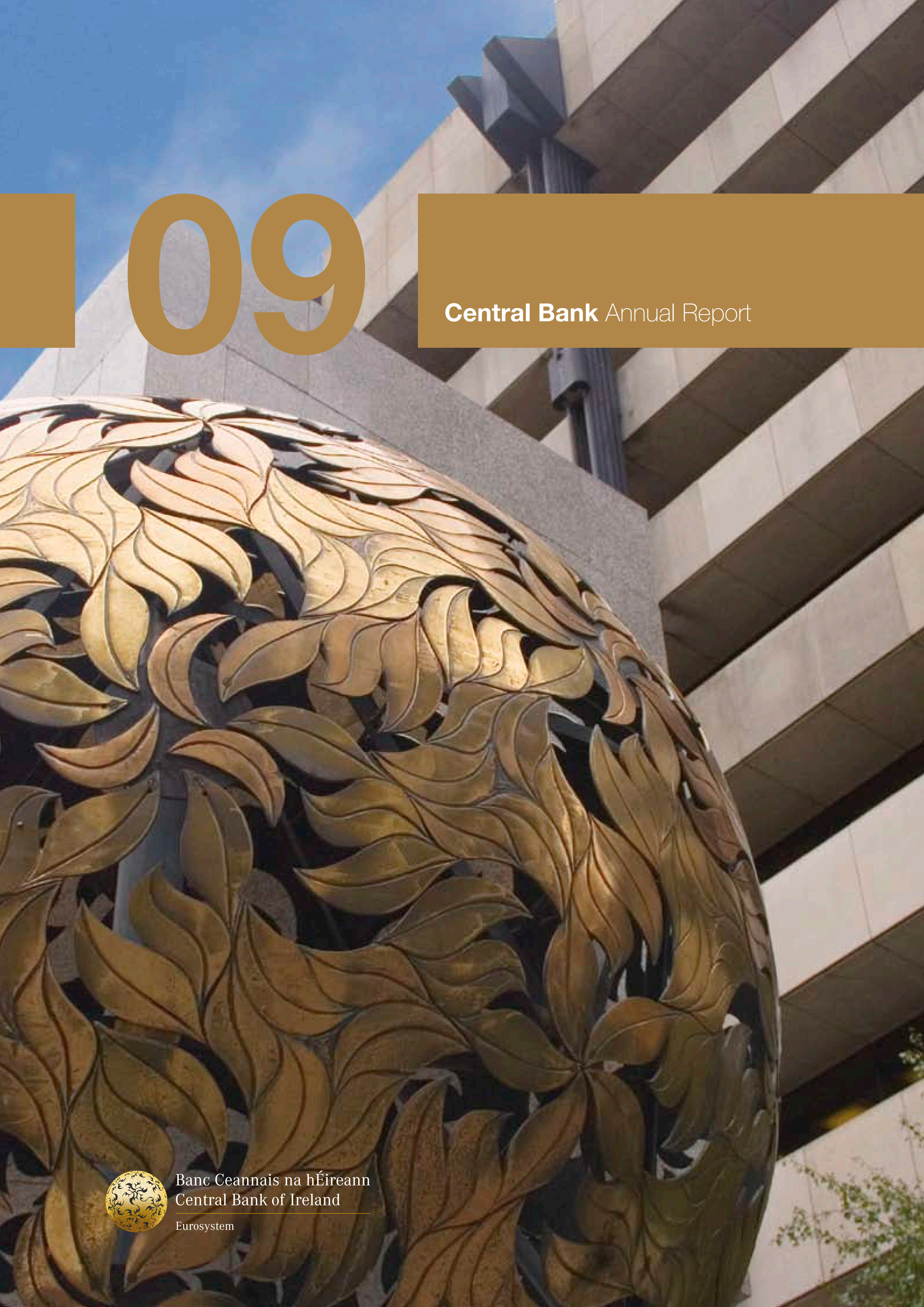


09

Central Bank Annual Report

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Central Bank of Ireland

30 June 2010

Dear Minister

Under the *Central Bank Act, 1942*, the Bank is required to prepare a report on its activities and present this document to you within six months after the end of each financial year. The Annual Report also includes:

» the Annual Report of the Irish Financial Services Regulatory Authority; which incorporates the Annual Reports of the Consumer Director and the Registrar of Credit Unions; and

» the Annual Reports required under the *Unit Trust Act*, 1990, *Consumer Credit Act*, 1995, Prospectus Regulations 2005 and Market Abuse Regulations 2005.

I have the honour to enclose herewith the Activities and Annual Accounts of the Central Bank and Financial Regulator for the year ended 31 December 2009.

Yours faithfully

Patrick Honohan
Governor

Board of Directors and Authority Members

as at 30 April 2010

Patrick Honohan*

Jim Farrell**

Tony Grimes**

Matthew Elderfield**

Kevin Cardiff*

David Begg*

Gerard Danaher**

John Dunne**

Alan Gray**

Brian Hillery*

Dermot O'Brien*

Deirdre Purcell**

Alan Ashe***

Dermot Quigley***

* Members of CBFSAI Board only.
** Members of both the Board and the Regulatory Authority.
*** Members of Regulatory Authority only.

Management

as at June 2010

	Function	Head of Function
Director General		
Tony Grimes	General Secretariat	Neil Whoriskey
	Internal Audit	Pat Treanor
	Legal	Joe Gavin
	Senior Advisor	Frank Browne
Assistant Director General and Secretary of the Bank		
Mary Sheehy	Financial Control	Dermot Maher
	Human Resources	Lucy O'Donoghue
Assistant Director General		
Jim Cummins	Currency Issue	Daragh Cronin
	Currency Production	Harry Murphy
	Corporate Services	Michael Enright
Assistant Director General		
Maurice McGuire	Economic Analysis and Research	John Flynn
	Financial Stability	Vacancy
	Monetary Policy and International Relations	Mark Cassidy
	Statistics	Joe McNeill
	Special Projects	Peter Charleton
Assistant Director General		
Mary O'Dea	Financial Markets	Robert O'Hara
	Payment and Securities Settlement	Vacancy
Assistant Director General		
Gerry Quinn	Information Systems	Michael Power
	Business Analysis	AnneMarie McKiernan
Head of Financial Regulation		
Matthew Elderfield		
Assistant Director General		
Jonathan McMahon	Registry of Credit Unions	James O'Brien
	Retail Insurance Supervision	Fiona McMahon
	Retail Banks Supervision	Shane O'Neill
	Wholesale Banks Supervision	John Moran
	Wholesale Insurance Supervision	Colette Drinan
Assistant Director General		
Patrick Brady	Prudential Policy	Mary Burke
	Governance and Accounting Policy	Michael Deasy
	Risk	Vacancy
Assistant Director General		
Bernard Sheridan	Consumer Protection	Sharon Donnery
Assistant Director General		
Con Horan (Acting)/ Special Advisor	Markets Supervision	Martin Moloney
	Financial Institutions and Funds Authorisation	Patricia Moloney
	Investment Service Providers Supervision	George Treacy
	Regulatory Transactions	Vacancy
Assistant Director General		
Vacancy	Enforcement I	Derville Rowland (Acting)
	Enforcement II	Vacancy

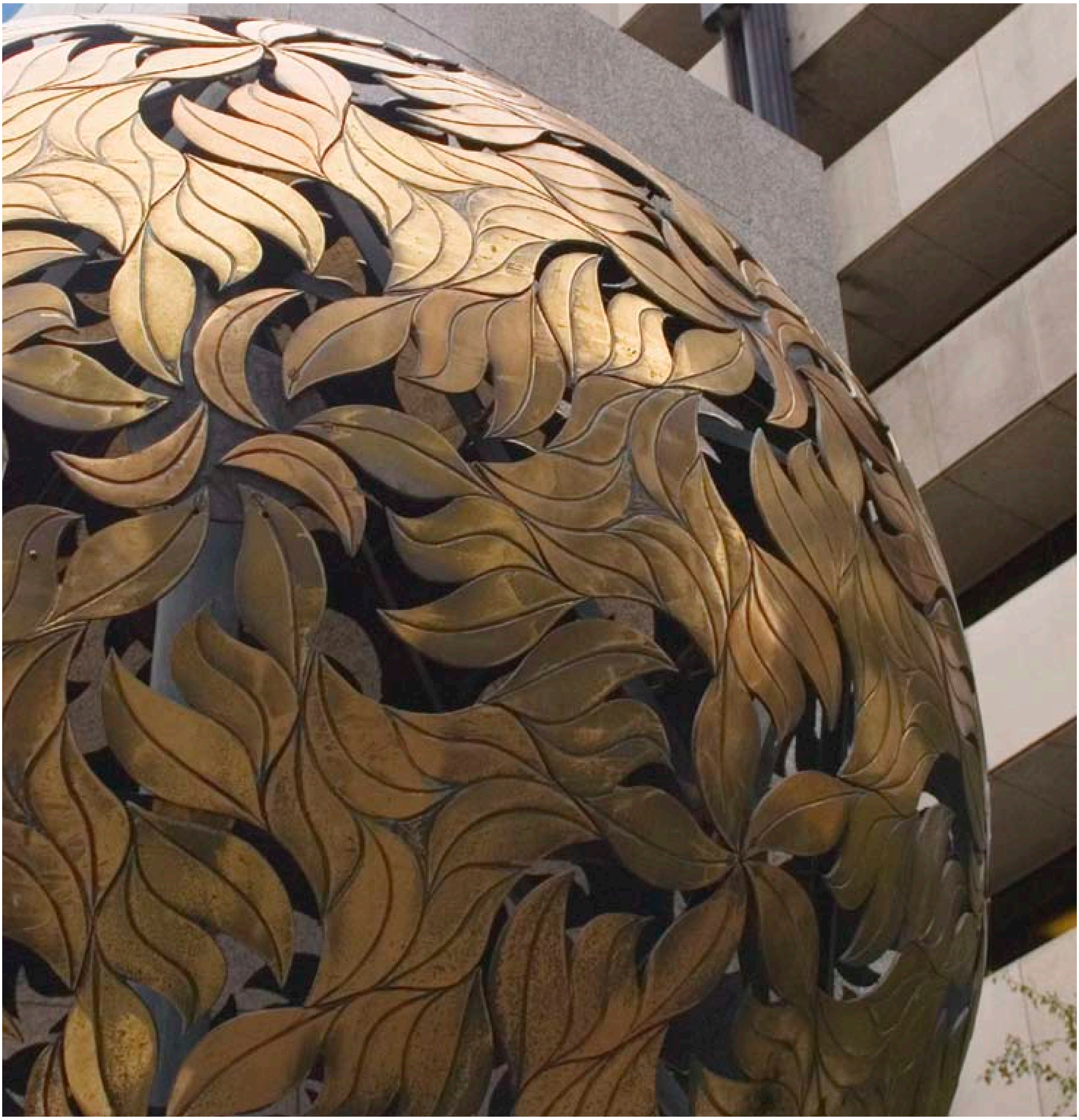
Organisation Chart

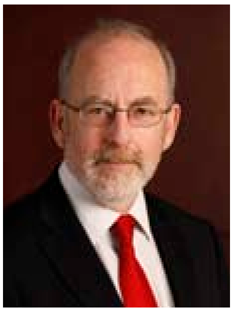
Governor

Director General	Head of Financial Regulation
Currency and Corporate Services	Consumer Protection
Economic Policy and Financial Stability	Enforcement
Finance and Resources (Secretary)	Financial Institutions
Financial Operations	Markets
Information Management	Policy and Risk

Contents

Part 1





Governor's Opening Statement

The failures of the Irish banking system have rocked the economy and the public finances, with severe effects impacting almost all members of society. Ireland was one of the countries that was most affected during the recent international downturn, experiencing sharp output losses and significantly higher unemployment. It brought to the fore major policy challenges for the country relating to the stabilisation and return to normal functioning of the banking sector, the consolidation of the public finances and the restoration of the economy's competitiveness position. Significant progress has been made in addressing all three of these challenges during 2009 and 2010 but the momentum must be maintained in order to maximise the economy's growth prospects over the medium term.

For our part, we have worked hard to restore the health of the banking system. This has included our recent action to review and set new capital requirements for our banks. This should bring certainty about the maximum costs to the taxpayer as a result of the banking crisis and move banks into a position to start lending again and support economic recovery.

We have also, I believe, moved quickly to reform our own organisation to take account of the lessons that we have learnt to date about the financial crisis, including those set out in my report of May 2010 to the Minister for Finance.

A new head of financial regulation has been appointed, who brings considerable expertise and skills to upgrading and restructuring regulation in Ireland. The respective heads of central banking and financial regulation will be supported further by the appointment of a number of experienced senior personnel.

More generally, we have already put in place new internal structures, procedures and arrangements. The Central Bank Reform Bill is expected to be enacted in 2010 and will create a single unitary organisation responsible for both central banking and financial regulation. This approach mirrors proposed arrangements at EU level to ensure a more cohesive approach between financial stability assessments and the supervision of individual institutions. In anticipation of this legislation, we are rapidly becoming a unitary organisation without artificial and unnecessary barriers. This Annual Report, the first to incorporate the annual reports of both the Central Bank and Financial Regulator in one publication, reflects the reality of our new structures.

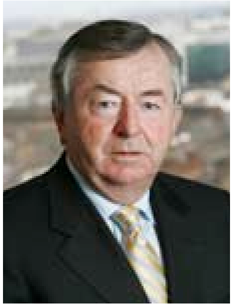
Our strategic plan for the period 2010 to 2012 accompanies this Report. The resolution of the banking crisis is the major task to be completed over the lifetime of this plan. This will be achieved through implementation of a new model of regulation and an enhanced assessment of financial stability. There is also the requirement for the organisation to continue to perform its other major functions, namely, to contribute to price stability and to fulfil our responsibilities generally as a member of the Eurosystem, to ensure that the financial services infrastructure – in the fields of payments, securities and cash – delivers the necessary efficiencies to the economy, to provide authoritative economic advice, and to help consumers through our consumer protection mandate.

Turning to our financial accounts, the Central Bank's profit for the year to 31 December 2009 amounted to €933.8 million. After retained earnings, surplus income of €745.5 million will be paid to the Exchequer.

I would like to thank my predecessor, John Hurley, who retired in September 2009, particularly for ensuring an effective and smooth transition.
I would also like to thank the directors for their contribution during the year.

I thank all the staff for their work in what have been difficult conditions and for stepping up to the challenge of improving our organisation's capacity to accomplish our biggest challenge of making the Irish financial system stable, effective and operating in the interests of its consumers.

Patrick Honohan
Governor



Chairman's Opening Statement

In response to the crisis of the financial system, we initiated in 2008 fundamental changes to the regulation of financial service providers, in particular the banks covered by the government guarantee. We adopted a more intensive approach – focusing on a number of key areas in banking including capital, liquidity, credit exposures and internal governance. This new approach to supervision included more stringent reporting obligations, so that we now have more comprehensive data on a timely basis. In addition, a number of our supervisory staff were placed on site in the domestic retail banks, not only to carry out their inspection duties in a more forensic manner, but also to investigate how boards and management operate. We embarked on a recruitment programme, which is still ongoing, to resource this more intensive supervisory regime.

The Central Bank Reform Bill will, when enacted, provide us with new statutory powers to ensure that those responsible for managing financial service providers continue to be fit and proper to do so. We have also recently published a consultation paper on corporate governance rules which will strengthen from the top down how financial institutions are to be managed.

In late 2009 we announced the appointment of Matthew Elderfield as head of Financial Regulation and he has already set out our strategic approach for the coming years. This includes adopting an assertive risk-based approach to regulation underpinned by the credible threat of enforcement. A risk-based regulatory approach means that we adjust the intensity of our regulatory standards and the day-to-day supervisory approach depending on the risk profile of the firms and sectors we supervise. We are, and will, continue to concentrate our efforts and resources where the greatest risks lie. We will insist that the biggest and riskiest firms are better managed and are held more accountable for their actions.

Our approach in relation to enforcement will also develop over the coming year as we establish a dedicated enforcement division. This will be resourced at a level sufficient to apply a credible threat of action where that is necessary. A second Central Bank Bill, which is due to be published later this year, will provide us with stronger powers of enforcement.

With regard to consumer protection our aim is to build on the existing strong framework developed over the last few years. In 2009, we strengthened the framework by introducing new codes relating to mortgage arrears and business lending to small and medium enterprises. Key objectives for 2010 include the review of the Consumer Protection Code and Minimum Competency Requirements.

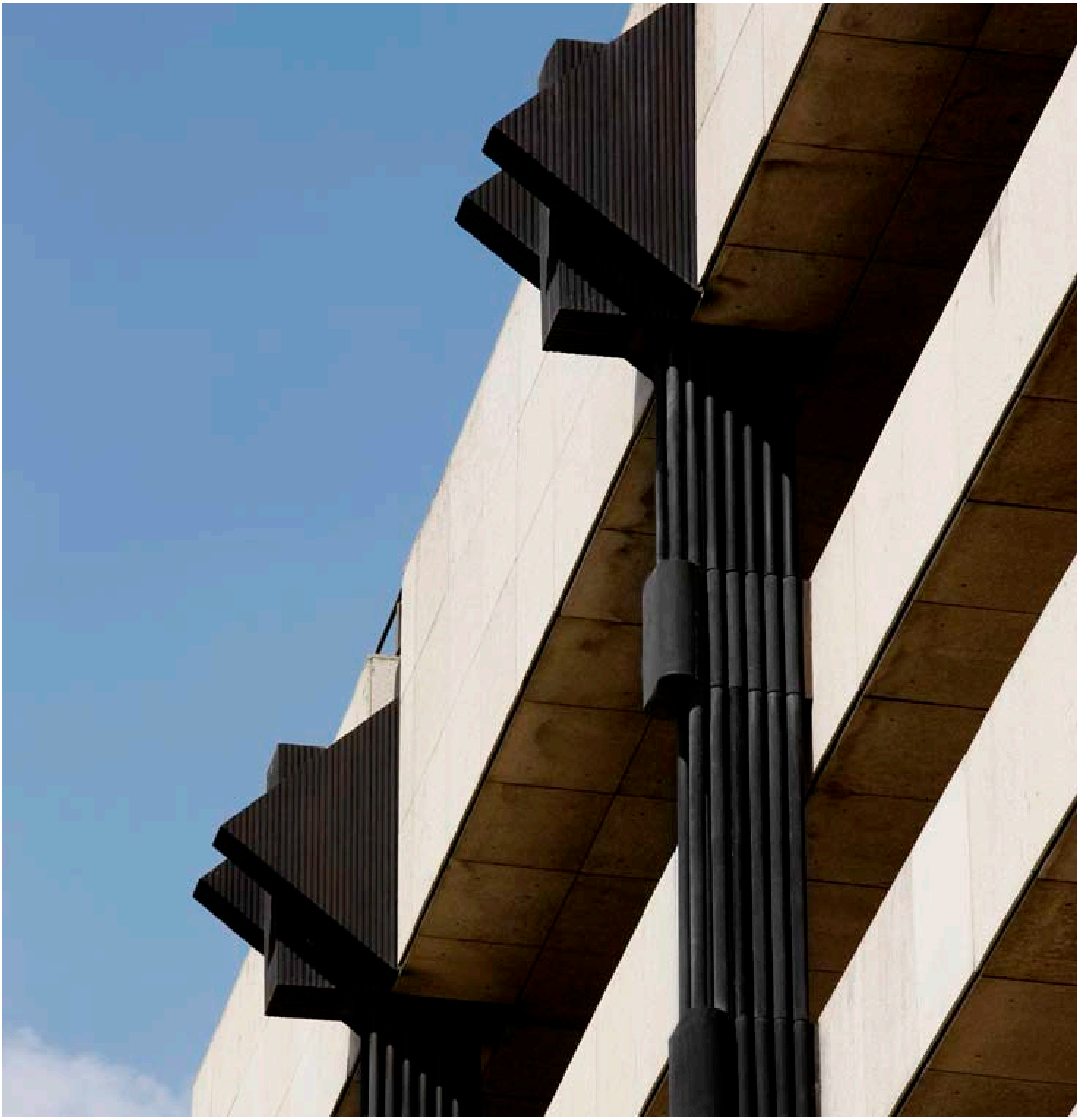
It is clear that to operate such an enhanced system of supervision effectively a further significant increase in resources is required. This is in terms of personnel (a significant increase in front line regulatory staff is essential) as well as training and development. Much ground also needs to be made up in the IT area, for example the development of systems for the continuous monitoring of markets.

We have already made a number of senior appointments and we are well advanced in developing our structures at departmental level. Recruitment of staff with the necessary supervisory skills and financial market experience is well underway. The Mazars report on business processes within the Financial Regulator, which we commissioned in 2008, was completed in 2009 and we have made considerable progress in implementing its recommendations.

I would like to thank all who assisted the Financial Regulator in carrying out its work during the year and guiding it on a path to the new regulatory environment. My thanks to the Minister for Finance and his officials, members of the Authority and all staff members whose hard work and dedication is greatly appreciated. I also would like to thank Governors Honohan and Hurley for their assistance and support and wish Governor Hurley well in his retirement. A special word of thanks to Mary O'Dea, for taking on the role of Acting Chief Executive in 2009 and carrying out the function in an exemplary manner.

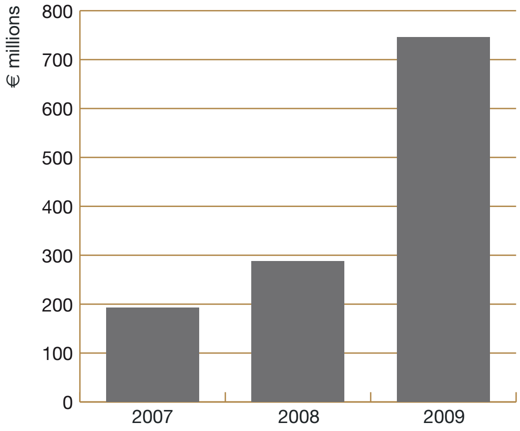
Jim Farrell
Chairman

2009 **at a Glance**



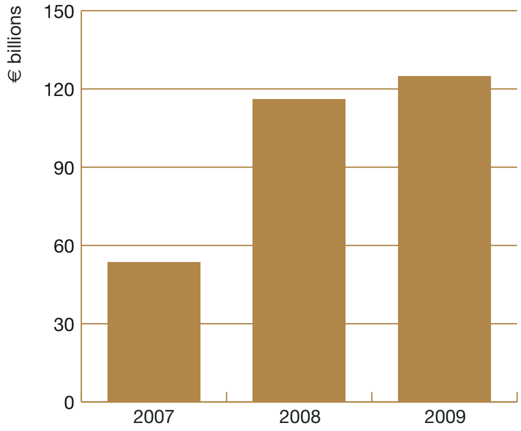
2009: The Bank at a Glance

Surplus Income Paid to Exchequer



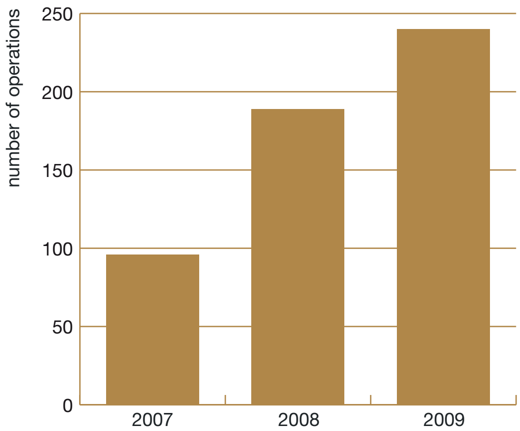
Surplus income paid to the Exchequer increased to €745.5 million.

Total Assets



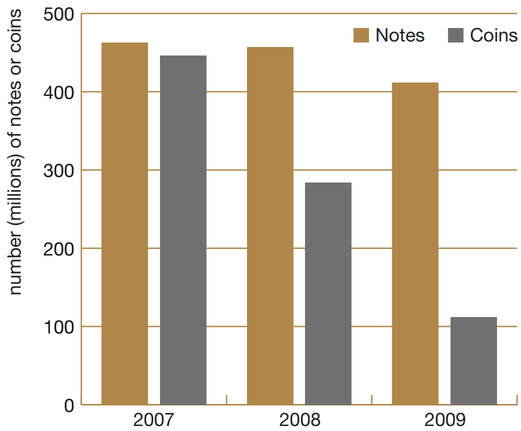
Total Assets increased to €124.9 billion.

Number of Open Market Operations



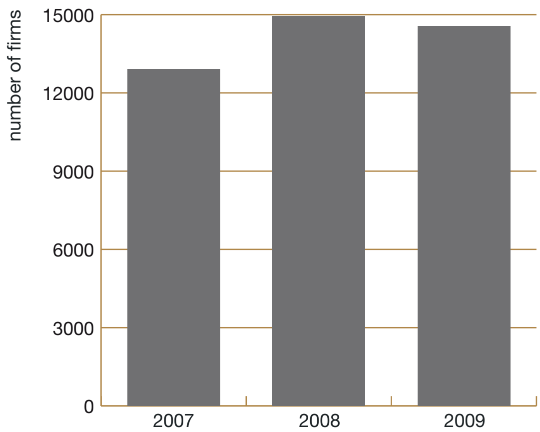
There were approximately 240 operations conducted by the Bank on behalf of the Eurosystem.

Issuance of Banknotes and Coins



The number of banknotes issued fell (412 million in 2009 from 457 million in 2008) and the number of coins issued also fell (112 million in 2009 from 284 million in 2008).

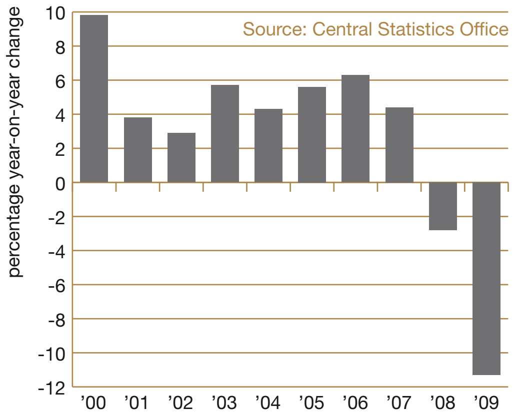
Number of Regulated Financial Services Providers



The number of regulated financial service providers fell by 369 to 14,563 firms.

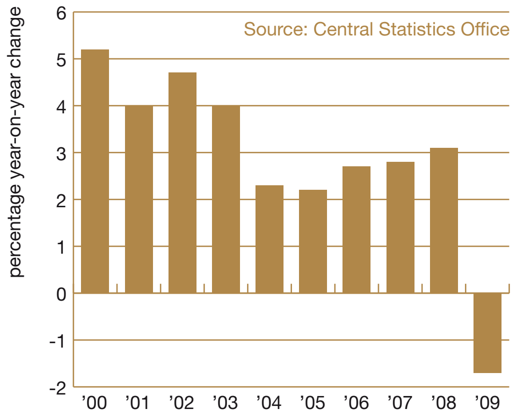
2009: The Economy at a Glance

Real GNP



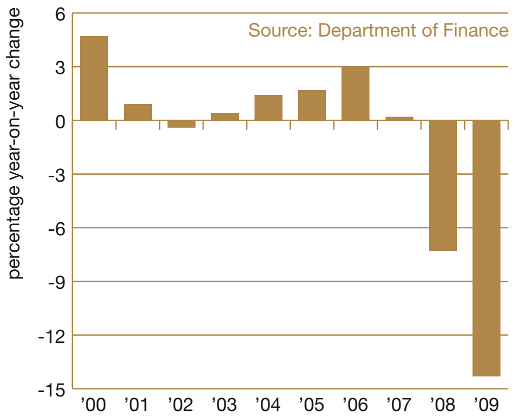
The economy contracted in 2009, with GNP falling by 11.3 per cent in real terms.

Inflation (HICP)



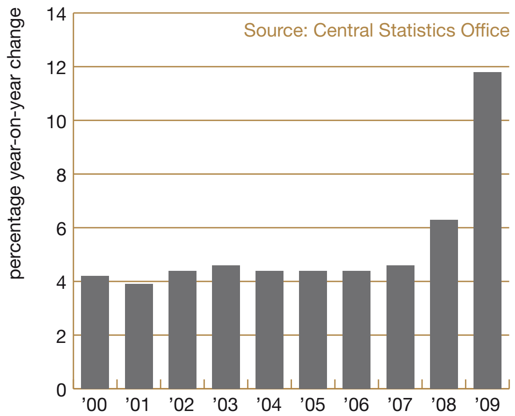
The HICP measure of inflation averaged -1.7 per cent in 2009.

General Government Balance as % of GDP



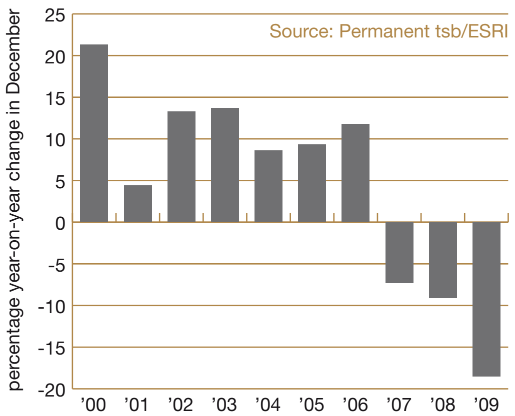
The General Government deficit equated to 14.3 per cent of GDP in 2009.

Unemployment Rate



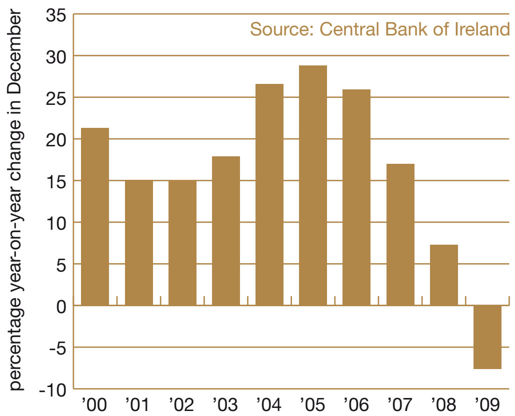
The unemployment rate increased to an average of 11.8 per cent in 2009.

National House Prices



National house prices continued to fall, with prices falling by 18.5 per cent year-on-year by end-2009.

Private Sector Credit



Private sector credit (adjusted) fell 7.6 per cent year-on-year by end-2009.

Chapter 1:
Key Activities and Developments in 2009

1. Introduction[1]

Actions that were taken in response to the ongoing crisis in both international and domestic financial markets continued to dominate the organisation's activities in 2009. We worked to restore the health of the banking system thereby providing a platform to increase the supply of credit to households and small businesses and promoting economic growth. This was done through both our Central Bank and Regulatory functions, more notably, through (i) our membership of the Eurosystem and the provision of liquidity, (ii) the Governor's participation in the formulation of monetary policy, (iii) the provision of financial stability and economic advice to Government, (iv) a more intrusive supervisory model for credit institutions covered under the guarantee scheme, (v) the commencement of a prudential capital adequacy review for the largest institutions, and (vi) the introduction of the codes of conduct on mortgage arrears and business lending to small and medium enterprises.

While the organisation's primary focus was dominated by the ongoing financial instability, a large number of other activities were completed in 2009. These activities reflect our key responsibilities:

» Monetary policy stance and implementation;

» Financial stability;

» Economic analysis, research and statistics;

» Supervision of credit institutions;

» Supervision of insurance entities;

» Supervision of investment services providers;

» Supervision of funds;

» Supervision of credit unions;

» Supervision of markets;

» Enforcement and regulatory actions;

» Consumer protection and information;

» Payments systems and currency services; and

» Management of investment assets.

We also worked to develop and enhance many of our key internal processes, including human resources, information technology and management, operational risk and business continuity, internal audit and legal services, communications and strategy development.

2. Monetary Policy Stance and Implementation

Following the profound intensification of the global financial crisis in Autumn 2008, the environment in 2009 was exceptionally challenging as the implications of the financial crisis continued to unfold. Against this background, and in line with objectives, the European Central Bank (ECB) and the Eurosystem continued to respond to the economic and financial conditions across the euro area through alterations in key interest rates as well as undertaking a range of enhanced credit support measures. The number of monetary policy operations remained high by historical standards. The number of liquidity operations conducted by the Central Bank, on behalf of the Eurosystem, also remained at that high level in response to the financial crisis.

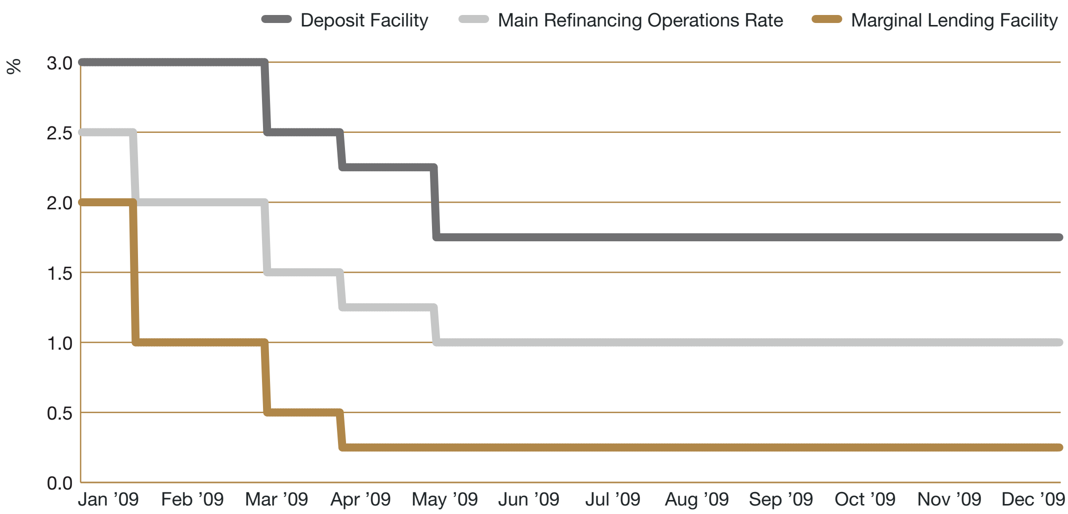
ECB Monetary Policy Decisions and Developments in Key ECB Interest Rates

As a member of the Governing Council of the ECB, the Governor participates in all Governing Council decisions. The Governing Council typically meets twice a month. In arriving at its decisions, the Council assesses the economic situation in the euro area as a whole and whether current key ECB interest rates remain appropriate for achieving their primary objective of maintaining price stability in the euro area.

Against a backdrop of subdued inflationary pressures and a severe economic downturn, the Governing Council continued to reduce key ECB interest rates during the first half of 2009 (Chart 1). After a total reduction of 175 basis points in the fourth quarter of 2008, the Governing Council lowered the main refinancing operations (MRO) rate by a further 150 basis points, between January and May 2009, to 1 per cent. Between January and May 2009, the deposit facility and marginal lending rates were

1 Throughout this Chapter, the term 'organisation' refers to both the Central Bank and Financial Regulator.

Chart 1: Evolution of Key ECB Interest Rates



Source: www.ecb.int

also reduced by 175 basis points and 125 basis points respectively. These reductions brought the deposit facility rate to 0.25 per cent and the marginal lending rate to 1.75 per cent, thereby re-widening the corridor of standing facility rates to 150 basis points[2]. All key official interest rates have remained unchanged since May 2009.

Enhanced Credit Support Measures

In addition to reducing rates, the Governing Council extended its enhanced credit support measures to improve the transmission of monetary policy. These are non-standard measures introduced to improve financing conditions and facilitate the transmission of lower key ECB interest rates to money market and bank lending rates. The measures are tailored to the euro area financial structure and specific circumstances of the financial crisis. Overall, six key measures have been introduced since the onset of the crisis:

» The provision of unlimited liquidity (full allotment) to euro area banks at a fixed rate in all refinancing operations;

» The lengthening of the maximum maturity of refinancing operations from three months to one-year;

» The extension of the list of assets eligible to be used as collateral in Eurosystem credit operations;

» The regular provision of liquidity in foreign currencies (US dollars and Swiss francs);

» The outright purchase of euro-denominated covered bonds issued in the euro area; and

» More recently in 2010, the purchase of euro area public and private debt securities.

Most noteworthy in 2009 was the introduction of refinancing operations with a one-year maturity and the launch of a covered bond purchase programme (CBPP). The one-year refinancing operations were scheduled for June, September and December 2009. It was announced that the CBPP would be conducted over a twelve-month period, beginning in July 2009, and would have a targeted nominal amount of €60 billion. Reflecting these credit easing measures and the reduction in official interest rates, money market interest rates declined significantly.

The enhanced credit support measures were designed so that they can be phased out when they are no longer deemed necessary. The Council began this process around end-2009, although the emergence of a sovereign debt crisis in 2010, led to a partial revisiting of this decision. The background to a decision by the Council in December 2009 to begin phasing out certain non-standard measures was a sustained improvement in financial markets through 2009. It was decided that the 1-year and 6-month Long Term Refinancing Operations (LTROs) scheduled for December 2009 and March 2010

2 It had been narrowed from 200 to 100 basis points in 2008.

respectively, would be the last of such LTROs. In addition, the Governing Council decided that the rate on the December 1-year LTRO would be fixed at the average minimum bid rate of the MROs over the life of the operation. Similarly, improved conditions in the US funding markets and limited demand in Eurosystem US dollar operations had led to all of the US dollar repurchase operations and US dollar swap operations being discontinued. The Swiss franc liquidity-providing swap operations were discontinued from 31 January 2010.

Developments in 2010

Specific measures have since been introduced by the Governing Council of the ECB to address the emergence of a sovereign debt crisis. In May 2010, the ECB announced changes in the eligibility of debt instruments issued or guaranteed by the Greek government, namely the suspension of the minimum credit rating threshold in the collateral eligibility requirements for the purposes of the Eurosystem's credit operations in the case of marketable debt instruments issued or guaranteed by the Greek government. The Council committed to continue to provide the euro area banking system with unlimited access to central bank refinancing through shorter-term operations (with one-week and one-month maturity), for as long as needed and at least until mid-October 2010. Subsequently, the Governing Council introduced additional measures including interventions in the euro area public and private debt securities markets, the adoption of a fixed-rate tender procedure with full allotment in the regular 3-month longer-term refinancing operations (LTROs), to conduct a 6-month LTRO with full allotment, and to reactivate, in coordination with other central banks, the temporary liquidity swap lines with the Federal Reserve, and resume US dollar liquidity-providing operations.

Monetary Operations

The provision of liquidity to the main domestic banks has been a key component of the Central Bank's response to the financial crisis. The Central Bank, on behalf of the Eurosystem, provides liquidity to counterparties located in Ireland and also participates in the provision of enhanced credit support measures. The Bank also provides special liquidity facilities, where required, outside of the Eurosystem operations.

During 2009, the bulk of liquidity to the euro area banking system was provided through the one-year refinancing operations. The June and October one-year operations were conducted as fixed rate tender procedures with full allotment at the MRO rate. One of the features of the fixed rate full allotment policy is that banks in aggregate take more liquidity from the Eurosystem than needed, the excess liquidity in turn being placed back with the Eurosystem via the overnight deposit facility. Prior to the first one-year operation in June, the outstanding volume of liquidity allotted across the Eurosystem operations had declined from its high of €857 billion at end-2008 to €622 billion by June 2009, resulting in less excess liquidity in the system and reduced use of the overnight deposit facility. However, this reduction reflected a strategic move by banks to position themselves to bid actively in the first one-year operation. Recourse to the June one-year operation was substantial, with banks borrowing an aggregate €442 billion, bringing the total outstanding amount borrowed to a record high of €897 billion. This in turn was reflected in €300 billion excess liquidity being placed back on the overnight deposit facility. The effect of this excess liquidity was to put further downward pressure on euro money market rates across the curve with the overnight market rate (EONIA) trading on average some 55 basis points below the MRO rate of 1.00 per cent. As at end-2009, liquidity operations with a one-year maturity accounted for 82 per cent of the total Eurosystem outstanding lending, while the weekly MROs, which had provided the bulk of liquidity to the financial system prior to the crisis, accounted for just 11 per cent.

The number of liquidity operations conducted by the Bank, on behalf of the Eurosystem, increased sharply in response to the financial crisis: from some 70 operations annually pre-crisis to over 240 operations in 2009. These include the US dollar and Swiss franc liquidity operations. The number of counterparties for liquidity operations was 45 at the end of 2009, unchanged from the previous year. Total monetary policy lending provided by the Bank to banks located in Ireland, including the use of the marginal lending facility, rose to a high of €130 billion by the end of June 2009, from €93 billion at the end of 2008. This amount declined to €93 billion by the end of 2009 and to €85 billion at the end of March 2010. These end-March figures reflect lending to both retail and international banks located in Ireland, with over 65 per cent borrowed by banks with an important retail presence in Ireland and undertaking significant business with households and non-financial corporates.

As regards the Covered Bond Purchase Programme (CBPP), which began in July 2009, the Eurosystem had purchased a total of €49 billion covered bonds in both the primary and secondary markets by the end of April 2010. The Bank participated actively in this programme. Market data indicates that the CBPP has been successful in encouraging new covered bond issuance, re-igniting the secondary market and bringing about a substantial reduction in covered bond yield spreads.

Liquidity remained an issue for the guaranteed institutions during 2009. In line with the more intrusive approach to supervision there was active engagement with the institutions in monitoring the composition and maturity of their respective funding. Key to this was ensuring the institutions compliance with the "Requirements for the Management of Liquidity Risk" as well as monitoring all other treasury risks. Another key task was in monitoring the likely impact of the end of the Government guarantee scheme in September 2010 and the potential impact on funding under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009.

3. Financial Stability

Restoring stability to the banking system was the key challenge in 2009, and has remained so into 2010. A high level of interaction with other State agencies continued as part of a joint response to the crisis. The Bank continued to advise the Government on issues concerning the financial system in 2009. Key Government decisions taken during that period have included:

- Nationalisation of Anglo Irish Bank;
- Injection of capital (preference shares) into larger domestic banks;
- Establishment of National Asset Management Agency; and
- Introduction of the eligible liabilities guarantee scheme.

The Bank's internal Financial Stability Committee (FSC) was given an enhanced role in 2009 with regard to monitoring and assessing financial stability issues. The Governor now chairs the FSC; its terms of reference have been updated since the emergence of the crisis and its meetings have increased in regularity.

Crisis Management

The Bank has a key role in financial crisis management, and, throughout 2009, we continued to deal with the evolving situation in the financial system. Our internal structures facilitated a high level of interaction across relevant areas of the organisation, including the supervisory area, with regular meetings of the various internal committees and working groups taking place. In carrying out these tasks, the Bank co-operated closely with other domestic authorities, particularly the Department of Finance.

In terms of crisis management initiatives during 2009 at the European level, work began or continued in a number of areas including, burden sharing; the revision of home/host principles; tools for early intervention, including cross border resolution frameworks; proposals for the regulation of systemically important financial institutions (SIFIs); and the development of initiatives with regard to deposit guarantee schemes at the European level.

A project commenced in 2009 to develop a new methodological framework for financial stability assessment. This includes the development of forward looking indicators of bank specific and systemic risk using either financial market or balance sheet data. Indicators based on market prices of traded securities that attempt to quantify systemic risk are being developed. These indicators are critical in informing the macroprudential assessment of stability and are intended to serve as early warning indicators of stress in the financial system.

In addition to assessing domestic firms, an important area of financial stability assessment relates to risks which may build up around large international financial firms operating from Ireland in the banking, insurance and funds sectors. During 2009, the Bank prepared analysis on this issue including consideration of the size, interconnected nature, financial sophistication and degree of specialisation of international financial services operations,

The Governor Patrick Honohan attending the Governing Council meeting in Venice, October 2009.

and an examination of whether certain types of operations are inherently more risky than others. We are extending our analysis of this area.

Authorisations

As part of the authorisation and acquisitions process for financial services firms, under the provisions of the CBFSAI Act (2003), the Financial Regulator consults with the Central Bank on any applications where there may be implications for financial stability. In 2009, the Central Bank was consulted on 2 acquisitions and 9 authorisations for institutions involved in both banking and insurance.

International Developments

We contributed to the review of financial stability and supervisory policies at the international level, through our participation in ECB and EU supervisory committees and other international fora. The most relevant development in this respect related to the development of a new European infrastructure for financial stability and supervisory issues.

The *de Larosière* group was mandated by the European Commission to give advice on the future of European regulation and supervision and delivered its report in February 2009. Its recommendations included the reform of the EU supervisory architecture based on two pillars: macro- and micro-prudential supervision, aimed at enhancing financial stability in Europe and ensuring a level playing field for the financial services industry. The report also included a number of recommendations for regulatory reform of the EU framework for financial services. Having endorsed the group's recommendations, the European Commission consulted on development of its policy proposals. We contributed our views to this strategically important consultation. The European Commission subsequently decided to establish a European Systemic Risk Board (ESRB) and a network of European System of Financial Supervisors (ESFS) including the new European Supervisory Authorities.

The ESRB will be a European Union-wide system to assess and prevent potential risks to financial stability in the EU. The ESRB will have to monitor the soundness of the whole financial system. This can cover very different areas, from the financial situation of the banks to the potential existence of asset bubbles or the good functioning of the market infrastructures. The ESRB will have to identify all the potential risks, prioritise them and issue warnings when it thinks that the risks are significant. There will be a broad representation of institutions within the ESRB to ensure a global macro-prudential perspective in the ESRB's risk assessments, including the governors of national central banks, the new European Supervisory Authorities, and national supervisors. The Governor and Head of Financial Regulation will attend the ESRB.

The second pillar of the European Commission's proposal is the creation of a European System of Financial Supervisors, conceived as a network incorporating individual countries' financial supervisors and three new European Supervisory Authorities (ESAs). This set of supervisory institutions will conduct micro-prudential supervision at the European level. The new European Supervisory Authorities will have additional powers, including a mandate to work towards a common European rule book for financial services firms and to facilitate exchange of information and agreement between national supervisory authorities.

4. Economic Analysis, Research and Statistics

Economic Analysis and Commentary

Developments in the domestic and international economy came into very sharp focus for public policy makers over the past year or so. The Bank has played an important role in influencing economic policy through its frequent commentaries, forecasts, research and provision of financial statistics. We communicate these through our regular publications and research papers, other domestic and international journals, statements by the Governor and contributions to conferences and seminars (See Appendix A for a list of communications in 2009). Internally, economic analysis and research are inputs into financial stability assessments and the prudential capital adequacy reviews.

In the area of macroeconomic forecasting, the Bank continued to produce macroeconomic projections for the Quarterly Bulletin and prepare projections and analysis for the Eurosystem Broad Macroeconomic Projections, as well as participate in other Eurosystem-wide conjunctural analysis. Six forecasting exercises were completed during the year, with two of these conducted within the context of the Eurosystem's Broad Macroeconomic Projection Exercise and the remaining four for publication in the Bank's Quarterly Bulletin. The more formal approaches to economic forecasting were supplemented by assessments of business sentiment based on contacts with key firms in various sectors across the economy. We also participated in other non-Eurosystem/ESCB forecasting and policy fora (e.g.OECD/EU) and consulted with visiting OECD/IMF missions, rating agencies and others.

The Bank continued to monitor developments in inflation and competitiveness during the year. In addition to the regular forecasts and assessments published in the Quarterly Bulletin, work on competitiveness indicators continued, culminating in the introduction of some new indicators on price and labour cost competitiveness.

Research

The Bank further enhanced the communication of its research work in 2009 with the publication of the second annual *Research Bulletin*. This bulletin contains non-technical summaries of the Bank's published technical papers, which totalled 16 in 2009. In addition to the Bank's commentary, macroeconomic projections and policy advice, published research in 2009 was in the area of house prices, growth, trade, labour markets, macroeconomic and inflation forecasting and financial capability. This research is made available in the Bank's *Technical Paper* series. As in previous years, staff continued to publish much of this research in international economic journals. In addition, a paper examining the factors determining the destination of Irish exports was awarded the Barrington prize for the best paper by a young Irish economist.

In a new initiative, in November 2009, we hosted a two-day macroeconometric workshop. This was very well attended by close to 50 economists, drawn both from Ireland and also other national central banks and foreign economic institutions.

Statistics

The Bank has continued to develop its domestic statistical outputs during 2009. Work during the year included the development of a major web-based reporting project to enhance the collection and dissemination of banking statistics, with publication of first data scheduled for mid-2010. New detailed quarterly tables on investment fund assets and liabilities were published for the first time during 2009. Significant progress has also been made in developing quarterly financial accounts and securities issuance statistics, which are also due for release in 2010.

We continued to meet our statutory obligations to the ECB for a wide range of financial statistics in 2009. This included the first provision to the ECB of detailed statistics on investment funds broken down according to the investment strategy pursued by these firms. Furthermore, a new data collection framework for financial vehicle corporations (also known as special purpose vehicles) was implemented, with first data due to be published in late 2010.

The Bank participated in further developing the statistical framework at European level. Among the major developments was the implementation of Regulation (EC) No. 951/2009 which updates the legal framework for the collection of statistical information by the ECB. Significant work is also ongoing to address the statistical gaps identified during the financial crisis.

The close working relationship with the Central Statistics Office (CSO) was further developed in 2009, particularly in the area of security-by-security reporting for credit institutions and investment funds. This collaborative approach to the development of financial statistics has delivered efficiencies in both institutions and helped reduce and streamline the burden on respondents. The areas of co-operation extend to balance of payments, financial accounts and government finance statistics.

The Bank continues to make available a wide range of financial statistics, particularly money, credit and banking statistics through its monthly and quarterly publications. A report on private motor insurance statistics was also published, analysing trends in premium income, accident frequency, claims costs and market share and pricing in 2009.

5. Supervision of Credit Institutions

Domestic Banks

In 2009, the Financial Regulator supervised domestic institutions covered by Government guarantee on a more intrusive basis. This has involved a regular onsite presence at each institution, including attendance at their relevant internal committee and board meetings. Regular meetings are also held with key officers including with Chief Executive Officers, Chief Risk Officers, Heads of Treasury and Credit. This allows the Financial Regulator monitor how effectively institutions manage risk; it also enables the identification of emerging risks.

During 2009 the Financial Regulator reported on a quarterly basis to the Minister for Finance on the compliance by the institutions with the requirements of the Government Guarantee Scheme and the terms of recapitalisation. As part of the monitoring process, Quarterly Compliance Reports, which included independent verification by the institutions' external auditors were submitted by the guaranteed institutions during the year and were reviewed in detail.

A major initiative was the commencement, in 2009, of new and more comprehensive capital requirements for the largest institutions. This work, the Prudential Capital Adequacy Review (PCAR), assessed the capital requirements arising for expected base and potential stressed loan losses, and other financial developments, over a 3 year (2010-2012) time horizon. It involved the Central Bank and Financial Regulator making an assessment of the recapitalisation requirements of the credit institutions in order to satisfy both a base case and stressed target capital requirement. The PCAR has been undertaken to determine the recapitalisation requirements of Allied Irish Bank, Bank of Ireland and EBS Building Society with reference to both:

» A target level of 8% core tier 1 capital should be attained after taking account of the realisation of future expected losses and other financial developments under a base case scenario.

» A target level of 4% core tier 1 capital that should be maintained to meet a stress scenario or a portfolio level sensitivity analysis.

Essentially the PCAR means:

- The banks must face up to both their NAMA and non-NAMA losses now and in a way that commands market confidence;
- The banks are prudently capitalised to withstand a severe stress scenario;
- The banks are well on the path to being ready for the new Basel regulatory capital regime;
- There is now certainty about the maximum costs to the public debt as a result of the banking crisis; and
- Banks will be in a stronger position to start lending again and to support the economic recovery.

Recapitalisation to the target requirements specified in the PCAR will provide market participants with the confidence that the institutions have a strong capital base after realising forecasted expected losses and that a prudent capital buffer is in place to withstand additional losses in adverse stress conditions.

The PCAR process will be applied to Irish Life & Permanent during 2010 and subject to approval by the European Commission of the viability plan for Anglo Irish Bank will also be applied to any new banking entity included in that plan.

In addition to the more intensive supervision of the guaranteed institutions in early 2010, we initiated a process of interviewing applicants who intended to take up key positions both at board level and senior management level under the Fitness and Probity regime to assess their suitability prior to appointment. This has resulted in a number of changes to candidates for specific positions as well as changes to proposed roles.

We will continue to enhance our supervisory regime. To this end, on 21 June 2010, we set out our new approach to banking supervision.

International Banks

Our supervision of international credit institutions located and regulated in Ireland was also enhanced and intensified during 2009. The key focus of our engagement in 2009 was an assessment of institutions' approaches to determining their internal capital adequacy. This engagement was supported through the development of further quantitative tools to facilitate a consistent and focused challenge of internal capital estimates and management of key risks. The supervisory model will be further intensified in 2010 and 2011 with the creation of dedicated teams for highest risk entities, following appointment of additional resources with industry specific expertise.

In the course of 2009, we monitored the performance of credit portfolios and liquidity positions closely. In addition, we reviewed the existing framework for monitoring prudential data submitted by institutions. This framework was enhanced, through the introduction of new internal guidelines and improved analytical reporting facilitated through the recruitment of additional staff in the Department. The challenging economic environment caused a number of institutions to undertake changes to their business models, in particular, where those institutions were heavily exposed to structured instruments, which required detailed regulatory assessment of their future business plans. This is work which will continue.

We assessed institutions' compliance with the CEBS guidelines on remuneration and also on compliance with the CRD Pillar III disclosure requirements. It was identified that the majority of institutions were in compliance with these requirements and follow up actions were taken where issues were identified. There were also several targeted liquidity inspections of higher impact international banks assessing compliance with the Financial Regulator's liquidity requirements. We identified issues in respect of lack of appropriate stress testing and insufficient back testing of behavioural assumptions. Letters were subsequently issued to all institutions reminding them of their own behavioural assumptions and seeking confirmation that stress testing was conducted on a quarterly basis.

We introduced an annual review of institutions' Internal Ratings Based Approaches (IRBA) in order to ensure that models being used for calculating regulatory capital are fit for purpose. The objective is to observe the performance of individual credit models and benchmark model configurations and internal standards across institutions with similar portfolios. Institutions were challenged on the appropriateness of certain identified models for regulatory capital derivation to ensure that any proposed remediation of shortfalls was sufficiently comprehensive and timely.

New Regulatory Requirements

Much of the regulatory agenda is driven by international developments. The Financial Regulator actively contributes to the discussions that take place at EU and wider levels. At EU level, one of the areas of such discussion was in respect of amendments to the international Capital Requirements Directive (CRD). CRD II was finalised in 2009 and these changes, which relate primarily to hybrid capital instruments, large exposures, supervisory arrangements, securitisation and management of liquidity risk, are due to be implemented nationally by end-2010. Amendments outlined in CRD III cover the trading book, re-securitisations, remuneration policies and enhanced disclosure requirements. These were developed significantly in 2009 and are expected to be finalised this year. Initial proposals in relation to CRD IV covering leverage ratios and quantitative limits on liquidity were discussed at various European meetings in 2009 and it is expected that these proposals will be finalised in 2010.

We issued three key consultation papers. A Committee of European Banking Supervisors initiative on Liquidity Buffers was launched for consultation in 2009 and will be effective from June of this year. A Consultation Paper in respect of the corporate governance requirements for banks and insurance entities was launched for public consultation in April 2010.

In August 2009 all licensed banks incorporated in Ireland were formally notified of the imposition of a condition of their authorisation requiring greater disclosure and transparency by credit institutions of loans to ‘connected persons’ of a director to promote the orderly and proper regulation of banking. In addition, work was substantially completed on drafting a consultation paper on a Code of Lending for related parties for credit institutions. The Code is proposing to specify internal control requirements in relation to lending to related parties to ensure such lending is on an arm’s length basis. This consultation paper was issued in May 2010.

Cooperation with other Banking Regulators

The Irish and UK Government authorities established a tripartite cross border stability group (CBSG) for the two jurisdictions in 2009, to put in place a formal structure for the tripartite and bilateral contacts that were already taking place. The members of the CBSG are the Department of Finance, the Central Bank and the Financial Regulator and on the UK side, the Treasury, the Bank of England and the Financial Services Authority. The aim of this group is to strengthen communications at all levels between the two jurisdictions and to ensure that future cross-border risks are identified and addressed.

6. Supervision of Insurance Entities

New Regulatory Requirements

Working to ensure that the insurance sector in Ireland is fully prepared for the introduction of a major new approach to capital and solvency requirements has been a key focus for the past year and into 2010. Solvency II, which is an EU project, includes new risk based quantitative capital requirements, qualitative requirements, supervisory practices and disclosure.

In addition to contributing to the work at a European level; a Solvency II Project Team was established in the Financial Regulator to allow for the smooth transition to the new regime in January 2013. This team initiated several work-streams during 2009 to prepare for the new regime and to assist industry in its preparations. One stream relates to Internal Models, a major component of the Solvency II regime and has focussed on assessing how many firms will seek to use Internal Models and the extent of the preparations to do so.

Within Europe, the project was developed through participation at the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and its working groups. This work covered the development of responses to calls for advice from the European Commission and the development of the regular quantitative impact studies. The four relevant CEIOPS working groups in this regard are the Financial Requirements Expert Group, the Internal Models Expert Group, the Internal Governance, Supervisory Review and Reporting Expert Group, and the Insurance Group Supervision Committee.

Over the course of 2009 we consulted the industry on a number of matters including:

» Updated Requirements for Life, Non-Life and Composite Reinsurance companies – these papers update and replace the previous requirements papers for life, non-life and composite reinsurance undertakings. A number of amendments and additions have been made to each paper;

» A Discussion Paper on the Capital Requirements for Variable Annuity Business – Ireland has a number of insurance companies authorised to transact Variable Annuity (VA) business. Essentially this business may be characterised as business in which assets are supported by payout guarantees to the policyholder. VA is clearly distinguishable from 'with profit' business in that there is no discretion for the life company to change its asset strategy on the unit fund to reduce the cost of guarantees and there is no discretion to the company on level of payout. The guarantees are usually matched by a dynamic hedge program. In recent years there has been a number of well publicised losses made by companies transacting this business worldwide and therefore it is necessary to examine reserving standards;

» Two questionnaires on the internal model approach of insurance companies – the first questionnaire queried the proposed internal model approach to be adopted by firms under Pillar 1 of Solvency II whilst the second questionnaire issued in order to gain a more definitive indication of firms' plans with regard to internal model approach and to assist our own planning for the internal model approval process;

» Updated Guidance on the Prudential Supervision of Captive Insurance Undertakings – in April and November 2009, on the basis of a review of the supervisory framework for captive insurers, it was decided that, subject to specific conditions being satisfied, a number of changes may apply to the authorisation and ongoing supervision of captive insurance companies. These are contained in the updated requirements published;

» Stress-Testing Exercise – in November 2009 a number of large Insurance and Reinsurance undertakings were contacted with a request that they complete a stress test. The stress test was analogous to the one set out by CEIOPS and completed by large European Insurance Groups as at 30 October 2009; and

» Italian Withholding Tax – in June and December 2009 all Irish Life insurance companies conducting business in Italy were communicated with as there were different practices regarding the treatment of this asset. In December a proposed guidance on the disclosure of this asset was issued.

The Insurance Statistical Review 2008, containing detailed statistics and market data on the insurance industry in Ireland, was published on 1 September 2009. The information is sourced from regulatory returns provided by insurance companies to the Financial Regulator.

7. Supervision of Investment Services Providers and Funds

Supervisory Issues

The Financial Regulator maintained a heightened focus on the capital adequacy of investment service providers and the safety of client assets in 2009. On the capital adequacy front, a letter was issued to investment firms in April 2009 to highlight their obligation to maintain an adequate level of capital at all times consistent with the risk profile of their business. A detailed process for the review and evaluation of investment firms' capital was developed in 2009 and reviews were initiated with a number of firms. We will be extending this exercise to an increased number of firms in 2010.

Given the importance of the security of client assets, the Financial Regulator continued its requirement for two annual audits of compliance by investment firms with requirements for the handling of client assets. These requirements are designed to ensure segregation of client assets from firm assets and clear identification of ownership of client assets, so that, in the event of a firm having to close, the appropriate assets will be available for distribution to clients. In addition, we continued our programme of industry workshops to improve firms' understanding of the requirements and promote compliance.

The inspection programme undertaken in 2009 was mainly focussed on compliance with client asset requirements and with the risk management provisions of the MiFID directive, the proper functioning of the compliance units in MiFID firms and liquidity and cash-flow management. One of the inspection teams was dedicated for a period to inspections of Irish-authorised entities affected by the Madoff fraud. The on-site work was completed in 2009 and off-site work is continuing in 2010.

In light of the Madoff fraud, we participated in a review by the Committee of European Securities Regulators' of the EU rules regarding custody of UCITS assets, including implementation of those rules by member states. In addition, compliance with the requirements for custodians of funds was reviewed.

A risk-based review of retail intermediaries was maintained, in particular, with a programme of inspections checking anti-money laundering controls in a number of firms.

New Regulatory Requirements

The Payment Services Directive introduced a new regulatory regime for persons engaging in payment services with a new class of regulated entity, Payment Institutions, being created. Apart from capital adequacy, the main prudential issues are anti-money laundering controls and client asset security. Authorisation processes and procedures were developed and implemented in time for the commencement date, 1 November, when Payment Institutions became subject to prudential supervision.

The European Communities (Assessment of Acquisitions in the Financial Sector) Regulations 2009, transposing Directive 2007/44/EC into Irish Law, came into effect on 10 June 2009. These Regulations provide for a consistent, coherent and time limited approach to evaluation of proposed acquisitions for credit institutions, insurance, assurance and reinsurance undertakings, market operators of regulated markets and UCITS management companies.

Assistance was provided to the Department of Finance in relation to the development of the revised EU Directive for the authorisation and prudential supervision of Electronic Money Institutions. This directive must be implemented not later than 30 April 2011. Ongoing assistance in relation to the transposition of the directive will be provided to the Department of Finance in 2010.

In the Funds sector, the UCITS IV Directive was adopted by the European Council in June 2009. The Directive is a recast consolidated UCITS Directive which also introduced a number of changes, the most significant of which is the introduction of a management company passport. We participated in the CESR Investment Management Standing Committee and its related working groups, which issued advice to the European Commission on proposed Level 2 measures for UCITS IV.

The European Commission published a proposal for a Directive on Alternative Investment Fund Managers in April 2009. The proposed directive is designed to create a comprehensive and enhanced regulatory and supervisory framework for managers of alternative investment funds (AIFM). Ongoing assistance is provided to the Department of Finance in relation to this proposal.

The Companies (Miscellaneous Provisions) Act, 2009 provides *inter alia* for the re-domiciliation of non-Irish investment companies to Ireland. The Act introduces a mechanism whereby certain investment companies can migrate their registered offices into and out of Ireland without having to wind up in their current jurisdiction. We assisted the Department of Enterprise Trade and Innovation in the drafting of the legislation and will continue to provide assistance in relation to any developments.

8. Supervision of Credit Unions

Supervisory Issues

In 2009, the credit union sector faced a challenging and uncertain year. Our focus was therefore to build and monitor appropriate reserves and to improve liquidity.

In the lending area, an increasing number of credit unions reported significant arrears on their loan books during 2009. The level of rescheduled loans also increased, which provided further evidence of stresses in the loan books. We required certain credit unions to arrange for independent loan book reviews to be undertaken in order to review the adequacy of their bad debt provisions. These reviews gave rise to significant additional bad debt provisions being made by a number of credit unions during 2009.

We issued an instruction in September 2009 to all credit unions regarding the year end and the payment of dividends. Credit unions were required to contact the Registrar to discuss any proposals to pay a dividend even if they reported a surplus for the year but the Regulatory Reserve Ratio was less than 10 per cent, or would have been less than 10 per cent following payment of a dividend. As a result of this initiative, out of 65 credit unions that presented proposals, 35 were required to reduce the levels of dividend and interest rebate proposed.

We also issued guidance to the external auditors of credit unions regarding their obligations in relation to the year-end audit of credit unions. As a result, we observed that auditors' focus on the year-end bad debt provisioning levels in credit unions increased.

New Regulatory Requirements

In recognition of the importance of the need for adequate reserves to protect members' savings and support a credit union's operations, a legal requirement[3] was introduced with effect from 30 September 2009, whereby all credit unions are required to maintain a Regulatory Reserve Ratio of not less than 10 per cent on an ongoing basis. Since the introduction of the Regulatory Reserve Ratio requirement the level of reserves in the credit union sector has increased.

The range and type of investments undertaken by credit unions has become more complex in recent years and losses have been incurred on some investment products. The Financial Regulator was concerned that a variety of accounting treatments were being used by credit unions in the valuation of investments and the recognition and distribution of the income accruing. Accordingly, in April 2009, we issued a Guidance Note for Credit Unions on Matters Relating to Accounting for Investments and Distribution Policy. The Guidance Note reminds credit unions to ensure that the accounting treatment which they adopt for investments complies with the relevant requirements of the *Credit Union Act*, 1997 and that their distribution policy is appropriate and prudent for the particular circumstances of the credit union. The Guidance Note also requires disclosure in the annual accounts regarding the timing of receipt of investment income/gains. The annual accounts for credit unions for the year ended 30 September 2009 have included these disclosures where appropriate.

Section 35 of the *Credit Union Act*, 1997 sets out the long-term lending limits for credit unions. Currently 20 per cent of a credit union's loan portfolio may be outstanding for more than five years, and 10 per cent of the loan portfolio may be outstanding for more than 10 years. Credit unions requested changes to the Section 35 limits in order to assist members that are experiencing financial difficulties and need to reschedule their loans. As part of a group established by the Minister for Finance we worked on the development of a proposal to ensure that any change to the limits was accompanied by conditions to ensure that the financial position of credit unions is safeguarded. A provision has been included in the *Central Bank Reform Bill*, 2010 to increase the lending limit for loans over five years for all credit unions from 20 per cent to 30 per cent subject to conditions which will be imposed on credit unions relating to liquidity, provisioning and management and reporting of rescheduled loans.

3 *Credit Union Act*, 1997 (Section 85) Rules 2009.

In 2009, the Minister for Finance requested the Financial Regulator to undertake a strategic review of the credit union sector in Ireland. This review will involve an examination of the structure, operation, regulation and legislation of the credit union sector with a view to providing a report making recommendations, including specific proposals to strengthen prudential soundness, which will advise and inform an assessment of the future strategic direction of credit unions. It is expected that work on the review will be completed by the end of the first quarter of 2011.

9. Supervision of Markets

Work in the area of markets supervision throughout 2009 was dominated by the fallout of the ongoing financial crisis. The need for intensified supervision of Contracts for Difference ('CFDs') was identified as a key task. A three-pronged approach was developed to deal with this:

» The Department of Finance was requested to legislate for the disclosure to the market of CFD positions. An enabling provision was included in the *National Pension Reserve Fund Act*, 2009. A public consultation was conducted and draft regulations were completed for consideration by the Department of Finance;

» Within the Committee of European Securities Regulators ('CESR'), the Financial Regulator argued for the need to have a Europe-wide system for the exchange of data on CFDs. Agreement was secured among fellow regulators to this and the Financial Regulator coordinated a CESR working group which is planning the new system; and

» Work within CESR to develop a system for the exchange of client details for all market trading is ongoing. The multiplicity of systems and laws creates certain practical problems.

The regulatory approach to CFDs is part of a broader conclusion that there is a need for significantly increased transparency about what happens in securities markets. The law on market abuse needs to re-balanced to put regulators in a better position in this notoriously difficult area. To push this broader agenda forward, the Financial Regulator has:

» Developed a proposal after public consultation for disclosure to the market of the giving of major shareholdings as security;

» Advocated to the EU Commission a significant tightening of EU Market Abuse law; and

» Worked within CESR to develop an EU-wide law for the disclosure of short sales of shares, while supervising our temporary ban on short sales of bank shares.

Major Projects

There are a number of major long term projects aimed at unwinding delegation arrangements with the Irish Stock Exchange, whereby it supports the Financial Regulator in the activities of prospectus scrutiny, monitoring of the market for possible market abuse and the supervision of compliance by companies with their obligations to publish financial information.

The unwinding of the Prospectus Directive delegation was the subject of analysis and review in 2009 to identify the most appropriate organisational structure for exercising this function. The outcome was a decision to put in place a single integrated prospectus approval team within the Central Bank. This structure is consistent with the requirements of EU legislations. In early 2010, a Steering Committee comprising representatives of the Financial Regulator and the Irish Stock Exchange was established to oversee the transition to the new structure; this process must be completed by end December 2011. This Committee has established a number of sub committees to progress key aspects of the project and these are actively engaged in the process at this time.

The development of a high quality specification for a market monitoring process and related I.T. system is a significant challenge. The next step in this area is the addition of 'business intelligence' capabilities. The need to advance the capabilities in this area is also shared by other regulators across Europe and the organisation remains in close touch with its European colleagues on this issue.

Preparatory work was undertaken on the unwinding of the Transparency Delegation and a team is being established in 2010 to intensify this area of activity. Details of the work undertaken in approving Prospectus documents and Company Information disclosure are included in Appendix B.

The analysis of transactions and the further investigation of suspicious cases form parts of a single integrated market supervision process. Details of the more detailed work on individual cases are set out in Appendix B.

10. Enforcement and Regulatory Actions

Petitions for Administration

We closely supervised Quinn Insurance Limited (QIL) in 2009, reflecting our concerns about its solvency position, its asset portfolio and investment strategy, its pricing and reserving policies, and its rapid expansion in the UK market. Although the company formulated a number of financial plans to resolve its solvency difficulties, it failed to implement them successfully.

We continued to seek a viable and sustainable financial recovery plan from QIL into 2010. None was forthcoming. On 23 March 2010 the company informed the Financial Regulator for the first time of the existence of guarantees given by eight of its subsidiaries in respect of loans given to the Quinn Group. The effect of these guarantees was to reduce the value of QIL's assets by at least €448m thereby eliminating all its available assets to cover its solvency requirements and leaving the company with insufficient assets to meet its technical reserves (liabilities to policyholders). On the application of the Financial Regulator, the High Court ordered the appointment of joint provisional administrators to the company on 30 March 2010. The High Court ordered these appointments permanently on 15 April 2010 with the consent of the existing board of QIL.

In a separate move, the Financial Regulator directed QIL on 30 March 2010 to cease writing business in the UK in order to prevent any further weakening of the company's solvency position. This direction was subsequently modified to allow the company to write private motor cover in the UK after the administrators submitted to the Financial Regulator detailed proposals including actuarial analysis. The Financial Regulator continues to work closely with the joint administrators in relation to all aspects of the company's business.

The Financial Regulator petitioned for the appointment of a provisional administrator to two other insurance undertakings: Accent Europe Insurance Company Limited and ESG Reinsurance Ireland Limited. This action was taken as the businesses of both undertakings were being managed in a way that jeopardised the rights and interests of policyholders and the undertakings were failing to make adequate provisions for their debts. A Provisional Administrator was appointed to each firm by the High Court on 18 December 2009; the Administrator was subsequently confirmed for both companies on 12 January 2010.

Sanctions

The powers to impose sanctions for prescribed contraventions of legislation or regulatory rules are contained within the *Central Bank and Financial Services Authority of Ireland Act*, 2004. During 2009, 10 settlement agreements were entered into with regulated entities/individuals under the Administrative Sanctions Procedures. A number of the sanctions arose following themed inspections in relation to *'Charges and Premium Rebates in the Insurance Intermediary Sector'*. The most significant issues which arose in one or more of these cases related to:

» Facilitating unauthorised individuals transacting business through a regulated firm; and

» Overcharging of customers by four firms in relation to insurance premiums and premium rebates.

The sanctions imposed include a disqualification from being a person concerned in the management of a regulated financial services provide, eight fines (amounting in aggregate to €3,672,500) and eight reprimands. The fines ranged from €2,750,000 for failures by traders to appropriately value their positions, to €7,500 for failure by firms to comply with certain provisions of the Consumer Protection Code (the Code). Details of the individual sanctions imposed are available on our website. By way of example, a settlement agreement was made with Merrill Lynch International Bank Limited (MLIB) in relation to two separate incidents in their London branch regarding failure by traders to appropriately value their positions and failure to manage effectively market risk limits in respect of the trader's activities. MLIB was required to pay a monetary penalty in the sum of €2.75m. A second Settlement Agreement was with Depfa ACS Bank (Depfa) in relation to the failure to obtain the approval of its Cover-Assets Monitor or the Financial Regulator prior to making or amending an entry in its register of public credit covered securities business. Depfa was required to pay a monetary penalty of €250,000.

One important initiative in 2009 was the use of powers under securities law to issue private cautions for relatively minor breaches. The breach must be admitted by the firm. The issuance of the formal private caution makes it evident to the firm that the continuation of even minor breaches will lead to fines or other administrative sanctions.

Our other regulatory actions are detailed in Table 1.

Table 1: Regulatory Actions taken in 2009

Type	Number of Actions	
	2008	2009
Administrative Sanction Settlement Agreements	9	10
Securities Law Settlement Agreements	1	0
Securities Law Formal Private Cautions Issue	0	1
Warning Notices Issued Regarding Unauthorised Activity	5	6
Issue of Post Inspection or other Regulatory Finding to be Addressed and Corrected	85	133
Independent Loan Book Reviews of Credit Unions	7	98
Authorisation/Licence/Registration Refused	2	6
Authorisation Revoked	–	6
Appointment of Administrator	–	2
Direction/Requirement imposed against Credit Unions that are in breach of Section 35(2) of the *Credit Union Act*[4]	90	25
Appointment of Independent Auditor/Inspector Required	6	8
Advertising Issues Investigated	177	224
Warning Letters Under *Consumer Credit Act*	19	0
Direction/Requirement imposed under other legislation	108	[5]331
Disclosure of information to other Enforcement Authorities	6	259

4 This refers to actions taken against credit unions that are in breach of Section 35(2) of the Credit Union Act ("the Act") in relation to their long term lending.

5 287 Directions were imposed under the Transparency Directive and none were imposed under the Prospectus Directive. Directions imposed under the Transparency Directive can only be issued for a period of 10 days at a time and, therefore, a new Direction must be issued every 10 days. For example, if an issuer failed to publish their annual financial report within the required timeframe specified in the Regulations, the Financial Regulator would issue a Direction to the Irish Stock Exchange requesting it to suspend trading in the issuer's securities for a period of 10 days pending publication of the annual financial report. If the issuer was suspended for a period of 30 days this would be based on 3 Directions issued by the Financial Regulator. Adjusted for the re-issue of Directions previously issued, the number of Directions issued pursuant to the Regulations falls to 22 (27 reported in 2008.)

Financial Services Appeals Tribunal

In 2009, three regulatory decisions were referred for appeal to the Irish Financial Services Appeals Tribunal (the Appeals Tribunal). These decisions related to the Financial Regulator's refusal to grant the following applications:

» A refusal to grant a mortgage intermediaries authorisation pursuant to the *Consumer Credit Act*, 1995. This appeal was struck out by the Appeals Tribunal due to the Appellant's failure to pay a reduced appeal fee;

» A refusal to grant a firm authorisation to act as an investment business firm pursuant to the *Investment Intermediaries Act*, 1995, and as a mortgage intermediary under the *Consumer Credit Act*, 1995. The appeal was struck out by the Tribunal as the appellant failed to pursue the appeal. The Appeals Tribunal ordered the Appellant to pay €20,000 plus VAT towards our legal costs; and

» A refusal to renew a moneylender's licence pursuant to the *Consumer Credit Act*, 1995. The Appeals Tribunal determined that the matter should be remitted to the Financial Regulator with a recommendation that it should consider or reconsider findings of facts (made by the Appeals Tribunal) in the light of all the other evidence (some of which was first produced during the appeal). The Appeals Tribunal ordered both parties to pay their own legal costs. The money lending licence was subsequently granted.

Investigations

In January 2009 an investigation into certain matters in relation to Anglo Irish Bank was commenced. The focus of this investigation is the unwinding of CFD positions in Anglo Irish Bank, the back-to-back loans with Irish Life and Permanent and loans to directors and connected parties.

During the investigation we have notified the Gardaí and the Office of the Director of Corporate Enforcement (ODCE) of certain matters. Where appropriate, the Financial Regulator will defer to the Gardaí and the ODCE in order to allow these agencies to investigate potential criminal actions prior to commencing an enforcement action of its own. Given the seriousness and sensitivity of criminal proceedings and the strength of the sanctions available to the Gardaí and the ODCE, this is the most appropriate approach to take where there is a reasonable possibility of multilateral proceedings.

In 2009, while resources were also applied to a range of Market Abuse[6] related issues and cases, investigative work was dominated by one major investigation into the unwinding of CFD positions in Anglo Irish Bank. We have now completed substantial work on this case and the Gardaí are now pursuing the matter.

Prevention of Money Laundering

A dedicated Anti-Money Laundering – Counter Terrorist Financing AML-CTF unit was established in 2009 to assist the Department of Justice, Equality and Law Reform and the Department of Finance with their work in transposing the Third Anti-money Laundering Directive (2005/60/EC) and to streamline communications with An Garda Síochána and the Revenue Commissioners. The unit took part in the work programmes and regular meetings of the Financial Action Task Force, the CEBS, CESR, CEIOPS Anti-Money Laundering Task Force, the EU Committee on the Prevention of Money Laundering and Terrorist Financing and domestic AML committees. The new legislation will provide powers to 'administratively sanction' failures by financial institutions to establish adequate AML-CTF controls.

6 This section constitutes our report to the Minister for Enterprise Trade and Innovation in compliance with Regulation 54 of the Market Abuse (Directive 2003/6/EC) Regulations 2005.

11. Consumer Protection and Information

Supervisory Issues

Under the new Central Bank Bill, it is proposed that responsibility for consumer protection will remain within this organisation. Consumer protection continues, therefore, as a top priority in the new regulatory structure. This is all the more important at a very challenging time for consumers against the backdrop of the economic downturn.

Themed inspections are valuable tools for monitoring compliance with our consumer protection requirements. A number of themed inspections and reviews on important consumer issues were conducted during the course of 2009.

- In February 2010, we published the findings of a four-part examination of selected credit institutions, life insurance firms and investment and stockbroking firms, conducted in 2009, in relation to the suitability of investment products sold to older consumers. As part of this examination, a mystery shopping exercise was carried out to assess how credit institutions interact with older customers regarding the sales process for investment products. A number of issues of concern were identified during this examination and communicated to regulated entities;
- In early 2009, a number of themed inspections that focussed on the Grandfathering and Register Maintenance provisions of the Minimum Competency Requirements was carried out. Most credit institutions inspected were unable to demonstrate compliance and this is being addressed with the individual credit institutions concerned. The findings from this themed inspection will feed into a review of the Requirements to be commenced in 2010;
- During 2009, the findings of a mystery shopping exercise on switching bank accounts, in 51 branches of 7 banks was published. This was carried out as part of the organisation's role in monitoring compliance with the Irish Banking Federation (IBF) Voluntary Personal Switching Code. The findings from this exercise show that only 59% of branches visited were found to be satisfactory. The IBF and individual institutions were requested to consider the findings in their ongoing development of the Voluntary Personal Switching Code;
- A review of Payment Protection Insurance (PPI) claims found that generally claims were handled in an efficient and fair manner. However, the findings did highlight areas where the PPI sales process could be improved. In particular, firms need to highlight to consumers at the point of sale that these policies can have exclusions from claims;
- We conducted a number of on-site inspections of credit institutions and retail credit firms to ensure that mortgage lenders were in compliance with specific provisions of the Consumer Protection Code and the *Consumer Credit Act*, 1995 in the area of arrears and repossessions. The findings from the inspections were published in April 2010. Further inspections in this area will be undertaken in 2010, particularly in relation to the Code of Conduct on Mortgage Arrears. The gathering of information was commenced, on a quarterly basis, from 22 lenders, including non-deposit taking lenders, covering residential mortgage arrears and repossessions in December 2009. This information will provide regular and up-to-date market data regarding the numbers of borrowers experiencing difficulties with their mortgage payments. The data received has already been used to develop our work programme for the coming year, in particular on specific inspections related to the Code of Conduct on Mortgage Arrears; and
- During 2009 the findings of the Review of Transparency of Personal Current Accounts was published and an industry letter issued.

Details of the themed consumer focussed inspections undertaken in 2009 are outlined in Appendix B.

The *Consumer Credit Act*, 1995, requires financial service providers (credit institutions, bureaux de change and money transmission businesses) to notify the Financial Regulator of any proposal to introduce new or increased charges, for certain financial services. In 2009, letters of direction were issued on foot of 17 notifications from such firms. The submissions received from these financial service providers ranged from an individual charge, charges in respect of new products launched and entire suites of charges for credit institutions. Of the 17 notifications, 10 were approved in full, 6 were partially rejected and 1 was rejected. Work was undertaken to ensure that charging errors were dealt with in an accurate, timely and fair manner by institutions.

New Regulatory Requirements

During 2009, three key consumer protection initiatives were introduced. These have enhanced the already strong consumer protection framework in Ireland:

- Consumer Protection Code for Licensed Moneylenders;
- Code of Conduct on Mortgage Arrears; and
- Code of Conduct of Conduct for Business Lending to Small and Medium Enterprises.

In February 2009 a statutory Code of Conduct on Mortgage Arrears (the Code) was introduced for all mortgage lenders. The main provisions of the Code include communicating promptly and clearly with the borrower as soon as an arrears situation develops, handling genuine arrears cases positively and sympathetically, and exploring various alternative repayment measures with the borrower. This Code is designed to ensure that mortgage lenders take action to assist householders who are in arrears and applies to all mortgage lenders, including banks, building societies and retail credit firms.

This Code contained a requirement that lenders must wait six months from the time arrears first arise before applying to the courts to commence enforcement of any legal action on repossession of a borrower's primary residence. With effect from 17 February 2010, the Code has been amended to require that lenders must now wait twelve months from the time arrears first arise before applying to the courts to commence enforcement of any legal action on repossession of a borrower's primary residence. This provision is intended to facilitate consumers by giving them additional time to address any mortgage arrears situation. A lender may not seek repossession until every reasonable effort has been made to agree an alternative repayment schedule with the borrower. However, where the borrower is deliberately not engaging with the lender, or where other circumstances reasonably justify, provision 6(a) of the Code permits that the lender may seek repossession in the absence of any engagement with the borrower.

The Code of Conduct for Business Lending to Small and Medium Enterprises ("the SME Code") came into effect on 13 March 2009. Regulated entities were expected to take immediate steps towards implementing the necessary changes to systems, procedures and staff training. Changes to documentation, procedures and training were required to be completed within three months of the effective date while changes to systems were required to be completed within six months of the effective date. The objectives of the SME Code are:

- To facilitate access to credit for sustainable and productive business propositions;
- To promote fairness and transparency in the treatment of small and medium enterprises (SMEs); and
- To ensure that when dealing with arrears cases the aim of a regulated entity will be to assist borrowers to meet their obligations, or otherwise deal with the situation in an orderly and appropriate manner.

In September 2009 the Financial Regulator wrote to regulated entities highlighting the need to record all applications for credit and to ensure that, where an application for credit is declined, the reasons for the refusal are clearly explained to the applicant. They were also reminded of the need to ensure that they did not impose unreasonable collateral or personal guarantee requirements for providing credit facilities.

In July 2009, a consultation paper on the introduction of telephone records obligations for MiFID firms was issued. As part of the European Commission's review of MiFID, the Committee of European Securities Regulators (CESR) decided to consider the introduction of new unified regulations on telephone recordings and electronic communications. In this context, it was decided to postpone consideration of the introduction of any obligations under Regulation 40(6) of the MiFID Regulations until such time as CESR has clarified its position in this matter.

The Consumer Protection Code for Licensed Moneylenders was finalised after a public consultation process and applies to all licensed moneylenders in Ireland. The General Principles of the Moneylenders Code came into effect on 1 January 2009 and the remaining provisions (i.e. Chapters 2 and 3) came into effect on 30 September 2009.

Work continued on the review of the terms and conditions attached to loans from moneylenders. The purpose of the review is to assess the fairness of the terms and conditions of such agreements, using the European Communities (Unfair Terms in Consumer Contracts) Regulations, 1995. This review will be completed during 2010. The annual authorisation process of licensed moneylenders is carried out under the *Consumer Credit Act*, 1995. During 2009, 52 moneylenders licences were renewed or issued as part of this work.

Consumer Information

In June 2009 the Minister for Finance announced major reform of the institutional structures for the regulation of financial services in Ireland. As part of this, the Minister indicated that our consumer information and education role would be re-assigned to the National Consumer Agency. The transfer of that role took place on a delegated basis in 2010, in advance of the legislation.

A review was undertaken of the *www.itsyourmoney.ie* website during the year. This included a re-packaging of the information into lifestyle/key decision topics, rather than categorisation by specific product as had been the case. The homepage was redesigned and the information is now presented in six main sections:

» Big life events;

» Compare and calculate;

» Planning for the future;

» Reviewing your finances;

» If things go wrong; and

» Buying and borrowing.

The number of visitors to the website was just over 728,000, an increase of almost 7% compared to the previous year's total of 679,000. The numbers of visitors to the website were highest in the early part of the year, due to market events at that time. The e-newsletter was issued to approximately 16,000 subscribers each month and included topics related to the difficulties that consumers face as a result of the economic downturn. *www.itsyourmoney.ie* won an award for the best non-commercial site at the Digital Media awards in 2009.

During the year a number of information campaigns was conducted predominantly related to debt and interest rate changes. Topics such as dealing with redundancy, mortgage arrears and preparing for the unexpected were also covered.

Just over 32,000 direct contacts from consumers, requesting personal finance information were dealt with in the year. This is a reduction from 43,000 direct contacts in 2008, but the number in that year was unusually high due to the banking crisis in the second half of the year. A total of 32 information seminars were presented at venues around the county.

The first major study of the financial capability of consumers in Ireland was published. The study shows that people are generally good at managing their money but improvement is desirable in the areas of planning ahead, choosing financial products and staying informed. The research was undertaken to establish a baseline measure of financial capability against which future research in this area can be compared. The results of this study will inform Ireland's approach to consumer financial education and protection policy. The results will also be useful for targeting and developing information resources to help consumers make informed decisions about their money. Work with the National Steering Group for Financial Education continued during the year. The Report of the Group (Improving Financial Capability – a multi stakeholder approach) was published in July 2009. Initial planning for a potential programme to offer targeted financial education support through the workplace commenced in the latter half of the year.

Award-winning €100 Polar Year Gold Proof Coin.

Following the successful completion during 2008 of a pilot Transition Year programme 'Get Smart with your Money' in conjunction with the Money Advice and Budgeting Service (MABS), in-service training was provided to teachers in 2009. In this way, more than 6,000 additional students were brought in contact with the programme, which includes a teacher training manual, learner journals and other features.

The Financial Regulator is statutorily mandated to report on the extent to which competition exists among providers of financial services. As in previous years this has been calculated in five-firm concentration ratios and Herfindahl-Hirschman (HH) indices to measure industry concentration (and by inference, the degree of market power exercised by the largest firms in key segments of the banking and insurance industries). These are set out in Appendix B.

13. Payment Systems and Currency Services

Payments Systems

TARGET2

The Bank is responsible for the oversight of payments and securities settlements systems to help ensure their safety, effectiveness and efficiency, which in turn, will meet the business and banking needs of the economy.

TARGET2 is the single pan-European system used by each of the national payment systems to ensure a uniform wholesale payment infrastructure, thus promoting further efficiency and integration in European financial markets.

The TARGET2 system functioned smoothly in 2009 and, with a stable market share of 89% of the total value of payments in large-value euro payment systems, confirmed its dominant position in the European landscape. The total number of payments processed by the TARGET2 system, however, decreased by 6.5% in volume and by 19.3% in value, compared with 2008, with the average daily volume totalling 345,768 transactions, representing an average daily value of €2,153 billion. On 30 June 2009, TARGET2 reached a peak of 539,336 transactions, representing a value of €3,427 billion. The Irish TARGET2 component processed some 1.23 million payments in 2009 with a value in excess of €7749 billion. The availability of the system reached 99.998%. This is the highest availability figure since the launch of TARGET in 1999.

T2S and CCBM2

Development of the TARGET2 Securities (T2S) project continued in 2009. T2S is a pan-European settlement system for securities and is planned to go live in 2014. The Bank continued to participate in the T2S Advisory Group and to chair the T2S National User Group.

Work continues at Eurosystem level on the design and implementation of the Collateral Central Bank Management (CCBM2) project. CCBM2 will permit the Eurosystem to manage collateral for both domestic and cross-border operations on a harmonised basis.

SEPA

The Single Euro Payments Area (SEPA) was formally launched in January 2008, with the introduction of the SEPA Credit Transfer Scheme and the SEPA Cards Framework. The SEPA Direct Debit Scheme was launched in November 2009. The SEPA project, when complete, will allow customers to make non-cash euro payments to beneficiaries located anywhere in the euro area using a single bank account and a single set of payment instructions.

As well as improving the efficiency of euro payments, SEPA is introducing new business rules and technical standards. All retail electronic payments, domestic and international, will be affected, and all credit transfers, direct debits and card payments will migrate eventually to SEPA standards. Implementation of SEPA in Ireland is the responsibility of the Irish Payment Services organisation's (IPSO) SEPA Implementation Task Force (or SITF), membership of which comprises IPSO staff members, representatives of IPSO member banks and the Bank in its capacity as payment systems overseer.

The EU Commission's Payment Services Directive (or PSD), which provides the legal framework that supports SEPA, was transposed into Irish law by the required deadline of 1 November 2009 (the relevant Statutory Instrument – S.I. No. 383 of 2009 – was signed by the Minister for Finance on 25 September 2009).

National Payments Strategy

The National Payments Implementation Programme (NPIP) aims to deliver a *"payments environment which delivers efficiencies to all sectors of the economy, is inclusive of all sectors of society, and shares the benefits universally"*. The work of the NPIP Advisory Group, which was set up to facilitate progress on payment systems modernisation and in which the Bank participated, reached a conclusion in July 2009 with the issue of a full report to the Minister for Finance. The Advisory Group's report found that, despite the fact that significant progress has been made both in developing the national payments infrastructure and in modernising payment methods (e.g., debit cards, electronic payments and internet banking have become widely available and more extensively used), Ireland continues to perform poorly in these areas *vis-à-vis* comparator countries. The Government has signalled its intention to establish a new high-level group to direct a national payments reform process.

Currency Issuance and Production

Banks were supplied with their full requirement of banknotes and coin in 2009.

Under the ECB pooled production arrangements, the Bank printed 105 million banknotes in the €20 denomination in 2009. Other denomination banknotes were received from other euro area NCBs and issued by the Bank. The Bank supplied a total of 412 million new and re-issuable banknotes in the year.

In 2009, 186 million coins were produced. However, during the course of the year coin demand fell substantially. A total of 112 million coins was issued representing a 61% fall from the previous year. This was largely due to a fall off in demand for smaller denomination coin and may reflect a reduction in hoarding of such coins as economic activity weakened.

Issuance of Banknotes and Coins in 2009

Table A: Banknote Issues

Denomination	€5	€10	€20	€50	€100	€200	€500	Total
No. of Banknotes (million)	54	49	114	193	2	0	0	412
Value €million	**271**	**488**	**2,270**	**9,669**	**173**	**5**	**30**	**12,906**

Note: Figures may not sum due to rounding.

Table B: Coin Issues

Denomination	1c	2c	5c	10c	20c	50c	€1	€2	Total
No. of Coins (million)	58	22	14	5	5	1	2	4	112
Value €million	**1**	**0**	**1**	**1**	**1**	**1**	**2**	**8**	**14**

Note: Figures may not sum due to rounding.

Preparations continued in 2009 to implement the ECB's Banknote Recycling Framework (BRF). The BRF defines uniform rules and minimum standards for euro banknote recycling which must be followed by credit institutions and other professional cash handlers and establishes a pan-euro area policy for the recirculation of euro banknotes. Stakeholders in Ireland have been informed of their obligations and are preparing for full implementation on 1 January 2011.

The Bank continued to produce a number of collector and commemorative coins, an Annual Mint Set, a complementary €15 silver proof coin to celebrate the 125th anniversary of the GAA, €20 gold and €10 silver proof coins to commemorate the 80th anniversary of the launch of the Ploughman Banknotes and a proof set containing nine circulating Irish euro coins and the €2 EMU 10th anniversary commemorative coin. The Central Bank of Ireland won first place in the "International Prize Vicenza Numismatica" collector coin competition for our €100 Polar Year gold proof coin. The coin was issued in 2008 to commemorate the International Polar Year and featured Antarctic Explorers Ernest Shackleton and Tom Crean.

The Bank continued to accept Irish banknotes and coin issued prior to the introduction of the euro. At end-2009, there was €241 million in Irish banknotes outstanding and €126 million worth of coin outstanding.

14. Asset Management

Investment Portfolio

At the end of 2009, the Bank's investment portfolio comprised euro-denominated assets of €16.8 billion and US dollar holdings of €0.5 billion equivalent. The total represents an increase of €1.24 billion on 2008 of which €0.5 billion relates to the Bank's participation in the ECB's Covered Bonds Purchase Programme (CBPP) with the balance coming from dividends and income.

The Bank's investment portfolio was managed in line with parameters approved by the Board. The Board revised some of these parameters to allow for investment in the CBPP and in response to the continued impact of the global financial crisis on the markets and instruments in which the Bank invests.

Total earnings on the Bank's investment portfolios amounted to €565.9 million in 2009 compared to €821.0 million in 2008. Bond yields continued to fall in 2009 although at a slower pace than in 2008. Consequently, earnings on the investment portfolios were 3.47 per cent which was 2.3 percentage points lower than in 2008. The reduction of duration in the euro portfolio – begun towards the end of 2008 – continued in the first half of 2009 and was completed by May.

ECB Reserves

Each national central bank manages a proportion of the European Central Bank's reserves. In Ireland's case that amounts to €865.5 million, which is proportionate to the Bank's shareholding in the ECB. At the end of 2009, the ECB's net foreign reserves amounted to €51.1 billion.

Following a request from the Central Bank of Malta, the Bank commenced the management of Malta's portion of ECB reserves in conjunction with its own share, with effect from 1 January 2008.

Risk Management

The main risks associated with the Bank's investment portfolio activities during 2009, as in previous years, were market risk, credit risk, currency risk, liquidity risk and operational risk (including settlement risk). The management of these risks was achieved through duration analysis of the investment portfolio and through the imposition of strict credit and issuer limits. Value-at-Risk (VaR) was used as a supplementary risk measurement tool for the exposure to market and currency risk. Continuous monitoring of adherence to investment dealing limits and compliance with a variety of additional control measures was performed and regular reports were presented to the relevant decision-making bodies of the Bank including the Board, the Audit Committee, the Investment Committee and the Management Board.

15. Management of Internal Processes and Procedures

Human Resources

At the end of 2009, the Central Bank and the Financial Regulator employed 1,043.7 permanent staff from an approved complement of 1,122. Of this number, 420.5 were assigned to Central Bank operations, 377.2 were assigned to Regulatory areas and 239 to shared services. A further 7 were assigned to the Investor Compensation Company Limited (ICCL).

The total represented a net increase of 2.3 per cent on 2008 staffing levels. Retirements increased from 23 in 2008 to 45 in 2009.

A further 44 members of staff were recruited on fixed term contracts during 2009. This was principally due to the recruitment of additional staff by the Financial Regulator.

The first graduates recruited under the Graduate Development Programme commenced employment in Autumn 2009. The programme continues to attract a high calibre of candidate and it is expected that the number of graduates employed on the programme in 2010 will increase significantly.

As part of the Bank's training and development programme, staff continued to be provided with both internal and external programmes covering all aspects of the organisation. The first technical course included in the new Regulatory Curriculum was run in September 2009.

Information Technology

We progressed various initiatives in 2009 in line with the organisation's IT strategy. These included:

» Key productivity oriented projects included further development of the Enterprise Content Management and Business Intelligence frameworks and the commencement of Unified Communications deployment. This deployment provides inter-office and desktop videoconferencing technology, electronic fax integration and key infrastructure for voice integration;

» Work commenced in conjunction with a number of other central banks on the implementation of a new cash handling system for Currency operations;

» Significant work on the online reporting system now facilitates returns being submitted both quarterly and annually by Life Insurance and Non Life Insurance companies. Annual Returns are being submitted by Reinsurance companies;

» A new cost accounting model was developed and implemented in 2009;

» Significant time and effort was spent enhancing and amending systems in order to deal with the financial crisis. The main priorities were systems for Financial Operations including Collateral Management, Straight Through Processing (STP) and a Risk Metric upgrade; and

» The robustness of the Bank's technical business continuity infrastructure was greatly enhanced and will continue to be enhanced through 2010.

Information Management

We commenced an Enterprise Content Management (ECM) project in late 2008, to ensure a more efficient, consistent and secure method of electronic document management, coupled with workflow and collaboration features. In 2009, a pilot project was undertaken to deliver an ECM solution for the Prospectus Approval and Passporting function, following which a programme of rolling out ECM solutions for particular functions was commenced. This is a multi-year project which will be implemented on a phased basis based on organisational priorities. Currently, the programme is developing a Document and Records Management System (DRMS) for rollout to key functions across the organisation.

We also commenced a Business Intelligence project, the purpose of which is to use new analytical tools and systems to better analyse data, with a view to enhancing the value of data in decision-making. Again, this will be delivered on a phased basis.

Internal Audit

During the year Internal Audit conducted a range of reviews across the central banking and regulatory areas. Topics covered included oversight of retail payment systems, operation of the Government Bank Guarantee Scheme, collection of monetary and financial statistics and a number of IT related reviews. Regular reports were made to the Audit Committee and senior management on the outcome of all reviews including progress in implementing earlier recommendations. The Head of Internal Audit also met with the Governor regularly to discuss audit-related issues.

Operational Risk and Business Continuity

Operational risk was managed through the implementation of the Bank's Operational Risk Management framework. This framework provides for the identification and analysis of potential exposures and the establishment and execution of controls and action plans to mitigate these risks. Continuous monitoring of operational risk exposures was performed across the organisation and a comprehensive annual review was furnished to the Board.

Business Continuity Management activities in 2009 focussed primarily on advancing plans to safeguard against a pandemic, in light of the outbreak of the H1N1 virus, while considerable resources were also employed in improving the resilience of the Bank's off-site contingency arrangements.

A Steering Group on Systemic Risk Planning was established during 2009 to oversee the development of industry-wide contingency initiatives, with the Bank acting as co-chair with the Irish Banking Federation. The Group's focus to date has been on financial sector planning for a pandemic event.

Legal

During 2009, our legal services contributed to the development of primary legislation to provide for restructuring of the Central Bank and Financial Services Authority of Ireland and to make other necessary amendments to the existing CBFSAI legislative structure. The first of the enactments which will effect this change, the Central Bank Reform Bill, was published on 30 March 2010.

Legal agreements were amended with monetary policy counterparties to implement ECB Guidelines and we liaised with the Department of Finance on the transposition of the amended European Directives on settlement finality and financial collateral. Work continued on issues relating to collateral accepted for Eurosystem credit operations: this included contributing to audits of mortgage pools backing the mortgage-backed promissory notes of approved issuers and of credit claims governed by Irish law; and the assessment of the compliance of asset-backed securities, medium-term notes and covered bonds with Eurosystem eligibility criteria. We progressed work on questions relating to the admission of a new settlement bank for euro transactions in Euroclear UK and Ireland, corporate governance issues, matters arising from arrangements with the IMF, procurement issues, and Irish law considerations relevant to the Eurosystem TARGET2-Securities and CCBM2 projects.

The organisation also assisted with the drafting of the *Anglo Irish Bank Act*, 2009, the *National Asset Management Agency Act*, 2009, legislation to give effect to the Payment Services Directive 2007/64/EC (SI No 383 of 2009), legislation to give further effect to Banking Consolidated Directive 2006/48/EC (SI No 475 of 2009), and Directive 2006/49/EC on Capital Adequacy for Investment Firms (SI No 515 of 2009).

Following the announcement by the Minister for Finance of his intention to introduce an asset relief scheme for banks in Ireland in April 2009, assistance and advice was provided to Government on the drafting of the National Asset Management Agency (NAMA) legislation, the Designation of Eligible Assets and the Application and Designation of Participating Institutions. On behalf of the European Commission we conducted an independent review of the Valuation Methodology for NAMA. We commenced this work in 2009 and will continue through 2010 as each of the tranches of assets is transferred to NAMA.

Communications

There was a significant increase in the number of media queries to the organisation, up approximately 33 per cent on 2008.
This reflected the increasing focus on and interest in the organisation as the financial crisis evolved. There was also significantly increased activity in terms of media interviews, statements issued and 11 appearances before Oireachtas Committees, as the organisation sought to explain the ongoing developments around the financial crisis to a wide audience of stakeholders including market participants and general public.

Strategy and Planning

An independent review of the Financial Regulator's business processes which was undertaken by Mazars was submitted to the Irish Financial Services Regulatory Authority in February 2009. The report predated the Government decision to restructure the system of financial regulation and the implications of the financial crisis for the intensity of supervision. Nevertheless, the Financial Regulator recognises that the report continues to be very relevant in the new regulatory environment and its principal recommendations have been or are in the process of being implemented.

Work commenced on developing a new organisational strategy for the period 2010-2012. This new strategy was developed to reflect the new organisational structure and policy changes required under the evolving responsibilities of the new Central Bank, following publication of the *Central Bank Reform Bill*, 2010.

This is given under the seal of the Central Bank and Financial Services Authority of Ireland.

Patrick Honohan
Governor

Mary Sheehy
Secretary

25 June 2010

Appendix A: Statements and Published Papers by the Bank in 2009

Key Publications

Quarterly Bulletin

Annual Report 2008 – July 2009

Press Conference Statements

Governor's statement to mark the publication of the *Annual Report* of the Central Bank of Ireland – July

Appearances at Oireachtas Committees (Opening Statement)

Chairman Jim Farrell to Joint Oireachtas Committee on Economic Regulatory Affairs – January

Governor John Hurley to Joint Oireachtas Committee on Finance and the Public Service – January

Chairman Jim Farrell to Joint Oireachtas Committee on Finance and the Public Service – January

Governor John Hurley to Joint Oireachtas Committee on Economic Regulatory Affairs – March

Chairman Jim Farrell to Joint Oireachtas Committee on Economic Regulatory Affairs – April

John Kelly, Head of Statistics to Joint Oireachtas Committee on Social and Family Affairs – April

Acting Chief Executive Mary O'Dea to Joint Oireachtas Committee on Social and Family Affairs – April

Tom O'Connell (ADG) to Joint Oireachtas Committee on Enterprise, Trade and Employment – July

Martina Kelly, FIFA to Joint Oireachtas Committee on European Scrutiny – July

George Treacy, Head of Legal to Joint Oireachtas Committee on Finance and the Public Service – July

Governor Patrick Honohan to Joint Oireachtas Committee on Economic Regulatory Affairs – December

Speeches and Presentations

Address by Registrar of Credit Unions, Brendan Logue at Credit Union Development Associations, AGM – January

Address by Governor John Hurley to ACI Ireland – June

Address by Deputy Registrar of Credit Unions, James O'Brien to Credit Union Managers Association, Autumn Lunch – September

Presentation by Governor Patrick Honohan at ESRI, Budget Perspective 2010 Conference – October

Address by Acting Chief Executive Mary O'Dea at the Law Reform Commission – November

Address by Governor Patrick Honohan at the Financial Services Ireland, Annual Dinner – December

Presentation by Governor Patrick Honohan at RBWC, OeNB and Austrian Ministry of Finance Conference – December

Articles in Central Bank Quarterly Bulletins

Measuring Inflation Expectations in the Euro Area – Brian Golden and Allen Monks – No.1 2009

Quantifying the Impact of Oil Prices on Inflation – Colin Bermingham – No.1 2009

Investment in the Euro Area – Mary Ryan – No.3 2009

A Discussion on the Taylor Rule – David Doran and Ronan Hickey – No.3 2009

Wage Setting and Wage Flexibility in Ireland: Results from a Firm-level Survey – Mary Keeney, Martina Lawless and Alan Murphy – No.4 2009

Housing Finance Developments in Ireland – Nicola Doyle – No.4 2009

Research Technical Papers

Financial Capability: New Evidence for Ireland – Nuala O'Donnell and Mary Keeney – February

Adjusting for Quality of Labour and Labour Services in Productivity Measurement – Mary Keeney – March

Regional Tax Differences and Multinational Profits in Europe – Alan Murphy – March

Consumer Financial Capability: A Comparison of the UK and Ireland – Nuala O'Donnell – June

Tax Complexity and Inward Investment – Martina Lawless – July

A Model of Mortgage Credit – Diarmaid Addison Smyth, Kieran McQuinn and Gerard O'Reilly – August

A Critical Assessment of Existing Estimates of Core Inflation – Colin Bermingham – August

Macroeconomic Forecasting and Structural Change – Antonello D'Agostino, Luca Gambetti and Domenico Giannone – October

Modelling Credit in the Irish Mortgage Market – Diarmaid Addison Smyth, Kieran McQuinn and Gerard O'Reilly – November

Quantifying Revenue Windfalls from the Irish Housing Market – Diarmaid Addison Smyth and Kieran McQuinn – November

Downward Nominal and Real Wage Rigidity: Survey Evidence from European Firms – Jan Babecky, Philip Du Caju, Theodora Kosma, Martina Lawless, Julian Messina and Tairi Room – November

The Margins of Labour Cost Adjustment: Survey Evidence from European Firms – Jan Babecky, Philip Du Caju, Theodora Kosma, Martina Lawless, Julian Messina and Tairi Room – November

The United States as a growth leader for the Euro Area – A multi-sectoral approach – Kieran McQuinn and Geraldine Slevin – November

Destinations of Irish Exports: A Gravity Model Approach – Martina Lawless – November

Euro Area Investments: the Generation of GDP Growth and the Marginal Product of Capital – Mary Ryan – November

Money and Uncertainty in Democratised Financial Markets – Frank Browne and Robert Kelly – November

Statistical Publications

Statistical Appendix in Quarterly Bulletins – Quarterly

Investment Fund Statistics

Sectoral Developments in Private Sector Credit – Quarterly

Euro area Bank Lending Survey – Irish Results – Quarterly

Monthly Statistics

Private Motor Insurance Statistics

Publications in Academic Journals by Staff Members

Modelling credit in the Irish mortgage market – Addison Smyth D. McQuinn K and G. O'Reilly – Economic and Social Review, Vol 40(4), pp.371-392, 2009

Quantifying revenue windfalls from the Irish housing market – Addison Smyth D. and K. McQuinn – Economic and Social Review, forthcoming

Supply response in an uncertain market: Assessing future implications for activity levels in the Irish housing sector – Addison Smyth D. McQuinn K and G.O'Reilly – European Journal of Housing Policy, Vol 9(3), pp.259-283, 2009

International order flows: Explaining equity and exchange rate returns – Dunne, P., M. J. Moore & H. Hau – *Journal of International Money and Finance* (2009), doi:10.1016/j.jimonfin.2008.12.012

A price-setting model for sectoral analysis of environmental tax reform – in M. Skou Anderson and P. Ekins (Eds) – FitzGerald, J., M. Keeney and S. Scott (2009) – *Carbon Energy Taxation: Lessons from Europe* Oxford University Press 2009

Adjusting for Quality of Labour and Labour Services in Productivity Measurement – M Keeney – *Economic and Social Review*, forthcoming 2010

Deconstructing Gravity: Trade Costs and Extensive and Intensive Margins – M Lawless – *Canadian Journal of Economics*, 2010 forthcoming

Destinations of Irish Exports: A Gravity Model Approach – M Lawless – *Journal of the Statistical and Social Inquiry Society of Ireland*, Vol. 39, 2010 forthcoming

Consultation Papers published by the Financial Regulator in 2009

Revocation of Dormant Collective Investment Schemes – August

Revisions to notices issued by the Financial Regulator – July

Telephone Records and Electronic Communications under the MiFID Regulations 2007 – July

CP37 Limited Consultation on Minimum Competency Requirements for Private Medical Insurance – April

CP36 Consultation Paper on Disclosure of Grants of Security over Shares – April

All of these publications are available at *www.centralbank.ie* or *www.financialregulator.ie*

Appendix B: Supplementary Tables

Total Number of Regulated Financial Service Providers

	2008	2009
Credit Institutions (including branches of overseas Credit Institutions)	81	82
Life Insurance Companies	70	68
Non Life Insurance Companies	160	156
Reinsurance Companies	121	120
Investment Firms (MiFID)/Investment Business Firms	156	168
Retail Intermediaries		
» Multi Agency Intermediaries	2,048	2,039
» Authorised Advisers	435	441
» Insurance/Reinsurance Intermediaries	4,019	4,134
Mortgage Intermediaries Authorisations Granted/Renewed	2,073	1,969
Collective Investment Schemes (including sub funds)	5,025	4,625
Fund Service Providers	232	236
Credit Unions	419	414
Money Transmitters and Bureaux de Change	25	31
Moneylenders[7]	52	52
Stock Exchange/Market Operators	1	1
Moneybrokers	6	6
Retail Credit Firms	7	13
Home Reversion Firms	2	2
Payment Institutions	0	6
Total	**14,932**	**14,563**

7 Subject to annual renewal of licence.

Number of Authorisations Granted in 2008 and 2009

	2008	2009
Credit Institutions	3	1
Life Insurance Companies	5	2
Non Life Insurance Companies	3	1
Reinsurance Companies	8	7
Investment Business Firms	11	0
Investment Firms	0	12
Retail Intermediaries		
» Multi Agency Intermediaries	67	81
» Authorised Advisers	21	20
» Insurance/Reinsurance Intermediaries	1,990	847
Mortgage Intermediaries Authorisations Granted/Renewed	274	113
Collective Investment Schemes (including sub funds)	612	698
Fund Service Providers	14	7
Credit Unions	0	0
Money Transmitters and Bureaux de Change	2	6
Moneylenders[8]	52	52
Stock Exchange/Market Operators	0	0
Moneybrokers	1	1
Retail Credit Firms	7	6
Home Reversion Firms	2	0
Payment Institutions[9]	0	6
Total	**3,072**	**1,860**

The main reason for the drop in the number of firms authorised in 2008 compared with 2009 is accounted for by the reduced number of insurance and reinsurance intermediaries authorised. In 2008, we arranged a procedure whereby insurance undertakings applied to have their tied insurance intermediaries registered, en masse, under the European Communities (Insurance Mediation) Regulations 2005. Over the course of 2008 approximately 500 tied insurance agents were registered in a 'once-off' process. The rest of the difference is due to (a) the deterioration in the economy which led to less new applications and (b) the fact that most existing intermediaries, who would have required registration throughout previous years, were already registered by 2009.

8 Subject to annual renewal of licence.

9 The European Communities (Payment Services) Regulations 2009 introduced a regulatory regime for legal persons providing and executing payment services on 1 November 2009.

Number of On-Site Inspections and Review Meetings

	Actual 2008	Actual 2009
On-Site Presence	**Not Recorded**	**838 Person Days**
Total Inspections	**121**	**93**
Total Review Meetings	**332**	**324**
Total Year-End Reviews	**101**	**183**
Directors Loans Themed Inspections	**–**	**6**
Total	**554**	**606**
Retail Credit Institutions		
On-Site Presence	Not Recorded	838 Person Days
Inspections	15	–
Review Meetings	16	–
Directors Loans Themed Inspections	–	6
Total	**31**	**6**
Wholesale Banks		
Inspections	10	22
Review Meetings	72	74
Total	**82**	**96**
Insurance		
Inspections	17	25
Review Meetings	131	124
Total	**148**	**149**
Other Financial Service Providers		
Total Inspections	35	39
Total Review Meetings	72	65
Total	**107**	**104**
of which		
Investment/Stockbroking firms		
Inspections	16	33
Review meetings	46	39
Fund Service Providers		
Inspections	8	6
Review meetings	26	26
Retail Intermediaries		
Inspections	11	–
Review Meetings	–	–
Credit Unions		
Inspections	44	7
Meetings	41	61
Year End Reviews	101	183
Total	**186**	**251**

With respect to retail credit institutions, the mode of on-site supervision changed in early 2009, replacing most inspections and review meetings with an on-site presence.

Credit Unions approved to provide Additional Services and Longer Term Lending

Approval	2008	2009
Additional Services – Mortgages	22	21
Additional Services – Life and Pensions	7	7
Additional Services – PRSAs[10]	46	47
Longer Term Lending Approvals	28	35
Total	**103**	**110**

Tables 1 and 2 following provide a summary of work in relation to 'Market Monitoring Reports' and 'Investigations under Securities Law'.

Table 1: Market Monitoring Reports

	2008	2009
Transaction Reports received from Entities Located in Ireland	12,328,901	17,798,549
Transaction Reports sent to other Competent Authorities via TREM*	8,636,365	14,669,494
Transaction Reports received from other Competent Authorities via TREM*	6,649,884	8,025,978

* Transaction Reporting Exchange Mechanism.

Table 2: Investigations under Securities Law

	2008	2009
Enquiries initiated regarding possible contraventions	15	14
Suspicious Transaction Reports submitted to the Financial Regulator by persons professionally arranging transactions	1	1
Suspicious Transaction Reports submitted to the Financial Regulator by other EU Competent Authorities	6	0
Suspicious Transaction Reports transmitted by the Financial Regulator to EU Competent Authorities	1	0
Assistance rendered to other EU Competent Authorities	26	15
Stabilisation notifications submitted to the Financial Regulator	1	0
Securities Law Settlement Agreements (concluded)	1	0
Securities Law Formal Private Cautions Issued	0	1

10 In case of PRSA's credit unions notify the regulator of their intention to provide the service. No approval is required.

Report to the Minister for Enterprise, Trade and Innovation under Regulation 108 of the Prospectus (Directive 2003/71/EC) Regulations 2005[11]

The bulk of our daily work in this area involves the supervision of the delegation agreement with the Irish Stock Exchange for carrying out the early stages of the Prospectus Review process and the final decisions to approve Prospectus documents. See the relevant statistics in Table 3 below.

Table 3: Prospectus Approval Process

	2008	2009
Number of Documents Approved	1,611	868
Number of Documents/Notifications published	3,531	2,358
Passport Certificates prepared	262	297
Inward Passporting Notifications processed	527	586
Number of Issuers whose Securities were Suspended from Trading by the ISE at the request of the Financial Regulator	8	0

The difference between the number of documents that have been approved to date and the number of documents that have been published on our website relates to (i) Final Terms, Final Offer Price and Amount of Securities Announcements and Annual Information Reports (which do not require approval) that have been filed with us and published on our website and (ii) notifications in respect of prospectuses which have been approved by the Competent Authority of another Member State and which are then passported into Ireland and do not require the approval of the Financial Regulator.

The fall-off in volumes is directly related to the decline in the use of securitisations since the Autumn of 2007.

In January 2009, the European Commission issued a consultation on the review of the Prospectus Directive (the Directive). The aim of the review is to improve and simplify the application of the Directive. The Financial Regulator contributed to this consultation and have been working closely with the Department of Enterprise, Trade and Innovation who are representing Ireland at European-level meetings in relation to the review.

CESR is currently in the process of reviewing the practical application of the Directive and we are actively participating in this process. This process may lead to the development of benchmarks and the setting of good practices for industry.

A Guidance Note on Final Terms was published which clarified a number of practical matters for issuers relating to the filing of Final Terms.

11 This section of the Annual Report concerning prospectus review is provided to the Minister for Enterprise, Trade and Innovation and is published in fulfilment of our reporting obligations under Regulation 108 of the Prospectus (Directive 2003/71/EC) Regulations 2005.

Report to the Minister for Enterprise, Trade and Innovation under Regulation 77(1) of the Transparency Directive (2004/109/EC) Regulations 2007[12]

The bulk of the day-to-day work in this area involves the supervision of the delegation agreement with the Irish Stock Exchange for monitoring the disclosure of periodic and ongoing information by issuers and the disclosure of major shareholdings and voting rights. See the relevant statistics in Table 4 below.

Table 4: Company Information Disclosures*

	2008	2009
Annual Financial Reports published	62	186
Half-yearly Financial Reports published	87	171
Interim management statements published	153	139
Major shareholding submitted	688	373
Number of Issuers whose securities were suspended from trading on the ISE by the Financial Regulator	25	42

* We are the designated central competent authority for the purposes of the Regulations, except for the purposes of Article 24(4)(h) of the Transparency Directive in respect of which the Irish Auditing and Accounting Standards Authority (IAASA) has been appointed the relevant competent authority.

A Guidance Note on the periodic financial reporting obligations pursuant to the Transparency Directive was published. This Guidance Note clarified a number of practical matters for issuers who are subject to periodic financial reporting obligations.

12 This section of the Annual Report concerning transparency review is provided to the Minister for Enterprise, Trade and Innovation and is published in fulfilment of our reporting obligations under Regulation 77(1) of the Transparency (Directive 2004/ 109/EC) Regulations 2007.

Themed Consumer Focused Inspections in 2009

	2008 Activity	2009 Activity
Number of Themes	8	13
Number of Inspections	290	176
Number of Non-Inspection Meetings	72	88

Details of 2009 Activity on Consumer Focused Inspections

Themes (On-site and Off-site)	Entity Type	Number inspected/ examined
Telephone Records	MiFID Firms	3
Suitability of Investments Products to Older Consumers	Credit Institutions	9
Suitability of Investments Products to Older Customers	MiFID Firms	9
Suitability of Insurance Products to Older Customers	Life Insurance	6
Minimum Competency	Credit Institutions	6
Early Redemption Fees on Fixed Rate Mortgages	Credit Institutions	6
On-Site Presence of Insurance Undertaking Staff	Intermediaries	18
Suitability – Mortgage brokers with referrals to Sub-Prime Brokers	Mortgage Intermediaries	20
Client Premium Accounts	Intermediaries	20
Payment Protection Insurance Claims	Non-Life Insurance	6
Home Insurance Claims	Non-Life Insurance	8
Motor Insurance Renewals	Non-Life Insurance	8
Arrears and Repossessions	Various	5
Total Themes: 13		
Total Entities included in themes		**124**
Other Inspections (On-Site)	Various	52
Total Inspections		**176**
Off-site Non-Inspection meetings	Various	55
On-site Non-Inspection meetings	Various	33
Overall Total		**264**

Consumer: Advertising Issues Investigated

Source	Number of Issues	
	2008	2009
Financial Regulator Monitoring	103	182
Complaints	74	41
Total	**177**	**223**

Consumer: Outcome of Advertising Issues Investigated[13]

Advertisement Amended	Advert Withdrawn	No Action Required
179	12	21

13 The total number of advertising issues investigated and the total for outcome of advertising issues investigated differ because in some instances more than one complaint about the same issue was received and in other cases issues were identified through internal monitoring as well as through external complaints.

Appendix C: Measures of Competition

As in previous years, we have calculated five-firm concentration ratios and Herfindahl-Hirschman indices to measure industry concentration (and by inference, the degree of market power exercised by the largest firms in key segments of the insurance and banking industries)[14].

The significance of both concentration ratios and HH indices is that a low ratio or index may be indicative of many market participants and therefore limited opportunity to exercise market power. Conversely, high ratios and indices may be indicative of a concentrated market in which price rises may be easier to sustain.

The five-firm concentration ratio measures the percentage of total market share held by the five largest firms. Concentration ratios can fall into low, medium and high concentration.

» **Low Concentration:** A concentration ratio of 0 to 50 per cent is commonly interpreted as a competitive industry with many market participants, resulting in limited opportunities to exercise market power.

» **Medium Concentration:** A concentration ratio of 50 to 80 per cent is considered an industry with medium concentration displaying modest levels of competition.

» **High Concentration:** An industry with a concentration ratio of 80 to 100 per cent is commonly viewed as a highly concentrated, uncompetitive market in which price rises may be easier to sustain.

Herfindahl-Hirschman (HH) indices are calculated by squaring the market share of each participant in a market and then summing the results. The higher the HH number, the more concentrated is market power. Increases in the index occur as the number of competitors in a market decreases and/or the disparity in size between firms increases. Markets in which the HH is between 1000 and 1800 points are considered to be moderately concentrated and those in which the HH is in excess of 1800 points are considered to be highly concentrated.

Insurance Ratios and Indices

	Five-Firm Concentration Ratio		Herfindahl-Hirschmann Indices	
Market Segment	**2007**	**2008**	**2007**	**2008**
Motor Insurance	82	81	1,563	1,488
Property Insurance	82	81	1,582	1,562
Liability Insurance	71	66	1,236	1,133
Life Insurance	82	83	2,143	2,168

Source: Calculations based on figures quoted in the Insurance Statistical Reviews 2007-2008. As at the date of publication, data for 2009 are not available.

The motor and property market segments have displayed parallel trends in recent years with increases in both ratios during 2006 and 2007 and decreases during 2008. The lower indicators in 2008 could indicate decreases in the market share of dominant firms.

14 It is important to recognise that the measures we have used may understate the true level of concentration within sub-sections of the market.

In the liability market segment, both the five-firm concentration ratio and the HH index have fallen during 2008 (by almost 5 per cent and over 100 points respectively), which may indicate a possible reduction in concentration of market power and market share of dominant firms. This market segment remains moderately concentrated.

The life insurance market segment has almost consistently displayed increasing ratios each year, which may indicate an increasingly concentrated and less competitive market segment.

Banking Ratios and Indices

Five-Firm Concentration Ratios in Key Segments in the Banking Industry

	Five-Firm Concentration Ratio		Herfindahl-Hirschmann Indices	
Market Segment	**2008**	**2009**	**2008**	**2009**
Credit Cards	89	89	2,144	2,154
Term/Revolving Loans	87	88	1,907	2,027
Residential Mortgages[15]	68	70	1,200	1,223
Current Accounts	90	94	2,508	2,516

In overall terms in the banking industry, 2009 was the first year that both the five-firm concentration ratio and HH index increased across all key market segments, which indicate increased levels of concentration and market power of dominant firms within the industry.

The residential mortgage market segment has displayed slight increases in its concentration from previous years. This market segment maintains moderate concentration.

The current account and term/revolving loan market segments saw increases in both the five-firm concentration ratio and HH index, with the HH index in the term/revolving loan segment increasing by over 120 points during 2009. Both market segments remain highly concentrated.

The credit card market segment continues to be highly concentrated.

15 Residential Mortgages adjusted for securitisations.

Chapter 2:
Governance

This Chapter sets out the procedures and processes applicable to the governance of the CBFSAI in 2009, while also reflecting the changes that have been made up to the present time to ensure the optimal functioning of the organisation, following the announcement by the Minister for Finance of the provisions of the impending Central Bank Reform Bill.

Statutory Background

The CBFSAI was established under the *Central Bank and Financial Services Authority of Ireland Act,* 2003, (the Act) which also established the Irish Financial Services Regulatory Authority (Authority) as a constituent part of the organisation with statutory responsibilities for financial sector regulation and consumer protection.

Structures for the Central Bank Board and the Irish Financial Services Regulatory Authority

Responsibility for the management of the Bank is vested in the Board, which comprises the Governor, the Director General of the Central Bank, the Secretary General of the Department of Finance, the Chairperson of the Financial Regulator, the Chief Executive of the Financial Regulator and seven non-executive Directors appointed by the Minister for Finance.

The Authority comprises the Chairman of the Financial Regulator, the Chief Executive of the Financial Regulator, the Consumer Director and seven non-executive directors appointed by the Minister for Finance in consultation with the Minister for Enterprise, Trade and Innovation.

Ex-officio Directors are members of the Board and the Authority for as long as they hold the office by virtue of which they are appointed to either body.

Non-executive Directors of the Board of the Bank are appointed by the Minister for renewable fixed terms of five years. Non-executive members of the Authority are appointed by the Minister and hold office for an indefinite period, subject to a maximum of 15 years. Two of the appointed members must retire on, or before, the fifth anniversary of the establishment of the Authority, and on, or before, every subsequent anniversary. Four of the non-executive Directors of the Bank are appointed by virtue of their membership of the Authority. The sole shareholder of the Bank is the Minister for Finance.

Proposed New Structure

During 2009, the Government signalled its intention to restructure the Central Bank reverting to a single entity governed by a 'Commission', which would be chaired by the Governor. Under the impending legislation, the Director General of the Central Bank, the Head of Financial Regulation and the Secretary General of the Department of Finance will be appointed ex-officio members of the Commission along with a minimum of six and not more than eight non executive members appointed by the Minister.

Governor

The Governor is appointed by the President, on the advice of the Government, for a term of seven years. Professor Patrick Honohan was appointed Governor on 26 September 2009, following the retirement of Mr. John Hurley. The Governor is the Chairman of the Board and is also an ex-officio member of the Governing Council of the European Central Bank (ECB). He has sole responsibility for the performance of the functions imposed, and the exercise of powers conferred, on the Bank by or under the EU Treaties or the ESCB Statute.

Members of the Board and Authority

The Members of the Board and Authority as at 30 April 2010 were:

Board

Name	Occupation	Date First Appointed	Date Last Appointed
Patrick Honohan*	Governor	26.09.09	
Jim Farrell**	Chairman, Financial Regulator	01.05.08	01.05.08*
Tony Grimes**	Director General, CBFSAI	17.08.07	
Matthew Elderfield**	Chief Executive, Financial Regulator	04.01.10	
Kevin Cardiff*	Secretary General, Department of Finance	01.02.10	
David Begg*	General Secretary, Irish Congress of Trade Unions	12.05.95	01.05.08
Gerard Danaher**	Senior Counsel	15.10.98	01.05.08
John Dunne**	Former Chairman, IDA	01.05.03	01.05.09
Alan Gray**	Managing Partner, Indecon Intl. Economic Consultants	21.12.06	
Brian Hillery*	Chairman, Independent News and Media	01.05.08	
Dermot O'Brien*	Economist	01.05.08	
Deirdre Purcell**	Author	01.05.03	01.05.08
Alan Ashe***	Former Managing Director, Standard Life Assurance Co.	01.05.03	
Dermot Quigley***	Former Chairman of the Revenue Commissioners	01.05.03	01.05.09

* Appointed Chairman in May 2008.

The following changes in membership of the Board and Authority occurred during 2009:

» John Hurley retired as Governor on 25 September 2009;

» Patrick Neary retired as Chief Executive of the Financial Regulator on 31 January 2009;

» Mary O'Dea was appointed Acting Chief Executive of the Financial Regulator with effect from 12 January and held this post until the appointment of Matthew Elderfield on 4 January 2010. She continued to fulfil the position of Consumer Director during this period;

» David Doyle retired as Secretary General of the Department of Finance on 31 January 2010; and

» The Secretary of the Bank until February 2010 was Brian Halpin.

* Members of CBFSAI Board only.
** Members of both the Board and the Regulatory Authority.
*** Members of Regulatory Authority only.

Corporate Governance Compliance

Board Procedures

Meetings of the Board are scheduled each month except August. A quorum of seven normally applies for all meetings. The Governor approves the agenda and papers, which are circulated to the Directors one week in advance of meetings. Additional Board meetings may be called by the Governor at short notice either on his own initiative or at the request of any two Directors. In 2009 the Board met on 13 occasions. The Secretary of the Bank keeps minutes of all Board meetings.

Authority Procedures

Meetings of the Authority are scheduled each month except August. In 2009 the Authority held 17 meetings. The quorum is a majority of the members. The Chairman decides the Agenda for meetings after consultation with the Chief Executive and the Secretary. The Secretary maintains minutes of Authority meetings. In February 2008, the Authority agreed Rules for the Retirement of Authority Members by Rotation. Each member of the Authority is provided with a handbook to assist them in carrying out their functions. This handbook was revised in 2008.

In light of the announced policy of the Government to restructure the CBFSAI, the Governor and Chairman put arrangements in place which operated during 2009 to ensure maximum coordination of the meetings and deliberations of the Board and the Authority, while ensuring that all statutory responsibilities were carried out in accordance with current legislation.

During 2009, when meeting in joint composition, the principal focus was on financial stability matters. The other items on the agenda for meetings of the Board typically include:

» Governor's Report;

» Reports on monetary and financial developments;

» Reports on various issues relating to the Irish economy, the European economy and the international economy;

» Management of the investment assets of the Bank;

» Substantial financial contracts to be placed by the Bank for the procurement of goods and services;

» General management, planning and budgetary issues;

» Quarterly and annual financial statements and results.

Items on the agenda of the Authority typically include:

» Regulatory issues relating to financial services providers;

» Regulatory policy issues, both domestic and international;

» Authorisation of new entities.

Powers Delegated to Governor

The Governor, the Director General and the Chief Executive of the Financial Regulator are executive members of the Board. As provided for in the *Central Bank Act*, 1942, it is the Board's practice generally to delegate powers to the Governor for the exercise and performance of all functions, powers and duties of the Bank with the exception of those powers which it would either not be possible or appropriate to delegate. These include provisions relating to the Governor's position or that are specified to be Board responsibilities or which require the formulation of an opinion by the Board.

Board and Authority Sub-Committees

The Board established three sub-committees on 30 June 1994 as follows:

» The Audit Committee;

» The Remuneration and Budget Committee; and

» The Investments Committee.

The Authority also established two sub-committees in May 2003:

» Audit and Risk Management Committee; and

» Budget and Remuneration Committee

During 2009, the sub-Committees of the Authority merged their deliberations with those of the parallel CBFSAI Board committees.

Membership in each case is comprised of Directors and members of the Authority – of whom one is appointed as Chairman. The Secretary of the Bank, or a nominee, minutes all meetings of the sub-committees and, when approved, these minutes are circulated to the Board and Authority.

Members of the combined sub-committees, as at 30 April 2010, were:

Audit Committee/Audit and Risk Management Committee

David Begg (Chair), Alan Gray, Deirdre Purcell, Gerard Danaher, Alan Ashe.

Remuneration and Budget Committee[16]

John Dunne (Chair), Brian Hillery, Dermot O'Brien, Dermot Quigley, Alan Ashe, Deirdre Purcell, Tony Grimes, Matthew Elderfield.

Investments Committee

Gerard Danaher (Chair), Tony Grimes, Jim Farrell.

Board and Authority decisions detail the terms of reference and the duties of each sub-committee as follows:

» The key responsibilities of the Audit Committee are to monitor the integrity of the Bank's Financial Statements; to review the internal control and risk management system; to monitor the effectiveness of the internal audit function and to liaise with the Comptroller and Auditor General and the external Auditor;

» The role of the Remuneration and Budget Committee is to review the remuneration of the Governor and senior executives of the CBFSAI; and to review the organisation's budget proposals and outturn; and

» The role of the Investments Committee is to review the Bank's investment policies and practices.

The sub-committees meet at least twice a year[17] and minutes of these meetings are circulated to all members of the Board and Authority. These committee structures have been designed to ensure that Directors' obligations in relation to financial controls are managed within a consistent and complete framework.

Internal Governance Structures

A revised internal senior management committee structure has been established to complement the proposed new organisation structure for the Bank. The Governor chairs two high level committees – the Governor's Committee which deals with Board preparations and significant internal policy and procedural issues; and the Financial Stability Committee, which monitors the stability of the financial sector in Ireland.

The Senior Management Committee[18] is the top level forum for coordinating the development and implementation of management policies and decisions of the Bank. These include planning, budgeting, and resource allocation, information technology, physical infrastructure and corporate services. The new structure also comprises a Central Bank Operations Committee[19] and a Supervisory/Risk Committee[20] which monitor and report on the major projects and day to day operations of the main business functions for which the Director General and the Head of Financial Regulation have responsibility.

16 The Director General and the Chief Executive are members of this Committee when meeting on budgetary matters only.

17 During 2009, the Audit Committee and the Remuneration and Budget Committee each met on four occasions while the Investments Committee met on two occasions.

18 Chaired by the Director General and attended by the Head of Financial Regulation and all Assistant Directors General. Meetings are held monthly or as required.

19 Chaired by the Director General and attended by all Central Bank Assistant Directors General and Heads of Function as required. Meetings are held twice monthly.

20 Chaired by the Head of Financial Regulation and attended by all Regulatory ADGs and Heads of Function as required. Meetings are held weekly.

Other committees in the Bank oversee and monitor particular cross functional activities and report to the Board or its sub-committees as appropriate. These include the Operational Risk Committee, the Business Continuity Planning Committee, the Security Committee, the Communications Committee and the Publications Committee. Additional Committees are currently being put in place as the new organisation structure is being further developed.

Accountability

As required by Section 61 of the *Central Bank Act, 1942*, the Bank prepares a report of its activities during the year and presents this report to the Minister for Finance within six months after the end of each financial year. Copies of this report are laid before each House of the Oireachtas. Section 6H of the *Central Bank Act, 1942* requires the Bank to prepare and transmit to the Comptroller and Auditor General a Statement of Accounts for the year concerned. The Comptroller and Auditor General audits, certifies and reports on the Statement of Accounts and remits both his/her report and the Statement of Accounts to the Minister. Copies of both of these documents are also laid before each House of the Oireachtas. The Bank's accounts are also audited by independent external auditors as required by Article 27 of the ESCB/ECB Statute.

Within the terms of the *Central Bank Act, 1998*, the Governor meets with the Minister to keep him informed regarding the Bank's performance of its statutory duties. This Act empowers the Minister to request the Governor or the Board to consult with him, in relation to their respective functions, and also to request the Governor to consult the Minister with respect to the Bank's price stability objective, a responsibility derived from the Bank's membership of the European System of Central Banks. The Governor and the Board are required to comply with this, insofar as the request is consistent with the Rome Treaty, the ESCB Statute or any law of the State.

Subject to the requirements of the Maastricht Treaty and the confidentiality provisions imposed by law, the Governor appears before Joint Committees of the Oireachtas on request. This practice was put on a statutory basis in the *Central Bank Acts*, 1997 and 1998.

Internal Audit

The Internal Audit function is an independent and objective appraisal function, which is required to provide audit assurance that the system of risk management and internal control is adequate to manage and control those risks to which the Bank is exposed. It also assists the Bank in its pursuit of efficiency and effectiveness.

The Head of Internal Audit reports directly to the Governor and the Chairman of the Authority and has unrestricted access to the Audit Committee and members of the Senior Management Committee. The Internal Audit function submits four-monthly written reports to the Governor, the Chairman, the Audit Committee and the Senior Management Committee giving an assessment of how effectively the Bank's objectives are being met. The Internal Audit function also reports to the Internal Audit Committee of the ECB on the outcome of ESCB audits and other audit issues.

Code of Practice for Directors and Staff

Directors and staff are expected to comply with the following rules:

» The Governor is prohibited by law from holding shares in, or being a Director of, any bank or other credit institution, financial institution or insurance undertaking;

» There is a Code of Conduct for Board Members which sets out the standards of conduct and integrity expected of each member in the performance of his or her functions as a member of the Board of the Bank;

» There is a Code of Practice for disclosure of interest by members of the Board (last updated 2002);

- The Ethics in Public Office Regulations, 1997, have prescribed membership of the Board of the Bank as a designated directorship for purposes of the *Ethics in Public Office Act*, 1995 and the *Standards in Public Office Act*, 2001. In accordance with this, members of the Board submit annual statements of interests to the Public Offices Commission and to the Secretary of the Bank. The Ethics in Public Office Regulations also prescribe executive positions in the Bank at or above the Professional 1 level as designated positions; and
- All members of the Board and staff of the Bank are subject to the provisions of the *Prevention of Corruption Acts*, 1906 and 1916. The Bank has a written code of conduct for staff which is regularly reviewed and updated in line with best practice.

Central Bank involvement in Governance at the European Central Bank (ECB)

The Governor attends meetings of both the Governing and General Councils of the ECB. The Eurosystem consists of the European Central Bank and the national central banks of the euro-area Member States. The European System of Central Banks consists of the ECB and the national central banks of all EU Member States.

Governing and General Councils

The Governing Council comprises the six members of the Executive Board of the ECB and the Governors of the national central banks of the euro area countries. It is the primary decision-making body of the ECB. Its responsibilities are to adopt the guidelines and take the decisions necessary to ensure the performance of the tasks entrusted to the Eurosystem and to formulate monetary policy for the euro area.

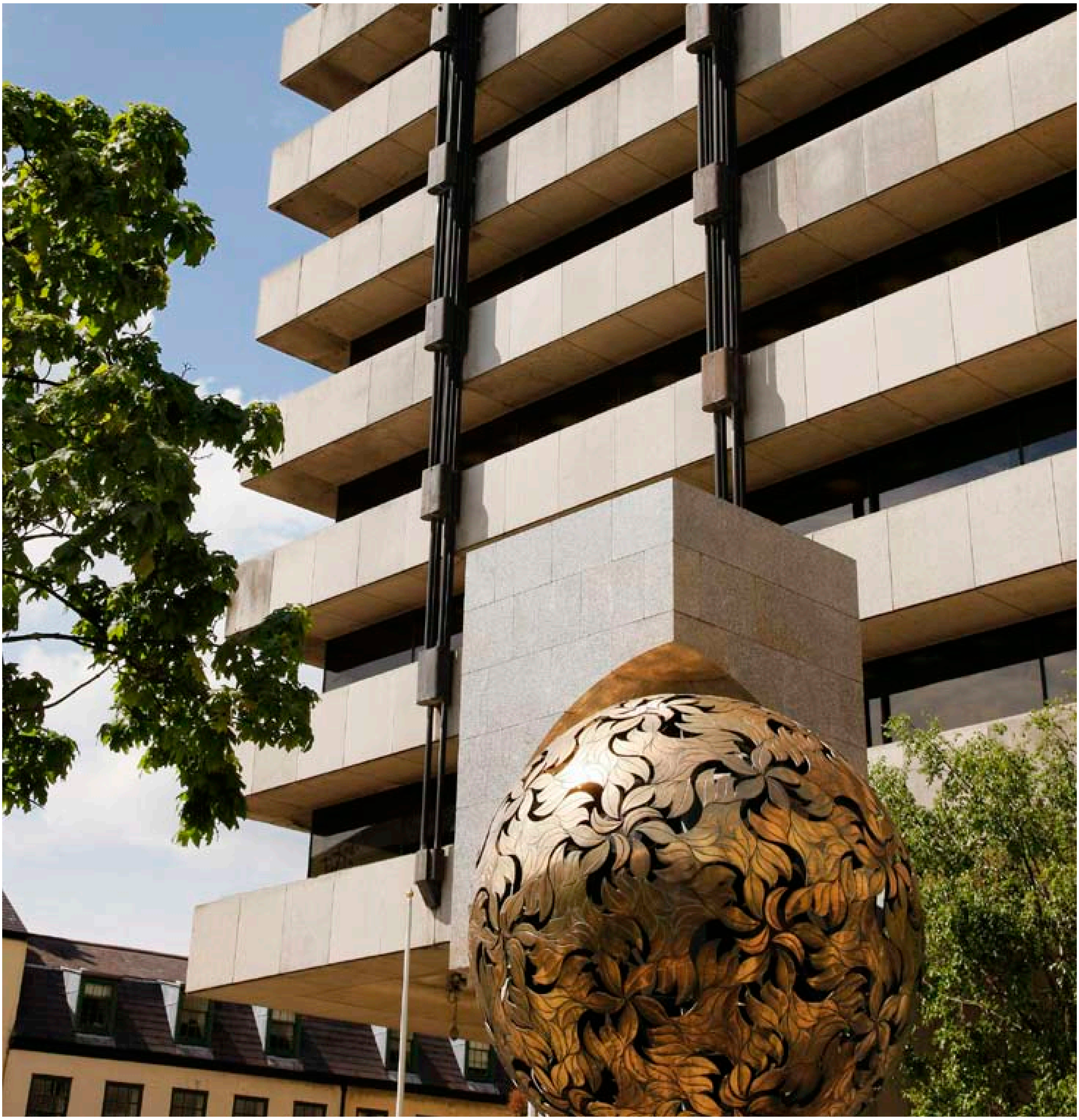
The General Council comprises the President and the Vice-President of the ECB and the Governors of the national central banks of all EU Member States. Its work includes contributing to the advisory and coordinating functions of the ECB and tasks relating to the national central banks of non-euro area Member States.

In order to enhance corporate governance, the Governing Council created an ECB Audit Committee in 2007. This committee was chaired by Governor Hurley until his retirement in September 2009.

Central Bank Involvement in Governance at the International Monetary Fund

The *Board of Governors* is the highest decision-making body of the IMF, consisting of one Governor and one Alternate Governor for each member country. In Ireland's case, the Minister for Finance is a Governor and the Governor of the CBFSAI is an Alternate Governor of the IMF. The Board of Governors entrusts the day-to-day management and operation of the IMF to the Executive Board and the senior management of the IMF. Ireland has an alternate Executive Director who is appointed for a three-year term of office on a rotating basis between the Bank and the Department of Finance.

Part 2
Financial Operations



Accounting Policies

It is the Bank's policy in preparing its financial statements to follow, as far as possible, generally accepted accounting principles (GAAP). However, because of the unique nature of some of its operations as a central bank, and as a member of the Eurosystem, certain deviations from GAAP are necessary. All such deviations from GAAP are clearly identified in the statement of the Bank's Accounting Policies, which is provided as part of the Statement of Accounts.

Auditing and Reporting Standards

Under the *Central Bank and Financial Services Authority of Ireland Act, 2003*, the Bank is required to prepare and submit its Statement of Accounts to the Comptroller and Auditor General within six months of every year-end. The Comptroller and Auditor General must in turn audit and report on the Statement of Accounts to the Minister for Finance who is required to lay them before both houses of the Oireachtas.

Under Article 27 of the Statute of the European System of Central Banks (ESCB), the Accounts of the Bank must be audited by an independent external auditor recommended by the Governing Council of the European Central Bank (ECB) and approved by the European Council. Deloitte & Touche were appointed as the independent external auditor of the Bank for 2009.

As a member of the Eurosystem, the Bank complied with regular extensive reporting requirements to the ECB, comprising both statistical and financial data during 2009.

Sharing of Monetary Income

The income the Bank earns from the assets backing banknotes in circulation and from net monetary operations on behalf of the Eurosystem forms part of the total income of the Eurosystem. Under Article 32 of the Statute of the ESCB, this income, described as 'monetary income', is to be pooled by all the National Central Banks (NCBs) and then redistributed according to each NCB's share in the capital of the ECB (the 'capital key'), which is based on national population and Gross Domestic Product. The Bank's capital key share of the net monetary income of the Eurosystem for 2009 was €180.8 million.

Financial Results for 2009

Profit for the year to 31 December 2009 amounted to €933.8 million compared with a corresponding amount of €364.2 million in 2008.

Amid a low interest rate environment, both the interest income and interest expense of the Bank decreased significantly in 2009. Interest income decreased by €477.7 million to €2.2 billion while interest expense decreased by €831.8 million to €1.3 billion. As a result, in 2009 the net interest income of the Bank increased by €354.1 million to €969.5 million.

The decrease in interest income was primarily attributable to a lower amount of interest earned on monetary policy operations by the Bank as part of the Eurosystem[1]. This reduction occurred despite the higher average level of liquidity support by the Bank to credit institutions to address the continued elevated funding pressures in financial markets. There was also a decrease in income earned on the Bank's investment portfolio as interest rates and bond yields declined during 2009[2]. The decrease in interest earned on monetary policy operations and the investment portfolio was partially offset by the interest earned on special liquidity facilities advanced outside of the Eurosystem's monetary policy operations.

Interest paid on Government Deposits, Credit Institution Deposits and on the Bank's euro banknote issue over and above its capital key share of total Eurosystem circulation decreased by €375.1 million, €370.0 million and €359.8 million respectively. Notwithstanding the low level of official ECB rates charged on advances to credit institutions during 2009, there was a continued favourable differential over market overnight rates due to the excess liquidity supplied by the Eurosystem. Accordingly,

1 The key ECB minimum bid rate fell from an average of 4.04 per cent in 2008 to 1.28 per cent in 2009.

2 For example, two-year German bond yields fell by 43 basis points in 2009.

market related rates paid on Government demand deposits maintained with the Bank were lower than the rates charged on monetary lending. These decreases were partially offset by an increase in the interest paid on higher Intra-Eurosystem Balances of €273.1 million to €749.3 million.

The net result of financial operations and write-downs was a gain of €101.3 million in 2009 compared to a gain of €84.5 million for the previous year. The 2009 figure incorporates realised capital gains of €103.5 million which resulted from the decision to shorten the average duration of the Bank's investment portfolio.

The result of the net pooling of Eurosystem monetary income gave rise to a charge of €88.4 million in 2009, compared to €242.9 million in 2008. This charge mainly comprises two elements:

(i) The net result of pooling of monetary income of €110.7 million (2008: €169.6 million) which denotes the proportionately large share of total system longer term monetary policy operations and overnight deposits conducted with the Bank relative to our Eurosystem capital key[3].

(ii) A reduction in the Bank's share of the provision against counterparty risks in monetary policy operations of the Eurosystem, amounting to €22.0 million[4]. In 2008, when the provision was established, there was a charge to the Profit and Loss and Appropriation account of €73.1 million being the Bank's share of the total provision for the Eurosystem at that time.

The Bank's share of ECB distributable profits was €35.9 million (2008: €16.9 million) in 2009. Other income increased by €26.3 million in 2009 largely due to the actuarial return on pension fund assets (€10.1 million)[5], the transfer to income of monetary penalties imposed by the Financial Regulator (€7.4 million) and also an increase in income from levies imposed by the Financial Regulator on financial services providers (€6.1 million).

Total operating costs, which are charged against profit, amounted to €119.7 million (2008: €119.9 million) and comprise pay, non-pay, banknote raw materials and depreciation. Staff costs, including pay, decreased by €1.7 million (2.1 per cent), while other operating expenses and banknote raw materials both decreased by €0.1 million. Depreciation costs increased by €1.2 million in 2009 due mainly to the occupation of new premises at both 9 College Green and Spencer Dock. A detailed analysis of the Bank's operating costs is given in Note 8 to the Statement of Accounts.

After transfers to reserves and adjustments related to the recognition of a net actuarial gain on the Bank's pension scheme, as required under Financial Reporting Standard 17, the Bank's Surplus Income amounted to €745.5 million (2008: €290.1 million), which is payable to the Exchequer.

Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2009 were €124.9 billion, which is €8.8 billion greater than the corresponding figure of €116.1 billion for 31 December 2008. In the first six months of the year, there was a marked expansion in the size of the balance sheet to €166.8 billion (+43.6 per cent), followed by a sharp decline in quarter three to €119.6 billion (-28.3 per cent) and a slight increase in quarter four to €124.9 billion (+4.4 per cent). This movement was mainly driven by the fluctuating demand from credit institutions for monetary policy advances during 2009.

There was a decrease of €4.9 billion in claims on euro area residents in foreign currency, representing a decline in the provision of short term US dollar liquidity-providing operations. As at 31 December 2009 lending to credit institutions through the Main Refinancing Operations (MRO) had decreased by €36.0 billion compared to end-2008, while

3 The total net monetary income pooled by the Bank was €291.4 million while the amount redistributed, which is equivalent to the Bank's capital key share of total Eurosystem net monetary income, was €180.8 million.

4 In 2009 the ECB Governing Council reviewed the appropriateness of the provision and decided to reduce the aggregate amount from €5.7 billion at 31 December 2008 to €4.0 billion at 31 December 2009.

5 This is incorporated into the Bank's Profit and Loss and Appropriation account in 2009 as a result of the establishment of the Bank's funded pension scheme on 1 October 2008. Such treatment is in line with standard accounting practice.

there was a corresponding increase in lending through the Longer Term Refinancing Operations (LTRO) of €35.5 billion. This reflects a change in profile of monetary policy lending in 2009 as the Bank's counterparties availed of the opportunity to borrow through LTROs at a fixed remuneration rate (the prevailing one week MRO rate). Other assets expanded by €12.0 billion, primarily reflecting the provision of special liquidity facilities advanced outside of the Eurosystem's monetary policy operations.

At end year, the Bank's proportional share of total euro banknotes in circulation amounted to €11.8 billion, which represented an increase of almost €2.9 billion on the previous year. This reflects a significant increase in the Bank's Eurosystem capital key (Accounting Policy (k)(iii)), which was revised at the start of 2009, the review being based on relevant member states' GDP for the period 2001 to 2005 and total population for 2006. Liabilities to euro area credit institutions (commercial banks) decreased by €4.5 billion while liabilities to other euro area residents denominated in euro, essentially Government deposits, increased slightly by €0.4 billion to €26.3 billion. Intra-Eurosystem net liabilities, which amounted to €67.2 billion as at 31 December 2009, were €8.5 billion higher than at end-2008. This includes an increase of €9.2 billion in the Bank's liability to other member central banks of the Eurosystem in respect of cross-border transfers via the TARGET2[6] payment system.

Redemption of Irish Banknotes

Irish banknotes ceased to be legal tender with effect from 9 February 2002. As at 31 December 2002, notes to the value of €299.7 million were outstanding, at which point the proceeds were transferred to the Exchequer less a provision of €60 million to meet obligations in respect of unredeemed Irish notes. During 2009, an amount of €3.2 million was redeemed (2008: €3.3 million) leaving €240.6 million in Irish banknotes still outstanding and a balance on the provision account of €0.9 million at end-December 2009.

Proceeds of Coin

During 2009, the net value of euro coin redeemed was €23.0 million (2008: net issue of €43.9 million) reflecting a substantial fall in demand from the public. To offset this and coin production expenses incurred, a transfer of €30 million was received from the Exchequer[7]. The Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2009, Irish coin redeemed totalled €0.5 million (2008: €0.5 million). Full details are incorporated in Note 32 of the Statement of Accounts.

Prompt Payment of Accounts 2009

The Bank is obliged to comply with the provisions of the European Communities (Late Payment in Commercial Transactions) Regulations, 2002, 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 regulations do not apply where the interest penalty is less than €5. The rate of interest applicable to late payments is the ECB main refinancing rate plus 7 percentage points, with the relevant rate at 1 January and 1 July each year applying for the six-month period after these dates. In 2009, interest was payable at a rate of between 8 and 9.5 per cent per annum.

The following is a summary of interest payments made to suppliers during 2009 in accordance with the provisions of the Regulations referred to above.

Total number of late payments	78
Total value of all late payments (A)	€684,146
Total value of all payments (B)	€52,822,146
A as % of B	1.30%
Total amount of interest paid on late payments	€3,760

6 Trans-European Automated Real-time Gross settlement Express Transfer system.
7 In 2008 there was a net transfer of €30 million to the Exchequer.

Statement of Accounts

for year ended 31 December 2009

Statement of Directors' Responsibilities

The main statutory provisions relating to the role and duties of the Directors are covered in Sections 5, 5A and 6 of the *Central Bank Act,* 1942, (as inserted by Sections 4, 5 and 6 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003) and Section 22A of the *Central Bank Act*, 1942 (as inserted by Section 18 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003). Moreover, under Section 6 of the *Central Bank Act*, 1942 (as inserted by Section 7 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003), the Bank is responsible for the maintenance of proper accounting records. This responsibility also extends to the preparation and presentation to the Comptroller and Auditor General of a Statement of Accounts within six months of the end of each financial year and the appointment of external auditors as required by Article 27 of the Statute of the European System of Central Banks and of the European Central Bank.

The Board has overall responsibility for the system of internal financial control in the Bank, which is designed to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities. To discharge this responsibility, the Board has established an appropriate organisational structure. In this regard, the Audit Committee of the Board meets periodically with the Internal and External Auditors and members of the Management of the Bank to discuss control issues, financial reporting and related matters. The Internal and External Auditors have full access to the Audit Committee.

The Board is satisfied that generally accepted accounting principles and standards, adapted to suit the nature of central banking activity and both domestic and European System of Central Banks' statutory provisions which apply to the Bank, have been consistently applied and are supported by reasonable and prudent judgements and estimates.

Patrick Honohan, Governor

David Begg, Director

25 June 2010

Statement on Internal Financial Control

On behalf of the Board, I acknowledge the Board's responsibility for ensuring that the Bank maintains an effective system of internal financial control and reviews its effectiveness on an ongoing basis. The Board has formally adopted a code of conduct, which requires each Director to ensure that the Bank has in place an effective system of internal controls including financial controls, operational controls, risk management and fraud prevention.

The systems of control in place provide reasonable but not absolute assurance of the safeguarding of assets against unauthorised use or disposition, the maintenance of proper financial records and the reliability of the financial information provided and published. In essence, these systems are designed to manage rather than eliminate inherent financial risks.

The systems of control include:

- A clearly defined organisation structure with specified authorisation limits and reporting requirements to senior management and the Board;
- Appropriate terms of reference for the Board and management committees with responsibility for core policy areas;
- A comprehensive financial and budgeting management information system which incorporates:
  - Approval of the annual plan and detailed expenditure budgets by the Board
  - Quarterly reporting to the Board on financial and budgetary performance
  - Regular reporting to the Board on capital expenditure;
- Detailed policies and procedures relating to financial controls.

Operational risk is managed through the implementation of an organisation-wide framework which provides a common methodological foundation for delivering, maintaining and governing operational risk management and related internal controls for all processes carried out within the organisation. An Operational Risk Committee, chaired by a member of senior management, has responsibility for the oversight of the management of operational risk. A full review of operational risk is furnished by the Board Audit Committee to the Board on an annual basis.

Details of the risk controls deployed in respect of the management of the Bank's investment portfolio are outlined in the Key Activities and Developments Chapter under Asset Management and in Note 35 to the Statement of Accounts.

The Internal Audit Department independently and systematically reviews the controls in place and reports to the Board Audit Committee on a regular basis. The Audit Committee approves the Internal Audit Plan and work programme. In addition, the Audit Committee meets with and receives reports from both external auditors, the Comptroller and Auditor General and Deloitte & Touche. The Chairman of the Audit Committee reports to the Board on all significant issues considered by the Committee and the minutes of meetings of the Audit Committee are circulated to the Board for consideration at subsequent meetings of the Board.

I can confirm that the Board reviewed the effectiveness of the system of internal financial control during the year ended 31 December 2009.

Patrick Honohan, Governor

25 June 2010

Accounting Policies

(a) Form of Presentation of Accounts

Throughout the Statement of Accounts the term ‘Bank’, where used, refers to the Central Bank and Financial Services Authority of Ireland (CBFSAI).

In preparing the accounts, the Bank, as a participating member of the ESCB[1], has a policy of following the accounting policies which the Governing Council of the ECB considers to be appropriate to the nature of central banking activity and the statutory provisions[2] which apply to the Bank.

The accounting unit is the euro.

Having regard to the role and activities of a central bank, the Bank is of the opinion that a cash flow statement would not provide any additional or useful information to users of the accounts. Therefore, such a statement is not included as part of these accounts.

The accounts have been prepared pursuant to Section 6H of the *Central Bank Act*, 1942 (as inserted by Section 7 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003).

(b) Income Recognition

The accruals concept in accounting for income has been adopted.

(c) Fixed Assets

(i) Measurement

Fixed assets are stated at cost and are not revalued.

(ii) Depreciation

All fixed assets are depreciated on a straight-line basis over their anticipated useful lives as follows:

Freehold Premises (excluding site costs)	–	50 years
Plant and Machinery	–	5 to 15 years
Other	–	5 years

(d) Superannuation

Under the Bank’s superannuation scheme, permanent Bank staff obtain the same superannuation benefits as established civil servants. Up to 30 September 2008, the Bank paid these benefits out of current income as they fell due. On 1 October 2008, a funded pension scheme was established under the *Central Bank and Financial Services Authority of Ireland Act,* 2003. An amount of €400 million, on the advice of the CBFSAI’s actuaries Willis, was transferred from the Bank’s resources to the fund to purchase pension fund assets. All pension benefits will be paid out of this fund. The Bank discloses the cost of providing benefits in accordance with Financial Reporting Standard (FRS) 17 ‘Retirement Benefits’.

1 Throughout this document the use of the term the European System of Central Banks (ESCB) refers to the twenty-seven national central banks (NCBs) of the Member States of the European Union as at 31 December 2009 together with the European Central Bank (ECB). The term ‘Eurosystem’ refers to the sixteen NCBs of the Member States participating in the Monetary Union, plus the ECB, on the same date.

2 The principal statutory provisions are: *Treaty on European Union*, 1992, *Central Bank Acts* 1942-1998, *Central Bank of Ireland (Surplus Income) Regulations*, 1943, *Coinage Act*, 1950, *Decimal Currency Acts* 1969-1990, the *Economic and Monetary Union Act*, 1998 and the *Central Bank and Financial Services Authority of Ireland Act*, 2003. At the time of writing the enactment of the *Central Bank Reform Bill*, 2010 is pending (Note 40).

Pension scheme assets are measured at fair value. Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at interest rates applicable to high-quality corporate bonds of the same currency and term as the liabilities. The pension charge in the Profit and Loss and Appropriation account comprises the sum of the current service cost (Note 8) and the difference between the expected return on scheme assets and the interest cost of scheme liabilities (Note 7). The current service cost and any past service costs for the general body of staff are charged to the Profit and Loss and Appropriation account and to the Currency Reserve in respect of Mint staff. Actuarial gains and losses are recognised in the Profit and Loss and Appropriation account.

In determining the value of scheme liabilities, assumptions are made as to price inflation, pension increases, earnings growth and demographics. The assumptions underlying the 2009 liabilities and pension costs are set out in Note 34.

(e) Coin Provision and Issue

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 32). 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. In 2009, a transfer of €30 million was received from the Exchequer in respect of the large net redemption of coin that occurred during the year (Note 32(v)).

(f) Foreign Currency Transactions

Accounting transactions denominated in foreign currency are converted to euro equivalents at exchange rates prevailing at the date of settlement unless the year end falls between the trade date and settlement date, in which case they are recognised at the trade date (Accounting Policy (k)(i)).

(g) Amortised Income

Premiums and/or discounts arising on securities are treated as net interest income and amortised on a straight-line basis over the period to their maturity and accounted for through the Profit and Loss and Appropriation account.

(h) Valuation Policy

Assets and liabilities denominated in foreign currency, unmatured investment and foreign currency contracts outstanding and shares in the Bank for International Settlements are valued at mid-market closing exchange rates at year-end (Note 31). The exchange rate valuation of assets and liabilities is performed on a currency-by-currency basis.

Gold is valued at the closing market price and securities at mid-market closing prices at year-end. The valuation of securities is performed on a security-by-security basis.

Market securities classified as held-to-maturity are valued at amortised cost and are subject to impairment.

(i) 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 (FX and euro) are calculated by reference to average cost.

Unrealised gains identified at the end of every financial year in accordance with the Bank's valuation policy (Accounting Policy (h)) are accounted for through the Profit and Loss and Appropriation account and transferred therefrom to the Revaluation Accounts.

Unrealised losses are accounted for through the Profit and Loss and Appropriation account to the extent that they exceed previous revaluation gains. 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.

As all of the above gains and losses are recognised through the Profit and Loss and Appropriation account, it is not considered necessary to include a separate Statement of Total Recognised Gains and Losses.

(j) Repurchase Agreements

Under a Sale and Repurchase Agreement, the Bank sells securities from its portfolio for cash and simultaneously agrees to repurchase them at an agreed price on a set date. These agreements to repurchase are reflected on the liability side of the Bank's Balance Sheet and also lead to an interest expense in the Profit and Loss and Appropriation account (Note 2). At all times, the Bank remains the beneficial owner of the securities which remain on its Balance Sheet.

Under a Reverse Repurchase Agreement, the Bank buys securities for cash and simultaneously agrees to sell them back to the counterparty at an agreed price on a set date. These agreements to sell are recorded on the asset side of the Balance Sheet (Notes 13 and 15), but are not included in the Bank's holdings of securities. At no time during the term of the agreement does the Bank acquire beneficial ownership of the underlying securities. These agreements give rise to interest income in the Profit and Loss and Appropriation account (Note 1).

Repurchase agreements may be transacted in both euro and other currencies.

(k) Eurosystem Accounting Guideline

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

(i) Trade Date Accounting[3]

Transactions in assets and liabilities are generally booked at the settlement date (usually the trade date plus two business days), unless a year-end falls between the trade date and the settlement date, in which case they have to be recognised at the trade date i.e., all gains and losses arising from these transactions are booked in the current year. In 2009, there were no material transactions effected over the year-end.

(ii) Intra-ESCB balances

All NCBs of the Eurosystem maintain accounts with each other for the purpose of making bilateral payments including cross-border payments through the TARGET2[4] system (Note 28). All bilateral balances at the close of business each day are netted by means of a multilateral netting process and replaced by a single outstanding debt-obligation to the ECB by each NCB or vice versa as appropriate. At end-2009, five non-participating countries (Denmark, Latvia, Lithuania, Poland and Estonia) were members of TARGET2 and, therefore, included in the multilateral netting process.

3 Defined in the Accounting Guideline of the European Central Bank 5 December 2002 on the legal framework for accounting and financial reporting in the ESCB (ECB/2002/10), as amended. With effect from 1 January 2007, this Guideline has been revoked and replaced by Guideline ECB/2006/16.

4 Trans-European Automated Real-time Gross settlement Express Transfer system.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a liability under Intra-Eurosystem liabilities (net): ‘Liabilities related to the allocation of euro banknotes within the Eurosystem’. (See Accounting Policy (k)(iv) and Note 27).

(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 national central banks 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. On 1 January 2009 such an adjustment was made and the Bank’s share of the ECB’s subscribed capital changed from 0.8885 per cent to 1.1107 per cent. This resulted in an increase of €12.8 million in the Bank’s participating interest in the ECB from €51.2 million to €64.0 million (Note 17). Additionally, the Bank’s euro-denominated claims arising from the transfer of foreign reserves to the ECB increased by €128.0 million, from €511.8 million in 2008 to €639.8 million in 2009 (Note 18).

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 Eurosystem capital key is the capital key expressed as a percentage of the aggregate capital keys held by the Eurosystem NCBs.

On 1 January 2009, following the accession of the Slovakian central bank into the Eurosystem and the five year review of the capital key of the ESCB referred to above, the Bank’s share in the Eurosystem capital key increased from 1.2748 per cent to 1.5915 per cent.

(iv) Banknotes in Circulation

The ECB and the 16 participating NCBs, which together comprise the Eurosystem, issue euro banknotes[5] [6]. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with each NCB’s banknote allocation key[7].

The ECB has been allocated a share of 8 per cent of the total value of euro banknotes in circulation, whereas the remaining 92 per cent has been allocated to NCBs in the Eurosystem in proportion to their respective paid-up shares in the capital of the ECB. In the year under review, the Bank had a 1.5915 per cent share in the fully paid-up capital of the ECB (Accounting Policy (k)(iii)) and therefore a 1.464 per cent share of the euro banknotes in circulation in accordance with the banknote allocation key. The share of banknotes allocated to each NCB is disclosed under the balance sheet liability item ‘Banknotes in circulation’ (Note 22).

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 or liabilities, which incur interest[8], are disclosed in the Balance Sheet under ‘Intra-Eurosystem: Liabilities (net)’ (Accounting Policy (k)(ii) and Note 27). The interest expense (Note 2) on these balances are cleared through the accounts of the ECB and disclosed under ‘Net interest income’ in the Profit and Loss and Appropriation account.

5 Decision of the European Central Bank of 6 December 2001 on the issue of euro banknotes (ECB/2001/15), OJ L 337, 20.12.2001, pp. 52-54.

6 Central Bank of Slovakia has only participated in the Eurosystem since 2009.

7 The banknote allocation key refers to the percentages that result from taking into account the ECB’s share of the total euro banknote issue and applying the Eurosystem capital key to the participating NCBs’ share of such total.

8 Decision of the European Central Bank of 6 December 2001 on the allocation of monetary income of the NCBs of participating Member States from the financial year 2002 (ECB/2001/16), OJ L 337, 20.12.2001, pp. 55-61.

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8 per cent share of euro banknotes allocated to the ECB, shall be due to the NCBs in the same financial year it accrues and distributed on the second working day of the following year in the form of an interim distribution of profit[9]. It shall be so distributed in full unless the ECB's net profit for the year is less than the seigniorage income earned on euro banknotes in circulation and subject to any decision by the Governing Council to reduce this income in respect of costs incurred by the ECB in connection with the issue and handling of euro banknotes. (Note 5).

(v) 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 credit institutions related to monetary policy operations denominated in euro; intra-Eurosystem liabilities resulting from TARGET transactions; 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; intra-Eurosystem claims resulting from TARGET2 transactions; intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; a limited amount of each NCB's gold holdings in proportion to each NCB's capital key. Gold is considered to generate no income. Where the value of a NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying to the value of the difference the latest available marginal rate for the Eurosystem's main refinancing operations.

The monetary income pooled by the Eurosystem is allocated between NCBs according to the subscribed capital key. The difference between the monetary income pooled by the Bank and that reallocated to the Bank constitutes the net result arising from the pooling of monetary income recorded in the Profit and Loss and Appropriation account (Note 6).

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 and up to the amount allocated to the NCBs.

(vi) Claims Equivalent to the Transfer of Foreign Reserves

The Treaty on European Union, 1992 and Section 5A of the *Central Bank Act*, 1942, (as inserted by Section 4 of the *Central Bank Act*, 1998) as substituted by Section 5B(o) of the *Central Bank and Financial Services Authority of Ireland Act*, 2003 provides that the Bank has the power to "transfer assets, income or liabilities to the European Central Bank where required under the ESCB Statute". Accordingly, the Bank transferred an amount equivalent to €424.8 million to the ECB in January 1999, at the commencement of European Monetary Union, and received in turn a corresponding claim on the ECB equivalent to this amount. As a result of subsequent capital key changes, an additional €87.9 million was transferred on 1 January 2004, €0.3 million on 1 May 2004, a reduction of €1.2 million on 1 January 2007 and an increase of €128.0 million on 1 January 2009. In 2009, the change in the capital key, due to the accession of Slovakia into the Eurosystem and the five-year review, gave rise to an increase in the level of reserves. The resulting claim on the ECB is remunerated at the latest available interest rate for the main refinancing operations adjusted to reflect a zero return on the gold component (Note 1 and 18, and Accounting Policy (k)(iii)).

9 ECB Decision of 17 November 2005 (ECB/2005/11) on the distribution of the income of the European Central Bank on euro banknotes in circulation to the NCBs of the participating Member States, OJ L 311, 26.11.2005, p. 41.

(vii) Off-Balance Sheet Items

Profits and losses arising from off-balance sheet instruments are recognised and treated in a similar manner to on-balance sheet instruments. Unrealised (valuation) gains are not recognised as income but are accounted for through the Profit and Loss and Appropriation account and transferred therefrom to Revaluation Accounts. Unrealised (valuation) losses are taken to the Profit and Loss and Appropriation account when exceeding previous revaluation gains registered in the Revaluation Account. Unrealised trade date gains/losses on foreign exchange forward contracts are recorded under 'other assets/liabilities' in accordance with ESCB guidelines having been accounted for through the Profit and Loss and Appropriation account as outlined above. This method is used for foreign exchange forwards and these techniques cover the most significant off-balance sheet financial instruments which have been identified for possible use by the ESCB, i.e. foreign exchange forwards, foreign exchange swaps, interest rate futures, interest rate swaps and forward rate agreements.

(viii) Securities Held for Monetary Policy Purposes

Following the decisions of the Governing Council of 7 May and 4 June 2009 the ECB and the Eurosystem NCBs commenced a programme to purchase, for monetary policy purposes, euro-denominated covered bonds issued in the euro area. These securities are valued at amortised cost and are subject to impairment (Note 16).

(l) Reclassifications

A provision for Eurosystem monetary policy operations counterparty risk was recorded in the 2008 Profit and Loss and Appropriation account under 'Net result of financial operations, write downs and risk provisions' (Note 3). Following a review of harmonised annual accounts disclosures by the Eurosystem NCBs and the ECB, it has been decided to reclassify this item under 'Net result of pooling of monetary income' in the Profit and Loss and Appropriation account (Note 6). This reclassification has no impact on the net amount of profit recorded in the 2008 annual accounts.

The comparable amounts have been adjusted as follows:

Description	Note	Published in 2008 €000	Adjustment Owing to Reclassification €000	Restated Amount €000
Net realised gains/(losses) arising from financial operations	3	85,051	–	85,051
Write-downs on financial assets and positions	3	(577)	–	(577)
Transfer (to)/from provision for foreign exchange, price and other operational risks	3	(73,124)	73,124	–
Net result of financial operations, write-downs and risk provisions	**3**	**11,350**	**73,124**	**84,474**
Net result of pooling of monetary income	**6**	**(169,768)**	**(73,124)**	**(242,892)**

Profit and Loss and Appropriation Account for year ended 31 December 2009

	Note	2009 €000	2008 €000
Interest income	1	*2,247,081*	*2,724,752*
Interest expense	2	*(1,277,620)*	*(2,109,440)*
Net interest income		**969,461**	**615,312**
Net realised gains/(losses) arising from financial operations	3	*103,956*	*85,051*
Write-downs on financial assets and positions	3	*(2,668)*	*(577)*
Net result of financial operations and write-downs		**101,288**	**84,474**
Income from fees and commissions	4	**1,665**	**3,016**
Income from equity shares and participating interests	5	**38,137**	**19,209**
Net result of pooling of monetary income	6	**(88,367)**	**(242,892)**
Other income	7, 41	**31,344**	**4,965**
TOTAL NET INCOME		**1,053,528**	**484,084**
Staff expenses	8	**(80,146)**	**(81,837)**
Other operating expenses	8	**(29,189)**	**(28,747)**
Depreciation	8	**(7,741)**	**(6,576)**
Banknote raw materials	8	**(2,647)**	**(2,712)**
PROFIT FOR THE YEAR BEFORE UNREALISED GAINS AND APPROPRIATION OF PROFIT		**933,805**	**364,212**
Net movement in Unrealised Gains	31	**(36,704)**	**153,660**
Transfers to Revaluation Accounts	31	**36,704**	**(153,660)**
Initial Contribution to Pension Fund	34	**–**	**(400,000)**
Reduction in Pension Liability	34	**–**	**400,000**
Actuarial Gain on Pension Scheme	34	**27,988**	**76,405**
Transfer to General Reserve	32	**(216,297)**	**(150,563)**
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	9	**745,496**	**290,054**

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

Patrick Honohan, Governor
Mary Sheehy, Assistant Director General

25 June 2010

Balance Sheet as at 31 December 2009

ASSETS		2009	2008
	Note	€000	€000
Gold and gold receivables	10	147,975	120,014
Claims on non-euro area residents in foreign currency	11	1,346,354	587,327
Claims on euro area residents in foreign currency	12	118,521	5,062,698
Claims on non-euro area residents in euro	13	1,234,309	1,274,271
Lending to euro area credit institutions related to monetary policy operations in euro	14	92,858,000	93,412,329
Other claims on euro area credit institutions in euro	15	636,159	113,547
Securities of euro area residents in euro	16	14,922,485	14,222,053
Intra-Eurosystem claims		796,338	585,421
Participating interest in ECB	17	*120,644*	*56,730*
Claims equivalent to the transfer of foreign reserves	18	*639,836*	*511,834*
Other claims within the Eurosystem	5	*35,858*	*16,857*
Items in course of settlement	19	2,583	3,872
Other assets	20	12,796,124	728,566
Pension assets	34	37,607	21,730
TOTAL ASSETS		124,896,455	116,131,828

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

Patrick Honohan, Governor
Mary Sheehy, Assistant Director General

25 June 2010

Balance Sheet as at 31 December 2009

LIABILITIES		2009	2008
	Note	€000	€000
Banknotes in circulation	22	11,805,857	8,947,351
Liabilities to euro area credit institutions related to monetary policy operations in euro	23	14,907,841	19,447,188
Liabilities to other euro area residents in euro	24	26,259,852	25,817,192
Liabilities to non-euro area residents in euro	25	7,225	6,932
Counterpart of special drawing rights allocated by the IMF	26	844,125	96,413
Intra-Eurosystem liabilities (net)		67,233,511	58,739,356
Liabilities related to the allocation of euro banknotes within the Eurosystem	27	*13,714,604*	*14,375,692*
Other liabilities within the Eurosystem (net)	28	*53,518,907*	*44,363,664*
Other liabilities	29	2,045,968	1,442,330
Provisions	30	52,015	77,182
Revaluation accounts	31	205,193	241,897
Capital and reserves	32	1,534,868	1,315,987
TOTAL LIABILITIES		124,896,455	116,131,828

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

Patrick Honohan, Governor
Mary Sheehy, Assistant Director General

25 June 2010

Notes to the Accounts

Note 1: Interest Income

	2009	2008
	€000	€000
Deposit Income	967	12,466
Coupons on Securities	507,849	546,345
Coupons on Securities Held for Monetary Policy Purposes (i)	5,498	–
Reverse Repurchase Agreements (ii)	3,681	22,903
(Premiums)/Discounts on Securities (iii)	9,047	5,787
Monetary Policy Operations (iv)	1,470,313	2,113,599
Income from Transfer of Foreign Reserve Assets to ECB (v)	7,051	17,852
Other (vi)	242,675	5,800
Total	**2,247,081**	**2,724,752**

(i) Accounting policy (k)(viii) and Note 16.

(ii) There were Reverse Repurchase Agreements of €836.2 million outstanding at 31 December 2009 (2008: €nil). Accounting Policy (j) and Notes 13 and 15.

(iii) Accounting Policy (g).

(iv) This relates to lending to credit institutions by the Bank as part of the Eurosystem's monetary policy operations (Note 14).

(v) This relates to the remuneration of Foreign Reserve Assets transferred to the ECB. Accounting Policy (k)(vi) and Note 18.

(vi) This includes an amount of €240.5 million in relation to interest earned on special liquidity facilities advanced outside of the Eurosystem's monetary policy operations (Note 20).

Note 2: Interest Expense

	2009	2008
	€000	€000
Government Deposits	204,062	579,127
Credit Institutions' Deposits	164,422	534,400
Intra-Eurosystem Balances (net) (i)	749,329	476,239
Remuneration of Liability in respect of Euro Banknotes in Circulation (ii)	159,807	519,582
Repurchase Agreements (iii)	–	92
Total	**1,277,620**	**2,109,440**

(i) The interest (income)/expense on these balances, which are remunerated at the short-term refinancing rates of the Eurosystem, is calculated by the ECB at the end of each day. Accounting Policy (k)(ii).

(ii) The interest expense is based on the difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of euro banknotes that it actually puts into circulation. Accounting Policies (k)(ii) and (k)(iv).

(iii) There were no Sale and Repurchase Agreements outstanding at 31 December 2009. Accounting Policy (j).

Note 3: Net Result of Financial Operations and Write Downs

Net Realised Gains/(Losses) Arising From Financial Operations	2009	2008
	€000	€000
Net Realised Price Gains/(Losses) on Securities	103,519	83,337
Net Realised Exchange Rate Gains/(Losses)	437	1,714
Total	**103,956**	**85,051**

Write Downs on Financial Assets and Positions	2009	2008
	€000	€000
Unrealised Price Losses on Securities	(2,237)	(270)
Unrealised Exchange Rate Losses	(431)	(307)
Total	**(2,668)**	**(577)**

Note 4: Income from Fees and Commissions

	2009	2008
	€000	€000
Service Fees and Charges	332	793
Securities Lending	430	1,680
Other	903	543
Total	**1,665**	**3,016**

Note 5: Income from Equity Shares and Participating Interests

	2009	2008
	€000	€000
Share of ECB Profits (i)	35,858	16,857
BIS Dividend (ii)	2,492	2,352
Other	(213)	–
Total	**38,137**	**19,209**

(i) This item represents the Bank's share of the ECB's profit for 2009. Accounting Policy (k)(iii).

(ii) This item represents dividends received on shares held in the Bank for International Settlements (Note 20(i)).

Note 6: Net Result of Pooling of Monetary Income

This item represents:

(i) the difference between the monetary income pooled by the Bank of €291.4 million (2008: €520.5 million) and that reallocated to the Bank of €180.8 million (2008: €350.9 million) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares, less interest adjustments (€0.3 million) on net results for previous years. Accounting Policy (k)(v).

(ii) a reduction in the Bank's share of the provision against counterparty risks in monetary policy operations of the Eurosystem, amounting to €22.0 million. In 2008, when the provision was established, there was a charge to the Profit and Loss and Appropriation account of €73.1 million being the Bank's share of the total provision for the Eurosystem. In accordance with the Eurosystem accounting principles and in consideration of the general principle of prudence, the ECB Governing Council has reviewed the appropriateness of the provision and decided to reduce the total amount from €5,736 million at 31 December 2008 to €4,011 million at 31 December 2009. The respective adjustments are reflected in the Profit and Loss and Appropriation accounts of the national central banks.

Note 7: Other Income

	2009	2008
	€000	€000
Financial Regulator Net Industry Funding (Note 41(i))	34,048	27,944
Financial Regulator Miscellaneous Income (Note 41 (vi))	715	–
Financial Regulator Monetary Penalties (Note 41 (iv))	7,389	–
Interest on Pension Scheme Liabilities (Note 34(i))	(22,278)	(23,767)
Expected Return on Pension Fund Assets (Note 34 (v))	10,089	–
Other	1,381	788
Total	**31,344**	**4,965**

Note 8: Expenses

€000	Head Office*		Printworks		Total Head Office & Printworks		Mint (i)		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Salaries/Allowances (ii)	55,332	53,278	10,798	11,818	66,130	65,096	622	853	66,752	65,949
PRSI	3,781	3,577	747	729	4,528	4,306	43	50	4,571	4,356
Pensions (Note 34(i))	9,488	10,864	–	1,571	9,488	12,435	87	102	9,575	12,537
Staff Expenses	**68,601**	**67,719**	**11,545**	**14,118**	**80,146**	**81,837**	**752**	**1,005**	**80,898**	**82,842**
Training, Recruitment & Other Staff Costs	2,380	2,763	387	415	2,767	3,178	7	13	2,774	3,191
Maintenance of Premises (iii)	2,660	1,324	3,211	1,432	5,871	2,756	1	5	5,872	2,761
Energy	704	799	423	778	1,127	1,577	–	–	1,127	1,577
Rent & Rates	3,463	2,470	480	457	3,943	2,927	–	–	3,943	2,927
Equipment, Stationery & Requisites	1,271	1,269	97	186	1,368	1,455	1	4	1,369	1,459
Post & Telecommunications	509	531	105	146	614	677	2	2	616	679
Investment Services & Bank Charges	2,231	1,744	20	31	2,251	1,775	–	–	2,251	1,775
Business Travel	1,246	1,723	144	191	1,390	1,914	8	24	1,398	1,938
Publishing & Consumer Advertising	796	2,963	7	9	803	2,972	13	1	816	2,973
Professional Fees (iv)	5,910	7,129	151	88	6,061	7,217	12	10	6,073	7,227
Works Machine Maintenance	–	–	939	750	939	750	283	259	1,222	1,009
RTGS System Costs	1,131	903	–	–	1,131	903	–	–	1,131	903
Miscellaneous (v)	894	606	30	40	924	646	–	–	924	646
Other Operating Expenses	**23,195**	**24,224**	**5,994**	**4,523**	**29,189**	**28,747**	**327**	**318**	**29,516**	**29,065**
Depreciation	**4,121**	**3,555**	**3,620**	**3,021**	**7,741**	**6,576**	**70**	**123**	**7,811**	**6,699**
Raw Materials	**–**	**–**	**2,647**	**2,712**	**2,647**	**2,712**	**4,608**	**14,504**	**7,255**	**17,216**
Total Expenses	**95,917**	**95,498**	**23,806**	**24,374**	**119,723**	**119,872**	**5,757**	**15,950**	**125,480**	**135,822**

* Head Office expenses include all expenses (including Financial Regulator) other than those of the Printworks and Mint. Details of the Financial Regulator's income and expenditure in 2009 are shown in Note 41.

(i) Expenses incurred at the Mint relating to the provision and issue of coin are charged 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 and not to the Profit and Loss and Appropriation account. Accounting Policy (e).

Note 8: Expenses (continued)

(ii) Remuneration of Executive and non Executive Directors in 2009.

Name	Period	Salary	Other Remuneration
John Hurley Governor	1 Jan - 25 Sept	€273,023	€5,960[10]
Patrick Honohan Governor	26 Sept - 31 Dec	€79,748	€759[10]
Jim Farrell Chairman, Financial Regulator	1 Jan - 31 Dec	€ 71,867	–
Tony Grimes Director General, Central Bank	1 Jan - 31 Dec	€285,341	€2,893[10]
Patrick Neary Chief Executive, Financial Regulator	1 Jan - 31 Jan	€84,501	€151,500
Mary O'Dea Acting Chief Executive and Consumer Director, Financial Regulator	1 Jan - 31 Dec	€255,057	–
Total fees paid to directors of the Board and members of the Authority	1 Jan - 31 Dec	€277,666	–

John Hurley retired on 25 September with full pension entitlements for 40 years reckonable service under the CBFSAI Superannuation Scheme.

Patrick Honohan was appointed on 26 September 2009.

Patrick Neary retired on 31 January 2009. He received a salary of €84,501 which included compensation (€47,550) in respect of his availability to the Authority for a 3 month period and payment for accrued untaken annual leave (€13,178).[11] As the former Chief Executive, who had 2 years remaining on his contract, facilitated significant organisational change by his retirement, he received additional notional service and immediate pension payment without actuarial adjustment, consistent with the CBFSAI Superannuation Scheme rules. He also received a payment of €151,500, equivalent to six months remuneration in lieu of the time remaining on his contract. His retirement lump sum and pension was based on a final reckonable salary of €285,341 and 40 years reckonable service.

Mary O'Dea was appointed Acting Chief Executive of the Financial Regulator on 12 January 2009. The salary shown in the table included her remuneration as Consumer Director and an allowance for acting as Chief Executive from 12 Jan - 31 Dec.

Jim Farrell received a salary of €71,867 in respect of his position as Chairman plus other duties in the period following Mr. Neary's retirement until the appointment of Mr. Matthew Elderfield as Head of Financial Regulation in early 2010.

Gerard Danaher, John Dunne, Jim Farrell, Alan Gray and Deirdre Purcell who are members of both the Board and the Authority were each paid a fee of €32,667. Alan Ashe, David Begg, Tony Grimes, Brian Hillery, Dermot O'Brien, Mary O'Dea and Dermot Quigley were each paid a fee of €16,333. No fee was paid to the Governor or the Secretary General of the Department of Finance.

10 Includes delegates allowance but not directors' fees which are shown separately above.

11 A sum of €19,000 plus VAT was also paid in respect of legal fees.

Note 8: Expenses (continued)

(iii) Maintenance of premises expenses in 2009 includes a payment (€2.0 million) in respect of the provision of services by the Defence Forces at the Currency Centre, together with the maintenance costs in respect of the Bank's new premises in Spencer Dock.

(iv) Auditors fees paid in 2009 in respect of both the Comptroller and Auditor General and Deloitte & Touche amounted to €265,005 (2008: €267,750), of which €27,945 (2008: €30,250) were for non-audit services by Deloitte & Touche.

(v) Included here are the expenses of the Financial Services Appeals Tribunal which the Bank pays, in accordance with the provisions of Section 57AX(4) of the *Central Bank Act*, 1942, as amended.

(vi) An amount of €3.2 million was paid to the Department of Finance in respect of the pension levy.

Note 9: Surplus Income

Surplus Income of €745.5 million was payable to the Exchequer in respect of the year ended 31 December 2009 (2008: €290.1 million).

A payment on account of €40.6 million (2008: €40.6 million) of Surplus Income was made during 2009 leaving a balance of €704.9 million (2008: €249.5 million) (Note 29 (i)). These arrangements are in accordance with Section 6G of the *Central Bank Act*, 1942 (as inserted by Section 7 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003), which provides that the Bank may at any time pay into the Exchequer such sums on account of Surplus Income as may be agreed upon by the Minister for Finance and the Bank.

Under Section 6J of the *Central Bank Act*, 1942, (as inserted by Section 7 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003) the Bank is exempt from Corporation Tax, Income Tax and Capital Gains Tax.

Note 10: Gold and Gold Receivables

With the exception of coin stocks held in the Bank, gold holdings consist of deposits with foreign banks. The change in the balance in 2009 is due to the change in the market value of gold during the year.

Note 11: Claims on Non-Euro Area Residents in Foreign Currency

	2009	2008
	€000	€000
Receivables from the IMF (i)	988,891	187,843
Balances with Banks and Security Investments, External Loans and Other External Assets (iv)	357,463	399,484
Total	**1,346,354**	**587,327**

Note 11: Claims on Non-Euro Area Residents in Foreign Currency (continued)

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

	2009	2008
	€000	€000
Quota	912,683	926,306
Less IMF Holdings of euro	(742,644)	(808,884)
Reserve Position in the IMF (ii)	**170,039**	**117,422**
SDR Holdings (iii)	**818,852**	**70,421**
Total	**988,891**	**187,843**

(ii) Reserve Position in the IMF:

This asset represents the difference between Ireland's Quota in the IMF and the IMF's holdings of euro. Ireland's Quota is its membership subscription, 25 per cent of which was paid for in foreign currencies and the balance in euro. The holdings of euro by the IMF, maintained with the Bank, which initially were equal to 75 per cent of the Quota, have changed from time to time as a result of instructions received from the IMF regarding its lendings to member countries.

(iii) Special Drawing Rights (SDRs):

The SDR is an international reserve asset, which was created by the IMF and allocated to member countries in the 1970s and 80s in order to increase international liquidity. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of exchange rates of four currencies (US dollar, sterling, yen and euro). Under its Articles of Agreement, the IMF may allocate SDRs to members in proportion to their IMF quotas. Ireland received €676.7 million (SDR 621.5 million) in August 2009 as part of the general SDR allocation by the IMF and €72.2 million (SDR 66.6 million) as part of a special SDR allocation for equity purposes in September 2009 (see Note 26).

(iv) Balances with Banks and Security Investments, External Loans and Other External Assets

	2009	2008
	€000	€000
Balances with Banks	3,543	620
Security Investments – MTM (v)	353,919	398,864
Total	**357,462**	**399,484**

Maturity Profile	2009	2008
	€000	€000
0-3 months	78,714	106,556
3 months – 1 year	206,357	258,372
1-5 years	72,391	34,556
Total	**357,462**	**399,484**

(v) MTM (Mark-to-Market) refers to marketable securities held and valued at mid-market closing prices at year-end.

Note 12: Claims on Euro Area Residents in Foreign Currency

	2009	2008
	€000	€000
Balances with Banks (i)	94,447	4,989,088
Security Investments – MTM (ii)	24,074	73,610
Total	**118,521**	**5,062,698**

Maturity Profile	2009	2008
	€000	€000
0-3 months (i)	94,447	5,002,900
3 months – 1 year	24,074	59,798
Total	**118,521**	**5,062,698**

(i) This decrease is mainly due to the reduction of the claim arising from reverse operations with Eurosystem counterparties, which was nil at year-end (2008: €4,977 million), in connection with the short-term US dollar liquidity providing programme (US dollar Term Auction Facility). Under this programme, US dollars were provided by the Federal Reserve to the ECB by means of a temporary reciprocal currency arrangement (swap line) with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct liquidity-providing operations with Eurosystem counterparties.

(ii) MTM (Mark-to-Market) refers to marketable securities held and valued at mid-market closing prices at year-end.

Note 13: Claims on Non-Euro Area Residents in Euro

	2009	2008
	€000	€000
Balances with Banks	7,298	67,072
Security Investments – MTM (i)	401,205	539,929
Security Investments – HTM (i)	625,806	667,270
Reverse Repurchase Agreements	200,000	–
Total	**1,234,309**	**1,274,271**

Maturity Profile	2009	2008
	€000	€000
0-3 months	235,355	125,256
3 months - 1 year	272,712	170,220
1-5 years	343,874	680,236
5-10 years	382,368	298,559
Total	**1,234,309**	**1,274,271**

Note 13: Claims on Non-Euro Area Residents in Euro (continued)

(i) MTM (Mark-to-Market) refers to marketable securities held and valued at mid-market closing prices at year-end. HTM (Held to Maturity) investments are securities with fixed or determinable payments and a fixed maturity for which the Bank has the positive intent to hold until maturity. HTM securities are not valued but held at amortised cost until maturity and are subject to impairment. Accounting Policy (h).

Note 14: Lending to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

	2009	2008
	€000	€000
Main Refinancing Operations (i)	8,425,000	44,431,000
Longer Term Refinancing Operations (ii)	84,433,000	48,981,329
Total	**92,858,000**	**93,412,329**

These balances consist of advances to local credit institutions and reflect the Bank's participation in Eurosystem monetary policy operations. All the advances are fully secured by collateral approved by the Eurosystem. There was a significant increase in the level of Longer Term Refinancing Operations and a decrease in Main Refinancing Operations advances during 2009 following the announcement in October 2008 by the ECB of fixed rate, 100 per cent allotment tenders (in both operations) to address the continued elevated funding pressures in financial markets. The total Eurosystem holding of monetary policy assets amounted to €749.9 billion, of which the Bank held €92.9 billion.

(i) The Main Refinancing Operations generally comprise weekly tenders for funds with a maturity of one week and at rates close to market rates (fixed rates from October 2008).

(ii) The Longer Term Refinancing Operations comprise mainly monthly tenders with a maturity of three months and at rates close to market rates (fixed rates from October 2008). In 2008, monthly tenders with a maturity of six months were added, and in 2009 tenders with a maturity of twelve months were also conducted.

Note 15: Other Claims on Euro Area Credit Institutions in Euro

	2009	2008
	€000	€000
Balances with Banks	40	113,547
Reverse Repurchase Agreements	636,119	–
Total	**636,159**	**113,547**

These items have a maturity of less than one year.

Note 16: Securities of Euro Area Residents in Euro

This item comprises two portfolios: (i) 'Securities held for monetary policy purposes', that was introduced in order to reflect the euro-denominated covered bond portfolio, which commenced in July 2009; and (ii) 'Other securities', which includes marketable and non-marketable securities that are not related to the monetary policy operations of the Eurosystem (which previously accounted for the full balance under this item).

	2009	2008
	€000	€000
Securities Held for Monetary Policy Purposes (i)	531,794	–
Other Securities (ii)	14,390,691	14,222,053
Total	**14,922,485**	**14,222,053**

(i) Securities Held for Monetary Policy Purposes

	2009	2008
	€000	€000
Security Investments – HTM	531,794	–
Total	**531,794**	**–**

Maturity Profile	2009	2008
	€000	€000
1-5 years	397,528	–
5-10 years	134,266	–
Total	**531,794**	**–**

This item contains covered bonds denominated in euro which were purchased as part of the Eurosystem's 'Covered Bond Purchase Programme' which the ECB Governing Council approved on 7 May 2009. These bonds are held to maturity and valued at amortised cost. Accounting Policy (k)(viii) and Note 1.

(ii) Other Securities

	2009	2008
	€000	€000
Security Investments – MTM	8,477,488	8,600,510
Security Investments – HTM	5,913,203	5,621,543
Total	**14,390,691**	**14,222,053**

Note 16: Securities of Euro Area Residents in Euro (continued)

These securities comprise debt issued by specified euro area and supranational issuers. MTM (Mark-to-Market) refers to marketable securities held and valued at mid-market closing prices at year-end. HTM (Held to Maturity) investments are securities with fixed or determinable payments and a fixed maturity for which the Bank has the positive intent to hold until maturity. HTM securities are not valued but held at amortised cost until maturity and are subject to impairment. Accounting Policy (h).

Maturity Profile	2009	2008
	€000	€000
0-3 months	2,564,175	1,334,065
3 months - 1 year	3,876,235	3,401,069
1-5 years	4,992,882	6,938,306
5-10 years	2,957,399	2,548,613
Total	**14,390,691**	**14,222,053**

Note 17: Participating Interest in ECB

This represents the Bank's contribution to the capital of the ECB. Pursuant to Article 28 of the ESCB Statute, the ESCB national central banks 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 are adjusted every five years.

On 1 January 2009, a change to the ECB's capital key occurred as a result of the accession of Slovakia to the Eurosystem and the required quinquennial adjustment. The key is based on shares of the respective member states in the European Union's average GDP (for the period 2001 to 2005) and the total population for 2006. The Bank's share in the subscribed capital of the ECB increased from 0.8885 per cent to 1.1107 per cent on that date (Accounting Policy (k)(iii)). As a result the Bank's participating interest in the ECB increased by €63.9 million to €120.6 million. This included an increase of €12.8 million in the Bank's share of the ECB's subscribed capital and an increase of €51.1 million in the Bank's share of the ECB's accumulated net assets (also referred to as net equity). This gave rise to a transfer of €63.9 million to the ECB.

Note 18: Claims Equivalent to the Transfer of Foreign Reserves

These represent the Bank's claims arising from the transfer of foreign reserve assets to the ECB in accordance with the provisions of Article 30 of the ESCB Statute. The claims are denominated in euro at a value fixed at the time of their transfer. They are remunerated at the latest available interest rate for the main refinancing operations, adjusted to reflect a zero return on the gold component. The adjustments to the capital key of the ECB on 1 January 2009 required the transfer of additional foreign reserve assets to the ECB in the amount of €128.0 million which incorporated the increase in the Bank's share of the capital key. This brought the claim in respect of these assets to €639.8 million. Accounting Policy (k)(vi) and Note 1.

Note 19: Items in Course of Settlement

Items in the course of settlement represent a claim on credit institutions in respect of cheques lodged in the Bank by its customers on the last business day of the year and presented to those credit institutions on the first business day of the New Year.

Note 20: Other Assets

	2009	2008
	€000	€000
Shares in the Bank for International Settlements (i)	16,812	16,918
Stocks of Materials for Banknote Production	1,665	3,315
AIB plc/ICAROM Interest Bearing Loan (ii)	613,994	98,246
Accrued Interest Income	581,242	448,293
Prepayments	719	882
Fixed Assets (Note 21)	71,632	72,663
Other (iii)	11,510,060	88,249
Total	**12,796,124**	**728,566**

(i) The Bank holds 8,564 shares (2,564 paid up) in the Bank for International Settlements, the market value of which is €16.8 million (Notes 5 and 33).

(ii) Under arrangements, which commenced in 1993 for the financing of the administration of ICAROM plc (formerly Insurance Corporation of Ireland plc), €11.1 million per annum is being collected from AIB plc until 2012, and passed on to the administrator of ICAROM plc. The mechanisms used to collect these funds are (i) a back-to-back loan and deposit arrangement between AIB plc and the Bank and (ii) a payment of interest by AIB plc. The matching back-to-back deposit is shown in Other Liabilities (Note 29).

(iii) This includes an amount of €11.5 billion in relation to special liquidity facilities advanced outside of the Eurosystem's monetary policy operations (Note 1).

Note 21: Fixed Assets

€000	Premises		Plant and Machinery		Computer Equipment		Other Equipment		Furniture, Fixtures and Fittings		Total Fixed Assets	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
At Cost – 1 January	64,124	53,099	47,164	47,081	16,856	13,988	13,670	9,231	9,831	9,649	151,645	133,048
Acquisitions (+)	1,446	11,025	62	83	3,581	2,868	1,077	4,467	640	219	6,806	18,662
Disposals	–	–	–	–	–	–	(32)	(28)	–	(37)	(32)	(65)
At Cost – 31 December	65,570	64,124	47,226	47,164	20,437	16,856	14,715	13,670	10,471	9,831	158,419	151,645
Accumulated Depreciation at 1 January	13,617	12,446	36,654	33,989	12,096	10,798	7,816	6,901	8,799	8,177	78,982	72,311
Depreciation for Year (i)	1,505	1,171	2,543	2,665	1,690	1,298	1,545	929	528	634	7,811	6,697
Disposals	–	–	–	–	–	–	(6)	(14)	–	(12)	(6)	(26)
Accumulated Depreciation at 31 December	15,122	13,617	39,197	36,654	13,786	12,096	9,355	7,816	9,327	8,799	86,787	78,982
Net Book Value at 31 December	**50,448**	**50,507**	**8,029**	**10,510**	**6,651**	**4,760**	**5,360**	**5,854**	**1,144**	**1,032**	**71,632**	**72,663**

(i) Of the total of €7.8 million depreciation charge (2008: €6.7 million), €0.07 million in respect of Mint machinery was charged to the Currency Reserve (2008: €0.12 million).

Note 22: Banknotes in Circulation

This item consists of the Bank's share of euro banknotes issued by the Eurosystem. The total value of euro banknotes in circulation is allocated to each national central bank on the last working day of each month in accordance with the banknote allocation key. Accounting Policy (k)(iv).

Note 23: Liabilities to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

	2009	2008
	€000	€000
Minimum Reserves (i)	8,248,220	8,535,113
Overnight Deposits (ii)	6,659,621	10,912,075
Total	**14,907,841**	**19,447,188**

(i) Credit institutions in the euro area are required to hold minimum average reserve deposits with their respective NCBs. The purpose of these reserve requirements is to maintain a structural liquidity shortage. In 2009 interest was paid on these deposits at the ECB's main refinancing operations fixed interest rate. The 2009 figure includes reserves in respect of Credit Unions for the first time under the terms of the *Financial Services (Deposit Guarantee Scheme) Act*, 2009.

(ii) The deposit facility is available to counterparties to place deposits with the Bank on an overnight basis.

Note 24: Liabilities to Other Euro Area Residents in Euro

	2009	2008
	€000	€000
General Government Deposits (i)	26,259,852	25,817,192
Total	**26,259,852**	**25,817,192**

These items have a maturity of less than one year.

(i) Included in the General Government Deposits is an amount of €548.6 million (2008: €70.2 million) in respect of charges on covered financial institutions under the Credit Institutions (Financial Support) Scheme 2008 which are maintained in a designated account at the Bank in accordance with the Scheme as a reserve for any payments to be made under the Scheme. Any amounts standing to the credit of the account at the expiry of the Scheme will be paid to the Exchequer. Also included are deposits totalling €0.5 million (2008: €0.5 million) held by the Official Assignee in Bankruptcy under the provisions of the *Bankruptcy Act*, 1988.

Note 25: Liabilities to Non-Euro Area Residents in Euro

	2009	2008
	€000	€000
Central Banks	–	1
International Financial Institutions	90	90
EU Agencies	7,135	6,841
Total	**7,225**	**6,932**

These items have a maturity of less than one year.

Note 26: Counterpart of Special Drawing Rights Allocated by the IMF

This is the liability of the Bank to the IMF in respect of the allocation of SDRs to Ireland. The Bank's SDR assets can change as a result of IMF lending operations or exchanges of SDRs for foreign currency with the IMF itself, IMF members and other official holders of SDRs. SDR holdings may also change as a result of interest payments made by the IMF on the Bank's Reserve Position in the IMF and on the Bank's SDR holdings net of SDR allocations. Under its Articles of Agreement, the IMF may allocate SDRs to members in proportion to their IMF quotas. Ireland received €676.7 million (SDR 621.5 million) in August 2009 as part of the general SDR allocation by the IMF and €72.2 million (SDR 66.6 million) as part of a special SDR allocation for equity purposes in September 2009 (Note 11).

Note 27: Liabilities related to the Allocation of Euro banknotes within the Eurosystem

This item consists of the liability of the Bank *vis-à-vis* the Eurosystem in relation to the allocation of euro banknotes within the Eurosystem. It represents the difference between the value of euro banknotes actually issued by the Bank and its capital key share of the total Eurosystem issuance. Accounting Policies (k)(ii) and (k)(iv) and Note 22.

Note 28: Other Liabilities within the Eurosystem

This item represents the Bank's net liability to the ECB as a result of euro cross-border payments transacted over the TARGET2 system by all NCBs participating in the ESCB. Accounting Policy (k)(ii).

Note 29: Other Liabilities

	2009	2008
	€000	€000
AIB plc/ICAROM Deposit (Note 20)	613,994	98,246
Profit and Loss Appropriation (i)	704,867	249,425
Deposit Protection Accounts (ii)	608,262	669,408
Interest Accruals	105,212	408,860
Other Accruals	7,223	5,902
Other	6,410	10,489
Total	**2,045,968**	**1,442,330**

(i) This represents the balance of surplus income payable to the Exchequer after payments on account made during the year (Note 9).

(ii) These are balances placed by credit institutions with the Bank as part of the Irish Deposit Protection Scheme (IDPS) under the *European Communities (Deposit Guarantee Schemes) Regulations*, 1995. The IDPS is funded by credit institutions, which are authorised by the Financial Regulator.

Note 30: Provisions

The following provisions were maintained at 31 December 2009:

	2009	2008
	€000	€000
Eurosystem monetary policy operations counterparty risk (i)	51,133	73,124
Unredeemed Irish pound banknotes (ii)	882	4,058
Total	**52,015**	**77,182**

(i) In 2008, the ECB Governing Council decided to establish a provision against counterparty risk in monetary policy operations. In accordance with Article 32.4 of the ESCB Statute, the provision is allocated between the national central banks of participating Member States (NCBs) in proportion to their subscribed capital key shares in the ECB prevailing in the year when defaults have occurred. In accordance with the Eurosystem accounting principles and in consideration of the general principle of prudence, the ECB Governing Council has reviewed the appropriateness of the provision and decided to reduce the total amount from €5,736 million at 31 December 2008 to €4,011 million at 31 December 2009. The Bank's share in this provision amounts to €51.1 million (2008: €73.1 million), equivalent to 1.2748 per cent of the total provision. In accordance with Article 32.4 of the Statute, the adjustment of the provision is reflected in the profit and loss account of the national central banks of participating Member States (NCBs) in proportion to their subscribed capital key shares in the ECB prevailing in 2008. In the case of the Bank, the resulting adjustment amounted to €22.0 million in 2009 (Note 6).

(ii) Irish banknotes formerly issued by the Bank ceased to be legal tender with effect from 9 February 2002. As at 31 December 2002, notes to the value of €299.7 million were outstanding, at which point a provision of €60.0 million was created to meet obligations in respect of unredeemed Irish pound banknotes. At 31 December 2009, the provision stood at €0.9 million (2008: €4.1 million) (Note 33).

Note 31: Revaluation Accounts

	2009	2008	Change
	€000	€000	€000
Gold	100,414	72,453	27,961
Foreign Currency	6,755	10,919	(4,164)
Securities and Other Instruments	98,024	158,525	(60,501)
Total	**205,193**	**241,897**	**(36,704)**

The foreign exchange rates used *vis-à-vis* the euro for the end-year valuations are as follows:

	2009	2008
Currency	**Rate**	**Rate**
US dollar	1.4406	1.3917
Japanese yen	133.1600	126.1400
Sterling	0.8881	0.9525
Swiss franc	1.4836	1.4850
Danish krone	7.4418	7.4506
Swedish krona	10.2520	10.8700
Canadian dollar	1.5128	1.6998
SDR	0.9186	0.9051
The gold prices used were:		
Euro per fine ounce	766.3470	621.5420

Note 32: Capital and Reserves

€000	Capital (i)	General Reserve	Currency Reserve	Total
At 31 December 2008	**30**	**963,504**	**352,453**	**1,315,987**
Retained profit for the year (ii)	–	216,297	–	216,297
Transfer to Pension Liability (iii)	–	–	(260)	(260)
Net Proceeds of Coin Issue (iv)	–	–	(27,156)	(27,156)
Transfer (to)/from the Exchequer (v)	–	–	30,000	30,000
At 31 December 2009	**30**	**1,179,801**	**355,037**	**1,534,868**

Note 32: Capital and Reserves (continued)

(i) The authorised capital of the Bank is fixed under Section 9(1) of the *Central Bank Act*, 1942 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 agreed by the Board and the Minister.

(ii) Under the *Central Bank of Ireland (Surplus Income) Regulations*, 1943, the Board approved a transfer from the Profit and Loss and Appropriation account of €216.3 million including a net actuarial gain of €28.0 million, which was recognised in the Profit and Loss Appropriation account (Note 34 (ii)).

(iii) The transfer to the pension liability account of €259,900 is in respect of interest on the pension liability of €175,000 and a charge of €84,900 in respect of the employer contribution for staff involved in the production of coin. The current service cost of €87,000 for such staff is included in the Mint operating costs (Note 8 and Note 34 (i)).

(iv) Under the provisions of the *Coinage Act*, 1950, the *Decimal Currency Acts*, 1969-1990 and the *Economic and Monetary Union Act*, 1998, income and expenses related to coin are transferred directly to the Currency Reserve. Accounting Policy (e) and Note 8. Details of net proceeds for the year are included in the table below:

Net Proceeds of Coin Issue	2009	2008
	€000	€000
Coin issued into/(redeemed from) circulation	(22,963)	43,891
Specimen Coin Sets	1,990	3,455
Withdrawn Irish coin	(450)	(532)
Proceeds from smelted coin	24	138
Total	**(21,399)**	**46,952**
Less Operating Costs (Note 8)	**(5,757)**	**(15,950)**
Net Proceeds	**(27,156)**	**31,002**

(v) As a result of the *Finance Act*, 2002, and as directed by the Minister for Finance the Bank is permitted to transfer the proceeds from the issue of coin directly to the Exchequer. As noted in the table above, there was a significant return of coin to the Bank from the commercial banks in 2009 reflecting a fall in demand from the public, and as a result a transfer of €30 million was received from the Exchequer.

Note 33: Contingent Liabilities and Commitments

(i) Contingent liabilities

The Bank holds 8,564 shares in the Bank for International Settlements, 2,564 of which are paid up. The Bank has a contingent liability in respect of the balance (Notes 5 and 20(i)).

Under the Statute of the ESCB the Bank may be called upon in the future, along with all other participating NCBs, to transfer further amounts of capital (Article 28) and foreign reserve assets (Article 30) to the ECB.

The Bank has a contingent liability in relation to Irish pound banknotes that are no longer legal tender and that may be presented at a future date (€299.7 million was outstanding at 31 December 2002). At 31 December 2009, there was €240.6 million of Irish pound banknotes still outstanding (Note 30).

(ii) Operating lease commitments

In July 2008, the Bank entered into a 25 year lease agreement in respect of office accommodation at Spencer Dock, Dublin 1. The annual rental payment under a non-cancellable operating lease is €2.3 million.

Note 34: Superannuation Liabilities

The pension entitlements of past and current permanent Bank staff arise under a defined benefit pension scheme. Under the scheme, Bank staff receive the same entitlements as established civil servants. The Scheme is operated on a non-contributory basis for staff employed before 6 April 1995, with the exception of contributions made to the Spouses' and Children's Pension Scheme and payments received from eligible staff for the purchase and transfer of notional added service. In the case of staff employed on or after 6 April 1995, contributions are also payable in respect of the main scheme. Up to 30 September 2008, the Bank operated a pay-as-you-go system in that assets were not separately identified to provide for the Bank's pension liabilities, with benefits paid as they fell due from the current revenues. On 1 October 2008, a funded pension scheme was established (as provided for under the *Central Bank and Financial Services Authority of Ireland Act*, 2003) and an amount of €400 million was transferred to purchase fund assets. The valuation of the fund assets at 31 December 2009 is detailed in section (v) of this note.

The Bank discloses the cost of providing benefits in accordance with Financial Reporting Standard (FRS) 17 'Retirement Benefits'.

An update of the actuarial review was completed as at 31 December 2009 to comply with disclosure requirements under FRS 17.

(i) Amount charged to Profit and Loss and Appropriation Account/Currency Reserve

	Profit and Loss 2009	Currency Reserve 2009	Total 2009	2008
	€000	€000	€000	€000
Expected Return on Assets	**10,089**	**–**	**10,089**	**–**
Interest on Pension Scheme Liabilities	**(22,278)**	**(175)**	**(22,453)**	**(23,964)**
Current Service Cost	(12,010)	(110)	(12,120)	(15,119)
Employee Contributions	2,522	23	2,545	2,582
Total	**(9,488)**	**(87)**	**(9,575)**	**(12,537)**
Total Pension Cost of Defined Benefit Scheme	**(21,677)**	**(262)**	**(21,939)**	**(36,501)**

(ii) Actuarial Gain on Pension Scheme

Year Ended 31 December	2009	2008	2007
	€000	€000	€000
Actuarial Gain on Pension Liability	28,666	72,856	33,880
Actuarial Gain/(Loss) on Plan Assets	(678)	3,549	–
Total	**27,988**	**76,405**	**33,880**

As at 31 December 2009 the cumulative actuarial loss recognised in the Appropriation account was €26.0 million for accounting periods ending on or after 31 December 2004.

Note 34: Superannuation Liabilities (continued)

(iii) Balance Sheet Recognition

The amounts recognised in the balance sheet are as follows:

Year Ended 31 December	2009	2008	2007
	€000	€000	€000
Present Value of Wholly or Partly Funded Obligations	377,004	382,927	424,950
Fair Value of Plan Assets	(414,611)	(404,657)	–
Net Liability/(Asset)	**(37,607)**	**(21,730)**	**424,950**

(iv) Movement in Liability during the year

	2009	2008	2007
	€000	€000	€000
Present Value of Scheme Obligations at Beginning of Year	(382,927)	(424,950)	(428,447)
Movement in Year:			
Current Service Cost	(12,120)	(15,119)	(16,355)
Pensions Paid	11,830	8,250	6,919
Interest on Pension Scheme Liabilities	(22,453)	(23,964)	(20,947)
Actuarial Gain/(Loss)	28,666	72,856	33,880
Present Value of Scheme Obligations at End of Year	**(377,004)**	**(382,927)**	**(424,950)**

(v) Movement in Fair Value of Plan Assets

	2009	2008
	€000	€000
Opening Fair Value of Plan Assets (Restated at Bid Value)	404,657	400,000
Expected Return	10,089	–
Actuarial Gain/(Loss)	(678)	3,549
Employer Contribution	9,828	2,480
Employee Contributions	2,545	657
Pensions Paid	(11,830)	(2,029)
Closing Value of Plan Assets (Bid Value)	**414,611**	**404,657**

Note 34: Superannuation Liabilities (continued)

(vi) Financial Assumptions

	2009	2008
	%	%
Discount Rate	5.75	5.75
Expected Return on Assets	3.26	2.48
Rate of Increase in Salaries	3.50	3.50
Rate of Increase in Pensions	3.50	3.50
Rate of Price Inflation	2.00	2.00

(vii) Demographic Assumptions

	2009	2008
Mortality Pre Retirement*	62% PNML00 (males) 70% PNFL00 (females)	62% PNML00 (males) 70% PNFL00 (females)
Mortality Post Retirement*	62% PNML00 (males) 70% PNFL00 (females)	62% PNML00 (males) 70% PNFL00 (females)
Allowance for future improvements in mortality	Yes	Yes
Retirements	Evenly spread over age 60 to 65 (for those with option to retire at 60)	Evenly spread over age 60 to 65 (for those with option 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

* PNML00/PNFL00 are both published mortality tables prepared for the Actuarial Profession in the UK by the Continuous Mortality Investigation Bureau. The mortality assumptions chosen are based on standard tables reflecting typical pensioner mortality and they allow for increasing life expectancy over time.

(viii) Plan Assets of the Scheme

The Expected Return on Assets and Asset Distribution as at 31 December 2009 was as follows:

Class	Expected Return	Distribution
	%	%
Equities	7.75	–
Fixed Interest	3.75	–
Property	6.25	–
Cash	1.15	100

Note 34: Superannuation Liabilities (continued)

(ix) Prior Year Comparatives

Amounts for the current and previous two periods are as follows:

Year Ended 31 December	2009	2008	2007
	€000	€000	€000
Defined Benefit Obligation	(377,004)	(382,927)	(424,950)
Fair Value of Plan Assets	414,611	404,657	–
Surplus/(Deficit) in the Plan	37,607	21,730	(424,950)
Experience Adjustment Arising On			
- the plan liabilities	28,666	(2,059)	(4,081)
As a percentage of the scheme liabilities	*7.6%*	*(0.5%)*	*(1.0%)*
- the plan assets	(678)	3,549	–
As a percentage of the scheme assets	*(0.2%)*	*0.9%*	*0.0%*

(x) Expected Contributions to the Plan for the Period Ending 31 December 2010

The following estimates of expected contributions are based on discussions with the Bank and based on the current membership and pensionable salary roll of the plan participants.

	31 December 2010
	€000
Contributions by the Employer	9,900
Contributions by Plan Participants	2,700
Total	**12,600**

Note 35: Management of Financial Risk

The liabilities and assets of the Bank are primarily determined by the nature of the Bank's statutory functions, rather than commercial considerations. At the same time, the Bank actively manages the market risks associated with its investment portfolio (i.e. holdings of foreign currency and euro-denominated assets).

The parameters within which the Bank's investment portfolio is managed are determined by the Board of the Bank; these include the currency composition of assets, the choice of investment instruments and the overall degree of risk that the Bank considers appropriate for its investment activities.

The risks (i.e. currency, market, credit, liquidity and operational) inherent in the investment portfolio are managed by a comprehensive system of limits and procedures. An Investment Committee of the Board reviews investment policy and performance, and is supported by the Bank's Investment Assets Committee which considers policy issues and strategy relating to the investment of the reserves. This committee, under the chairperson of the member of Management Board responsible for Financial Operations, consists of management and senior staff of the Financial Markets, Payments and Securities Settlements and Financial Control Departments. A Standing Investment Strategy Committee, comprising Financial Markets management and dealers meet weekly to formulate short-term investment strategy.

Note 35: Management of Financial Risk (continued)

An Investment Desk comprising a team of dealers carries out the day-to-day dealing activities that are required to implement decisions and to ensure that the portfolios are fully invested. A separate Risk Management Unit is responsible for the measurement, monitoring and reporting of the Bank's financial risk exposures and for monitoring and reporting compliance with limits, etc. The Unit also measures the return on the Bank's investment portfolios.

On an organisation-wide level, financial risk exposures are managed by a formal operational risk management framework which ensures that potential exposures are identified and that appropriate controls and procedures, aimed at minimising and monitoring such risks, are implemented.

Note 36: *Investor Compensation Act*, 1998

Under Section 10 of the *Investor Compensation Act*, 1998, the Bank has formed and registered 'The Investor Compensation Company Limited' (ICCL), a company limited by guarantee. The ICCL administers the investor compensation scheme to reimburse the clients of failed investment firms. The Bank provides administrative and other services to the ICCL, the costs of which are recovered from the ICCL. The ICCL prepares its own Annual Report and audited Statement of Accounts.

Note 37: Unmatured Contracts in Foreign Exchange

Unmatured Foreign Exchange Contracts at 31 December 2009 were as follows:

	Unmatured Purchases	Unmatured Sales	Unmatured Purchases and Sales
	'000s of currency units		
Euro	453,735	–	453,735
US dollar	–	(666,000)	(666,000)

All contracts had matured by 7 January 2010.

Note 38: Unmatured Contracts in Securities

Unmatured contracts in securities at 31 December 2009 were as follows:

	Unmatured Purchases	Unmatured Sales	Unmatured Purchases and Sales
	'000s of currency units		
Euro	368,632	(836,189)	(467,557)
US dollar	–	–	–

All contracts had matured by 6 January 2010.

Note 39: Related Parties

(i) The Bank provides several services to the Minister for Finance, its sole shareholder, and to other government departments and bodies.

The main services during the year to 31 December 2009 were:

- provision of banking services including holding the principal accounts of Government;
- provision and issue of coin;
- holding and maintaining the register of Irish Government securities.

(ii) As a participating member of the ESCB, the Bank has ongoing relationships with other NCBs and the ECB.

Note 40: Post-Balance Sheet Events

The proposed (*Central Bank Reform Bill*, 2010) legislation for implementing the Government decision of June 2009 regarding central banking and regulatory activities was published in March 2010. The bill provides for the new fully integrated structures of central banking and financial regulation, replacing the CBFSAI and the Financial Regulator with a restructured Central Bank of Ireland (CBI).

Note 41: The Irish Financial Services Regulatory Authority

The Irish Financial Services Regulatory Authority (Financial Regulator) was established in May 2003 under the terms of the *Central Bank and Financial Services Authority of Ireland Act*, 2003. As at 31 December 2009 the Financial Regulator was a constituent part of the CBFSAI responsible for the regulation of the financial services industry in Ireland. As set out in Note 40, legislation has been initiated which will result in a unified organisation to be called the Central Bank of Ireland.

The following is a summary of the income and expenditure of the Financial Regulator for the year ended 31 December 2009 together with comparatives for the year ended 31 December 2008.

Note 41: The Irish Financial Services Regulatory Authority (continued)

Irish Financial Services Regulatory Authority – Statement of Income and Expenditure for 2009

		2009	2008
		€000	€000
Industry Funding			
Credit Institutions		18,579	12,288
Insurance Undertakings		5,278	5,683
Intermediaries		2,242	2,287
Securities and Investment Firms		2,042	1,945
Collective Investment Schemes & Service Providers		4,207	4,215
Credit Unions		1,431	1,435
Moneylenders		244	162
Approved Professional Bodies		5	11
Exchanges		150	148
Bureaux de Change/Moneytransmitters		95	49
Home Reversion & Retail Credit Firms		251	–
Total Funding		**34,524**	**28,223**
Less Provision/Write Offs	**(i)**	182	29
Less Provision for repayments to revoked entities	**(ii)**	–	250
Less Provision for overpayments	**(iii)**	294	–
Monetary Penalties	**(iv)**	–	–
Net Industry Funding	**(i)**	**34,048**	**27,944**
Excess of Expenditure over Income from previous year		(517)	599
Subvention from Central Bank and Financial Services Authority of Ireland	**(v)**	27,300	29,090
		60,831	**57,633**
Miscellaneous	**(vi)**	715	–
Other Income	**(vii)**	872	1,732
Total Income		**62,418**	**59,365**
Expenses			
Direct Expenses	**(viii)**	39,248	40,198
Services	**(ix)**	21,003	17,952
		60,251	58,150
Other Expenses	**(vii)**	872	1,732
Total Expenses		**61,123**	**59,882**
Excess/(Shortfall)of Income over Expenditure Carried Forward	**(xi)**	**1,295**	**(517)**

Note 41: The Irish Financial Services Regulatory Authority (continued)

(i) Net Industry Funding and Provisioning

Net Industry Funding income is included in the Statement of Accounts of the CBFSAI under Other Income. This figure comprises income from levies imposed upon the above industry categories (net of appeals and adjustments) under the *Central Bank Act*, 1942 (Sections 33J and 33K), Regulations 2004 (as amended by the 2009 Regulations) and other income in respect of fees and charges. An amount of €182,000 in respect of provisions/write-offs has been offset against total funding income to arrive at Net Industry Funding for 2009. Outstanding levy amounts are being pursued as part of the ongoing debt recovery process.

The provision/write-offs are as follows:

	2009	2008
	€000	€000
Opening Provision for Unpaid Levy Notices	378	396
Less: Write back of previous years' Provisions	79	47
Add: Increase in Provisions for 2009	182	29
Closing Provision for Unpaid Levy Notices	**481**	**378**

(ii) Provision for Repayments to Revoked Entities

As part of a broad consideration of funding issues undertaken in 2007 and 2008, the Financial Regulator noted that, historically, the Annual Funding Regulations were stated as applying to "regulated" entities. Accordingly, an entity whose authorisation was revoked during the period prior to the date on which the Regulations came into force in any year could have reasonably argued that it was not subject to the levy for the year in question on the basis that it ceased to be a regulated entity on the date on which its authorisation was revoked. In the interests of fairness and transparency, the Financial Regulator decided that such entities would be invited to apply for a pro-rata refund of the levy paid in their final year of operation. The Financial Regulator has written to all affected entities advising them to apply to have their case considered. Requests for refunds from revoked entities are being processed and interest has been applied to repayments made. The amount of the provision (€250,000) represents the Financial Regulator's best estimate of any such repayments.

(iii) Provision for Overpayments

In autumn 2009 the Financial Regulator became aware that a number of tied branch agents of a credit institution had overstated income from regulated activities, as declared to the Financial Regulator, during the period 2004 to 2009 due to a misunderstanding on their part of the nature of income to be included on this declaration. Requests for refunds received in respect of 2009 have been processed and paid while requests for refunds in respect of 2004 to 2008 are currently being processed. A provision of €294,000 was created in respect of this item.

Note 41: The Irish Financial Services Regulatory Authority (continued)

(iv) Monetary Penalties

	2009
	€000
Monetary Penalties held in Suspense at end 2008	3,700
Monetary Penalties imposed in 2009	3,673
Income from investment of Monetary Penalties	16
Transfer to Central Bank	**(7,389)**

Monetary penalties imposed represents monies payable to the Financial Regulator by financial services providers following the conclusion of Settlement Agreements with those entities in relation to breaches of regulatory requirements. Monetary penalties received in 2008 were previously retained pending a decision on the utilisation of these funds. All monetary penalties received to date have now been treated as Central Bank income.

(v) Subvention from Central Bank and Financial Services Authority of Ireland

By agreement with the Minister for Finance in September 2006, over the three-year period 2007-2009 approximately 50 per cent of the total costs of the Financial Regulator have been met by the imposition of levies on the industry. The balance of the total annual costs is provided by the CBFSAI in accordance with Section 33(L) of the *Central Bank Act*, 1942 (as inserted by Section 26 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003). In 2009, the CBFSAI, with the approval of the Minister for Finance, bore the full cost of certain securities market supervision activities carried out within the Financial Regulator. These costs totalling €3.4 million were excluded from the Net Industry Funding levies issued to the industry in 2009. In addition, under the provisions of the *Central Bank Act*, 1942 (Section 33J) Regulations 2009, a supplementary levy was imposed on credit institutions covered by the Credit Institutions (Financial Support) Scheme 2008 which is designed to recoup 100 per cent of the costs of the more intensive level of supervision necessary to ensure compliance by relevant credit institutions with the provisions of the Scheme.

(vi) Miscellaneous

This represents:

- a contribution of €0.1 million towards legal fees incurred by the Financial Regulator in defending litigation in 2008 which was received, in 2009, from a party to the litigation; and
- the recoupment of professional fees of €0.6 million incurred on various investigations into the covered financial institutions (see also (viii) below).

(vii) Other Income/Other Expenses

In 2009 the Irish Stock Exchange collected €0.9 million in fees payable to the Financial Regulator in accordance with Regulation 109 of the Prospectus (Directive 2003/71/EC) Regulations, 2005, and Regulation 78 of the Transparency (Directive 2004/109/EC) Regulations, 2007. In accordance with Part 17(h) of the Prospectus Directive and Market Abuse Directive delegation agreements entered into by the Financial Regulator with the Irish Stock Exchange, the Financial Regulator confirmed to the Irish Stock Exchange that it could retain the sum of €0.9 million to put towards the costs that it had incurred in undertaking the delegated functions under the delegation agreements.

Note 41: The Irish Financial Services Regulatory Authority (continued)

(viii) Direct Expenses

	2009	2008
	€000	€000
Salaries/Allowances	26,727	24,483
PRSI	1,813	1,798
	28,540	26,281
Pension Provision	3,832	3,732
Staff Expenses	**32,372**	**30,013**
Training, Recruitment & Other Staff Costs	252	425
Equipment, Stationery & Requisites	295	422
Business Travel	496	795
Publishing & Consumer Advertising	570	2,604
Professional Fees	5,034	5,776
Miscellaneous	229	163
Non-Pay Operating Expenses	**6,876**	**10,185**
Direct Expenses	**39,248**	**40,198**

The total amount of professional fees incurred on various investigations into the covered financial institutions was €3.4 million. These costs were fully recouped from the relevant financial institutions and are accounted for under Credit Institutions Industry Funding (€2.8 million) and Miscellaneous Income (€0.6 million).

(ix) Services

Costs in respect of services provided by the Bank are included in the Statement of Accounts of CBFSAI as set out in Note 8 to the accounts.

The Financial Regulator receives various services including premises, human resources administration, accounting, internal audit, statistical and information technology services from the CBFSAI. The cost of these services in 2009 was €21.0 million (2008: €18.0 million).

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 occupied floor space, personal computer numbers and headcount (staff numbers) as appropriate. The main components of the above costs are as follows:

	2009	2008
	€000	€000
Corporate Services incl. Premises	10,089	8,802
Information Technology Services	4,720	3,172
Human Resources	1,930	2,577
Other Services (x)	4,264	3,401
Total	**21,003**	**17,952**

Note 41: The Irish Financial Services Regulatory Authority (continued)

(x) Other Services

Other services include accounting and other administrative services (2009: €3.0 million; 2008: €1.9 million), statistical services (2009: €0.0 million; 2008: €0.2 million) and estimated actuarial pensions costs (2009: €1.3 million; 2008: €1.3 million) in respect of Central Bank staff engaged in the provision of services to the Financial Regulator.

(xi) Excess/(Shortfall) of Income as compared with Expenditure

This represents the excess in the amount of levies collected from industry in 2009 as compared with the 2009 funding requirement. The 2009 funding requirement is the total of Direct Expenses and Services (€60.3 million) expenditure less the subvention from the CBFSAI. The excess of income as compared with expenditure has been carried forward and the calculation of the amount of industry levies for 2010 has been adjusted to take account of this excess.

Note 42: Approval of Accounts

The Board of Directors approved the Statement of Accounts on 25 June 2010.

Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas

I have audited the Statement of Accounts of the Central Bank and Financial Services Authority of Ireland ("the Bank") for the year ended 31 December 2009 under the *Central Bank Act*, 1942, as amended by the *Central Bank and Financial Services Authority of Ireland Act*, 2003.

The Statement of Accounts, which has been prepared under the accounting policies set out therein, comprise the Accounting Policies, the Profit and Loss and Appropriation Account, the Balance Sheet and the related notes.

Respective Responsibilities of the Directors of the Bank and the Comptroller and Auditor General

The Directors' responsibilities for preparing the Statement of Accounts in accordance with applicable law are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for ensuring the regularity of transactions.

My responsibility is to audit the Statement of Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the Statement of Accounts gives a true and fair view and has been properly prepared on the basis described in paragraph (a) of the Accounting Policies. I also report whether in my opinion proper books of account have been kept. In addition, I state whether the Statement of Accounts is in agreement with the books of account.

I report any material instance where moneys have not been applied for the purposes intended or where the transactions do not conform to the authorities governing them.

I also report if I have not obtained all the information and explanations necessary for the purposes of my audit.

I review whether the Statement on Internal Financial Control reflects the Bank's compliance with the Code of Practice for the Governance of State Bodies and report any material instance where it does not do so, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the Statement of Accounts. I am not required to consider whether the Statement on Internal Financial Control covers all financial risks and controls, or to form an opinion on the effectiveness of the risk and control procedures.

I read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the Statement of Accounts. It also includes an assessment of the significant estimates and judgments made in the preparation of the Statement of Accounts, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Statement of Accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Statement of Accounts.

Opinion

In my opinion, the Statement of Accounts, which has been properly prepared on the basis described in paragraph (a) of the Accounting Policies, gives a true and fair view of the state of the Bank's affairs at 31 December 2009 and of its surplus income for the year then ended.

In my opinion, proper books of account have been kept by the Bank. The Statement of Accounts is in agreement with the books of account.

John Buckley
Comptroller and Auditor General

25 June 2010

Independent Auditor's Report to the Board of Directors of the Central Bank and Financial Services Authority of Ireland

We have audited the Statement of Accounts.

Respective responsibilities of directors and auditors

The directors, as described in the Statement of Directors' Responsibilities, are responsible for preparing the Statement of Accounts.

Pursuant to the requirements of Article 27 of the Statute of the European Central Bank, we have been appointed to audit the Statement of Accounts of the Central Bank and Financial Services Authority of Ireland ('the Bank'). Our responsibilities, as independent auditors, are established by Article 27 of the Statute of the European Central Bank and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Bank's Board of Directors as a body in accordance with Article 27 of the Statute of the European Central Bank and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Statement of Accounts gives a true and fair view and is properly prepared on the basis described in paragraph (a) of the accounting policies. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the Statement of Accounts is in agreement with the accounting records. We also report to you our opinion as to whether the Bank has maintained proper accounting records. We are not required to form an opinion on the effectiveness of the Bank's system of internal financial controls.

Basis of audit opinion

We conducted an audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Statement of Accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Statement of Accounts, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement of Accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Statement of Accounts, the basis of which is described in paragraph (a) of the accounting policies.

Opinion

In our opinion the Statement of Accounts has been properly prepared on the basis described in paragraph (a) of the accounting policies and, on this basis, the Statement of Accounts gives a true and fair view of the State of the Bank's affairs as at 31 December 2009 and of its profit for the year then ended.

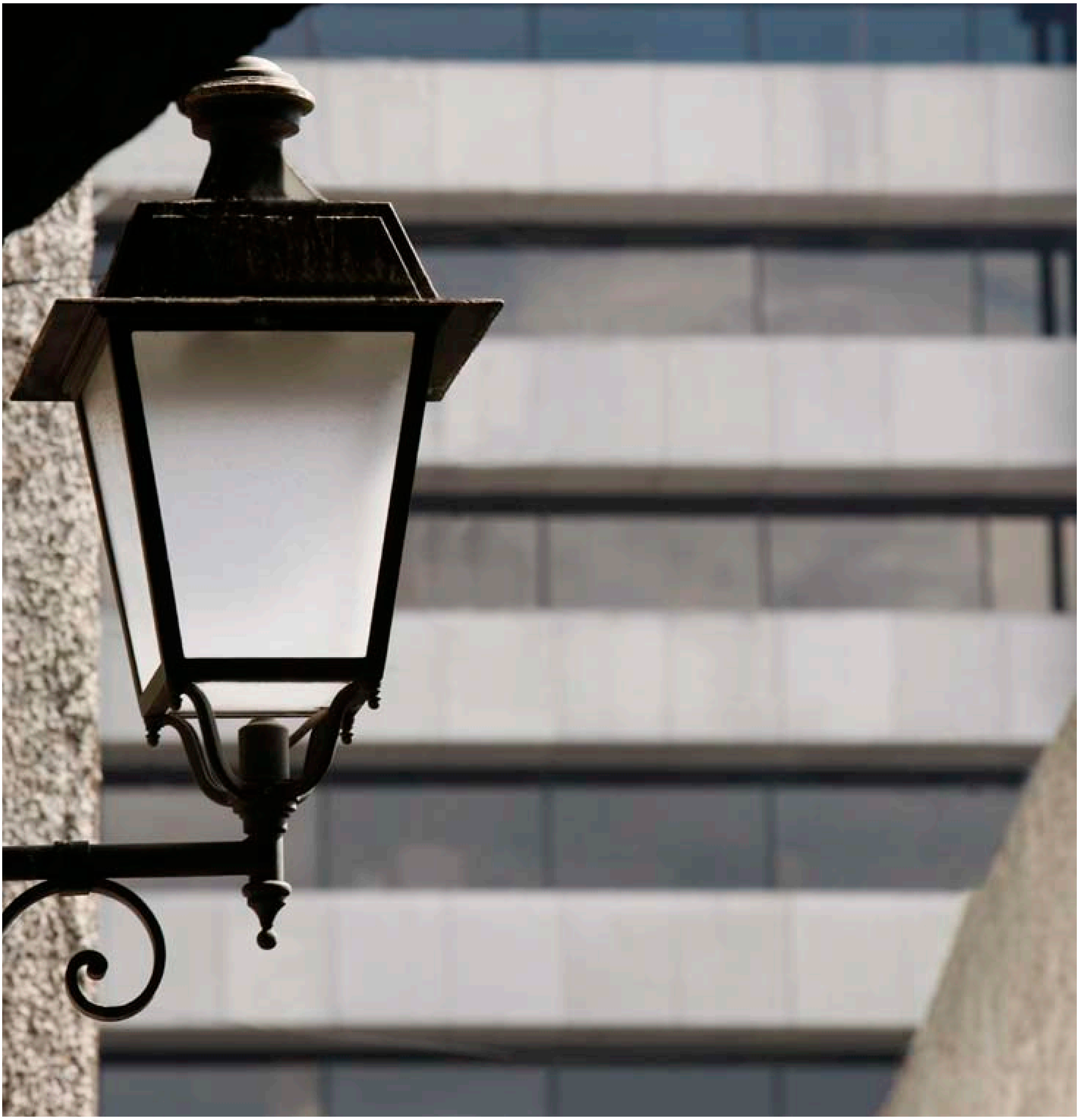
We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion, proper accounting records have been kept by the Bank. The Statement of Accounts is in agreement with the accounting records.

Deloitte & Touche
Chartered Accountants and Registered Auditors

25 June 2010

Financial Review of the Financial Regulator

Year ended 31 December 2009



1. Introduction

The Financial Regulator has systems in place for preparing the annual estimate of income and expenditure in accordance with legislative requirements and for the monitoring of and reporting on actual expenditure on a regular basis. Our annual statement of estimated income and expenditure for 2009 was first submitted to the Minister for Finance on 31 October 2008 in accordance with the legislative requirements. An updated statement submitted to the Minister for Finance on 9 March 2009 reflected agreed policy in relation to the funding by the domestic credit institutions covered by the Credit Institutions (Financial Support) Scheme 2008.

The Financial Regulator is responsible for keeping books and records that properly record and explain the Financial Regulator's transactions. We assisted the CBFSAI in the preparation of its statement of accounts and have decided to publish the further statement of our income and expenditure.

2. Commentary on Income

The funding levy raised €34.0 million from industry in 2009. In line with our stated policy, we aim to maintain the levy at approximately 50 per cent of our budget with the balance of the total annual costs being provided by the CBFSAI in accordance with Section 33(L) of the *Central Bank Act*, 1942 (as inserted by Section 26 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003). In 2009, the CBFSAI, with the approval of the Minister for Finance, bore the full cost of certain securities market supervision activities carried out within the Financial Regulator. These costs totalling €3.4 million were excluded from the Net Industry Funding levies issued in 2009.

The Regulations, detailing the levy amounts payable for 2009, were signed by the Acting Chief Executive on 31 July 2009 and became law on 4 August 2009. Under the provisions of these Regulations, domestic credit institutions covered by the Credit Institutions (Financial Support) Scheme 2008 were required to pay a supplementary levy to the Financial Regulator. This levy was designed to recoup 100 per cent of the costs of the more intensive level of supervision necessary to ensure compliance by relevant credit institutions with the provisions of the Scheme; as in previous years, the 2009 levy calculations were based on an allocation of the Financial Regulator's 2009 budget, the methodology of which was subjected to an independent review by Deloitte & Touche; no issues arose from this review (see Section 5 below).

Overall, there was a high level of compliance with the Regulations in 2009 with the majority of regulated financial service providers paying the levy on a timely basis. However, a sizeable proportion of regulated entities did not pay within the timeframe set out in the legislation and significant efforts were made to pursue outstanding amounts. An amount of €182,000 has been charged to the Income and Expenditure Account in 2009 to cover amounts written-off during the year and the provision for outstanding levies as at year end stood at €481,000. As of 12 February 2010 the Financial Regulator had collected 99.0 per cent of the 2009 Industry Funding Levy. Debt collection efforts in relation to the remaining levies outstanding are ongoing. See also Note (i) on page 108.

3. Commentary on Expenditure

Total Direct Expenses and Services for the year ended 31 December 2009, which comprises direct and indirect costs, amounted to €60.3 million. This compares with a budgeted figure for the year of €63.6 million. Table 1 below analyses total expenditure of the Prudential and Consumer Directorates and the Office of the Registrar of Credit Unions.

Table 1: Analysis of Expenditure by Directorate

	Prudential Directorate	Consumer Directorate	Registrar of Credit Unions	Total
	€000	€000	€000	€000
Salaries/PRSI	18,191	6,197	1,695	26,083
Pension	2,442	832	228	3,502
Staff Expenses	**20,633**	**7,029**	**1,923**	**29,585**
Non-Pay Operating Expense	4,471	1,258	366	6,095
Total Direct Expenses	**25,104**	**8,287**	**2,289**	**35,680**
Financial Regulator Support Departments (i)	4,205	973	258	5,436
Services (ii)	13,505	4,688	942	19,135
Total Direct Expenses and Services	**42,814**	**13,948**	**3,489**	**60,251**

Financial Regulator direct costs which cannot be directly allocated to a directorate (e.g. Financial Regulator support costs such as Legal, Planning and Finance etc.) have been determined by the application of a cost allocation methodology which has been reviewed by independent external consultants.

The process of allocating budgeted costs to each directorate takes into account the direct costs (pay, pension and non-pay) of each directorate.

(i) This represents direct costs of Financial Regulator support departments of €3.568 million, together with €1.868 million of the services costs for services received from the CBFSAI which have been allocated to the support departments of the Financial Regulator.

(ii) This represents the amount of services costs allocated directly to the three divisions. Total services costs for services received from the CBFSAI amounted to €21.003 million; the balance of €1.868 million has been allocated to Financial Regulator support departments – see note (i) above.

Total expenditure, both for pay and non-pay for the year ended 31 December 2009 was below budget due a combination of factors.

On the non-pay side there was a significant under spend in relation to Publishing and Public Relations due to the decision to curtail advertising and defer/cancel other work in relation to the publication of consumer information guides due to increasing usage by consumers of the It's Your Money website. In addition, there were under spends in business travel (due to lower than anticipated attendance at courses, and meetings abroad), training and recruitment (reflecting lower than anticipated attendance at training courses due to departmental restructuring and revised work priorities) and a deferral of external research by each of the Consultative Industry and Consumer Panels.

The significant increase in services costs was mainly attributable to the cost of additional office accommodation at Spencer Dock. These charges primarily comprise of rates, energy, catering and other facilities costs. There was also an increase in Information Technology costs reflecting an expansion in Information Technology requirements, certain information services expenditure related to the monitoring of financial services markets and an increase in the demand for Information Technology services related to increased staffing levels. An increased charge for Human Resources is primarily related to additional recruitment charges as well as administration charges associated with the funded pension scheme which was established in late 2008.

4. Statement of Income and Expenditure and Independent Audit Report of Deloitte & Touche

The following section sets out the Statement of Income and Expenditure for the Financial Regulator for the year ended 31 December 2009.

Accounting Policies

(a) Form of Presentation of Income and Expenditure Account

The Financial Regulator is a constituent part of the CBFSAI. It does not have either assets or liabilities of its own and accordingly it is not considered appropriate to produce either a balance sheet or cash flow statement.

The Statement of Income and Expenditure has been prepared (i) on the historical cost basis of accounting and (ii) in accordance with accounting standards generally accepted in Ireland in so far as they are applicable to the structure of the Financial Regulator. Accounting standards generally accepted in Ireland in preparing accounts giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The accounting unit is the euro.

(b) Income Recognition

The accruals concept in accounting for income and expenses has been adopted.

(c) Superannuation

The employment contracts of staff appointed by the Financial Regulator are with the CBFSAI. Under the CBFSAI's superannuation scheme permanent staff obtain the same superannuation benefits as established civil servants. Up to 30 September 2008 the CBFSAI 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, on the advice of the CBFSAI's actuaries Willis, was transferred from the CBFSAI's resources to the fund to purchase pension fund assets. All future benefits will be paid out of this fund. The Bank discloses the cost of providing benefits in accordance with Financial Reporting Standard (FRS) 17 – 'Retirement Benefits'. See also Accounting Policy (d) and Note 34 of the Statement of Accounts of the Central Bank and Financial Services Authority of Ireland for the year ended 31 December 2009.

Irish Financial Services Regulatory Authority

Statement of Income and Expenditure for the year ended 31 December 2009

	Note	2009 €000	2008 €000
Industry Funding			
Credit Institutions		18,579	12,288
Insurance Undertakings		5,278	5,683
Intermediaries		2,242	2,287
Securities and Investment Firms		2,042	1,945
Collective Investment Schemes and Service Providers		4,207	4,215
Credit Unions		1,431	1,435
Moneylenders		244	162
Approved Professional Bodies		5	11
Exchanges		150	148
Bureaux de Change/Money Transmitters		95	49
Home Reversion and Retail Credit Firms		251	–
Total Funding		**34,524**	**28,223**
Less Provision/Write Offs	**(i)**	182	29
Less Provision for repayments to revoked entities	**(ii)**	–	250
Less Provision for overpayments	**(iii)**	294	–
Monetary Penalties	**(iv)**	–	–
Net Industry Funding	**(i)**	**34,048**	**27,944**
Excess of Expenditure over Income from previous year		(517)	599
Subvention from Central Bank and Financial Services Authority of Ireland	**(v)**	27,300	29,090
		60,831	**57,633**
Miscellaneous	**(vi)**	715	–
Other Income	**(vii)**	872	1,732
Total Income		**62,418**	**59,365**
Expenses			
Direct Expenses	**(viii)**	39,248	40,198
Services	**(ix)**	21,003	17,952
		60,251	58,150
Other Expenses	**(vii)**	872	1,732
Total Expenses		**61,123**	**59,882**
Excess/(Shortfall) of Income over Expenditure Carried Forward	**(x)**	**1,295**	**(517)**

Notes to the Statement of Income and Expenditure

Note (i): Net Industry Funding and Provisioning

Net Industry Funding income is included in the Statement of Accounts of the CBFSAI under Other Income. This figure comprises income from levies imposed upon the above industry categories (net of appeals and adjustments) under the *Central Bank Act*, 1942 (Sections 33J and 33K), Regulations 2004 (as amended by the 2009 Regulations) and other income in respect of fees and charges. An amount of €182,000 in respect of provisions/write-offs has been offset against total funding income to arrive at Net Industry Funding. Outstanding levy amounts are being pursued as part of the ongoing debt recovery process.

The provision/write-offs are as follows:

	2009	2008
	€000	€000
Opening Provision for Unpaid Levy Notices	378	396
Less: Write back of previous year's Provisions	79	47
Add: Increase in Provision for 2009	182	29
Closing Provision for Unpaid Levy Notices	**481**	**378**

Note (ii): Provision for repayments to revoked entities

As part of a broad consideration of funding issues undertaken in 2007 and 2008, the Financial Regulator noted that, historically, the Annual Funding Regulations were stated as applying to "regulated" entities. Accordingly, an entity whose authorisation was revoked during the period prior to the date on which the Regulations came into force in any year could have reasonably argued that it was not subject to the levy for the year in question on the basis that it ceased to be a regulated entity on the date on which its authorisation was revoked. In the interests of fairness and transparency, the Financial Regulator decided that such entities would be invited to apply for a pro-rata refund of the levy paid in their final year of operation. The Financial Regulator has written to all affected entities advising them to apply to have their case considered. Requests for refunds from revoked entities are being processed and interest has been applied to repayments made. The amount of the provision (€250,000) represents the Financial Regulator's best estimate of any such repayments.

Note (iii): Provision for Overpayments

In Autumn 2009 the Financial Regulator became aware that a number of tied branch agents of a credit institution had overstated income from regulated activities, as declared to the Financial Regulator, during the period 2004 to 2009 due to a misunderstanding on their part of the nature of income to be included on this declaration. Requests for refunds received in respect of 2009 have been processed and paid while requests for refunds in respect of 2004 to 2008 are currently being processed. A provision of €294,000 was created in respect of this item.

Note (iv): Monetary Penalties

	2009
	€000
Monetary Penalties held in Suspense at end 2008	3,700
Monetary Penalties imposed in 2009	3,673
Income from investment of Monetary Penalties	16
Transfer to Central Bank	**(7,389)**

Monetary penalties imposed represents monies payable to the Financial Regulator by financial services providers following the conclusion of Settlement Agreements with those entities in relation to breaches of regulatory requirements. Monetary penalties received in 2008 were previously retained pending a decision on the utilisation of these funds. All monetary penalties received to date have now been treated as Central Bank income.

Note (v): Subvention from Central Bank and Financial Services Authority of Ireland

By agreement with the Minister for Finance in September 2006, over the three-year period 2007-2009 approximately 50 per cent of the total costs of the Financial Regulator have been met by the imposition of levies on the industry. The balance of the total annual costs is provided by the CBFSAI in accordance with Section 33(L) of the *Central Bank Act*, 1942 (as inserted by Section 26 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003). In 2009, the CBFSAI, with the approval of the Minister for Finance, bore the full cost of certain securities market supervision activities carried out within the Financial Regulator. These costs totalling €3.4 million were excluded from the Net Industry Funding levies issued to the industry in 2009. In addition, under the provisions of the *Central Bank Act*, 1942 (Section 33J) Regulations 2009, a supplementary levy was imposed on credit institutions covered by the Credit Institutions (Financial Support) Scheme 2008 which is designed to recoup 100 per cent of the costs of the more intensive level of supervision necessary to ensure compliance by relevant credit institutions with the provisions of the Scheme.

Note (vi): Miscellaneous

This represents:

- a contribution of €0.1 million towards legal fees incurred by the Financial Regulator in defending litigation in 2008 which was received, in 2009, from a party to the litigation; and
- the recoupment of professional fees of €0.6 million incurred on various investigations into the covered financial institutions (see also Note (viii) below).

Note (vii): Other Income/Other Expenses

In 2009 the Irish Stock Exchange collected €0.9 million in fees payable to the Financial Regulator in accordance with Regulation 109 of the Prospectus (Directive 2003/71/EC) Regulations, 2005, and Regulation 78 of the Transparency (Directive 2004/109/EC) Regulations, 2007. In accordance with Part 17(h) of the Prospectus Directive and Market Abuse Directive delegation agreements entered into by the Financial Regulator with the Irish Stock Exchange, the Financial Regulator confirmed to the Irish Stock Exchange that it could retain the sum of €0.9 million to put towards the costs that it had incurred in undertaking the delegated functions under the delegation agreements.

Note (viii): Direct Expenses

	Note	2009 €000	2008 €000
Salaries/Allowances	(a)	26,727	24,483
PRSI		1,813	1,798
		28,540	26,281
Pension Provision	(b)	3,832	3,732
Staff Expenses		**32,372**	**30,013**
Training, Recruitment & Other Staff Costs		252	425
Equipment, Stationery & Requisites		295	422
Business Travel		496	795
Publishing & Consumer Advertising		570	2,604
Professional Fees	(c)	5,034	5,776
Miscellaneous		229	163
Non-Pay Operating Expenses		**6,876**	**10,185**
Direct Expenses		**39,248**	**40,198**

Direct expenses (excluding the pension provision of €3.8 million) are included in the Statement of Accounts of the CBFSAI as set out in Note 8 to those accounts.

(a) Total fees paid to Members of the Financial Regulator in respect of 2009 were €202,533 (2008: €186,667).

(b) The pension provision represents the estimated actuarial pension costs of the CBFSAI in respect of Financial Regulator staff serving in 2009. This provision does not form part of the CBFSAI's expenses for 2009.

(c) The total amount of professional fees incurred on various investigations into the covered financial institutions was €3.4 million. These costs were fully recouped from the relevant financial institutions and are accounted for under Credit Institutions Industry Funding (€2.8 million) and Miscellaneous Income (€0.6 million). Auditors' fees payable to Deloitte & Touche in respect of the examination of the Statement of Income and Expenditure of the Financial Regulator amounted to €4,898 (2008: €6,655).

Note (ix): Services

Services costs are included in the Statement of Accounts of the CBFSAI as set out in Note 8 to the accounts.

The Financial Regulator receives various services including premises, human resources administration, accounting, internal audit, statistical and information technology services from the CBFSAI. The cost of these services in 2009 was €21.0 million (2008: €18.0 million).

Note (ix): Services (continued)

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 occupied floor space, personal computer numbers and headcount (staff numbers) as appropriate. The main components of the above costs are as follows:

	2009	2008
	€000	€000
Corporate Services incl. Premises	10,089	8,802
Information Technology Services	4,720	3,172
Human Resources	1,930	2,577
Other Services	4,264	3,401
Total	**21,003**	**17,952**

Other services

Other services include accounting and other administrative services (2009: €3.0 million; 2008: €1.9 million), statistical services (2009: €0.0 million; 2008: €0.2 million) and estimated actuarial pensions costs (2009: €1.3 million; 2008: €1.3 million) in respect of Central Bank staff engaged in the provision of services to the Financial Regulator.

Note (x): Excess/(Shortfall) of Income as compared with Expenditure

This represents the excess in the amount of levies collected from industry in 2009 as compared with the 2009 funding requirement. The 2009 funding requirement is the total of Direct Expenses and Services (€60.3 million) expenditure less the subvention from the CBFSAI. The excess of income as compared with expenditure has been carried forward and the calculation of the amount of industry levies for 2010 has been adjusted to take account of this excess.

Note (xi): Superannuation Liabilities

Superannuation liabilities of all staff employed by the CBFSAI are dealt with in Note 34 of the Statement of Accounts of the CBFSAI for the year ended 31 December 2009.

Note (xii): Post-Balance Sheet Events

There were no post-balance sheet adjusting events.

Note (xiii): Approval of Accounts

The Board of Directors approved the Statement of Income and Expenditure on 25 June 2010.

Independent Auditor's Statement to the Members of the Irish Financial Services Regulatory Authority ("The Financial Regulator")

We have examined the Statement of Income and Expenditure set out in Section 4 of the Financial Regulator's Annual Report for the year ended 31 December 2009.

Respective Responsibilities of Members and Auditors

The Members are responsible for preparing the Statement of Income and Expenditure. Our responsibility is to report to you our opinion on the consistency of the Statement of Income and Expenditure within the Annual Report with the Statement of Income and Expenditure for the Financial Regulator disclosed in the Notes to the Accounts of the full Statement of Accounts of the Central Bank and Financial Services Authority of Ireland for the year ended 31 December 2009. We also read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Statement of Income and Expenditure.

This statement, including the opinion, has been prepared for and only for the Financial Regulator's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of Opinion

We conducted our work in accordance with Bulletin 1999/6 "The auditors' statement on the summary financial statement" issued by the Auditing Practices Board.

Opinion

In our opinion the Statement of Income and Expenditure is consistent with the Statement of Income and Expenditure for the Financial Regulator disclosed in the Notes to the Accounts of the full Statement of Accounts of the Central Bank and Financial Services Authority of Ireland for the year ended 31 December 2009.

Chartered Accountants and Registered Auditors
Dublin

5. Review of Cost Allocation Model used by the Financial Regulator

This section contains an overview of the work carried out by Deloitte & Touche on the allocation of Financial Regulator 2009 costs (Outturn) to industry sectors.

This independent report is contained in section 6.4.

Review of Financial Regulator's 2009 Model

Section 33J of the 2003 Act empowers the Chief Executive of the Financial Regulator, with the agreement of the other members of the Authority, to make regulations prescribing levies to be paid by regulated entities to the Financial Regulator.

Under the current levy arrangements, the amounts levied by the Financial Regulator are set by reference to the relevant budgeted costs attributable to each industry category. These costs are determined using a Model developed by the Financial Regulator in conjunction with external consultants (the "Financial Regulator's Model"). The Financial Regulator's Model takes into account the activities involved in supervising each industry category and, in the case of costs which cannot be directly allocated to an industry category, a basis considered appropriate by the Financial Regulator has been used to allocate such costs.

In 2009 Deloitte & Touche were appointed independent reporting accountants to form an independent opinion on the logical integrity, internal consistency and arithmetical accuracy of the formulae, algorithms and calculations contained within the Financial Regulator's Model employed by the Financial Regulator to allocate costs to industry categories and on the application of the Financial Regulator's Model to 2009 actual costs (the "Financial Regulator's 2009 Actual Model") and to report that opinion to the Members of the Authority. A copy of their report, dated 18 June 2010, to the Members of the Authority is included in section 6.4.

6. Statement of Allocation of Financial Regulator Actual Costs to Industry Sectors

1. Introduction

Section 33J of the *Central Bank Act*, 1942 ('the Act') as inserted by Section 26 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003 empowers the Chief Executive of the Irish Financial Services Regulatory Authority ("Financial Regulator"), with the agreement of the other members of the Irish Financial Services Regulatory Authority, to make regulations prescribing levies to be paid by regulated entities to the Financial Regulator.

Each year the Financial Regulator sets the levy by reference to the allocation applicable to industry categories of the Financial Regulator's actual outturn costs for the previous year and the budgeted cost for the forthcoming year.

The 2009 budget model has been re-run using actual costs for 2009 in order to determine the 'actual' costs – i.e the 'Outturn'. Sub-section 3 below sets out the allocation of budgeted and actual costs for the year ended 31 December 2009.

The Outturn was subject to independent assessment by reporting accountants Deloitte & Touche. Their report is set out in sub-section 4 below.

2. Notes to the Statement of Allocation of Actual Costs for the year ended 31 December 2009

Method of allocation

In setting the annual funding requirement any surplus or deficit from the previous year is offset against the budgeted costs. The resultant amount is allocated across industry categories. There are a total of 13 industry categories. The process of allocating costs to each industry category takes into account the activities involved in supervising each industry category. In the case of costs which cannot be directly allocated to an industry category a basis considered appropriate by the Financial Regulator has been used to allocate such costs.

3. Statement of Allocation of Costs for the year to 31 December 2009

	Industry Category	Budget Allocated Costs	Actual Allocated Costs[1]
		€000	€000
A	Credit Institutions	18,108	16,664
B	Insurance Undertakings	5,549	5,161
C	Intermediaries	2,200	2,247
D	Securities and Investment Firms	2,022	2,075
E	Collective Investment Schemes (“CIS”) and Providers to CIS	4,099	4,009
F	Credit Unions[2]	1,769	1,431
G	Moneylenders	271	247
H	Approved Professional Bodies	5	12
I	Exchanges	158	62
J	Bureaux de Change/Money Transmitters	91	72
M	Home Reversion Firms/Retail Credit Firms	251	258
Total		**34,523**	**32,238**

(Category I Exchanges – includes Approved Exchanges authorised under the *Stock Exchange Act*, 1995.)

The actual allocated costs detailed above were the result of the application of the actual costs for 2009 to the cost allocation model as described in sub-section 1 above. These amounts, together with other information such as amounts actually collected in 2008, were then used to determine the surplus arising for each industry sector in 2009 which was offset against the 2009 levy amount to be collected.

1 Net of miscellaneous receipts of €715,000.

2 This represents the credit union funding contribution for 2009 which has been capped at 0.01 per cent of total assets.

4. Independent Report by Deloitte & Touche

The Members of the Irish Financial Services Regulatory Authority
("the Financial Regulator")
PO Box 9138
College Green
Dublin 2

18 June 2010

Dear Sir/Madam,

INDEPENDENT ACCOUNTANT'S REPORT TO THE MEMBERS OF THE FINANCIAL REGULATOR IN CONNECTION WITH THE OUTTURN REVIEW

We have examined the allocation of actual costs within the Financial Regulator to each of the industry categories for the purpose of calculating levies payable by regulated entities to the Financial Regulator for the year ending 31 December 2009 – "the Outturn". The Outturn has been prepared in accordance with the descriptions provided by the Financial Regulator's management to us for each of the cost centres involved in regulating financial services entities, providing services to these cost centres.

Our report is made solely to the members of the Financial Regulator in accordance with the terms of our engagement letter, dated 18 March 2010. Our work has been undertaken so that we might state to them those matters we are required to state to them in this 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 Financial Regulator for our work, for our report or for the opinions we have formed.

Respective responsibilities of the Financial Regulator and Deloitte & Touche

The Financial Regulator is responsible for the preparation of the Outturn in accordance with the bases set out in the preparation note. It is our responsibility to form an independent opinion, based on our examination, on the Outturn and to report our opinion to you. Therefore we are responsible for selective testing of the allocation of actual costs as outlined below.

Work performed

We conducted our work in accordance with the terms of our engagement letter. Our work included a review of evidence relevant to the Outturn. Our work excluded audit procedures and is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit.

Our review consisted principally of the performance of the following procedures:

» We agreed the total population of costs in the Outturn to the Financial Regulator's management accounts for the year ended 31 December 2009 (subject to any audit adjustments thereto) presented for, and subject to, audit.

» We agreed the total population of costs to the accounts of the full Statement of Accounts of the Central Bank and Financial Services Authority of Ireland for the year ended 31 December 2009.

» We verified that the actual costs, and only those costs, for each of the cost centres included in the budgeted model have been included in the Outturn.

» We verified that the allocation metrics used in the Outturn for each of the cost centres to be allocated are consistent with those used in the budgeted model and have been applied correctly.

» We verified the "standing data", used to determine the allocation metrics and used to perform the allocation of costs to industry categories, to supporting material provided by departments independent of the Financial Regulator.

» We checked the logical integrity, the consistency and arithmetic accuracy of the formulae, algorithms and calculations in the Outturn with those in the budgeted model.

Conclusion

Based on our examination, as outlined above:

» in our opinion the Outturn has been prepared in a manner that is consistent with the budgeted model;

» nothing came to our attention that would indicate that the Outturn has been prepared on a basis that is inconsistent with our understanding of the budgeted model and/or the operations of the Financial Regulator; and

» we are not aware of any material modifications that should be made to the Outturn.

Chartered Accountants and Registered Auditors
Dublin

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