10

Central Bank Annual Report

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Central Bank of Ireland

20 May 2011

Dear Minister

Under the Central Bank Act 1942, the Central Bank of Ireland (the Bank) is required to prepare a report on its activities during the year and to present this document to you within six months after the end of each financial year.

The Annual Report also includes 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 Bank for the year ended 31 December 2010.

Yours faithfully

Patrick Honohan
Governor

Contents

Part 1

The Central Bank Commission 3

Management 4

Organisation Chart 5

Governor's Opening Statement 7

2010: The Bank at a Glance 10

2010: The Economy at a Glance 11

List of Common Abbreviations 12

Chapter 1: Key Activities and Developments in 2010 14

Chapter 2: Governance 67

Part 2

Financial Operations 76

Statement of Accounts for year ended 31 December 2010 80

Part 1

The Central Bank Commission

as at 30 April 2011

Patrick Honohan, Governor*

Tony Grimes, Deputy Governor (Central Banking)*

Matthew Elderfield, Deputy Governor (Financial Regulation)*

Kevin Cardiff*

John FitzGerald

Blanaid Clarke

Max Watson

Des Geraghty

Michael Soden

Alan Ahearne

Neil Whoriskey, Secretary

* Ex-officio members

Management

as at 20 May 2011

	Directorate	Function	Head of Division
Deputy Governor (Central Banking)			
Tony Grimes		Financial Control	Dermot Maher
		General Secretariat	Neil Whoriskey
		Internal Audit	Patrick Treanor
		Legal	Joseph Gavin
		Organisational Risk	AnneMarie McKiernan
		Currency Issue	Daragh Cronin
		Currency Production	Harry Murphy
		Advisor to the Governor	Frank Browne
Director			
Mary O'Dea	Financial Operations	Financial Markets	Michael Maher
		Payments and Securities Settlements	Paul Molumby
Director			
Maurice McGuire	Economic Policy & Financial Stability	Economic Analysis and Research	John Flynn
		Financial Stability	Vacancy*
		Monetary Policy and International Relations	Mark Cassidy
		Statistics	Joe McNeill
		Special Advisor on Economic Projects	Peter Charleton
Deputy Governor (Financial Regulation)			
Matthew Elderfield			
Director			
Vacancy*	Insurance Supervision	Retail Insurance Supervision	Fiona McMahon
		Wholesale Insurance Supervision	Colette Drinan
Jonathan McMahon	Credit Institutions Supervision	Retail & Wholesale Banks Supervision	Shane O'Neill
		Prudential Analytics & Resolution	Vacancy*
		Registrar of Credit Unions	James O'Brien
Director			
Gareth Murphy	Markets	Funds Authorisation and Supervision	Patricia Moloney
		Investment Service Providers Supervision	George Treacy
		Markets and Stockbrokers Supervision	Martin Moloney
		Corporate Finance	Vacancy*
Director			
Patrick Brady	Policy and Risk	Prudential Policy	Mary Burke
		Governance and Accounting Policy	Michael Deasy
		Risk	William Mason
Director			
Bernard Sheridan	Consumer Protection Codes	Consumer Protection Codes – Banking Policy and Risk	Sharon Donnery
		Consumer Protection Insurance, Investment and Intermediaries	Vacancy*
Director			
Peter Oakes	Enforcement	Enforcement I	Derville Rowland
		Enforcement II	Hilary Griffey
Chief Operations Officer			
Gerry Quinn	Information Management and Technology	Information Systems	Michael Power
			Michael Enright
	Operations	Corporate Services	Vacancy*
		Regulatory Transactions	
Director			
Liz Joyce	Human Resources	Human Resources	Lucy O'Donoghue

* The recruitment process to fill management vacancies is ongoing

Organisation

CENTRAL BANK COMMISSION
Patrick Honohan*, Alan Ahearne, Kevin Cardiff*, Blanaid Clarke, Matthew Elderfield*, John FitzGerald, Des Geraghty, Tony Grimes*, Michael Soden, Max Watson, Neil Whoriskey (Secretary)

GOVERNOR
Patrick Honohan

- **DEPUTY GOVERNOR (CENTRAL BANKING)** – **Tony Grimes**
  - Financial Control; General Secretariat; Internal Audit; Legal; Organisational Risk
  - Financial Operations – Mary O'Dea
    - Financial Markets; Payments and Securities Settlements
  - Economic Policy & Financial Stability – Maurice McGuire
    - Economic Analysis and Research; Financial Stability; Monetary Policy and International Relations; Statistics
  - Currency Issue; Currency Production
- **DEPUTY GOVERNOR (FINANCIAL REGULATION)** – **Matthew Elderfield**
  - Credit Institutions Supervision – Jonathan McMahon
    - Retail & Wholesale Banks Supervision; Prudential Analytics & Resolution; Registrar of Credit Unions
  - Insurance Supervision – Vacancy
    - Retail Insurance Supervision; Wholesale Insurance Supervision
  - Markets – Gareth Murphy
    - Funds Authorisation and Supervision; Investment Service Providers Supervision; Markets and Stockbrokers Supervision; Corporate Finance
  - Policy and Risk – Patrick Brady
    - Prudential Policy; Governance and Accounting Policy; Risk
  - Consumer Protection – Bernard Sheridan
    - Consumer Protection Codes – Banking Policy and Risk; Consumer Protection Insurance, Investment and Intermediaries
  - Enforcement – Peter Oakes
    - Enforcement I; Enforcement II
- **CHIEF OPERATIONS OFFICER** – **Gerry Quinn**
  - Information Systems; Customer Engagement; Enterprise Architecture; IT Programs; Project Management Office
  - Human Resources – Liz Joyce
    - Human Resources
  - Corporate Services; Regulatory Transactions

* Ex-officio

Effective 20 May 2011

Governor's Opening Statement

Major challenges on several fronts engaged the Central Bank (the Bank) during 2010. The main driving force was the pressing need to restore stability to the Irish banking system by identifying and providing for the heavy loan-losses incurred in the property bubble. Against a background of heightened international uncertainty in several euro area countries, the Bank worked to underpin a restoration of confidence in the Irish financial system as well as in the prospects for the Irish economy as a whole. In a year of decisive action, each step was taken with a view not only to enhancing the likelihood of a favourable outcome for the economy as a whole, but also to minimize downside risks.

The Bank has acted strongly during 2010 and in the early months of 2011 to promote recovery. It has continued to work with the ECB to ensure that the necessary liquidity has been made available to allow the banking sector continue to function in Ireland – and across the euro area – despite the adverse trend in market sentiment in relation to Ireland that set in again at the end of April 2010, as reflected in successive ratings downgrades.

Based on progressively more granular and demanding information gathering and analysis of the impaired loan portfolio and financial condition of the banks, the Bank has set tougher capital requirements to ensure the banks are strong enough to withstand future losses. It has brought in new consumer protection measures, not least in relation to the treatment of mortgage arrears. It has introduced new standards of corporate governance and embarked on a programme of enhancing supervision and enforcement, involving the introduction of a new risk based assessment framework. All of this has taken place against the background of very considerable regulatory and institutional reform.

The Bank has continued to provide policy advice to Government on national economic issues, and to make public its views on current economic conditions and broad policy options. With the Government's access to market funding severely curtailed, with knock-on effects on the banking system, the Bank did not hesitate to recommend a prompt application for assistance to the EU and IMF financial support facilities in the interests of containing what threatened to become for Ireland a damaging, self-reinforcing deterioration in market perceptions of the country's economic prospects.

The EU-IMF Programme of Support, agreement on which was concluded towards the end of the year, defines important elements of the economic and financial policy framework for the coming years. It provides a window of time during which the Government can demonstrate its adherence to a convergent fiscal strategy, thereby rebuilding market confidence. By endorsing the Programme, the international authorities have demonstrated their own confidence that Ireland can bring its debt dynamics under control.

In particular, the EU-IMF programme has endorsed the overall policy approach to banking, while calling for a more rapid and far-reaching implementation of this strategy. This comprises broadly three elements. First, the banking system needs to be downsized and reorganised. This process has already started with those banks which are no longer sustainable being wound down and their deposits transferring to other banks. Secondly, capital is being injected to reach the newly increased capital standards. The Prudential Capital and Liquidity Assessment Reviews published earlier this year were based on conservative, transparent and externally validated stress tests. They should ensure that the process of rebuilding a well capitalised and smaller banking system is well on track. Thirdly, the institutional weaknesses that have become apparent during the banking crisis are being addressed.

The Bank itself is already strengthening its capabilities and capacity. The Central Bank Reform Act 2010 created a new unitary institution responsible for both central banking and financial regulation. This is governed by a new single board – the Central Bank Commission – commenced at the start of October 2010. Many other structural reforms have been made in terms of the organisation of the Bank over the past year including a considerable strengthening of the supervisory and enforcement functions. Further reform through legislation will be introduced in the coming year.

All of the key objectives of the organisation are set out in the Bank's three year Strategic Plan, published in July 2010. This covers not only the new model of regulation, but also all the other key functions performed, both in relation to the domestic economy and international engagements not least as part of the Eurosystem. How the Bank met those objectives and carried out those functions for the past year is covered in this Annual Report and in the new Annual Performance Statement for Financial Regulation which accompanies this report and is published for the first time this year.

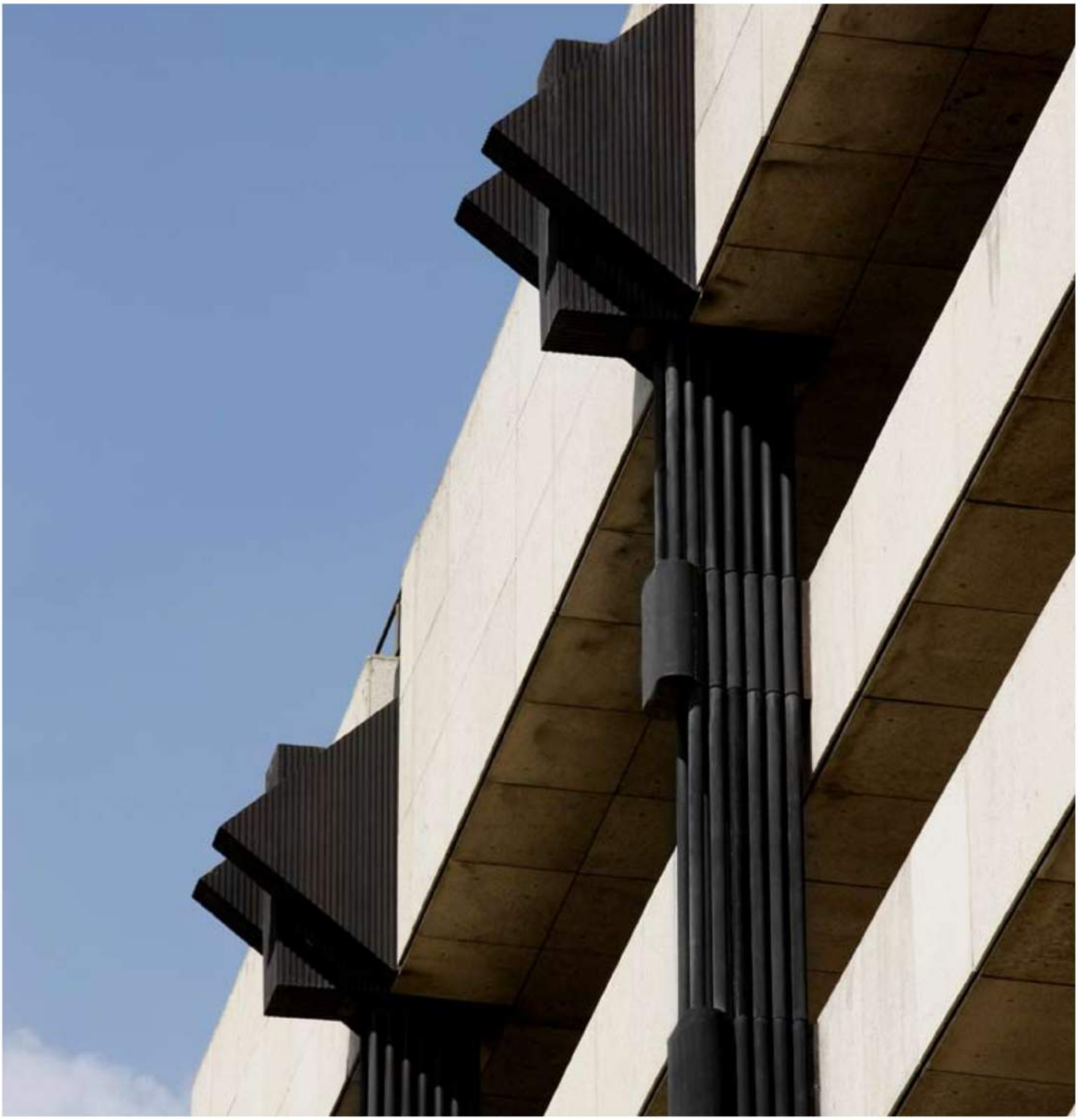
Turning to the financial accounts, the Bank's profit for the year to 31 December 2010 amounted to €840.9 million. After retained earnings, surplus income of €671 million will be paid to the Exchequer.

I would like to thank all those who have contributed to the considerable work that has been undertaken by the Bank over the past year. I would like to pay tribute to the major contribution made to the institution by the outgoing Deputy Governor for Central Banking, Tony Grimes, who will be retiring shortly. I also wish to thank both the former members of the Board and the new members of the Commission for their support during the year.

Finally, I wish to thank all the management and staff for their continued hard work and commitment to the organisation in these challenging times. Their dedication and focus will help in our goal of restoring confidence to Ireland, its banks and its public finances.

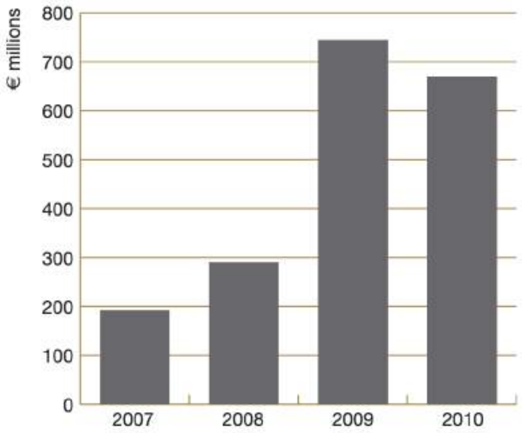
Patrick Honohan
Governor

2010 **at a Glance**



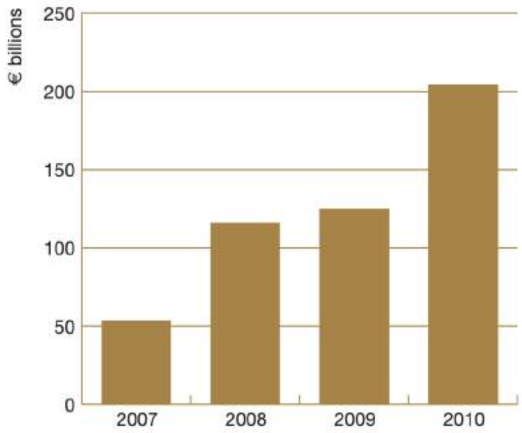
2010: The Bank at a Glance

Surplus Income Paid to Exchequer



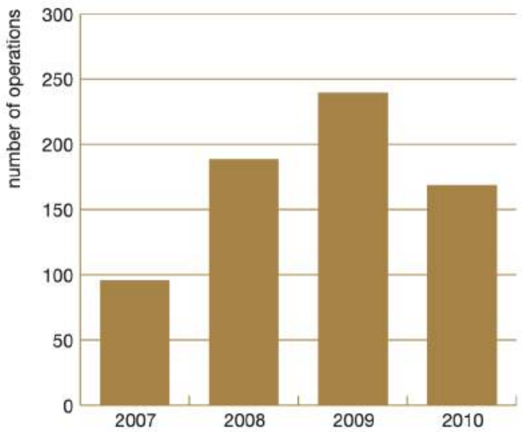
Surplus income paid to the Exchequer decreased to €671.0 million.

Total Assets



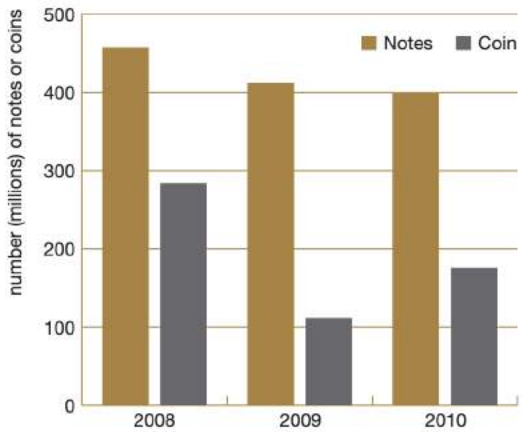
Total Assets increased to €204.5 billion.

Number of Open Market Operations



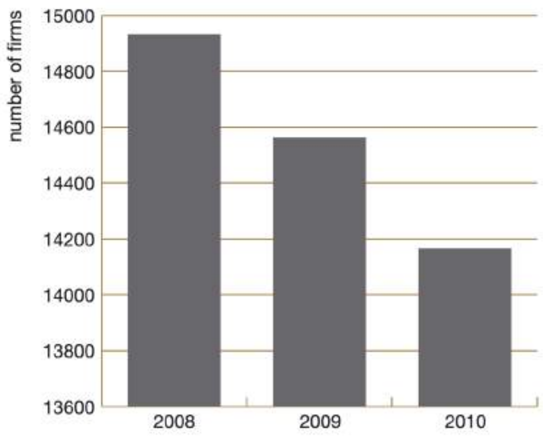
There were approximately 169 operations conducted by the Bank on behalf of the Eurosystem.

Issuance of Banknotes and Coins



The number of banknotes issued fell (399 million in 2010 from 412 million in 2009) and the number of coins issued increased (112 million in 2009 to 176 million in 2010).

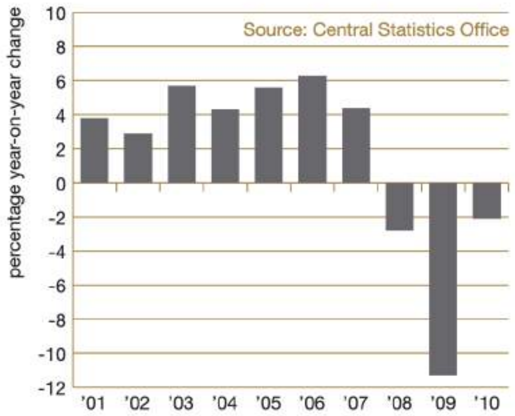
Number of Regulated Financial Service Providers



The number of regulated financial service providers fell by 397 to 14,166.

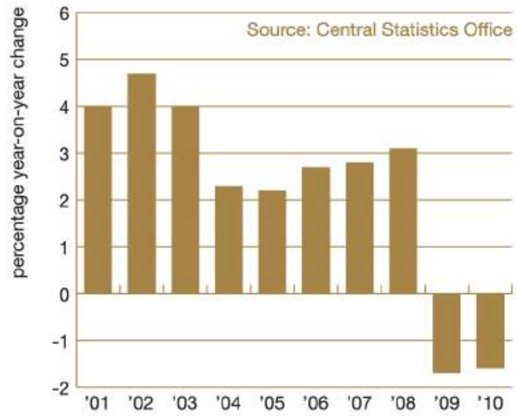
2010: The Economy at a Glance

Real GNP



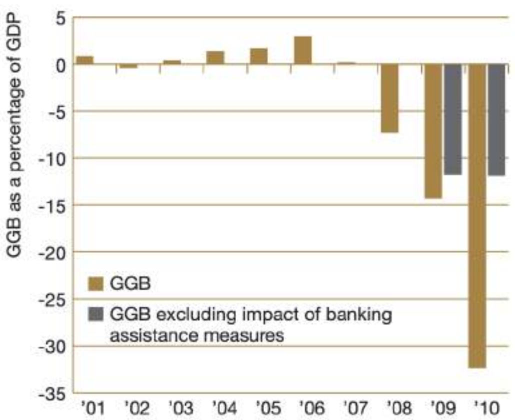
The economy contracted in 2010, with GNP falling by 2.1 per cent in real terms.

Inflation (HICP)



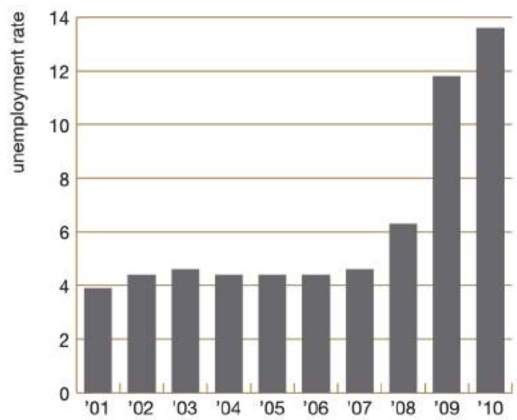
The HICP measure of inflation averaged -1.6 per cent in 2010.

General Government Balance as a % of GDP



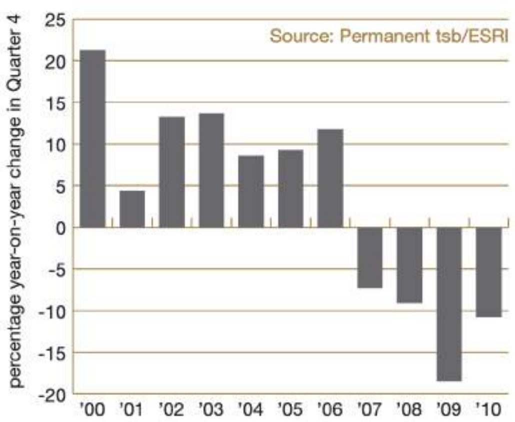
The General Government deficit equated to 32.4 per cent of GDP in 2010. This amounts to 11.9 per cent of GDP when bank assistance measures are excluded. Note: These figures are consistent with the EDP figures published by Eurostat on 26 April 2011.

Unemployment Rate



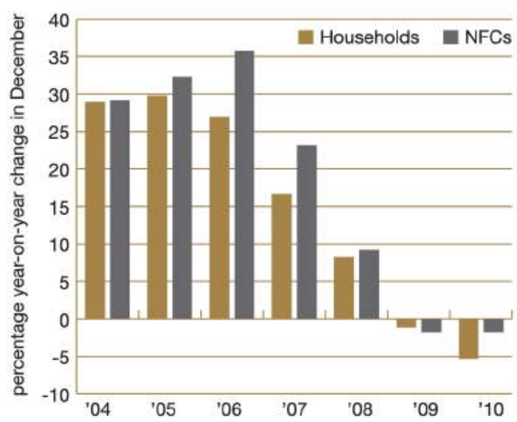
The unemployment rate increased to an average of 13.6 per cent in 2010.

National House Prices



National house prices continued to fall, with prices falling by 10.8 per cent year-on-year by end-2010.

End-Year Annual Rates of Change in Lending



Lending to Irish Households and Non-Financial Corporations (NFCs) fell by 5.3% and by 1.8%, respectively, year-on-year by end 2010. Note: Growth rates are based on underlying transactions, i.e. after adjusting for write-downs, securitisations and transfers to NAMA etc.

List of Common Abbreviations

AIFM	Alternative Investment Fund Managers
AML	Anti Money Laundering
BCBS	Basel Committee of Banking Supervisors
BCM	Business Continuity Management
BIS	Bank for International Settlements
BLS	Bank Lending Survey
CAR	Client Asset Requirements
CCMA	Code of Conduct on Mortgage Arrears
CEBS	Committee of European Banking Supervisors
CFDs	Contracts for Difference
CG Code	Corporate Governance Code for Credit Institutions and Insurance Undertakings
CRD	Capital Requirements Directive
CTF	Counter Terrorism Financing
DGS	Deposit Guarantee Scheme
EBA	European Banking Authority
Ecofin	Economic and Finance Ministers
EFC	Economic and Financial Committee
EFF	Extended Fund Facility
EIOPA	European Insurance and Occupational Pensions Authority
ELA	Exceptional Liquidity Assistance
EMD	Electronic Money Directive
ESA	European Supervisory Authority
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
FMP	Financial Measures Programme
ICAAP	Internal Capital Adequacy Assessment Process
IGS	Insurance Guarantee Schemes
IOSCO	International Organisation of Securities Commissions
IPSO	Irish Payment Services Organisation
ISE	Irish Stock Exchange

LRP Code	Code of Practice on Lending to Related Parties
LTRO	Longer Term Refinancing Operation
MABS	Money Advice and Budgeting Service
MARP	Mortgage Arrears Resolution Process
MEFP	Memorandum of Economic and Financial Policies
MiFID	Markets in Financial Instruments
MRO	Main Refinancing Operation
NCB	National Central Bank
ODCE	Office of the Director of Corporate Enforcement
PCAR	Prudential Capital Assessment Review
PLAR	Prudential Liquidity Assessment Review
PPI	Payment Protection Insurance
PRISM	Probability Risk and Impact SysteM
PSD	Payment Services Directive
QIS	Quantitative Impact Study
SCR	Solvency Capital Requirement
SDR	Special Drawing Rights
SEPA	Single Euro Payments area
SIFIs	Systemically Important Financial Institutions
SMEs	Small and Medium Size Enterprises
SREP	Supervisory Review and Evaluation Process
SRR	Special Resolution Regime
TREM	Transaction Reporting Exchange Mechanism
UCITS	Undertakings for Collective Investment in Transferable Securities
VaR	Value at Risk

Chapter 1:
Key Activities and Developments in 2010

Executive Summary

Legislative Background

Following the enactment of the Central Bank Reform Act 2010, the Central Bank of Ireland (the Bank) was reorganised on 1 October 2010 into a single organisation with responsibility for both central banking and financial regulation. As a member of the Eurosystem, the primary objective of the Bank is to maintain price stability. As set out in the Central Bank Reform Act 2010, the Bank's other statutory objectives are defined as:

» The stability of the financial system overall.

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

» The efficient and effective operation of payment and settlement systems.

» The provision of analysis and comment to support national economic policy development.

Main Issues

The major priority of the Bank during 2010 has been the ongoing resolution of the financial crisis. This work included the provision of substantial liquidity support to the banking system, supporting the recapitalisation and restructuring of the main domestic credit institutions, the initiation of significant regulatory reform and the introduction of new consumer protection initiatives.

As part of a wider process to get the economy back on a sustainable track, a comprehensive external financial assistance package was agreed for Ireland with the European Union-International Monetary Fund (EU-IMF), in November 2010, for the period 2010-2013. The initial Memorandum of Understanding (MoU) and the Memorandum of Economic and Financial Policies (MEFP) between Ireland and the EU-IMF were signed by the Minister for Finance and the Governor of the Bank in December 2010, and revised documents were agreed in May 2011.

At a Eurosystem level, against a backdrop of subdued inflationary pressures and moderate euro area economic recovery, the Governing Council of the European Central Bank (ECB) maintained key interest rates at low levels during 2010. The ECB and Eurosystem also continued to implement a number of non-standard monetary policy measures in response to the severe disruption in global financial markets.

Banking Reorganisation

In March 2010, the Bank assessed the capital needs of the individual banks covered by the Government Guarantee with the publication of the Prudential Capital Assessment Review (PCAR 2010). The review assessed the recapitalisation required to satisfy both a base case and a stressed target capital requirement over a three year time horizon. The exercise was repeated in March 2011 and took full account of various adverse developments that emerged in 2010 since the original PCAR. This included larger than anticipated haircuts applied to property related loans that transferred to the National Assets Management Agency (NAMA) and the emergence of a sovereign debt crisis.

Arising from the ongoing concerns in the banking sector relating to low asset quality, persistent funding difficulties and the prolonged resolution of Anglo Irish Bank, the EU-IMF programme included a number of elements to address the restructuring of the banking sector. These included the setting of higher capital standards, the downsizing and reorganisation of the banking system and enhancing the regulatory framework.

Liquidity Support

The Bank, on behalf of the Eurosystem, continued to supply substantial liquidity support to the Irish banking system in 2010. The Bank also provided Exceptional Liquidity Assistance (ELA), which was deemed necessary for financial stability purposes. Total Eurosystem monetary policy lending provided by the Bank to Irish domiciled institutions stood at €132 billion in December 2010. The total amount of ELA at year-end was approximately €49.5 billion.

Regulatory Enhancements

Substantial progress with improving the regulatory framework has been made over the course of 2010. A Banking Supervision strategy was introduced in June 2010. The Bank assisted the Department of Finance with the transposition of the two capital requirement directives which have enhanced the regulatory framework for banks. The Bank also introduced new corporate governance requirements for banks and insurers and rules on related party lending. Progress has also been made in a number of other areas, including preparations for the new EU Solvency II insurance supervision regime, strengthening the fitness and probity framework, unwinding the Prospectus and Market Abuse delegations with the Irish Stock Exchange, starting work on the strategic review of the credit union sector and developing an internal risk model to allocate supervisory resources. The Bank also set a statutory minimum liquidity requirement for all credit unions.

The Bank published its Enforcement Strategy in December 2010. A key component of its new approach is a more vigorous application of enforcement effort backed by sufficient resources to represent a credible threat of action.

The Bank is responsible for the regulation of most financial service providers and funds in Ireland. In 2010, the number of firms supervised decreased from 14,563 to 14,166.

Consumer Protection

Under the Code of Conduct on Mortgage Arrears, the Bank required that a regulated firm must wait at least 12 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. In December 2010, the Bank revised the code in light of the recommendations of the Government's Expert Group on Mortgage Arrears and Personal Debt. In particular, lenders have been directed not to impose arrears charges or surcharge interest on borrowers who are in arrears and who are co-operating with the new Mortgage Arrears Resolution Process with effect from January 2011.

Financial Stability

Significant work was undertaken throughout the year as the Bank continued to contribute and provide analysis and advice to the Government on key financial stability issues. At European level the Bank participated in the ESCB's Macroprudential Research Network which is designed to produce policy-directed research. The Bank also continued to contribute to the development of crisis management frameworks at the international and European level, where work continued on areas including early intervention, crisis resolution frameworks and resolution funds.

Economic Policy and Statistics

The Bank continued to play an important role in influencing economic policy through its frequent commentaries, forecasts, research and provision of financial statistics. During 2010, there were significant enhancements to the statistical outputs of the Bank. A new presentation of the monthly money and banking statistics was launched in June. A new quarterly series of credit to Small and Medium Sized Enterprises (SMEs) was published for the first time in December. New data on the consolidated foreign claims of the domestic banks was also published in December. The launch of a new statistical series – Quarterly Financial Accounts for Ireland – also took place in 2010. Statistics on investment funds were further enhanced in 2010 and the first publication of Securities Issues Statistics also took place in 2010.

Payments and Currency

The Bank is responsible for the oversight of payments and securities settlements systems to help ensure their safety, effectiveness and efficiency. TARGET2, the pan-European system used to ensure a uniform wholesale payment infrastructure, functioned smoothly in 2010. While the total number of payments processed by the TARGET2 system decreased by 0.7% in volume, value increased by 6.8%, compared with 2009, with the average daily volume totalling 343,380 transactions, representing an average daily value of €2,299 billion. In July 2010, the Bank published a National Payments Oversight Report, providing a detailed account of payments oversight and of the payments and securities settlement infrastructure in Ireland.

The Bank is responsible for the administration of the Irish Deposit Guarantee Scheme (DGS) which compensates depositors in the event of a credit institution failing. In 2010, the Bank established a project so that a fast payout can be ensured. Good progress has been made defining the processes and developing the necessary systems. The Bank continues to work with the credit institutions to meet the new payout deadline of 20 working days.

The Bank produces and issues banknotes and coin to meet the needs of the public and business. Banks were supplied with their full requirement of banknotes and coin in 2010. During 2010, final preparations to implement the ECB's Banknote Recycling Framework were completed.

Investments

At the end of 2010, the Bank's investment portfolio comprised euro-denominated assets of €17.7 billion and US dollar holdings of €0.5 billion equivalent. The total represents an increase of €0.7 billion on 2009 of which €0.3 billion relates to the Bank's participation in the ECB's Covered Bonds Purchase Programme, which concluded purchases in June, with the balance coming from dividends and income.

Staffing

At the end of 2010, the Bank employed 1,226 from an approved complement of 1,328. This represented an increase of 17.4 per cent on 2009 staffing levels. The increase in staff numbers was in response to the requirement to allocate more resources to frontline supervision, policy and macroeconomic areas.

Profits

The Bank's profit for the year to 31 December 2010 amount to €840.9 million. After retained earnings, surplus income of €671 million will be paid to the Exchequer.

Introduction

Legislative Background

The Central Bank Reform Act 2010 (the Act) which was enacted on 1 October 2010, established the Central Bank of Ireland. This replaced the Central Bank and Financial Services Authority of Ireland (CBFSAI) and Irish Financial Services Regulatory Authority (IFSRA). The Boards of the CBFSAI and IFSRA were also replaced with a unitary Board, the Central Bank Commission. It is chaired by the Governor and comprises 3 ex-officio members (Deputy Governors of Central Banking and Financial Regulation and Secretary General of the Department of Finance). The Minister for Finance has appointed six other members. More detail on the governance of the organisation is included in Chapter 2: Governance.

As a member of the Eurosystem, the primary objective of the Bank is to maintain price stability. As set out in the Act, the Bank's other statutory objectives are defined as:

- The stability of the financial system overall.
- The proper and effective regulation of financial service providers and markets, while ensuring that the best interests of consumers of financial services are protected.
- The efficient and effective operation of payment and settlement systems.
- The provision of analysis and comment to support national economic policy development.

The Governor remains solely responsible for European System of Central Banks (ESCB) and related functions. The structural changes contained in the Act are intended to deliver better co-operation and co-ordination between prudential supervision of individual institutions, conduct of business regulation and the maintenance of financial stability overall.

Apart from providing for the new fully-integrated structures, the Act enhances accountability and oversight mechanisms of the governance of the Bank and its regulatory performance. Under its provisions, a Committee of the Oireachtas will now receive an Annual Performance Statement (Financial Regulation). The first such statement is published on 30 May 2011. The Act also transferred responsibility for consumer information and education to the National Consumer Agency.

The Act provides for new powers for the Bank to ensure the fitness and probity of nominees to key positions within financial service providers and of key office-holders within those providers. The Bank has been given power to prescribe functions which are to be 'controlled functions' and to suspend or prohibit persons performing such functions. The Bank also has the power to issue standards of fitness and probity in respect of controlled functions. A public consultation on these matters was initiated in March 2011.

The Bank published its three year Strategic Plan (2010 – 2012) in July 2010. The resolution of the banking crisis was identified as the major challenge for the organisation. Other challenges identified are the development and implementation of a new model of regulation, enhanced assessment of financial stability and careful management of liquidity support.

EU-IMF Financial Assistance Package

Following a request from the Irish Government on 21 November 2010 for financial assistance from the EU and the IMF, a joint agreement was reached between the authorities on 28 November 2010 on a comprehensive financial assistance package for Ireland for the period 2010-2013.

Loan disbursements from the IMF under the financial package are paid to the Bank in its capacity as Ireland's fiscal agent. These payments are, in turn, paid into the accounts of the National Treasury Management Agency (NTMA), which acts as debt agent for the Minister for Finance. The total financial assistance package amounts to €85 billion, with €45 billion coming from the European Union and bilateral European lenders, and €17.5 billion from domestic resources. The IMF's involvement is through a three-year SDR 19.5 billion (about €22.5 billion[1]) loan under its Extended Fund Facility (EFF)[2].

1 SDR exchange rate, 24 November 2010: SDR 1 = €1.15544. See *www.imf.org* for more details.

2 The Extended Fund Facility was established in 1974 to help countries address longer-term balance of payments problems requiring fundamental economic reforms. Arrangements under the EFF are thus longer than other Fund arrangements.

The initial MoU and Memorandum of Economic and Financial Policies (MEFP) between Ireland and the EU-IMF were signed by the Minister for Finance and the Governor of the Bank in December 2010, and revised documents were agreed in May 2011. The MoU and MEFP contain a large number of data requirements and economic, fiscal and financial structural targets. Within the EU-IMF Programme, the Bank is committed to a large number of financial sector targets. These relate, in particular, to the restructuring of the banking sector and to the recent stress tests of Irish banks' capital and liquidity requirements. Box 1 describes the main issues for the Bank to address.

Box 1 – Ireland's Banking Sector Commitments under the EU-IMF Programme

Under the terms and conditions of Ireland's EU-IMF financial assistance programme, Ireland agreed to a comprehensive set of measures to achieve downsizing and reorganisation of the banking system over time. Access to funding under the programme will be strictly conditional on the achievement of specific fiscal targets and the implementation of the structural reforms set out in the revised MoU[3] and the MEFP. The Bank is responsible for ensuring a number of these targets are reached within set timeframes.

In order to restore domestic and external confidence in the Irish economy, an overhaul of the financial sector with the objective of substantial downsizing, isolating the non-viable parts of the system, and returning the sector to healthy functionality is necessary. This process will be supported through capital injections into viable financial institutions. In addition, structural measures – a special resolution scheme for deposit-taking institutions and a further strengthening of the supervisory system – will impart greater stability to the system.

The Irish State agreed to the following steps to be completed by **Q2 2011** as part of the initial MEFP and MoU signed, in December 2010, with the IMF, ECB and EC:

Recapitalisation Measures

» Recapitalisation of viable banks as announced in September 2010 to 10.5% core Tier 1 ratio to take into account haircuts on the additional loans transferred to NAMA.

» Comprehensive Prudential Capital Assessment Review (PCAR) evaluation of the underlying assets of the banks, taking into account expected losses.

  » Full assessment of PCAR/PLAR results by the EC, ECB and IMF; publishing of results in detail on a bank by bank basis.

  » Recapitalisation of the banks to ensure minimum capital requirement of 10.5% core Tier 1 and 6% core Tier 1 in a stress scenario.

Deleveraging Measures

» Prudential Liquidity Assessment Review (PLAR) by the Bank for 2011, outlining targets and measures to steadily deleverage the banking system and reduce reliance on short term funding by the end of the programme period.

» 2013 target loan to deposit ratio of 122.5% for each bank.

The Financial Measures Programme (FMP) Report[4], published 31 March 2011, outlines how the Bank has implemented its obligations to date under the EU-IMF programme. The FMP Report is comprised of three key elements: (i) an independent loan loss assessment exercise performed by BlackRock Solutions, (ii) the Prudential Capital Assessment Review (PCAR) 2011, and (iii) the Prudential Liquidity Assessment Review (PLAR) 2011.

Reorganisation of the Banking Sector

» Strategy for the future structure, functionality and viability of the Irish credit institutions agreed with the EC, the ECB and the IMF – demonstration of implementation strategy in Q2 2011.

» Legislation on improved procedures for early intervention in distressed banks and special bank resolution regime to be introduced.

3 See *http://www.finance.gov.ie* for more details on the MEFP and MoU.

4 For more details see: *http://www.financialregulator.ie/industry-sectors/credit-institutions/Pages/FinancialMeasuresProgramme.aspx*.

Box 1 – Ireland's Banking Sector Commitments under the EU-IMF Programme

Burden Sharing by Holders of Subordinated Debt

- Burden sharing will be achieved with holders of subordinated debt in relevant credit institutions over the period of the programme, consistent with EU State Aid rules.

Credit Union Sector

- The Bank completed a full assessment of the loan portfolios of the credit union sector by end-April 2011, and, in consultation with the appropriate domestic authorities, prepared a comprehensive strategy to enhance the viability of the sector. which will provide input to the preparation of a comprehensive strategy to enhance the viability of the sector as required under the Joint EU-IMF Programme for Ireland.
- By end-December 2011 legislation will be submitted to Dáil Éireann by the Minister for Finance to assist the credit unions with a strengthened regulatory framework including effective governance and stabilisation requirements.

Provision of Data

Another condition of the EU-IMF programme requires the Bank to provide the following data and indicators to the European Commission, the ECB and IMF staff on an agreed calendar basis:

- Assets and liabilities of the Bank
- Assets and liabilities of the Irish banking system
- All debt falling due over the next 36 months for domestic banks of systemic importance
- Weekly individual operational balance sheets of domestic banks of systemic importance
- Public debt and new guarantees issued by the general government to banks
- Financial stability indicators for domestic banks of systemic importance
- Estimates of domestic banks' capital needs in the next 12 months
- Estimates of funding sources for the banking sector for the next 12 months.

Bank Benchmarks Under the EU-IMF Programme up to Q2 2011

Deadline	Measure/Structural Benchmark (Status)
End-December 2010	Defined, in conjunction with the European Commission, ECB and IMF, the criteria to run stringent stress tests scenarios; (MEFP ¶12 - Observed).
End-December 2010	Agreed the terms of reference for the due diligence of bank assets by internationally recognised consulting firms. This involved finalising the design of the prudential capital and liquidity assessments to plan for the deleveraging, reorganisation and recapitalisation of the banks (i.e. the Prudential Capital Assessment Requirement (PCAR) and Prudential Liquidity Assessment Requirement (PLAR)) (MEFP, ¶12 - Observed).
End-February 2010	The banks submitted their deleveraging plans to the national authorities. The new minimum capital core Tier 1 ratio of 10.5% were implemented (MEFP,¶12[5]).
End-March 2011	The Bank completed the assessment of the banks' restructuring plans. (MEFP, ¶11 - Observed).
End-March 2011	Completed the diagnostic evaluation of banks' assets - (MEFP, ¶12 - Observed).
End-March 2011	Completed stress tests - PCAR and PLAR 2011 were published in the Financial Measures Programme (FMP). Broad funding target ratios, including loan-to-deposit ratio of 122%, for 2013, were established and the strategy for future of the banking system was developed. (PCAR 2011) (MEFP, ¶12 - Observed).
End-April 2011	Completed a full assessment of credit unions' loan portfolios (MEFP, ¶18 - Observed).
End-May 2011	Finalise plans for the remaining operations, including recapitalisation, of Irish Life and Permanent (Updated MEFP, ¶7)

5 Central Bank directions were issued within the required timeframe, however, completion of the capital injections required was postponed by the Minister for Finance until after the General Election. These directions were superseded by the Central Bank's PCAR directions of 31 March 2011.

Monetary Policy Stance and Implementation

The Bank is part of the Eurosystem which comprises the European Central Bank (ECB) and the 17 National Central Banks (NCBs) of the euro area. The Governor of the Bank is a member of the Governing Council of the ECB. While the Governing Council of the ECB did not make any changes to interest rates during 2010, it continued to respond to developments in euro area economic and financial conditions through various non-standard monetary policy measures. (Box 2 below describes the non-standard monetary policy measures introduced during 2008 and 2009.) A process of gradually phasing out some of these measures was started in January 2010, although a deterioration in financial market conditions in May 2010 led to a partial reinstatement of some of these measures. The ECB introduced its Securities Markets Programme (SMP) during this period in order to address problems in euro area public and private debt markets.

ECB Monetary Policy Decisions

In arriving at its decisions, the Governing Council assesses the economic situation in the euro area as a whole and whether current key ECB interest rates remain appropriate for achieving the primary objective of maintaining price stability in the euro area.

Against a backdrop of subdued inflationary pressures and a moderate euro area economic recovery, the Governing Council maintained key ECB interest rates at low levels during 2010. The main refinancing rate remained unchanged at 1 per cent, following a total reduction of 325 basis points between October 2008 and May 2009. The rates on the deposit facility and the marginal lending facility also remained unchanged, at 0.25 per cent and 1.75 per cent, respectively. Box 2 refers.

These non-standard monetary policy measures were designed so that they could be phased out when they were no longer deemed necessary. The Governing Council began this process at the end of 2009, with the announcement that the one-year and six-month longer term refinancing operations (LTROs) scheduled for December 2009 and March 2010, respectively, would be the last such operations. In addition, the Governing Council decided that the rate on the December one-year LTRO would be fixed at the average minimum bid rate of the main refinancing operations (MROs) over the life of the operation. Similarly, improved conditions in US funding markets and limited demand in Eurosystem US dollar operations led to the US dollar repurchase operations and US dollar swap operations being discontinued. The Swiss franc liquidity-providing swap operations were also discontinued in January 2010. The Governing Council subsequently decided in March 2010 that it would return to a variable rate tender procedure in the regular three-month LTROs.

Box 2 – Non-Standard Monetary Policy Measures (2008-2009)

The ECB and the Eurosystem adopted a number of non-standard monetary policy measures during 2008 and 2009 in response to the severe disruption in global financial markets during this period. These measures were introduced to improve financing conditions and facilitate the transmission of lower ECB interest rates to money market and bank lending rates.

Overall, five key measures were introduced:

- The provision of unlimited liquidity to euro area banks at the minimum bid rate in all refinancing operations (fixed-rate full allotment policy).
- An increase in the frequency of refinancing operations and a lengthening of the maximum maturity of these operations from three months to one year.
- An 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.

The Governing Council reactivated some of the non-standard monetary policy measures in May 2010 in order to address the sudden re-intensification of financial market tensions at that time. These additional measures were introduced amid the risk that renewed financial market tensions would hamper the transmission mechanism of monetary policy. The Governing Council announced that the regular three-month LTROs to be allotted in May and June 2010 would be conducted as fixed rate tender procedures with full allotment. Changes in the eligibility of debt instruments issued or guaranteed by the Greek government were also announced, as well as the reactivation of temporary swap lines with the Federal Reserve.

The SMP was introduced in May 2010 in order to address the malfunctioning that had arisen in certain segments of the markets for euro area public and private debt securities. As at end-December 2010, the Eurosystem had purchased a total of €73.5bn of certain euro area debt securities in market interventions. The Bank participated actively in this programme. The additional liquidity provided through these operations is re-absorbed by the ECB on a weekly basis.

One non-standard policy measure that ended during 2010 was the ECB's covered bond purchase programme (CBPP). This was completed on 30 June 2010, with the targeted nominal amount of €60bn having been purchased on the primary and secondary market over the 12-month life of the programme. The central banks of the Eurosystem intend to keep the purchased covered bonds until maturity.

In September 2010, the Governing Council decided to maintain the fixed-rate full allotment policy for both MROs and LTROs during the final quarter of 2010. However, no further six or twelve-month operations were announced and all outstanding operations of this nature matured before the end of the year. The ECB did announce several fine-tuning operations at the maturity of these operations in order to ensure smooth liquidity conditions. In December, it was announced that the ECB would continue to conduct its MROs with a fixed-rate full allotment tender procedure.

Monetary Operations

The Bank, on behalf of the Eurosystem, continued to provide substantial liquidity support to the Irish banking system throughout the course of 2010. The Bank also provided Exceptional Liquidity Assistance (ELA). This is one of the ways that the Bank has responded to the financial crisis. This is distinct and separate from regular funding operations carried out for monetary policy implementation purposes through the ECB. A loan provided to a credit institution under ELA is granted against suitable collateral, where suitability is in line with criteria defined by the Bank. As with procedures for ECB eligible collateral, appropriate haircuts/ discounts are applied with a view to ensuring that the Bank would not suffer any loss in the event of default on the loan assistance. The Bank has received formal comfort from the Minister for Finance such that any shortfall on the liquidation of the collateral is made good. At end of December 2010 the Bank had extended ELA of approximately €49.5 billion.

The fixed rate full allotment policy, for both MROs and LTROs led to a continued high use of the deposit facility during 2010, as banks were able to take more liquidity from the Eurosystem than needed, with the excess liquidity being placed back on deposit with the Eurosystem. Over the life of the ECB's first one-year operation (held at end-June 2009 with a take up of €442bn) Eurosystem excess liquidity averaged over €175bn. In the second half of 2010, following the maturity of this operation and with subsequent large maturities concentrated at end-September, excess liquidity averaged close to €69bn. This decline in excess liquidity also reflected some improvement in money market conditions, and placed upward pressure on money market rates across the curve. On average over 2010, the Euro Overnight Index Average (EONIA) fixed at 0.44 per cent, 56bps below the policy rate; the intra year pattern varied with EONIA fixing at 0.35 per cent on average over the first half of the year, rising to 0.52 per cent on average in the second half as excess liquidity declined.

The maturity profile of outstanding Eurosystem lending also changed over the course of 2010, with a shift towards shorter-term funding as three large one-year operations matured without being replaced, while the overall number of LTROs conducted fell by half. At the start of 2010, LTROs accounted for 89 per cent of Eurosystem lending, with MROs making up the remaining 11 per cent. At the end of the year the situation was more balanced, with LTROs accounting for 57 per cent of Eurosystem lending, while 43 per cent was provided via MROs. Total outstanding lending in the Eurosystem at the end of 2010 was €547bn, down from €749bn at the start of the year.

The ECB also introduced a new regular operation into the Eurosystem framework, a one-week, liquidity absorbing fine tuning operation with the intention to absorb, on a weekly basis, the excess liquidity created by debt purchases under the SMP, which commenced in May. US dollar liquidity providing operations were also restarted in May due to pressure in US dollar short-term funding markets. The ECB confirmed in December that weekly US dollar operations would continue until August 2011. In addition, the ECB and Bank of England announced a temporary liquidity swap facility, under which the Bank of England could provide, if necessary, up to £10bn to the ECB in exchange for euros. The agreement is due to expire at the end of September 2011, and allows sterling to be made available to the Bank as a precautionary measure, for the purpose of meeting any temporary sterling liquidity needs of the banking system.

Consistent with the ECB's measured phasing out approach and amid some improvements in market conditions, the total number of operations conducted by the Bank, on behalf of the Eurosystem, declined from over 240 in 2009 to 169 in 2010. These included Swiss franc and US dollar operations. However, as part of its response to the sovereign crisis, the ECB held an additional and final six-month operation in May 2010. The operational framework at the start of 2011, in terms of liquidity provision, consisted of weekly MROs and monthly one-month and three-month LTROs. The number of counterparties eligible to participate in operations at the end of 2010 was 42, down from 45 in 2009. Total monetary policy lending provided by the Bank to Irish domiciled institutions rose to a high for the year of €140bn in December, up from €93bn at the end of 2009, while at the end of 2010 it stood at €132bn.

As the sovereign debt crisis intensified, debt markets virtually closed for the Irish guaranteed banks and have remained so since April 2010. In addition, these banks faced large debt maturities in September 2010, with difficult market conditions dictating that these maturities were replaced largely with Eurosystem borrowings. As such, liquidity remained a key issue for the Irish guaranteed institutions throughout 2010, a situation that persisted in the early parts of 2011.

Bank Lending Survey

The Euro Area Bank Lending Survey (BLS) is conducted on a quarterly basis by the National Central Banks (NCBs) of the euro area and provides qualitative data regarding changes in credit market conditions throughout the euro area as well as expectations of changes in credit standards and loan demand. The Bank is responsible for co-ordinating and processing the results of the five Irish banks that participate in the survey.

Four rounds of the BLS were completed in 2010 documenting developments in credit market conditions between the fourth quarter of 2009 and the fourth quarter of 2010. The survey distinguishes between enterprises and households, with a secondary distinction made between loans to households for house purchases and consumer/other lending. A series of ad-hoc questions capturing the impact of financial market uncertainty on banks' capital and funding positions were also included.

During 2010, credit standards appeared to stabilise on loans to enterprises and households, with standards reported unchanged across all loan categories examined in the third and fourth quarters of 2010. In contrast, the responses concerning changes in loan demand from enterprises were more uncertain. A minor increase in loan demand from enterprises was reported in the third quarter of 2010, after three quarters of declining loan demand, before loan demand was reported as unchanged for the final quarter of 2010.

In the case of household lending, a divergence appeared between mortgage and non-mortgage lending, with the demand for mortgages registering a decrease throughout 2010. This decline was mostly attributed to less favourable housing market prospects and reduced levels of consumer confidence. In contrast, loan demand in the case of consumer credit, and non mortgage borrowings, appeared to stabilise with demand unchanged during the final quarter of 2010.

Five different ad-hoc questions featured in the BLS during 2010, with two of these questions examining the impact of ongoing financial market uncertainty on banks' funding and capital positions. An easing in access to wholesale funding markets was reported in the final quarter of 2009 and the first quarter of 2010. However, a sudden and broadly based deterioration was reported in the second quarter of 2010 which persisted into the final two quarters of 2010. The ongoing financial market uncertainty continued to impact on the costs related to banks' capital positions throughout 2010.

Financial Stability

Throughout 2010, the key focus of financial stability remained the resolution of the crisis situation. Significant work was undertaken throughout the year as the Bank continued to contribute and provide analysis and advice to the Government on key decisions.

The passing of the Central Bank Reform Act 2010 had a significant impact on the organisation of financial stability within the Central Bank. Although much of the change was already being implemented in practice, the passing of the Act normalised this. A key element of the Act, in bringing the central banking function of financial stability assessments together with the financial regulatory microprudential supervision responsibilities, will pave the way for macroprudential policy to be undertaken in the future. In this regard, the internal Financial Stability Committee continued to meet regularly under the Chairmanship of the Governor throughout the year. Box 3 sets out the actions being taken to address the issues raised in "The Irish Banking Crisis Regulatory and Financial Stability Policy 2003 – 2008 (Honohan Report) – A Report to the Minister for Finance by the Governor of the Central Bank 31 May 2010.

Box 3 – Issues raised in "The Irish Banking Crisis Regulatory and Financial Stability Policy 2003 – 2008" (Honohan Report) – A Report to the Minister for Finance by the Governor of the Central Bank 31 May 2010

Summary of financial stability related issues raised	Response planned, as set out in "Banking Supervision: our New Approach" June 2010	Action taken
Although the Financial Stability Reports included significant analytical material analysing the **underpinnings of the property boom**, the relatively sanguine conclusions tended to be reached on a **selective reading of the evidence**. More generally, a rather **defensive approach was adopted to external critics of constraints.**	Benchmarking the quality of work will be a key priority.	The Economics and Financial Stability Directorate is participating and presenting work at the ECB's Macroprudential Research Network (MaRs), a network of researchers across European Central Banks analysing various macroprudential topics, the Directorate continues to invite speakers to the Bank to present their work and opinions at internal seminars, the Directorate has developed links in areas of common research with external organisations, and has introduced a new publication in the form of economic letters, which aim to provide a basis for raising debate on topical issues and illicit feedback.
	As part of risk assessment process Financial Stability Department is developing bi-lateral contacts with other major central banks and the academic community.	The Bank is participating fully in the European Systemic Risk Board, through attendance at the ESRB meetings as well as through the Advisory Technical Committee and associated working groups. A number of meetings have taken place with academics, chaired by the Governor. The purpose of this contact is to allow for discussion on the analysis conducted within the Financial Stability Report.
Such quantification of risks as was attempted was carried out in the context of the stress test exercises reported annually in the Financial Stability Reports. Although many caveats were noted, too much confidence was placed **in the reliability of the tests** which were overseen by desk-based analysts without sufficient engagement by hands-on regulators.	Rigorous stress testing part of Supervisory Review and Evaluation Process. Assumptions, hypothesis, methodologies, granularity and results challenged by specialists.	Phase 1 of stress testing "Prudential Capital Assessment Review" – completed March 2010 Phase 2 of stress testing "Prudential Capital Assessment Review and Prudential Liquidity Assessment Review" – completed March 2011
	Development of a systemic risk assessment framework.	Work is underway. Technical paper published in March 2011: Exploring the Steady-State Relationship between Credit and GDP for a Small Open Economy - The Case of Ireland, by Robert Kelly, Kieran McQuinn and Rebecca Stuart
	Comparative analysis of the performance of the Irish banking sector.	Work is underway.
	Enhancing banks specific risk assessment.	Work is underway.

Box 3 – Issues raised in "The Irish Banking Crisis Regulatory and Financial Stability Policy 2003 – 2008" (Honohan Report) – A Report to the Minister for Finance by the Governor of the Central Bank 31 May 2010

Summary of financial stability related issues raised	Response planned, as set out in "Banking Supervision: our New Approach" June 2010	Action taken
A closer interaction between the staff involved in financial stability and regulatory staff could have had the effect of alerting both sides to the limitations of the stress test methodology and reduced the sense of complacency.	Cross organisational panels, including both supervisory and financial stability staff to review and agree the Supervisory Review and Evaluation Process, challenge examiners on findings and agree supervisory actions. Financial stability staff participate in regular challenge meetings and prudential analytics work.	Financial Stability staff attend some of the Risk Governance Panel, Capital Decision Committee and SREP meetings of particular credit institutions, and some Risk Governance Panel meetings for particular insurance institutions. These meetings are led by the credit and insurance institutions supervision divisions.
	Restructured Financial Stability Committee now chaired by Governor.	This has been in place since before the publication of the Honohan Report. The committee meets fortnightly/frequently with directors with responsibility for Economics and Financial Stability, Financial Operations and the relevant supervisory divisions in attendance. Through the course of 2010 the committee has examined issues such as the implications of NAMA haircuts and the Prudential Capital Assessment Review of Irish credit institutions.
More generally, it may be that the institutional separation of the Regulator from the rest of the organisation contributed to an insufficient appreciation of the micro-macro inter linkages involved in financial stability analysis.	Central Bank Reform Bill 2010 provides for a unitary structure.	Central Bank Reform Act 2010 came into operation in October 2010

The Financial Stability function was re-organised also in 2010. The division was expanded, and a significant research capacity was added. The work programme was set out in the Banking Supervision: Our New Approach[6], and early work in this regard has been published in the Research Technical Paper series. This mirrors the wider European focus on financial stability related research, and the Bank is also participating fully in the ESCB's Macroprudential Research Network (MaRs), which is designed to produce policy-directed research. It consists of three workstreams: (a) financial stability and the general economy; (b) early warning and systemic risk indicators; and (c) contagion.

The Bank also continued to contribute to the development of crisis management frameworks at the international and European level, where work continued on areas including early intervention, crisis resolution frameworks and resolution funds. The Bank also contributed to the ESCB's fulfilment of its financial stability responsibility through contributions via the Governing Council and the ECB's committee structure.

The ongoing financial crisis has highlighted serious deficiencies in the assessment of systemic risks in the existing European (and indeed global) framework of financial regulation

6 CBFSAI, (2010), 'Banking Supervision: Our New Approach', 21 June 2010.

Box 4 – Banking Supervision: Our New Approach – Actions taken in 2010

The Bank published (June 2010) its strategy for the banking sector: "Banking Supervision: Our New Approach", along with a range of initiatives to be taken, described below.

Regulatory requirements have been enhanced with the Corporate Governance Code for Credit Institutions and the Code of Practice on Lending to Related Parties, being brought into force. The Bank commenced work on enhanced Fitness and Probity Standards and assisted the Department of Finance with the development of a Special Resolution Regime. A project team has been engaged with key stakeholders on the issue of credit registers to assess the various options for improvement of the credit register system in Ireland.

Day-to-day supervision of institutions has been enhanced significantly. Supervisory staff now attend key board and sub-committee meetings of domestic banks. Cross organisational risk panels for each credit institution have been established. A more robust Supervisory Review and Evaluation Process (SREP) has been set up. Themed inspections were undertaken on a) governance and risk management at the major retail banks, b) mortgage credit standards and funding risks, c) bank strategies (SME lending focus), and d) remuneration practices. A unit responsible for internal control review, including operation of internal governance processes, has been created.

The recruitment of highly skilled individuals into banking supervision has continued. There has been heavy investment in all staff, including a) an assessment of internal processes, b) a mandatory four week induction programme for supervisors and c) the development of more advanced training modules due to be rolled out in 2011.

and supervision. To address these deficiencies, the EU has developed a new financial supervision framework for Europe. Part of this wider reform involves the establishment of the European Systemic Risk Board (ESRB) to address risks and vulnerabilities arising at the level of the system as a whole. The ESRB is responsible for the macroprudential oversight of the financial system in the EU.

Throughout 2010, the Bank continued to contribute to the preparations for the establishment of the ESRB. In early 2011, the first meetings of the General Board of the ESRB took place, attended by the Governor and the Deputy Governor, Financial Regulation.

The establishment of the ESRB will involve a significant increase in the scope and responsibilities of NCBs as they relate to macroprudential policy. NCBs play a central role in the ESRB, with NCB governors forming the majority of the voting members of the General Board. In addition to the Governor's role as a Member of the ESRB's General Board the Bank is also represented on the Advisory Technical Committee (ATC) – the Committee charged with providing assistance and advice relevant to the work of the ESRB – and associated Working Groups of the ATC. Active participation in the ESRB will require that the Bank and the Financial Stability division, in particular, further develop quantitative assessments of risk in the Irish financial system.

Financial Institutions Supervision

Supervision of Retail Credit Institutions

During the first quarter of 2010, work in this area was dominated by the execution of the first Prudential Capital Assessment Review (PCAR). This work commenced in January and was published on 31 March 2010. This stress test, together with the stress test performed in conjunction with the Committee of European Banking Supervisors (CEBS) is described in more detail on next page (see Stress Tests 2010).

The Bank also completed the PCAR engagements for Irish Life and Permanent and Anglo Irish Bank (Anglo) and these were published in September 2010. The PCAR work on Anglo was performed in conjunction with the Bank's input to the Anglo restructuring plan and the development of the joint State Authorities proposal to the European Commission.

In the second half of 2010, the focus was on a number of key developments in the markets, the execution and publication of a number of key supervisory themes and the implementation of revised supervisory structures as outlined in "Banking Supervision: Our New Approach" which was published in June 2010. Box 4 refers.

The decline in the Sovereign credit quality in the latter part of 2010, the inability of domestic credit institutions to raise new term funding and the maturity of €30bn of credit institution debt in September focused significant supervisory attention on the liquidity position of domestic credit institutions. As a result, the Bank developed additional contingency management, cash flow forecasting, collateral organisation and securitisation structures. In addition to enhanced supervisory actions, the conditions required the establishment of enhanced inter-agency frameworks both nationally and internationally. Leading from this work, a new Prudential Liquidity Assessment Process (PLAR) was developed and deployed in 2011.

Supervisory Reviews

A number of special reviews (supervisory themed inspections) were conducted since July 2010 across retail credit institutions and in selected wholesale banks that are involved in supplying credit to the domestic market. These reviews followed the themes set-out in *Banking Supervision: Our New Approach*, namely:

» Mortgage Standards and Credit Risks (Focus: new mortgage lending).

» Remuneration Practices.

» Bank Strategies (Focus: Small Medium Sized firm strategies).

» Governance and Risk Management.

The results of these reviews have been published in a determination to bring greater clarity to the work of financial supervision and to provide some insight into the performance of the credit institutions. This practice will continue in future years and further themes have been established for 2011.

The Bank has established and enabled cross organisational risk governance panels for each major credit institution and developed functional panels for credit and liquidity reviews on a cross institutional basis. Risk dashboards have been developed to focus reviews on key risks, performance and business models. In addition, the Bank has developed risk mitigation plans and deliverables for each credit institution and has been working closely with the institutions on the execution of agreed risk mitigation actions during 2010. The Bank has had a significantly more intrusive supervisory process since 2009 that included ongoing, on-site supervision and attendance (in observation capacity) at selected board, audit, risk and credit meetings of the institutions. This has continued, but has become more risk and action focused, following the implementation of the structures outlined above. The number of man-days on site has fallen due to the reassessment of how the Bank should more effectively use its resources (see Table 1). There was more intra-governmental agency interaction and alignment, more analysis of information and data and more focus on specific areas of concern and risk.

Stress Tests 2010

On 30 March 2010, the Bank announced the results of an exercise to determine the forward-looking prudential capital requirements of certain of the Irish credit institutions covered by the Government Guarantee. The Prudential Capital Assessment Review (PCAR) process for Allied Irish Banks plc (AIB), Bank of Ireland (BOI) and EBS Building Society (EBS) was concluded on that date and the results of Anglo Irish Bank (Anglo) and Irish Life and Permanent plc (ILP) were published in September 2010. Table 2 provides summary information for both 2010 and 2011.

In addition, on 23 July 2010, the Bank published the results of a stress testing exercise carried out on AIB and BOI and coordinated by the Committee of European Banking Supervisors (CEBS). The results of the exercise demonstrated that AIB and BOI met the stress requirements having taken account of the capital to be raised as a result of the PCAR. The Bank used the latest available information on NAMA loan losses which at that point were the NAMA tranche 1 haircuts and were the same as those used in the PCAR. These haircuts were extrapolated to the rest of the NAMA eligible portfolio.

National Assets Management Agency (NAMA) Losses Update

Subsequent to the PCAR and CEBS stress test, it became apparent that the losses on loans transferred to NAMA would be greater than originally estimated by NAMA and as evidenced in the Tranche 1 transfers. This necessitated a further review of capital forecasts for the credit institutions in September. The intent of conducting this review in advance of the 2011 PCAR was to address the significance of these

Table 1 – Number of Prudential On-Site Inspections and Review Meetings

	Actual 2009	Actual 2010
On-Site Presence	**838 Person Days**	**422.5 Person Days**
Total Inspections	93	98
Outsourced Inspections	–	200
Total Review Meetings	324	462
Total Year-End Reviews	183	286
Directors Loans Themed Inspections	6	0
Total	**606**	**1,046**
RETAIL CREDIT INSTITUTIONS		
Review Meetings		
– Supervisory Review & Evaluation Process	–	4
– Mortgage Standards & Credit Risk Review	–	5
– Remuneration Practices Review	–	3
– SME Strategies Review	–	1
– Commercial Lending Review	–	1
– Governance & Risk Management Review	–	1
– Monthly Review Meetings (Anglo)	–	12
– College of Supervisors Meetings	–	2
Directors Loans Themed Inspections	6	0
Total	**6**	**29**
WHOLESALE BANKS		
Inspections	22	9
Review Meetings	74	97
Total	**96**	**106**
INSURANCE		
Inspections	25	23
Review Meetings	124	168
Total	**149**	**191**
OTHER FINANCIAL SERVICE PROVIDERS		
Total Inspections	39	53
Total Review Meetings	65	84
Total	**104**	**137**
of which		
Investment/Stockbroking Firms		
Inspections	33	43
Review Meetings	39	31
Fund Service Providers		
Inspections	6	5
Review Meetings	26	53
Bureaux de Change/Money Transmitters		
Inspections	–	4
Payment Institutions		
Inspections	–	1

Table 1 – Number of Prudential On-Site Inspections and Review Meetings

	Actual 2009	Actual 2010
On-Site Presence	**838 Person Days**	**422.5 Person Days**
CREDIT UNIONS		
Inspections	7	7
Outsourced Inspections	–	200
Meetings	61	84
Year End Reviews	183	286
Total	**251**	**577**
MONEY LAUNDERING/COUNTER TERRORIST FINANCING		
Inspections		
Wholesale Banks	–	1
Insurance	–	2
Investment/Stockbroking Firms	–	1
Payment Service Providers	–	1
Credit Unions	–	1
Total	**–**	**6**

Table 2 – Prudential Capital Requirements imposed in 2010 and 2011

Bank	2010 PCAR	NAMA Uplift	Total for 2010	March 2011	Total 2010 and 2011
AIB	€7.40bn	€3.00bn	€10.4bn	€13.3bn	€23.7bn
Bank of Ireland	€2.66bn	–	€2.66bn	€5.2bn	€7.86bn
Irish Life and Permanent	€145m	–	€145m	€4.0bn	€4.145bn
EBS	€875m	–	€875m	€1.5bn	€2.375bn
Irish Nationwide	€2.60bn	–	€2.60bn	–	€2.60bn
Anglo Irish Bank	€8.30bn	–	€8.30bn	–	€8.30bn
Total	**€21.980bn**	**€3.00bn**	**€24.98bn**	**€24.00 bn**	**€48.98bn**

losses and to bring some certainty to the total NAMA losses that were forecast in the capital levels being demanded by the Bank. The results of this review and additional capital requirements, together with the Anglo PCAR and restructuring, were announced on 30 September. The revised NAMA losses required an additional €3bn capital in AIB but no further capital in the other institutions.

Restructuring of the Banking Sector - Anglo/Irish Nationwide and Postbank

A key focus over the year was the future structure of Anglo and its recapitalisation. This involved considerable interaction between the Bank, the other national authorities, as well as the senior management team in Anglo. Similarly, the focus for Irish Nationwide Building Society was in relation to its restructuring and recapitalisation.

A number of alternative scenarios and business plans were examined over the year regarding the future structure of Anglo ranging from the creation of a "good bank" and a recovery vehicle to immediate closure and wind down of the entity, prior to submission to the European Commission. In conjunction with this process, the Bank carried out a PCAR process in September 2010, to evaluate the potential capital requirements for Anglo under a base and stress case scenario out to 2020.

A restructuring plan developed by the senior management team of Irish Nationwide Building Society (INBS) envisaged the society being repositioned as a traditional building society, i.e. focusing on retail deposit taking and providing residential mortgages. However, the plan was not deemed viable. The capital requirements of INBS were assessed on an ongoing basis during the year and this assessment, carried out in conjunction with the Department of Finance and National Treasury Management Agency, resulted in the Minister for Finance injecting €5.4bn of capital into INBS by way of a Special Investment Share (€100m in March) and a Promissory Note (€2.6bn in March which was increased to €5.4bn in December).

The ultimate proposal submitted by the national authorities for approval to the European Commission was that Anglo be restructured and merged with INBS and run down over a ten year period.

A restructuring plan was submitted to the European Commission on 31 January 2011, as an addendum to the National Authorities original restructuring plan for Anglo submitted in 2010. The first phase of the restructuring involved both deposit books being transferred to other banks. At time of writing (April 2011), approval from the European Commission is awaited for a new consolidated wind down vehicle with a banking licence incorporating both Anglo and INBS.

On 8 December 2010, the Bank received a request under the Central Bank Act 1971 to revoke the banking licence of Postbank Ireland Limited as of 20 December 2010. The shareholders of Postbank had announced on 26 February 2010 that the joint venture between An Post and BGL BNP Paribas would not continue beyond the year-end. Following this announcement, Postbank engaged in an orderly wind down of its business. Postbank Ireland Limited was originally issued a banking licence in April 2007; its licence was voluntarily revoked on 20 December 2010.

In February 2010, Bank of Scotland (Ireland) Limited (BoSI) announced that it would close the retail and intermediary business of BoSI in the Republic of Ireland. The retail and intermediary business subsequently closed in June 2010. On 19 August 2010, following a strategic review of its Irish operations, Lloyds Banking Group (LBG) announced its intention to close the operations of BoSI on 31 December 2010. LBG advised that the main reasons for the closure of the Irish bank were (i) the number of impaired loans incurred by the bank and (ii) the perceived lack of opportunity for scalable growth in the future. On 31 December 2010, (i) the business of BoSI transferred to Bank of Scotland plc in the UK, under the EU Cross-border Merger Regulations, (ii) BoSI's banking licence was revoked at the request of the bank and (iii) BoSI ceased to exist. Bank of Scotland plc entered into an agreement with an independent service company in Ireland, Certus, to perform various administrative functions relating to the loan business relating to BoSI.

BoSI had been operating in Ireland since 1971.

Supervision of Wholesale Banks

Engagement Model

During 2010, the model of engagement with wholesale credit institutions intensified with particular emphasis on a deeper exploration of key risks, governance and the internal control environment. Risk profiles were prepared for all institutions highlighting areas for prioritisation in terms of supervisory engagement. This engagement included a review of business models and strategies for a number of entities whose existing models were challenged by external market conditions, requiring the development of revised business plans and consideration of strategic alternatives. Entities were also subjected to a Supervisory Review and Evaluation Process (SREP). The inspection team undertook nine inspections over the course of the year, the focus of which included credit arrears management, impairment, corporate governance and treasury functions (see Table 1).

Supervisory Review and Evaluation Process

The majority of wholesale credit institutions were subjected to a full SREP assessment, involving an increased on-site component and incorporating both a quantitative and qualitative review of material risks and related governance control framework, including capital allocation. This also entailed visits to a number of the EU branches of the larger entities.

In order to ensure consistency and proportionality of approach and challenge within the SREP engagement, internal processes were enhanced leading to the creation of new guidance and approval committees. Arising from this governance process, examiner assessments were subject to challenge as to the validity and rigor of findings.

Following this internal governance process, 24 letters with 264 findings were presented to the various wholesale credit institutions' management setting out the required risk mitigation plans together with associated deadlines and, where necessary, additional capital requirements to be applied. Presentations of these findings have also been made to the boards of entities to ensure strategic and operational commitment to effecting the necessary changes. Compliance with these imposed remediation deadlines are monitored closely.

Enhanced Communications

As part of a drive to increase the level of communication with wholesale banks, a number of initiatives were undertaken throughout the year to ensure clarity in relation to the new approach to supervision and highlighting standards of governance and control that industry is expected to meet. Fora such as the Federation of International Banks in Ireland meetings, bilateral meetings with institutions' CEOs and chairmen, and separately, with boards of directors have been used to engage senior banking management in this process. As part of this approach, the Bank is rolling out a series of workshops with senior industry participants on exploring ways of improving key risk and control areas. The first of these, on maximising the challenge of audit subcommittees took place in December 2010.

Supervisory Colleges

The Bank attended 14 EU, US and Canadian supervisory colleges in the course of the year, feeding into the consolidated joint risk assessment of significant cross border credit institutions that had a subsidiary presence in Ireland. This participation involved presentation of the SREP findings with those of other EU supervisors thereby gaining a consolidated perspective of group risks and potential impact on the Irish entity. The Bank also engaged separately with certain group supervisors in the approval of a number of group internal models to assess the appropriateness of their application to the Irish subsidiaries.

Changes to International Banking Sector

In the course of the year, the number of wholesale credit institutions supervised by the Bank reduced by 3 to 34. EEA Ireland merged into EEA Covered Bank, First Active merged into Ulster Bank Ireland and Bank of Scotland (Ireland) transferred its operations to Bank of Scotland on 31 December. During the year, 14 enquiries on new licences were received resulting in detailed exploratory discussions on the business models of two potential applications, one of which is still ongoing.

Regulatory Regime for Banks

EU Capital Requirements Directives

The policy agenda in banking regulation has been, and continues to be, primarily driven by international developments and proposals – the G20, Financial Stability Board, Basel Committee of Banking Supervisors (BCBS), European Commission and the Committee of European Banking Supervisors (CEBS), the latter has since been replaced by the European Banking Authority (EBA). The G20 summits in 2010 adopted a range of major commitments to ensure global regulatory convergence. The bulk of the legislative reforms proposed by the European Commission are directly linked to G20 developments, including the endorsement of the agreement reached in July by the BCBS on a new bank capital and liquidity framework which will result at European level in a revised Capital Requirements Directive (the CRD). The Bank, as a member of CEBS and as technical advisor to Government Departments, was an active participant in European fora amending the regulatory framework.

The CRD is being amended significantly and these amendments are being enacted on a phased basis. Box 5 refers.

During 2010, CEBS continued its development of additional guidelines including guidelines on Remuneration Policies and Practices, Liquidity Cost Benefit Allocation and Joint Assessment of the Capital Adequacy of Cross-Border Groups. CEBS ceased to be at the end of 2010 with the introduction of the Omnibus Directive which provided for the establishment of the European Supervisory Authorities (ESAs) and the European Systemic Risk Board (ESRB).

Box 5 – Capital Requirements Directive

CRD II introduces a harmonised eligibility criteria for the inclusion of hybrid instruments in Tier 1 capital; new requirements for securitisation positions in relation to economic retention, due diligence and transparency; more formalised supervisory arrangements, establishing colleges of supervisors for cross-border groups and clarifying the respective roles of home and host country supervisors; changes to the rules related to large exposures; and enhanced liquidity risk management requirements.

CRD III introduces strengthened capital requirements for assets held in an institution's trading book; capital requirements for re-securitisations that are both higher than the capital requirements of other securitisation positions and tied to the level of due diligence undertaken on the re-securitisations; enhanced disclosure requirements in relation to securitisations in the trading book and sponsorship of off-balance sheet vehicles; and binding remuneration policy principles.

CRD II and III were transposed into Irish law[7] in December 2010. Among the more significant amendments were the strengthening of capital requirements for the trading book and re-securitisations and the introduction of regulations on remuneration policies and enhanced disclosure requirements. While the changes relating to remuneration came into force in January 2011, those relating to the trading book and re-securitisations become effective in December 2011.

During 2010, further amendments to reflect BCBS proposals, known as CRD IV, continued to be discussed. These include:

- Narrowing the definition of regulatory capital.
- Introducing two new liquidity ratios (i.e., the Liquidity Coverage Ratio and Net Stable Funding Ratio).
- Enhancing risk coverage by amending requirements for counterparty credit risk.
- Reducing procyclicality by introducing both a conservation and countercyclical capital buffer.
- Supplementing the risk-based capital requirements with a leverage ratio.
- The first phase of a single rule book which will remove many of the national discretions currently available to Member States transforming the CRD into a maximum harmonisation directive.

European authorities aim to finalise CRD IV in 2011 for implementation in 2012. However, transitional arrangements are proposed to allow banks to meet the new requirements while supporting economic recovery. The Bank attends working group meetings to revise the CRD and develop supporting Binding Technical Standards and Guidance by the CEBS/EBA.

The EBA replaced CEBS with effect from January 2011. The EBA will act as a hub and spoke network of EU and national bodies safeguarding public values such as the stability of the financial system, the transparency of markets and financial products and the protection of depositors and investors. It has a broad remit, including preventing regulatory arbitrage, guaranteeing a level playing field, strengthening international supervisory co-ordination, promoting supervisory convergence and providing advice to the EU institutions in the areas of banking, payments and e-money regulation, corporate governance, auditing and financial reporting. The Bank was a CEBS member and is represented on the Board of Supervisors of the EBA. Representatives from the Bank participate in the sub-groups and task forces of the EBA.

7 Statutory Instruments 625 and 627 of 2010, respectively, in December 2010.

Special Resolution Regime

As outlined in "Banking Supervision: Our New Approach", work on the development of a Special Resolution Regime (SRR) has been ongoing in the Department of Finance and the Bank for some time. As part of the package of measures agreed recently with the EU and International Monetary Fund, the work on SRR has accelerated. This has had two effects: firstly, a suite of emergency powers to allow the Minister for Finance to take certain resolution actions was passed into law in December 2010; and secondly, a bill providing for a permanent SRR is planned for 2011 and has been published.

Work is also ongoing to determine the most efficient way for the authorities to operate a permanent SRR. Clear mechanisms for co-ordination between the Department of Finance and the Bank are being developed. Additionally, internal structures to operate an SRR within the Bank are being built. These include the creation of a resolution function separate to the supervisory function, processes to ensure a smooth transition from supervision to resolution and the development of staff and other resources to operate the SRR.

Lending to Related Parties Code for Credit Institutions

In October 2010, the Bank issued a Code of Practice on Lending to Related Parties (LRP Code) which introduced statutory requirements in relation to lending by banks and building societies to related parties. The LRP Code, which replaced previous non-statutory requirements, broadens the definition of a related party and reduces the maximum amount that can be loaned to an individual related party and the aggregate amounts that can be loaned to all related parties. Related parties include a director, senior manager or significant shareholder of the credit institution or an entity in which the credit institution has a significant shareholding, as well as a connected person of any of the aforementioned persons. The LRP Code was introduced to seek to prevent abuses arising from exposures to related parties and to address possible conflicts of interest in this area. It requires that such lending is on an arm's length basis, is limited to a percentage of the institution's own funds, and is subject to appropriate and effective management oversight and limits.

Corporate Governance Code for Credit Institutions and Insurance Undertakings

In November 2010, the Bank issued the Corporate Governance Code for Credit Institutions and Insurance Undertakings (CG Code) which sets out minimum statutory requirements on how banks and insurance companies should organise the governance of their institutions. The purpose of these new rules, which came into effect in January 2011, is to ensure that robust governance arrangements are in place so that appropriate oversight exists to avoid or minimise the risk of a future crisis. The CG Code includes provisions on the membership of the board of directors, the role and responsibilities of the chairman and other directors and the operation of various board committees. The CG Code adopts a two tier approach by imposing minimum core standards upon the boards of directors of banks and insurers in general with additional requirements required of firms that the Bank designates as major institutions. The new requirements apply to all credit institutions and insurers incorporated in Ireland (including re-insurance firms but excluding insurance captive firms).

Regulatory Risk Model

A dedicated Risk Division was established in June 2010 in line with the Bank's mandate to enhance its risk-based supervision programme. It acts as a second line of defence to the supervisory directorates. The aim of the Division is to ensure that the Bank is better able to assimilate, analyse and act on the risks posed to the economy and the financial consumer by the c14,000 regulated entities in Ireland. The Risk Division is responsible for the design and build of the Bank's Regulatory Risk system (PRISM).[8] The system will be used to determine engagement levels with all regulated entities, inform resource requirements, and facilitate the allocation of supervisory resources towards entities on the basis of impact and risk. The system will improve oversight and reporting on entities, facilitate making risk judgements, and strengthen the ability of supervisors to take effective action on an efficient and consistent basis.

8 Probability Risk and Impact SysteM.

Prudential Analytics

A Prudential Analytics Unit was created in 2010 with a mandate to provide analysis services, primarily to the banking and insurance supervisors but also to the wider organisation. The Unit has four sub-divisions which specialise in financial analysis, risk analysis, business model analysis and stress testing. The Unit was instrumental in leading on the PCAR stress tests of the major covered institutions, and also in a number of international entities, in determining the appropriate level of capital required given the current level of exposure to residential and commercial property. The Unit also, through its development and application of quantitative tools, supported the SREP engagement noted above. In the course of the year, the Unit conducted a review of banks' credit rating models in order to ensure that the models being used for regulatory capital purposes continue to be fit for purpose.

The Bank has engaged the services of Risk Advisers with Board-level commercial experience to assist front line supervisory staff. These senior individuals add considerable breadth and depth of experience. They provide advice and support to supervisors, and from time to time participate in visits to banks.

Supervision of Insurance Entities

2010 Ongoing Supervision

A key objective throughout 2010 was to implement a more forward looking and intrusive supervisory approach by implementing and improving a number of supervisory initiatives. There was an ongoing focus on the examination of business models and strategies of firms. Additional inspection resources were engaged to enhance inspection processes to facilitate targeted risk based institution specific inspections and themed inspections, such as a corporate governance inspection of major reinsurers. Regulatory issues relating to Quinn Insurance Limited are covered in the Enforcement and Regulatory Actions section.

The Bank enhanced its internal processes to ensure consistency of approach and challenge to supervisory actions and plans for the most significant institutions. Risk Governance Panels were established during 2010 to provide examination teams with the opportunity to engage with technical experts, risk specialists and senior staff other than those they report to on a day to day basis. Following meetings of the Risk Governance Panel, Risk Mitigation Plans are issued to firms with actions to be implemented by specified deadlines.

Enhancements to reporting systems and management information were made with the introduction of the Electronic Reporting System for Reinsurance Companies. The Bank engaged with the largest insurance entities that participated in the European Insurance and Occupational Pension Authority (EIOPA) stress test exercise. The results were discussed with the entities in question and led to remedial actions where required.

Solvency II

The current focus is primarily on preparing for the implementation of the Solvency II Directive, which is a fundamental and wide-ranging review of the current EU Life and Non-Life, Reinsurance and Insurance Groups Directives (Solvency I). It represents a new system of supervision that assesses the overall financial position of an insurance undertaking or group and introduces material changes in the risk based quantitative capital requirements, qualitative requirements, supervisory practices and public disclosure. The new supervisory system is concerned with, amongst other areas, highlighting the importance of holistic risk management and prudential standards. The Solvency II Directive shall apply from January 2013.

Throughout 2010, extensive input was provided into the EU process for preparing 'Implementing Measures' and developing EIOPA[9] guidance. In conjunction with the Department of Finance, the Bank is preparing for the national transposition of Solvency II legislation and is participating in a number of Solvency II working groups[10]. A Solvency II Project Team and a Solvency II Reporting Team was established within the Bank in 2010 to prepare for the new regime. The Bank has also defined and established a process for internal model pre-application for those firms who intend to use either a full or partial internal model to calculate their Solvency

9 The Deputy Governor (Financial Regulation) was elected by the Board of Supervisors of EIOPA to its six-member Management Board.

10 Internal Models Expert Group, Financial Requirements Expert Group, Equivalence Sub-Committee, Equivalence Assessment Team, Internal Governance Supervisory Review and Reporting Sub Group, Insurance Groups Supervision Committee, Financial Stability Committee, Review Panel and the Committee on Financial Conglomerates.

Box 6 – Solvency II Preparations

Ongoing engagement with the insurance and reinsurance industry is an important factor in preparation for the effective implementation of the Solvency II regime. To that end, in 2010 the Bank:

» Hosted an Industry Forum on Solvency II in May 2010.

» Held two seminars with independent non-executive directors to highlight their new responsibilities under the Solvency II regime.

» Established a Solvency II quarterly newsletter to keep undertakings informed and up-to-date on Solvency II policy implementation activities and events.

» Presented to the Society of Actuaries in Ireland on Solvency II.

» Held 8 Quantitative Impact Study (QIS5) Workshops during the period August to November 2010 to provide quantitative input into the finalisation of the European Commission's proposals on 'Implementing Measures'. The Bank received 220 submissions as part of the QIS5 exercise, which demonstrated the Irish insurance and reinsurance industry's commitment to the overall process.

» Conducted a survey on undertakings' preparedness for Solvency II which included a requirement that firms identify any significant gaps in their preparedness and provide a timetable for resolution.

Capital Requirement (SCR) and has conducted workshops and meetings with undertakings who intend to use an internal model under Solvency II. Box 6 describes the preparations being made to implement Solvency II.

Insurance Guarantee Scheme

The Bank also provided input into the consultation process following publication of the European Commission's White Paper on Insurance Guarantee Schemes (IGS). IGS provide last-resort protection to consumers when insurers are unable to fulfil their contract commitment, offering protection against the risk that claims will not be met if an insurance company is closed down. The EU is proposing the introduction of a Directive to ensure that all Member States have an IGS that complies with a minimum set of requirements. It is envisaged that a legislative proposal for an EU-wide Insurance Guarantee Scheme will be tabled in the course of 2011.

Electronic Reporting for Reinsurance Companies

During 2010, work continued on an electronic reporting system which allows reinsurance companies to submit their annual regulatory data to the Bank electronically using a secure method. Prior to the roll-out of the reinsurance reporting systems, a number of workshops were held with industry explaining the operation of the system. All reinsurance companies can now submit their quarterly and annual returns to the Bank on a common reporting platform.

The data is required to pass through specified validating criteria and, only when correct, are automatically uploaded to the Bank's internal systems. This avoids the time consuming need for manual intervention. The new reporting framework facilitates the Bank in overseeing that reinsurance companies are in compliance with all prudential ratios and to monitor financial performance and key indicators in a more timely manner than heretofore was possible.

Consultation/Guidance & Other Work

Over the course of 2010, the Bank consulted with industry on a number of items including:

» Investment Guarantees - Guidance on Reserving & Risk Governance (CP42) issued in May 2010 with the aim of ascertaining best practice and implementing it across the industry. A paper entitled Requirements on Reserving and Risk Governance for Variable Annuities was issued in December 2010 following a review of the responses received in relation to CP42. These set new standards for insurers who write variable annuities business in Ireland. These are complex products which require high quality, well resourced risk management arrangements and the proposed regime creates a comprehensive regulatory framework for firms who wish to do this business.

» Guidance in relation to year end actuarial reports was issued to the Society of Actuaries Ireland in November 2010.

Regulator to Regulator Engagement

The Bank participated extensively in bilateral and multilateral supervisory co-operation and attended 17 supervisory colleges during 2010. Additionally there has been significant regulator to regulator interaction with respect to the approval of group internal models under the Solvency II regime.

EIOPA Peer Review Panel

The Bank is a member of the EIOPA Peer Review Panel which was originally established under CEIOPS in August 2008. This is a permanent group comprising high-level representatives of the National Supervisory Authorities with the necessary independence and objectivity, seniority, knowledge of the community legislation and EIOPA measures, and expertise in supervisory practices to guarantee the credibility and the effectiveness of the peer review mechanism. The Review Panel is mandated to help monitor the implementation of supervisory provisions set out in Community Legislation and in EIOPA measures (supervisory provisions) and to monitor convergence in supervisory practices. In accordance with this mandate, it conducts panel peer reviews based on self-assessments provided by its members in accordance with clear and objective methodology. The Bank participated in a Peer Review in September 2010 which examined "the Exchange of Information and Co-operation Provisions of the General Protocol". The high level findings of the review are available on the EIOPA website.

Supervision of Credit Unions

Supervisory Approach

The regulatory approach for credit unions in 2010 was focused on the need for strong balance sheets, built on the sound fundamentals of prudence and transparency. The focus on building strong safety buffers in the form of regulatory reserves, provisions for bad and doubtful debts and liquidity continued. The Bank also continued its work on identifying weaker credit unions and took pre-emptive actions where necessary in order to maintain confidence in the sector.

A significant new development in the Bank's regulatory approach in 2010 was the establishment of the inaugural Credit Union Regulatory Forum which opened up a direct communication channel with individual credit unions to ensure that the regulatory messages and approach are clearly communicated and understood. The Bank's regulatory vision for the sector is **"strong credit unions in safe hands"** and this strategy will continue to drive regulatory change to achieve this end. The Forum meetings took place in six locations across the country and were attended by around 900 representatives from credit union boards, management and supervisors. The feedback was overwhelmingly positive from the attendees, with many good suggestions for enhancing future fora.

Ongoing Supervision

The adverse impact of the economic downturn continued to be reflected in the quality of the loan books in credit unions - in particular in the level of reported arrears and rescheduled loans. In order to assess the adequacy of the level of provisions, the Bank appointed inspectors to conduct reviews of 200 credit unions (see Table 1). In addition, a number of other credit unions were requested to arrange for external loan book reviews. The outcome of this review work on loan books gave rise to significant additional bad debt provisions being required by a significant number of the inspected credit unions. The Bank required these credit unions to include these additional provisions in their financial statements.

The Bank also embarked on a series of stress tests to make a forward looking assessment of the financial stresses credit unions were likely to face in the period up to 30 September 2012. The outcome of the stress tests, together with the loan book reviews, enabled the Bank to identify and prioritise the actions for individual credit unions. The Bank put risk mitigation plans in place for these credit unions to address issues identified and to agree timelines for actions to be completed.

Table 3 gives figures of the credit unions approved to provide additional services and longer term lending.

Table 3 – Credit Unions Approved to provide Additional Services and Longer Term Lending Approval

	2009	2010[11]
Additional Services – Mortgages	21	21
Additional Services – Life & Pensions	7	7
Additional Services – PRSAs[12]	47	47
Longer Term Lending Approvals	35	35
Total	**110**	**110**

Year-End Process

In September 2010, the Bank issued a circular to all credit unions regarding the year-end procedures and the payment of dividends. In particular, credit unions were reminded that where reserves were below the minimum regulatory requirement, they were required to contact the Registrar of Credit Unions to discuss any proposals to pay a dividend. Almost 80 per cent of credit unions paid only nominal dividends of one per cent or less in 2010.

The Bank also issued a circular to all credit union external auditors reminding them of their obligations in relation to the year-end audit of credit unions under the Credit Union Act 1997 and the circulars, guidance and regulatory requirements issued by the Bank to credit unions in 2010. Auditors were also reminded to consider the results and implications of the stress testing exercise and the findings from loan book reviews in the context of the 2010 annual audit. As a result, there was a greater focus by auditors on these issues and a number of auditors contacted the Bank to discuss matters in relation to the accounts of individual credit unions.

New Regulatory Requirements

The Bank set a statutory minimum liquidity ratio for all credit unions of 20 per cent of unattached savings. Section 35 of the Credit Union Act 1997 sets out the long-term lending limits for credit unions. The Central Bank Reform Act 2010 amended Section 35 of the Credit Union Act 1997 limit on lending over five years by increasing it from 20 percent to 30 percent of total gross loans outstanding. The amended lending limit was accompanied by regulatory requirements which the Bank issued relating to lending practices for rescheduled loans and systems, controls and reporting that apply to all credit unions irrespective of the percentage of lending over five years. The requirements became effective in November 2010. The purpose of the requirements is to ensure that credit unions adopt a prudent approach when rescheduling loans, ensuring that appropriate provisions are made which recognise the risks arising in such cases. Credit unions are required to submit quarterly reports on rescheduled loans so that the Bank can monitor their compliance with the requirements.

Strategic Review

In 2009, the Minister for Finance requested the Bank to carry out a strategic review of the credit union sector in Ireland. Grant Thornton were appointed in June 2010 to conduct the review which involved an examination of the structure, operation, regulation and legislation of the credit union sector with a view to making recommendations, including specific proposals to strengthen prudential soundness.

In June 2010, the Bank published a consultation paper on the options for stabilisation arrangements in the credit union sector and the submissions received from the consultation were provided to Grant Thornton to advise and inform their work on the strategic review. The report of the strategic review was completed in January 2011 and the Bank has provided a copy of the report to the Minister for Finance.

11 No increase in figures between 2009 and 2010.

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

Markets Supervision

Supervision of Markets and the Irish Stock Exchange

The core of the Bank's work relating to markets supervision continued to be focused on preparation of the unwinding of the three delegations of parts of its statutory functions to the Irish Stock Exchange (ISE). These three delegations of work relate to parts of the Bank's work on prospectus review, market abuse investigations and the supervision of the publication of company information by companies regulated under the Transparency Directive. The Bank has made good progress and is expected to be in a position to unwind two of those delegations (Market Abuse and Prospectus) by the end of 2011 and unwind the third delegation (Transparency Directive) in 2012.

Ending the Prospectus Delegation to the ISE

In April 2010, the Bank announced the commencement of a joint project with the ISE to unwind the delegation of prospectus scrutiny tasks which have been carried out by the ISE on the Bank's behalf under a delegation arrangement since 2005. Under European law, the role of prospectus scrutiny must be returned to the Bank by 31 December 2011.

A steering committee, comprising representatives of the Bank and the ISE, was established to oversee the transition to the new integrated prospectus approval team. This committee has established a number of working groups to progress key aspects of the project. A Stakeholder Consultative Group has also been established to ensure that relevant market participants are involved in this strategically important project. The successful management of the project will ensure a smooth and seamless transition of this function from the ISE to the Bank by the end of 2011.

Supervision of Markets

The quality of the transaction reports received from MiFID firms is critical to building up, over a number of years, an effective approach to monitoring trading in shares. While such monitoring will never eliminate the possibility of undetected market abuse, it can act as an important tool for detecting this crime (See Tables 4 and 5).

In February 2010, the Bank publicly warned the market that it was unhappy with the standard of transaction reports coming from some reporting firms. The Bank urged all reporting firms to be particularly careful when changing I.T. systems and recommended that they carry out due diligence audits to ensure that any new systems continued to deliver compliance with the Bank's requirements.

In the second half of the year, the Bank began a programme of formal audits of reporting quality and followed up the results in detail with the reporting firms. The Bank believes that the wise option for all firms is to conduct audits of transaction reporting quality on a regular basis, rather than waiting for the Bank to identify quality issues. This is particularly important for firms that have outsourced part of the transaction reporting process, since they remain responsible irrespective of whether the fault lies in their own process or that of the firm to which they have outsourced. The development of a high quality market monitoring process to analyse this data has been progressing well, and the Bank went live with the first stage of the planned monitoring process in December 2010. This has also allowed an intensified effort on the inspection of reported data.

Within the European Securities and Markets Authority (ESMA), the Bank's efforts in promoting the need to have a Europe-wide system for the exchange of data on Contracts for Difference (CFDs) came to fruition in December 2010 when the EU wide Transaction Reporting Exchange Mechanism (TREM) began to facilitate the cross border exchange of Over the Counter Derivative Transaction data which includes CFDs transactions. Work within ESMA to develop a system for the exchange of client details for all market trading is still ongoing. This, and greater harmonisation of exchanged transaction data between Competent Authorities, has been a major priority of the ESMA working group on Transaction Reporting. Ireland has also taken the initiative in 2010 within ESMA to develop a more structured dialogue on market monitoring methodologies. The Bank has received a positive response from fellow members of ESMA to this initiative and expects this to be a significant part of its work in 2011.

Table 4 – Market Monitoring Reports

	2009	2010
Transaction reports received from entities located in Ireland	17,798,549	18,513,091
Transaction reports sent to other competent authorities via TREM*	14,669,494	15,204,474
Transaction reports received from other competent authorities via TREM*	8,025,978	10,720,854
Administrative Sanctions Cases Opened	0	1
Administrative Sanctions Cases Closed	0	1

* Transaction Reporting Exchange Mechanism.

Table 5 – Investigations under Securities Law

	2009	2010
Enquiries initiated regarding possible contraventions	14	15
Enquiries completed regarding possible contraventions	5	9
Suspicious Transaction Reports submitted to the Bank by persons professionally arranging transactions	1	8
Suspicious Transaction Reports submitted to the Bank by other EU Competent Authorities	0	4
Suspicious Transaction Reports transmitted by the Bank to EU Competent Authorities	0	7
Assistance rendered to other EU Competent Authorities	15	13
Stabilisation Notifications submitted to the Bank	0	0
Securities Law Settlement Agreements (concluded)	0	1
Securities Law Formal Private Cautions Issued	1	4

During 2010, the Bank has been engaged in extensive dialogue with the Department of Finance on possible ways to refine securities law. The Bank expects this dialogue to continue in 2011. Following publication of the European Commission's changes to the Market Abuse Directive (MAD) expected in 2011, the Bank will also consider if it is necessary to seek additional changes in the Irish market abuse law to enhance the regulatory framework. The Bank has also been working with the relevant Government departments in relation to the European Commission's Regulation on auctioning of greenhouse gas allowances.

Prospectus Approval[13]

The bulk of the Bank's daily work in this area involves the supervision of the delegation agreement with the ISE 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 6 below.

In December 2010, an amended EU Prospectus Directive was published for implementation by 1 July 2012. The objectives are to increase legal clarity and efficiency in the prospectus regime and reduce administrative burdens for issuers and intermediaries. The amendments also bear in mind the importance of enhancing the level of investor protection and ensuring that the information provided is sufficient and adequate to cover the needs of retail investors. The Bank is engaged in various ESMA committees and taskforces regarding the technical aspects of this implementation. *Frequently Asked Questions* on the Prospectus Directive are published by the Bank which clarifies a number of practical matters relating to the prospectus approval, publication and passporting processes.

13 This section of the Annual Report concerning prospectus review is provided to the Minister for Enterprise, Jobs and Innovation and is published in fulfilment of the Bank's reporting obligations under Regulation 108 of the Prospectus Regulations 2005.

Table 6 – Prospectus Approval Process

	2008	2009	2010
Number of Documents Approved	1,611	868	610
Number of Documents/Notifications Published	3,531	2,358	2,518
Passport Certificates Prepared	262	297	104
Inward Passporting Notifications Processed	527	586	565
Number of Issuers whose Securities were Suspended from Trading by the ISE at the request of the Bank	8	0	1

The difference between the number of documents that have been approved to date and the number of documents that have been published on the Bank's 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 and published on the 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 Bank.

Table 7 – Company Information Disclosures[14]

	2010[15]
Annual Financial Reports published	174
Half-yearly Financial Reports published	144
Interim management statements published	129
Major shareholding submitted	423
Number of Issuers whose securities were suspended from trading on the ISE by the Bank	16

Monitoring Market Transparency Requirements[16]

The bulk of the day-to-day work in this area, both in the Bank and in the ISE, involves the disclosure of periodic and ongoing information by issuers and the disclosure of major shareholdings and voting rights. See the relevant statistics in Table 7.

Supervision of Investment Service Providers

Continued Focus on Capital Adequacy

The Bank continued to maintain a heightened focus on the capital adequacy of investment service providers in 2010. A number of firms were required to inject additional capital during the year to ensure compliance with their capital requirements. In January 2010, a letter was issued to investment firms subject to the provisions of the Capital Requirements Directive highlighting their ongoing responsibilities in relation to their Internal Capital Adequacy Assessment Process (ICAAP). Over the course of the year, the Bank scrutinised a selection of investment firms' ICAAPs via a detailed process for the supervisory review and evaluation of investment firms' capital adequacy, the SREP.

A workshop held in April detailed how the Bank would undertake its investment firm SREPs. The workshop reinforced the importance of the ICAAP for investment firms and set out the Bank's expectations in relation to firms' ongoing obligations in relation to their ICAAP.

14 The Bank is 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.

15 During the year the Bank reviewed its methodology for calculating statistics and made a number of amendments to improve the quality of the data. **There are no comparable figures for 2009.**

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

Annual Audits of Compliance with Client Asset Requirements

Given the importance of the security of client assets, in 2010 the Bank continued its requirement for twice yearly audits of the compliance by investment firms with the Bank's requirements for the handling of client assets, the Client Asset Requirements (CAR). In August 2010, the Bank met with the Accountancy Bodies to discuss the CAR audits undertaken by their members on behalf of the investment firms. In September 2010, the Bank wrote to the Accountancy Bodies setting out the importance to the Bank of the external auditors' reports on compliance with the CAR, drawing their attention to the findings and some of the issues that have been raised from CAR audit reports and from the inspection process.

Inspection Programme

There were a number of general inspections undertaken during 2010 across a range of investment firms (see Table 1). The Bank also carried out a number of themed inspections focusing on the workings of investment committees, compliance reporting to board level and examinations of the workings of the compliance functions within firms. A special inspection assignment, covering payment institutions and money transmitters, was undertaken. Work on the fallout from the Madoff fraud continued during the year. A series of outsourced inspections were carried out on behalf of the Bank, the purpose of which was to examine firms' compliance with the CAR.

In June 2010, a project team was established for the intensive on-site scrutiny and the formation and implementation of risk mitigation plans for investment firms with a poor compliance record or where concerns had arisen during the regular supervisory process.

Prudential Supervisory Regime for Payment Institutions and E-Money Institutions

Following on from the implementation of the Payment Services Directive in November 2009, 2010 saw the establishment of a prudential supervisory regime for payment institutions and the development of a home/host supervisory protocol for the agents of payment institutions.

A revised regulatory regime for persons engaging in the issue of e-money has been implemented in response to an EU Directive on the prudential supervision of electronic money institutions. The Bank advised the Department of Finance regarding the national discretions for this Directive. Application processes and procedures were developed and implemented for electronic money institutions so that all applicants seeking authorisation could be facilitated, by the EU implementation date of April 2011.

Impact of CRD II & CRD III for Investment Firms

As described earlier, both CRD II and CRD III were transposed into Irish law in December 2010. A detailed note was published on the Bank's website in December highlighting the CRD II and CRD III amendments particularly applicable to Irish investment firms, and setting out expectations in relation to the implementation of the new provisions. Irish investment firms are most likely to be affected by the large exposure and liquidity risk amendments of CRD II. The CRD III provisions that will affect Irish investment firms are primarily those relating to trading book capital and remuneration policy. Firms should also note the enhanced securitisation regime and the disclosure requirements in particular.

Supervision of Funds

Ongoing Supervision

Due to organisation wide restructuring of regulatory functions within the Bank, responsibility for the functions of authorisation and supervision of funds and their service providers consolidated into one division in late 2010.

The supervision of Irish investment funds is carried out through direct and indirect supervisory models. This is achieved through the supervision of Irish authorised managers, trustees and administrators who provide services to the funds. In addition, each fund must submit monthly statistical data, an interim report and audited financial statements to the Bank. During 2010, the Bank conducted 5 inspections as part of the fallout from the Madoff fraud. The Bank had 53 review meetings (both on and off-site) with fund service providers which focused on capital, financial standing, organisational structure, staffing, systems and processes, risk management and compliance with regulatory conditions. The Bank also had 45 ad-hoc meetings addressing specific issues such as derogation requests, investment breaches and compensation arrangements on funds, and corporate governance matters.

Collective Investment Schemes

Collective Investment Schemes (funds) are established for the purpose of investing the pooled subscriptions of investors (held as units or shares in the scheme) in investment assets in accordance with investment objectives published in the prospectus. The net asset value of Irish authorised funds amounted to €963.3 billion as at 31st December 2010 represented by 4,742 funds, including sub-funds. The number of revocations (all voluntary) of existing funds, including sub-funds, in 2010 was 583. The total number of funds authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2003, Unit Trust Act 1990, Part XIII of the Companies Act 1990, the Investment Funds, Companies and Miscellaneous Provisions Act 2005 and the Investment Limited Partnerships Act 1994 in 2010 was 144 funds (701 including sub-funds).

Undertakings for Collective Investment in Transferable Securities (UCITS) IV Directive

The UCITS IV Directive introduces a number of changes to UCITS and their service providers; the most significant of these is the introduction of a management company passport, whereby a management company located in one jurisdiction within the EU could establish a UCITS in another Member State. The UCITS IV Directive comes into force on 1 July 2011. In accordance with the Lamfalussy process[17], the Bank participated in the development of necessary implementation measures (Level 2) and related CESR guidelines (Level 3) to support the Level 1 directive during 2010. The Bank also participated in a UCITS IV transposition workshop organised by the European Commission in September. The Bank is preparing revisions to UCITS Notices and related Guidance Notes which are being amended to reflect and, where appropriate, implement the provisions of UCITS IV. A Consultation Paper in this regard was issued on 16 February 2011.

Alternative Investment Fund Managers (AIFM) Directive

The EU proposal for a Directive on AIFM was agreed in the final quarter of 2010. The Directive is designed to create a comprehensive and enhanced regulatory and supervisory framework for AIFM. There are a significant number of implementing measures and regulatory technical standards to be implemented. Four task forces have been established by the European Securities and Markets Authority to carry out this work, with the Bank represented on all four committees and providing the chair for one committee.

Minimum Activities Requirement for Investment Funds

The Bank undertook a review of the minimum activity requirements for Irish authorised funds to consider whether it is still practical to require that specific activities in relation to the operation of funds must be carried out in Ireland. A consultation paper was issued in November 2010 which proposed the removal of the minimum activity requirements for Irish authorised UCITS and non-UCITS funds. The review is being undertaken as the introduction of a European passport for UCITS management companies means that the location of the UCITS will no longer be linked to the location of the operations (including the administration activities) of that UCITS. In order to ensure that the Bank can properly exercise its supervisory responsibilities in respect of Irish regulated administration companies, the consultation paper also proposed that these firms comply with a set of outsourcing requirements published by the Bank. The consultation closed on 31 December 2010. The Bank is considering the responses to this consultation and will issue final requirements in the first half of 2011.

17 The Lamfalussy Process is an approach to the development of financial service industry regulations used by the European Union. It comprises four "levels" each focusing on a specific stage of the implementation of legislation. At Level 1, the European Parliament and Council of the European Union adopt a piece of legislation, establishing the core values of a law and building guidelines on its implementation. The law then progresses to the Level 2, where sector-specific committees and regulators advise on technical details, then bring it to a vote in front of member-state representatives. At Level 3, national regulators work on co-ordinating new regulations with other nations. The fourth level involves compliance and enforcement of the new rules and laws.

International Organisation of Securities Commissions (IOSCO)

The Bank is a participant of the IOSCO Standing Committee 5 (SC5) – Investment Management. SC5 met on three occasions during 2010 when, inter alia, issues in relation to suspensions of fund subscriptions and redemptions, exchange traded funds and valuation issues were discussed.

Consumer Protection

A key focus of the Bank's work in 2010 was the impact of the economic crisis on households particularly those indebted households. A number of consumer protection initiatives were also introduced and the Bank continued to use themed inspections as a tool for monitoring compliance with consumer protection requirements (see Table 8).

Mortgage Arrears

In February 2010, the Statutory Code of Conduct on Mortgage Arrears (CCMA) was amended to require that regulated mortgage lenders must wait at least 12 months (previously 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.

Later in the year, following the recommendations of the Government's Expert Group on Mortgage Arrears and Personal Debt and other issues which have arisen since its introduction in February 2009, the CCMA was fundamentally reviewed. The revised CCMA sets out the framework that lenders must use when dealing with customers in arrears or pre-arrears and requires that cases are handled sympathetically and positively with the objective of assisting the borrower. The new CCMA became effective on 1 January 2011.

Some of the more detailed rules in the revised CCMA include:

» The CCMA now applies to borrowers who notify their lender that they are facing financial difficulties and may be at risk of mortgage arrears, i.e., pre-arrears cases.

» Lenders must establish a Mortgage Arrears Resolution Process (MARP) and use this framework when dealing with arrears and pre-arrears customers.

» Lenders cannot initiate more than three unsolicited communications with a borrower in respect of his/her mortgage arrears situation, by whatever means, in a calendar month other than correspondence required by the CCMA or other regulatory requirements.

» Lenders are required to set up an Arrears Support Unit (ASU) to assess arrears and pre-arrears cases.

» When a lender is determining the 12 month period which it must wait before applying to the courts to commence legal action, it cannot include any time period during which a borrower is complying with the terms of an alternative repayment arrangement, making an appeal to the internal Appeals Board or making a complaint to the Financial Services Ombudsman under the CCMA.

The Bank also produced, with input from the National Consumer Agency, a consumer guide to assist consumers in understanding the new process under the revised CCMA that they should expect from lenders.

In addition, arrears charges on mortgage accounts which were previously approved under Section 149 of the Consumer Credit Act 1995 were revoked with effect from January 2011. This impacted on over 20 lenders and means that while borrowers engage with their lender, surcharge interest and other penalty charges cannot be applied to their account.

One of the themed inspections focused on compliance by mortgage lenders with certain provisions of the CCMA, including examining the issuance of formal demand letters, applications to the courts to commence enforcement of legal action on repossession and entering alternative repayment arrangements. This demonstrated good levels of compliance with the provisions examined.

The Bank continues to publish information on a quarterly basis, including non-deposit taking lenders, covering residential mortgage arrears and repossessions. Table 9 shows the trend in residential mortgage arrears and repossessions. In addition starting with the data collected for end-December 2010, the Bank collects and publishes information on the number of mortgage accounts which have been restructured, e.g., those on interest only, payment holiday, etc.

Table 8 – Themed Consumer Focused Inspections in 2010

	2009 Activity	2010 Activity
Number of Themes	13	6
Number of Inspections	176	102
Number of Non-Inspection Meetings	88	162

Details of 2010 Activity on Consumer Focused Inspections

Themes (On-site and Off-site)	Entity Type	Number inspected/ examined
Tracker Bond KFD's (to be reported on in 2011)	Credit Institutions	8
Minimum Competency	Intermediaries	20
Minimum Competency	Insurance	9
Motor Insurance Claims Handling	Insurance	10
Complaints Handling (to be reported on in 2011)	Insurance	10
Compliance with Provisions of the Code of Conduct on Mortgage Arrears	Mortgage Lenders	5
Examination of Tracker Mortgages	Mortgage Lenders	21
Moneylenders APR's and Cost of Credit (to be reported on in 2011)	Moneylenders	11
Forced Account Closures in Arrears Cases (Industry letter issued)	Credit Institutions	3
Promotional Interest Rates (to be reported on in 2011)	Credit Institutions	5
Total Themes:		**6**
Total Entities included in Themes		**102**
Other Inspections (On-Site)	Credit Institutions	3
	MiFID Firms	9
	Insurance	6
	Intermediaries	13
	APB's	3
	IMD Firms	1
	Moneylender	1
Total Inspections		**36**
Off-site Non-Inspection Meetings	MiFID Firms	15
	Insurance	24
	Intermediaries	10
	Credit Institutions	56
	IMD Firm/Govt Dept/ UK Regulator/Auditor	4
	Various	49
On-site Non-Inspection Meetings	Insurance	1
	Intermediaries	2
	IMD Firm	1
Subtotal		**162**
Overall Total		**300**

Themed inspections which began in 2009 but were not concluded until 2010 have been included in the 2009 Annual Report.

Table 9 – Residential Mortgage Arrears and Repossessions Statistics - Trend Data

	Mar-10			Jun-10			Sep-10			Dec-10		
Particulars	**Number**	**Balance '000**	**Arrears '000**	**Number**	**Balance '000**	**Arrears '000**	**Number**	**Balance '000**	**Arrears '000**	**Number**	**Balance '000**	**Arrears '000**
Outstanding:												
Total residential mortgage loan accounts outstanding - at end of quarter	791,047	118,057,227	–	789,814	117,717,541	–	788,745	117,401,600	–	786,164	116,683,253	–
Arrears:												
Total mortgage arrears cases outstanding - at end of quarter which are:												
- In arrears 91 to 180 days	10,504	1,943,632	50,388	11,641	2,142,685	72,386	12,423	2,318,207	74,121	13,170	2,418,406	78,269
- In arrears over 180 days	21,817	4,160,047	414,165	24,797	4,805,837	486,527	28,049	5,476,752	562,412	31,338	6,165,198	629,377
Total arrears cases over 90 days outstanding	32,321	6,103,679	464,553	36,438	6,948,522	558,913	40,472	7,794,959	636,533	44,508	8,583,604	707,646
% of loan accounts in arrears for more than 90 days	4.1%	–	–	4.6%	–	–	5.1%	–	–	5.7%	–	–
Repossessions:												
Residential properties in possession - at end of quarter	455	–	–	495	–	–	521	–	–	585	–	–

Other Debt Related Issues

The Bank examined a number of particular issues in relation to non-mortgage debt and made proposals in a consultation on the Consumer Protection Code (the Code) regarding non-mortgage arrears (see section on Code below).

Examination of Tracker Mortgages

Work on tracker mortgages continued during 2010. The examination of tracker mortgages looked at switching practices related to tracker mortgages by mortgage lenders and relevant customer communications. A number of concerns were identified about the level of disclosure and transparency when consumers moved from tracker rate mortgages to other forms of mortgages. Mortgage lenders were requested to introduce measures to ensure consumers fully understood the implications of switching from a tracker mortgage. The Bank did not find any evidence that customers were being offered incentives to move off trackers. The findings from the examination were issued in August 2010.

Forced Accounts Closure in Arrears

The Money Advice and Budgeting Service (MABS) raised concerns with the Bank about the practice of forced bank account closure where the customer had fallen into arrears which led to inspections being carried out in a number of lenders. The inspections found that banks did have a practice of withdrawing banking facilities where customers who fell into arrears were not co-operating with the bank with a view to repaying the amounts outstanding, and that generally, customers were provided with at least one month's notice of the withdrawal of all banking facilities. The findings from this themed inspection informed the proposals as outlined in the Code Consultation Document which includes a proposal that where a consumer is in arrears in respect of an overdraft facility but is otherwise operating the current account within the terms and conditions, a credit institution will be prohibited from closing that account without the consumer's consent.

Negative Equity Mortgages

There were concerns that if this type of product was widely available, it could lead to a widespread increase in indebtedness at a time when there is uncertainty over the future direction of property values. There were also concerns as to whether issues such as suitability, affordability and consumer information would be adequately addressed. It was agreed that any institution considering such a product could only do so in accordance with criteria agreed in advance with the Bank around areas such as debt service ratio, net disposable income, loan to value ratios, income multiples and credit history. They could not be actively promoted or advertised and could only be considered in the context of existing customers. The product should only be available in very selective circumstances and would be regarded as a facility to assist a small base of customers who are in negative equity and who have a strong repayment capacity.

Charging Issues

Work continued in 2010 to ensure that charging errors were dealt with speedily and efficiently and corrected in a fair manner as required by Common Rule 45 of the Code. The Bank communicated in June 2010 that it was concerned that financial institutions continued to experience control failures that resulted in customers being overcharged[18]. This communication reminded institutions that:

» The prevention of errors and the handling of errors if they occur, should be dealt with as a priority by institutions and, in addition, that the necessary resources should be devoted to ensure that customers are protected.

» Charging or pricing errors must be resolved and all affected customers repaid within six months from when the error was first identified. In the case of smaller and less complex charging or pricing errors, it is expected that they will be addressed well within the six month timeframe.

» In cases where a timeframe has been agreed with the Bank in relation to the resolution of a charging or pricing error and an institution fails to meet this deadline, the Bank may pursue this failure under the Administrative Sanctions Procedure.

More prescriptive requirements on handling of errors are included in the consultation on the Code including requirements that:

» Errors must be fully rectified in six months.

» Regulated entities must test internal control systems on a regular basis.

» Where an error is not resolved within 30 days, the error must be reported to the Bank.

» A log of all errors must be maintained within firms.

The Consumer Credit Act 1995 as amended (CCA) requires financial service providers (credit institutions, bureaux de change and money transmission businesses) to notify the Bank of any proposal to introduce new or increased charges for certain financial services. In 2010, the Bank issued letters of direction on foot of 19 notifications from credit institutions, bureaux de change and money transmission businesses. Of these, 13 were approved in full and 6 were partially approved. A mystery shopping exercise was conducted during the year, the principal objective of which was to assess the compliance of providers of foreign exchange facilities with section 149 and 149A of the CCA. Based on the findings, there appears to be a high level of compliance with the requirements.

18 In 2010 AIB was fined €2m and Culleton Insurances Ltd €27,000 in respect of overcharging issues.

Strengthening the Consumer Protection Framework

Consultation Paper 45 Review of Minimum Competency Requirements

In June 2010, the Bank issued a consultation paper (CP45) reviewing the Minimum Competency Requirements for individuals who provide advice on or arrange retail financial products. The consultation paper sought views on a number of proposals such as phasing out 'grandfathering arrangements' over a four-year period and changing the current three-year cycle for Continuous Professional Development to an annual requirement. It is planned that the revised Minimum Competency Requirements will be published in the second quarter of 2011.

Consultation Paper 47 Review of Consumer Protection Code

In October 2010, a consultation paper (CP47) on the Review of the Consumer Protection Code was published and submissions were invited from all interested parties. CP47 outlined proposed new requirements for regulated firms when dealing with consumers in addition to strengthening existing requirements in key areas.

Some of the most significant measures proposed in the Consumer Protection Code review include:

» More prescriptive "Know the Consumer" requirements. Firms will be required to gather and record information specifically on a consumer's personal circumstances, needs and objectives, financial situation and attitude to risk.

» More rigorous requirements for assessing whether a product or service is suitable for a consumer and meets the consumer's needs and objectives.

» A definition of vulnerable consumer is proposed and firms must apply a greater level of care to a consumer if a vulnerability is identified.

» New requirements that product producers, when designing new investment products, must identify the target market, the nature and extent of risks inherent in the product and the level, nature, extent and limitations of any guarantees attached to the product.

» Specific steps that must be followed by regulated entities when dealing with consumers experiencing arrears on loans and credit facilities, e.g., contacting the consumer, providing information on the status of the account and the contact details for MABS. In addition, the Bank proposes unsolicited contacts concerning the arrears situation are limited to three communications per month.

Work is ongoing on the analysis of submissions received to this Consultation. It is planned that a revised Consumer Protection Code will be published towards the end of Q3 2011.

Code of Conduct on the Switching of Current Accounts with Credit Institutions

As part of the bank restructuring process, Ireland agreed to a package of sector-wide measures with the European Commission to promote competition in the Irish banking market. A key element of the package was a commitment to introduce a statutory switching code. In October 2010, in order to meet this commitment, the Bank introduced a Code of Conduct on the Switching of Current Accounts with Credit Institutions (Switching Code) which builds on the provisions of the Irish Banking Federation's (IBF's) voluntary codes.

Themed Inspections and Monitoring of Compliance

In addition to themes mentioned above, the Bank conducted themed inspections or carried out monitoring work in the following areas.

Minimum Competency Requirements

This themed inspection reviewed compliance by life insurance firms with the 'grandfathering' provisions and register maintenance provisions of the Minimum Competency Requirements. The inspection found that firms generally had comprehensive procedures in place and a number of recommendations have been made to firms. A separate themed inspection examined compliance by retail intermediaries with the provisions of the Minimum Competency Requirements. Only 25% of the firms inspected were fully compliant with the relevant provisions.

Table 10 – Advertising Issues Investigated

	2009	2010
Central Bank Monitoring	182	70
Complaints	41	15
Total	**223**	**85**

Outcome of Advertising Issues Investigated 2010

Advertisements Amended	Advert Withdrawn	No Action Required	Ongoing
58	8	17	2

Third Party Motor Insurance Claims

This inspection centred on how insurance companies handle motor insurance claims from third parties. Overall, it was found that there is a high level of compliance by firms with the claims processing requirements of the Code. The inspection found that firms do not treat third party claimants differently to claims by their own policyholders.

Payment Services Providers

The Payment Service Directive was implemented in November 2009. The Bank is responsible for supervising Payment Service Providers for compliance with conduct of business rules. During 2010, the Bank engaged with providers of payment services on the conduct of business rules and imposed a number of Directions under the Regulations primarily in relation to timeframes for processing payments.

Advertising

The Bank actively monitors advertising by regulated firms and follows up on issues and other matters that consumers bring to its attention. The Bank investigated a total of 85 advertising issues in the financial services sector during 2010. Table 10 refers.

The Bank also completed a project to review the websites of mortgage intermediaries. The main issues identified during the course of this project were out of date information, e.g., advertising products or rates which are no longer available or where limited availability conditions were not clearly disclosed. An industry letter to this sector was sent early in 2011 covering the issues identified.

Enforcement and Regulatory Actions

The Enforcement Directorate was established in June 2010 to deliver the Bank's statutory objectives through enforcement actions that are consistent, targeted, proportionate, transparent and supportive of the Bank's risked-based approach to supervision. The enforcement work and powers of the Directorate include: Administrative Sanctions Procedures for prescribed contraventions; fitness & probity cases; enforcement of markets regulations (i.e. market abuse, prospectus and transparency regulations); investigations of unauthorised business activity; criminal prosecutions; specialist monitoring, inspection, investigation and enforcement of Anti-Money Laundering/Counter-Terrorist Financing laws and EU Financial Sanctions. The Directorate also co-ordinates the Bank's liaison with other law enforcement agencies.

At the time of establishment, the key priorities for the Enforcement Directorate included:

» Continuing to progress investigations, already commenced, into various regulated entities.

» Building the capacity and capabilities of the Directorate.

» Developing and implementing an enforcement strategy for the Directorate.

Enforcement Strategy

In December 2010, the Bank published its first standalone Enforcement Strategy, covering the period 2011-2012. The purpose of the Strategy is to further the Bank's statutory objective of *the proper and effective regulation of financial service providers and markets, while ensuring that the best interests of consumers of financial services are protected*. The Enforcement Strategy commits the Bank to a more assertive approach to enforcement action, underpinned by sufficient resources, to serve as a credible threat of action. The Bank continues to build the Enforcement Directorate, both in terms of recruitment of suitable staff and the development of robust processes and procedures, to deliver on the Strategy.

Petitions for Administration

In March 2010, the Bank petitioned for the appointment of a provisional administrator to Quinn Insurance Limited as there were serious and persistent breaches of solvency requirements. Joint Provisional Administrators were appointed by the High Court in March 2010, with the Joint Administrators being subsequently confirmed by the Court in April 2010.

Regulatory Sanctions - Settlement Agreements

During 2010, the Bank entered into eight settlement agreements[19] with regulated entities. The sanctions imposed include eight fines, totalling €2,248,700, and eight reprimands. The fines ranged from €5,000 to €2m and related to various breaches, including breaches of the Consumer Protection Code, the Licensing & Supervision Regulations, the Market Abuse Regulations, the MiFID regulations and the Investment Intermediaries Act.

The most significant issues which arose in one or more of the above cases related to:

» Failure to have in place and/or implement adequate systems and controls to ensure compliance with the Codes and Regulations. Allied Irish Banks plc (AIB) was fined €2m for failing, over a number of years, to have in place robust governance arrangements specifically by failing to have adequate internal control mechanisms to prevent and rectify frequent and many instances of overcharging. Separately, AIB was also fined €40,000 in relation to the maintenance of up-to-date insider lists as required under market abuse rules.

» In respect of insurance products, failure to maintain a minimum guarantee fund in accordance with the EC Framework Regulations.

» Failure to report and inaccurate reporting of transactions in financial instruments admitted to trading on a regulated market or a multilateral trading facility operated by a market operator. In this case, the Bank fined NCB Stockbrokers Limited €100,000 in relation to transaction reporting failures.

The Bank will continue to use the breadth of its powers, including monetary penalties, to incentivise regulated entities (and persons concerned in their management) to comply with their obligations, to act as deterrent to others and to educate stakeholders regarding the behaviour the Bank expects of those operating in this jurisdiction. Information on regulatory actions is detailed in Table 11.

19 Seven of these are administrative sanction settlement agreements and one is a securities law settlement agreement.

Table 11 – Regulatory Actions Taken in 2010

Type	Number of Actions 2009	Number of Actions 2010
Administrative Sanction Settlement Agreements	10	7
Securities Law Settlement Agreements	0	1
Securities Law Formal Private Cautions Issued	1	4
Directions Imposed under Transparency Directive[20]	26	21
Directions Imposed under Prospectus Directive	0	1
Warning Notices Issued Regarding Unauthorised Activity	6	5
Issue of Post Inspection or other Regulatory Finding to be addressed or corrected	133	297
Request for External Reviews - Credit Unions	98	126
Authorisation/Licence/Registration Refused	6	4
Appointment of Administrator	2	1
Firms recapitalised due to solvency issues	11	29
Direction/Requirement imposed on Credit Unions	25	16
Appointment of Independent Auditor/Inspector Required	8	4
Advertising Issues Investigated	224	85
Direction/Requirement Imposed under Other Legislation	44	41
Disclosure of information to other Enforcement Authorities	259	155
Total	**853**	**797**

Investigations

The investigation into issues in relation to Anglo Irish Bank (Anglo) continued in 2010. At an early stage in this investigation, the Bank notified the Gardaí and the Office of the Director of Corporate Enforcement (ODCE) of certain matters. Where appropriate, the Bank 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. Regular liaison with these agencies is continuing.

In mid 2010, the Enforcement Directorate commenced an examination into whether Quinn Insurance Limited had committed any regulatory breaches as a result of the solvency problems experienced by the firm. This examination is currently ongoing. A report on a review conducted by Ernst & Young for Irish Nationwide Building Society (INBS) was presented to the Bank in 2010 by INBS. An investigation is ongoing into various legacy issues in the Society.

20 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 Bank 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 Bank. In 2010, a total of 334 Directions were issued under the Transparency Directive (287 in 2009). However, adjusted for the re-issue of Directions previously issued, the number of Directions issued pursuant to the Regulations falls to 21 (26 in 2009).

Table 12 – Fitness and Probity Interviews

Sector	No. of Interviews	Senior Manager	Board Member	Outcome		
				Approved	Withdrawn	On Hold[21]
Retail Banks	19	8	11	17	1	1
Other	7	6	1	5	2	0
Total	**26**	**14**	**12**	**22**	**3**	**1**

Fitness and Probity

During 2010, the Bank commenced an interview process as part of its 'fitness and probity' assessments for appointments at senior management levels within institutions. Initially, the Bank's focus is on the domestic retail banks but it is intended to roll this out across a number of institutions on a risk-based approach consistent with the resources available to the Bank (see Table 12).

The Central Bank Reform Act 2010 provides for new powers for the Bank to ensure the fitness and probity of nominees to key positions within financial service providers and of key office-holders within those providers. The key provisions give the Bank:

- Power to prescribe 'controlled functions' (i.e. functions, the exercise of which, allows the person concerned to exercise a significant influence over the conduct of a regulated firm) and to suspend persons performing such functions pending an investigation into whether they should be prohibited from performing such functions on the basis that they are not fit and proper persons to perform them.
- Power to suspend a person for a maximum period of two months where the Head of Financial Regulation is of the opinion that there is sufficient reason to suspect that a person is not a fit and proper person.
- Power for the Bank to prohibit a person from carrying out controlled functions if the Governor of the Bank is of the opinion that the person is not a fit and proper person.
- Power for the Bank to apply to the High Court for an order prohibiting a person from performing a controlled function in the event that a direction by the Bank is not complied with.
- Power to prescribe a subset of controlled functions in respect of which the prior approval of the Bank is required before persons are appointed to perform them.
- Power to issue standards of fitness and probity in respect of controlled functions and to prohibit regulated financial service providers from allowing people who do not satisfy these standards from performing such controlled functions.

A public consultation was initiated in March 2011 relating to the application of these powers, with new requirements becoming applicable from September 2011.

An applicant for authorisation as money transmitter and as a payment institution was refused authorisation in 2010 on fitness and probity grounds. Four retail intermediary applications for authorisation were voluntarily withdrawn by the applicants following fitness and probity concerns in relation to the applicants raised by the Bank in the course of the applications. Conditions were imposed on the authorisations issued to two other retail intermediaries on foot of fitness and probity concerns that arose in the course of the applications. A further retail intermediary that was already authorised sought revocation on a voluntary basis after a 'minded to revoke' notice was served on the firm in relation to fitness and probity issues. There were no appeals to the Irish Financial Services Appeals Tribunal in the course of 2010 in relation to the refusal/revocation of authorisation or imposition of conditions on a firm for fitness and probity reasons.

21 On hold at request of the applicant firm.

Unauthorised Financial Activity

The Bank acted upon 324 complaints received in connection with unauthorised financial activity and published five warning notices in relation to nine firms.

Anti Money Laundering, Counter Terrorism Financing (AML-CTF) and EU Financial Sanctions

The Bank conducted a series of thematic inspections of financial institutions in a number of sectors in order to conduct a preliminary assessment of the implementation of a risk-based approach as required under the new Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (see Table 1). To raise awareness of the new legislation, the Bank also contributed to a series of seminars while further assisting industry in its drafting of AML-CTF guidance notes. The Bank continued its practice of writing to regulated entities notifying them of changes to EU financial sanctions measures.

The Bank issued 118 statutory reports to the Gardaí, of which 106 reports were in respect of investigations into unauthorised investment activity under Section 33AK of the Central Bank Act 1942 and 12 reports were made in relation to suspected breaches of the anti money laundering requirements.

Economic Analysis Research and Statistics

Economic Analysis and Commentary

The Bank has played an important role in influencing economic policy through its frequent commentaries, forecasts, research and provision of financial statistics. These are communicated through regular publications and research papers, other domestic and international journals, statements by the Governor and contributions to conferences and seminars. Internally, economic analysis and research are inputs into ongoing financial stability assessments and the prudential capital adequacy reviews.

In the area of macroeconomic forecasting, the Bank continued to include macroeconomic projections in the Quarterly Bulletin and prepare projections and analysis for the Eurosystem Broad Macroeconomic Projections, as well as participate in other Eurosystem-wide macroeconomic 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. The Bank 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 compilation of some new indicators on labour cost competitiveness.

Research

The Bank further enhanced the communication of its research work in 2010 with the publication of the third annual *Research Bulletin*. This bulletin contains non-technical summaries of the Bank's published technical papers. In addition to the Bank's commentary, macroeconomic projections and policy advice, published research in 2010 was in the area of mortgage arrears and repayment burdens, pricing behaviour, wage setting, economic 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 leading domestic and international economic journals.

Box 7 – List of Statistical Outputs

Title	Description
Quarterly Financial Accounts	Quarterly Financial Accounts are a new statistical product published by the Central Bank. They provide comprehensive information on the economic activities of households, non-financial corporates, financial corporations, government and the rest of the world.
Investment Fund Statistics	Quarterly publication detailing developments in the balance sheet of all investment funds resident in Ireland (excluding money market funds). The analysis and tables are also broken down by investment policy of the fund (for example bond, equity, hedge). Monthly NAV data by investment policy is also included in the tables which are updated quarterly.
BIS Triennial Derivatives Survey 2010	Information note released on the Central Bank website giving the main results of the turnover part of the BIS Triennial Derivatives survey. Tables on the results for both turnover and outstanding amounts were also published on the website. In addition, further analysis of the results of the survey were included in the Quarterly Bulletin No. 1 2011.
Securities Issues Statistics	Monthly publication providing updated statistics on market-based financing activities of financial and non-financial firms incorporated in Ireland. The monthly dataset contains information on the volume of bonds and notes issued during the month, as well as the market valuation of outstanding equity shares by sector of issuer at end-month.
Money and Banking Statistics	Monthly publication providing detailed data on trends in the main asset and liability categories of the resident offices of credit institutions in Ireland, including loans, deposits and other monetary aggregates and their counterparties. This gives a comprehensive overview of credit developments in the domestic banking market, with particular focus on households and non-financial corporations which are mainly reliant on the domestic banking system.
Retail Interest Rate Statistics	Monthly publication providing detailed data on the trends in retail interest rates for deposits and loans to households and non-financial corporations in Ireland.
Consolidated Banking Statistics: Foreign Claims	Quarterly publication providing detailed data on the trends in the foreign claims, (i.e. foreign assets), of the Irish headquartered banks by counterparty country and sector based on the residency of the ultimate guarantor. The data are comparable to those published by the Bank for International Settlements.
Developments in Private-Sector Credit by Sector of Economic Activity	Quarterly publication providing detailed data on the trends in the credit advanced to the Irish private sector by resident credit institutions broken down by sector of economic activity (NACE). From 2011, this series is being replaced with 'Trends in Business Credit' and 'Trends in Personal Lending'.
Lending to Irish Small and Medium Sized Enterprises	Publication introducing the new series on trends in lending to Irish Small and Medium Sized enterprises by resident credit institutions. From 2011 this series will be incorporated in 'Trends in Business Credit'.

Statistics

During 2010, there were significant enhancements to the statistical outputs of the Bank. A new presentation of the monthly money and banking statistics was launched in June. This included expanded sector and instrument detail, and also provided, for the first time, information on the underlying transactions and growth rates for the key monetary aggregates. These underlying transactions and growth rates reflect real economic activity as they are adjusted to exclude reclassifications such as, exchange rate movements, transfers to NAMA and increased levels of provisions for bad debts. Detailed time series for all the key variables are available on the Bank's website back to January 2003.

A new quarterly series of credit to Small and Medium Sized Enterprises (SMEs) was published for the first time in December. The need for data on SME lending had been identified as a key policy requirement, and the new series published allows policy makers to monitor developments in credit by sector of economic activity.

New data on the consolidated foreign claims of the domestic banks was also published in December. The series published is similar to the Consolidated Banking Statistics published by the Bank for International Settlements (BIS) but differs in that the Bank's dataset refers only to the domestic Irish banks. The new series help to address misunderstandings about the size of domestic banks' foreign exposures.

The launch of a new statistical series – Quarterly Financial Accounts (QFA) for Ireland - also took place in 2010. The publication of these accounts, which describe the financial transactions and positions of the domestic economic sectors and the rest of the world, represents the culmination of a major project which was developed over a number of years. The QFA data series is available back to the beginning of 2002 on the Bank's website.

Statistics on investment funds were further enhanced in 2010, and an article was published in the Bank's quarterly bulletin in January to explain the series. These data provide detailed information for a number of fund categories, classified according to their investment strategy. Separately, the development of a new data collection system for Financial Vehicle Corporations (FVCs) was completed in 2010. Initial data have been provided to the ECB and first results will be published nationally in 2011.

The first publication of Securities Issues Statistics also took place in 2010. The new dataset, published on the Bank's website, contains information on the outstanding amount of debt and equity securities issued by Irish-resident entities by sector of issuer – including monetary financial institutions, other financial intermediaries, Government, non-financial corporates and insurance companies and pension funds. In addition, significant work has been ongoing on developing security holdings statistics as part of a wider European System of Central Bank's project. Box 7 above outlines the financial statistics that the Bank produces.

The Bank's close working relationship with the Central Statistics Office (CSO) was further expanded in 2010. This co-operation, which delivers efficiencies to both institutions, was central to the publication of the Quarterly Financial Accounts and to the further development of security-by-security reporting for credit institutions and investment funds. A major achievement in 2010 was the completion of a new agreement in the field of Balance of Payments and International Investment Position statistics between the two institutions.

This new agreement cements the close working relationship, and ensures that, as far as possible, duplication of work is eliminated. The close co-operation also extends to Government Finance Statistics, where the Bank and the CSO worked closely together in dealing with the complex issues arising from the support of the banking sector.

Payment Systems and Currency Services

TARGET2 RTGS

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 2010 and, with a stable market share of 91% of the total value of payments in large-value euro payment systems, confirmed its dominant position in the European landscape. While the total number of payments processed by the TARGET2 system decreased by 0.69% in volume, value increased by 6.79%, compared with 2009, with the average daily volume totalling 343,380 transactions, representing an average daily value of €2,299.2 billion. The Irish TARGET2 component processed some 1.28 million payments in 2010 with a value in excess of €7,641 billion.

TARGET2 Securities

Development of the TARGET2 Securities (T2S) project continued in 2010. T2S is a pan-European settlement system for securities and is planned to go live in 2014. The Bank participates in the T2S Advisory Group and engagement with the Irish market is through the National User Group of which the Bank is chair.

CCBM2

Work continues at Eurosystem level on the design and implementation of the Collateral Central Bank Management (CCBM2) project. CCBM2 promotes stability and efficiency in the euro area by providing a common platform for all Eurosystem counterparties to mobilise any eligible collateral quickly and securely. Together with TARGET2 and TARGET2-Securities, CCBM2 is an integral part of the new integrated infrastructure developed by the Eurosystem.

SEPA

The Bank continued to monitor and promote the implementation of Single Euro Payments Area (SEPA) in Ireland during 2010 and to liaise, as necessary, with the Irish Payment Services Organisation (IPSO) and with the Department of Finance on payments systems developments arising from the transposition of the EU Commission's Payment Services Directive (PSD) into Irish law on 1 November 2009. The implementation of SEPA in Ireland is co-ordinated by the Irish Payment Services Organisation's SEPA Implementation Task Force (SITF), and the Bank is represented on this group in its capacity as payment systems overseer.

In March 2010, the Eurosystem and the European Commission agreed on the creation of the SEPA Council – bringing together high level representatives from the demand and supply sides of the European payments market - with the ultimate purpose of facilitating SEPA migration and thereby improving the functioning of the internal market for payment services.

In December 2010, the European Commission issued draft proposals for a regulation establishing technical requirements for credit transfers and direct debits in euro - amending Regulation (EC) No 924/2009 on cross-border payments in the Community. These proposals aim to establish end-dates for completing the migration of payment instruments based on these technical requirements.

National Payments Strategy

In order to improve Ireland's payment systems infrastructure, less use of cash and paper instruments should be made, with more efficient and secure electronic alternatives replacing them. While some progress was made in 2010 on achieving a more efficient and cost effective payments landscape, including a further significant reduction in cheque usage, further work is required to co-ordinate the efforts of all stakeholders to achieve the strategic objectives.

Oversight Activities

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. In July 2010, the Bank published a National Payments Oversight Report, providing a detailed account of payments oversight and of the payments and securities settlement infrastructure in Ireland. The primary aim of the payments oversight role remained unchanged in 2010. It includes ensuring that all of the payment systems under the Bank's regulatory remit continue to operate safely and efficiently, and keeping abreast of developments affecting the payments industry. In addition, the Bank contributed to the development of relevant Eurosystem oversight policy, standards and requirements through participation in international fora, particularly in the ESCB's Payment and Settlement Systems Committee (PSSC) and in its associated subgroups.

Deposit Guarantee Scheme

The Bank is responsible for the administration of the Irish Deposit Guarantee Scheme (DGS) which compensates depositors in the event of a credit institution failing. The implementation of the DGS for banks, building societies and credit unions was included in the Bank's Strategic Plan for 2010-2012 as a key strategy to ensure that the best interests of consumers of financial services are protected. In 2010, the Bank established a project to ensure that a fast payout can be facilitated. Good progress has been made defining the processes and developing the necessary systems. The Bank continues to work with the credit institutions to meet the new payout deadline of 20 working days, which came into effect from 31 December 2010 under the European Communities (Deposit Guarantee Scheme) Regulations 2009. This work is taking place in the context of other measures to develop a Special Resolution Regime.

Currency Issue 2010

The Bank produces and issues banknotes and coins to meet the needs of the public and business. Banks were supplied with their full requirement of banknotes and coin in 2010.

Under the ECB pooled production arrangements, the Bank printed 127.5 million banknotes in the €10 denomination in 2010. Other denomination banknotes were received from other euro area NCBs and issued by the Bank. The Bank supplied a total of 399 million new and re-issuable banknotes in the year. Table 13 - Banknote Issues - provides more detailed information.

During 2010, final preparations to implement the ECB's Banknote Recycling Framework (BRF) were completed. In September 2010, the BRF was converted to the legally binding 'Decision ECB/2010/14', which obliges credit institutions and other professional cash handlers across the Eurozone to comply with uniform rules and minimum standards, similar to those of the BRF, when recirculating euro banknotes. The Bank provided support and training to ensure that stakeholders were compliant with the Decision by the deadline of 1 January 2011.

In 2010, 100 million coins were produced and 176 million coins were issued. Demand remained weak although improved on 2009 when only 112 million coins were issued. Demand remained mainly in the low denomination coin. Table 14 - Coin Issues - provides more detailed information.

In 2010, the new collector coin products included the Annual Mint Set and a complementary €15 silver proof coin to celebrate Animals of Irish Coinage. The horse was featured on the €15 silver proof coin and this was also the theme on the Annual Mint Set display folder. €20 gold and €10 silver proof coins, with the same design, were issued to celebrate the 25th Anniversary of Gaisce, The President's Award, and these were also part of the Europa Series.

2010 Gaisce Double Proof Coin Set.

The Bank continued to accept Irish banknotes and coin issued prior to the introduction of the euro. During 2010, €3.3 million in euro equivalent value was returned. At end-2010, there was €238 million in Irish banknotes outstanding and €125.5 million worth of coin outstanding.

Issuance of Banknotes and Coins in 2010

Table 13 – Banknote Issues

	No. of Banknotes (million)		Value € million	
Denomination	**2009**	**2010**	**2009**	**2010**
€5	54	59	271	297
€10	49	50	488	502
€20	114	114	2,270	2,279
€50	193	174	9,669	8,681
€100	2	2	173	157
€200	0	0	5	6
€500	0	0	30	34
Total	**412**	**399**	**12,906**	**11,956**

Note: Figures may not sum due to rounding

Table 14 – Coin Issues

	No. of Coins (million)		Value € million	
Denomination	**2009**	**2010**	**2009**	**2010**
1c	58	78	1	1
2c	22	37	0	1
5c	14	28	1	1
10c	5	9	1	1
20c	5	10	1	2
50c	1	6	1	3
€1	2	4	2	4
€2	4	3	8	6
Total	**112**	**176**	**14**	**19**

Note: Figures may not sum due to rounding

Asset Management

Investment Portfolio

At the end of 2010, the Bank's investment portfolio comprised euro-denominated assets of €17.7 billion and US dollar holdings of €0.5 billion equivalent. The total represents an increase of €0.7 billion on 2009 of which €0.3 billion relates to the Bank's participation in the ECB's Covered Bonds Purchase Programme (CBPP), which concluded purchases in June, with the balance coming from dividends and income.

Total earnings on the Bank's investment portfolios amounted to €359.5 million in 2010 compared to €565.9 million in 2009. In 2010 markets were dominated by the unfolding of the European sovereign debt crisis. The pattern of bond yield movements varied between countries as the year progressed. In higher rated core countries, such as Germany, bond yields fell on safe haven flows as investors became more risk averse. Meanwhile, bond yields of lower rated peripheral Eurozone countries rose sharply throughout the year as the perceived fiscal and banking risks associated with these countries increased. Consequently, earnings on the investment portfolios were 2.09 per cent compared with a return of 3.47 per cent for 2009. The target duration in the portfolios remained unchanged in 2010.

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

ECB Reserves

The main purpose of the European Central Bank reserves is to ensure that, whenever needed, the Eurosystem has sufficient amount of liquid resources for its foreign exchange policy operations involving non-EU currencies. Each National Central Bank manages a proportion of the ECB's reserves. Following a request from the Central Bank of Malta, the Bank has also managed Malta's share of the US dollar pooled reserves in conjunction with its own share since 1 January 2008. The ECB reserves portfolio under management amounts to €706.5 million, which is proportionate to the Bank's and Malta's shareholding in the ECB. At the end of 2010, the ECB's net foreign reserves amounted to €60.6 billion.

Risk Management

The main risks associated with the Bank's investment portfolio activities during 2010 were credit risk, market risk, and currency risk.

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. Credit risk in the Bank's investment portfolios is controlled by a system of limits based primarily on external credit ratings provided by Fitch and Moody's. Credit exposure is mitigated by the profile of the Bank's investment assets which are guided by a relatively conservative investment policy and by the use of collateralised instruments.

Market risk is defined as the risk of loss as a result of changes in market risk factors, including prices, interest rates, foreign exchange rates, commodity prices and credit spreads. The Bank is exposed to market risk principally through the interest rate sensitivity of its investment assets. Some exposure may also be incurred to exchange rates and to changes in financial market conditions, such as the liquidity of fixed income instruments. Market risk is managed within the Bank's Financial Operations Directorate within the high-level risk management parameters, governance and control frameworks approved by the Commission as well as reporting arrangements for key risk indicators. Compliance and performance relative to these policies is verified and reported by an independent risk management function. The Bank is exposed to interest rate risk in the mark to market investment portfolio. Risk management preferences in relation to the investment assets are expressed through an externally compiled benchmark, against which the investment portfolios are measured and managed. The market (interest rate) risk of the Bank's marked to market portfolios is calculated and managed using modified duration targets. Modified duration measures the sensitivity of the value of an investment portfolio to changes in bond yields. Value-at-Risk (VaR) is used as a supplementary measure of interest rate risk on the Bank's portfolios.

In the context of the euro area and the consequent lack of foreign exchange intervention, the Bank's holdings of volatile foreign assets have been reduced to the minimum, taking into account remaining Eurosystem obligations. The currency distribution of the investment portfolio is reviewed periodically using a combination of quantitative and empirical methodologies, VaR and stress testing as well as a variety of qualitative factors. At end-December 2010, the Bank managed portfolios denominated in euro and US dollars (hedged against the euro).

International Relations

IMF Article IV

The IMF conducted its annual Article IV review of the Irish economy in May 2010. The Bank provided statistics, analysis and opinions on the economic and financial issues raised by the IMF mission teams. In the Article IV assessment, the IMF noted that the recovery prospects were *'weighed down'* by the ongoing correction of pre-crisis imbalances. They also noted that financial sector and fiscal policy required active risk management to preserve policy credibility.

IMF Meetings

The Bank was represented at the IMF/World Bank Spring Meetings in April 2010 and Annual Meetings in October 2010. These meetings played an important role in agreeing IMF governance reforms, which included increasing financial resources available to the IMF, and redistributing voting share among countries. The IMF Board of Governors reached an agreement on governance reforms, under the 14th General Review of Quota, on 5 November 2010, which will lead, when implemented, to a doubling of the IMF's quota resources. Under this agreement, Ireland's quota share will increase from 0.528 per cent to 0.724 per cent. While a country's quota share represents its contribution to IMF resources (i.e. its subscription), it is also used to calculate the interest rate charged on IMF loans. Under the Extended Fund Facility (EFF), Ireland can borrow up to three times quota at the basic rate of charge[22], and remaining funds are charged at an additional margin of 2 per cent, rising to 3 per cent after three years.

In monetary terms, quotas are denominated in the IMF's unit of account, Special Drawing Rights (SDRs). On 4 March 2011, under an ad-hoc agreement on quota and governance reforms agreed in 2008, Ireland's quota increased from SDR 838.6 million to SDR 1,257.6 million. Ireland's EFF loan now represents about 1,550 per cent of the new quota, down from about 2,320 per cent of the existing quota, this leads to a lower interest rate being charged on Ireland's EFF loan. When the 14th General Review is ratified by 113 member countries, representing 85 per cent of the IMF's voting

22 The basic rate of charge was 1.33 per cent at the end of 2010.

Box 8 – Committees of Eurosystem/ESCB

Accounting and Monetary Income	International Relations
Banking Supervision	Legal
Banknote	Market Operations
Cost Methodology	Monetary Policy
Communications	Payment and Settlement Systems
Financial Stability	Risk Management
Information Technology	Statistics
Internal Audit	
Budget	Human Resources
IT Steering	

share, Ireland's quota will increase to SDR 3,449.9 million, and this will have a further beneficial impact on the interest rate charged on the EFF loan.

EU Council Meetings/EU Meetings

The Governor attended the Informal EU Council meeting of the Economic and Finance Ministers (Ecofin) in Brussels on 30 September - 1 October. Financial stability issues and the development of EU economic and financial crisis prevention and resolution mechanisms were a significant focus at that meeting. The Bank participates in the Economic and Financial Committee (EFC), and its Sub-Committee on IMF Issues (SCIMF). The EFC prepares the agenda for Ecofin meetings, which includes assessing current economic and financial developments, co-ordinating EU economic and fiscal policies, analysing financial market issues, assessing non-euro area exchange rate policies and dealing with relations with third world countries and international institutions.

European Central Bank

The Bank continues to interact with the European Central Bank, mainly through participation in the committee system. The committees assist in decision making at ECB level, within their field of competence. Box 8 gives details of these committees.

International Co-operation

The Bank participated in a number of high-level seminars that increased international co-operation, including countries in the Mediterranean region. In addition, the Bank hosted a number of international delegations throughout the year, and signed a Memorandum of Understanding with the Central Bank of the Russian Federation in January 2011.

Management of Internal Processes and Procedures

Human Resources

At the end of 2010, the Bank employed 1,226[23] from an approved complement of 1,328. This represented an increase of 17.4 per cent on 2009 staffing levels. This rise in staffing levels reflected the organisation's expansion across frontline supervision, policy and macroeconomic areas. Of the total staff, 507 were assigned to Regulatory Divisions, 458 to Central Banking Divisions and 261 to Operations Divisions. Furthermore, 11 secondments were engaged from professional services and law firms during 2010, with 10 assigned to the Regulatory area and one to the Central Banking area.

During 2010, 66 high-performing graduates from a variety of disciplines commenced employment. A comprehensive two-week induction programme was developed and held in October 2010.

23 Numbers are rounded.

In the course of 2010, the Bank also introduced 'one-to-one coaching' for Senior Management across the organisation. This underlines the commitment to building and strengthening the capacity of new and existing managers to meet the wide range of significant challenges faced in the current climate.

The higher priority given to training and development in the Bank, through induction, probation and, in particular, technical training courses, resulted in an increase of 146 per cent in the number of training days delivered in 2010 compared to 2009.

Information Technology

The Bank progressed various initiatives in 2010 in line with the organisation's systems strategy and change programme. The Bank continued to meet an aggressive schedule of application development and enhancement requirements across regulatory and central banking operations (e.g. Deposit Guarantee Scheme, collateral management, cost accounting optimisation and online reporting). A number of mandatory ESCB projects were also completed on schedule. Work progressed in conjunction with a number of other central banks and domestic commercial banks on the implementation of a new cash handling system for Currency operations. The robustness of the Bank's technical business continuity infrastructure was greatly enhanced with the completion of network triangulation between its three primary premises.

Information Management

The Bank commenced an Information Management Strategy project, with the assistance of external consultants, to develop processes and systems to optimise the use of information assets in the Bank. The project will address how the Bank can maximise the value of its data through business intelligence (BI) systems. An electronic records management system will be developed and a new Document & Records Management System (DRMS) will be introduced.

Organisational Risk

A new Organisational Risk division was formed in December 2010. The responsibilities of this division include pre-existing functions such as monitoring the performance and risk exposure of the investment portfolio, the development of investment policy proposals for approval by the Commission, and the coordination of operational risk management across the organisation (including business continuity management). The division will also consider risks to the organisation arising from the Bank's role in the provision of liquidity to credit institutions in Ireland while also considering, from a broader policy perspective, other and related risks to the Bank's balance sheet.

A revised Operational Risk framework was introduced across the organisation. This framework revises and improves the processes by which potential exposures are identified, analysed, controlled and mitigated. It was implemented by all divisions in the first quarter of 2011.

Considerable progress was made in the area of Business Continuity Management (BCM), particularly improved contingency arrangements for time-critical market operations and enhanced IT resilience. An organisation-wide survey of BCM requirements was conducted during the year, which will guide and inform BCM-related activities in 2011.

Legal Services

A primary function of the Bank's Legal Division is to advise on the formulation of central banking legislation and to represent the Bank in discussions with the Department of Finance, other Government Departments and the Office of the Attorney General. Major legislative projects progressed in 2010 included: the Central Bank Reform Act 2010; Credit Institutions (Stabilisation) Act 2010; and, the Central Bank and Credit Institutions (Resolutions) Bill 2011. The Legal Division represented the Bank in negotiating the legal arrangements relating to the EU-IMF Programme arising out of the MoU and the MEFP between the Government and the EU-IMF. Significant resources were also devoted to assisting on banking crisis measures, such as PCAR and ongoing intensified supervision of Irish credit institutions, as well as the Bank's successful Court application to place Quinn Insurance Limited into administration.

During 2010, the Bank also gave advice and assistance in relation to the transposition of European Directives such as: the Directives on Solvency II; Electronic-Money Institutions; and amending the Settlement Finality Directive and the Financial Collateral Arrangements Directive.

Communications

Almost 18,000 direct contacts from members of the public were received during the year. This was lower than 2009 due to the transfer of the consumer information function to the National Consumer Agency during 2010. Media queries to the Bank continued to increase, up approximately 42 per cent on 2009, reflecting the continued interest both internationally and domestically in the financial and economic crisis and Bank projects such as the PCAR process. There was also significantly increased activity in terms of media interviews and statements. There were eight appearances before Oireachtas Committees, as the organisation sought to explain the ongoing developments to a wide audience of stakeholders including market participants and the general public.

Strategy & Planning

In July 2010, the Bank published a three year Strategic Plan for the period 2010 to 2012. The plan set out the high level goals of the organisation and its immediate priorities. The priorities are to strengthen the financial system, develop a new regulatory model to enhance supervisory capacity for detection and correction of problems, engage with the new EU supervisory bodies, build on the consumer protection regulatory system, enhance further the Bank's economic analysis capability and develop further the financial services infrastructure. A Balanced Scorecard methodology was introduced in 2010 to measure the delivery of strategic goals. The Bank participated in an international review of the organisational effectiveness of financial sector regulators. Its conclusions were a valuable input to the planning process for 2011.

Premises

The Bank operates out of seven different buildings over four different locations in Dublin. The majority of staff (approximately 80%) are engaged in office based activities at the City Centre sites with the remainder mainly involved in manufacturing activities at the Currency Centre in Sandyford, Co. Dublin. All locations are supported by the on-site provision of facilities management services like security, catering, engineering etc. While operations at the Currency Centre would be more intensive from an energy usage perspective, figures are unavailable for the breakdown or calculation of overall Bank energy usage at this time as energy measuring and monitoring programmes only commenced at some sites in the last quarter of 2010. From available data in 2010, the Bank consumed over 6 million MWh of energy, consisting of approximately:

» 65% of electricity;

» 35% of fossil fuels.

Box 9 summarises the actions taken in 2010 and those planned for 2011 to improve energy efficiency.

Box 9 – Energy Usage: Actions taken in 2010 and planned for 2011

Actions Undertaken in 2010

In 2010 the Bank undertook a range of initiatives to improve our energy performance, including:

- Meter installation at a number of unmetered buildings
- Revised Building Management System controls (space heating and cooling) to reflect new meters
- Installed Passive Infra Red activated lighting in a number of refurbished areas
- Circulation and review of bi-monthly energy reports to management where available
- Completion of a site energy assessment in conjunction with Sustainable Energy Authority of Ireland for one of its sites
- Training of key staff in the management of energy
- Creation of a corporate Energy Policy to aid in the development of strategy and awareness
- Appointment of Energy Co-ordinators to champion initiatives
- Commencement of the recording of energy use across the respective sources
- A test of alternative light fittings which identified one feasible proposal offering at least a 50% saving in running costs

These and other energy saving measures will assist the Bank to effectively manage energy use into 2011.

Actions Planned for 2011

In 2011 the Bank intends to further improve energy performance by undertaking the following initiatives:

- Boiler replacement for older equipment which will increase efficiency of fossil fuel usage
- Lighting upgrades at a number of sites
- Creation of Energy Management Teams to drive awareness and develop initiatives through the principle energy influencers (Engineering, IT, Manufacturing, Catering etc)
- Creation of a quarterly recording and reporting mechanism to drive and monitor improvement
- Engagement of professional support to identify further opportunities for improvement
- Development and roll-out of a staff awareness training programme

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

Patrick Honohan
Governor

Neil Whoriskey
Secretary

20 May 2011

Appendix 1: Statements and Published Papers by the Bank in 2010

Key Publications

Quarterly Bulletin

Annual Report 2009 – July 2010

Press Conference Statements

Address by Director of Financial Institutions, Jonathan McMahon at the Publication of 'Banking Supervision: Our new approach' – June

Address by Director of Policy and Risk, Patrick Brady at the Publication of 'Banking Supervision: Our new approach' – June

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

Chairman's statement to mark the publication of the Central Bank Annual Report – July

Speeches and Presentations

Address by Deputy Registrar of Credit Unions, Elaine Byrne to the Credit Union Managers Association Spring Conference – February

Address by Governor, Patrick Honohan to the British-Irish Parliamentary Assembly 40th Plenary Conference - February

Address by Head of Markets and Stockbroker Supervision, Martin Moloney to Compliance Ireland – February

Address by Governor, Patrick Honohan to the Trinity College Alumni Career Network - February

Address by Deputy Governor (Financial Regulation), Matthew Elderfield to the European Insurance Forum 2010 - March

Address by Deputy Governor (Financial Regulation), Matthew Elderfield to the Leinster Society of Chartered Accountants – March

Address by Deputy Governor (Financial Regulation), Matthew Elderfield to Fintel Third Annual Global Financial Services Centres Conference – April

Address by Registrar of Credit Unions, James O'Brien to the Irish League of Credit Unions Annual General Meeting – April

Address by Deputy Governor (Financial Regulation), Matthew Elderfield to ILCU Annual Conference - April

Address by Deputy Governor (Financial Regulation), Matthew Elderfield to Financial Services Ireland Annual Conference 2010 - April

Address by Head of Investment Service Providers Supervision, George Treacy to MiFID Investment Firm Directors – April

Address by Director of Consumer Protection, Bernard Sheridan to Irish Banking Federation - May

Address by Deputy Governor (Financial Regulation), Matthew Elderfied to Insurance Institute of Ireland - May

Address by Director of Financial Institutions, Jonathan McMahon to Mazars Banking Conference, 2010 - May

Address by Director of Financial Institutions, Jonathan McMahon to Solvency II Insurance Forum – May

Address by Governor, Patrick Honohan to the Small Firms Association - May

Address by Deputy Governor (Financial Regulation), Matthew Elderfield to the Irish Insurance Federation Annual Lunch – May

Opening Remarks by Governor, Patrick Honohan to the 2010 INFINITI Conference - June

Address by Deputy Governor (Financial Regulation), Matthew Elderfield to the IFIA/ NICSA Global Funds Conference 2010 – June

Address by Governor, Patrick Honohan to Ireland Japan Chamber of Commerce – August

Address by Governor, Patrick Honohan to Renmin University, Beijing - August

Address by Director of Consumer Protection, Bernard Sheridan, at the Outsource Services Group Conference - September

Address by Governor, Patrick Honohan to the SUERF Conference – September

Address by Registrar of Credit Unions, James O'Brien to Credit Union Managers Association Autumn Conference - September

Address by Governor, Patrick Honohan to Institute of Certified Public Accountants in Ireland - October

Address by Director of Financial Institutions, Jonathan McMahon to Irish Banking Federation National Conference - October

Address by Deputy Governor Financial Regulation, Matthew Elderfield to the Association of Compliance Officers in Ireland – October

Opening Address by Registrar of Credit Unions, James O'Brien to the Credit Union Regulatory Forum – October

Address by Governor, Patrick Honohan, to the Chartered Accountants of Ireland Financial Services Seminar - November

Address by Deputy Governor Financial Regulation, Matthew Elderfield to the Association of Compliance Officers in Ireland - November

Address by Director of Policy and Risk, Patrick Brady to Challenges in Corporate Governance - A Banking Perspective Challenges to Irish Banking Federation - November

Address by Governor, Patrick Honohan to International Financial Services Summit 2010 – November

Address by Registrar of Credit Unions, James O'Brien, to the National Supervisors Forum - November

Address by Deputy Governor Financial Regulation, Matthew Elderfield to the Chairpersons' Forum Institute of Public Affairs - November

Address by Director of Consumer Protection, Bernard Sheridan, to the Law Reform Commission - December

Address by John Moran, Head of Wholesale Banks Supervision to Chartered Accountants Ireland - December

Articles in Central Bank Quarterly Bulletins

A Discussion of the Monetary Condition Index – Jenny Osborne-Kinch and Sarah Holton – No.1 2010

The Investment Funds Industry in Ireland – A Statistical Overview – Brian Godfrey, Joe McNeill and Aisling Menton – No.1 2010

Measuring Ireland's Price and Labour Cost Competitiveness – Derry O'Brien – No.1 2010

Retail Payment Practices: How They Have Evolved in Recent Times and Where They Might Be Going – David Cronin and Anne McGuinness – No.2 2010

The Impact of Oil Prices on Irish Inflation – Derry O'Brien and Laura Weymes – No.3 2010

Irish households: Assessing the Impact of the Economic Crisis – Mary Cussen and Gillian Phelan – No.4 2010

Central Bank Credibility and Income Velocity in a Monetary Union – Frank Browne and Robert Kelly – No.4 2010

Liquidity-Driven Risks to Large Valued Payments – Frank Browne and Gavin Doheny – No.4 2010

Research Technical Papers

Wage setting and wage flexibility in Ireland: Results from a firm level study – Mary Keeney and Martina Lawless – February

How are Irish households coping with mortgage repayments? Information from the SILC survey – Yvonne McCarthy and Kieran McQuinn – February

Testing for asymmetric pricing behaviour in Irish and UK petrol and diesel markets - Colin Bermingham and Derry O'Brien – February

The determination of wages of newly hired employees: survey evidence on internal versus external factors - Kamil Galuscak, Mary Keeney, Daphne Nicolitsas, Frank Smets, Pawel Strzelecki and Matija Vodopeivec – March

Are some forecasters really better than others? - Antonello D'Agostinoif, Kieran McQuinn and Karl Whelan – April

An analysis of the determinants of risk attitudes in Ireland and the United Kingdom - Kieran McQuinn and Nuala O'Donnell – May

How do firms set prices? Survey evidence from Ireland - Mary Keeney, Martina Lawless and Alan Murphy – May

Understanding and Forecasting Aggregate and Disaggregate Price Dynamics - Colin Bermingham and Antonello D'Agostino – August

Publications in Academic Journals by Staff Members

Financial Capability in Ireland and a Comparison with the UK – N. O'Donnell and M. Keeney – Public Money and Management, Vol 30 (6), p355 – 362

Destinations of Irish Exports: A Gravity Model Approach – M. Lawless – Journal of the Statistical and Social Inquiry Society of Ireland, Vol 39, p1 – 22

Geography and Firm Exports: New evidence on Sunk Costs – M. Lawless – Review of World Economics, Vol 126 (4), p 691 – 707

Deconstructing Gravity: Trade Costs and Extensive and Intensive Margins – M. Lawless – Canadian Journal of Economics, V43 (4), p 1149 – 1172

Downward Nominal and Real Wage Rigidity: Survey Evidence from European Firms – M. Lawless, J. Babeck´y, P. du Caju, T. Kosma, J. Messina and T. Room), Scandinavian Journal of Economics, V112 (4), p884 – 910

Commonality in Returns, Order Flows, and Liquidity in the Greek Stock Market – P. Dunne, M. Moore & V. Papavassiliou - European Journal of Finance, forthcoming September 2011

International order flows: Explaining equity and exchange rate returns – P. Dunne, H. Hau & M. Moore - Journal of International Money & Finance, V29:2, p358 – 386

Adjusting for Quality of Labour and Labour Services in Productivity Measurement - Mary Keeney - Economic and Social Review, V 41 (2), p149-172

Energy Markets and the Euro Area Macro Economy – Derry O'Brien and Laura Weymes – ECB Structural Issues Report, June

Quantifying Revenue Windfalls from the Irish Housing Market - D. Addison Smyth and K. McQuinn - Economic and Social Review, V41 (2), p201 - 224

Testing for Asymmetric Pricing Behaviour in Irish and UK Petrol and Diesel Markets - C. Bermingham, D. O'Brien – Energy Journal – forthcoming

Monetary Policy Surprises and International Bond Markets - Don Bredin, Stuart Hyde, and Gerard O'Reilly - Journal of International Money and Finance, forthcoming

Monetary Policy and Real Estate Investment Trusts - Don Bredin, Gerard O'Reilly and Simon Stevenson - International Journal of Finance and Economics- forthcoming

Understanding the Dynamics of Labor Shares and Inflation - Martina Lawless and Karl Whelan - Journal of Macroeconomics, forthcoming

How are Irish households coping with their mortgage repayments? Information from the Survey on Income and Living Conditions - Yvonne McCarthy & Kieran McQuinn - Economic and Social Review, forthcoming

Commodity Prices, Money and Inflation - Frank Browne and David Cronin - Journal of Economics and Business, Vol 62, p331 – 345

Money Growth, Uncertainty and Macroeconomic Activity - A Multivariate GARCH Analysis - David Cronin, Robert Kelly, Bernard Kennedy – Empirica, forthcoming

The Consumer Price Index, Money and Commodity Prices: A Forecast Error Variance Decomposition - David Cronin - International Research Journal of Finance and Economics, V 41, p223 – 229

Monetary Policy Transmission and Asset Price Behaviour in the 21st Century – F Browne and D Cronin - In Stability in the Aftermath of the Financial Crisis, Frankfurt: Research on Money in the Economy, 36 pp.s

Regulation and Banking after the Crisis - Frank Browne, David.T. Llewellyn, and Philip Molyneux (ed.s) - To be published by SUERF, forthcoming

Statistical Publications

Credit by sector of economic activity - Quarterly

Lending by small and medium sized enterprises - Quarterly

Mortgage lending statistics - Quarterly

Consolidated Claims of Domestic Banks - Quarterly

Quarterly Financial Accounts

Investment Fund Statistics - Quarterly

Bank Lending Survey - Quarterly

Nominal holdings of Government Debt - Quarterly

Money and banking statistics by sector, maturity and residency - Monthly

Retail Interest Rate Statistics - Monthly

Credit Card Statistics - Monthly

Securities Issue Statistics by sector - Monthly

Harmonised Competitiveness Indicators - Monthly

International Reserves and Foreign Currency Liquidity – Monthly

Consultation Papers published by the Bank in 2010

Revocation of Dormant Collective Investment Schemes - April

Corporate Governance Requirements - May

Investment Guarantees – Guidance on Reserving and Risk Governance - May

Code on Related Party Lending - May

Stabilisation Support for Credit Unions - June

Review of Minimum Competency Requirements - June

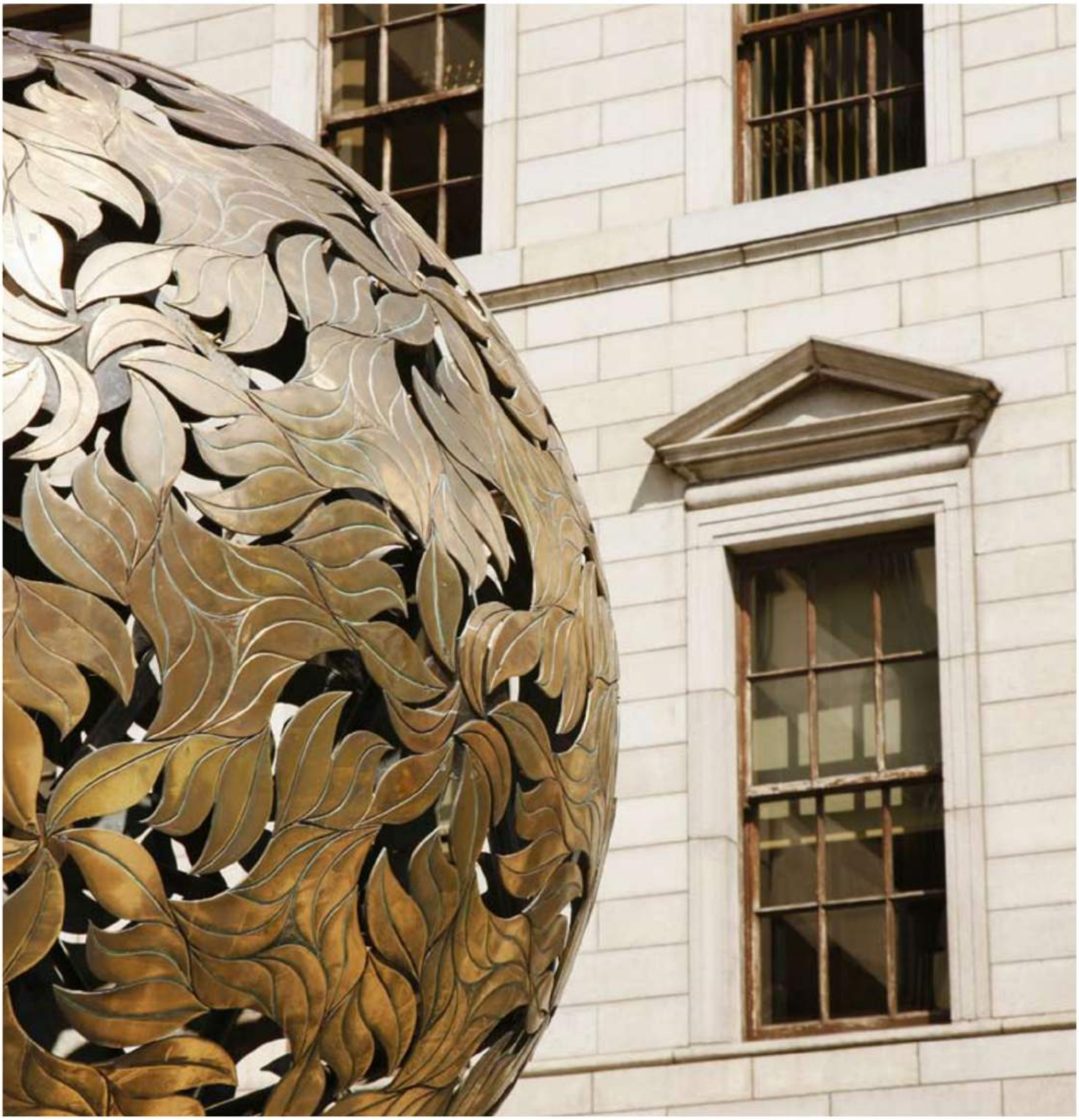
Review of Code of Conduct on Mortgage Arrears - August

Review of Consumer Protection Code - October

Review of the Central Bank of Ireland's requirement regarding the minimum requirements regarding the minimum activities of Irish authorised investment funds to be undertaken in the State - November

Consultation on Impact Metrics for the Supervision of Financial Firms and on Impact Based Levies - December

Chapter 2:
Governance



This Chapter sets out the procedures and processes applicable to the governance of the Central Bank of Ireland in 2010, while also reflecting the changes that have been made up to the present time to ensure the optimal functioning of the organisation.

Statutory Background

The Central Bank of Ireland is a statutory body established by the Central Bank Act 1942 and regulated by the Central Bank Acts 1961 to 2010. During 2009, the Government signalled its intention to restructure the Central Bank and Financial Services Authority of Ireland reverting to a single entity governed by a Commission. The Central Bank Reform Act 2010 which commenced on 1 October 2010 amends the Central Bank Act 1942 to provide that the affairs and activities of the Bank are managed and controlled by the Central Bank Commission. The Central Bank Reform Act created a new single unitary body – the Central Bank of Ireland (the Bank) - responsible for both central banking and financial regulation. The new structure replaces the previous related entities, the Central Bank and Financial Services Authority of Ireland and the Irish Financial Services Regulatory Authority. In the period up to the enactment of the new legislation, the Central Bank Board and the Irish Financial Services Authority of Ireland met in joint composition.

Statutory Objectives

The functions of the Bank are set out in the Central Bank Reform Act 2010. The primary objective is to maintain price stability. The other functions are to ensure the:

» Stability of the financial system.

» Proper and effective regulation of financial institutions and markets, while ensuring that consumers are protected.

» Efficient and effective operation of payment and settlement systems.

» Provision of analysis and comment to support national economic development.

Structures for the Central Bank of Ireland

Under the Central Bank Reform Act 2010, the Central Bank reverted to a single entity governed by a 'Commission'. Responsibility for the management of the Bank is vested in the Commission which comprises the Governor (Chairman), the Deputy Governor (Central Banking), the Deputy Governor (Financial Regulation), the Secretary General of the Department of Finance and at least six, but no more than eight, other Members appointed by the Minister for Finance. Appointed members of the Commission typically hold office for a term of five years. However, the terms of the initial Members of the Commission range from three to five years to ensure continuity of knowledge. Ex-officio Members of the Commission remain Members for as long they hold the office in question.

The sole shareholder of the Bank is the Minister for Finance.

Governor

The Governor is appointed by the President, on the advice of the Government, for a term of seven years which may be extended by a further seven years. Professor Patrick Honohan was appointed Governor on 26 September 2009.

The Governor is the Chairman of the Commission and is also an ex-officio member of the Governing Council of the European Central Bank (ECB). The Governor, or a substitute, must attend all meetings of the Governing Council. His roles and responsibilities are set out by the EU Treaties, the ESCB Statute and the Central Bank Act 1942.

The Governor discharges his ESCB functions independently of the Commission. The independence of his role is enshrined in the EU Treaties, and takes precedence over Irish law. 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 Commission

Under the former CBFSAI structure, responsibility for management of the Central Bank was vested in the Board which comprised 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.

Responsibility for management of the Financial Regulator was vested in the Authority which comprised 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, Jobs and Innovation.

Pending implementation of the legislation to reform the Central Bank, from 1 January 2010 to 30 September 2010, joint meetings of the Board and the Authority were held. Meetings were held on seven occasions during the period. While no meeting was held in September, decisions were made by written procedure in that month.

The members of the Board and Authority during the period 1 January to 30 September were as follows:

Name	Occupation
Patrick Honohan	Governor
Tony Grimes	Deputy Governor (Central Banking)
Matthew Elderfield	Deputy Governor (Financial Regulation)
Kevin Cardiff	Secretary General, Department of Finance
Jim Farrell	Chairman of Authority
David Begg	General Secretary, Irish Congress of Trade Unions
Gerard Danaher	Senior Counsel
John Dunne	Former Chairman, IDA
Alan Gray	Managing Partner, Indecon Intl
Brian Hillery	Chairman, Independent News and Media
Dermot O'Brien	Economist
Deirdre Purcell	Author
Alan Ashe	Former Managing Director, Standard Life Assurance Co.
Dermot Quigley	Former Chairman of the Revenue Commissioners

The following changes in membership of the Board and Authority occurred during 2010

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

» Brian Halpin was Secretary of the Bank until February 2010. Mary Sheehy held the position of Secretary until December 2010.

The Members of the Commission as at 20 May 2011 were:

Name	Occupation	Date First Appointed	Term
Patrick Honohan	Governor	26.09.09	Ex-officio
Tony Grimes	Deputy Governor (Central Banking)	17.08.07	Ex-officio
Matthew Elderfield	Deputy Governor (Financial Regulation)	04.01.10	Ex-officio
Kevin Cardiff	Secretary General, Department of Finance	01.02.10	Ex-officio
John FitzGerald	Research Professor with the Economic and Social Research Institute	01.10.10	5 years
Blanaid Clarke	Associate Professor in Corporate Law in the Law Faculty, University College Dublin	01.10.10	3 years
Max Watson	Fellow of Wolfson College, Oxford and Director of Research at John Howell & Co Ltd	01.10.10	5 years
Des Geraghty	Former politician and trade union leader.	01.10.10	4 years
Michael Soden	Former CEO of Bank of Ireland and Head of Retail Banking at National Australia Bank	01.10.10	4 years
Alan Ahearne	Lecturer in Economics at the National University of Ireland, Galway	08.03.11	4 years

Neil Whoriskey, Head of General Secretariat Division was appointed Secretary of the Bank in January 2011.

Corporate Governance Compliance

Commission Procedures

The Commission was established on 1 October 2010 and four meetings were held in 2010.

The responsibility for managing the affairs and activities of the Bank (other than ESCB functions) rests with the members of the Commission meeting together as the Commission or transacting together by written procedure of the Commission. The Commission shall ensure that the Bank's central banking functions and financial regulation functions are integrated and co-ordinated.

With very limited exception, the exercise of the statutory functions and powers of the Bank are delegated to the Management Members of the Commission. The focus therefore of the Commission is on the formulation of the strategy of the Bank to best achieve its statutory objectives and monitoring the performance of the Management Members in pursuing such strategy.

This does not derogate from the legal right of the Commission to exercise any (non-ESCB) power of the Bank by decision of the Commission, should the Commission wish to do so in a particular case.

Meetings of the Commission are scheduled each month except August. A quorum of six applies for all meetings. The Governor approves the agenda and papers, which are circulated to the Members one week in advance of meetings.

Powers Delegated to Governor

The Governor, the Deputy Governor (Central Banking), the Deputy Governor (Financial Regulation) and the Secretary General of the Department of Finance are Ex Officio members of the Commission.

The Commission may delegate any of its functions to the Governor, where the Commission considers that such a delegation is in the interests of the efficient and effective management of the Bank and the exercise of its powers and functions. The Governor has the power to appoint another Member of the Commission to act as Governor whenever he is temporarily unavailable.

The Governor is independently responsible for discharging the ESCB tasks imposed upon himself and the Bank. The Deputy Governor Financial Regulation performs other functions which are independent of the Commission. For example, he may investigate certain person's fitness and probity and issue suspension notices on foot of such investigations.

Committees of the Commission

The Commission has established the following committees:

» Audit Committee

» Budget and Remuneration Committee

» Risk Committee

Audit Committee

The key responsibilities of the **Audit Committee** include the following: to monitor the integrity of the Bank's Financial Statements; to review management letters from the Comptroller and Auditor General and the External Auditor and Management's response; to review the Bank's internal control and risk management system; to monitor the effectiveness of the internal audit function in the overall context of the Bank's risk management system; to advise on the appointment and reappointment of external auditors, on their remuneration and on questions of resignation or dismissal; and to monitor policy on the engagement of the external auditors to supply non-audit service.

Members of the **Audit Committee** as at 20 May 2011 were: Blanaid Clarke (Chair) John FitzGerald and Alan Ahearne.

Budget and Remuneration Committee

The key responsibilities of the **Budget and Remuneration Committee** include the following: to review and submit proposals to the Commission for the remuneration of the Governor and senior executives of the Bank; to review and advise the Commission regarding any organisational, budgetary or expenditure matters which may be referred to it by the Commission from time to time; and to review and advise the Commission of the Bank's Balanced Score Card process on an annual basis.

Members of the **Budget and Remuneration Committee** as at 20 May 2011 were: Michael Soden (Chair), Blanaid Clarke, Matthew Elderfield and Tony Grimes. No member is present when matters relating to his or her remuneration are being considered.

Risk Committee

The key responsibilities of the Risk Committee are to advise the Commission on any matters relating to the Bank's investment policies and practices which may be referred to the Committee by the Commission from time to time; to review and anticipate the current risk exposures and the overall risk strategy for the organisation; to review the current financial situation of the Bank taking account of its asset and liability position and forecasts; and to take account of the control environment and the effectiveness of risk management programmes within the organisation, drawing also on reports of the Audit Committee.

Members of the **Risk Committee** as at 20 May 2011 were: Des Geraghty (Chair), Michael Soden, Max Watson, Tony Grimes and Matthew Elderfield.

The committees meet at least four times each a year and minutes of these meetings are circulated to all members of the Commission.

Internal Governance Structures

A revised internal senior management committee structure has been established. The Governor chairs two high level committees. The **Executive Committee** comprises the Deputy Governor (Central Banking), the Deputy Governor (Financial Regulation) and since his appointment on 1 March 2011, the Chief Operations Officer. It deals primarily with preparation for Commission meetings, significant internal policy and procedural issues, and issues which are escalated or notified from other senior committees; The **Financial Stability Committee** which comprises the senior Directors and Heads of Division from relevant Central Banking and Financial Regulation areas, monitors the stability of the financial sector in Ireland.

The **Senior Management Committee** is the top level forum for co-ordinating 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. This Committee, chaired by the Deputy Governor (Central Banking), comprises the Deputy Governor (Financial Regulation), Chief Operations Officer and all Directors.

The **Supervisory Risk Committee**, chaired by the Deputy Governor (Financial Regulation) comprises Financial Regulation Directors and Heads of Division as required. Weekly meetings are held to progress and monitor regulatory issues.

The structure also comprises a number of cross organisational committees chaired by executive directors which include:

» Executive Risk Committee

» Regulatory Policy Committee

» Investment Prioritisation Committee

The Executive **Risk Committee** provides a framework for managing the financial and operational risks of the Bank with particular reference to Investment Assets, Monetary Policy, the structure of the Bank's balance sheet and operational risk. It also endeavours to ensure that a risk management culture is fostered in the organisation.

The Regulatory **Policy Committee** monitors policy concerning prudential banking, prudential insurance, credit unions, funds, securities and markets, corporate governance, accounting and auditing, consumer protection and enforcement and also EU and international policy co-ordination across all sectors.

The purpose of the **IT Investment Prioritisation Committee** is to approve the investment on IT projects that support the achievement of the strategic goals of the organisation; manage the prioritisation of IT projects where resourcing or funding conflicts arise and ensure that the business benefits are realised.

A complete organisation chart is included at page 5.

Accountability

As required by Section 32K of the Central Bank Reform Act 2010, 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 32J of the Central Bank Reform Act 2010 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.

No later than 30 April each year the Bank is required to prepare an Annual Performance Statement (Financial Regulation) for submission to the Minister for Finance. In accordance with the Central Bank Reform Act 2010, the format of the statement is to be decided by the Minister for Finance with the legislation stating that the performance statement is to be in three parts:

» Regulatory Performance Plan outlining the aims and objectives, of regulatory activity planned for the current year.

» Review of regulatory performance during preceding year having regard to the Regulatory Performance Plan for that year, including activities carried out by the Internal Audit function and the Registrar of Credit Unions.

» Report of any international peer review on the Bank's performance of its regulatory functions, carried out under this legislation during the year.

The Minister for Finance may, from time to time, request the Governor to consult with the Minister as regards the performance by the Bank of any function of the Bank. However, the Minister may not consult with the Governor in relation to one of his ESCB functions.

Box 10 – Appearances at Oireachtas Committees - Opening Statements

Governor Patrick Honohan to the Joint Oireachtas Committee on Finance and the Public Service – March

Deputy Governor (Financial Regulation), Matthew Elderfield, to the Joint Oireachtas Committee on Economic Regulatory Affairs - April

Deputy Governor (Financial Regulation), Matthew Elderfield to the Public Accounts Committee - May

Registrar of Credit Unions, James O'Brien to the Joint Oireachtas Committee on Economic Regulatory Affairs - May

Governor Patrick Honohan to the Joint Oireachtas Committee on Finance and the Public Service - June

Deputy Governor (Financial Regulation), Matthew Elderfield to the Joint Oireachtas Committee on Economic Regulatory Affairs - October

Head of Payments and Securities Settlements, Paul Molumby, to the Joint Oireachtas Committee on European Scrutiny - November

Governor Patrick Honohan to the Joint Oireachtas Committee on Economic Regulatory Affairs - November

Section 32(b) of the Central Bank Reform Act 2010 requires the Bank to prepare a strategic plan. In anticipation of this requirement, a three year Strategic Plan was submitted to the Minister for Finance on 31 March 2010 in respect of the period 2010 to 2012.

Subject to the requirements of the Maastricht Treaty and the confidentiality provisions imposed by law, the Governor or the Deputy Governor of Central Banking and Financial Regulation appear before Joint Committees of the Oireachtas on request. This practice was put on a statutory basis in the Central Bank Acts, 1997 and 1998. During 2010, the Bank appeared at eight Oireachtas Committee meetings, Box 10 refers.

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 has unrestricted access to the Audit Committee and members of the Senior Management Committee.

During the year Internal Audit conducted a range of reviews across the central banking and regulatory/supervisory areas. Topics covered included printing of banknotes, statistical reporting systems, wholesale banks supervision, levy collection process, Financial Regulator website and a number of IT related reviews. Four-monthly reports were made to the Audit Committee and senior management on the outcome of all reviews including progress in implementing earlier recommendations and gives an assessment of how effectively the Bank's objectives are being met. The Head of Internal Audit met with the Governor regularly to discuss audit-related issues.

The Internal Audit function also reports to the Internal Audit Committee of the ECB on the outcome of ESCB audits and other audit issues.

Advisory Groups

Under the Central Bank Reform Act 2010 the Financial Services Consultative Consumer Panel and the Financial Services Consultative Industry Panel were abolished. The legislation provided for the establishment of a new Consumer Advisory Group.

On 2 February 2011, the Central Bank appointed five members to the Consumer Advisory Group. The role of the Consumer Advisory Group is to advise the Bank on its performance in relation to protecting consumers of financial services.

Appointments to the Consumer Advisory Group are for a three-year period and members serve on a voluntary basis. The members of the Consumer Advisory Group are:

- Michael Culloty
- Dermott Jewell
- Elaine Kempson
- Bill Knight
- Dr Anthony Walsh.

Code of Practice for Members of the Commission and Staff

Commission Members 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 Commission 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 Commission of the Bank.
- There is a Code of Practice for disclosure of interest by members of the Commission.
- The Ethics in Public Office Regulations, 1997, have prescribed membership of the Commission 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 Commission 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.
- All members of the Commission 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. A comprehensive internal and external review of the Code of Ethics was undertaken during 2010.

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.

International Developments

In September 2009 the European Commission brought forward proposals, in line with the conclusions of the De Larosière report, to replace the EU's existing supervisory architecture with a **European System of Financial Supervisors (ESFS)**. These proposals were aimed at helping restore confidence, contribute to the development of a single rulebook, solve problems with cross-border firms and prevent the build-up of risks that threaten the stability of the overall financial system.

The Bank contributed to the debate and negotiations which followed and which resulted in agreed European legislation in September 2010. The legislation was the basis for the establishment of a new framework, made up of a European Systemic Risk Board (ESRB), and three European Supervisory Authorities (ESAs): European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA), and European Securities and Markets Authority (ESMA).

The new bodies started work on 1 January 2011, less than two years after the De Larosière report, an unprecedentedly short timeframe which illustrates the urgency of the reforms and the commitment by all European institutions to drive them to completion.

The ESRB addresses one of the fundamental weaknesses highlighted by the crisis, which is the vulnerability of the financial system to interconnected, complex, sectoral and cross-sectoral systemic risks. It brings together ESCB governors and heads of supervisory authorities to monitor and assess potential threats to financial stability that arise from macro-economic developments and from developments within the financial system as a whole (**"macro-prudential supervision"**).

It is tasked with providing early warning of system-wide risks that may be building up and, where necessary, issuing warnings and recommendations for action to deal with these risks.

The ESAs will combine nationally based supervision of firms with strong co-ordination at European level so as to foster harmonised rules as well as coherent supervisory practice and enforcement. They have been given significant powers. They can draw up specific rules for national authorities and financial institutions and mediate and settle disputes between national supervisors. They will develop binding technical standards and can take action in emergencies, including the banning of certain products.

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.

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 Central Bank is an Alternate Governor of the IMF. The Board of Governors entrust 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

Auditing and Reporting Standards

Under the *Central Bank Act, 1942* (as amended), 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 in 2009 for a period of three years.

As a member of the Eurosystem, the Bank complied with regular extensive reporting requirements to the ECB, comprising both statistical and financial data during 2010.

Financial Results for 2010

Profit for the year to 31 December 2010 amounted to €840.9 million compared with a corresponding amount of €933.8 million in 2009.

In a continued low interest rate environment, both the interest income and interest expense of the Bank decreased in 2010. Interest income decreased by €147.5 million to €2.1 billion while interest expense decreased by €188.3 million to €1.1 billion. As a result, in 2010, the net interest income of the Bank increased by €40.8 million to €1.0 billion.

The decrease in interest income was primarily attributable to a lower amount of interest earned on monetary policy operations conducted by the Bank as part of the Eurosystem[1]. There was also a decrease in income earned on the Bank's investment portfolio as maturing funds were reinvested in lower yielding instruments, reflecting the lower interest rate environment in 2010. Income earned on securities held under the Eurosystem Securities Market Programme amounted to €61.4 million while €33.4 million was earned under the Eurosystem Covered Bond Purchase Programme.

The decrease in interest earned on monetary policy operations and the investment portfolio was partially offset by the increase in interest earned on exceptional liquidity facilities advanced to domestic credit institutions outside of the Eurosystem's monetary policy operations.

Interest paid on Government Deposits, Credit Institutions' Deposits, Intra-ESCB Balances and on the Bank's euro banknote issue over and above its capital key share of total Eurosystem circulation decreased by €91.3 million, €54.2 million, €22.0 million and €20.7 million respectively. The decrease in the expense on both Government and Credit Institution Deposits resulted from falling average balances on both types of deposit and lower average remuneration rates over the course of 2010.

The net result of financial operations, write-downs and provisions was a charge of €70.8 million in 2010 compared to a gain of €101.3 million for the previous year. This category includes realised capital gains, unrealised price and exchange rate losses and the provision for unredeemed IEP banknotes. The 2010 figure incorporates realised capital gains of €10.3 million representing a decrease of €93.2 million from the previous year. In 2009 there were significant gains realised because of the decision to shorten the average duration of the Bank's investment portfolio. Unrealised price losses on the Bank's investment portfolio increased by €69.0 million to €71.3 million at end-2010, reflecting a substantial rise in yields on holdings of peripheral euro area bonds due to the sovereign debt crisis.

A provision of €60 million was created as at 31 December 2002 to meet obligations in respect of unredeemed Irish pound banknotes. In November 2010, the Commission approved a further transfer of €10 million to this provision which had been depleted by end-2010.

1 The key ECB minimum bid rate fell from an average of 1.28 per cent in 2009 to 1.00 per cent in 2010.

Income from equity shares and participating interests fell by €28.5 million mainly due to a reduction in the dividend from the ECB.

The result of the net pooling of Eurosystem monetary income gave rise to a charge of €15.5 million in 2010, compared to €88.4 million in 2009. This charge mainly comprises two elements:

(i) the refund to the Eurosystem of monetary income earned by the Bank above our capital key share which amounted to €38.5 million in 2010, a decrease of €71.9 million over 2009. The reduced charge reflects the decision by the ECB to lend to counterparties through the Longer Term Refinancing Operations (LTRO) at the prevailing one week Main Refinancing Operations (MRO) rate during 2010, the effect of which was somewhat offset by the increased income arising from the Bank's participation in the SMP above our capital key share.

(ii) A decrease of €23.0 million[2] in the Bank's share of the provision against counterparty risks in monetary policy operations of the Eurosystem.

Total operating costs, which are charged against profit, amounted to €130.9 million (2009: €119.7 million) and comprise pay, non-pay, banknote raw materials and depreciation. Staff costs, including pay, increased by €5.8 million (7.2 per cent), while other operating expenses and banknote raw materials increased by €4.3 million and €0.4 million respectively. 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 €671.0 million (2009: €745.5 million), which is payable to the Exchequer.

Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2010 were €204.5 billion, which is €79.6 billion greater than the corresponding figure of €124.9 billion for 31 December 2009.

As at 31 December 2010, lending to credit institutions through the MRO had increased by €55.2 billion compared to end-2009, while there was a decrease in lending through the LTRO of €28.4 billion. This reflects a change in the profile of monetary policy lending in 2010 as non-standard 6-month and 12-month LTRO operations matured. In addition, the ECB decided to carry out a 13-day Fine Tuning operation (FTO) on 23 December 2010, when the final 12-month LTRO matured. This resulted in an FTO balance of €12.3 billion on the Bank's balance sheet over the end-year.

Other assets expanded by €37.5 billion to €50.3 billion, reflecting a large increase in the provision of exceptional liquidity facilities advanced to domestic credit institutions outside of the Eurosystem's monetary policy operations.

At end year, the Bank's proportional share of total euro banknotes in circulation amounted to €12.3 billion, which represented an increase of almost €0.5 billion on the previous year. Government deposits and liabilities to euro area credit institutions (commercial banks) decreased by €10.4 billion and €3.5 billion respectively. Intra-Eurosystem net liabilities, which amounted to €160.2 billion as at 31 December 2010, were €92.9 billion higher than at end-2009. This includes an increase of €91.7 billion in the Bank's liability to other member central banks of the Eurosystem in respect of cross-border transfers via the TARGET2[3] payment system.

2 In 2010 the ECB Governing Council reviewed the appropriateness of the provision and decided to reduce the aggregate amount from €4.0 billion at 31 December 2009 to €2.1 billion at 31 December 2010.

3 Trans-European Automated Real-time Gross settlement Express Transfer 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 €60.0 million to meet obligations in respect of unredeemed Irish notes. In November 2010, the Commission approved a further transfer of €10.0 million to the provision which had been depleted by end-2010. An amount of €2.8 million was redeemed during 2010 (2009: €3.2 million) leaving €237.7 million in Irish banknotes still outstanding and a balance of €8.0 million in the provision.

Proceeds of Coin

During 2010, the net value of euro coin redeemed was €1.6 million (2009: €23.0 million) reflecting a continued fall in demand from the public. To offset this and coin production expenses incurred, a payment of €8.5 million was received from the Exchequer in December 2010 compared with €30.0 million in 2009. The Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2010, Irish coin redeemed totalled €0.4 million (2009: €0.5 million). Full details are incorporated in Note 24 of the Statement of Accounts.

Prompt Payment of Accounts 2010

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 2010, interest was payable at a rate of 8 per cent per annum.

The following is a summary of interest payments made to suppliers during 2010, with corresponding figures for 2009, in accordance with the provisions of the Regulations referred to above.

	2010	**2009**
Total Number of Late Payments	124	78
Total Value of All Late Payments (A)	€1,265,363	€684,146
Total Value of All Payments (B)	€44,629,140	€52,822,146
A as a % of B	2.83%	1.30%
Total Amount of Interest Paid on Late Payments €3,914	€3,760	€3,760

Statement of Accounts

for the year ended 31 December 2010

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

Statement of Commission Members' Responsibilities

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

The Commission 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 Commission has established an appropriate organisational structure. In this regard, the Audit Committee of the Commission meets periodically with the Internal and External Auditors and members of the Management of the Bank to discuss control issues, financial reporting and related matters. The Internal and External Auditors have full access to the Audit Committee.

The Commission is satisfied that the ESCB accounting guidelines, the accounting standards generally accepted in Ireland (where appropriate) and statutory provisions which are applicable to the Bank, have been consistently applied and are supported by reasonable and prudent judgements and estimates.

Patrick Honohan, Governor

Blanaid Clarke, Member of the Commission

20 May 2011

Statement on Internal Financial Control

On behalf of the Commission, I acknowledge the Commission's responsibility for ensuring that the Bank maintains an effective system of internal financial control and reviews its effectiveness on an ongoing basis. The Commission 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 Commission;
- Appropriate terms of reference for the Commission 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 Commission;
  - Quarterly reporting to the Commission on financial and budgetary performance; and
  - Quarterly reporting to the Commission on capital expenditure;
- Detailed policies and procedures relating to financial controls; and
- An operational risk framework which seeks to provide a common methodological foundation for delivering, maintaining and governing operational risk management and related internal controls for all processes carried out within the organisation.

Details of the risk controls deployed in respect of the management of the Bank's key financial risks are outlined in Note 35 to the Statement of Accounts.

The Internal Audit Department independently and systematically reviews the controls in place and reports to the Commission 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 Commission on all significant issues considered by the Committee and the minutes of meetings of the Audit Committee are circulated to the Commission for consideration at subsequent meetings of the Commission.

I can confirm that the Commission reviewed the effectiveness of the system of internal financial control during the year ended 31 December 2010.

Patrick Honohan, Governor

Des Geraghty, Member of the Commission

20 May 2011

Profit and Loss and Appropriation Account for year ended 31 December 2010

	Note	2010 €000	2009 €000
Interest income	1	*2,099,555*	*2,247,081*
Interest expense	2	*(1,089,343)*	*(1,277,620)*
Net interest income		**1,010,212**	**969,461**
Net realised gains/(losses) arising from financial operations	3	*10,503*	*103,956*
Write-downs on financial assets and positions	3	*(71,301)*	*(2,668)*
Transfer to provision for IEP banknotes	3	*(10,000)*	–
Net result of financial operations, write-downs and provisions		**(70,798)**	**101,288**
Income from fees and commissions	4	**2,011**	**1,665**
Income from equity shares and participating interests	5	**9,688**	**38,137**
Net result of pooling of monetary income	6	**(15,486)**	**(88,367)**
Other income	7, 41	**36, 120**	**31,344**
TOTAL NET INCOME		**971,747**	**1,053,528**
Staff expenses	8	**(85, 937)**	**(80,146)**
Other operating expenses	8	**(33,529)**	**(29,189)**
Depreciation	8	**(8,393)**	**(7,741)**
Banknote raw materials	8	**(3,003)**	**(2,647)**
TOTAL EXPENSES		**(130,862)**	**(119,723)**
PROFIT FOR THE YEAR BEFORE UNREALISED GAINS AND APPROPRIATION OF PROFIT		**840,885**	**933,805**
Net movement in unrealised gains	31	**25,078**	**(36,704)**
Transfers (to)/from revaluation accounts	31	**(25,078)**	**36,704**
Actuarial gain on pension scheme	34	**21,705**	**27,988**
Transfer to general reserve	32	**(191,561)**	**(216,297)**
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	9, 29	**671,029**	**745,496**

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

Patrick Honohan, Governor
Tony Grimes, Deputy Governor

20 May 2011

Balance Sheet as at 31 December 2010

ASSETS	Note	2010 €000	2009 €000
Gold and gold receivables	10	203,792	147,975
Claims on non-euro area residents in foreign currency	11	1,381,542	1,346,354
Claims on euro area residents in foreign currency	12	141,146	118,521
Claims on non-euro area residents in euro	13	883,209	1,234,309
Lending to euro area credit institutions related to monetary policy operations in euro	14	132,010,000	92,858,000
Other claims on euro area credit institutions in euro	15	513,579	636,159
Securities of euro area residents in euro	16	18,236,174	14,922,485
Intra-Eurosystem claims		778,992	796,338
Participating interest in ECB	17	*139,156*	*120,644*
Claims equivalent to the transfer of foreign reserves	18	*639,836*	*639,836*
Other claims within the Eurosystem		–	*35,858*
Items in course of settlement	19	3,076	2,583
Other assets	20	50,286,190	12,796,124
Pension assets	34	51,261	37,607
TOTAL ASSETS		204,488,961	124,896,455

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

Patrick Honohan, Governor
Tony Grimes, Deputy Governor

20 May 2011

Balance Sheet as at 31 December 2010

LIABILITIES		2010	2009
	Note	€000	€000
Banknotes in circulation	22	12,293,237	11,805,857
Liabilities to euro area credit institutions related to monetary policy operations in euro	23	11,414,077	14,907,841
Liabilities to other euro area residents in euro	24	15,889,825	26,263,241
Liabilities to non-euro area residents in euro	25	10,245	7,225
Counterpart of special drawing rights allocated by the IMF	26	897,323	844,125
Intra-Eurosystem liabilities (net)		160,180,915	67,233,511
Liabilities related to the allocation of euro banknotes within the Eurosystem	27	*14,995,733*	*13,714,604*
Other liabilities within the Eurosystem (net)	28	*145,185,182*	*53,518,907*
Other liabilities	29	1,813,850	2,045,968
Provisions	30	36,178	52,015
Revaluation accounts	31	230,271	205,193
Capital and reserves	32	1,723,040	1,531,479
TOTAL LIABILITIES		204,488,961	124,896,455

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

Patrick Honohan, Governor
Tony Grimes, Deputy Governor

20 May 2011

Accounting Policies and Related Information

(a) Legal Framework

Throughout the Statement of Accounts the term 'Bank', where used, refers to the Central Bank of Ireland (CBI).

The accounts have been prepared pursuant to Section 32J of the *Central Bank Act*, 1942 (as amended) which provides that within 6 months after the end of each financial year, the Bank shall prepare and transmit to the Comptroller and Auditor General a statement of accounts for the financial year concerned. The statement is in the form approved by the Minister. The form of the accounts reflects the specific nature of the tasks carried out by the Bank within the framework of the ESCB[1] and its diverse range of activities.

(b) Accounting Principles

The Bank, as a participating member of the ESCB, complies with the accounting policies laid down by the Governing Council of the ECB in its 11 November 2010 Guideline (recast)[2]. The guideline establishes in particular the accounting rules applicable to refinancing operations for the banking sector, securities, foreign currency transactions and the issue of banknotes. The Bank's Statement of Accounts for 2010 was prepared fully in line with the provisions set out in the Guideline. In cases where the Guideline is silent or its application is not mandatory, accounting standards generally accepted in Ireland (i.e. Financial Reporting Statements) and relevant statutory provisions[3] which apply to the Bank are followed.

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.

(c) 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[4]

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.

(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[5] 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-2010, five non-participating countries (Denmark, Latvia,

1 Throughout this document the use of the term 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 2010 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 Guideline of the ECB on the legal framework for the accounting and financial reporting in the European System of Central Banks (ECB/2010/20, OJ L 35, 9.2.2011).

3 The principal statutory provisions are: *Treaty on European Union*, 1992, *Central Bank Acts* 1942–2010, *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 *Statute of the ESCB and the ECB*.

4 Defined in the 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 by Guideline ECB/2010/20.

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

Lithuania, Poland and Estonia) were members of TARGET2 and, therefore, included in the multilateral netting process.

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 (c)(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 NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which must be adjusted every five years. The Bank's share of the ECB's subscribed capital remained at 1.1107 per cent in 2010. The ECB increased its subscribed capital by €5,000 million from €5,761 million to €10,761 million with effect from 29 December 2010. The NCBs of the euro area countries are required to pay up their increased capital in three equal annual instalments. The first instalment was paid on 29 December 2010, and the remaining two instalments will be paid at the end of 2011 and 2012, respectively. Consequently, on 29 December the Bank paid €18.5 million as its first instalment (Note 17).

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.

The Bank's share in the Eurosystem capital key remained at 1.5915 per cent in 2010. On 1 January 2011, following the accession of the Estonian central bank into the Eurosystem the Bank's share in the Eurosystem capital key decreased from 1.5915 per cent to 1.5874 per cent.

(iv) Banknotes in Circulation

The ECB and the 16 participating NCBs, which together comprise the Eurosystem, issue euro banknotes[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 (c)(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 (in the case of a shortfall of issuance relevant to the banknotes allocation key) or liabilities (in the case of excess issuance relevant to the banknote allocation key), which incur interest[8], are disclosed in the Balance Sheet under "Intra-Eurosystem: net claim/liability related to the allocation of euro banknotes within the Eurosystem" (Accounting Policy (c)(ii) and Note 27). The interest expense

6 ECB decision of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35, 9.2.2011, p. 26.

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 (8 per cent) and applying the Eurosystem capital key to the participating NCBs' share (92 per cent).

8 ECB decision of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2010/23), OJ L 35, 9.2.2011, p. 17.

(Note 2(ii)) 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.

(v) Distributions by ECB

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, and the ECB's (net) income arising from securities purchased under the Securities Market Programme (SMP) shall be due to the NCBs in the same financial year it accrues. The ECB shall distribute this income in January of the following year in the form of an interim distribution of profit[9]. The amount of the ECB's income on euro banknotes in circulation may be reduced in accordance with any decision by the Governing Council in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. Before the end of the year the Governing Council decides whether all or part of the ECB's income arising from SMP securities and, if necessary, all or part of the ECB's income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB's net profit for that year.

The Governing Council may also decide to retain all or part of the ECB's income arising from SMP securities and if necessary, all or part of the ECB's income on euro banknotes in circulation for a provision for foreign exchange rate, interest rate, credit and gold price risks. The amount distributed to NCBs is disclosed in the Profit and Loss and Appropriation Account under "Income from equity shares and participating interest" (Note 5(i)).

(vi) Net Result of Pooling of Monetary Income

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

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

The earmarkable assets consist of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; net intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions; intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; and a limited amount of each NCB's gold holdings in proportion to each NCB's capital key. Gold is considered to generate no income.

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. This amount is added or deducted, as appropriate from the monetary income to be pooled.

The net monetary income pooled by the Eurosystem is allocated between NCBs according to the subscribed capital key. The difference between the monetary income pooled by the Bank and that reallocated to the Bank, together with the movement in the provision against counterparty risks in monetary policy operations of the Eurosystem constitutes the "Net result of pooling of monetary income" recorded in the Profit and Loss and Appropriation Account (Note 6(i)).

9 ECB decision of 25 November 2010 on the interim distribution of the income of the ECB on euro banknotes in circulation and arising from securities purchased under the securities markets programme (ECB/2010/24) OJ L 6, 11.1.2011, p. 35.

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.

(vii) Claims Equivalent to the Transfer of Foreign Reserves

The *Treaty on the Functioning of the European Union* 1992 and Section 5(A) of the *Central Bank Act,* 1942 (as amended) provides that the Bank has the power to "transfer assets, income or liabilities to the European Central Bank where required under the ESCB Statute". Accordingly, the Bank transferred an amount equivalent to €424.8 million to the ECB in January 1999, at the commencement of 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. 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(iv) and 18, and Accounting Policy (c)(iii)).

(viii) Off-Balance Sheet Items

Profits and losses arising from off-balance sheet instruments are recognised and treated in a similar manner to on-balance sheet instruments. 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 the techniques covering the most significant off-balance sheet financial instruments which have been identified for possible use by the ESCB are set out in the ECB accounting guideline, i.e. foreign exchange forwards, foreign exchange swaps, future contracts, interest rate swaps, forward rate agreements, forward transactions in securities and options.

(ix) Securities Held for Monetary Policy Purposes

These securities were acquired by the Bank within the scope of the purchase programme for Covered Bonds[10] (CBPP), and public debt securities acquired in the scope of the Securities Markets Programme[11] (SMP). The securities are classified as held-to-maturity, valued at amortised cost and are subject to impairment (Notes 1(i) and 16).

(d) Income Recognition

The accruals concept in accounting for income has been adopted.

(e) Fixed Assets

(i) Measurement

Fixed assets are stated at cost and are not revalued.

10 ECB decision of 2 July 2009 on the implementation of the Covered Bond Purchase Programme (ECB/2009/16), OJ L 175, 4.7.2009, p. 18.

11 ECB decision of 14 May 2010 establishing a Securities Markets Programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

(ii) Depreciation

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

Freehold Premises	–	20 - 50 years
Plant and Machinery	–	5 - 15 years
Furniture, Fixtures and Fittings	–	5 years
Computer Equipment	–	5 years
Other Equipment	–	5 years

(f) 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 CBI'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 FRS 17 'Retirement Benefits'.

Pension scheme assets are measured at fair value. Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at interest rates applicable to high-quality corporate bonds of the same currency and term as the liabilities. The pension related charge in the Profit and Loss and Appropriation Account comprises the sum of the current service cost (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 2010 liabilities and pension costs are set out in Note 34.

(g) Coin Provision and Issue

The Bank is involved in production and issuance of coin on behalf of the Minister for Finance. Proceeds and expenses relating to the provision and issue of coin are transferred directly to the Currency Reserve under the provisions of the *Coinage Act*, 1950, the *Decimal Currency Acts*, 1969-1990 and the *Economic and Monetary Union Act*, 1998. The cost of production of coin is charged to the Currency Reserve in the year in which it is incurred. Proceeds from the issue of coin are credited to the Currency Reserve in the year they are received (Note 24). Section 14A of the *Economic and Monetary Union Act*, 1998 (as inserted by Section 137 of the *Finance Act*, 2002) which came into operation on 25 March 2002 provides for the net proceeds from the issue of coin, from 1 January 2002, to be passed directly to the Exchequer as directed by the Minister for Finance (Note 24(ii)).

(h) 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 (c)(i)).

(i) 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.

(j) Valuation Policy

(i) 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.

(ii) Marketable securities classified as mark-to-market (MTM) are valued at mid-market closing prices at year-end. Marketable securities classified as held-to-maturity (HTM) are valued at amortised cost and are subject to impairment. The valuation of securities is performed on a security-by-security basis.

(iii) Gold is valued at the closing market price and securities at mid-market closing prices at year-end.

(iv) The exceptional liquidity assistance provided to domestic credit institutions covered by guarantee is classified as Loans and Receivables. In accordance with FRS 26 Financial Instruments: Recognition and Measurement, Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and that the Bank has no intention of trading. Loans and Receivables, subsequent to initial recognition, are held at amortised cost less allowance for any incurred impairment losses.

The Bank assesses at the balance sheet date whether there was objective evidence that the loans and receivables have been impaired. Objective evidence that this financial asset is impaired includes a breach of contract, such as a default or delinquency in interest or principal payment (Note 20 (iii)).

(k) Recognition of Gains and Losses

Realised gains and losses arising from sales of foreign exchange, gold and securities are accounted for through the Profit and Loss and Appropriation Account. All realised gains and losses (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 (j)) 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 on a security-by-security basis. Unrealised losses accounted for through the Profit and Loss and Appropriation Account in this manner may not be reversed in subsequent years against future unrealised gains.

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.

(l) Reverse Transactions

Reverse transactions are operations whereby the Bank buys or sells assets for cash under a repurchase/reverse repurchase agreement. Under a repurchase agreement, securities are sold for cash with a simultaneous agreement to repurchase them from the counterparty at an agreed price on a set future date. Repurchase agreements are recorded as collateralised inward deposits on the liability side of the Balance Sheet and lead to an interest expense in the Profit and Loss and Appropriation Account (Note 2). Securities sold under such an agreement remain on the Balance Sheet of the Bank. There were no Repurchase Agreements outstanding at 31 December 2010.

Under a reverse repurchase agreement, securities are bought for cash with a simultaneous agreement to sell them back to the counterparty at an agreed price on a set future date.

Reverse repurchase agreements are recorded as collateralised loans on the asset side of the Balance Sheet (Notes 13 and 15) but are not included in the Bank's securities holdings. They give rise to interest income in the Profit and Loss and Appropriation Account (Note 1).

Notes to the Accounts

Note 1: Interest Income

	2010	2009
	€000	€000
Deposit Income	1,615	967
Interest on Securities – MTM	168,709	251,749
Interest on Securities – HTM	281,472	264,359
Interest on Securities Held for Monetary Policy Purposes (i)	94,781	6,286
Reverse Repurchase Agreements (ii)	1,747	3,681
Monetary Policy Operations (iii)	1,028,630	1,470,313
Income from Transfer of Foreign Reserve Assets to ECB (iv)	5,514	7,051
Other (v)	517,087	242,675
Total	**2,099,555**	**2,247,081**

(i) This item incorporates income of €33.4 million and €61.4 million on the securities purchased by the Bank under the CBPP and the SMP respectively. Accounting Policy (c)(ix) and Note 16.

(ii) There were Reverse Repurchase Agreements of €456.0 million outstanding at 31 December 2010 (2009: €836.2). Accounting Policy (l) and Notes 13 and 15.

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

(iv) This relates to the remuneration of Foreign Reserve Assets transferred to the ECB. Accounting Policy (c)(vii) and Note 18.

(v) This includes an amount of €510.2 million (2009: €240.5) in relation to interest earned on exceptional liquidity assistance (ELA) advanced to credit institutions outside of the Eurosystem's monetary policy operations (Note 20(iii)).

Note 2: Interest Expense

	2010	2009
	€000	€000
Government Deposits	112,748	204,062
Credit Institutions' Deposits	110,177	164,422
Intra-Eurosystem Balances (i)	727,315	749,329
Remuneration of Liability in respect of Allocation of Euro Banknotes in Circulation (ii)	139,103	159,807
Total	**1,089,343**	**1,277,620**

(i) The interest 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 (c)(ii).

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

Note 3: Net Result of Financial Operations, Write Downs and Provisions

Net Realised Gains/(Losses) arising from Financial Operations	2010	2009
	€000	€000
Net Realised Price Gains/(Losses) on Securities	10,340	103,519
Net Realised Exchange Rate Gains/(Losses)	163	437
Total	**10,503**	**103,956**

Write Downs on Financial Assets and Positions	2010	2009
	€000	€000
Unrealised Price Losses on Securities	(71,247)	(2,237)
Unrealised Exchange Rate Losses	(54)	(431)
Total	**(71,301)**	**(2,668)**

Transfer to Provisions	2010	2009
	€000	€000
Provision for IEP Banknotes (Note 30)	(10,000)	–
Total	**(10,000)**	**–**

Note 4: Income from Fees and Commissions

	2010	2009
	€000	€000
Service Fees and Charges	664	680
Securities Lending	795	430
TARGET2 Distribution of Pooled Income	552	555
Total	**2,011**	**1,665**

Note 5: Income from Equity Shares and Participating Interests

	2010	2009
	€000	€000
Share of ECB Profits (i)	2,719	35,858
BIS Dividend (ii)	6,969	2,492
Other	–	(213)
Total	**9,688**	**38,137**

Note 5: Income from Equity Shares and Participating Interests (continued)

(i) This item represents the Bank's share of the ECB's profit for 2010. Accounting Policy (c)(v). The Governing Council decided to transfer from the ECB's profits, as at 31 December 2010, an amount of €1,163 million to the ECB's risk provision, thereby increasing it to the level of its present ceiling of €5,184 million. As a result the ECB's declared net profit for 2010 amounted to €171 million, which the Governing Council decided to distribute in its entirety to the euro area NCBs in accordance with their Eurosystem capital key. The Bank's share amounted to €2.7 million.

(ii) This item represents dividends received on shares held in the Bank for International Settlements (Note 20(i)). A supplementary dividend of €4.5 million was received in 2010 in addition to the annual dividend of €2.4 million.

Note 6: Net Result of Pooling of Monetary Income

	2010	2009
	€000	€000
Net Result of Pooling of Monetary Income (i)	(38,484)	(110,358)
Share of Provision Against Counterpart Risks (ii)	22,998	21,991
Total	**(15,486)**	**(88,367)**

(i) This represents the difference between the monetary income pooled by the Bank of €203.7 million (2009: €291.4 million) and that reallocated to the Bank of €166.5 million (2009: €180.8 million) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares, plus interest and adjustments of €1.3 million on net results for previous years (2009: -€0.3 million). Accounting Policy (c)(vi).

(ii) A reduction in the Bank's share of the provision against counterparty risks on monetary policy operations of the Eurosystem, amounted to €23.0 million at year-end (2009: €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 €4,011 million at 31 December 2009 to €2,077 million at 31 December 2010. The respective adjustments are reflected in the Profit and Loss and Appropriation Accounts of the NCBs.

Note 7: Other Income

	2010	2009
	€000	€000
Financial Regulation Net Industry Funding (Note 41(i))	40,897	34,048
Financial Regulation Miscellaneous Income (Note 41(v))	199	715
Financial Regulation Monetary Penalties (i)	2,249	7,389
Interest on Pension Scheme Liabilities (Note 34(i))	(21,910)	(22,278)
Expected Return on Pension Fund Assets (Note 34(v))	13,586	10,089
Other	1,099	1,381
Total	**36,120**	**31,344**

(i) Monetary penalties represent amounts payable to the Bank by a number of financial services providers following the conclusion of Settlement Agreements with those entities in relation to breaches of regulatory requirements.

Note 8: Expenses

€000	Head Office*		Printworks		Total Head Office & Printworks		Mint (i)		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Salaries/Allowances (ii)	60,646	55,332	10,280	10,798	70,926	66,130	801	622	71,727	66,752
PRSI	4,257	3,781	687	747	4,944	4,528	50	43	4,994	4,571
Pensions (Note 34(i))	10,067	9,488	–	–	10,067	9,488	85	87	10,152	9,575
Staff Expenses	**74,970**	**68,601**	**10,967**	**11,545**	**85,937**	**80,146**	**936**	**752**	**86,873**	**80,898**
Training, Recruitment & Other Staff Costs (iii)	3,889	2,380	378	387	4,267	2,767	8	7	4,275	2,774
Maintenance of Premises	2,435	2,660	2,037	3,211	4,472	5,871	1	1	4,473	5,872
Energy	741	704	475	423	1,216	1,127	–	–	1,216	1,127
Rent & Rates	4,239	3,463	477	480	4,716	3,943	–	–	4,716	3,943
Equipment, Stationery & Requisites	1,836	1,271	162	97	1,998	1,368	12	1	2,010	1,369
Post & Telecommunications	512	509	30	105	542	614	48	2	590	616
Investment Services & Bank Charges	2,681	2,231	4	20	2,685	2,251	12	–	2,697	2,251
Business Travel	1,481	1,246	174	144	1,655	1,390	24	8	1,679	1,398
Publishing & Consumer Advertising	939	796	9	7	948	803	2	13	950	816
Professional Fees (iv)	7,392	5,910	204	151	7,596	6,061	4	12	7,600	6,073
Works Machine Maintenance	–	–	1,155	939	1,155	939	134	283	1,289	1,222
RTGS System Costs	1,042	1,131	–	–	1,042	1,131	–	–	1,042	1,131
Miscellaneous (v)	1,218	894	20	30	1,238	924	6	–	1,244	924
Other Operating Expenses	**28,405**	**23,195**	**5,125**	**5,994**	**33,529**	**29,189**	**251**	**327**	**33,781**	**29,516**
Depreciation	**4,521**	**4,121**	**3,872**	**3,620**	**8,393**	**7,741**	**32**	**70**	**8,425**	**7,811**
Raw Materials	**–**	**–**	**3,002**	**2,647**	**3,003**	**2,647**	**8,074**	**4,608**	**11,076**	**7,225**
Total Expenses	**107,896**	**95,917**	**22,966**	**23,806**	**130,862**	**119,723**	**9,293**	**5,757**	**140,155**	**125,480**

* Head Office expenses comprise all expenses (including financial regulatory expenses) other than those of the Printworks and Mint. Details of financial regulatory income and expenditure in 2010 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 (g).

Note 8: Expenses (continued)

(ii) Remuneration of Executive and non Executive Directors in 2010

Name	Period	Salary	Other Remuneration
Patrick Honohan			
Governor	1 Jan - 31 Dec	€276,324	–
Tony Grimes			
Deputy Governor (Central Banking)	1 Jan - 31 Dec	€249,674	€4,160[12]
Matthew Elderfield			
Deputy Governor (Financial Regulation)	1 Jan - 31 Dec	€348,462	€75,299[13]
Jim Farrell			
Chairman, Financial Regulator	1 Jan - 30 Sept	€33,075[14]	–
Total fees paid to directors of the Board and members of the Authority	1 Jan - 30 Sept	€165,378	–
Total fees paid to members of the Commission	1 Oct - 31 Dec	€14,936	–

The salary of Patrick Honohan was reduced by 20 per cent and that of Tony Grimes and Matthew Elderfield by 15 per cent from 1 February 2010 in line with salary reductions in the public service. Patrick Honohan took a further voluntary salary reduction of 20 per cent.

In addition to his salary as Chairman of the Financial Regulator, Jim Farrell was also remunerated for facilitating the handover of duties to Matthew Elderfield in the first three months of 2010.

Gerard Danaher, John Dunne, Jim Farrell and Deirdre Purcell, former members of both the Central Bank Board and the Authority, were each paid a fee of €23,625 for the period 1 January to 30 September 2010.

Alan Ashe, Tony Grimes and Dermot Quigley were each paid a fee of €11,813 as members of the Authority for the period 1 January to 30 September 2010.

David Begg, Dermot O'Brien and Brian Hillery, were each paid a fee of €11,813 as members of the Central Bank Board for the period 1 January to 30 September 2010.

The annual fee for members of the Commission is €15,000. Des Geraghty, Michael Soden, Max Watson[15] and Blanaid Clarke were each paid a fee of €3,734 for the period from 1 October to 31 December 2010. Ex officio members of the Commission do not receive a fee in respect of their membership of the Commission.

Patrick Honohan's pension entitlements do not extend beyond the standard entitlements in the model public sector defined benefit superannuation scheme. Tony Grimes retired as Director General at end-2010 with pension entitlements for 37 years reckonable service under the Central Bank of Ireland Superannuation Scheme. He continues in that capacity, on a contractual basis, pending appointment of a replacement.

12 Includes delegate's allowance but not directors' fees which are shown separately above.

13 Includes a relocation fee of €75,000 and delegate's allowance of €299. In addition rent subsidy of €5,400 and relocation expenses of €6,670 were paid.

14 Salary paid as Chairman and for handover duties but does not include directors' fees which are shown separately above.

15 Expenses relating to accommodation and travel from the UK amounted to €1,838.

Note 8: Expenses (continued)

(iii) Increased recruitment costs were incurred in order to manage the agreed expanded manpower needs of the organisation in 2010.

(iv) Auditors' remuneration to both the Comptroller and Auditor General and Deloitte & Touche for the years 2010/2009 amounted to:

	2010	2009
	€000	€000
Audit of Individual Accounts	**191**	**191**
Deloitte & Touche	*107*	*107*
Comptroller and Auditor General	*84*	*84*
Other Assurance Services	**32**	**33**
Deloitte & Touche	*32*	*33*
Other Non-Audit Work	**172**	**298**
Deloitte & Touche	*172*	*298*
Total	**395**	**522**

Other non-audit work relates to secondment and consultancy fees for a number of regulatory-related projects undertaken in 2009 and 2010. The Bank has adopted the disclosure requirements of S.I. No. 220/2010 – European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 in respect of auditors' remuneration for the year ended 31 December 2010 and comparative.

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

(vi) An amount of €4.9 million (2009: €3.2 million) was paid to the Department of Finance in respect of the Pension Levy. This figure is not shown separately in the table but is included within the figure for Salaries.

Note 9: Surplus Income

Surplus Income of €671.0 million was payable to the Exchequer in respect of the year ended 31 December 2010 (2009: €745.5 million).

Under Section 6J of the *Central Bank Act*, 1942 (as amended), the Bank is exempt from Corporation Tax, Income Tax and Capital Gains Tax.

Note 10: Gold and Gold Receivables

Gold and gold receivables represent coin stocks held in the Bank, together with gold bars held at the Bank of England. The increase in the balance in 2010 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

	2010	2009
	€000	€000
Receivables from the IMF (i)	1,007,550	988,891
Balances with Banks and Security Investments, External Loans and Other External Assets (iv)	373,992	357,463
Total	**1,381,542**	**1,346,354**

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

	2010	2009
	€000	€000
Quota	970,202	912,683
Less IMF Holdings of euro	(792,374)	(742,644)
Reserve Position in the IMF (ii)	**177,828**	**170,039**
SDR Holdings (iii)	**829,722**	**818,852**
Total	**1,007,550**	**988,891**

(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. On 28 April 2008, a large-scale quota increase was approved by the IMF's Board of Governors and implemented on 3 March 2011. As a result Ireland's IMF quota increased by SDR 419.2 million, from SDR 838.4 million to SDR 1,257.6 million.

(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/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) (Note 26).

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

	2010	2009
	€000	€000
Balances with Banks	4,460	3,543
Security Investments – MTM (v)	369,532	353,920
Total	**373,992**	**357,463**

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

Maturity Profile	2010	2009
	€000	€000
0 - 3 months	146,678	78,714
3 months - 1 year	187,578	206,358
1 - 5 years	39,736	72,391
Total	**373,992**	**357,463**

(v) Accounting Policy (j).

Note 12: Claims on Euro Area Residents in Foreign Currency

	2010	2009
	€000	€000
Balances with Banks	81,487	94,447
Security Investments – MTM (i)	59,659	24,074
Total	**141,146**	**118,521**

Maturity Profile	2010	2009
	€000	€000
0 - 3 months	81,487	94,447
3 months - 1 year	29,585	24,074
1 - 5 years	30,074	–
Total	**141,146**	**118,521**

(i) Accounting Policy (j).

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

	2010	2009
	€000	€000
Balances with Banks	2,091	7,298
Security Investments – MTM (i)	196,270	401,205
Security Investments – HTM (i)	527,858	625,806
Reverse Repurchase Agreements	156,990	200,000
Total	**883,209**	**1,234,309**

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

Maturity Profile	2010	2009
	€000	€000
0 - 3 months	159,081	235,355
3 months – 1 year	176,727	272,712
1 – 5 years	267,470	343,874
5 – 10 years	279,931	382,368
Total	**883,209**	**1,234,309**

(i) Accounting Policy (j).

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

	2010	2009
	€000	€000
Main Refinancing Operations (i)	63,655,000	8,425,000
Longer Term Refinancing Operations (ii)	56,025,000	84,433,000
Fine Tuning Operations (iii)	12,330,000	–
Total	**132,010,000**	**92,858,000**

These balances consist of advances to local credit institutions and reflect the Bank's participation in Eurosystem monetary policy operations. All the advances are fully secured by collateral approved by the Eurosystem. There was a significant increase in the level of Main Refinancing Operations (MRO) and a decrease in Longer Term Refinancing Operations (LTRO) advances during 2010 as non standard six-month and twelve-month LTROs matured. As at 31 December 2010 total Eurosystem monetary policy related advances amounted to €546.7 billion (2009: €749.9 billion), of which the Bank held €132.0 billion (2009: €92.9 billion). In accordance with Article 32.4 of the Statute, any risks from lending to euro area credit institutions

related to monetary policy operation, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing Eurosystem capital key shares.

(i) The MROs 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 LTROs 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. These non-standard operations matured during 2010.

(iii) A thirteen-day Fine Tuning Operation took place on 23 December 2010, when the final twelve-month LTRO matured. This involved the announcement, allotment and settlement of funding on 23 December 2010. The fixed rate tender procedure with full allotment was used in this operation, with the rate being the same as the MRO rate (i.e. 1 per cent) prevailing at that time.

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

	2010	2009
	€000	€000
Balances with Banks	214,579	40
Reverse Repurchase Agreements	299,000	636,119
Total	**513,579**	**636,159**

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, together with the euro-denominated securities markets portfolio, which began in May 2010; and (ii) 'Other securities', which includes marketable securities that are not related to the monetary policy operations of the Eurosystem.

	2010	2009
	€000	€000
Securities Held for Monetary Policy Purposes (i)	3,003,005	531,794
Other Securities (ii)	15,233,169	14,390,691
Total	**18,236,174**	**14,922,485**

(i) Securities Held for Monetary Policy Purposes

	2010	2009
	€000	€000
Covered Bond Purchase Programme (CBPP) - HTM	865,944	531,794
Securities Markets Programme (SMP) - HTM	2,137,061	–
Total	**3,003,005**	**531,794**

Maturity Profile	2010	2009
	€000	€000
0 – 3 months	49,464	–
3 months – 1 year	160,811	–
1 – 5 years	2,074,963	397,528
5 – 10 years	625,253	134,266
10 – 15 years	92,514	–
Total	**3,003,005**	**531,794**

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

This Balance Sheet category contains securities acquired by the Bank within the scope of the CBPP[16], and public debt securities acquired in the scope of the SMP[17]. The securities are classified as held-to-maturity (HTM). The total Eurosystem NCB's (including the ECB) holding of SMP and CBPP securities, respectively, amounts to €73,976 million and €60,853 million at end December, of which the Bank held €2,137 million and €866 million. In accordance with Article 32.4 of the Statute, any risks from holdings of SMP securities, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing Eurosystem capital key shares. In the case of the CBPP the risks are borne by individual NCBs. Accounting Policies (c)(iii), (c)(ix) and Note 1(i).

(ii) Other Securities

	2010	2009
	€000	€000
Security Investments – MTM	8,941,696	8,477,488
Security Investments – HTM	6,291,473	5,913,203
Total	**15,233,169**	**14,390,691**

These securities comprise debt issued by euro area issuers. Accounting Policy (j).

Maturity Profile	2010	2009
	€000	€000
0 - 3 months	2,647,515	2,564,175
3 months – 1 year	4,120,180	3,876,235
1 – 5 years	4,951,916	4,992,882
5 – 10 years	3,513,558	2,957,399
Total	**15,233,169**	**14,390,691**

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 NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which are adjusted every five years.

The Bank's participating interest in the ECB increased by €18.5 million to €139.2 million reflecting the decision of the Governing Council in December 2010 to increase the ECB's subscribed capital by €5,000 million to €10,761 million. As a result, Eurosystem NCBs were required to pay up an amount of €3,490 million in respect of their increased contributions in three equal annual instalments beginning in 2010. Consequently, the Bank paid its first instalment of €18.5 million on 29 December 2010, while a further two instalments are payable in 2011 and 2012. Accounting Policy (c)(iii).

16 ECB Decision of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L 175, 4.7.2009, p. 18.

17 Of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

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. Accounting Policy (c)(vii) and Note 1 (iv).

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

	2010	2009
	€000	€000
Shares in the Bank for International Settlements (i)	18,997	16,812
Stocks of Materials for Banknote Production	2,229	1,665
AIB plc/ICAROM Interest Bearing Loan (ii)	366,371	613,994
Accrued Interest Income	351,905	581,242
Prepayments	689	719
Fixed Assets (Note 21)	70,401	71,632
Other (iii)	49,475,598	11,510,060
Total	**50,286,190**	**12,796,124**

(i) The Bank holds 8,564 shares (2,564 paid up) in the Bank for International Settlements, the market value of which is €19.0 million (Notes 5(ii) and 33(i)).

(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 (€4.1 million) between AIB plc and the Bank and (ii) a payment of interest (€7.0 million) by AIB plc. The matching back-to-back deposit is shown in Other Liabilities (Note 29).

(iii) This includes an amount of €49.5 billion (2009: €11.5 billion) in relation to ELA advanced outside of the Eurosystem's monetary policy operations to domestic credit institutions covered by guarantee (Note 1(v)). These facilities are carried on the Balance Sheet at amortised cost using the effective interest rate method. All facilities are fully collateralised and include sovereign collateral as well as a broad range of security pledged by the counterparties involved.

The Bank has in place specific legal instruments in respect of each type of collateral accepted. These comprise: (i) Promissory Notes issued by the Minister for Finance to specific credit institutions and transferrable by deed, (ii) Master Loan Repurchase Deeds covering investment/development loans, (iii) Framework Agreements in respect of Mortgage-Backed Promissory Notes covering non-securitised pools of residential mortgages, (iv) Special Master Repurchase Agreements covering collateral no longer eligible for ECB-related operations and (v) Facility Deeds providing a Government Guarantee. In addition, the Bank received formal comfort from the Minister for Finance such that any shortfall on the liquidation of collateral is made good. Where appropriate, haircuts (ranging from 5.5 per cent to 80 per cent) have been applied to the collateral. Credit risk is mitigated by the level of the haircuts and the Government Guarantee. At the Balance Sheet date no provision for impairment was recognised.

Note 21: Fixed Assets

€000	Premises		Plant and Machinery		Computer Equipment		Other Equipment		Furniture, Fixtures & Fittings		Total Fixed Assets	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
At Cost – 1 January	65,570	64,124	47,226	47,164	20,437	16,856	14,715	13,670	10,471	9,831	158,419	151,645
Acquisitions (+)	628	1,446	611	62	3,119	3,581	313	1,077	2,523	640	7,194	6,806
Disposals	–	–	–	–	–	–	–	(32)	–	–	–	(32)
At Cost – 31 December	66,198	65,570	47,837	47,226	23,556	20,437	15,028	14,715	12,994	10,471	165,613	158,419
Accumulated Depreciation at 1 January	15,122	13,617	39,197	36,654	13,786	12,096	9,355	7,816	9,327	8,799	86,787	78,982
Depreciation for Year (i)	1,534	1,505	2,251	2,543	2,339	1,690	1,749	1,545	552	528	8,425	7,811
Disposals	–	–	–	–	–	–	–	(6)	–	–	–	(6)
Accumulated Depreciation at 31 December	16,656	15,122	41,448	39,197	16,125	13,786	11,104	9,355	9,879	9,327	95,212	86,787
Net Book Value at 31 December	**49,542**	**50,448**	**6,389**	**8,029**	**7,431**	**6,651**	**3,924**	**5,360**	**3,115**	**1,144**	**70,401**	**71,632**

(i) Of the total of €8.4 million depreciation charge (2009: €7.8 million), €0.03 million in respect of Mint machinery was charged to the Currency Reserve (2009: €0.07 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 (c)(iv).

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

	2010	2009
	€000	€000
Minimum Reserves (i)	8,264,077	8,248,220
Overnight Deposits (ii)	3,150,000	6,659,621
Total	**11,414,077**	**14,907,841**

(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 2010 interest was paid on these deposits at the ECB's main refinancing operations fixed interest rate.

(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

	2010	2009
	€000	€000
General Government Deposits (i)	15,887,911	26,259,852
Currency Reserve Relating to Net Proceeds of Coin (ii)	1,914	3,389
Total	**15,889,825**	**26,263,241**

These items have a maturity of less than one year.

(i) Included in the General Government Deposits is an amount of €2.1 million (2009: €548.6 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. The Scheme ended in 2010 and the total outstanding balance was transferred to the Exchequer. Subsequently a late payment (€2.1 million) was received which was transferred to the Exchequer in 2011. Also included are deposits totalling €0.5 million (2009: €0.5 million) held by the Official Assignee in Bankruptcy under the provisions of the *Bankruptcy Act*, 1988.

(ii) The portion of the "Currency Reserve" relating to "Net proceeds of coin issue" was previously recorded in the balance sheet under "Capital and Reserves" (Note 32). This item has been reclassified to this category. This reclassification has no impact on the net Balance Sheet position or amount of profit recorded in previous annual accounts. The 2009 figure has been adjusted upwards by €3.4 million to reflect the reclassification. Under the provisions of the *Coinage Act*, 1950, the *Decimal Currency Acts*, 1969-1990 and the *Economic and Monetary Union Act*, 1998, the costs and proceeds of coin issue are required to be charged or credited to the currency reserve. The balance from that activity must be paid into the Exchequer at the direction of the Minister for Finance and where the amount paid over to the Exchequer exceeds the cumulative net proceeds of issue, the Minister advances the difference to the Bank. The balance on the currency reserve relating to coin issue is reported as an asset or liability of the Bank. Accounting Policy (g) and Note 8. Details of net proceeds for the year are included in the table below:

	2010	2009
	€000	€000
Coin Issued into/(Redeemed from) Circulation	(1,564)	(22,963)
Specimen Coin Sets	1,547	1,990
Withdrawn Irish Coin	(364)	(450)
Proceeds from Smelted Coin	–	24
Sub-Total	**(381)**	**(21,399)**
Less Operating Costs (Note 8)	**(9,293)**	**(5,757)**
Net Proceeds of Coin Issue	**(9,674)**	**(27,156)**
Interest on Pension Liability	(175)	(175)
Superannuation Employer Contribution	(126)	(85)
Transfer (to)/from the Exchequer	8,500	30,000
Opening Balance	3,389	805
Closing Balance	**1,914**	**3,389**

As a result of the *Finance Act*, 2002, and as directed by the Minister for Finance, the Bank is required to transfer the net proceeds from the issue of coin directly to the Exchequer. As noted in the table above, there was a net return of coin to the Bank from the commercial banks in 2010. As a result of this net return and the coin related operating costs a transfer of €8.5 million (2009: €30.0 million) was received from the Exchequer in December 2010.

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

	2010	2009
	€000	€000
International Financial Institutions	93	90
EU Agencies	10,152	7,135
Total	**10,245**	**7,225**

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 (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 (c)(ii) and (c)(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 (c)(ii).

Note 29: Other Liabilities

	2010	2009
	€000	€000
AIB plc/ICAROM Deposit (Note 20)	366,371	613,994
Profit & Loss Appropriation (i)	671,029	704,867
Deposit Protection Accounts (ii)	537,900	608,262
Interest Accruals	201,001	105,212
Other Accruals	9,603	7,223
Other	27,946	6,410
Total	**1,813,850**	**2,045,968**

(i) This represents the balance of Surplus Income payable to the Exchequer (Note 9). The 2009 figure reflects a payment on account of €40.6 million paid in 2008 resulting in a balance of €704.8 million payable in 2009 (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 Bank.

Note 30: Provisions

The following provisions were maintained at 31 December 2010:

	2010	2009
	€000	€000
Eurosystem Monetary Policy Operations Counterparty Risk (i)	28,135	51,133
Unredeemed Irish Pound Banknotes (ii)	8,043	882
Total	**36,178**	**52,015**

(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 NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in the year when defaults have occurred. In accordance with 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 €4,011 million at 31 December 2009 to €2,077 million at 31 December 2010. The Bank's share in this provision amounts to €28.1 million (2009: €51.1 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 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 €23.0 million in 2010 (Note 6(ii)).

(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 2010, the provision stood at €8.0 million (2009: €0.9 million) following a transfer of €10.0 million from the Bank's profits for 2010 to the provision, which had been depleted during the course of the year (Note 33(iii)).

Note 31: Revaluation Accounts

	2010	2009	Net Movement
	€000	€000	€000
Gold	156,231	100,414	55,817
Foreign Currency	19,603	6,755	12,848
Securities and Other Instruments	54,437	98,024	(43,587)
Total	**230,271**	**205,193**	**25,078**

Note 31: Revaluation Accounts (continued)

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

	2010	2009
Currency	**Rate**	**Rate**
US dollar	1.3362	1.4406
Japanese yen	108.6500	133.1600
Sterling	0.8608	0.8881
Swiss franc	1.2504	1.4836
Danish krone	7.4535	7.4418
Swedish krona	8.9655	10.2520
Canadian dollar	1.3322	1.5128
SDR	0.8642	0.9186
The gold prices used were:		
Euro per fine ounce	1,055.4180	766.347

Note 32: Capital and Reserves

	Capital (i)	General Reserve	Currency Reserve (iii)	Total
	€000	€000	€000	€000
At 31 December 2009	**30**	**1,179,801**	**351,648**	**1,531,479**
Retained profit for the year (ii)	–	191,561	–	191,561
At 31 December 2010	**30**	**1,371,362**	**351,648**	**1,723,040**

(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 Commission and the Minister.

(ii) Under the *Central Bank of Ireland (Surplus Income) Regulations*, 1943, the Commission approved a transfer from the Profit and Loss and Appropriation Account of €191.6 million, including a net actuarial gain of €21.7 million, which was recognised in the Profit and Loss and Appropriation Account (Note 34 (ii)).

(iii) The portion of the Currency Reserve relating to Net Proceeds of Coin has been reclassified and is reported in Note 24: Liabilities to Other Euro Area Residents in Euro. The 2009 figure has been adjusted downwards by €3.4 million to reflect the reclassification.

Note 33: Contingent Liabilities and Commitments

Contingent Liabilities

(i) Bank for International Settlements

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(ii) and 20(i)).

(ii) Capital and Foreign Reserve Assets to the ECB

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

(iii) Irish Pound Banknotes

The Bank has a contingent liability in relation to Irish pound banknotes that are no longer legal tender and that may be presented at a future date (€299.7 million was outstanding at 31 December 2002). At 31 December 2010, there was €237.7 million of Irish pound banknotes still outstanding (Note 30(ii)).

Commitments

(i) Operating Leases

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 this non-cancellable operating lease is €2.3 million.

The Bank also entered into a 4 year lease in November 2010, on accommodation at Iveagh Court, Harcourt Road, Dublin 2. The annual rental payment under this operating lease is €1.5 million.

(ii) Subscribed Capital of the ECB

On 29 December 2010, the ECB increased its subscribed capital by €5,000 million to €10,761 million. The NCBs of the euro area countries are required to pay up their increased capital in three equal annual instalments. The Bank paid the first instalment €18.5 million on 29 December 2010 and has a commitment to pay two further instalments in 2011 and 2012.

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 2010 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'.

A full actuarial review was completed as at 31 December 2010 by Willis, the Bank's actuaries, to comply with disclosure requirements under FRS 17.

Note 34: Superannuation Liabilities (continued)

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

	Profit and Loss 2010	Currency Reserve 2010	Total 2010	2009
	€000	€000	€000	€000
Expected Return on Assets	**13,586**	**–**	**13,586**	**10,089**
Interest on Pension Scheme Liabilities	**(21,910)**	**(175)**	**(22,085)**	**(22,453)**
Current Service Cost	(9,347)	(85)	(9,432)	(9,575)
Past Service Cost	(720)	–	(720)	–
Sub-Total	**(10,067)**	**(85)**	**(10,152)**	**(9,575)**
Total Pension Cost of Defined Benefit Scheme	**(18,391)**	**(260)**	**(18,651)**	**(21,939)**

(ii) Actuarial Gain/(Loss) on Pension Scheme

Year Ended 31 December	2010	2009	2008
	€000	€000	€000
Actuarial Gain on Pension Liability	8,811	28,666	72,856
Actuarial Gain/(Loss) on Plan Assets	12,894	(678)	3,549
Total	**21,705**	**27,988**	**76,405**

As at 31 December 2010 the cumulative actuarial loss recognised in the Appropriation Account was €4.3 million for accounting periods ending on or after 31 December 2004.

(iii) Balance Sheet Recognition

The amounts recognised in the Balance Sheet are as follows:

Year Ended 31 December	2010	2009	2008
	€000	€000	€000
Present Value of Wholly or Partly Funded Obligations	(392,615)	(377,004)	(382,927)
Fair Value of Plan Assets	443,876	414,611	404,657
Net Asset/(Liability)	**51,261**	**37,607**	**21,730**

Note 34: Superannuation Liabilities (continued)

(iv) Movement in Scheme Obligations

	2010	2009	2008
	€000	€000	€000
Opening Present Value of Scheme Obligations	(377,004)	(382,927)	(424,950)
Current Service Cost	(9,432)	(9,575)	(12,537)
Past Service Cost	(720)	–	–
Pensions Paid	11,387	11,830	8,250
Employee Contributions	(2,809)	(2,545)	(2,582)
Transfers Received	(763)	–	–
Interest on Pension Scheme Liabilities	(22,085)	(22,453)	(23,964)
Actuarial Gain/(Loss) from Experience Adjustments	27,460	28,666	(2,059)
Actuarial Gain/(Loss) from Liability Valuation Adjustments	(18,649)	–	74,915
Closing Present Value of Scheme Obligations	**(392,615)**	**(377,004)**	**(382,927)**

(v) Movement in Fair Value of Plan Assets

	2010	2009	2008
	€000	€000	€000
Opening Fair Value of Plan Assets (Bid Value)	414,611	404,657	400,000
Expected Return	13,586	10,089	–
Actuarial Gain/(Loss)	12,894	(678)	3,549
Employer Contribution	10,600	9,828	2,480
Employee Contributions	2,809	2,545	657
Pensions Paid	(11,387)	(11,830)	(2,029)
Transfers Received	763	–	–
Closing Fair Value of Plan Assets (Bid Value)	**443,876**	**414,611**	**404,657**

(vi) Financial Assumptions

	2010	2009
	%	%
Discount Rate	5.50	5.75
Expected Return on Assets	5.00	3.26
Rate of Increase in Pensionable Salaries	3.50	3.50
Rate of Increase in Pensions	3.50	3.50
Rate of Price Inflation	2.00	2.00

Note 34: Superannuation Liabilities (continued)

(vii) Demographic Assumptions

	2010	2009
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 2010 was as follows:

Class	Expected Return	Distribution	Long Term Distribution
	%	%	%
Equities	7.5	50.5	50.0
Fixed Interest/Cash	2.5	49.5	50.0
	5.0	100.0	100.0

The assets were rebalanced to this 50%/50% distribution in early 2011. The expected return on plan assets is determined based on weighted average expected return of the underlying asset classes.

Note 34: Superannuation Liabilities (continued)

(ix) Prior Year Comparatives

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

Year Ended 31 December	2010	2009	2008
	€000	€000	€000
Defined Benefit Obligation	(392,615)	(377,004)	(382,927)
Fair Value of Plan Assets	443,876	414,611	404,657
Surplus/(Deficit) in the Plan	51,261	37,607	21,730
Experience Adjustment Arising On			
- the plan liabilities	27,460	28,666	(2,059)
As a percentage of the scheme liabilities	*7.0%*	*7.6%*	*(0.5%)*
- the plan assets	12,894	(678)	3,549
As a percentage of the scheme assets	*2.9%*	*(0.2%)*	*0.9%*

(x) Expected Contributions to the Plan for the Period Ending 31 December 2011

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 2011
	€000
Contributions by the Employer	12,100
Contributions by Plan Participants	3,200
Total	**15,300**

Note 35: Financial Risk Management

Financial risks arise on the Bank's Balance Sheet as a consequence of its statutory role, both as a central element of the domestic financial sector and as a constituent central bank of the Eurosystem. These risks include credit, market and currency risk.

The CBI has in place risk management processes to identify, assess, manage and monitor risk, within clear risk policies and by reference to Eurosystem risk-management policies where relevant.

Specialist teams and committees support senior management in ensuring that agreed standards and policies are followed. In particular, the Executive Risk Committee oversees the risk management of the Bank's central banking activities.

Credit Risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk in the management of its investment assets, in the monetary policy operations conducted on behalf of the Eurosystem, and in connection with ongoing liquidity support to the national banking sector.

Credit risk in the Bank's investment portfolios is controlled by a system of limits based primarily on external credit ratings provided by Fitch and Moody's. Credit exposure is mitigated by the profile of the Bank's investment assets which are guided by a relatively conservative investment policy and by the use of collateralised instruments.

Note 35: Financial Risk Management (continued)

Credit risk arising due to Eurosystem monetary policy implementation is controlled through the application of strict eligibility criteria for counterparties and the provisions of Article 18.1 of the Statute of the ESCB, which ensure that all Eurosystem credit operations (i.e. liquidity providing monetary policy operations and intraday credit) have to be based on adequate collateral. To further control this risk, strict eligibility criteria for acceptable collateral are applied through the Eurosystem credit assessment framework (ECAF) and ongoing risk control measures including valuation haircuts, initial and variation margins. The credit risk to the CBI arising from Eurosystem operations is mitigated further by the system's loss sharing mechanism that distributes any losses arising from monetary policy operations in proportion to the capital key of member National Central Banks.

Credit risk in relation to the provision of exceptional liquidity support to the domestic banking sector, is managed through the application of a similar approach as is employed for Eurosystem monetary policy operations, broadly, a requirement for collateral which is typically subject to valuation haircuts. This risk is further mitigated with indemnities from the State.

Market Risk

Market risk is defined as the risk of loss as a result of changes in market risk factors, including prices, interest rates, foreign exchange rates, commodity prices and credit spreads. The Bank is exposed to market risk principally through the interest rate sensitivity of its investment assets. Some exposure may also be incurred to exchange rates and to changes in financial market conditions, such as the liquidity of fixed income instruments.

Market risk is managed within the Bank's Financial Operations Directorate within the high-level risk management parameters, governance and control frameworks approved by the Commission as well as reporting arrangements for key risk indicators. Compliance and performance relative to these policies is verified and reported by an independent risk management function. The Bank is exposed to interest rate risk in the mark to market investment portfolio. Risk management preferences in relation to the investment assets are expressed through an externally compiled benchmark, against which the investment portfolios are measured and managed. The market (interest rate) risk of the CBI's marked to market portfolios is calculated and managed using modified duration. Modified duration measures the sensitivity of the value of an investment portfolio to changes in bond yields. Value-at-Risk (VaR) is used as a supplementary measure of interest rate risk on the Bank's portfolios.

Currency Risk

In the context of the euro area and the consequent lack of foreign exchange intervention, the Bank's holdings of volatile foreign assets have been reduced to the minimum, taking into account remaining Eurosystem obligations. The currency distribution of the investment portfolio is reviewed periodically using a combination of quantitative and empirical methodologies, VaR and stress testing as well as a variety of qualitative factors. At end-December 2010, the Bank managed portfolios denominated in euro and US dollars (hedged against the euro).

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 2010 were as follows:

	Unmatured Purchases	Unmatured Sales	Unmatured Purchases and Sales
		'000s of currency units	
Euro	484,282	–	484,282
US dollar	–	(671,000)	(671,000)

All contracts had matured by 13 January 2011.

Note 38: Unmatured Contracts in Securities

Unmatured contracts in securities at 31 December 2010 were as follows:

	Unmatured Purchases	Unmatured Sales	Unmatured Purchases and Sales
		'000s of currency units	
Euro	685,625	(456,064)	229,561
US dollar	54,263	–	54,263

All contracts had matured by 6 January 2011.

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 2010 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

EU-IMF Programme

The Irish Government agreed on 28 November 2010 to the provision of a €85.0 billion financial support programme for Ireland by members of the EU and the International Monetary Fund (IMF). The State's contribution to the programme will be €17.5 billion while the external support will amount to €67.5 billion. The Bank has an operational role in the administration of the programme.

Euro/Sterling Swap Facility Agreement

On 17 December 2010, the ECB and the Bank of England announced a temporary liquidity swap facility, under which the Bank of England could provide, if necessary, up to GBP 10.0 billion to the ECB in exchange for euro up to a limit of €10.0 billion. The agreement expires at the end of September 2011. The agreement allows pounds sterling to be made available to the Bank as a precautionary measure, for the purpose of meeting any temporary liquidity needs of the banking system in that currency. As at the date of publication of the accounts one credit institution has availed of this facility.

Own Use Bonds

In January 2011, a number of credit institutions issued bonds which they retain for their own use. The ECB has authorised the use of these bonds in substitution for collateral that is no longer eligible in normal Eurosystem operations. Risks from lending to credit institutions where such bonds are used as collateral, should they materialise, are borne by the Bank (i.e. the loss sharing mechanism in place for other Eurosystem operations does not apply). Just as with ELA, credit risk to the Bank in respect of repo operations on these bonds is effectively mitigated by Government guarantee in so far as these bonds have been issued under the Eligible Liability Guarantee Scheme.

Note 41: Financial Regulation Activities

The following is a summary of the income and expenditure of financial regulation activities for the year ended 31 December 2010 together with comparatives for the year ended 31 December 2009.

Financial Regulation Activities - Statement of Income and Expenditure for 2010

		2010	2009
		€000	€000
Industry Funding			
Credit Institutions		21,152	18,579
Insurance Undertakings		7,595	5,278
Intermediaries		2,489	2,242
Securities and Investment Firms		3,213	2,042
Collective Investment Schemes & Service Providers		4,165	4,207
Credit Unions		1,439	1,431
Moneylenders		298	244
Approved Professional Bodies		35	5
Exchanges		150	150
Bureaux de Change/Moneytransmitters		136	95
Home Reversion & Retail Credit Firms		236	251
Payment Services Institutions		676	–
Total Funding		**41,584**	**34,524**
Provision/Write Offs	(i)	(1,126)	(182)
Write-back of Provision for Repayments to Revoked Entities	(ii)	145	–
Write-back of Provision for Overpayments	(iii)	294	(294)
Net Industry Funding	(i)	**40,897**	**34,048**
Excess/(Shortfall) of Income over Expenditure from Previous Year		1,295	(517)
Subvention from Central Bank of Ireland	(iv)	32,709	27,300
		74,901	**60,831**
Miscellaneous	(v)	199	715
Other Income	(vi)	735	872
Total Income		**75,835**	**62,418**
Expenses			
Direct Expenses	(vii)	43,955	39,248
Services	(viii)	27,765	21,003
		71,720	60,251
Other Expenses	(vi)	735	872
Total Expenses		**72,455**	**61,123**
Excess/(Shortfall) of Income over Expenditure Carried Forward	(ix)	**3,380**	**1,295**

Note 41: Financial Regulation Activities (continued)

(i) Net Industry Funding and Provisioning

Net Industry Funding income is included in Note 7: Other Income. This figure comprises income from levies imposed upon the above industry categories (net of appeals and adjustments) under the Section 32D of the *Central Bank Act*, 1942 (as amended) and other income in respect of fees and charges. An amount of €1.1 million in respect of provisions/ write-offs has been offset against total funding income to arrive at Net Industry Funding for 2010. The increased provision from 2009 reflects the fact that, with the agreement of the Minister for Finance, the levy process in 2010 was delayed by a number of months so as to reflect necessary restructuring of financial regulation activities. Outstanding levy amounts are being pursued as part of the ongoing debt recovery process.

The provisions/write-offs are as follows:

	2010	2009
	€000	€000
Opening Provision for Unpaid Levy Notices	481	378
Write-back of Previous Year's Provisions	(169)	(79)
Increase in Provision for 2010	1,126	182
Closing Provision for Unpaid Levy Notices	**1,438**	**481**

(ii) Provision for Repayments to Revoked Entities

As part of a broad consideration of funding issues undertaken in 2007 and 2008, it was 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 full 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, it was decided that such entities be invited to apply for a pro-rata refund of the levy paid in their final year of authorisation. All affected entities were invited to apply to have their case considered. Requests for refunds from revoked entities have been processed and interest has been applied to repayments made. The write-back of the provision for repayments to revoked entities represents the excess of the original provision for such repayments of €250,000 as compared with the total refunds (including interest) to such entities of €104,607.

(iii) Provision for Overpayments

In autumn 2009 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 2008 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 were processed and paid in 2009 while a provision of €294,000 was created in respect of refunds relating to the period 2004 to 2008. This provision is now being written back as the cost of the relevant refunds amounting to €185,579 has been charged to expenses.

(iv) Subvention from Central Bank of Ireland

By agreement with the Minister for Finance, since 2007 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 CBI in accordance with Section 32I of the *Central Bank Act*, 1942 (as amended). Since 2007, the Bank, with the approval of the Minister for Finance, has borne the full cost of certain securities market supervision activities carried out within the organisation. These costs totalling €4.0 million were excluded from the Net Industry Funding levies issued to the industry in 2010. In addition, under the provisions of the *Central Bank Act*, 1942 (Section 33J) Regulations 2010, 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 the relevant credit institutions with the provisions of the Scheme.

Note 41: Financial Regulation Activities (continued)

(v) Miscellaneous

This item represents:

- a contribution of €150,000 by a regulated entity towards the cost of an inspection carried out by a third party on behalf of the Bank; and
- the recovery of costs of €49,000 incurred in relation to a court application for the appointment of an Administrator to a regulated entity.

(vi) Other Income/Other Expenses

In 2010 the Irish Stock Exchange collected €0.735 million in fees payable to the Bank 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 Bank with the Irish Stock Exchange, the Bank confirmed to the Irish Stock Exchange that it could retain the sum of €0.735 million to put towards the costs that it had incurred in undertaking the delegated functions under the delegation agreements.

(vii) Direct Expenses

	2010	2009
	€000	€000
Salaries/Allowances	29,954	26,727
PRSI	2,114	1,813
	32,068	**28,540**
Pension Provision	3,937	3,832
Staff Expenses	**36,005**	**32,372**
Training, Recruitment & Other Staff Costs	383	252
Equipment, Stationery & Requisites	329	295
Business Travel	669	496
Publishing & Consumer Advertising	690	570
Professional Fees	4,979	5,034
Miscellaneous	900	229
Non-Pay Operating Expenses	**7,950**	**6,876**
Direct Expenses	**43,955**	**39,248**

The total amount of professional fees incurred on various investigations into the covered financial institutions was €1.4 million. These costs were fully recouped from the relevant financial institutions and are accounted for under Credit Institutions Industry Funding.

Note 41: Financial Regulation Activities (continued)

(viii) Services

Costs in respect of services are included in Note 8.

The Financial Regulation Directorates receive various services including premises, human resources administration, accounting, internal audit, statistical and information technology services from support services directorates in the Bank. The cost of these services in 2010 was €27.8 million (2009: €21.0 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:

	2010	2009
	€000	€000
Corporate Services incl. Premises	11,853	10,089
Information Technology Services	6,586	4,720
Human Resources	3,313	1,930
Other Services	6,013	4,264
Total	**27,765**	**21,003**

Other services include legal, accounting and other administrative services.

(ix) Excess/(Shortfall) of Income as Compared with Expenditure

This represents the excess in the amount of levies collected from industry in 2010 as compared with the 2010 funding requirement. In accordance with established practice, the excess of income as compared with expenditure has been carried forward and the calculation of the amount of industry levies for 2011 has been adjusted to take account of this excess.

Note 42: Approval of Accounts

The Commission approved the Statement of Accounts on 20 May 2011.

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

I have audited the financial statements of the Central Bank of Ireland for the year ended 31 December 2010 under the *Central Bank Act*, 1942, as amended by the *Central Bank Reform Act*, 2010. The financial statements, which have 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. The financial reporting framework that has been applied in their preparation is applicable law and Generally Accepted Accounting Practice in Ireland.

Responsibilities of the Directors of the Bank

The Directors of the Bank are responsible for the preparation of the financial statements, for ensuring that they give a true and fair view of the state of the Bank's affairs and of its income and expenditure, and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Bank's circumstances, and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made in the preparation of the financial statements; and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on the Financial Statements

In my opinion, the financial statements, which have been properly prepared on the basis described in paragraph (b) of the Accounting Policies and Related Information, give a true and fair view of the state of the Bank's affairs at 31 December 2010 and of its income and expenditure for the year then ended.

In my opinion, proper books of account have been kept by the Bank. The financial statements are in agreement with the books of account.

Matters on Which I am Required to Report by Exception

I report by exception if:

- there was any material instance where moneys have not been applied for the purposes intended or where the transactions did not conform to the authorities governing them; or
- I have not received all the information and explanations I required for my audit; or
- the information given in Bank's Annual Report for the year for which the financial statements are prepared is not consistent with the financial statements; or
- the Statement on Internal Financial Control does not reflect the Bank's compliance with the Code of Practice for the Governance of State Bodies; or
- I find there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.

John Buckley
Comptroller and Auditor General

20 May 2011

Independent Auditor's Report to the Commission of the Central Bank of Ireland

We have audited the Statement of Accounts of the Central Bank of Ireland ("the Bank") for the year ended 31 December 2010 which comprise the Profit and Loss and Appropriation Account, the Balance Sheet and the related notes 1 to 42. This Statement of Accounts has been prepared under the accounting policies set out therein.

Respective responsibilities of the Commission members and auditors

The Commission members are responsible for preparing the Annual Report, including as set out in the Statement of Commission Members' Responsibilities, the preparation of the Statement of Accounts in accordance with the Guideline of the ECB on the legal framework for the accounting and financial reporting in the European System of Central Banks and, where applicable to the Bank, accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

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 of Ireland. 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 Commission 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, in accordance with the Guideline of the ECB on the legal framework for the accounting and financial reporting in the European System of Central Banks and, where applicable to the Bank, Generally Accepted Accounting Practice in Ireland. 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.

We read the other information contained in the Financial Operations chapter of the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the Statement of Accounts. Our responsibilities do not extend to other information.

Basis of audit opinion

We conducted our 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company'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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the Statement of Accounts.

Opinion

In our opinion the Statement of Accounts gives a true and fair view, in accordance with the Guideline of the ECB on the legal framework for the accounting and financial reporting in the European System of Central Banks and, where applicable to the Bank, Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the Bank as at 31 December 2010 and of the profit for the year then ended.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper accounting records have been kept by the Bank. The Bank's Balance Sheet and its Profit and Loss and Appropriation Account are in agreement with the accounting records.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

20 May 2011

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Banc Ceannais na hÉireann
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