Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Year End 2024 and Supervisory Topics

Central Bank of Ireland – Mark Cannon

30 September 2024, 2 October 2024

Contents

Economic Environment and Outlook / Risk Mitigation

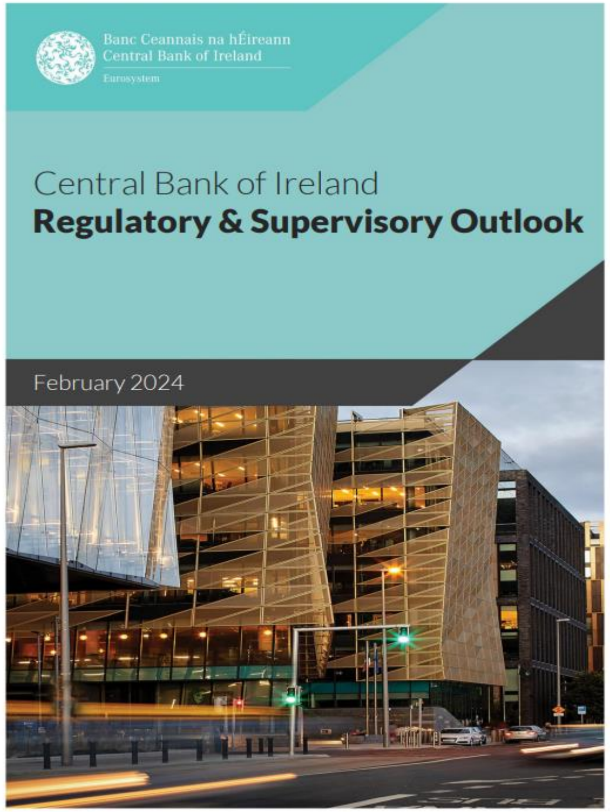
"It remains fundamental that a prudent approach is maintained in respect of a credit unions business to underpin the overall financial resilience of the credit union"

Macro-Financial Environment and Outlook

- 2024 Quarterly Bulletins –Published 18 September and 18 June 2024.
- Regulatory and Supervisory Outlook Report 2024 – Published February 2024.
  - The macro environment for regulated entities, including credit unions remains challenging.
- It remains fundamental that a prudent approach is maintained in respect of all aspects of a credit union's business to underpin the overall financial resilience of the credit union.

Risk Mitigation

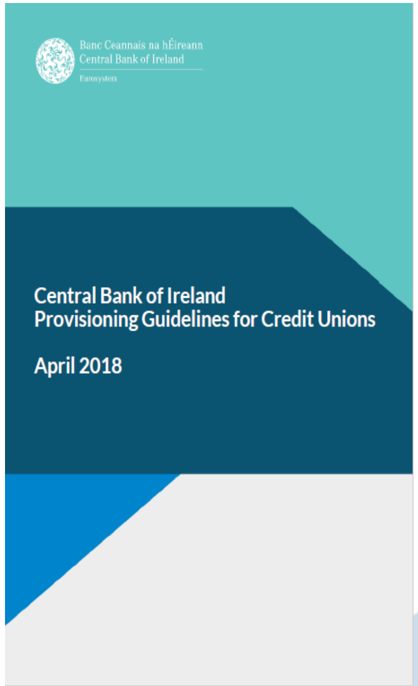
- A key aspect of the 2024 year-end process should be an informed identification and consideration of key risks and appropriate mitigation and management of such risks.



Impairment Reviews – Loan Provisioning, Investments and Fixed Assets

"it is important for credit unions to proactively manage arrears including early engagement with members in addition to ensuring adequate levels of bad debt provisions are in place"

- **Provisioning – Financial Conditions of Credit Unions 2023** report notes positive trends in loan growth and overall loan arrears, some increases in the levels of reported early stage arrears with potential impacts on future provisioning.
  - **CBI Provisioning Guidelines April 2018** should continue to inform the approach taken by credit unions in assessing the level of required loan loss provisions on an on-going basis.
  - ***Financial Reporting Standard 102 (FRS 102)*** - requires an '*incurred loss*' approach to calculation of bad debt provisions on loans and that all loans are reviewed for objective evidence of impairment.
- **Investments –** The accounting policy adopted by the Board of Directors of a credit union for the valuation of investments should comply with the relevant sections of the Credit Union Act, 1997.
- ***Section 110 of the Credit Union Act, 1997*** requires that the amount of any item in the financial statements shall be determined on a prudent basis.
- **Fixed Assets –** Where a value in use approach is adopted for the valuation of a credit union premises, the directors should consider the appropriateness of the underlying assumptions used in deriving the expected cash flows to ensure they are reasonable and supportable.



Credit Union Distributions and Prudent Reserve Management

"Capital adequacy of credit unions remains key to financial resilience – underpinning member confidence, particularly where varying levels of longer term sustainability risk exists for individual credit unions"

- Boards must be conscious of the economic environment and outlook in the context of year-end 2024 proposed distribution considerations.
- **Building and maintaining adequate reserves**, including adequate operational risk reserves, remains key to ensuring credit union financial stability and resilience.
- We expect all credit unions to continue to take a **prudent approach to distributions,** taking account of liquidity, underlying surpluses and operational resilience positions and the need for **prudent forward looking capital reserve management** .
- Credit unions when preparing their 2024 accounts should take account of all matters set out in the 2024 Financial Year-End Circular.

Draft Financial Statements, Statutory Notifications , Rule Amendments and Amendments to the Annual Return

"Credit unions should focus on the timely preparation of the 2024 annual accounts and audit arrangements, so that the financial position is finalised and this can inform board and management decision making".

- **Draft Financial Statements** return to be submitted via the Central Bank of Ireland Portal login in advance of their finalisation.
- Year-End Circular includes an Appendix which details the timelines for **statutory notifications** to be submitted to the Central Bank.
- Credit unions are reminded of the importance of **submitting accurate and complete rule amendments** to the Central Bank.
- The AML and Annual PCF Confirmation section has been **removed from the Annual Return** to reflect the enhancements to the Fitness and Probity regime and existing AML reporting obligations.

Supervisory Topics

Liquidity and Asset Liability Management

"It is prudent for credit unions to ensure proactive asset and liability management given the changing maturity profile of their balance sheets as credit unions seek to diversify lending with longer term maturities "

- As set out in the 'Financial Conditions for Credit Unions 2023 Report' **the mix and maturity of assets held by credit unions has continued to change**, with loans shifting out to longer term maturities and the maturity profile of investments moving from longer term to shorter term.

- Credit Unions must **continuously monitor their liquidity position** to meet liabilities as they arise, having regard to the nature, scale and complexity of their business activities and the composition and maturity of assets and liabilities in the ongoing **management and maintenance of adequate liquid assets**.

- Recognising the short term nature of credit union funding **proactive asset and liability management** is therefore fundamental including maintaining sufficient liquid assets to meet business and regulatory requirements and potential liquidity stress scenarios.

Systems of Control, IT Risk and Cybersecurity

"Credit unions are reminded of their responsibilities for establishing an effective internal control framework and for monitoring systems and controls on an ongoing basis."

- Year-end is an opportunity for each credit union to **review its risk management and internal controls environment, policies and procedures.**
- Given the continuing upward trend in reported IT and cybersecurity incidents credit unions need to be **continuously vigilant** regarding their IT systems vulnerabilities, particularly from cyber risks and ensure on an ongoing basis that they have **strong systems of controls in place relating to their IT framework.**
- Responsibility of each credit union to **understand the range of risks** it is exposed to and ensure that these are appropriately mitigated and managed.
- Given the potential adverse impacts arising, IT and cybersecurity risks r**emain a key focus for the Central Bank** and in this regard the 2024/2025 Thematic Review of IT Risk in the credit union sector has now commenced.

Outsourcing

"Credit Unions must exercise due skill, care and diligence when engaging in outsourced activities with a service provider"

- Credit unions have an **increasing reliance on IT third party service providers** for a range of IT services, including to support their critical IT operations and enhanced digitalised offerings.
- Boards and management of credit unions should **take steps to establish an effective outsourcing** internal control and monitoring framework as set out in the **Cross Industry Guidance on Outsourcing published in December 2021 .**
- If not properly managed disruption to critical services or service providers could pose risks to credit unions.
- Outsourcing requirements are set out in Section 76J of the Credit Union Act 1997.

Operational Resilience

"The ability of a Credit Union, and the financial services sector as a whole, to identify and prepare for, respond and adapt to, recover and learn from an operational disruption"

- The **Central Bank's Cross Industry Guidance on Operational Resilience** (the Guidance) issued December 2021.

- Credit Unions are expected to be **actively and promptly addressing operational resilience vulnerabilities** and be in a position to evidence actions / plans to apply the Guidance, reflective of the nature, scale and complexity of its business.

- Credit Unions should have their **operational resilience governance structures in place**, have set the criteria for identifying their **Critical or Important Business Services** and have begun setting impact tolerances for each identified Critical or Important Business Services.