is one of the Central Bank's five strategic themes for the period 2019-2021.

Embedding a consumer-focused culture within firms is essential to ensure they serve the interests and needs of consumers. It is important that consumers have trust and confidence that regulated firms are acting in their best interests.

The Central Bank's statutory codes of conduct, redress powers and enforcement actions are essential to consumer and investor protection, but so too is its work to ensure firms are well managed and financially sound, and to guard against instability in the system as a whole. As such, consumer protection is embedded in every area of the Central Bank's work.

Retail Conduct Supervision

The Central Bank's aim is to ensure regulated firms treat their customers in a fair and transparent way and are compliant with their obligations.

Adopting a risk-based approach to supervision, the Central Bank focuses on firms and products according to the level of risk they pose to consumers. High-quality consumer research and risk evaluation informs this work.

Through effective, risk-based and proportionate use of supervisory powers and agile application of resources, the Central Bank seeks to:

- Prevent identified high-impact risks from crystallising through targeted proactive supervision.
- In cases where risks crystallise, require firms to restore consumers to the position that they would have been in, had the detriment not occurred in the first instance.
- Enhance consumer confidence by taking appropriate action to address consumer harm.

Key areas of focus for retail conduct supervision in 2019 are outlined below.

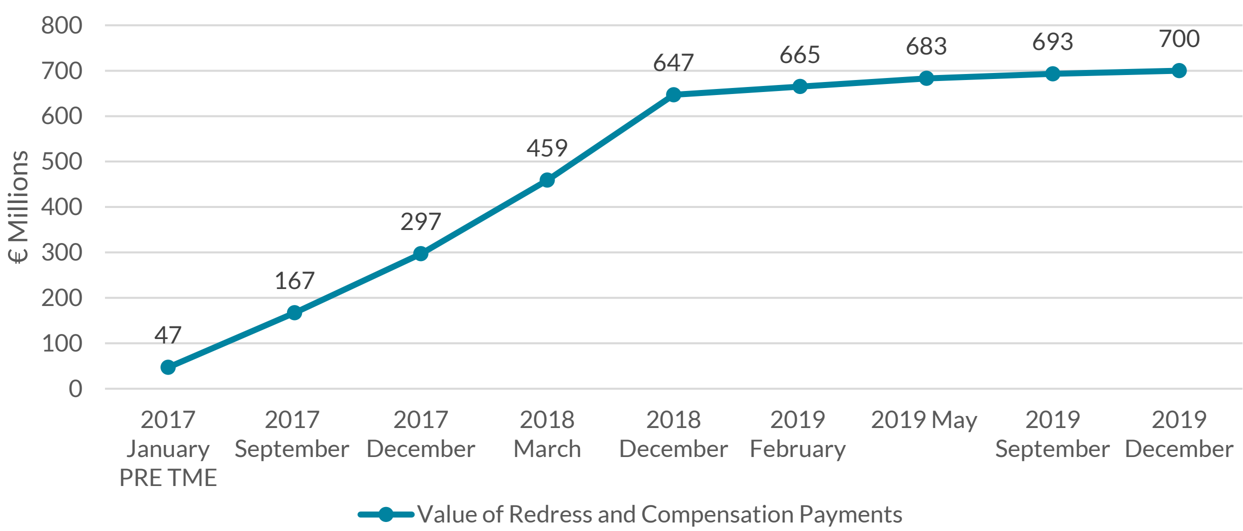
Tracker Mortgage Examination

The final report on the Tracker Mortgage Examination was published in July 2019, which marked the close out of the supervisory phase of the Examination.

As set out in the final report, the Central Bank has clearly communicated to lenders its expectation that if any individual outcomes arise from the Financial Services and Pensions Ombudsman or court processes that have the potential to impact customers more widely, they must then address this broader impact and inform the Central Bank accordingly. The Central Bank will investigate any outcomes that may give rise to a systemic or wider customer impact, and take appropriate action with lenders as required.

Work continued on a number of enforcement investigations, building on the work carried out during the supervisory phase of the Examination. As at end-December 2019, one enforcement investigation has concluded and enforcement investigations continue against the remaining five lenders.

Chart 2: Value of Redress and Compensation Payments



Regulation of the Credit Servicing Sector

During 2019, the Central Bank developed a new authorisation framework and commenced assessing applications for previously unregulated credit servicing firms.

Firms applying, and individuals holding senior positions in those firms, have to demonstrate that they meet the required authorisation standards and requirements. They must now also provide detailed data on mortgage arrears and repossessions and are subject to intensified risk and evidence-based supervision.

Behaviour and Culture

The Central Bank continued its commitment to drive firms to embed effective cultures in 2019 through progressing the development of a behaviour and culture supervisory framework. The supervisory framework aims to enhance the expertise of supervisors to identify and challenge behaviours in regulated firms, to drive firms to review their cultures, and to deliver outcomes that are in the best interests of consumers and are prudentially sound.

Diversity and Inclusion (D&I), encompassing gender, age, ethnicity, sexual orientation, educational and professional background, amongst other characteristics, is essential to developing an effective culture. Higher levels of diversity of thought enable greater challenge, more openness to change, drive more effective decision making and improve risk management.

In 2019, the Central Bank continued to enhance its approach to the supervision of behaviour and culture, including D&I, in the following ways:

- Strengthening retail conduct risk regulation by setting out its clear expectations of firms, and requiring firms to embed robust conduct risk frameworks.
- Conducting robust and targeted assessments of firms and products that posed the greatest harm to consumers.
- Conducting a thematic assessment of D&I in the insurance sector, capturing 11 insurance undertakings.
- Reviewing the action plans submitted by the five main retail banks to address the risks identified in the 2018 review of their behaviour and culture.
- Taking enforcement actions against firms and individuals where standards were not met.

The Central Bank remains focused on holding firms to account for embedding effective behaviour and cultures, including driving improvements in the levels of diversity of senior managers in regulated firms.

Errors and Consumer Restitution

The Consumer Protection Code 2012 requires that firms resolve errors, notify consumers and arrange prompt refunds, as well as correcting systems failures and implementing controls to prevent a recurrence of the error. The Central Bank monitors the resolution of such errors to ensure firms resolve them within the required timeframes and treat consumers fairly. In 2019, €74m was returned to consumers arising from errors across multiple sectors, primarily the banking sector.

Box 15: Provision of Clear and Meaningful Information to Consumers of Health Insurance

The Central Bank undertook a review of documentation provided to health insurance consumers and concluded that all of the health insurers could make improvements in terms of how they communicate changes to health insurance plans at renewal.

The Central Bank wrote to the health insurance providers in November 2019 setting out its expectations and the information requirements for firms, as outlined below:

- Provide consumers with a stand-alone document setting out a comparison detailing the cover both pre-renewal and post-renewal, with any changes highlighted to attract the consumer's attention.
- Remove ambiguous wording from cover letters, so that any changes to the cover provided under a health insurance plan are clearly stated within the opening two paragraphs of the cover letter.

Consumer Protection Policy Development

Through purposeful engagement at national, European and international level, the Central Bank seeks to influence and shape effective, proportionate and consistent consumer protection measures, resulting in a comprehensive regulatory framework, which ensures consumers' interests are protected.

The consumer protection framework was further strengthened in 2019 to include new rules relating to payment of commission to intermediaries and greater transparency in the insurance sector, as detailed in Box 16 and Box 17.

Box 16: New Requirements for Financial Intermediaries Relating to Commission Payments

Commission arrangements must be designed in such a way that they encourage responsible business conduct and fair treatment of consumers and avoid conflicts of interest.

In this context, in September 2019, the Central Bank published a package of new rules on the payment of commission to financial intermediaries, involving new requirements on transparency for consumers and prohibitions on certain types of commission arrangements.

Under the new rules, intermediaries must publish details of all the commissions they receive from product producers on their website. In addition, intermediaries may no longer describe themselves and their regulated activities as "independent" where they accept and retain commission in circumstances where advice is provided.

Certain criteria must be met in order for commission to be acceptable, and commission linked to targets that do not consider a consumer's best interests will be deemed a conflict of interest and will be prohibited.

Free hospitality for intermediaries such as golf trips and attending sporting events will also be prohibited under the new rules.

These changes were published on 25 September 2019 and the new measures came into effect on 31 March 2020.

Box 17: Insurance Transparency Amendments

Enhancements to the non-life insurance sector came into effect on 1 November 2019. While primarily relating to motor insurance renewal, the aim of these enhancements is to provide greater transparency to customers, and enable them to make more informed decisions when renewing their non-life insurance policies.

The enhanced measures:

- Require insurers to provide the total premium for each motor insurance policy option available for the customer (i.e. comprehensive, third party fire and theft cover, third party only, if such insurance is offered by the insurer).
- Extend the renewal notification period from 15 working days to 20 working days for non-life insurance classes.
- Require insurers to provide the amount of the insurance premium paid in the previous year for private motor insurance renewals.

Review of the Consumer Protection Code

To address innovation, market developments and associated risks, the Central Bank is undertaking a review of the 2012 Consumer Protection Code. Furthermore, now that the Code is under review, the Central Bank will utilise the regulation-making powers it was given in 2013 to transfer the Code into regulations. A formal public consultation on the draft regulations will take place in due course, giving interested parties an opportunity to make any comments and/or submissions.

This is a complex and multi-annual project, which will require extensive consultation and deliberation of policy and legislative issues.

The purpose of the review is to deliver robust, up-to-date consumer protection regulations that maintain and enhance the strong provisions of the Code.

Other Key Consumer Protection Related Activity

Consumer Advisory Group

The Consumer Advisory Group (CAG) is a statutory Advisory Panel, established under the Central Bank Reform Act 2010, to provide advice to the Central Bank on its consumer protection functions.

During 2019, three meetings of the CAG were held. Some of the topics discussed included:

- Health insurance supervision
- Tracker Mortgage Examination
- Authorisation and supervision of credit servicing firms
- Consumer Protection Code
- Brexit-related issues
- The review of conduct rules applying to the licensed moneylending sector.

A report on the activities of the CAG is submitted to the Central Bank Commission annually and further information on CAG meetings can be found on the Central Bank's website.

Consumer Insights

The Central Bank conducts in-depth consumer research each year to ensure that the voice of the consumer is at the heart of its work. This complements the sectoral risk evaluation, which uses evidence-based analysis to identify current and emerging risks.

In 2019, research across banking and financial services focused on areas such as the consumer experience of the mortgage market, disclosure regimes in investment products and an examination of the regulatory, market and consumer issues relating to pensions in Ireland.

This work contributed to the outcome of the new rules relating to the payment of commission to intermediaries and ongoing work in strengthening the consumer protection framework.

Supervision and Enforcement

Financial regulation focuses on ensuring that regulated firms are financially sound, have sustainable business models and effective risk management and controls in place. These outcomes are achieved through assertive and risk-based supervision (including effective gatekeeping), appropriate enforcement and the development of an effective regulatory policy and supervisory framework.

Further, as an NCB and Ireland's competent authority, the Central Bank works as part of the wider European framework including the ESCB and the European System of Financial Supervision (ESFS). This wider European framework is playing an ever increasingly significant role and it is important that the Central Bank is effectively influencing and shaping the agenda to support the delivery of its mandate. Throughout 2019, the Central Bank remained active at EU fora (including EBA, EIOPA, ESMA and the ECB) to contribute to the development of regulatory policy and in promoting supervisory convergence across the EU27.

The following sections cover the Central Bank's focus in 2019 across supervision of the banking, credit union, insurance, asset management and funds sectors, including its gatekeeping role, and provide an outline of its enforcement and anti-money laundering activities.

Box 18: Gatekeeping Role

The Central Bank continued to apply a robust and risk-based authorisation approach in 2019, supported by fitness and probity assessments, to ensure that only those applicants that clearly demonstrated that they met the requirements for authorisation were licensed. This role is critically important in ensuring that the Central Bank continues to safeguard financial stability and protect consumers.

The Central Bank has a rigorous and robust assessment process, with dedicated teams in place to assess authorisation proposals. These teams continued to assess authorisation proposals throughout 2019 in line with statutory and service standard timeframes, operating a clear, straightforward and facilitative process for applicants seeking authorisation.[21]

[21] In conjunction with the ECB as competent authority in relation to the granting of banking licences in Ireland.

During 2019, the Central Bank authorised:

- 155 firms (including payment institutions, e-money institutions, retail intermediaries, retail credit firms, credit servicing firms and licensed moneylenders).
- One credit institution, the first such institution to be authorised since 2015.
- 71 authorisations in 2019, which include 16 extensions to authorisation (MiFID investment funds and fund service providers).
- Nine (re)insurance companies.
- 773 investment funds and the approval of 1,029 equity and debt prospectus documents.
- The Central Bank has substantially completed its assessment of all Brexit-related authorisations received to date. Furthermore, the Temporary Permissions Regime has addressed the issue of UK contract continuity. For contract continuity, the Domestic Temporary Run-Off Regime was passed by the Oireachtas in March 2019 and is ready for implementation.[22]

A significant part of the authorisation work surrounds the fitness and probity assessment of Pre-approval Controlled Functions (PCF). As part of the Central Bank's gatekeeper function under Section 23 of the Central Bank Reform Act 2010, it assesses the fitness and probity of individuals seeking to work in senior positions in regulated firms. The pre-approval assessment of fitness and probity contributes to robust governance arrangements, the increased professionalism of boards, and public trust in the industry.

Banking Supervision

In November 2014, the ECB assumed responsibility for the supervision of European banks within the eurozone area through the SSM. The Central Bank works with SSM colleagues to drive supervisory priorities and to supervise the largest banks, or "Significant Institutions" in Ireland. The Central Bank is also responsible for the direct supervision of smaller banks, or "Less Significant Institutions", authorised in Ireland.

In 2019, work of the Central Bank included supporting the development of supervisory guidelines, standards and methodologies and ensuring that the Central Bank is operating to and influencing European supervisory norms.

[22] EEA Passport Rights (Amendment, etc., and Transitional Provisions) (EU Exit) Regulations 2018 legislation.

The Central Bank continued to implement its multi-year supervisory strategies to ensure that firms:

- Have sufficient financial resources.
- Have sustainable business models.
- Are well governed and have effective cultures and diversity.
- Have effective risk management and control arrangements.
- Can recover if they get into difficulty, and can be resolved without significant external support if they cannot.

Throughout 2019, the Central Bank continued to direct firms to address remaining issues from the financial crisis, including NPLs and to enhance IT risk management and operational resilience.

The Central Bank also invested significant time in undertaking fitness and probity assessments for PCF roles, the most senior positions within the management body of authorised firms. Ensuring that management bodies are "fit and proper" enhances the safety and soundness of the institution concerned, and also strengthens the banking sector as a whole by increasing public trust in the people managing the financial sector.

Financial Resilience
The Central Bank continued to focus on ensuring that banks have sufficient financial resources to ensure the soundness of the institutions and contribute to the safety of the overall financial system. The key measures of financial soundness are the levels of capital and liquidity.

Capital
Under European regulation, banks are required to hold sufficient capital to protect depositors and shareholders against unexpected losses. Given the pivotal role capital plays, both in the resilience of institutions and the financial system, it is a key focus area for the Central Bank. Significant work is undertaken annually to ensure banks are adequately capitalised. The Central Bank also uses macro-prudential policy such as the CCyB pursuant to its financial stability mandate (more detail in Part 1: Annual Report, Box 2: Macro-Prudential Framework).

Across the system, capital ratios remained above regulatory requirements for all banks. However, there are some headwinds expected over the medium term, and should these materialise, they may result in reductions in the levels of capital held by banks.

Liquidity

The Liquidity Coverage Ratio (LCR) is a regulatory measure designed to ensure that banks have an adequate stock of high quality liquid assets such as cash, treasury bonds or high quality corporate debt, in order to meet contractual payment obligations over a short period of stress (30 days). The LCR of all banks was above the 100% requirement throughout the year (as of September 2019).[23]

There have been positive developments with respect to encumbrance ratios, which measure encumbered assets and collateral received to total assets and collateral, and provide information on a firm's ability to generate secured funding, if necessary, with declines in the ratio for both retail and internationally focused banks.[24, 25] Encumbrance ratios of both retail and internationally focused banks are below the European average of 27.4%.[26]

Liquidity Stress Test[27]

In 2019, the Central Bank supported the SSM's liquidity stress test to assess the ability of banks to withstand liquidity shocks. The scope extended to approximately 100 significant institutions, including certain Irish banks. As well as providing insights into the ability of banks to respond to stress conditions, the exercise also highlighted potential frictions associated with managing liquidity in foreign currencies. Findings have been incorporated into 2020 supervisory plans.

Operational Resilience

In 2019, the Central Bank continued to engage with banks regarding IT risk management and operational resilience. Focus centred on ensuring that banks' boards and senior management are prioritising security, resilience and the use of data and systems, in line with their responsibilities to safeguard the trust in and reputation of their organisations.

Many banks still require substantial IT investment to better mitigate operational risks. Banks still use outdated and fragmented IT systems, and the foundations are not sufficiently strong to effectively manage technology risks. Banks must continue to strive to reduce the frequency

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[23] For retail banks, LCR was approximately 147% as at end-Q3 2019 (139% at end-Q3 2018). For internationally-focused banks, the LCR was 175% (190% at end-Q3 2018).

[24] An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit-enhance any transaction from which it cannot be freely withdrawn.

[25] An asset pledged as security for repayment of a loan.

[26] The asset encumbrance ratio for retail banks decreased from 15% at end-Q3 2018 to 13.2% at end-Q3 2019 and, for internationally-focused banks, from 21% at end-Q3 2018 to 15% at end-Q3 2019.

[27] Sensitivity Analysis of Liquidity Risk.

and impact of such issues and increase their ability to recover quickly when outages occur.

The increasingly interconnected, complex and technology-dependent financial services environment means that operational and cyber resilience of the sector is vital for prudential soundness, consumer protection and financial stability. Investment is required by existing banks to keep pace with "FinTech" entrants, as well as increasingly sophisticated cyber threat actors. Banks need to make informed strategic decisions about investment in IT and security to remain competitive, secure and operationally resilient in this complex and evolving environment.

Recovery Planning

Appropriate recovery planning is essential to ensure banks can recover should they get into difficulty and to further support the safety of the financial system. Banks continue to develop their recovery plans and structures. From the Central Bank's regulatory focus in 2019, it is clear that further work is required by banks to develop their overall recovery capacity.

The Central Bank will continue to focus on this area in 2020 (see Part 1: Annual Report, Chapter 2: Resolution and Crisis Management).

Box 19: Supervisory Focus on Non-Performing Loans

There has been considerable progress made in resolving NPLs. However, more than ten years since the financial crisis, and six years since the peak of NPLs in Ireland, they remain significant.[28, 29] Consequently, the sustainable resolution of NPLs and the protection of borrowers in mortgage arrears remains a key priority for the Central Bank.

The Central Bank maintained intensive focus in 2019 on NPLs. Work included extensive engagement with individual banks, detailed analysis, and robust on-site investigations. Findings were used to challenge individual banks on their approach to resolving NPLs.

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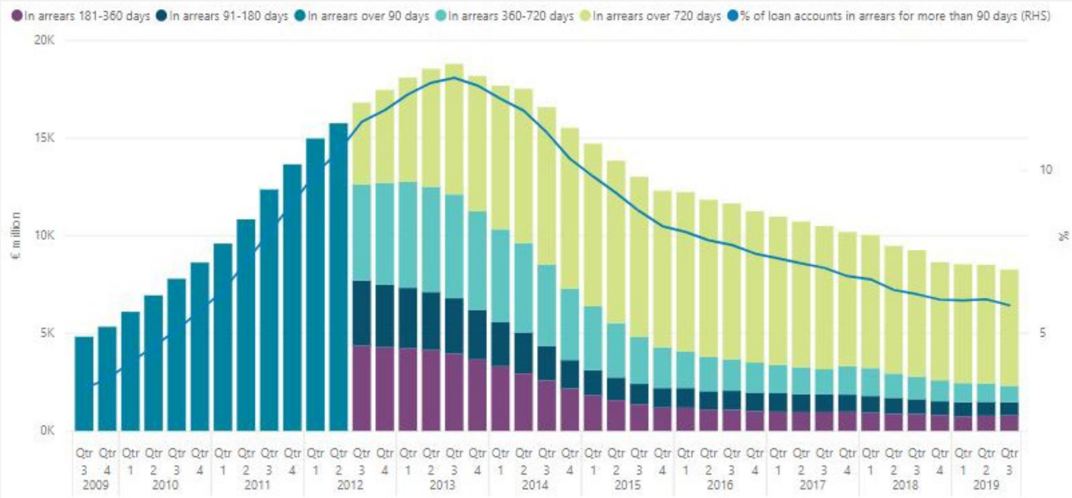
[28] See for example Donnery et al (2018) Resolving non-performing loans in Ireland: 2010 – 2018, Quarterly Bulletin 2018:2, Central Bank of Ireland.

[29] This is the case before the potential impact of COVID-19 on NPL levels, which given the anticipated shock to the economy, will result in an increase in NPLs for both personal customers and businesses.

Chart 3: Principal Dwelling Houses Mortgage Accounts in Arrears over 90 days



While Private Dwelling Home (PDH) NPLs continued to decline in 2019, supervisory work has shown that:

1. The reduction in NPLs arises from loan sales. The prevalence of mortgage NPL portfolio sales has increased substantially in the last 18-24 months.
2. Long-term sustainable solutions for individual borrowers in these cases have not necessarily been put in place.

The Central Bank's aim is to reduce NPLs sustainably across the system. There are multiple tools available to firms to achieve this, ranging from restructures to debt write-down, engaging with the insolvency process, engaging with mortgage-to-rent schemes and loan sales. Inevitably, resolution of mortgage arrears will, result in loss of ownership, in some instances, through voluntary surrender or, as a last resort, the legal process.

As a result of the large volume of portfolio sales, the issue of PDH mortgage arrears now extends beyond retail banks into the non-banking sector. The percentage of all PDH mortgages in arrears held by non-bank entities at end-September 2019 was 36% (23% twelve months earlier). On PDH mortgages in arrears over 720 days, non-bank entities held 48% at end-September 2019 (28% twelve months earlier).

Table 6: Mortgage Arrears by Type of Firm (Q3 2019)

Mortgage Arrears by Type of Firm (Q3 2019)	Banks	Non-Bank Entities	
		Retail Credit Firms	Credit Servicing Firms
% of all PDH mortgages in arrears	64%	24%	12%
% of all PDH mortgages in arrears over 90 days	59%	26%	15%
% of all PDH mortgages in arrears over 720 days	52%	27%	21%

Ensuring that consumers are protected remains a key supervisory focus. In Q4 2019, the Central Bank completed work at a sample of non-banks, which involved reviewing strategies, credit decisions and policies in determining appropriate and sustainable alternative repayment arrangements in the context of the Code of Conduct on Mortgage Arrears.

In 2020, the Central Bank will continue to focus on the sustainable resolution of NPLs and the fair treatment of borrowers in arrears across existing banks and the pipeline of 34 firms seeking authorisation under the Credit Servicing Act 2018. In this work, the Central Bank will take account of associated issues caused by the effects of COVID-19.

Examples of Industry-wide supervisory actions taken by the Central Bank include:

1. **Review of the effectiveness of the Code of Conduct on Mortgage Arrears**
   The Central Bank published a report on the effectiveness of the Code of Conduct on Mortgage Arrears in the context of the sale of loans by regulated entities. As follow-up, the Central Bank wrote to industry in March 2019 setting out expectations of firms to provide additional information to borrowers on the assessment of their arrears, effective no later than 1 January 2020.
2. **Clarification of Supervisory Expectations for all firms in respect to loan sales**
   In the context of loan sales and the potential for customer detriment, the Central Bank wrote to industry in August 2019, setting out its expectations in respect of loan sales to ensure consumers' interests are protected. These expectations include due diligence and information sharing, protection where a borrower is complying with the terms of restructure, timelines for review and how to deal with changes in borrowers' circumstances.
3. **Expectations in relation to the charging of costs associated with the legal process and other third party charges to borrowers in mortgage arrears**
   The Central Bank has made clear to industry that applying the costs prior to the conclusion of repossession proceedings and prior to the decision by a Court to award the costs to the regulated entity is not in borrowers' best interests. Additionally, it is not in the borrower's best interests to apply the costs prior to settlement between the parties concerned or prior to the borrower being in a position to redeem the mortgage and requesting to do so.

Credit Unions Supervision

The statutory mandate of the Registry of Credit Unions, set out under Section 84 of the Credit Union Act 1997, is to ensure the protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally. Its vision, which underpins the statutory mandate, is "Strong Credit Unions in Safe Hands".

The legislative and regulatory framework has been tailored to reflect the unique nature of the sector. While there is an increased level of collaboration emerging amongst credit unions, business model transition by credit unions is still at an early stage.

Strengthening credit union core foundations across governance, risk management and operational capabilities is a key focus of the Central Bank's supervisory strategy. In evolving its regulatory and supervisory approach, the Central Bank has sought to ensure that the framework is proportionate. The Central Bank welcomes the recent endorsement of its approach to regulation and supervision of credit unions, following an external peer review (Part 2: Annual Performance Statement, Chapter 3: International Peer Reviews).

Supervision

During 2019, the Central Bank continued to evolve its supervisory approach, with increased depth of engagement in larger credit unions (over €100m total assets) and the introduction of flexibility via scoping of inspection intensity based upon risk. A proportionate desk-based approach was adopted for low impact credit unions (up to €100m total assets), involving targeted on-site engagement where risks become elevated, using a trigger based approach. Supervisory engagement and sectoral communications highlighted expectations for Brexit, including the importance of proactive contingency planning.

Intervention and Restructuring

The Central Bank continued to facilitate and support consolidation of credit unions through voluntary Transfers of Engagements, which addresses cases of credit unions with financial and/or governance issues, as well as where credit unions seek to build economies of scale.

Restructuring continued to contribute to transformation of the sector, with a number of smaller credit unions becoming part of larger credit unions, operating from multiple business locations and providing a wider range of products and services to serve members' needs. From 2013 to 2019, the number of registered credit unions decreased by 36%, however, there was a less significant decrease in individual business locations of approximately 8%, which evidences that significant restructuring has not led to comparable closures in business locations.

A thematic review of Restructuring in the Credit Union Sector, published in 2019, highlighted changes to the profile of the sector in recent years and that restructuring can help credit unions to realise cost savings by eliminating duplicated costs and achieving scale economies.

Changes to the Lending Framework for Credit Unions

To ensure a responsive regulatory framework, the Central Bank completed a review of the lending framework for Credit Unions.

Following consultation, amending regulations commenced in January 2020, resulting in the removal of the existing five and ten year maturity limits, based upon total lending and the introduction of new tiered concentration limits for house and commercial loans, based upon total assets. These changes were introduced so that credit unions will have greater flexibility to engage in longer-term lending, including home mortgage and business lending, to support increased diversification in lending. The changes will permit credit unions with significant financial strength, competence and capability to undertake additional home mortgages and commercial lending. All lending should be prudently undertaken, well managed and in line with each credit union's strategy, capabilities and risk appetite.

Business Model and Engagement

The Central Bank continues to facilitate credit union business model development. In 2019, a paper on Business Model Strategy was published which advocated a structured approach to sectoral strategic planning. The Central Bank also published a Circular letter to provide enhanced clarity on credit union investment and outsourcing to Credit Union owned Service Providers. 2019 saw the launch of the current account under Member Personal Current Account Service, an approved additional service under section 48 of the Credit Union Act 1997 (as amended). An application framework was established for credit unions who want to operate as retail intermediaries on an agency basis as an additional service.

Insurance Supervision

The 2019 risk-based insurance programme has centred on full risk assessments, engagement meetings and thematic reviews. Supervisors completed over 700 engagements and responded to an increasing number of transactions relating to consolidation, and changes in firms' strategies and structures during 2019. Key areas of focus of supervisory reviews during 2019 included corporate governance, risk management framework and culture, and operational risk.

A programme of work to assess and recommend responses to emerging risks commenced in 2019. An initial assessment of emerging risks for the insurance sector highlighted key risk themes. Of these, climate-related risks, geopolitical risk (specifically the volatility of the geopolitical landscape), cyber risk and the impact of technological innovation were the most relevant. This contributes to priority setting for supervision and themes to engage with key external stakeholders.

Improvements in the accuracy of regulatory data submitted under the Solvency II regime have enabled data to be used as a key supervisory tool to monitor trends and undertake horizontal peer analysis. A structured approach to monitoring financial resilience for the insurance sector was designed in 2019. Key risk indicators have been developed to monitor risks including capital, reserving, pricing, liquidity, market and credit risks in particular. The financial resilience framework includes analysis at both macro level (insurance industry) and a lower sectoral level e.g. domestic non-life, reinsurance, cross-border. A pilot was completed in 2019, ready for integration into supervision in 2020.

Alongside core supervisory engagements in 2019, supervisors engaged on wider international themes including Brexit, risks arising from the low interest rate environment and the implementation of IFRS 17. This involved international supervisory and industry engagements. Insurance Supervision engaged in four EIOPA peer reviews, all of which noted a comprehensive and best practice approach by the Central Bank.[30]

Asset Management

In 2019, the Central Bank's supervision focus included completing a number of full risk assessments and firm specific engagement meetings, which focused on key topics including MiFID II compliance, preparedness for Brexit and key risks such as capital, operational and liquidity. There was an increased level of consolidation in the investment firm sector and this required a considerable level of engagement and analysis by supervisors.

Furthermore, in the fund service providers sector, the provisions within Fund Management Company Effectiveness (Consultation Paper (CP) 86) came into effect on 1 July 2018, aimed at enhancing fund management company effectiveness. In 2019, the Central Bank commenced a thematic review on CP86, which will conclude in 2020. The objectives of this thematic review are to identify standards of industry compliance, to inform the Central Bank's supervisory approach and to ensure that the required effectiveness and systems of governance are in place to protect investors' best interests.

Notably, in 2019, consumer/investor protection focus included the completion of a thematic review to assess firms' compliance with their Best Execution requirements under MiFID II and to review their governance framework, which should facilitate best execution for investors.

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[30] Peer review topics were: implementation of previous EIOPA recommendations, processes to review supervisory reports, implementation of the protocol on cross-border regulatory collaboration and assessment of compliance with the fitness and probity standards.

Moreover, in 2019, the Central Bank maintained a high visibility across supervised firms on the protection of client assets and investor money. During the year, the supervisory programme included client asset inspections, reviewing applications for authorisation from a client asset perspective, and monitoring migrations of client assets in newly authorised firms as a result of consolidation in the domestic market. In 2019, the Central Bank also commenced the Client Asset Regime Enhancement project and more information on this is outlined in Box 20.

Box 20: Client Asset Regime Enhancement Project

Since 2016, the Central Bank has experienced a substantial increase in the number of firms seeking authorisation in this jurisdiction (including applications from credit institutions and firms undertaking wholesale client asset activities). In addition, European legislative developments (in the form of MiFID II) have resulted in increased supervisory engagement with credit institutions from a client asset perspective. The developments have led to both an increase in the number of client asset holding entities, as well as the value of client assets held by Irish regulated entities, resulting in a refinement of the Central Bank's supervisory lens.

The Central Bank's Client Asset Requirements (CAR) were developed primarily in respect of MiFID investment firms servicing retail clients. The current requirements require enhancements to sufficiently capture those entities, including credit institutions, operating in the wholesale client asset space.

Against this backdrop, in 2019 the Central Bank commenced the Client Asset Regime Enhancement (CARE) project, with the objective of broadening the scope of the CAR, and to capture business lines associated with client assets arising in wholesale activities.

A significant body of work has been undertaken in 2019, including: (i) a member of the Client Asset Specialist Team (CAST) completing a secondment with the UK's Financial Conduct Authority to learn about its client asset regime and supervisory approach; and (ii) engagement with credit institutions to confirm client asset holdings and arrangements. This work is assisting the Central Bank's review of the CAR, informing enhancements to the supervisory toolkit and driving future engagements with credit institutions.

The CARE project will continue into 2020 and beyond. Once concluded, the outcome of this project will be a strengthened regime for the safeguarding of client assets, applied across a broader range of Irish regulated entities and activities, to ensure that a consistent level of protection is afforded to clients.

Securities and Markets Supervision

The Central Bank is responsible for the supervision of conduct on primary and secondary securities markets against an objective of ensuring an effectively supervised securities market. This contributes to its work to foster a trusted financial system that supports the wider economy.

Securities Market Surveillance

The Central Bank further enhanced its surveillance activity under MiFID II/MiFIR, European Market Infrastructure Regulation (EMIR) and Alternative Investment Fund Managers Directive.[31, 32, 33, 34] Supervisory outcomes included engagement with market operating firms, to assess their practices on surveillance of activity in their markets, the identification of trends in trading activity in response to MiFID II, regular reporting to ESMA on various matters required by the legislation and contribution to policy discussions, and analysis of the activity of systematic internalisers.[35] The Central Bank also participated in ESMA peer reviews on EMIR and the reporting of suspicious transactions under the Market Abuse Regulation.[36]

Supervision of the Funds Sector

In 2019, the Central Bank triaged over 1,400 supervisory alerts as part of its day-to-day trigger based supervision of funds, resulting in 76 formal RMPs being put in place, ranging from reporting requirements, the strengthening of governance structures, enhancements to due-diligence processes and improvements in risk monitoring procedures. The Central Bank also concluded the follow up actions on its review of performance fees.

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[31] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

[32] Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation

[33] Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories

[34] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010

[35] 'Systematic internaliser' as defined under MiFID II, means an investment firm which, on an organised, frequent systematic and substantial basis, deals on own account when executing client orders outside a regulated market, a multilateral trading facility (MTF) or an organised trading facility (OTF) without operating a multilateral system.

[36] Regulation (EU) No 596/2014 of the European Parliament and of the Council of 15 May 2014 on market abuse.

Use of Data Analytics

The Central Bank continued to build technological capacity to harness increasingly large quantities of reported data, with a focus on improving data quality. The Central Bank also issued a letter to industry on the outcome of its review of the quality of data reported under EMIR, including citing a number of areas for action by reporting parties.

The Central Bank continued to rollout a new machine-to-machine reporting channel, with over 80% of MiFIR transaction reports now received through this channel. The Central Bank also heightened its monitoring of daily redemption levels in Irish funds, as part of a focus on liquidity risk in funds.

New Legislation

In 2019, the Central Bank implemented the Prospectus Regulation, Securities Financing Transaction Regulation and requirements of the Money Market Funds Regulation.[37, 38] On 11 January 2019, the Central Bank issued a joint statement with the Luxembourg Commission de Surveillance du Secteur Financier in order to ensure the orderly implementation of the Money Market Funds Regulation to funds engaged in the practice of share cancellation. At ESMA, the Central Bank contributed to the development of new supervisory policies (with a particular focus on supervisory convergence), procedures and reporting.

Box 21: Closet Indexing Review

ESMA describes closet indexing as a practice in which funds claim to manage investor funds in an active manner while the funds are, in fact, staying very close to a benchmark index.

In 2019, the Central Bank conducted its most detailed data driven supervisory review of the Irish funds industry to date in order to identify whether Irish funds are engaged in this practice.

Data analysis was undertaken on over 2,500 Undertakings for the Collective Investment in Transferable Securities (UCITS) funds that state that they are actively managed. This analysis identified 182 funds that had been closely moving with a benchmark for periods of up to five years. Fund documentation, including the prospectus and key investor information documents of those funds, was then reviewed.

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[37] Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market.

[38] Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds.

The Central Bank found that investors were not always given sufficient or accurate information about the UCITS funds' investment strategy.

The Central Bank issued Risk Mitigation Programmes requiring relevant UCITS to revise their fund documentation and send to shareholders, together with details of the Central Bank's findings which prompted the amendments. The Central Bank will continue to engage with UCITS in 2020, and will have full recourse to its suite of supervisory powers.

Wholesale Market Conduct Supervision
In March 2019, the Central Bank wrote to firms authorised by the Central Bank who can engage in MiFID investment services in wholesale securities markets. The letter set out the Central Bank's expectations of how those entities must identify, mitigate and manage market conduct risk. Supervisory activities included a thematic review on the effectiveness of the identification and assessment of wholesale market conduct risk, a full conduct risk assessment of a large firm, and the assessment of large and complex investment firms and credit institutions seeking authorisation to engage in wholesale market activity.

Enforcement and Anti-Money Laundering

The Central Bank is responsible for the conduct of enforcement investigations across all sectors in respect of both prudential and conduct requirements and for the supervision of credit and financial institutions' compliance with their anti-money laundering (AML) and countering the financing of terrorism (CFT) obligations.

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

Risk-Based Approach to AML/CFT Supervision
The Central Bank continued to apply a graduated risk-based approach to AML/CFT supervision throughout 2019. 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 supervisory activities based on specific intelligence. While the Central Bank takes a holistic approach to supervision of firms, it operates a bespoke AML/CFT risk assessment module within Probability Risk and Impact SysteM (PRISM), in which ML/TF risk ratings and supervisory

engagements are separate and distinct from prudential and consumer supervisory engagements and risk ratings, reflecting the different focus of AML/CFT supervision. During 2019, the Central Bank carried out 89 on-site inspections, held 87 review meetings and issued 203 Risk Evaluation Questionnaires (REQs) to firms.

Engagement with Industry

Following a public consultation, the Central Bank published its AML/CFT Guidelines for the Financial Sector in September 2019. These Guidelines reflect the updated legal AML/CFT requirements for regulated firms, following the transposition of the Fourth EU Anti-Money Laundering Directive (4AMLD) into Irish law. The purpose of these Guidelines is to provide regulated firms with additional guidance on how to comply with their legal obligations, in order to prevent criminals and terrorists from utilising the financial system for illicit purposes.

During 2019, the Central Bank undertook extensive engagements, nationally and internationally, to highlight the obligations on the financial services industry across all sectors to play its part in the fight against money laundering and terrorist financing, as well as educating external stakeholders on the Central Bank's approach to supervision.

Legislative Changes

The Central Bank provided technical assistance to the Department of Finance regarding the transposition into Irish law of the Fifth EU Anti-Money Laundering Directive (5AMLD), which is due to be transposed in 2020. One of the significant changes arising from 5AMLD is that entities that provide certain services related to virtual currency will be subject to AML/CFT rules and Central Bank supervision of compliance with these rules for the first time.

AML/CFT Policy Developments

During 2019, the Central Bank provided significant input into AML/CFT policy development through its participation at ESAs' Joint AML Committee and Financial Action Task Force and participated in the national AML/CFT committee. This included Central Bank input into European and international discussions on electronic identification (eID) projects, and workstreams on the application of AML/CFT rules to entities that provide certain services related to virtual assets.

Using Enforcement Powers to Achieve Strong Outcomes and Credible Deterrence

The Central Bank takes enforcement action that seeks to hold firms and individuals accountable, deter misconduct and promote compliance and high standards in financial services. Key enforcement activities in 2019 included:

Enforcement Actions

Following robust investigations, involving numerous interviews and complex data analysis, the Central Bank delivered a number of notable enforcement outcomes in 2019, completing eight enforcement actions under the Administrative Sanctions Procedure (ASP) and imposing fines totalling €30,262,689.

A significant enforcement action was the imposition of a fine of €21m on Permanent TSB plc following an investigation where Permanent TSB admitted 42 regulatory breaches of the consumer protection codes affecting 2,007 of its tracker mortgage customer accounts. This was the largest fine ever imposed by the Central Bank and marked the completion of the first in a series of ongoing industry investigations arising from the Central Bank's Tracker Mortgage Examination.

The Central Bank continued to focus on individual accountability. Since 2006, the Central Bank has disqualified 14 individuals from holding positions as persons concerned in the management of regulated firms under the ASP. Under the fitness and probity regime, since 2011, the Central Bank has prohibited eight individuals from holding any role in the financial services industry for definite or indefinite periods of time. Notably, in 2019, the Central Bank secured its first High Court order under section 45 of the Central Bank Reform Act 2010, which confirmed a prohibition notice preventing an individual from performing any controlled function in Ireland for ten years. Alongside this, the Central Bank continued its engagement with the Department of Finance to develop the proposed Individual Accountability Framework.

The Central Bank also revoked/cancelled, on an involuntary basis the authorisation/registration of three firms, which failed to comply with their authorisation/registration requirements.

Box 22: ASP Sanctions Guidance

On 14 November 2019, the Central Bank launched its ASP Sanctions Guidance. This Guidance seeks to increase transparency by providing greater clarity on the Central Bank's general approach to sanctioning of firms and individuals under the ASP. It provides guidance on the application of a variety of factors relevant to sanctioning, including cooperation, self-reporting and remediation.

The Guidance should help to promote an improved culture of compliance in financial firms by clarifying the behaviours, which may aggravate or mitigate a breach of financial services law.

The Guidance complements the Central Bank's Outline of the Administrative Sanctions Procedure and Inquiry Guidelines prescribed pursuant to section 33BD of the Central Bank Act (as amended).

Protected Disclosures

Protected Disclosure reports are an important tool to assist the Central Bank in discharging its supervision and enforcement mandate. They help to extend the Central Bank's supervisory reach and enhance its overall regulatory insight by providing a valuable source of information regarding sectors and regulated firms. The presence of a protected disclosures regime also plays a unique role in the promotion of high standards within regulated firms, and it aids in positively influencing behaviours.

In 2019, 200 protected disclosures were received which represents a 56% year-on-year increase (128 protected disclosures were received in 2018). These reports are important and, as such, each report is thoroughly assessed. Actions taken on foot of information received as a protected disclosure include undertaking additional supervisory work such as on-site inspections, requiring a firm to fix issues, putting firms under higher supervisory focus, and taking enforcement action.

The Central Bank understands that making a protected disclosure can be a difficult step to take. However, it greatly values this information and deals with such reports professionally, sensitively and in a confidential manner to ensure the identity of the reporting person is protected.

Box 23: Unauthorised Firms

The Central Bank plays an important role in ensuring that only firms and individuals that hold an authorisation from the Central Bank, or where applicable, a corresponding regulator in another EEA Member State with the requisite passporting arrangements, operate in the State. The Central Bank takes action against firms and individuals which seek to carry out financial services activities without the requisite authorisation and investigates all instances of alleged unauthorised activity that are brought to its attention. In 2019, the Central Bank published 53 warning notices in respect of unauthorised firms which represents a 51% year-on-year increase (35 notices were published in 2018). There is a list of unauthorised firms available to the public on the Central Bank's website.

Regulatory Policy and Supervisory Framework

Developing and maintaining the regulatory policy framework for Ireland's financial services sector is a key part of the Central Bank's mandate. The Central Bank produces and maintains clear, concise and effective policies that are consistent with its objectives and strategic priorities. These policies provide the basis for supervising and enforcing the key principles of organisational and financial soundness, consumer protection and effectively functioning markets. This work includes:

- Contributing to the formation and implementation of European and international regulation.
- Developing and maintaining the Central Bank's regulatory framework for prudential and conduct supervision.
- Leading on the development and maintenance of the Central Bank's risk-based supervisory framework (PRISM).

The Central Bank develops and implements regulatory policy in relation to credit institutions, insurance undertakings, investment firms, investment funds, and securities and markets both domestically and internationally. This includes the development of cross-sectoral policy in the areas of FinTech and sustainable finance (see Part 1: Annual Report, Box 3: Climate Change and Financial Stability). A key regulatory policy focus in 2019 was the commencement of the development of an Individual Accountability Framework.

The Central Bank works with partners in the EU (EIOPA, EBA, ESMA) and internationally (such as the International Organisation of Securities Commissions (IOSCO)) in the development of regulatory and resolution guidelines, standards, methods and risk analysis, as well as with EU and international legislative frameworks in relation to sectors regulated by the Central Bank. During 2019, the Central Bank provided technical support to the Department of Finance during the development of EU legislation in areas such as the Capital Requirements Regulation II/Capital Requirements Directive V, NPL package, European Deposit Insurance Scheme, Pan-European Personal Pension Product, crowdfunding and sustainable finance.

The key focus of the Central Bank's engagement at EIOPA in 2019 was the Solvency II 2020 review. This is the first overarching review of the Solvency II regime since its introduction in 2016. The main focus areas for the Central Bank were to ensure that there continues to be an open market for undertakings who write business across Europe on a freedom of service or freedom of establishment basis, improving consumer protection through the introduction of a fully funded minimum harmonisation of insurance guarantee schemes, a robust recovery and resolution framework, and capital requirements that appropriately reflect the current low interest rate environment.

The final set of Basel III reforms, aimed at further strengthening and enhancing the credibility of the prudential banking regulatory framework, were a central focus of the Central Bank's engagement at the EBA. Both in a leadership capacity through the co-chairing of the Standing Committee on Regulation and Policy, and at a working group level across a number of key risk areas, the Central Bank was closely involved in EBA work on the finalised risk reduction package in 2019, and the EBAs response to the European Commission Call for Advice on the finalisation of Basel III.

Regarding the European regulatory policy process for the investment funds sector, the Central Bank played an active role at ESMA in the development of harmonised stress testing guidelines for UCITS and Alternative Investment Funds, examination of costs and past performance information for funds, and publication of guidance related to depositary delegation requirements. The Central Bank also strongly supported the development of a harmonised framework for how funds may use performance fees, which was subject to consultation in 2019.

At an international level, the Central Bank also plays an important role at IOSCO regarding investment funds as part of a leadership group for Exchange Traded Funds (for both conduct and market-related issues) and by chairing a group of regulators which are examining conduct-related issues for index providers.

In seeking to enhance the regulatory rulebook in the area of insurance, the Central Bank published a Discussion Paper on the use of service companies. The consultation closed on 14 February 2020 and responses to this Discussion Paper will help inform the Central Bank's consideration of its policy position in relation to this practice within the insurance sector in Ireland and any enhanced regulatory or supervisory action that may be required.

To enhance the regulation of the behaviour of regulated firms and the operation of financial markets in order to protect consumers and investors, the Central Bank enhanced the regulatory framework for the treatment, correction and redress of errors in investment funds by issuing a Consultation Paper 130 (CP130), which sets out responsibilities for fund management companies and depositaries. The Central Bank's wholesale conduct risk regulatory framework was also reviewed during the year. Specific work in the area of benchmarks, best execution, client assets and client categorisation rules was carried out during 2019 and will continue into 2020.

Part of the Central Bank's mandate is to identify and act upon the emerging risks, opportunities and challenges presented by financial innovation. The Central Bank led this work through the internal Innovation Steering Group and FinTech Network. In 2019, the Central Bank joined the European Forum of Innovation and contributed to the development of advice from EBA and ESMA on crypto-assets and Initial Coin Offerings to the European Commission and to development of IOSCO policy in this area. The Central Bank also continued to engage with firms innovating in financial services via its Innovation Hub, with its annual update published on 20 February 2020.

An important priority under the Central Bank's strategic themes of Strengthening Resilience and Strengthening Consumer Protection is ensuring the effectiveness of supervision. This is largely achieved through the maintenance, enhancement and support of the Central Bank's supervisory risk framework (PRISM) and the quality assurance of its implementation.

Box 24: PRISM Review

The Central Bank introduced PRISM in 2011. PRISM was introduced to enable the Central Bank to deliver on its statutory mandate of proper and effective regulation of financial service providers and markets, whilst ensuring that the best interests of consumers of financial services are protected. This is achieved by providing a risk and outcome focused, structured approach to supervision.

In 2019, the Central Bank focused on two significant reviews of PRISM in order to ensure that the Supervisory Framework keeps pace with changes and remains fit for purpose.

1. PRISM Impact Review – An assessment of the existing 28 Prudential Impact models in (i) the Asset Management, Market Infrastructure, Payments and e-Money sectors, (ii) Fund Service, Insurance and Reinsurance providers, and (iii) Credit Unions to ensure that they evolve in order to remain effective and fit for purpose.
2. Minimum Engagement and Supervisory Framework Review – A holistic review of the Central Bank's current approach to supervisory engagement and the enhancement of its supervisory risk appetite framework is underway.

The objective of these reviews, which are intrinsically linked, is to ensure that the Central Bank continues to operate a Supervisory Framework that supports an assertive, risk-based, robust, analytical and outcome-focused approach to supervision. This work will continue in 2020. For example, work will be undertaken on the Consumer Protection Supervisory Framework and the assessment of the prudential impact model for funds.

Funding and Staffing of Financial Regulation

Funding of Financial Regulation

The Central Bank's funding strategy is to move, on a phased basis, towards fully recovering the cost of financial regulation from industry.

Each year, the Central Bank makes regulations requiring regulated firms to pay a funding levy to the Central Bank in respect of its financial regulation activities.

The annual funding requirement reflects the resources required to discharge the Central Bank's legal responsibilities under domestic and EU law, the recovery rates approved by the Minister for Finance and adjustments for balances from the prior year.

These regulations, which set out the basis on which levies are applied to individual regulated entities within each industry funding category, take effect on approval by the Minister for Finance.

Box 25: Implementing the Central Bank's Funding Strategy

The three-year funding strategy for the period 2018 to 2020 is to:

1. Increase the overall recovery rate and address funding gaps with a view to achieving full industry funding in the medium term.
2. Move to levy on the basis of actual, rather than budgeted costs in order to eliminate volatility from adjustments related to prior year activities.
3. Continue to refine levy methodologies where alternatives are available, to ensure levies are proportionate and reflect the specific size and risk of an entity.

In June 2019, following approval by the Minister for Finance, the Central Bank published the expected path towards 100% industry funding over the next five years.

2019 levies will be calculated based on actual financial regulation costs, and invoices will issue in Q3 2020.

In the 2019 levy cycle, insurance entities, investment firms and fund service providers will remain on PRISM impact-derived pricing, but will move to new methodologies as alternatives are developed. The methodology for credit institutions, in place since 2017, is being refined to ensure that levies remain proportionate in light of changes in authorisation status across a number of new and existing institutions.

In the interests of transparency, there is continued engagement with industry representative bodies on funding-related developments.

Staffing in Financial Regulation

At end-December 2019, there were 978 full time equivalents (FTEs) involved in regulatory activities, up from 953 in December 2018. The increase in staff in 2019 is principally attributable to:

1. Brexit - additional staff were required to respond to the volume, nature and complexity of new firms seeking authorisation and to process significant changes to business models of existing firms.

2. The establishment of a Wholesale Conduct Function in response to the changing profile of credit institutions and investment firms to ensure that wholesale conduct risk is effectively embedded in the Central Bank's frameworks.

3. An increased intake of staff on the Central Bank's scholarship and graduate programmes.

Service Standards for Processing Applications and Contact Management

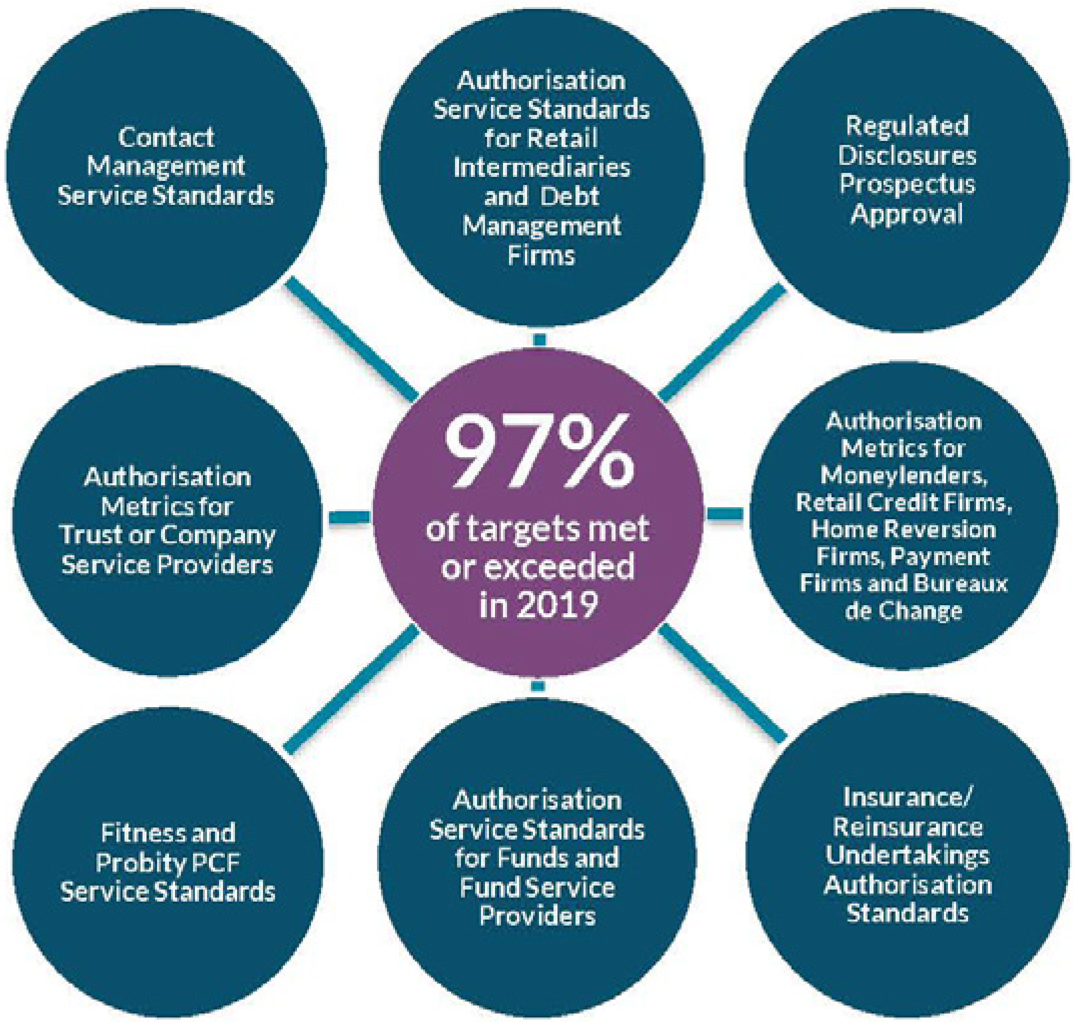
Service Standards

The Central Bank publishes two half-yearly reports outlining its performance against Service Standard commitments in respect of:

1. Assessment of Fitness & Probity (F&P) applications
2. Authorisation of Financial Service Providers and Investment Funds
3. Contact Management Services.

Standards were met or exceeded for 97% of the targets for which applications were received.[39]

Figure 2: Service Standards Achieved in 2019



[39] Performance Standards H1 and Performance Standards H2

Regulatory Transactions Services

The Central Bank operates a centralised, streamlined and automated service for core transactions, such as Fitness and Probity, Funds and Fund Service Provider Authorisations, Passporting, Returns Management and Contact Management processes, thus improving the consistency of decision making, reducing risk and delivering a measurable and transparent service with improved turnaround times.

The following are the main regulatory services delivered by the Central Bank:

- Fitness and Probity Gatekeeper Function – Assessment of persons seeking approval to hold senior positions in regulated firms (i.e. PCF) under the Fitness and Probity Regime, in accordance with Service Standards. As at 31 December 2019, there were 51 separate PCF roles relating to over 20 industry sectors.
- Funds and Fund Service Provider (FSP) Authorisations – Assessment of online applications for Funds and Fund Service Providers in accordance with Service Standards.
- Passporting – Processing of (Freedom of Services) passporting notifications received from regulated firms in accordance with statutory timeframes.
- Returns Management – Supported regulated firms in submitting existing and new regulatory returns online via the Central Bank's Online Reporting System (ONR) System.
- Contact Management Service – Provision of a general contact management/query support service to regulated firms in accordance with published Service Standards.

Queries during 2019 totalled 25,093, a 7% increase in volumes from previous year. The increase in queries reflects the spike in the number of firms and/or persons seeking authorisation and/or approval (most notably due to Brexit). Additionally, the number of regulatory returns due from regulated firms increased by 12% from 33,843 returns due in 2018 to 37,985 returns due in 2019. The investment firm and fund service provider sectors had the most significant increase in returns due.

Chart 4:
Number of queries dealt with by the Regulatory Transaction Contact Centre

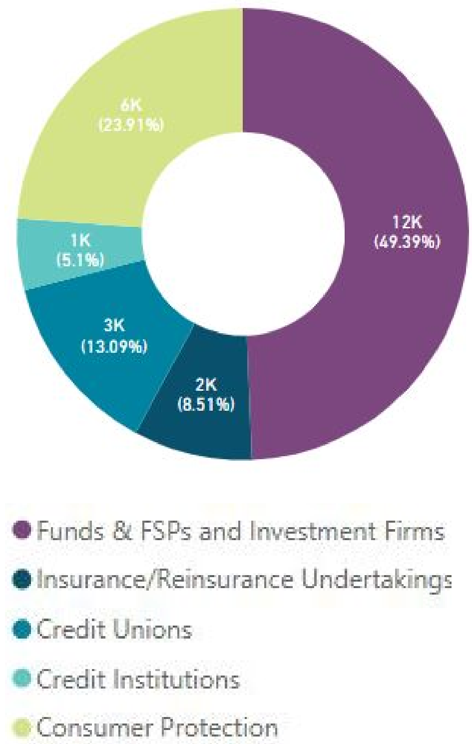
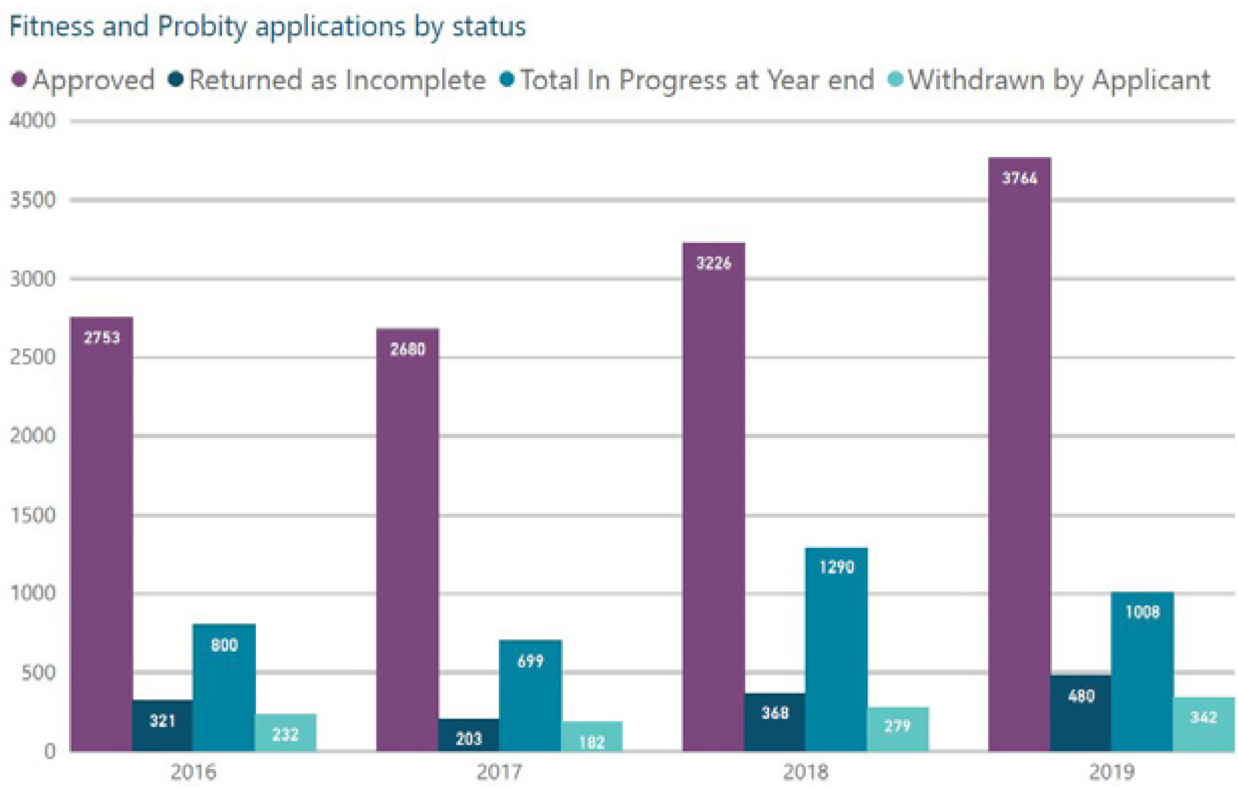


Chart 5: Fitness and Probity Applications by Status



During 2019, 4,586 PCF applications were assessed, representing an 18% increase (2018: 3,873). The increase was primarily due to the impact of Brexit, as UK financial service providers wished to maintain a presence in the EU.

Chart 5 highlights F&P applications by status. In 2019, 157 applicants were subject to the interview process and 26 (12%) withdrew their applications. Of the applications that were assessed, 82% were approved while 18% were either returned as incomplete or were withdrawn by the applicant (2018: 83% and 17% respectively).

In 2020, the Central Bank will implement a number of strategic actions, including enhancing its contact management service and further developing interactions between the Central Bank and regulated firms through the implementation of a new portal.

Internal Audit

See Part 1: Annual Report, Chapter 2: Internal Audit, which provides details of the Central Bank's internal audit activities and governance processes.

Chapter 2:
Strategic Priorities for 2020

Chapter 2:
Strategic Priorities for 2020

The Strategic Plan guides much of the Central Bank's focus in Financial Regulation for 2020. In addition to detailing the Central Bank's statutory objectives, the three-year plan sets out five priority themes. Key objectives for 2020 under these themes are as follows:

1. Strengthening Resilience: Work will continue to focus on building resilience in the financial system as a whole so that it is better able to withstand shocks and future crises.
2. Brexit: At the time of writing, the UK and the EU are now in a transitional period that will last until at least 31 December 2020. The period may be extended to 31 December 2021 or 31 December 2022 if the UK requests an extension before 30 June 2020. The Central Bank will maintain focus to ensure that the risks posed by Brexit are mitigated. The transitional period may be extended past the scheduled date (31 December 2020) due to the COVID-19 pandemic.
3. Strengthening Consumer Protection: The Central Bank will continue to strengthen consumer protection so that the best interests of consumers are protected, and confidence and trust in the financial system is enhanced through effective regulation of firms and markets.
4. Engaging and Influencing: The Central Bank will continue to engage with and listen to the public and stakeholders to inform its work, help build trust in and understanding of the Central Bank and strategically influence and shape key decisions and policies in Europe and internationally.
5. Enhancing Organisational Capability: The Central Bank will continue to invest in its culture, resources and capabilities to support the effective and efficient delivery of its mandate, whilst maintaining the highest standards of governance and risk management.

At the time of writing, the Central Bank's focus is on addressing the risks to financial stability and the economy posed by the COVID-19 pandemic, maintaining effective regulatory oversight and ensuring consumer protections are upheld. The effects of the COVID-19 pandemic will be substantial and will take time, effort and resources to work through. Accordingly, the Central Bank will reprioritise as required in order to deal with COVID-19 challenges. Notwithstanding that necessary commitment, the Central Bank considers it imperative that critical strategic plan objectives continue to be met.

Strengthening Resilience

Safety and soundness of firms, funds and markets

Ireland has a small, open economy that is more exposed because of vulnerabilities to material external risks, including those arising from exceptional events such as the COVID-19 pandemic, Brexit and other geopolitical risks, and the wider international trade environment.

Building a more resilient financial system is critical to mitigating risks, with the aim that the financial system helps to smooth the peaks and troughs rather than accentuate them. This is why the Central Bank will continue to focus on building resilience in the financial system, such that it can continue to support the economy and its customers in good times and in bad.

The resilience of the financial system that was built up since the financial crisis has assisted in mitigating some of the risks posed by the spread of the COVID-19 pandemic. The Central Bank needs to be vigilant to maintain the resilience of the financial system when exceptional events such as the COVID-19 pandemic occur to ensure that system remains resilient in the longer term.

In 2020, in addition to meeting the challenges posed by the COVID-19 pandemic, the Central Bank will continue to ensure that legacy issues are addressed, emerging risks are identified and that appropriate steps are taken to mitigate and monitor them.

Threats to operational resilience of individual firms and the system as a whole continue to increase in scale and complexity, and the opportunities and challenges presented by innovation continue to grow. Exceptional events such as the COVID-19 pandemic demonstrates why the Central Bank expects regulated firms to be actively considering and acting on these issues, with the aim of ensuring that they:

- Have sufficient financial resources, including under a plausible but severe stress.
- Have sustainable business models over the long-term.
- Are well governed, have appropriate cultures, with effective risk management and control arrangements.
- Can recover if they get into difficulty, and if they cannot, are resolvable in an orderly manner without significant externalities or taxpayer costs.

Regulated firms must also be looking forward, anticipating future risks and opportunities to ensure that they remain resilient over the long-term. To take one example, climate change needs to move higher up the agenda of the Irish financial services system as the effects could result in serious impacts for financial services firms, with climate-related financial risks acting as a driver of other risks, including market, credit and operational risk.

While recognising the challenges presented by the COVID-19 pandemic, the Central Bank will pursue its multi-year supervisory strategies, by firm or by sector (for lower impact firms), to:

- Address the remaining issues from the financial crisis with finality, including the high level of non-performing loans.
- Drive further improvements in the governance, culture, diversity and risk management of firms, so they are better able to demonstrate capability to identify, manage and mitigate the risks that they face.
- Drive enhancements in IT risk management and operational resilience across all firms.
- Enhance firms' ability to recover, progress resolution planning and the Central Bank's financial crisis preparedness and management capability.

In support of this strategy, in 2020, the Central Bank will:

- Continue to seek to ensure that firms are well governed and have effective cultures with effective risk management and control arrangements.
- Introduce important changes to supervisory framework and minimum engagement plans designed to achieve a more rigorous approach to risk-based supervision and engagement plans which are strategically focused to deliver effective supervisory outcomes. Embedding these changes in 2020 is a key priority.
- Continue to develop and maintain a robust prudential policy framework, including the review of Solvency II and finalisation of the EU approach to Basel III. The Central Bank will also play a lead role in supporting the Department of Finance's transposition of the latest Capital Requirements Directive and the Covered Bonds Directive.
- Draw from shared specialism and investment in data analytics capabilities to assess system wide risks and use horizon scanning techniques to support forward-looking risk analysis to support prioritisation decisions.
- Continue to maintain and enhance the Information Communication Technology and Cyber Risk supervisory capabilities including updating the cross-industry guidance issued in 2016 on Information Technology and Cybersecurity Risks.

- Continue to deliver robust, assertive and risk-based supervision of the firms subject to AML/CFT supervision by the Central Bank.
- Invest time to understand the activities and risks associated with non-banks, starting with a 'deep dive' on property funds as an initial element of a more detailed programme.

Climate risk and financing a sustainable economy
During 2020, the Central Bank will increase its focus on climate change issues by establishing a new Climate Change Team, working on climate risk, resilience, policy, sustainable finance, the Central Bank's own investments and operations, as well as financial stability. Under this model, and specifically under its financial regulation functions, the Central Bank will:

- Continue existing engagement at EU and international fora on policy developments in the areas of climate risk and sustainable finance.
- Engage with regulated entities to ensure that they are aware of their exposures, are incorporating climate-related risks into prudent risk management and investment practices.

Effective gatekeeping
During 2020, the Central Bank will:

- Continue to deploy its fitness and probity regime so that only those who are fit and proper are permitted to occupy senior roles at the firms it regulates and supervises.
- Be transparent in reporting on performance against published authorisation service standards.
- Enhance its gatekeeper role in the assessment of applications for authorisation of funds and the approval of prospectuses in primary markets, to be more risk-based and to devote more scrutiny to applications of particular concern.
- Focus on ensuring that firms comply with their authorisation conditions to ensure high standards.

Brexit

The Central Bank's extensive work to date on Brexit has spanned across all of its functions. The timelines for the transitional period are subject to change in the context of the outbreak of the COVID-19 pandemic. The Central Bank will continue to engage on the ongoing development of the single market in financial services post-Brexit. During 2020, the Central Bank will continue to:

- Require firms to implement plans to minimise risks to consumers.

- Develop its response to issues related to the post-Brexit financial services environment.
- Openly, predictably and robustly deliver its gatekeeping role for new authorisations.
- Ensure that firms comply with their authorisation conditions to ensure high standards, and make interventions as required in order to achieve this outcome.
- Challenge, assess, analyse, supervise and engage with existing firms in relation to Brexit preparedness to ensure that they are resilient and their customers are protected under a range of Brexit scenarios.

Strengthening Consumer Protection

Protecting consumers is embedded in all areas of financial regulation at the Central Bank including its statutory codes, redress powers, enforcement actions and its work to ensure that firms are well managed and financially sound.

Specifically during 2020, the Central Bank will:

- Continue to develop its conduct, consumer and prudential supervisory frameworks to ensure the approach to supervision is effective, robust, analytical, evidence-based, outcome-focused and consistent with European and international best practice.
- Deliver robust enforcement outcomes; in particular, investigations of tracker mortgage-related issues will continue, building on the supervisory outcomes of the Tracker Mortgage Examination.
- Commence the review of the Consumer Protection Code, with a view to ensuring protections are in place for consumers to address emerging trends and risks.
- Respond to any emerging risks to consumer protection arising from the economic and financial disruption caused by the COVID-19 pandemic.

Behaviour and culture

The Central Bank has identified the lack of an effective culture in regulated firms as a key risk. As such, the Central Bank will:

- Continue to require that the boards and leaders of firms take responsibility for, and are accountable for, embedding effective behaviour and culture in their organisations and their practices.
- Continue to monitor and challenge the levels of diversity of the most senior appointments in the Irish financial services sector.

- Complete Consumer Protection Risk Assessments on product oversight and governance in a number of firms.
- Continue to engage with the Department of Finance on the rollout of the proposed Individual Accountability Framework.

Reduction of Non-Performing Loans and Protection of Borrowers in Arrears

The protection of borrowers in mortgage arrears is a priority for the Central Bank. In 2020, the Central Bank will:

- Continue to drive momentum in the reduction of non-performing loans in a manner that is fully compatible with our consumer and prudential mandates.
- Continue to drive all regulated firms to implement long-term, sustainable alternative repayment arrangements for their borrowers, where possible.
- Scrutinise and challenge the pipeline of 34 firms applying for full authorisation under the Credit Servicing Act 2018, as to the strategy they will deploy for the fair treatment of borrowers in arrears.

Price Differentiation

In 2020, the Central Bank will examine the practice of price differentiation in the Irish motor and home insurance markets to understand how widespread it is, how insurers are using it and whether it leads to the unfair treatment of consumers. The review will examine:

- The extent of such pricing practices in the motor and home insurance markets and the groups of consumers that may be affected.
- The pricing strategies, models employed, and data used by firms that give rise to price differences for the same risk with the same cost of service.
- The extent to which boards oversee such practices, including oversight of delegated authority given to third parties.
- Consumer behaviour, in particular how consumers engage with their insurance providers.

It will also assess the extent to which these pricing practices lead to outcomes that are consistent with the Consumer Protection Code.

Engaging and Influencing

The Central Bank works as part of the wider European framework including the ESCB and the ESFS, proactively seeking to influence and shape the agenda to support the delivery of its mandate. This was recently evidenced by the extensive work carried out by the Central Bank with its international counterparts to mitigate risks to financial stability and the economy posed by the COVID-19 pandemic, and to ensure consumer protections are upheld throughout the disruption. Additionally, during 2020, the Central Bank will:

- Strategically identify areas of European and international policy development where the Central Bank should play a leading role, and contribute to other policy development.
- Engage with the ESAs, the SSM and other EU National Competent Authorities to continue to improve supervisory convergence and to enhance supervisory standards.
- Engage on enforcement issues with EU and international partners through the ESAs, the SSM and international organisations such as IOSCO.
- Maintain targeted and influential participation in key EU and international fora to ensure that that the Central Bank remains impactful and effective in influencing key regulatory and supervisory developments.
- Engage with government, other supervisors, ESAs, the ECB and other European and international institutions to mitigate the risks to financial stability and the economy posed by the COVID-19 pandemic.

Enhancing Organisational Capability

At the time of writing this document, the Central Bank has executed its business continuity plans in response to the COVID-19 crisis. Over 90% of the organisation is successfully working remotely from home as a result of the significant investment in IT infrastructure and extensive continuity planning undertaken in recent years. The Central Bank will continue to invest in its culture, resources and capabilities to support the effective and efficient delivery of its mandate whilst maintaining the highest standards of governance and risk management. Regulatory focus in this area for the year ahead is consistent with the organisation-wide approach. Further details of Central Bank activities is covered in Part 1: Annual Report, Chapter 2.

Chapter 3:

International Peer Reviews

International Peer Reviews

Section 32M of the Central Bank Reform Act 2010 requires the Central Bank to carry out an international peer review of its regulatory performance at least every four years.

Credit Union Peer Review

In 2019, following consultation with the Minister for Finance as required by the legislation, the Central Bank contracted the International Credit Union Regulators' Network (ICURN) to conduct a peer review of the functions carried out by the Registry of Credit Unions (the Registry). This was the second peer review of the Registry conducted by ICURN, the first being in 2015.

The ICURN peer review team comprised four regulatory representatives from the United States, United Kingdom and Canada. The basis for the peer review was the ICURN Guiding Principles for Effective Prudential Supervision of Cooperative Financial Institutions and Best Practices for Financial Cooperative Governance. [40, 41]

Following off-site and on-site engagement with the ICURN peer review team, the Peer Review Report was published on 13 January 2020. The overall finding in the report is that the Central Bank is effective in performing its functions in the regulation and supervision of the credit union sector in Ireland. The team assessed the Central Bank to be compliant with 20 out of ICURN's 23 Guiding Principles for Effective Prudential Supervision of Cooperative Financial Institutions, plus the additional review of governance relative to ICURN's Governance Principles. Three areas are assessed as largely compliant.

The Peer Review Report noted that relative to the last review conducted by ICURN in 2015, there have been significant improvements in the way the Central Bank is performing its functions, specifically: a) in terms of how the PRISM supervisory system has been calibrated to be much more risk-based, b) resources within the Central Bank are better allocated via a clear and well documented risk framework, and c) there is improved engagement and communication with the sector.

The report also made recommendations that the Central Bank can consider to enhance its performance as an effective regulator in the

[40] https://nebula.wsimg.com/4842a85152d1d2f422881170f5224252?AccessKeyId=EB21D0068BD759C2C465&disposition=0&alloworigin=1
[41] https://nebula.wsimg.com/08b67b19f7030ca74e8fca1fe6b122ab?AccessKeyId=EB21D0068BD759C2C465&disposition=0&alloworigin=1

areas of communications, continued evolution of the regulatory framework and supporting risk management culture and innovation.

The Central Bank's participation in this review represented an opportunity for it to be subject to external scrutiny on the performance of its functions in relation to credit unions, for the purposes of ensuring that it measures up to international standards, and delivers on its statutory mandate. The Central Bank broadly agrees with the findings contained in the Peer Review Report and will consider how it can address the recommendations with a view to enhancing current practices in the context of its mandate, vision and strategy for the credit union sector.

Glossary

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).

ARA – Alternative Repayment Arrangement – This arrangement adds the arrears on to the outstanding mortgage balance. The increased mortgage balance is then paid over the remaining term of the mortgage.

ASP – Administrative Sanctions Procedure – This is the procedure provided for under Part IIIC of the Central Bank Act 1942 (as amended). Where a concern arises that a prescribed contravention has been or is being committed, the Central Bank may investigate. The Administrative Sanctions Procedure provides that, any time before the conclusion of an Inquiry, the matter may be resolved by entering into a settlement agreement.

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

BRRD – Bank Recovery and Resolution Directive - This establishes a common approach within the EU to the recovery and resolution of banks and investment firms.

CAG – Consumer Advisory Group - The role of the CAG is to advise the Central 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 spillovers to other markets.

CCR – Central Credit Register - The Register is a national mandatory database of credit intelligence that is maintained and operated by the Central 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’.

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 EBA 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.

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

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

EIOPA – European Insurance and Occupational Pensions Authority – An independent body providing advice to the European Commission, the European Parliament and the Council of the European Union.

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

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

ESCB – European System of Central Banks - The ESCB comprises the ECB and the 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 macro-prudential 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 macro-prudential mandate, the ESRB monitors and assesses systemic risks and, where appropriate, issues warnings and recommendations.

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 - 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.

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. 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.

HICP – Harmonised Index of Consumer Prices - 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 - **Hold-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.

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

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

IRPF - Irish Retail Payments Forum - Established by the Central Bank in order to provide a forum in which payment services providers (PSPs) and payment services users 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 - 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.

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

MLF – Marginal Lending Facility – 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.

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

MREL - Minimum Requirement for Own Funds and Eligible Liabilities - 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 banks.

MRO – Main Refinancing Operations - MRO, 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. The Eurosystem's regular open market operations consisting of one-week liquidity-providing operations in euro.

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

NCA – National Competent Authority - 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 Central Bank, and in conjunction with the SRB, monitors 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 - 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**

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 - 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 - 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.

SRF – Single Resolution Fund – This is a resolution fund that is administered by the SRB, and is currently being built up to a target level of €55bn over an eight-year period (ending 2023). It is comprised of contributions from the banking industry of the banking union member states.

SRM – Single Resolution Mechanism - A central institution for bank resolution in the EU, and one of the pillars of the banking union.

SSM – Single Supervisory Mechanism - 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. Its 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 launched in November 2018. It enables 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 an extension of TARGET2 and settles payments in central bank money.

TLTRO – Targeted Longer Term Refinancing Operations - 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.

UCITS – Undertakings for Collective Investment in Transferable Securities – These are investment funds, regulated at a European Union level.

Part 3:
Financial Operations

Financial Results for 2019

Context

The size and composition of the Central Bank's Balance Sheet continues to reflect the non-standard monetary policy measures implemented by the Eurosystem, particularly in recent years, fulfilling its price stability mandate.

Key developments during 2019, in this regard included:

- The continued implementation of Eurosystem non-standard monetary policy measures via the restart of net asset purchases under the ECB's Asset Purchase Programme (APP), the launch of a third series of Targeted Longer-Term Refinancing Operations (TLTRO-III), and the introduction of a two-tier system for reserve remuneration. In addition to the restart of net asset purchases, reinvestments of the principal payments from maturing securities purchased under the APP will continue in line with Governing Council forward guidance.

- 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 made a substantial contribution to the Central Bank's profit in 2019.[42] During the course of 2019, prevailing market conditions permitted a total of €3.0bn of nominal holdings of the FRNs to be disposed of by the Central Bank, and were purchased by the National Treasury Management Agency (NTMA).

- Lower holdings of securities purchased by the Eurosystem under the Securities Markets Programme (SMP), which was terminated in 2012, as bonds matured. The aim of this programme was centred on ensuring depth and liquidity in 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 year-end 2019, as net purchases under the APP continue.

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[42] 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).

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 (the Guideline) provides for national central banks (NCBs) to make a provision for financial risks. [43] In line with this guideline, the Central Bank sets aside a provision of €900.0m (2018: €750.0m) in the 2019 accounts in respect of exposures to interest rate risk, representing an increase of €150.0m (2018: €250.0m).

Financial Results

Profit for the year to 31 December 2019 amounted to €2,559.5m, a 14% decrease (€423.3m) against a corresponding amount of €2,982.8m in 2018.

Realised gains on the sales of securities held in the Special Portfolio decreased by €514.5m in 2019 to €1,736.6m (2018: €2,251.1m) as the Central Bank continues to dispose of these securities. This was partially offset by a provision charge of €104.2m (2018: €180.5m). This charge is primarily made up of an increase in the provision for financial risks of €150.0m and a release in respect of the provision for securities of €50.0m.

Interest Income

Interest income of €1,004.6m was €86.3m lower than the comparable amount of €1,090.9m in 2018.

The decrease was primarily attributable to significantly lower interest earned on securities held in the Central Bank's Special Portfolio (held in the MTM portfolio) (2019: €246.4m, 2018: €331.7m) mainly due to lower average holdings. Income on the Central Bank's own held-to-maturity (HTM) portfolio also declined by €34.6m (2019: €244.4m, 2018: €279.0m) due to lower average interest rates.

In 2019, interest income was earned on the securities in the MTM portfolios due to the greater diversification into foreign currency investments with the inclusion of the Singapore Dollar (SGD) portfolio as well as US Dollar (USD), Australian Dollar (AUD) and Chinese Renminbi (CNY) portfolios, this was partially offset by negative yields on euro investments. Interest on other securities in the MTM portfolio was classified as an expense in 2018.

Income earned on securities held for monetary policy purposes decreased by €10.3m in 2019 to €275.2m (2018: €285.5m) reflecting

[43] 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).

lower holdings in the SMP portfolio as bonds mature and partially offset by an increase in average holdings in the CBPP3 and PSPP portfolios due to continued purchases under the Eurosystem's APP.

The Central Bank earned interest income on government deposits and credit institution deposits amounting to €103.5m (2018: €84.7m) and €91.7m (2018: €84.4m) respectively during 2019.

Interest Expense

Interest expense amounted to €39.5m in 2019 (2018: €37.4m), an increase of €2.1m for the year. A significant driver of the change is attributable to the interest expense of €8.2m (2018: €Nil) on the Targeted Longer-Term Refinancing Operations (TLTRO-II) operations which had been reported as interest income in 2018 due to a change in the interest rate charged and the rate that was accrued in 2018.

In 2019, interest on securities categorised as MTM (other than the special portfolio) was classified as income. This interest was classified as an expense in 2018.

Interest expense on reverse repurchase agreements decreased by €2.9m in 2019 to €12.9m (2018: €15.8m) reflecting lower transaction rates.

The lower expense on swaps of €14.8m (2018: €16.0m) is due to a general decrease in the interest rates of the underlying basket of currencies that make up the special drawing rights (SDR) of the International Monetary Fund, and a 20% reduction in the overall size of the swaps.

Net Result of Financial Operations, Write-Downs and Provisions

The net result of financial operations, write-downs and provisions in 2019 was a gain of €1,637.4m (2018: €2,045.0m). Realised price gains on the Central Bank's investment portfolio amounted to €1,740.1m (2018: €2,255.2m) and primarily reflect realised gains of €1,736.6m on partial sales of the Special Portfolio.

A provision charge of €104.2m in 2019 encompasses an increase to the provision for financial risks of €150.0m (2018: €250.0m) partially offset by the release of €50.0m (2018: €70.0m) of the provision for risks relating to securities held for monetary policy and investment.

An unrealised price gain (€67.0m) materialised on the equity fund in 2019 due to higher equity prices at the balance sheet date, compared to an unrealised price loss (€21.2m) in 2018.

Net Result of Pooling of Monetary Income

The net result of the pooling of Eurosystem monetary income gave rise to a net receipt of €31.4m in 2019 (2018: €6.8m) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares.

As a result of the annual impairment test of the CSPP portfolio, the Governing Council of the ECB has reviewed the appropriateness of the volume of the provision against credit risks established in 2018 and decided to reduce this provision from a total amount of €161.1m as at 31 December 2018 to €89.4m as at 31 December 2019. The Central Bank's share in this provision amounts to €1.5m (2018: €2.7m).

Operating Expenses

A detailed analysis of the Central Bank's operating costs is provided in Note 9 of the Statement of Accounts. The total operating expenses of the Central Bank remained largely unchanged year-on-year.

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 2019 of €299.9m (2018: €299.8m). These comprise pay, non-pay, banknote raw materials and depreciation costs.

Staff costs, including pay, increased by €14.4m (8%). Higher salary costs reflect increased staff numbers and the increases agreed in the Public Service Stability Agreement.

Other operating expenses decreased by €12.3m (13%), primarily due to lower Professional Fees. The decrease in the currency production costs is due to lower production volumes in 2019 when compared to 2018.

Surplus Income Payable to the Exchequer

After transfers to reserves and adjustments related to the recognition of a net actuarial loss 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 €2,050.4m (2018: €2,384.8m).

Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2019 were €116.4bn, an increase of €18.6bn (19%) over the corresponding balance for year-end 2018 (€97.8bn).

Assets

The ECB TARGET 2 balance increased to €35.4bn at year-end 2019, compared with €14.3bn at year-end 2018, an increase of €21.1bn. This increase is due to inflows channelled through the government deposit account and Irish institutions' reserve accounts.

This increase has been partially offset by a €3.4bn decrease in the value of assets acquired following the liquidation of IBRC (the Special Portfolio) due to sales of €3.0bn (nominal) and the revaluation of the remainder of the portfolio.

The TLTRO balance also decreased to €2.0bn at 31 December 2019 (2018: €3.0bn) due to early repayments on some TLTRO-II operations.

Liabilities

Liabilities under the minimum reserve system increased by €13.9bn to €27.0bn (2018:€13.1bn), due to the revised two-tiered system for reserve remuneration introduced by the ECB Governing Council which became effective on 30 October 2019. The new system exempts part of credit institutions excess liquidity holdings from negative remuneration.

Government deposits increased by €2.6bn to €22.0bn in 2019 (2018: €19.3bn).

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 Irish Pound banknotes of which €0.7m was redeemed in 2019 (2018: €0.9m) leaving €224.4m in Irish banknotes outstanding at year-end 2019 (2018: €225.1m) and a balance of €4.7m in the provision at year-end (2018: €5.4m).

Proceeds of Coin

During 2019, the net value of euro coin issued was €9.6m (2018: €7.6m issued) reflecting an increase in demand from the public. After deduction of coin production expenses, net proceeds of €10.0m were paid by the Central Bank to the Exchequer (2018: €6.7m). The Central Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2019, Irish coin redeemed totalled €0.1m (2018: €0.2m).

Prompt Payment of Accounts 2019

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 2019, with corresponding figures for 2018.

	2019	2018
Total Number of Late Payments	86	51
Total Value of All Late Payments (A)	€2,193,753	€945,312
Total Value of All Payments (B)	€184,419,087	€123,616,548
A as a % of B	1.19%	0.76%
Total Value of Interest Paid on Late Payments	€13,658	€6,473

Statement of Accounts of the Central Bank of Ireland

for the year ended 31 December 2019

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 was established by the Central Bank Act, 1942 (the Act). The Central Bank has essentially two functions. It serves the public interest by safeguarding monetary and financial stability and works to ensure that the financial system operates in the best interests of consumers and the wider economy. 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 European System of Central Banks (ESCB) functions, which are vested in the Governor) are managed and controlled by the Central Bank Commission (the Commission).

Role of the Commission

The Central Bank Act outlines the following statutory functions of the Commission; the affairs and activities of the Central Bank shall be managed and controlled by the Commission; the Commission shall ensure that the Central Bank's central banking function and financial regulation functions are integrated and coordinated; the Commission shall ensure that the powers and functions conferred on the Central Bank are properly exercised and discharged; the performance and exercise of the functions and powers of the Commission are not affected by there being one or more vacancies in the membership of the Commission.

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. While the Commission has delegated the exercise of the majority of the functions and powers of the Central Bank and has approved the Plan (most recently reviewed and approved in July 2019) 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 Strategic Plan to allow the Central Bank to achieve its statutory functions and it reviews the Central Bank's performance in relation to the Strategic Plan. The Commission reviews the implementation of the Strategic Plan on a bi-annual basis via a Strategic Implementation and Monitoring (SIM) Framework, which was introduced in the Central Bank in H1 2019.

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 (Chairperson)
- 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 who served on the Commission during 2019 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)
Gabriel Makhlouf*[44]	1 September 2019
Alan Ahearne	8 March 2015
Patricia Byron	1 January 2019
Sharon Donnery*[45]	1 March 2016
John FitzGerald	1 October 2015
Niamh Moloney	11 September 2018
Derek Moran*	15 July 2014
Ed Sibley*	1 September 2017
John Trethowan	11 September 2018
Philip R. Lane*[46]	26 November 2015
Des Geraghty[47]	1 October 2014

** Ex-officio members*

It should be noted that at end-December 2019 there were vacancies on the Commission, as the members appointed by the Minister were

[44] Gabriel Makhlouf was appointed Governor from 1 September 2019

[45] Sharon Donnery was appointed Acting Governor for the period 1 June 2019 to 31 August 2019 in addition to her capacity as Deputy Governor Central Banking

[46] Philip Lane resigned as Governor on 31 May 2019

[47] Des Geraghty's term as a Commission member ended on 30 September 2019

reduced to five. A process to fill those vacancies was commenced by the Department of Finance and the Public Appointments Service. The Commission regularly arranges for annual reviews of its own performance and that of its three sub committees – Audit, Budget and Remuneration, and Risk.

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 2019, 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 2019, comprised Niamh Moloney (Chair), Patricia Byron, 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, and remuneration. 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 2019, comprised Alan Ahearne (Chair), Sharon Donnery, Ed Sibley and John Trethowan. There existed one non-executive vacancy on the Risk Committee due to the overall vacancy rate on the Commission.

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.

Schedule of Attendance

A schedule of attendance at the Commission and Committee meetings for 2019 is set out below.

Commission Member	Commission	Audit Committee	Risk Committee	Budget and Remuneration Committee	Joint meetings of Audit and Risk Committees
Gabriel Makhlouf	4/4	-	-	1/1	
Alan Ahearne	11/12	-	5/5	-	2/2
Patricia Byron	12/12	5/5	-	1/1	2/2
Sharon Donnery	12/12	-	5/5	4/4	2/2
John FitzGerald	11/12	5/5	-	-	2/2
Niamh Moloney	11/12	-	-	4/4	
Derek Moran	8/12	-	-	-	
Ed Sibley	12/12	-	3/5	1/1	2/2
John Trethowan	12/12	5/5	1/1	-	2/2
Philip R. Lane	5/5	-	-	-	
Des Geraghty	9/9	-	4/4	3/3	2/2

Membership Changes

Philip R. Lane resigned as Governor on 31 May 2019, with Gabriel Makhlouf taking up the position of Governor on 1 September 2019. Sharon Donnery was appointed by the Commission as Acting Governor for the interim period 1 June 2019 to 31 August 2019, while continuing to perform her current role as Deputy Governor (Central Banking). Des Geraghty's term of office ended on 30 September 2019.

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 2019.

Statement of Compliance

The Commission has adopted the Code of Practice for the Governance of State Bodies (the Code). It has been 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 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 is available on the Central Bank's website.

Sharon Donnery	**Patricia Byron**
Deputy Governor	Member of the Commission
Central Banking	

19 March 2020

Statement on Internal Control

In April 2017, the Commission decided to adopt certain provisions of the Code. In some instances, the 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 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 2019. 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 that 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 2019, 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 defence, the operation of the system of internal control is supported to ensure 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 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 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 European System of Central Bank (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 Statement of Accounts, the external auditors, internal audit and 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.

There is a Commission approved Governance Framework that establishes a centralised framework for the Central Bank that sets out organisational governance structures. 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 includes a register of Corporate Policies supported by relevant templates and guidance, and similarly a register and guidance for Memoranda of Understanding.

An executive-level Risk Management Committee (RMC) is tasked with maintaining oversight and providing challenge across all risk categories and internal compliance and conduct related matters and supports the Central Bank's control environment further. An executive level Budget and Finance Committee (BFC) also supports the Central Bank's control environment. 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 has a Strategic Plan for the period 2019-2021. The Strategic Plan is approved by the Commission and submitted to the Minister for Finance. The current Strategic Plan is set out in two parts. Part one sets out the Central Bank's strategic objectives as they align to five strategic themes. Part two sets out the Central Bank's strategic objectives under its statutory objectives and its organisational objectives. The Central Bank has a defined organisational process for implementing, monitoring and reporting on its progress against delivery of the Strategic Plan. The Strategy Implementation and Monitoring (SIM) Framework captures the actions underpinning each strategic objective, as well as the progress on the delivery of these actions. Under the SIM Framework, strategic objectives are assigned to members of the Senior Leadership Committee (SLC). Reporting is achieved through tiered dashboard reporting, where an update on the progress for each strategic objective is received from the SLC owner. This is then summarised to give a view of the overall progress of each strategic theme and statutory objective, and enables the Central Bank to assess the extent to which the Strategic Plan is being met. Regarding governance of the SIM Framework, summary dashboards for each of the strategic themes and statutory objectives are reviewed by the SLC and the Governor's Committee on a quarterly basis. Where relevant, recommendations for consideration are made by the SLC to the Governor's Committee, which also reviews the summary dashboards and considers the SLC's recommendations, focusing on decision making and prioritisation. The SIM is also reviewed half-yearly by the Commission. A mid-term review of the Strategic Plan is due to take place in H1 2020.

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 an Internal 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.

Risk Appetite Framework

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 2019, 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 risks 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.

Strategic Risk Assessment

From a top-down enterprise level, a Strategic Risk Assessment (SRA) is conducted 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 Risk Management Committee (RMC) and Risk Committee (RC). The strategic risks are also discussed as part of the annual review of the Strategic Plan.

Risk Control Self-Assessment

From a bottom-up perspective, the operational risk framework is designed to allow 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 reported on to RMC and RC.

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), as required under the GDPR, whose role includes monitoring and assessing compliance with the various data protection legislation and requirements, coordinating any data protection related incidents, and to regularly report 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. The financial risk assessment framework principally focuses 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 risk appetite statement.

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 Code, the Commission was provided with a list of the Central Bank's most pertinent statutory and governance obligations, together with a Responsibilities Document 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 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 of the Commission.

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 EU Threshold (€221k) where the Central Bank has decided to operate a National Tender threshold entry point of €50k and not €25k, for the reasons of operating efficiency and effectiveness. Three or more written quotes are obtained for all supply/service tenders between €5k and €50k.

In certain instances, it is deemed appropriate to grant a direct award (without recourse to a 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 2019, expenditure of €0.23m was incurred across eight such direct award contracts (2018: €0.83m across 19 contracts), none of which were created in 2019. This represents 0.1% of the Central Bank's committed spend (2018: 0.9%). Of these eight contracts, one was regularised in Q4 2018 (related residual spend incurred in January 2019), six were regularised during 2019 and the remaining contract will run to term on completion of services. [48]

A breakdown of these direct awards is provided in the table below. Of the eight contracts listed, the cumulative spend on three contracts exceeded the EU threshold, of which one was closed in Q4 2018 and another one in 2019. The cumulative spend on four contracts exceeded the adapted national threshold (€50k), all of which were closed in 2019. One contract was awarded with a value below the adapted national threshold (€50k), and was closed in 2019.

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

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

Reason for direct award	Number of contracts 2019	Spend € 2019	Number of contracts 2018	Spend € 2018
Sensitive or confidential nature of work prohibited a competitive tender process	1*	3,600	1	0
Urgent nature of work required	0	0	2	0
Rollover of existing contract pending conclusion of tender process	5	169,307	11	689,862
Rollover of existing contract which will run to term	2	57,030	5	137,643
Total	**8**	**229,937**	**19**	**827,505**

*At the end of 2019, this is the sole remaining direct award contract (awarded without recourse to a tendering process).

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 Senior Leadership Committee (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, system 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 system 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

The Commission reviewed the effectiveness of the Central Bank's system of internal control for the financial year ending 31 December 2019. 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 2020. 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.

The Central Bank considers it appropriate to disclose that a number of fraudulent credit card transactions were targeted at the online Collector Coin sales system, operated by a third party, in 2019. This resulted in the loss of 56 Collector Coin sets in 2019, with a total retail value of €17,610. Mitigating controls were implemented in April 2019 to prevent reoccurrence.

Based on the above, the Central Bank considers that its system of internal control for the financial year ending 31 December 2019 is effective.

Sharon Donnery
Deputy Governor
Central Banking

Patricia Byron
Member of the Commission

19 March 2020

PROFIT AND LOSS AND APPROPRIATION ACCOUNT FOR YEAR ENDED 31 DECEMBER 2019

	Note	2019 €000	2018 €000
Interest income	2	**1,004,580**	**1,090,866**
Interest expense	3	**(39,511)**	**(37,415)**
Net interest income		**965,069**	**1,053,451**
Net realised gains arising from financial operations	4	**1,743,543**	**2,255,242**
Write-downs on financial assets and positions	4	**(1,937)**	**(29,870)**
Transfer to provisions	4	**(104,186)**	**(180,455)**
Net result of financial operations, write-downs and provisions	4	**1,637,420**	**2,044,917**
Income from fees and commissions	5	**2,790**	**3,115**
Income from equity shares and participating interests	6	**33,065**	**26,810**
Net result of pooling of monetary income	7	**32,622**	**5,260**
Other net income	8	**188,419**	**149,081**
Funding levy income		*160,051*	*145,015*
Other		28,368	*4,066*
TOTAL NET INCOME		**2,859,385**	**3,282,634**
Staff expenses	9	**(197,622)**	**(183,174)**
Other operating expenses	9	**(84,151)**	**(96,433)**
Depreciation	9	**(16,131)**	**(16,770)**
Currency production raw materials	9	**(1,954)**	**(3,422)**
TOTAL EXPENSES	9	**(299,858)**	**(299,799)**
PROFIT FOR THE YEAR BEFORE UNREALISED GAIN MOVEMENTS, ACTUARIAL LOSS AND APPROPRIATION OF PROFIT		**2,559,527**	**2,982,835**
Net movement in unrealised gains	33	**(306,393)**	**(2,648,801)**
Transfers to revaluation accounts	33	**306,393**	**2,648,801**
Actuarial loss on pension scheme	31	**(223,710)**	**(33,911)**
Transfer of retained loss to general reserve	34	**(285,369)**	**(564,104)**
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	**10, 30**	**2,050,448**	**2,384,820**

The accounting policies together with Notes 1 to 42 form part of these accounts.

Sharon Donnery
Deputy Governor
Central Banking

Patricia Byron
Member of the Commission

19 March 2020

BALANCE SHEET AS AT 31 DECEMBER 2019

ASSETS	Note	2019 €000	2018 €000
Gold and gold receivables	11	**262,114**	**216,947**
Claims on non-euro area residents in foreign currency	12	**4,898,882**	**4,370,065**
Claims on euro area residents in foreign currency	13	**77,014**	**31**
Claims on non-euro area residents in euro	14	**4,159,896**	**4,217,836**
Lending to euro area credit institutions related to monetary policy operations in euro	15	**2,032,720**	**3,023,000**
Other claims on euro area credit institutions in euro	16	**2,348,406**	**1,780,144**
Securities of euro area residents in euro	17	**64,542,578**	**67,739,504**
Securities Held for Monetary Policy Purposes		37,590,497	36,601,922
Other Securities		26,952,081	31,137,582
Intra-Eurosystem claims		**36,315,234**	**15,188,485**
Participating interest in ECB	18	213,449	199,021
Claims equivalent to the transfer of foreign reserves	19	681,157	672,638
Other claims within the Eurosystem (net)	20	35,420,628	14,316,826
Other assets	21	**1,739,464**	**1,302,238**
Total Assets		**116,376,308**	**97,838,250**

The accounting policies together with Notes 1 to 42 form part of these accounts.

Sharon Donnery
Deputy Governor
Central Banking

Patricia Byron
Member of the Commission

19 March 2020

BALANCE SHEET AS AT 31 DECEMBER 2019

LIABILITIES	Note	2019 €000	2018 €000
Banknotes in circulation	23	**20,082,747**	**18,676,303**
Liabilities to euro area credit institutions related to monetary policy operations in euro	24	**36,672,142**	**22,800,553**
Other liabilities to euro area credit institutions in euro	25	**955,997**	**719,471**
Liabilities to other euro area residents in euro	26	**21,970,801**	**19,347,068**
Liabilities to non-euro area residents in euro	27	**1,892,530**	**2,085,319**
Counterpart of special drawing rights allocated by the IMF	28	**956,791**	**942,453**
Liabilities related to the allocation of euro banknotes within the Eurosystem	29	**18,868,571**	**18,247,585**
Other liabilities	30	**2,343,634**	**2,711,043**
Retirement benefits	31	**610,172**	**364,251**
Provisions	32	**907,840**	**808,102**
Revaluation accounts	33	**6,078,784**	**6,385,177**
Capital and reserves	34	**5,036,299**	**4,750,925**
Total Liabilities		**116,376,308**	**97,838,250**

The accounting policies together with Notes 1 to 42 form part of these accounts.

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Central Banking

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Member of the Commission

19 March 2020

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 and its diverse range of activities. [49]

(b) Accounting Principles

The Central Bank, as a participating member of the ESCB, complies with the accounting policies laid down by the Governing Council in its Accounting Guideline (the Guideline). [50, 51] The Central Bank's Statement of Accounts for 2019 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 which apply to the Central Bank are followed. [52] 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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[49] The use of the term European System of Central Banks (ESCB) refers to the 28 NCBs of the Member States of the European Union as at 31 December 2019 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.

[50] 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 NCBs of the 19 euro area countries.

[51] 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).

[52] 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 NCBs 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 financial 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 judgment in the process of applying the Central Bank’s accounting policies. Where the Guideline is silent with regard to financial instruments, the Central Bank follows the requirement from FRS 102, of both sections 11 and 12 in full. The areas involving a higher degree of judgement or estimation are disclosed in Note 1(n) “Critical Accounting Estimates and Judgements”. Financial assets and liabilities are offset and the net amounts presented in the Statement of Accounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(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*[53]

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 whereby transactions are booked on the trade date. [54]

[53] 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).

[54] 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.

(ii) *Intra-ESCB balances*

Intra-ESCB balances result primarily from cross-border payments in the EU that are settled in central bank money in euro. These transactions are for the most part initiated by private entities (i.e. credit institutions, corporations and individuals). They are primarily settled in TARGET2 – the Trans-European Automated Real-time Gross settlement Express Transfer system (Note 20(i)), and give rise to bilateral balances in the TARGET2 accounts of EU central banks.

These bilateral balances are netted off 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" (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 and took effect 1 January 2019. The Central Bank's share of the ECB's subscribed capital increased from 1.1607% to 1.1754% following the review, which took place in 2019.

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 Eurosystem capital key increased from 1.6489% to 1.6883% following the review in 2019.

(iv) *Banknotes in Circulation*

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes.[55] 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.[56]

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.[57] This is cleared through the accounts of the ECB and included in "Interest income" (Note 2) or "Interest expense" (Note 3) 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

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[55] 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.

[56] 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 %).

[57] 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.

Securities Markets Programme (SMP), (b) the third Covered Bond Purchase Programme (CBPP3), (c) the Asset-Backed Securities Purchase Programme (ABSPP), and (d) the Public Sector Purchase Programme (PSPP) is due to the euro area NCBs in the financial year it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim distribution of profit.[58] 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 financial 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,

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[58] 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).

Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme and under Decision ECB/2015/10 of 4 March 2015 on a secondary markets public sector asset purchases programme are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. [59, 60, 61, 62]

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 €681.2m 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

[59] 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.

[60] 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.

[61] 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.

[62] 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.

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 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 (CBPP1, CBPP2 and CBPP3), debt securities acquired in the scope of the SMP, and the PSPP.[63, 64, 65] The securities are measured at amortised cost and are subject to impairment (Note 2(i), Note 17(i), Note 32(ii)). The Governing Council decided on 15 December 2014 that securities held for monetary

[63] 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.

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

[65] 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.

policy purposes shall be accounted for at amortised cost (subject to impairment), regardless of the holding intention.

(d) Income and Expense Recognition

Income and expenses are recognised on an accruals basis.

(e) Property, Plant, 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 estimated lives may deviate from the Guideline's recommended depreciation rates. These depreciation rates are as follows:

Property Plant and Equipment		
Premises	-	20 - 50 years
Plant and Machinery	-	5 - 15 years
Computer Equipment	-	3 - 5 years
Other Equipment	-	5 years
Furniture, Fixtures and Fittings	-	5 years
Intangible Assets		
Computer Software	-	3 - 5 years

(iii) Impairment

PPE and Intangible Assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of a fixed asset may not be recoverable.

(iv) Derecognition

PPE or Intangible Assets are derecognised when they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from their 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 its annual accounts on the grounds of materiality in either the current or preceding financial years (Note 22(i)(d)).

(f) Retirement Benefits

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. [66] 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 2019 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).

[66] 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, unmatured investments, foreign currency contracts outstanding and shares in the Bank for International Settlements are valued at mid-market closing exchange rates at year-end (Note 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(i), 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 (Note 1(k)).

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(i), 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(i), 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 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 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 on the asset side of the Balance Sheet (Note 12(i), Note 14(ii), 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.

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 Financial 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 financial risks.

The scope of the general risk provisions was broadened in 2019 to cover all financial risks in the Central Bank's Balance Sheet, as previously it was limited to foreign exchange rate, interest rate, credit and gold price risk only. In this context, all financial risks are defined as market, liquidity and credit risks.

This provision is based on a comprehensive assessment of 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 this risk, 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 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)).
- Levy Income (Note 40(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 are 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

	2019 €000	2018 €000
Securities for Monetary Policy Purposes (i)	275,182	285,474
Securities - MTM (ii)	264,468	331,702
Securities - HTM (iii)	244,409	278,995
Government Deposits (iv)	103,455	84,708
Credit Institutions Deposits (iv)	91,704	84,403
Repurchase Agreements (v)	8,223	9,366
SDR (vi)	8,183	7,180
Deposit Income (vii)	5,997	1,155
Rental Income (viii)	1,583	1,583
Reverse Repurchase Agreements (v)	639	761
Other (ix)	630	606
DGS Contributory Fund Income (x)	107	348
Open Market Operations (xi)	-	4,585
Total	**1,004,580**	**1,090,866**

(i) 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

	2019 €000	2018 €000
PSPP	208,344	180,400
SMP	53,547	91,815
CBPP3	13,291	13,259
Total	**275,182**	**285,474**

The change in the level of income earned in 2019 is a reflection of the associated levels of activity under each programme and the relative returns on the assets (Note 17(i)).

(ii) This item relates to interest income on securities classified as MTM in the Central Bank's investment portfolio in 2019.

Income earned on securities held in the Special Portfolio amounted to €246.4m (2018: €331.7m). 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)).

Interest income earned on other securities (other than special portfolio) in the MTM portfolio was classified as an interest expense in 2018 (Note 3(vi)). For 2019, interest income was earned on the MTM portfolios due to the greater diversification into foreign currency investments with the inclusion of the Singapore Dollar (SGD) portfolio as well as US Dollar (USD), Australian Dollar (AUD) and Chinese Renminbi (CNY) portfolios but was partially offset by negative yields on euro investments.

(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 reinvestment yields (Note 14(i), 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. In September 2019, the negative interest rate on the deposit facility decreased by 10 basis points from -0.4% to -0.5%. The Central Bank earned interest income on Government deposits and Credit Institution deposits amounting to €103.5m (2018: €84.7m) and €91.7m (2018: €84.4m) respectively. 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 (Note 24, Note 26).[67]

Credit Institution Deposits

	2019 €000	2018 €000
Current accounts (covering the minimum reserve system)	53,487	56,845
Deposit Facility	38,217	27,558
Total	**91,704**	**84,403**

(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 12(i), Note 14(ii), Note 16(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 2019.

(vii) Deposit income primarily relates to income earned on foreign currency deposits.

(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) Included in Other is an amount of €0.5m in relation to investment income on foreign exchange contracts (2018: €0.4m).

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

(xi) Interest income on open market operations in 2019 was Nil. An interest expense was recognised during the period (Note 3(iii)).

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

Note 3: Interest Expense

	2019 €000	2018 €000
Swap Expenses (i)	14,834	16,037
Reverse Repurchase Agreements (ii)	12,884	15,760
Open Market Operations (iii)	8,206	-
Other (iv)	2,856	457
Deposits (v)	651	608
Repurchase Agreements (ii)	80	10
Securities - MTM (vi)	-	4,543
Total	**39,511**	**37,415**

(i) The lower expense is due to a general decrease in the interest rates of the underlying basket of currencies that make up the SDR and a 20% reduction in the overall size of the foreign exchange contracts (Note 37(i)).

(ii) These items represent interest incurred on repurchase/reverse 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 decrease compared to 2018 is as a result of lower transaction rates (Note 1(l), Note 12(i), Note 14(ii), Note 16(i), Note 27(i)).

(iii) This item consists of the net expense on Longer Term Refinancing Operations (LTROs) held by the Central Bank during 2019. Beginning in 2016, a second series of Targeted Longer Term Refinancing Operations (TLTRO), known as TLTRO-II were introduced.[68] 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 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. This item was classified as interest income in 2018 resulting from the difference

[68] The first TLTRO series was launched in 2014.

between the amount accrued at the deposit facility rate and the actual rate once it was set.

This item is an expense in 2019 representing the net expense on the remaining balances of TLTROs held by the Central Bank during 2019.

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(xi), Note 15).

(iv) The increase in other interest expense primarily relates to variation margins on futures contracts of €2.3m (Note 37(ii)).

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

(vi) This item relates to the interest expense on securities classified as MTM in the Central Bank's investment portfolio. This was recorded as interest income in 2019 (Note 2(ii), Note 12(i)(a), Note 13(i), Note 14(i), Note 17(ii)(a)).

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

(i) Net Realised Gains arising from Financial Operations

	2019 €000	2018 €000
Realised Price Gains on Securities	1,740,136	2,255,229
- Special Portfolio (i)	*1,736,600*	*2,251,100*
- Monetary Policy Portfolio (ii)	*325*	*4,091*
- MTM Portfolio (iii)	*3,211*	*38*
Realised Exchange Rate Gains (iii)	3,407	13
Total	**1,743,543**	**2,255,242**

(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 (Note 17(i)).

(iii) This reflects the realised gains on securities in the MTM portfolio other than special portfolio securities (Note 17(ii)(a)).

(iv) This reflects the realised exchange rate gains on the sale of assets in the Central Bank's investment portfolio (Note 17(ii)(a)).

(ii) Write-Downs on Financial Assets and Positions

Movement in:	2019 €000	2018 €000
Unrealised Exchange Rate Losses (i)	(1,249)	(8,348)
Unrealised Price Losses on Securities	(688)	(357)
Unrealised Price Losses Equity Fund (ii)	-	(21,165)
Total	**(1,937)**	**(29,870)**

(i) The unrealised exchange rate losses primarily relate to unrealised special drawing rights (SDR) losses (Note 12(ii)(b)).

(ii) An unrealised price gain materialised on the equity fund due to higher equity prices at the balance sheet date, compared to an unrealised price loss in 2018. The equity fund tracks the MSCI World Index (Note 21(ii), Note 33).

(iii) Transfer to Provisions

	2019 €000	2018 €000
Provision Release for Securities (Note 32(ii))	50,000	70,000
Restructuring Provision (Note 32(v))	(4,186)	(455)
Provision for Financial Risks (Note 32(i))	(150,000)	(250,000)
Total	**(104,186)**	**(180,455)**

Note 5: Income from Fees and Commissions

	2019 €000	2018 €000
Securities Lending	1,466	1,788
TARGET2 Distribution of Pooled Income	697	651
Service Fees and Charges	627	676
Total	**2,790**	**3,115**

Note 6: Income from Equity Shares and Participating Interests

	2019 €000	2018 €000
Share of ECB Profits (i)	30,492	24,377
BIS Dividend (ii)	2,573	2,433
Total	**33,065**	**26,810**

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

The ECB risk provision is maintained at the limit of the paid up share capital of the euro area NCBs. Given the quinquennial adjustment of the key for subscription to the ECB's capital as at 1 January 2019 and the resulting reduction in the weighting of the euro area NCBs in the subscribed capital of the ECB (Note 1(c)(iii)), the Governing Council decided to release, as at 31 December 2019, an amount of €84m (2018: Nil) from the ECB's provision for financial risks in order to comply with the limit.

An amount of €1,431m (2018: €1,191.4m) was paid to the Eurosystem NCBs on 21 January 2020 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 €24.2m (2018: €19.6m) (Note 20(iii)). The final distribution of profit for 2018 paid in February 2019, amounting to €6.3m, is also presented in the 2019 figures (the corresponding figure in 2017, paid in 2018 was €4.7m).

(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

	2019 €000	2018 €000
Net Result of Pooling of Monetary Income (i)	31,440	6,780
Release/(Creation) of provision for Share of Impaired Eurosystem Securities (ii) (Note 32(iv))	1,182	(2,656)
Utilisation of provision for Share of Impaired Eurosystem Securities (ii) (Note 32(iv))	-	1,136
Total	**32,622**	**5,260**

(i) This represents the difference between the monetary income pooled by the Central Bank of €159.1m (2018: €182.9m) and that reallocated to the Central Bank of €190.8m (2018: €201.3m) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares, together with interest as shown in the table below.

Included within the monetary income reallocation figure is an adjustment on net results for previous years of €0.3m. This adjustment was significantly higher in 2018 at €11.6m due to the setting of the rate on TLTRO-II and the subsequent revision of monetary income calculations for 2016 and 2017 (Note 1(c)(vi)).

	2019 €000	2018 €000
Monetary income pooled	(159,098)	(182,861)
Monetary income reallocated	190,801	201,276
Net Receiver of Monetary Income	**31,703**	**18,415**
Previous Years' Eurosystem Adjustments	(263)	(11,635)
Total (Note 20(ii))	**31,440**	**6,780**

(ii) This item contains the Central Bank's share of the net result of the provisioning against credit risks in monetary policy operations, which was established in relation to securities held by an NCB of the Eurosystem in its CSPP portfolio. As a result of the annual impairment test of the CSPP portfolio, the Governing Council has reviewed the appropriateness of the volume of the provision against credit risks established in 2018 and decided to reduce this provision from a total amount of €161.1m as at 31 December 2018 to €89.4m as at 31 December 2019. The Central Bank's share in this provision amounts to €1.5m (2018: €2.7m). (Note 32(iv)).

Note 8: Other Net Income

	2019 €000	2018 €000
Financial Regulation Net Industry Funding Levy (i)	154,576	140,007
Financial Regulation Monetary Penalties (ii)	30,262	7,440
Expected Return on Pension Fund Assets (Note 31(i))	13,600	13,100
Other Financial Regulation Income (Note 40)	5,475	5,008
Other (iii)	5,406	2,426
Interest on Pension Scheme Liabilities (Note 31(i))	(20,900)	(18,900)
Total	**188,419**	**149,081**

(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 €30.3m in 2019 (2018: €7.4m), is included in Surplus Income Payable to the Exchequer (Note 10).

(iii) Central Credit Register (CCR) Income of €3.2m (2018: Nil) included in Other represents fees charged to Credit Information Providers (CIPs) for credit reports issued. Lenders have been charged for enquiry on the CCR since 1 July 2019 (Note 21(iii)).

Included in Other for 2018 is net income of €0.4m arising from an indirect taxes review undertaken by the Central Bank and agreed with the Revenue Commissioners.

Note 9: Total Expenses

	Total Head Office & Printworks*		Mint **		Total	
	2019 €000	2018 €000	2019 €000	2018 €000	2019 €000	2018 €000
Salaries/Allowances (i)	145,656	131,525	776	477	146,432	132,002
PRSI	14,265	12,393	77	40	14,342	12,433
Pensions (Note 31(i))	37,701	39,256	199	44	37,900	39,300
Staff Expenses	**197,622**	**183,174**	**1,052**	**561**	**198,674**	**183,735**
Communications and IT	35,704	36,093	28	10	35,732	36,103
Business Travel (ii)	2,512	3,080	5	7	2,517	3,087
Office Administration Expense	359	455	-	1	359	456
Professional Fees (iii)	11,088	21,597	5	7	11,093	21,604
External Research & Corporate Subscriptions	2,707	2,569	3	3	2,710	2,572
Publishing & Public Relations	862	1,073	-	-	862	1,073
Payments & Asset Management Charges	6,614	7,272	9	14	6,623	7,286
Currency Supplies and Machine Maintenance	134	333	37	17	171	350
Training, Education & Conferences	3,138	3,342	-	-	3,138	3,342
Recruitment & Other Staff Costs (iv)	5,635	6,723	-	-	5,635	6,723
Facilities Management & Maintenance	7,100	6,724	-	1	7,100	6,725
Rent & Utilities	4,694	4,816	-	-	4,694	4,816
Miscellaneous (v)	3,604	2,356	12	46	3,616	2,402
Other Operating Expenses	**84,151**	**96,433**	**99**	**106**	**84,250**	**96,539**
Depreciation	**16,131**	**16,770**	**111**	**165**	**16,242**	**16,935**
Currency Production Raw Materials (vi)	**1,954**	**3,422**	**1,278**	**806**	**3,232**	**4,228**
Total Expenses	**299,858**	**299,799**	**2,540**	**1,638**	**302,398**	**301,437**

* 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 implemented which applied 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. This policy is under review due to the changing nature of inspections conducted within the Central Bank, and will be replaced with a Prudential Inspections Allowance in 2020. Costs relating to this policy totalled €82,027 (2018: €91,631). Staff in receipt of this allowance are subject to normal taxation.

No payments were made in relation to the expiry of fixed term contracts (2018: one payment totalling €28,671). Payments in lieu of notice were made during the year to one individual, totalling €919 (2018: three payments totalling €29,085).

A total of €34,500 was paid to two staff members in relation to settlements (2018: no payments). Legal costs incurred in relation to these settlements were €87,680.

An amount of €Nil (2018: €7.2m) was payable to the Department of Finance in respect of the pension levy from staff salaries. On 1 January 2019, the pension levy was converted to an Additional Supplementary Contribution (ASC), which is now paid into the Scheme as an additional monthly employee contribution.

Staff Expenses are further analysed into the following:

Staff Expenses (including Mint)

	2019 €000	2018 €000
Staff short-term benefits	146,396	131,944
Termination benefits	36	58
Pensions	37,900	39,300
Employers PRSI	14,342	12,433
Total	198,674	183,735
Staff Numbers (FTE) at 31 December	2,061	2,011

FTE – full time equivalents inclusive of maternity cover and interns

Staff Salaries and Allowances are analysed into the following:

Short Term Benefits (including Mint)

	2019 €000	2018 €000
Basic Pay	143,828	128,828
Overtime	813	1,052
Allowances	1,755	2,064
Total	146,396	131,944

Included in Basic Pay is an accrual in respect of untaken annual leave of €6.9m (2018: €7.6m) (Note 30(v)).

Remuneration of the Executive Commission members in 2019

Name	2019	Salary	2018	Salary
Philip R. Lane Governor (a)	1 January - 31 May	€139,433	1 January - 31 December	€270,501
Gabriel Makhlouf Governor (a) Relocation Expenses	1 September - 31 December	€95,597 €8,932	-	-
Sharon Donnery Acting Governor	1 June – 31 August	€70,466		
Deputy Governor Central Banking (a)	1 January - 31 May & 1 September- 31 December	€183,635	1 January – 31 December	€235,218
Ed Sibley Deputy Governor Prudential Regulation (a)	1 January - 31 December	€244,909	1 January – 31 December	€235,218

Fees of Non-Executive Commission Members

Name	2019	2018
Blanaid Clarke (Retired - 30 Sep 2018)	-	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)	Nil (b)
Des Geraghty (Retired – 30 Sep 2019)	€11,202	€14,936
Michael Soden (Retired - 21 Sep 2018)	-	€10,829
John FitzGerald	€14,936	€14,936
Patricia Byron	€14,936	€14,936
Niamh Moloney (Appointed – 11 Sep 2018)	€14,936	€4,564

Expenses of Non-Executive Commission Members

Name	Travel	Accommodation and Subsistence	Total 2019	Total 2018
Blanaid Clarke	Nil	Nil	Nil	€19
Alan Ahearne	€360	Nil	€360	€243
Derek Moran	Nil	Nil	Nil	Nil
John Trethowan	€546	€1,361	€1,907	€237
Des Geraghty	Nil	Nil	Nil	Nil
Michael Soden	Nil	Nil	Nil	€18
John FitzGerald	Nil	Nil	Nil	Nil
Patricia Byron	Nil	Nil	Nil	Nil
Niamh Moloney	€1,206	Nil	€1,206	€471

(a) Governor Philip R. Lane's, Governor Gabriel Makhlouf'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, three (2018: four) 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 one member (2018: two members) for costs incurred due to their absence on Commission business. During 2019, no expense (2018: €11,202) was incurred in relation to Trinity College Dublin, and an expense of €17,443 (2018: €17,626) in relation to the National University of Ireland, Galway (includes €2,507 in travel related expenses incurred in 2019 (2018: €2,690)).

Remuneration of Key Management Personnel[69]

	2019	2018
Salary	€10,210,926	€9,360,536
Total	**€10,210,926**	**€9,360,536**

Employees Short-term Benefits in excess of €60,000[70]

Pay Bands	2019 No. of People	2018 No. of People
60,000-70,000	386	323
70,000-80,000	196	175
80,000-90,000	149	141
90,000-100,000	203	170
100,000-110,000	93	56
110,000-120,000	20	55
120,000-130,000	61	41
130,000-140,000	31	21
140,000-150,000	21	17
150,000-160,000	10	2
160,000-170,000	2	6
170,000-180,000	9	3
180,000-190,000	5	4
190,000+	4	5
Total	**1,190**	**1,019**

[69] 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.

[70] Short-term benefits includes Basic Pay, Allowances and Overtime payments to staff.

The Central Bank operates a Revenue Commissioners approved holiday loan scheme for all staff. Advances totalling €27,250 (2018: €38,650) were made to one Executive Commission Member and eight Key Management Personnel (2018: one Executive Commission Member and 12 Key Management Personnel). As at 31 December 2019 all advances under this scheme have been fully repaid (2018: fully repaid).

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

Commission includes both executive and non-executive members.

Travel (including Mint)

	2019 €000	2018 €000
Domestic		
Commission	13	15
Staff	263	515
International		
Commission	105	121
Staff	2,136	2,436
Total	**2,517**	**3,087**

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

Auditors' Fees	2019 €000	2018 €000
Audit of Individual Accounts	**304**	**294**
Mazars	155	155
Comptroller and Auditor General	149	139
Other Assurance Services	**34**	**78**
Mazars	34	78
Other Non-Audit Services	**315**	**224**
Mazars	315	224
Total	**653**	**596**

Consultancy

Included in Professional Fees and analysed in the following table are Consultancy costs totalling €6.3m (2018: €15.9m). The balance of €1.6m (2018: €1.2m) is included in PPE and Intangible Assets (Note 22).

	2019 €000	2018 €000
Business Improvement	2,390	8,863
Financial	1,113	3,423
IT	1,199	1,995
Legal Advice	1,719	2,225
Other	141	157
Pensions & HR	142	161
Premises	1,210	288
Total	**7,914**	**17,112**

Consultancy Costs Capitalised	1,648	1,171
Consultancy Costs Charges to the Profit and Loss and Appropriation Account	6,266	15,941
Total	**7,914**	**17,112**

Included in Professional Fees are legal costs in relation to legal proceedings totalling €3.4m (2018: €4.2m).

Legal Fees

	2019 €000	2018 €000
Legal fees – legal proceedings	3,378	4,217
Total	**3,378**	**4,217**

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 (2018: 14).

The Central Bank's insurance company paid €39,976 (2018: Nil) relating to legal costs and settlements.

(iv) Included in Recruitment & Other Staff Costs above is Hospitality Expenditure of €0.2m for 2019, analysed as follows:

Hospitality Expenditure	2019 €000	2018 €000
Staff Hospitality	218	231
Client Hospitality	-	-
Total	**218**	**231**

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 (2018: €0.1m) which the Central Bank discharges, in accordance with the provisions of Section 57AX(4) of the Central Bank Act, 1942 (as amended).

The CCR has been established on the basis that all costs associated with it are recouped through fees charged to the CIPs. Staff and other costs are included within the relevant cost category for those costs. All other relevant items (including an allocation of indirect costs) are included in Miscellaneous expenses, such that all costs incurred for the establishment, maintenance and operation of CCR which are not yet recouped through fee income, are reflected in the CCR asset account (Note 8, Note 21). This approach will ensure that no profit or loss arises on the operation of the CCR.

(vi) Currency Production Raw Materials expense relates to the production of Banknotes €2.0m (2018: €3.4m) and Coin €1.3m (2018: €0.8m). The decrease in cost of Banknotes relates to the lower production volume in 2019 compared to 2018. The increase in coin costs relates mainly to collector coin materials purchased to commemorate 100 Years of Dail Eireann.

Note 10: Surplus Income payable to the Exchequer

Surplus Income of €2,050.4m is payable to the Exchequer in respect of the year ended 31 December 2019 (2018: €2,384.8m) (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

	2019 €000	2019 Fine Ounces of Gold	2018 €000	2018 Fine Ounces of Gold
Gold and Gold Receivables	262,114	193,571	216,947	193,537
Total	**262,114**	**193,571**	**216,947**	**193,537**

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 2019 is primarily due to the change in the market value of gold holdings from the year-end 2018 to 2019 (Note 1(j)(iv), Note 33).

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

	2019 €000	2018 €000
Balances with Banks and Security Investments, External Loans and other External Assets (i)	3,079,574	2,591,217
Receivables from the IMF (ii)	1,819,308	1,778,848
Total	**4,898,882**	**4,370,065**

(i) Balances with Banks and Security Investments, External Loans and other External Assets

	2019 €000	2018 €000
Security Investments - MTM (a)	2,135,958	1,707,598
Balances with Banks	906,230	883,619
Reverse Repurchase Agreements (b)	37,386	-
Total	**3,079,574**	**2,591,217**

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

The increase compared to 2018 reflects the commencement of investment in SGD securities as well as an increase in the investment in the USD securities portfolio as part of the Central Bank's foreign currency portfolios during 2019.

(b) 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.

Maturity Profile

	2019 €000	2018 €000
0 - 3 months	1,504,471	1,513,839
3 months - 1 year	788,113	745,392
1 - 5 years	786,990	331,986
Total	**3,079,574**	**2,591,217**

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

	2019 €000	2018 €000
Quota	4,262,064	4,188,621
Less IMF Holdings maintained by the Central Bank	(3,266,631)	(3,207,024)
Reserve Position in IMF (a)	995,433	981,597
SDR Holdings (b)	823,875	797,251
Total	**1,819,308**	**1,778,848**

(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 reforms of the Fund's quotas and governance. The conditions for implementing the quota increases agreed were met on 26 January 2016. [71] 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% (2018: 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

[71] 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.

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).

Note 13: Claims on Euro Area Residents in Foreign Currency

	2019 €000	2018 €000
Security Investments - MTM (i)	76,064	-
Balances with Banks	950	31
Total	**77,014**	**31**

Maturity Profile

	2019 €000	2018 €000
0 - 3 months	1,952	31
3 months - 1 year	1,885	-
1 - 5 years	73,177	-
Total	**77,014**	**31**

(i) These securities comprise debt issued by euro area issuers in foreign currency (Note 1(j)(ii)). The year-end 2019 balance relates to USD and AUD bonds issued by EU residents.

Note 14: Claims on Non–Euro Area Residents in Euro

	2019 €000	2018 €000
Security Investments - HTM (i)	2,101,427	1,679,175
Reverse Repurchase Agreements (ii)	1,846,517	2,084,319
Security Investments - MTM (i)	191,627	426,953
Balances with Banks	20,325	27,389
Total	**4,159,896**	**4,217,836**

Maturity Profile

	2019 €000	2018 €000
0 - 3 months	1,911,134	2,305,349
3 months - 1 year	194,688	285,800
1 - 5 years	1,169,729	794,311
5 - 10 years	884,345	832,376
Total	**4,159,896**	**4,217,836**

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

(ii) 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 15: Lending to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

	2019 €000	2018 €000
Longer Term Refinancing Operations of which TLTROs	2,032,720	3,023,000
Total	**2,032,720**	**3,023,000**

Maturity Profile of TLTROs

	2019 €000	2018 €000
0 - 3 months	-	-
3 months - 1 year	1,523,000	-
1 - 5 years	509,720	3,023,000
Total	**2,032,720**	**3,023,000**

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.[72] As at 31 December 2019, total Eurosystem monetary policy-related advances amounted to €624.2bn (2018: €734.4bn), of which the Central Bank held €2.0bn (2018: €3.0bn). In accordance with Article 32.4 of the ESCB Statute, any losses from lending to euro area credit institutions related to monetary policy operations, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing Eurosystem capital key shares. For specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council of the ECB (Note 36).

[72] The approved collaterals are listed on the ECB website at: http://www.ecb.europa.eu/mopo/assets/html/index.en.html

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.

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 four opportunities throughout 2019 for Eurosystem counterparties to early repay TLTRO-II borrowings. These early repayment operations were conducted in March, June, September and December.

In March 2019, the Governing Council announced a third round of TLTROs, TLTRO-III. The third TLTRO programme consists of a series of seven targeted longer-term refinancing operations, each with a maturity of three years, starting in September 2019 at a quarterly frequency. Similarly to TLTRO-II, the interest rate to be applied is linked to the participating banks' lending patterns and will be set after the end of the eligible lending period which runs from end-March 2019 to end-March 2021. The more loans participating banks issue to non-financial corporations and households (except loans to households for house purchases), the more attractive the interest rate on their TLTRO-III borrowings becomes, and could be as low as the average interest rate on the deposit facility (-0.5%) prevailing over the life of the operation.

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

	2019 €000	2018 €000
Maturities less than one year:		
Reverse Repurchase Agreements (i)	2,195,997	1,626,471
Balances with Banks	152,409	153,673
Total	**2,348,406**	**1,780,144**

(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

	2019 €000	2018 €000
Securities Held for Monetary Policy Purposes (i)	37,590,497	36,601,922
Other Securities (ii)	26,952,081	31,137,582
Total	**64,542,578**	**67,739,504**

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" includes marketable securities that are not held for monetary policy operations of the Eurosystem.

(i) Securities Held for Monetary Policy Purposes

As at 31 December 2019, these categories of securities relate to acquisitions by the Central Bank within the scope of the CBPP3, public debt securities acquired within the scope of the SMP and debt securities acquired within the scope of the PSPP. [73, 74, 75]

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 (which are not recorded on the Balance Sheet or in

[73] 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.

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

[75] ECB Decision of 04 March 2015 establishing a secondary markets public sector asset purchase programme (ECB/2015/10) OJ L 121, 14.5.2015, p. 20.

the Profit and Loss and Appropriation Account but are provided for comparison purposes only), are as follows:

	2019 €000 Amortised Cost	2019 €000 Market Value	2018 €000 Amortised Cost	2018 €000 Market Value
Covered Bonds Purchase Programme 3 (CBPP3)	4,016,411	4,073,934	4,094,636	4,127,928
Securities Markets Programme (SMP)	767,126	834,812	1,634,173	1,747,011
Public Sector Purchase Programme (PSPP) *of which*	32,806,960	34,833,418	30,873,113	31,158,308
Government Sector (Own-Risk)	*27,656,882*	*29,509,378*	*25,514,484*	*25,830,783*
Supranational (Shared-Risk)	*5,150,078*	*5,324,040*	*5,358,629*	*5,327,525*
Total	**37,590,497**	**39,742,164**	**36,601,922**	**37,033,247**

Maturity Profile	2019 €000 Amortised Cost	2018 €000 Amortised Cost
0 - 3 months	669,424	1,053,138
3 months - 1 year	3,502,255	409,835
1 - 5 years	13,165,711	13,944,088
5 - 10 years	10,192,737	12,112,115
10 -15 years	5,537,327	5,045,021
> 15 years	4,523,043	4,037,725
Total	**37,590,497**	**36,601,922**

Purchases under the SMP were terminated on 6 September 2012.

Throughout 2019, the Eurosystem continued its securities purchases and reinvestments under the APP which constitutes the CBPP3, the ABSPP, the PSPP and the Corporate Sector Purchase Programme (CSPP). [76, 77, 78, 79]

On 13 December 2018, the Governing Council confirmed that the Eurosystem would end the net asset purchase phase of the APP (PSPP, CBPP3, CSPP and ABSPP) in December 2018.

[76] 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.

[77] Decision ECB/2014/45 of 19 November 2014 on the implementation of the asset backed securities purchase programme.

[78] 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.

[79] Under this programme, the NCBs may purchase investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area.

Between January 2019 and October 2019, the Eurosystem fully reinvested the principal payments from maturing securities held in the APP portfolios. The Governing Council aimed to maintain the size of its cumulative net purchases under each constituent programme of the APP at their respective levels as at the end of December 2018.

In September 2019, the Governing Council decided that net purchases would be restarted under APP at a monthly pace of €20 billion from 1 November 2019. It also confirmed that purchases would run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.

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 2019 (2018: Nil).

In the context of the impairment test conducted as at the end-December 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 had deemed it appropriate to establish a buffer of €161.1m against credit risks in monetary policy operations during 2018 (Note 32(iv)). In 2019, one of the impaired bonds with a nominal value of €167.0m was redeemed in full and the impairment loss for 2019 of €89.0m relates to the remaining two bonds.

The Eurosystem aggregate holdings of monetary policy securities at end-December 2019 amounted to €2,632.1bn of which the Central Bank held €37.6bn (2018: €2,651.3bn of which the Central Bank held €36.6bn) (see table below) (Note 1(c)(ix)):

Amortised Cost	Year	SMP €000	CBPP1 €000	CBPP2 €000	CBPP3 €000	PSPP €000	ABSPP €000	CSPP €000	Total €000
Eurosystem	2019	47,908	1,760	2,911	263,612	2,102,927	28,435	184,505	2,632,058
	2018	73,138	4,309	4,024	262,201	2,102,048	27,511	178,050	2,651,281
Bank	2019	767	-	-	4,016	32,807	-	-	37,590
	2018	1,634	-	-	4,095	30,873	-	-	36,602

(ii) Other Securities

	2019 €000	2018 €000
Security Investments - MTM (a)	16,665,455	20,802,946
Security Investments - HTM (b)	10,286,626	10,334,636
Total	**26,952,081**	**31,137,582**

Maturity Profile

	2019 €000	2018 €000
0 - 3 months	944,006	856,937
3 months - 1 year	2,538,802	2,136,489
1 - 5 years	6,956,250	8,029,249
5 - 10 years	2,250,639	2,406,991
10 - 15 years	-	-
> 15 years	14,262,384	17,707,916
Total	**26,952,081**	**31,137,582**

(a) Security Investments – MTM

	2019 Closing Market Value €000	2018 Closing Market Value €000
Special Portfolio (i)	14,262,384	17,707,916
Government Issue Bonds	1,353,869	1,809,824
Treasury Bills	800,087	924,106
Financial Issue Bonds	249,115	361,100
Total	**16,665,455**	**20,802,946**

(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 2019, the Central Bank sold €3.0bn nominal of the FRNs (2049 FRN €1.5bn and 2051 FRN €1.5bn) realising gains amounting to €1.7bn (Note 4(i)). On a cumulative basis, the Central Bank has disposed of €16.5bn nominal of the FRNs; all holdings of the 2038, 2041, 2043, 2045, 2047 and 2049 FRNs have now been disposed of. As at 31 December 2019, the remaining FRNs (€8.5bn nominal) were valued at €14.3bn (2018: €17.7bn) giving rise to an unrealised gain of €5.7bn (2018: €6.2bn) (Note 33(i)).

As there is no active market in the FRNs, the Central Bank measures the fair value of 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 25 basis point increase in the Irish discount curve used in the pricing model will result in a decrease in valuation by approximately €0.8bn (2018: €0.9bn). A 25 basis point decrease in the Irish discount curve used in the pricing model will result in an increase in valuation by approximately €0.8bn (2018: €1.0bn).

	BOOK VALUES				REVALUATION MOVEMENTS				SUMMARY	
€000	2018 Closing Balance	Purchases	Sales/ Redemptions	2019 Closing Balance	2018 Closing Balance	Opening Revaluation on Disposal	Movement on Retained Portfolio	2019 Closing Balance	2018 Closing Market Value	2019 Closing Market Value
Floating Rate Notes	11,534,000	-	(3,000,000)	8,534,000	6,173,916	(1,562,580)	1,117,048	5,728,384	17,707,916	14,262,384
Total	**11,534,000**	**-**	**(3,000,000)**	**8,534,000**	**6,173,916**	**(1,562,580)**	**1,117,048**	**5,728,384**	**17,707,916**	**14,262,384**

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 (€1.0bn per annum) and from 2024 on (€2.0bn 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

	2019 €000	2018 €000
Participating Interest in ECB	213,449	199,021
Total	**213,449**	**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 most recent such adjustment took effect on 1 January 2019.

The Central Bank's share in subscribed capital of the ECB increased to 1.1754% in 2019 (2018: 1.1607%) and consequently the Central Bank's participating interest in the ECB increased by €14.4m to €213.4m as a result of the additional capital contribution that was transferred to the ECB (Note 1 (c)(ii), Note 1(c)(iii)).

Note 19: Claims Equivalent to the Transfer of Foreign Reserves

	2019 €000	2018 €000
Claims equivalent to the transfer of foreign reserves	681,157	672,638
Total	**681,157**	**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 adjustments to the capital key weightings of the ECB on 1 January 2019 resulted in the adjustment of the Central Bank's claim with respect to the foreign reserve assets transferred to the ECB. In order to reflect its increased capital key share, the Central Bank's euro-denominated claim increased by €8.5m to €681.2m on 1 January 2019 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 2019 is 1.6883% (2018: 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)

	2019 €000	2018 €000
TARGET2 Balance (net) (i)	35,365,028	14,290,401
Net Result of Pooling of Monetary Income (ii)	31,440	6,780
Share of ECB Profits (iii)	24,160	19,645
Total	**35,420,628**	**14,316,826**

(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 €35.4bn at year-end 2019 (2018: €14.3bn) (Note 1(c)(ii)). The €21.1bn 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 year-end 2019, 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 (Note 1(c)(iii), Note 1(c)(vi), Note 7(i)).

(iii) Following a decision by the Governing Council, the amount due to euro area NCBs with respect to the ECB's interim profit distribution for 2019 was €1,430.9m. The Central Bank's share of the ECB's interim distribution of profit for 2019 was €24.2m (2018: €19.6m) (Note 1(c)(v), Note 6(i)).

Note 21: Other Assets

	2019 €000	2018 €000
Accrued Interest Income (i)	673,255	691,204
Property, Plant, Equipment and Intangible Assets (Note 22)	432,986	214,269
- Tangible - Plant, Property, Equipment (Note 22(i))	*411,476*	*194,603*
- Intangible - Computer Software (Note 22 (ii))	*21,510*	*19,666*
Equity Fund (ii)	285,745	218,821
Other (iii)	264,004	93,953
Investment Property (iv)	55,170	55,170
Shares in the Bank for International Settlements (v)	21,183	20,593
Prepayments	4,207	3,675
Stocks of Materials for Banknote Production	2,914	4,553
Total	**1,739,464**	**1,302,238**

(i) This item includes the accrued income earned on the securities.

(ii) The Central Bank invests in an equity fund as part of its investment strategy. The equity fund tracks the MSCI World Index (Note 4(ii), Note 33). 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) This item includes €166.9m (2018: Nil) which relates to income owed to the Central Bank from industry regulated entities which will be levied in 2020 (Note 40(i)).

A further €28.2m (2018: €19.4m) relates to accrued interest income on government accounts.

Also included is an amount of €15.6m (2018: €14.3m) which represents purchased accrued interest, an amount of €14.7m (2018: Loss €1.1m) in relation to unrealised gains on foreign exchange contracts and other accrued interest and receipts due to the Central Bank.

The balance in the CCR asset account at 31 December 2019 was €7.8m representing the costs of the CCR yet to be recouped through fees charged to CIPs (Note 8(iii)).

The Central Bank had acquired 3,325 shares (0.25% of issued share capital) in Europafi in 2017 at a cost of €0.3m. Europafi is a securities paper production company which is a subsidiary of Banque de France. These shares were sold at cost during 2019.

(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 16 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 2019. In accordance with the Guideline, any unrealised gains in relation to this revaluation are posted to the revaluation accounts (Note 1(p), Note 2(viii), Note 33).

Future Minimum Lease Payments

	2019 €000	2018 €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	16,398	17,981
Total	**24,313**	**25,896**

(v) The Central Bank holds 8,564 shares (2018: 8,564 shares) in the Bank for International Settlements, the euro equivalent of which is €21.2m (2018: €20.6m) (Note 6(ii), Note 35(i)).

Note 22: Property, Plant, Equipment and Intangible Assets

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

	Premises		Plant & Machinery		Computer Equipment		Other Equipment		Furniture, Fixtures & Fittings		Assets Under Construction (c)		Total Tangible Fixed Assets	
	2019 €000	2018 €000	2019 €000	2018 €000	2019 €000	2018 €000	2019 €000	2018 €000	2019 €000	2018 €000	2019 €000	2018 €000	2019 €000	2018 €000
At Cost - 1 January	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
Cost correction	(78)	-	(31)	-	(63)	-	-	-	-	-	-	-	(172)	-
Transfer (c)	1,039	-	737	33	657	300	18	146	754	-	(3,298)	(479)	(93)	-
Acquisitions	-	-	-	-	-	-	-	29	-	-	230,355	1,865	230,355	1,894
Disposals (a)	(825)	-	-	(869)	-	(16)	(577)	(783)	(43)	(213)	-	-	(1,445)	(1,881)
At Cost - 31 December	163,844	163,708	79,927	79,221	15,267	14,673	6,939	7,498	16,119	15,408	231,368	4,311	513,464	284,819
Accumulated Depreciation at 1 January	20,760	16,811	47,850	45,350	5,367	2,503	7,243	7,902	8,996	7,229	-	-	90,216	79,795
Depreciation for Year (b)	3,938	3,949	3,311	3,369	3,121	2,864	82	124	1,974	1,980	-	-	12,426	12,286
Transfer	-	-	-	-	(12)	-	-	-	-	-	-	-	(12)	-
Disposals	(22)	-	-	(869)	-	-	(577)	(783)	(43)	(213)	-	-	(642)	(1,865)
Accumulated Depreciation at 31 December	24,676	20,760	51,161	47,850	8,476	5,367	6,748	7,243	10,927	8,996	-	-	101,988	90,216
Net book value at 31 December	**139,168**	**142,948**	**28,766**	**31,371**	**6,791**	**9,306**	**191**	**255**	**5,192**	**6,412**	**231,368**	**4,311**	**411,476**	**194,603**

(a) Following a review of the Fixed Asset Register during the year, other equipment and furniture, fixtures and fittings with an historic cost of €0.6m and fully depreciated, was written off in 2019 (2018: €1.9m). Additionally, there was a disposal of the Fleet Street car park spaces asset for €0.8m (2018: Nil) with proceeds of €0.7m arising and this loss on disposal has been recognised in the Profit and Loss and Appropriation Account in "Other Net Income" (Note 8(iii)).

(b) Of the total depreciation charge of €12.4m (2018: €12.3m), €0.1m in respect of Mint machinery was charged to the Currency Reserve (2018: €0.2m).

(c) Assets Under Construction relates to capital expenditure incurred on assets which have not yet come into use by the year-end 2019. €228.5m relates to the purchase of the Dublin Landings buildings currently under construction. The total tangible fixed assets transfer amount of €0.1m in 2019 represents Computer hardware that was transferred to operational expenditure (Note 9) as per policy.

(d) The Central Bank currently holds an art collection valued at €2.0m based on a 2016 valuation (2018: €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

	Computer Equipment		Assets Under Construction		Total Intangible Fixed Assets	
	2019 €000	2018 €000	2019 €000	2018 €000	2019 €000	2018 €000
At Cost - 1 January	42,174	40,808	12,838	5,326	55,012	46,134
Transfer	4,459	1,321	(4,459)	(1,321)	-	-
Acquisitions	-	68	5,660	8,961	5,660	9,029
Disposals	-	(23)	-	(128)	-	(151)
At Cost - 31 December	46,633	42,174	14,039	12,838	60,672	55,012
Accumulated Depreciation at 1 January	35,346	30,711	-	-	35,346	30,711
Depreciation for Year	3,816	4,650	-	-	3,816	4,650
Disposals	-	(15)	-	-	-	(15)
Accumulated Depreciation at 31 December	39,162	35,346	-	-	39,162	35,346
Net Book Value at 31 December	**7,471**	**6,828**	**14,039**	**12,838**	**21,510**	**19,666**

Note 23: Banknotes in Circulation

	2019 €000	2018 €000
Total value of euro banknotes issued into circulation by the Central Bank	38,951,318	36,923,888
Liability resulting from the ECB's share of euro banknotes in circulation	(1,746,097)	(1,624,034)
Liability according to the Central Bank's weighting in the ECB's capital key	(17,122,474)	(16,623,551)
Total	**20,082,747**	**18,676,303**

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 5.5% in 2019, from €36.9bn to €39.0bn. The total value of banknotes in circulation within the Eurosystem increased by 5.0% (2018: 5.2%) from 1 January 2019 to end-December 2019. According to the allocation key, the Central Bank had euro banknotes in circulation worth €20.1bn at year-end 2019, compared to €18.7bn at year-end 2018. As the banknotes actually issued by the Central Bank were more than the allocated amount, the difference of €18.9bn (compared to €18.2bn in 2018) 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

	2019 €000	2018 €000
Current Accounts (covering the minimum reserve system) (i)	26,992,916	13,135,671
Deposit Facility (ii)	9,679,226	9,664,882
Total	**36,672,142**	**22,800,553**

(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. Interest is 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 0% or the deposit facility rate.

Starting on 30 October 2019, the Governing Council introduced a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings from negative remuneration at the rate applicable on the deposit facility. This part is remunerated at the annual rate of 0%. The volume of reserve holdings in excess of minimum reserve requirements that was exempt at year-end 2019 from the deposit facility rate – the exempt tier – was determined as a multiple of six on an institution's minimum reserve requirements. The non-exempt tier of excess liquidity holdings continues to be remunerated at the lower of either 0% 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

	2019 €000	2018 €000
Other Liabilities to Euro Area Credit Institutions in Euro	955,997	719,471
Total	**955,997**	**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 2(v)).

Note 26: Liabilities to Other Euro Area Residents in Euro

	2019 €000	2018 €000
General Government Deposits (i)	21,968,033	19,342,691
Currency Reserve Relating to Net Proceeds of Coin (ii)	2,768	4,377
Total	**21,970,801**	**19,347,068**

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. Expenses related to retirement benefits are disclosed in Note 31. Details of net proceeds for the year are included in the table below:

	2019 €000	2018 €000
Coin issued into Circulation	9,572	7,585
Specimen Coin Sets	1,500	546
Withdrawn Irish Coin	(132)	(212)
Proceeds from Sale of Coin Metal	-	188
Less Operating Costs (Note 9)	(2,540)	(1,638)
Net Contribution Adjustment	-	522
Net Proceeds of Coin Issue	**8,400**	**6,991**
Superannuation Employer Contribution (Note 31)	-	(6)
Transfer to the Exchequer	(10,009)	(6,665)
Opening Balance	4,377	4,057
Closing Balance	**2,768**	**4,377**

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 €9.6m (2018: net issuance €7.6m) from the Central Bank in 2019. As a result, the net surplus generated a transfer of €10.0m which was paid to the Exchequer on 19 December 2019 (2018: €6.7m paid to the Exchequer by the Central Bank).

Note 27: Liabilities to Non-Euro Area Residents in Euro

	2019 €000	2018 €000
Repurchase Agreements (i)	1,846,517	2,084,319
International Financial Institutions	45,508	496
EU Agencies	505	504
Total	**1,892,530**	**2,085,319**

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

	2019 €000	2018 €000
Counterpart of SDR allocated by the IMF	956,791	942,453
Total	**956,791**	**942,453**

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

	2019 €000	2018 €000
Liability according to the Central Bank's weighting in the ECB's capital key	17,122,474	16,623,551
Liability resulting from the ECB's share of euro banknotes in circulation	1,746,097	1,624,034
Total	**18,868,571**	**18,247,585**

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), (c)(iii) 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

	2019 €000	2018 €000
Profit & Loss Appropriation (i)	2,050,448	2,384,820
DGS Contributory Fund (ii)	114,563	165,788
Insurance Compensation Fund (iii)	92,279	62,510
Other	35,020	53,724
Interest Accruals (iv)	27,878	19,510
Other Accruals (v)	23,432	24,686
Credit Institutions Resolution Fund (vi)	14	5
Total	**2,343,634**	**2,711,043**

(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. 516 of 2015) (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 2019 contributions were payable via direct payments by credit institutions to the Fund.

Under Regulation 18(1) of the DGS Regulations, the DGS Contributory 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.

Movement in DGS Contributory Fund	2019 €000	2018 €000
Opening Balance	165,788	154,276
Contributions	112,746	106,927
Payments	(68)	(583)
Interest - pay out	(109)	(361)
Dividends (a)	10,206	55,521
Returned Contributions	-	8
NTMA Exchequer Note Programme (b)	(174,000)	(150,000)
Closing Balance	**114,563**	**165,788**

(a) Dividends arising from the liquidations of IBRC and Rush Credit Unions were transferred to the DGS Contributory Fund in 2019 as detailed below:

Dividends	2019 €000	2018 €000
IBRC	7,506	11,265
Rush Credit Union	2,700	4,000
Charleville Credit Union	-	40,256
Total	**10,206**	**55,521**

(b) This is money deposited with the NTMA.

(iii) The Insurance Act, 1964 provided for the establishment of the Insurance Compensation Fund to meet certain liabilities of insolvent insurers, to provide for the making of a grant and loans to the Fund by the Minister for Finance and contributions to the Fund by insurers, and for those and other purposes to amend and extend the Insurance Acts, 1909 to 1961.

In accordance with Section 2 (2) of the 1964 Act, the Fund is maintained and administered under the control of the President of the High Court acting through the Accountant. The Insurance (Amendment) Act 2018 provided for the transfer of the administration of the Insurance Compensation Fund to the Central Bank. The Central Bank took over the responsibility for the administration of the Insurance Compensation Fund from the Courts of Justice on 25 August 2018. A separate Report on

Administration and Movement of Insurance Compensation Fund is prepared by the Central Bank for the Fund.

The balance of €92.3m (2018: €62.5m) represents deposits with the Central Bank on behalf of the Fund.

(iv) This figure primarily relates to the accrued interest expense on TLTRO-II operations (Note 15).

(v) Included in other accruals is an accrual of €6.9m (2018: €7.6m) in respect of untaken annual leave (Note 9(i)).

(vi) A Credit Institutions Resolution Fund was established in 2011 under the Central Bank and Credit Institutions (Resolutions), Act 2011. The balance of €0.01m (2018: €0.01m) 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: Retirement Benefits

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 2019 to comply with disclosure requirements under FRS 102.

(i) Amount charged to Profit and Loss and Appropriation Account/Currency Reserve

	Profit and Loss 2019 €000	Currency Reserve 2019 €000	Total 2019 €000	Total 2018 €000
Expected Return on Assets	13,600	-	13,600	13,100
Interest on Pension Scheme Liabilities	(20,900)	-	(20,900)	(18,900)
Current Service Cost	(37,701)	(199)	(37,900)	(39,300)
Total Pension Cost of Defined Benefit Scheme	(45,001)	(199)	(45,200)	(45,100)

Current Service costs charged to the Profit and Loss and Appropriation Account in 2019 was €37.9m (2018: €39.3m) and is based on actuarial assumptions set at the beginning of each year. The decrease in the charge compared to 2018 was primarily due to the increase in the discount rate from 1.90% at 31 December 2017 to 2.00% at 31 December 2018 and the continued 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.

The return on the fund in 2019 was 12% (2018: -3.1%).

As at 31 December 2019, 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	2019 €000	2018 €000	2017 €000	2016 €000	2015 €000
Actuarial (loss)/gain on pension liability	(291,921)	622	35,345	(177,207)	160,058
Actuarial gain/(loss) on plan assets	68,211	(34,533)	25,232	4,267	21,001
Total	**(223,710)**	**(33,911)**	**60,577**	**(172,940)**	**181,059**

(iii) Balance Sheet Recognition

Year Ended 31 December	2019 €000	2018 €000	2017 €000	2016 €000	2015 €000
Present value of Wholly or Partly Funded Obligations (iv)	(1,393,987)	(1,043,408)	(993,442)	(971,598)	(750,095)
Fair Value of Plan Assets (v)	783,815	679,157	687,561	638,695	608,714
Net Pension Liability	**(610,172)**	**(364,251)**	**(305,881)**	**(332,903)**	**(141,381)**

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

	2019 €000	2018 €000	2017 €000	2016 €000	2015 €000
Opening Present Value of Scheme Obligations	(1,043,408)	(993,442)	(971,598)	(750,095)	(853,883)
Current Service Cost	(37,900)	(39,300)	(45,100)	(30,900)	(44,299)
Pensions Paid	14,691	14,519	12,314	11,908	13,109
Employee Contributions	(13,843)	(6,632)	(5,631)	(4,979)	(4,379)
Transfers Received	(706)	(275)	(272)	(25)	(635)
Interest on Pension Scheme Liabilities	(20,900)	(18,900)	(18,500)	(20,300)	(20,066)
Actuarial (Loss)/Gain	(291,921)	622	35,345	(177,207)	160,058
Closing Present Value of Scheme Obligations	**(1,393,987)**	**(1,043,408)**	**(993,442)**	**(971,598)**	**(750,095)**

(v) Movement in Fair Value of Plan Assets

	2019 €000	2018 €000	2017 €000	2016 €000	2015 €000
Opening Fair Value of Plan Assets (Bid Value)	679,157	687,561	638,695	608,714	567,945
Expected Return	13,600	13,100	12,100	16,400	13,280
Actuarial Gain/(Loss)	68,211	(34,533)	25,232	4,267	21,002
Employer Contribution	22,989	20,641	17,945	16,218	14,582
Employee Contributions	13,843	6,632	5,631	4,979	4,379
Pensions Paid	(14,691)	(14,519)	(12,314)	(11,908)	(13,109)
Transfers Received	706	275	272	25	635
Closing Fair Value of Plan Assets (Bid Value)*	**783,815**	**679,157**	**687,561**	**638,695**	**608,714**

* 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 2019 was €2.1m (2018: €0.01m) and €7.8m (2018: €4.3m) respectively.

(vi) Financial Assumptions

	2019 %	2018 %	2017 %	2016 %	2015 %
Discount Rate	1.10	2.00	1.90	1.90	2.70
Rate of Increase in Pensionable Salaries	3.30	3.30	3.30	3.30	3.20
Rate of Increase in Pensions	3.30	3.30	3.30	3.30	3.20
Rate of Price Inflation	1.90	1.90	1.90	1.90	1.80

The impact of a 0.1% increase/decrease in the discount rate would be a corresponding decrease/increase of approximately 2.7%/2.9% (2018: 2.6%/2.6%) in scheme liabilities.

Demographic and Other Assumptions

	2019	2018
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: 86.7 Female: 89.1	Male: 86.5 Female: 88.9

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.

(vii) Plan Assets of the Scheme

Class	Distribution	Long Term Distribution
	%	%
Bonds	37.8	40.0
Cash	1.7	-
Equities	43.4	40.0
Multi asset funds (MAF)	8.6	10.0
Property	8.5	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. In 2018, the Commission reapproved the long term asset allocation, while also approving a medium-term reallocation of 5% from equities to property. This reallocation will be implemented subject to availability within the selected property fund. 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 2019:

	Opening Balance 2019 €000	Created €000	Utilised €000	Released to P&L €000	Closing Balance 2019 €000
Provision for financial risks (i)	750,000	150,000	-	-	900,000
Provision for Securities (ii)	50,000	-	-	(50,000)	-
Unredeemed Irish Pound Banknotes (iii)	5,419	-	(704)	-	4,715
Provision for Share of Impaired Eurosystem Securities (iv)	2,656	-	-	(1,182)	1,474
Restructuring Provision (v)	27	4,186	(2,562)	-	1,651
Total	**808,102**	**154,186**	**(3,266)**	**(51,182)**	**907,840**

(i) The Central Bank has a provision for financial 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 year-end 2019 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 €900.0m is included in the 2019 statement of accounts, which represents an increase of €150.0m compared to the provision made for the same risk in 2018 (2018: €750.0m). The increase is primarily driven by an increase in both APP 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 released the remaining €50m held under the provision for securities. This provision, in previous years, provided against risks arising in respect of the securities held for monetary policy and investment purposes. The release of the remainder of this provision is primarily due to an assessment of reduced risk compared to 2018. The assumptions underlying this judgement are subjective and are based on management's assessment in the context of market conditions at 31 December 2019. (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 €0.7m was redeemed in 2019 leaving the balance in the provision at €4.7m as at 31 December 2019 (2018: €5.4m) (Note 35(iii)).

(iv) This item contains the Central Bank's share of the net result of the provisioning against credit risks in monetary policy operations, which was established in relation to securities held by an NCB of the Eurosystem in its CSPP portfolio. As a result of the annual impairment test of the CSPP portfolio, the Governing Council has reviewed the appropriateness of the volume of the provision against credit risks established in 2018 and decided to reduce this provision from a total amount of €161.1m as at 31 December 2018 to €89.4m as at 31 December 2019. The Central Bank's share in this provision amounts to €1.5m (2018: €2.7m).

(v) An overtime restructuring provision was created in 2014 for administrative and currency staff. The provision at the year-end 2018 was €0.03m. During 2019, €0.03m was utilised in relation to this provision, leaving a €Nil balance at 31 December 2019.

During the year, a provision of €2.48m for a compulsory redundancy arising from the decision to cease Euro note production was created and utilised in full. The terms of the scheme were agreed between the Central Bank and the representative trade unions and did not exceed terms available within the public sector.

A further provision of €1.65m was created in 2019 relating to print machinery no longer in use due to the uncertainty of the realisable value of this specialised machinery. The machinery will be disposed of during 2020, and any income generated will be released to the P&L.

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 €0.05m was made (the payment was in line with the terms of the established public service voluntary severance scheme).

Note 33: Revaluation Accounts

	2019 €000	2018 €000	Net Movement in Unrealised Gains €000
Securities (i)	5,738,275	6,180,759	(442,484)
Gold	214,080	168,954	45,126
Equity Fund	67,032	-	67,032
Foreign Currency	49,754	25,597	24,157
Investment Property (Note 21(iv))	9,622	9,622	-
PPE Revaluation	21	245	(224)
At 31 December	**6,078,784**	**6,385,177**	**(306,393)**

(i) The revaluation on securities relates primarily to unrealised capital gain movements arising from the year-end 2019 valuation of the securities acquired following the liquidation of the IBRC. The decrease in unrealised gains is due to sales of €3.0bn nominal of the FRNs in 2019, partially offset by an increase in FRN prices. (Note 1(j), Note 17(ii)(a)).

The foreign exchange rates used vis-à-vis the euro for the year-end 2019 valuations are as follows:

Currency	2019 Rate	2018 Rate
Australian Dollar	1.5995	1.6220
Canadian Dollar	1.4598	1.5605
Chinese Yuan Renminbi	7.8205	7.8751
Danish Krone	7.4715	7.4673
Japanese Yen	121.9400	125.8500
SDR	0.8104	0.8228
Singapore Dollar	1.5111	N/A
Sterling	0.8508	0.8945
Swedish Krona	10.4468	10.2548
Swiss Franc	1.0854	1.1269
US Dollar	1.1234	1.1450
The gold prices used were:		
Euro per fine ounce	1,354.1040	1,120.9610

Note 34: Capital and Reserves

	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	-	564,104	-	564,104
PPE Revaluation	-	5	-	5
At 31 December 2018	**30**	**4,399,247**	**351,648**	**4,750,925**

	Capital (i) €000	General Reserve €000	Currency Reserve €000	Total €000
At 31 December 2018	30	4,399,247	351,648	4,750,925
Retained profit for the year (ii)	-	285,369	-	285,369
PPE Revaluation	-	5	-	5
At 31 December 2019	**30**	**4,684,621**	**351,648**	**5,036,299**

(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 €285.4m comprising of €509.1m from the Profit and Loss and Appropriation Account and an actuarial loss of €223.7m, 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 2019, Irish pound banknotes to the value of €224.4m (2018: €225.1m) were still outstanding, against which the Central Bank has a provision of €4.7m (2018: €5.4m) (Note 32(iii)).

(iv) *Litigation*

The Central Bank has three on-going legal cases (2018: 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 (2018: None).

Commitments

(i) Operating Leases

The Central Bank did not enter into any new operating leases in 2019.

Future Minimum Lease Payments	2019 €000	2018 €000
Not later than one year	447	450
After one year but not more than five years	377	717
After five years	791	930
Total	**1,615**	**2,097**
Actual Lease Payments	450	473

Note 36: Financial Risk Management

The Central Bank's Balance Sheet is exposed to financial risks arising as a consequence of performing its statutory roles 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 APP. From an overall Balance Sheet perspective, these risks typically include credit, interest rate, 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) carries out monetary policy operations on behalf of the ECB (including asset purchases under the APP), monitors the liquidity position of the domestic banks and provides Emergency Liquidity Assistance where necessary, carries 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 the other Divisions. The Central Bank 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. In accordance with the Terms of Reference of the Risk Committee of the Commission, the Head of ORD 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 APP.

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 Securities Market Programme (SMP), the Corporate Sector Purchase Programme (CSPP) and the third Covered Bond Purchase Programme (CBPP3), in addition to a certain portion of the Public Sector Purchase Programme (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. The Central Bank has set aside a provision of €1.5m in its 2019 annual accounts, as a result of an impairment in the Eurosystem's CSPP portfolio (Note 32).

At year-end 2018, the Central Bank had set aside a provision of €50m in respect of exposure to credit risk on certain held to maturity assets, following a collective asset impairment assessment. This €50m has now been released, as a result of reduced risk compared to 2018 (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 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 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 (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(a)(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 APP.

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 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 APP 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 provision for financial risks by €150m to €900m for 2019 (Note 32).

Foreign Exchange Risk

Foreign exchange risk refers to the risk of loss due to changes in exchange rates. In the context of a member of the euro area and the consequent approach to foreign exchange intervention, the majority of the Central Bank's investment assets are denominated in euro. A strategic allocation to foreign currency denominated fixed income asset holdings, both on a hedged and un-hedged basis, is made in the context of the Central Bank's investment portfolio and balance sheet management. The currency distribution of the investment portfolio has been established using a combination of quantitative methodologies, VaR and stress testing as well as a variety of qualitative factors. At year-end 2019, the Central Bank's portfolios were predominantly denominated in euro, in addition to a small amount of gold priced in US dollars, an exposure to certain foreign currency fixed income assets on a hedged basis, and an exposure to foreign currency fixed income assets on an unhedged basis. The Central Bank is also exposed to currency risk through a net-asset position in IMF SDRs. The majority of this exposure was held on a hedged basis in 2019 (Note 12, Note 13, and Note 28).

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.

Other Market Risk

Since 2018, the Central Bank has held an equity portfolio which tracks the MSCI World Index. This investment is subject to movements in equity prices (price risk). The price risk is managed via diversification and passive management of the portfolio under the investment mandate, and is monitored on a regular basis.

Note 37: Off-Balance Sheet Items

(i) Unmatured Contracts in Foreign Exchange

	31 December 2019				31 December 2018			
	DKK €000	EUR €000	JPY €000	SDR €000	DKK €000	EUR €000	JPY €000	SDR €000
Unmatured Purchases	10,247	1,959,052	50,873	-	12,205	2,172,728	47,364	-
Unmatured Sales	(2,040,347)	(1,787)	(121,750,873)	(545,827)	(2,708,905)	(2,004)	(127,347,364)	(682,284)
Unmatured Purchases and Sales	**(2,030,100)**	**1,957,265**	**(121,700,000)**	**(545,827)**	**(2,696,700)**	**2,170,724**	**(127,300,000)**	**(682,284)**

The outstanding amounts relate to foreign exchange contracts used for hedging certain foreign exchange exposures.

All foreign exchange contracts are scheduled to mature by 1 July 2020.

(ii) Unmatured Contracts in Futures

	2019 €000	2018 €000
Unmatured Purchases	1,204,455	800,000
Unmatured Sales	-	(80,000)
Unmatured Purchases and Sales	**1,204,455**	**720,000**

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 31 March 2020.

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 2019 were:

- Provision of banking services including holding the principal accounts of Government (Note 26(i))
- Provision and issue of coin (Note 26(ii))
- 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(i))
- 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 2019 the Central Bank recovered costs of €0.8m (2018: €0.7m). At 31 December 2019 a balance of €59,092 was due from ICCL (2018: €57,201) (Note 21(iii)). Managed service costs of €64,167 were prepaid as at 31 December 2019 (2018: €64,167) (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 €92.3m (2018: €62.5m) was held with the Central Bank on behalf of the Fund as at 31 December 2019 (Note 30(iii)).

(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 (2018: €0.01m) was held with the Central Bank on behalf of the Fund as at 31 December 2019 (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 2018, 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 (2018: €100). This amount remains outstanding at year-end 2019 (Note 22(i)(c)).

(viii) The Central Bank holds a non-controlling interest in Dublin Landings (Car Park Management) Designated Activity Company as a result of the acquisition of Dublin Landings buildings during the year (Note 22(i)(c)).

Note 39: Events after the End of the Reporting Period

(i) ECB Final Distribution of Profits

The Governing Council decided on 23 January 2020 to distribute its remaining profit for 2019, amounting to €934.8m, to the euro area NCBs, in proportion to their paid-up shares. The Central Bank's share of this final distribution of profits was €15.8m, which was paid on 21 February 2020, and will be accounted for in the 2020 Statement of Accounts.

(ii) Adjustment of ECB capital key following the United Kingdom's withdrawal from the European Union

As a result of the departure of the United Kingdom from the European Union and consequent withdrawal of the Bank of England from the ESCB on 31 January 2020, the weightings assigned to the remaining NCBs in the key for subscription to the ECB's capital were adjusted with effect from 1 February 2020. Ireland's capital key increased from 1.1754% to 1.3772%.

Impact on the Central Bank's share in the ECB's capital

The ECB kept its subscribed capital unchanged at €10,825 million after Bank of England's withdrawal from the European System of Central Banks (ESCB). The share of the Bank of England in the ECB's subscribed capital, which stood at 14.3%, was reallocated among both the euro area NCBs and the remaining non-euro area NCBs. As a result, the Central Bank's share in the ECB's subscribed capital increased by 0.2018%.

The ECB's paid-up capital will also remain unchanged at €7,659 million in the year of the United Kingdom's departure from the EU, i.e. in 2020, as the remaining NCBs will cover the withdrawn Bank of England's paid-up capital of €58 million. As a result, the Central Bank will transfer to the ECB an amount of €1.2 million in 2020.

Note 40: Financial Regulation Activities

				2019 €000	2018 €000
Funding of Financial Regulation Activities	Levy Income	Current year levies		171,442	127,136
		Prior year deficit		(16,482)	(7,022)
		Current year deficit		-	16,482
		Levy Income (i)		**154,960**	**136,596**
		Deferred Levy Income (ii)		-	4,331
		Total Levy Income	A	**154,960**	**140,927**
	Provisions	Opening Provisions for Unpaid Levies		1,826	1,612
		Levies Written Off		(1,017)	(706)
		Closing Provisions for Unpaid Levies (iii)		(1,193)	(1,826)
		Charge for Year	B	**(384)**	**(920)**
	Financial Regulation Net Industry Funding (Note 8(i))		**C** (A+B)	**154,576**	**140,007**
	Other Income	Securities Market Fees		2,630	2,720
		Additional Supervisory Levy		2,824	2,267
		Miscellaneous		21	21
		Other Income (Note 8)	D	**5,475**	**5,008**
	Total Income		**E** (C+D)	**160,051**	**145,015**
	Subvention	Securities Market Supervision Activities		9,359	10,163
		Other Financial Regulation Costs not Recovered		35,069	57,892
		Subvention from Central Bank (iv)	F	**44,428**	**68,055**
	Total Funding of Financial Regulation Activities (vi)		**G** (E+F)	**204,479**	**213,070**
Costs of Financial Regulation Activities	Direct Expenses	Salaries / Allowances		77,012	68,140
		PRSI		7,656	6,529
		Pension Provision		12,312	20,437
		Staff Expenses	H	**96,980**	**95,106**
		Training & Conferences		367	524
		Business Travel		1,386	1,779
		Professional Fees		6,323	15,225
		Other Non-Pay		1,472	1,832
		Communications & IT		773	798
		Facilities, Rent, Depreciation		2,525	1,874
		Non-Pay Operating Expenses	I	**12,846**	**22,032**
		Total Direct Expenses	**J** (H+I)	**109,826**	**117,138**
	Support Services	Premises & Facilities		14,372	15,416
		Information Technology Services		39,207	26,882
		Human Resources		7,355	7,706
		Other Services		33,729	46,090
		Total Support Services (v)	K	**94,663**	**96,094**
	Provisions	**Restructuring Charge for Year**	L	**27**	**137**
	Other Income	**Miscellaneous Receipts**	M	**(37)**	**(299)**
	Total Costs of Financial Regulation Activities		N (J+K+L+M)	204,479	213,070

(i) *Levy Income*

2019 Levy Income represents an estimate of levies to be billed during 2020 based on 2019 actual costs and approved recovery rates. Prior year comparatives represent 2018 invoiced amounts (based on budgeted 2018 costs) adjusted for surplus / deficit, whereas, 2019 represents estimated levy income based on latest available 2019 financial regulation cost. A full breakdown of final 2019 financial regulation costs, subventions and amounts to be recovered per category will be provided in the 2020 Annual Report.

	2019 Accrued Income	2018 Levy Income	2017 Deficit / (Surplus)	Amount levied in 2018	2018 Deficit / (Surplus)
		A (C+D-B)	B	C	D
	€000	€000	€000	€000	€000
Credit Institutions		59,753	1,490	54,751	6,492
Insurance Undertakings		35,002	2,133	35,647	1,488
Intermediaries & Debt Management Firms		5,925	880	6,098	707
Securities and Investment Firms		23,594	1,209	19,894	4,909
Investment Funds		5,418	680	5,508	590
Credit Unions		1,665	-	1,665	-
Moneylenders		741	67	887	(79)
Approved Professional Bodies		18	4	34	(12)
Bureaux de Change		4	7	11	-
Home Reversion, Retail Credit & Credit Servicing Firms		2,601	333	1,371	1,563
Payment Services & E-Money Institutions		1,875	219	1,270	824
Total Funding	**154,960**	**136,596**	**7,022**	**127,136**	**16,482**

Up to 2018, budgeted income and expenses were compared with actual income and expenses at year-end, on a category by category basis, in order to arrive at the amount over (surplus) or under (deficit) recovered from Industry. 2018 deficits (€16.6m) will be added to amounts to be raised from Industry in 2019 while 2018 surpluses (€0.1m) will be deducted.

(ii) *Deferred Levy Income*

From 2015 to 2018, the impact of pension volatility was spread over a rolling ten-year period. As a result, deferred levy income of €17.9m had been recognised over that period. In 2019, the Central Bank changed the method of levying pension costs from a smoothed current service cost to a cash contribution basis. The outstanding balance of deferred levy income of €17.9m is expected to be recovered from industry over the 2020 to 2022 levy cycles and so will impact levies in 2021 to 2023 calendar years.

(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. The total cost to the Central Bank of these activities is reduced by Securities Market fees, which are included in Other Income. The remaining estimated costs of €9.4m (2018: €10.2m) are included in Subvention.

(v) *Support Services*

The Financial Regulation activities receive various services including premises, human resources administration, accounting, internal audit, statistical and information technology services within the Central Bank. The estimated cost of these services in the current year is €94.7m (2018: €96.1m). The costs involved have been determined by the application of a cost allocation methodology which has previously been reviewed by independent external consultants. Allocation is based on well-recognised industry practice including headcount (staff numbers) and specific metrics, as appropriate.

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 2020.

MAZARS

INDEPENDENT AUDITORS' REPORT

TO THE COMMISSION OF

THE CENTRAL BANK OF IRELAND

Report on the audit of the Statement of Accounts

Opinion

We have audited the Statement of Accounts of the Central Bank of Ireland ('the Bank') for the year ended 31 December 2019, 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 is silent, FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 2019, and of the Surplus Income Payable to the Exchequer for the year then ended; and
- has been properly prepared in accordance with the Guideline and where the Guideline is silent, FRS 102.

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 responsibilities of the auditors 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 financial statements 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.

Emphasis of matter – basis of accounting

We draw your attention to note 1 of the Statement of Accounts which describes the accounting principles and valuation methods applicable to the Bank some of which are specific to the European System of Central Banks. The Statement of Accounts are prepared for the purpose as described therein. As a result the Statement of Accounts of the Bank may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

MAZARS

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 Statement of Accounts, other than the Profit and Loss Appropriation Account, the Balance Sheet, the related notes to the Accounts and our auditors' 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.

Respective responsibilities

Responsibilities of the 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.

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INDEPENDENT AUDITORS' REPORT

TO THE COMMISSION OF

THE CENTRAL BANK OF IRELAND

Responsibilities of the auditors 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 auditors' 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 auditors' 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 auditors' 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.

Patrick Gorry

Date: 19 March 2020

for and on behalf of Mazars
Chartered Accountants & Statutory Audit Firm
Harcourt Centre, Block 3
Harcourt Road
Dublin 2

Ard Reachtaire Cuntas agus Ciste
Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

Central Bank of Ireland

Opinion on the statement of accounts

I have audited the statement of accounts of the Central Bank of Ireland for the year ended 31 December 2019 as required under the provisions of the Central Bank Act 1942 (as amended). The statement of accounts comprises

- 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 2019 and of its income and expenditure for 2019 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.

I have nothing to report in that regard.

Seamus Mc Carthy.

Seamus McCarthy
Comptroller and Auditor General

19 March 2020

Appendix to the report

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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