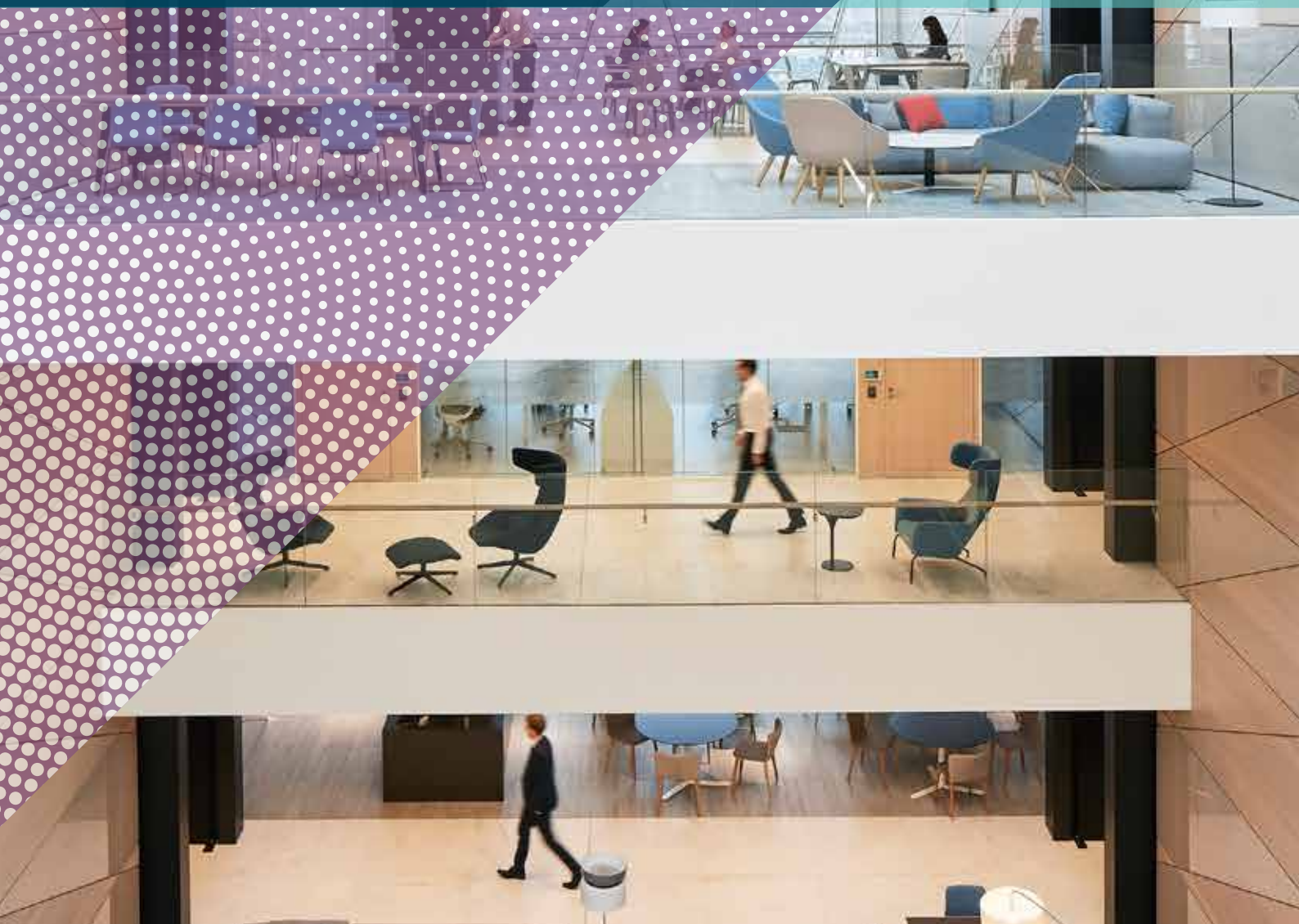
Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Annual Report 2020 and Annual Performance Statement 2020-2021



Contents

Who we are, **what** we do, & **how** we do it.

We are Ireland's central bank, responsible for maintaining monetary and financial stability and ensuring the financial system works in the interests of the community.

We are part of Europe's monetary and banking unions, and of the world's network of financial regulators.

Protecting people is at the heart of everything we do. We provide economic analysis, statistics and commentary to inform decisions about what the country needs. We set standards to protect consumers, and regulate and supervise financial service providers and markets, taking enforcement action when we need to.
We are responsible for Ireland's payment systems and for the provision of its currency.

Our vision is to be a central bank that is trusted by the public, respected by its peers and a fulfilling place to work for its people. We work with people across Ireland and with colleagues across Europe, and elsewhere in the world, on the delivery of our mission.

We are passionate and ambitious for the Bank's performance and for the Bank's people. We act sustainably. We embrace diversity and inclusion as they strengthen us, as individuals and as an organisation. We apply rigorous analysis to the best available data. We believe in engagement and in communicating openly, clearly and regularly.

Our values underpin how we interact with each other and reflect our aspirations, for ourselves and for our community:

Integrity and care, so that we do what is right, our actions match our words and we care about people;

Courage and humility, so that we act with conviction, are prepared to innovate and adapt and are always looking to listen and learn;

Teamwork and excellence, so that we achieve quality outcomes by harnessing our collective strengths, seeking diverse perspectives and driving for disciplined execution.

We believe in the importance of an independent central bank that is transparent, accountable and connected across all public policy domains, in Ireland, in Europe and across the world.

Our constant and predominant aim is **the welfare of the Irish people as a whole**.

We are the **Central Bank of Ireland.**

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Our Values

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Integrity & Care

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Courage & Humility

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Governor's Foreword

This Annual Report and Performance Statement looks at the Central Bank's activities in 2020, an extraordinary year for Ireland and the rest of the world.

The crisis we all faced last year has no precedent in modern history, as Governments chose to "close down" economies in light of the pandemic. It was – and remains – an anxious and uncertain time for people across the country.

Protecting citizens has been the priority throughout this pandemic, and protecting people is at the heart of everything we at the Central Bank do. Our mission is to safeguard monetary and financial stability and ensure that the financial system operates in the best interests of consumers and the wider economy. To repeat a phrase I used in last year's foreword – borrowed from our founding legislation – the Central Bank's "constant and predominant aim shall be the welfare of the people as a whole".

This report sets out the actions of the Central Bank's people in response to the crisis as well as our ongoing work to oversee the financial system. Of course we do not operate alone, working closely with our domestic and international partners, including as part of Europe's monetary and banking unions, to protect consumers, households and businesses.

Last year was the second of the three years covered by our latest Strategic Plan (2019-2021). Although the pandemic meant the context had changed dramatically since the plan was finalised in 2018, we continued to deliver on our five key themes: strengthening resilience, strengthening consumer protection, enhancing organisational capability, engaging and influencing and Brexit.

Inevitably, resilience was a particularly important theme last year with our energy and focus on ensuring the financial system absorbed and did not amplify the COVID-19 induced shock, and was also ready to support the recovery. We worked to understand the macro-financial impacts of the crisis, along with the financial and operational resilience and recovery capacity of regulated firms, funds and markets. We developed a new suite of indicators to help us understand what was going on in the economy. We did this while also managing risks to the financial system during the transition period following the UK's departure from the EU at the end of January 2020.

The Central Bank has a broad mandate and our responsibilities are heavily intertwined. Most of the areas we are responsible for – such as Ireland's payment systems, providing economic analysis and statistics or the regulation of banks – interact with each other. But the consistent theme through all of them is "the welfare of the people as a whole". Whether it's our research or our statutory codes of conduct, redress powers and enforcement actions or whether it's ensuring price stability, resilient financial institutions and fit-for-purpose macroprudential rules, all are ultimately about protecting people. To do them well, we need to engage with the community as a whole.

Good engagement with people and businesses across the country has been a priority of mine since I became Governor. Last year we continued to enhance our engagement with key stakeholders, participating in (mostly virtual) events across the country, listening to a range of views and learning from their different perspectives; like meetings with chambers of commerce throughout the country and discussions with civil society bodies. We launched a consultation earlier this year which aims to build on those experiences through more structured engagement.

Like so many organisations, the move to remote working in March 2020 tested our capabilities, culture and resources. I am extremely proud of how our people responded. As an unexpected natural experiment, last year demonstrated the upsides and downsides of regular remote working on a very large scale for an extended period of time. The advantages (of greater flexibility for individuals and the lack

of a commute) have been obvious; the impact on collaboration, on the sharing of knowledge and on the development of an organisation's social and intellectual capital – all important determinants of its long-term effectiveness – is less clear. Perhaps what is clearer is that the future at work will be different to the past. In that future, our newly confirmed values – integrity and care, courage and humility, teamwork and excellence – will continue to underpin how we work, reflecting our aspirations for ourselves and for our community.

2021 will be equally challenging and busy. We will continue to work with our colleagues in Europe and beyond to develop and operationalise a more comprehensive macro-prudential framework, including for market-based finance. At the ECB, we will conclude our review to make sure our monetary policy strategy is fit for purpose and also decide on the next steps in the development of a digital euro. Of course, we will play our part in tackling the challenge of climate change, leading by example in our own actions, as well as delivering on our mandate to ensure that the financial system is resilient to climate-related risks, and ready to support the transition to a more sustainable world.

Developing our new strategic plan will be a particularly important milestone this year. The challenges ahead – for economies in general and financial systems in particular – are complex. We need to ensure that we learn the lessons of the past as we work to develop the optimal policy and regulatory mix for macroeconomic stabilisation in what will be a different future.

Finally, last year saw changes in the membership of the Central Bank Commission. We said farewell to John FitzGerald and Alan Ahearne and welcomed Shay Cody, Sarah Keane and David Miles. I am looking forward to working with them and colleagues throughout the Central Bank to make our vision – trusted by the public, respected by our peers and a fulfilling place to work for our people – a reality.

At the Central Bank, we can only deliver our mission through our people. I want to take this opportunity to thank them for their dedication and commitment to serving the public during an extraordinary year.

Gabriel Makhlouf
Governor
30 April 2021

2020 in Review

Financial Stability
Mortgage measures unchanged

Countercyclical capital buffer (CCyB) reduced from

1% to 0%

Explaining our work
840,000
views of our COVID-19 video series

331
Parliamentary Questions received

11,600
queries from members of the public through our consumer helpline

People
At end-2020 our active full-time equivalent was

2,021.3

Monetary Policy
Key ECB interest rates remained low in 2020

The ECB introduced the Pandemic Emergency Purchase Programme, a total of

€1,850bn
until at least March 2022

247
liquidity-providing operations

Economic Analysis
We conducted

6 macroeconomic forecasting exercises and published

15 Economic Letters

10 Financial Stability Notes

13 Research Technical Papers

Central Credit Register
1.7m credit reports requested by lenders

15.7k credit reports provided to borrowers

Payments
741,427
transactions processed by TARGET2-Ireland

Supervision
3,569
total regulated firms, excluding funds

Energy Use & the Environment
62%
reduction in energy since 2009 (ahead of 33% target)

54%
reduced carbon emissions since 2015 (ahead of 50% target)

Enforcement
€24.6m
enforcement fines

86
warning notices published

1
inquiry concluded

202
protected disclosures

Financial Innovation
90
engagements via the Innovation Hub

Regulatory Transactions
37,834
regulatory returns

3,553
Pre-Approval Controlled Function applications assessed

Community
Virtual volunteering with key partners including:

- Junior Achievement Ireland
- Early Learning Initiative
- Temple Bar Gallery + Studios

180
food parcels issued daily to inner city homeless from December

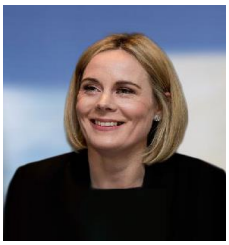
The Central Bank Commission

Gabriel Makhlouf*
Governor of the
Central Bank (Chair)

Patricia Byron
Reappointed
Jan 2019 for 5 years

Shay Cody
Appointed
Dec 2020 for 5 years

Sharon Donnery*
Deputy Governor
Central Banking



Sarah Keane
Appointed
Dec 2020 for 5 years

David Miles
Appointed
Dec 2020 for 5 years

Niamh Moloney
Appointed
Sept 2018 for 5 years

Derek Moran*
Secretary General
Dept. of Finance

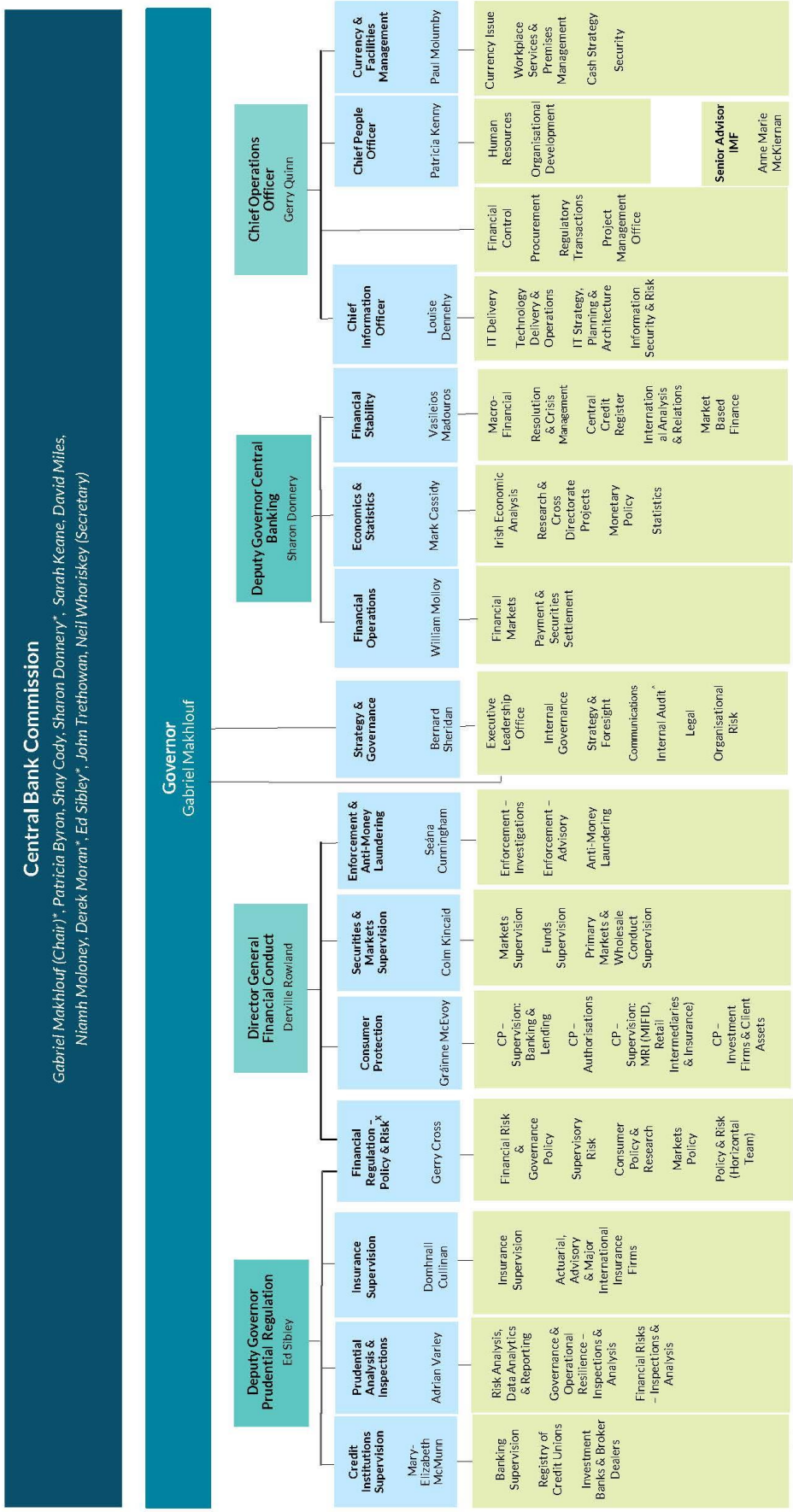
Ed Sibley*
Deputy Governor
Prudential Regulation

John Trethowan
Appointed
Sept 2018 for 5 years

Neil Whoriskey
Secretary
of the Central Bank

** Ex-officio member*
All other members of the Commission are appointed by the Minister for Finance

Organisation Chart



* Ex-officio.
^ Internal Audit Division reports directly to the Governor and only reports to the Director of Strategy & Governance for matters of an administrative or budgetary nature.
^X The Policy & Risk Directorate supports the work of both pillars but is part of the Financial Conduct pillar for administrative purposes.

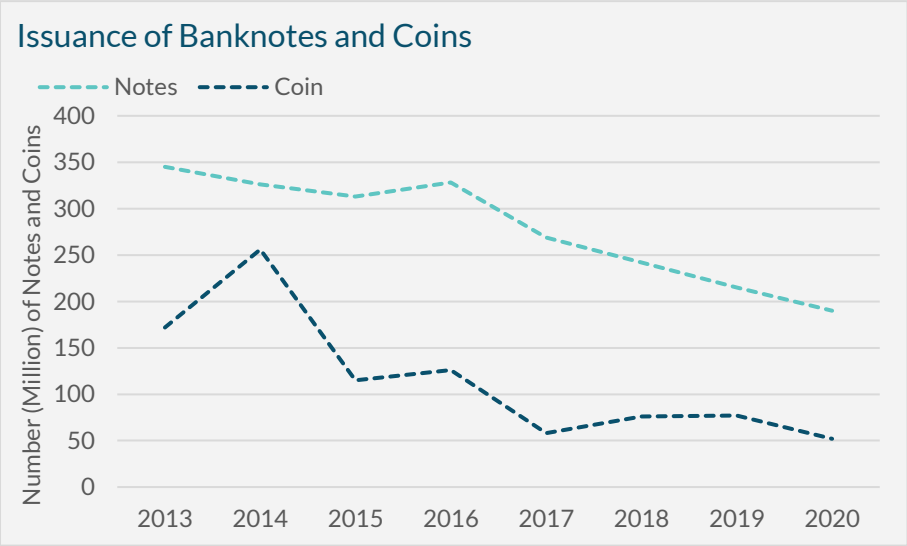
Part 1:

Annual Report 2020

Contents

Part 1: Annual Report 2020

2020: The Central Bank at a Glance



190

MILLION NOTES &

52

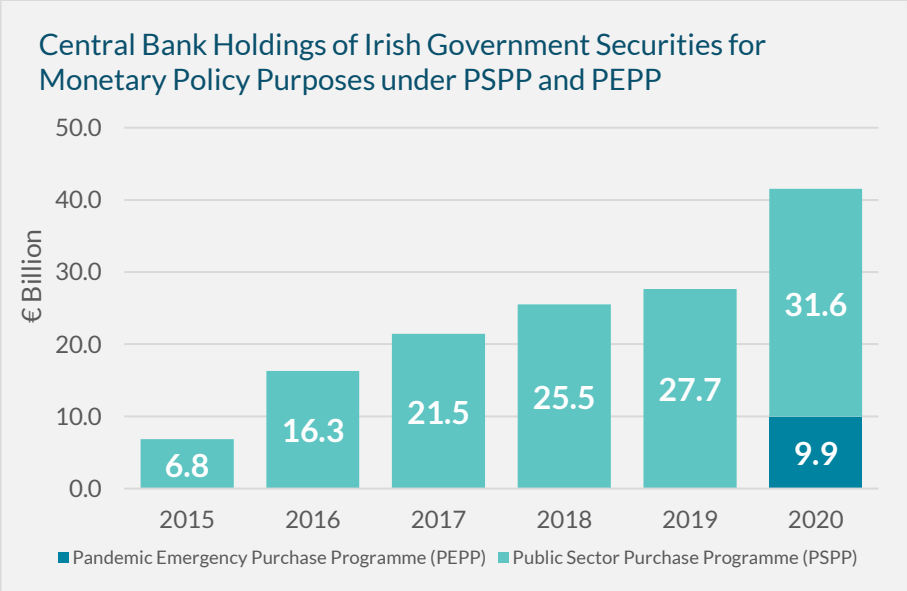
MILLION COINS ISSUED IN 2020

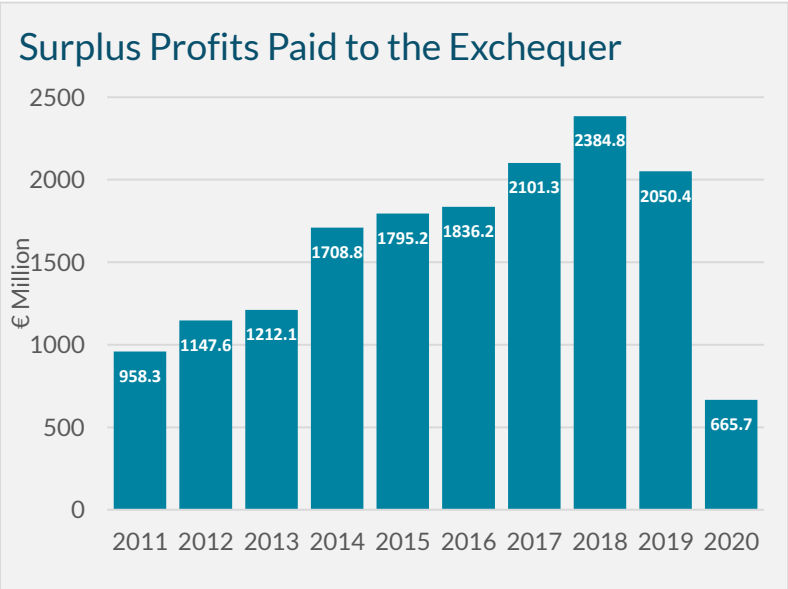
665.7

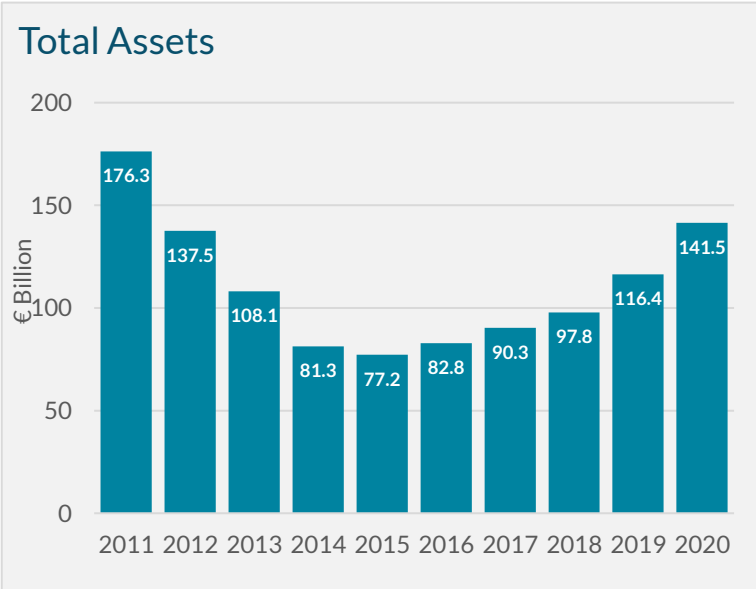
MILLION SURPLUS INCOME PAID TO THE EXCHEQUER IN 2020

141.5

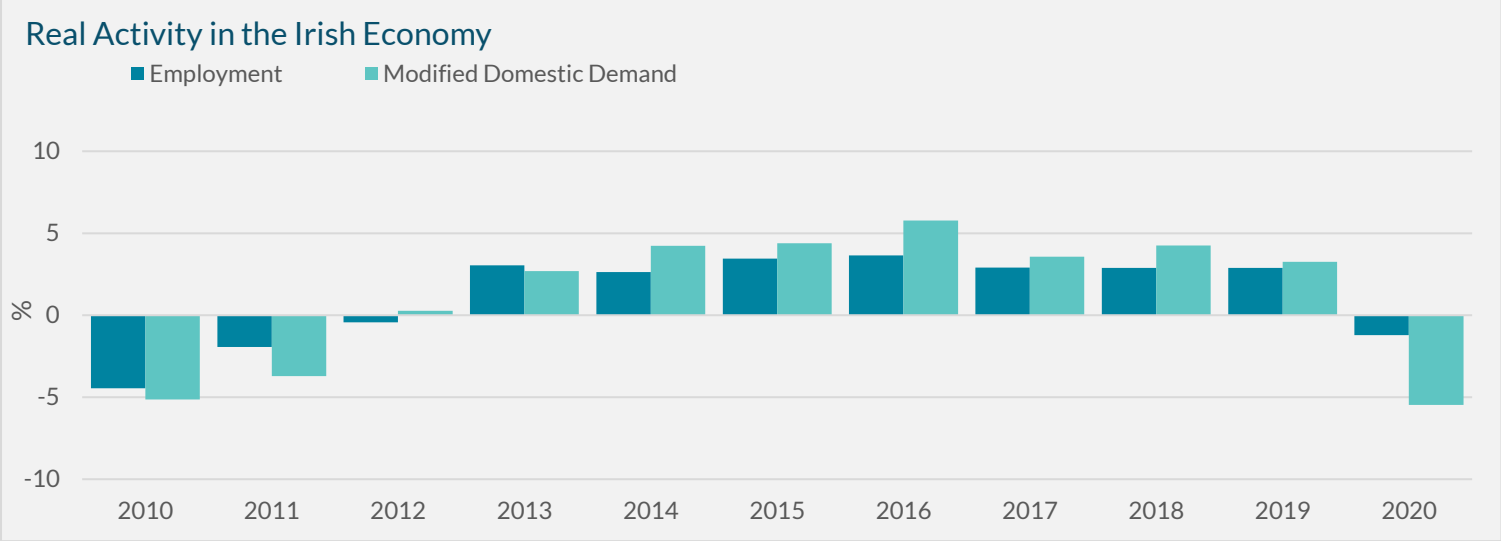
BILLION TOTAL ASSETS IN 2020



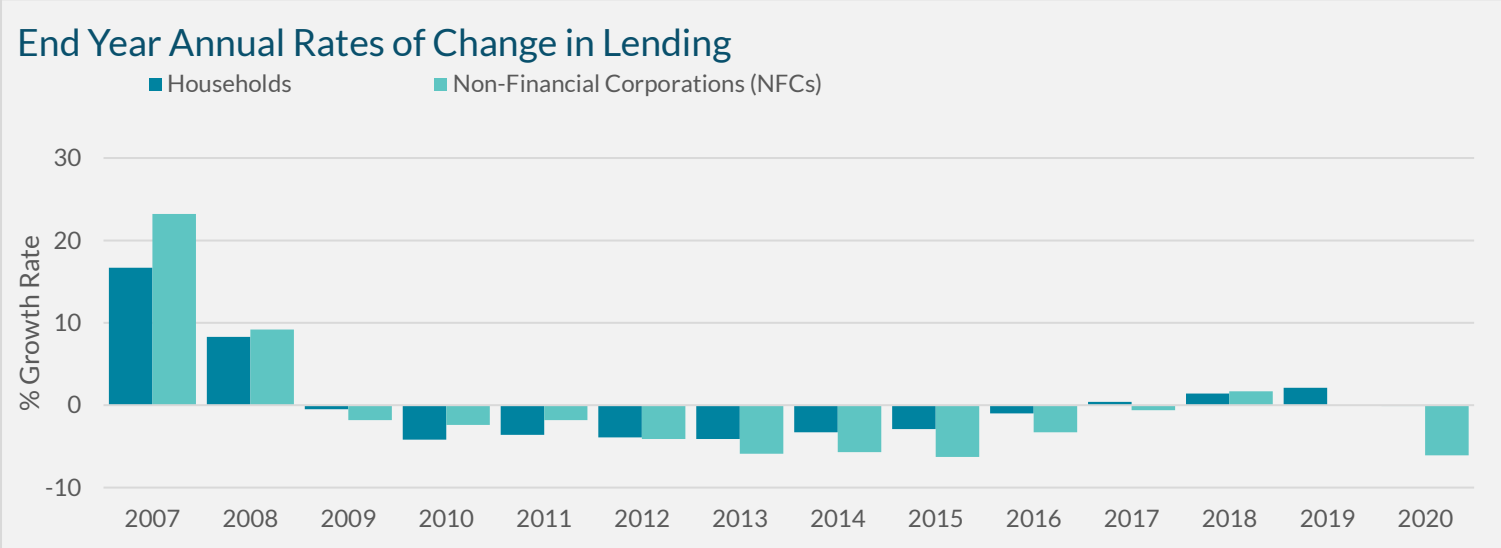




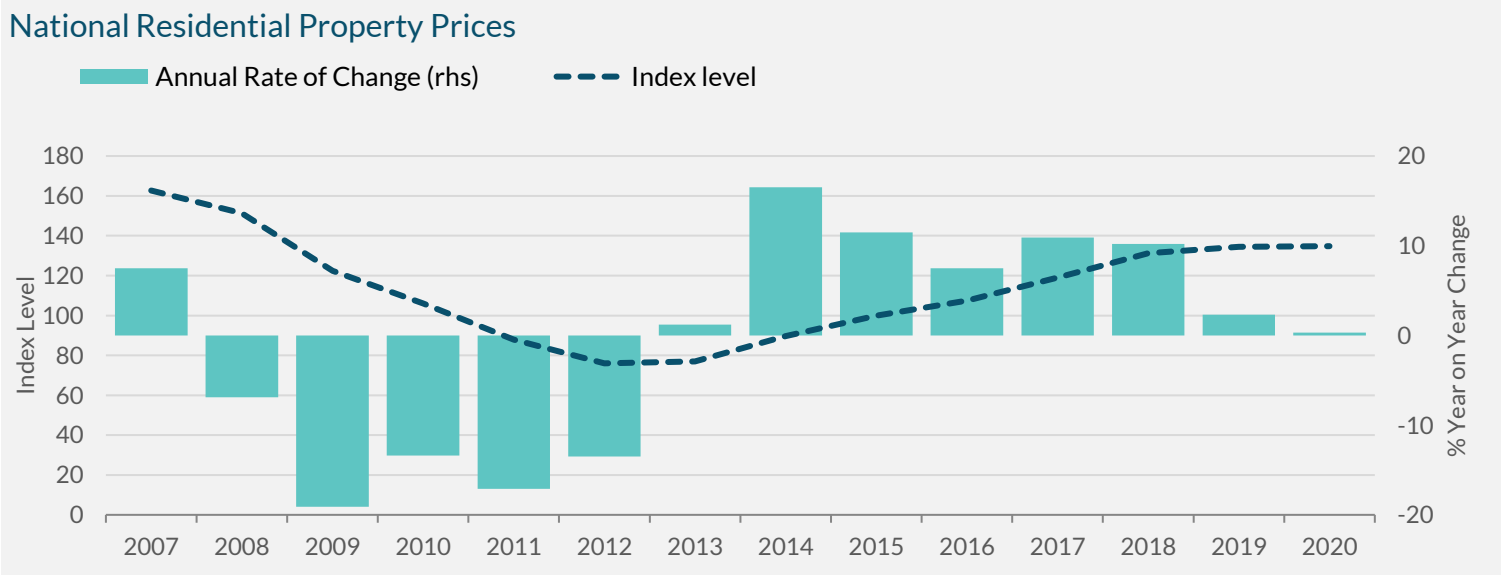
2020: The Irish Economy at a Glance



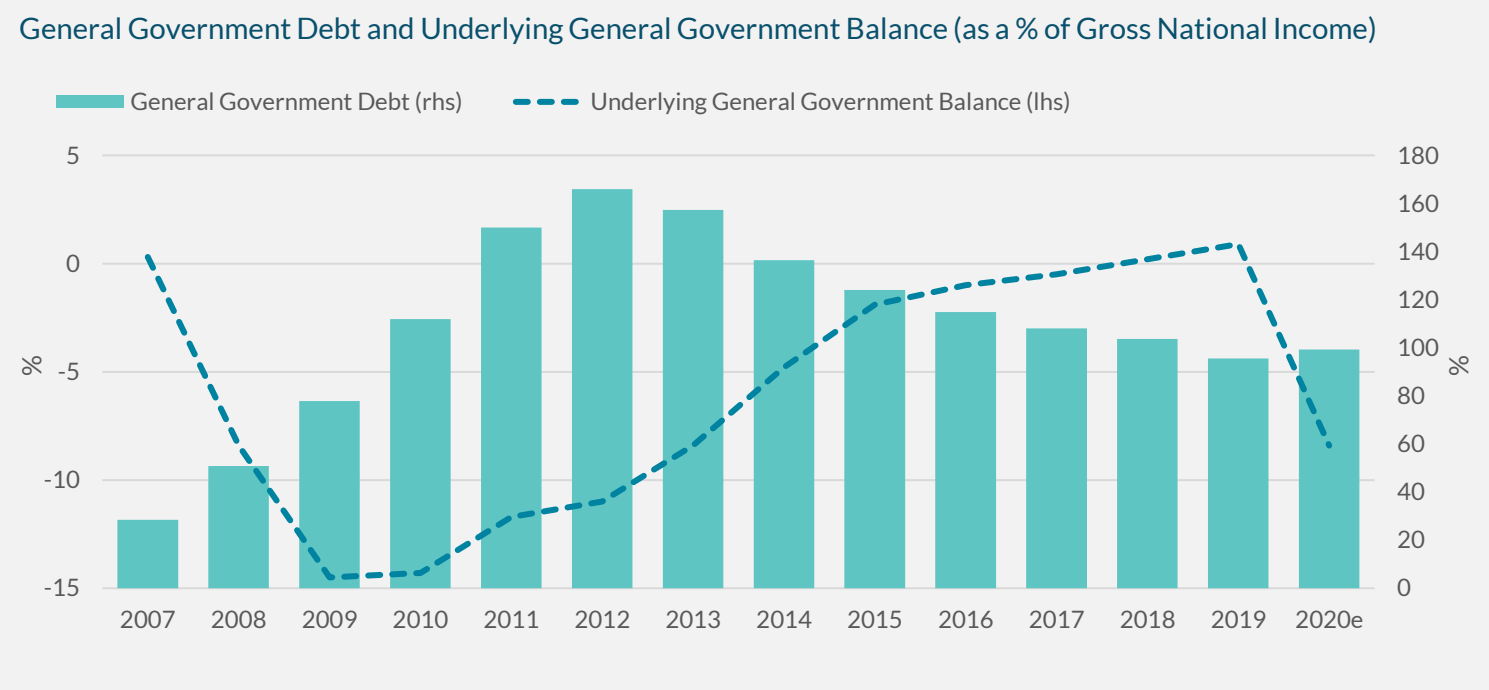
Source: CSO



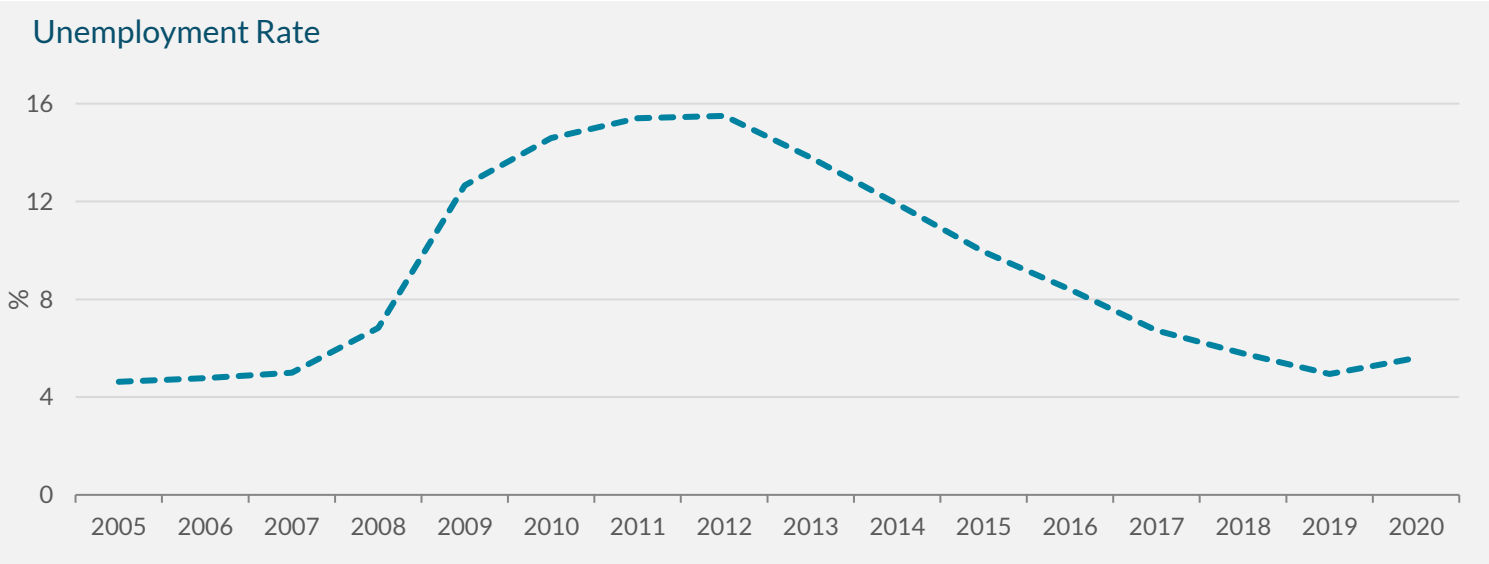
Source: Central Bank of Ireland
Note: Growth rates are based on underlying transactions, i.e., after adjusting for write-downs, securitisations, and transfers to NAMA, etc.



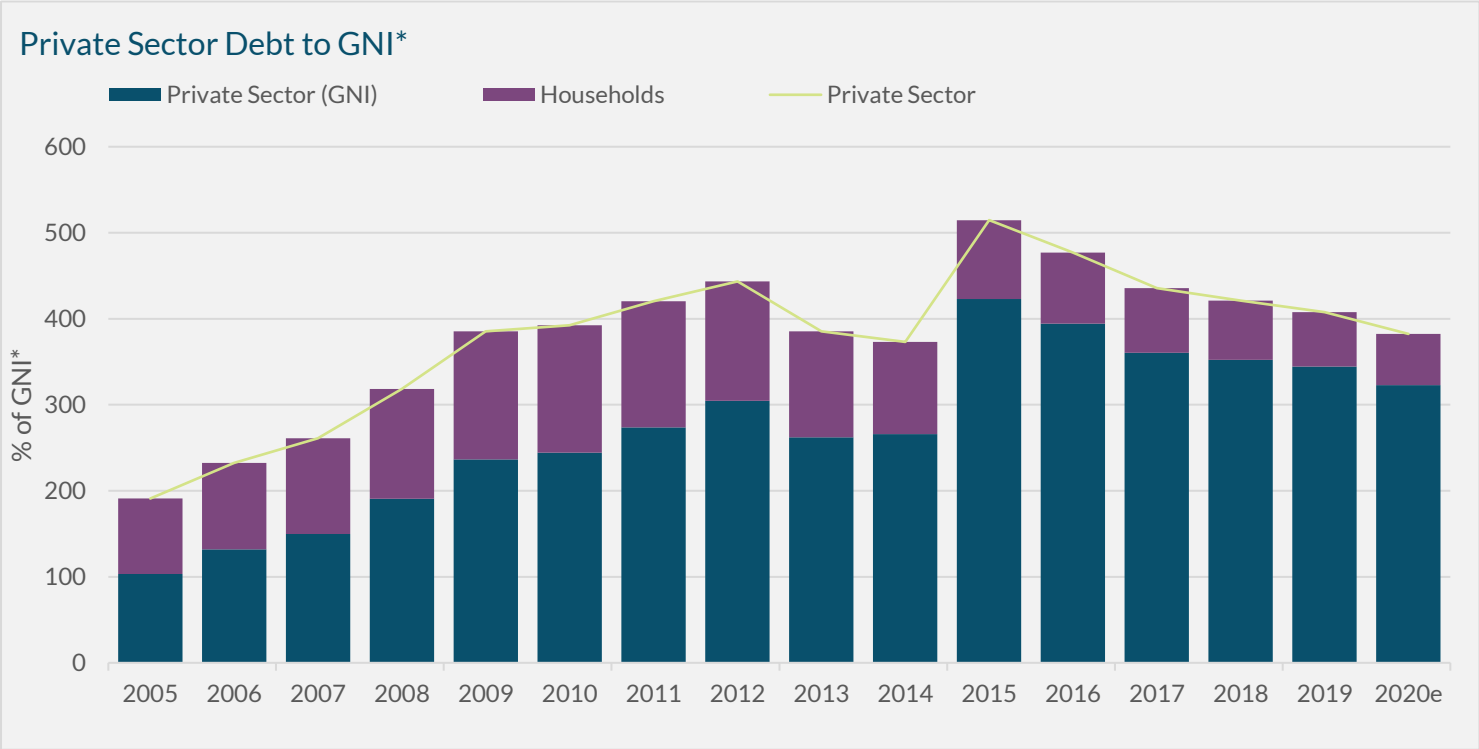
Source: CSO



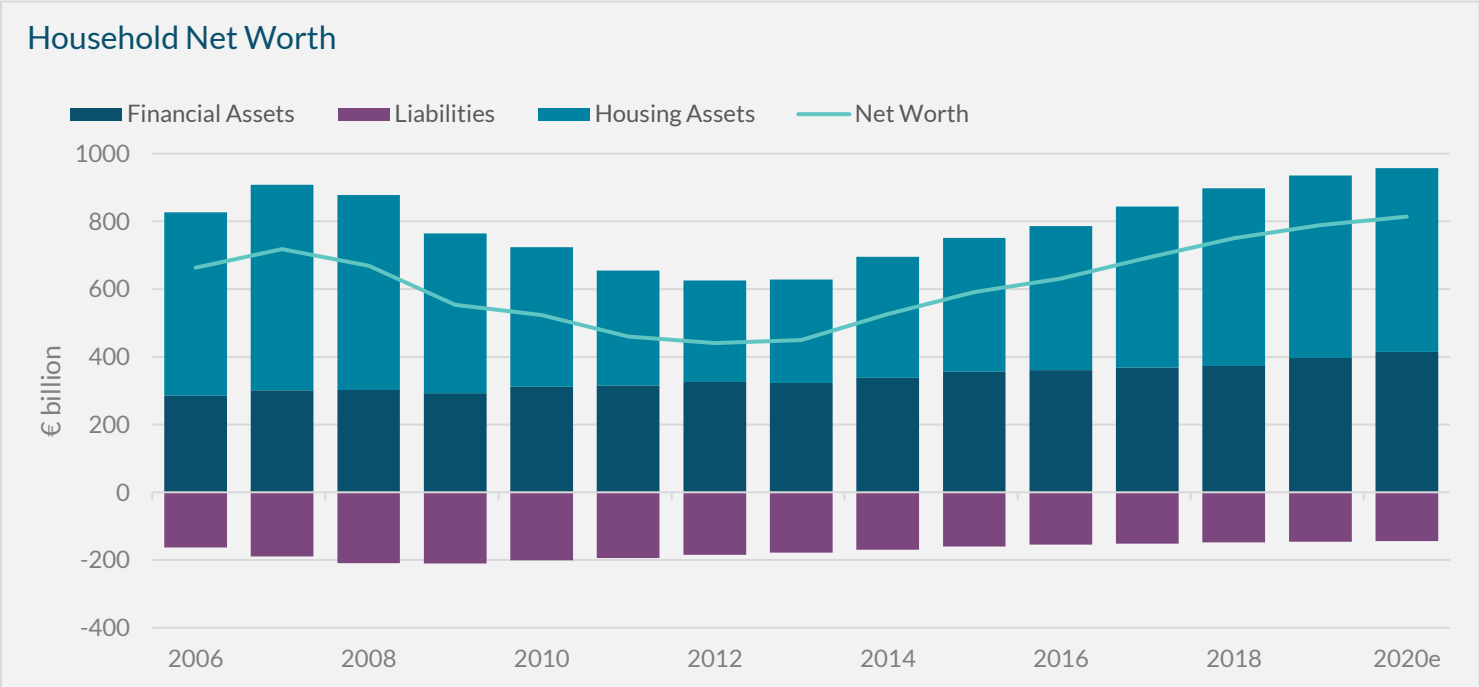
Source: Department of Finance, CSO, Central Bank of Ireland
e denotes estimate



Source: CSO



Source: Central Bank of Ireland
Note: Data for 2020 are the average of the first 3 quarters of 2020
Note: Gross Domestic Product (GDP) is commonly used as a proxy for the ability of households and businesses to repay debt; however, due to distortions arising from Multi-National Enterprises (MNEs), Irish GDP may not accurately reflect this. While Gross National Income (GNI*) adjusts for distortions arising from MNEs in terms of income (denominator), the presence of MNEs also significantly distorts private sector debt (numerator) in Ireland, which is not adjusted for above.



Source: Central Bank of Ireland
Note: Data for 2020 are the average of the first 3 quarters of 2020

Chapter 1:
Review of 2020

Chapter 1: Review of 2020

Strengthening Resilience

The Central Bank aims to ensure that the financial system is better able to withstand external shocks and future crises. Resilience is what helps communities to manage the disruption caused by change, and to manage the economic transitions we are living in. In 2020, resilience is what protected households, businesses and communities against the worst of the damage from the COVID-19 crisis. In response to the pandemic, the Central Bank quickly moved to refocus its collective work on resilience. We established a COVID-19 Task Force, which prioritised work streams on financial and operational risks to firms and sectors, the protection of consumers and the wider stability of the financial system and coordinated the Central Bank's overall policy response to the pandemic, seeking to ensure that the financial system continued to serve households and businesses (see Box 1).

Desired Outcome:

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

Financial Stability

The Central Bank's policy actions, including macro-prudential policy actions, seek to ensure that the financial system is resilient, i.e., it can provide services to Irish households and businesses, both in good times and in bad. In 2020, the banking system was able to absorb rather than amplify the effects of the COVID-19 shock. This was possible due to the resilience built-up in the system since the global financial crisis, combined with supportive policy actions taken in 2020 (see Box 2).

Financial Stability Research and Publications

The Central Bank published two Financial Stability Reviews (FSRs) in 2020.[1] The FSR evaluates the main risks facing the financial system and assesses the resilience of the financial system to those risks. The Central Bank is committed to transparency over its judgements around financial stability. It is a key vehicle used by the Central Bank to explain policy actions taken, within its mandate, to safeguard financial stability.

The second FSR of 2020, published in December, included a forward-looking assessment of the resilience of the Irish banking sector under different macro-economic scenarios. The assessment concluded that the loss-absorbing capacity of the banking system as a whole was sufficient to absorb shocks that were materially worse than baseline macro-financial projections at the time of reporting. However, that loss-absorbing capacity was not without limits, and lenders should prepare for a wide variety of potential outcomes, given the heightened uncertainty over the macro-financial outlook in the context of the pandemic.

A special edition of the Central Bank's Small and Medium Enterprises (SMEs) Market Report 2020 was published in July. The report provided context, timely information and a review of the challenges faced by Irish SMEs by the emergence of COVID-19. With a similar focus on COVID-19, the Central Bank published a Household Credit Market 2020 report in October.

The Central Bank's communication on, and transparency around, financial stability topics continued in 2020 through the publication of the Financial Stability Notes series. The impact of COVID-19 on the resilience of households, firms, banks and markets dominated the topics covered in these Notes.

Market-Based Finance

The December 2020 FSR, provides an overview of the potential domestic risks stemming from the market-based finance sector.

Relative to the size of the economy, Ireland has one of the largest market-based finance sectors in the world. These entities are usually internationally-focused, but important domestic linkages exist. In this context, the Central Bank recognises the need to analyse and understand the activities in this sector to contribute to global financial stability. These include contributing to EU and global initiatives aimed at strengthening the resilience of market-based finance, through the European Systemic Risk Board (ESRB), European Securities and

[1] Financial Stability Review 2020 I and Financial Stability Review 2020 II

Markets Authority (ESMA) and Financial Stability Board (FSB). A significant amount of work has been undertaken by the Central Bank and internationally on the "lessons learned" from the COVID-19 shock and the resilience of the market-based finance sector (in particular money market funds and other open-ended funds with short redemption periods and exposures to less liquid assets) (see Box 7).

As a member of the FSB's Non-bank Monitoring Expert Group (NMEG), the Central Bank contributed to the FSB's annual global monitoring report on non-bank financial intermediation (NBFI), which was published in January 2021.[2] The report assesses the global trends and risks related to non-bank financial intermediation. The value of Ireland's other financial institutions' assets (mainly non-banks excluding insurance corporations and pension funds) is 22 times Gross National Income which puts Ireland third in the ranking of the 29 jurisdictions monitored.

Box 1: The Central Bank's Response to COVID-19

The onset of the COVID-19 pandemic in early 2020 – and the necessary measures to protect public health – led to an unprecedented disruption to economic activity, both globally and in Ireland.

In 2020, the Central Bank shifted its priorities towards dealing with the immediate and longer-term impacts of the COVID-19 shock on the economy, financial system and consumers. Our focus has been on ensuring that the financial system is better able to absorb, rather than amplify, the effects of the COVID-19 shock and that it continues to operate in the best interests of consumers during this period of disruption.

In March 2020, the Central Bank invoked its crisis management arrangements and established a COVID-19 Crisis Response Task Force (COVID-19 Task Force). The Task Force oversees the Central Bank's response to COVID-19, across all areas of its mandate. Over the last year, the Task Force has focused on the following areas.

- **Macro-financial impact of COVID-19:** Enhancing our understanding of the impact and evolution of the shock on the economy as the path of

[2] The FSB's narrow measure of NBFI comprises a subset of entities of the sector that authorities have assessed as being involved in credit intermediation activities that may pose bank-like financial stability risks (i.e. credit intermediation that involves maturity/liquidity transformation, leverage or imperfect credit risk transfer) and/or regulatory arbitrage, according to the methodology and classification guidance used in the FSB's annual monitoring exercise. For further details see https://www.fsb.org/wp-content/uploads/P161220.pdf

the pandemic unfolds, including the impact of health restrictions and government supports. Our work has also focused on real-time monitoring of developments in domestic credit markets to understand better the evolution of credit supply and credit demand. This work has informed the Central Bank's macro-prudential policy responses to the COVID-19 shock (see Box 2).

- **Financial resilience and recovery capacity of regulated firms**: Closely monitoring the financial position of regulated firms and enhancing the Central Bank's readiness to act if required. Given the uncertainty over the macro-financial outlook, our work covered a range of shorter-term impacts on the financial position of regulated firms, as well as a forward-looking assessment of the financial position of the banking and insurance sectors under different potential macro-financial scenarios. We have engaged closely with firms on their own assessment of the impact of the pandemic and on further enhancing their own preparedness to respond to potential shocks.
- **Operational resilience of the financial system**: Engaging with firms on COVID-19 contingency arrangements to ensure operational continuity of financial services, from the initial lockdown in March and subsequent openings and restrictions. Working with key firms to ensure they have a greater understanding of the end-to-end processes and inputs for their important business services and can identify key risks (e.g. additional cyber risks related to remote working) and points of failure and focus resources to address these.
- **Monitoring of markets and the impact of the shock on the funds sector:** Assessing the impact of the COVID-19 related market disruption on markets and funds in Ireland and engaging with funds to enhance their own preparedness to future shocks, including around liquidity management. Deepening our understanding of the impact of the behaviour of the funds sector during the height of the COVID-19 shock on market functioning and, building on that, contributing to European and wider international initiatives on COVID-19 policy developments in funds (see Box 7).
- **Distressed Debt (including payment breaks):** Ensuring firms put suitable supports in place to help borrowers affected by income shocks caused by the pandemic and that lenders continue to seek to resolve loans that were already in longer-term arrears on a sustainable basis. Clarifying our expectations on how borrowers should be treated and how lenders should engage constructively with borrowers to ensure appropriate and tailored solutions to the borrowers' circumstances are put in place. Engaging with a range of consumer, business and industry

stakeholders and listening closely to borrower representatives as our work continues to evolve.

- **Business Interruption Insurance:** Working to ensure firms that provide business interruption insurance treat customers fairly, including the publication of a supervisory framework outlining our expectation of insurers and our escalation strategy. Engaging with firms that provide business interruption insurance on their plans to compensate customers in line with the policy arrangements and taking account of court decisions.
- **Regulatory and operational flexibility to firms in the context of COVID-19:** Establishing a consistent, cross-sectoral framework for regulatory and operational flexibility for firms, including around prudential and reporting requirements, to allow regulated firms to prioritise supporting their customers during the pandemic. This included engaging with other European authorities on regulatory flexibility arrangements, where appropriate.

Communicating and engaging on COVID-19

In 2020, the Central Bank placed significant emphasis on communicating and engaging with firms, consumers and the public on COVID-19 related matters; including the introduction of payment breaks, mortgage support, business interruption insurance, and regulatory flexibility. Digital communications became a critical enabler for increasing awareness of the financial/economic implications of COVID-19 and the supports that the Central Bank and ECB put in place. A new COVID-19 information hub was developed and Governor Makhlouf started a blog to share his own thoughts on the pandemic, while timely research and economic forecasts helped to inform the public and businesses on the impact of COVID-19 (see Box 6).

At a national level, the Central Bank worked with the Department of Finance and National Treasury Management Agency (NTMA) on the response to COVID-19, under the auspices of the Financial Stability Group (FSG). The FSG's crisis management arrangements were invoked in March 2020 to co-ordinate the interagency work on the impact of COVID-19 on the economy, markets and financial system.

The Central Bank participated in the European response by contributing to initiatives to mitigate the risks to financial stability, the economy and consumers posed by the COVID-19 pandemic. The Central Bank also continued to work with other international institutions (including International Organisation of Securities Commission (IOSCO) and the FSB) on the global understanding of and response to the pandemic.

Financial Stability Decision Making

In addition to the work undertaken by the COVID-19 Task Force, two committees – the Financial Stability Committee, and the Macro-prudential Measures Committee - underpin financial stability decision making in the Central Bank.

The Central Bank also actively participated in relevant European financial stability-related committees during 2020. These included, the European System of Central Bank's (ESCB's) Financial Stability Committee (ESCB-FSC), the ESRB and its substructures on macro-prudential analysis, policy and stress testing.

Box 2: Macro-Prudential Framework

In 2020, following a number of years where macro-prudential policy was oriented towards building resilience, the focus shifted towards enabling the banking sector to absorb the COVID-19 induced shock in order for it to continue to serve households and businesses.

The countercyclical capital buffer (CCyB) was reduced from 1% to 0% in April 2020. The release aimed to support banks in maintaining a sustainable supply of credit to the economy. In November, the Central Bank outlined that, given the macro-financial outlook, it did not expect to announce an increase in the CCyB through 2021.

The Central Bank emphasised that the Other-Systemically Important Institutions buffer was fully usable to absorb losses. This buffer is an institution specific capital requirement aimed at reducing the probability of failure of those institutions. The annual review saw no change to the six identified Other-Systemically Important Institutions. Individual buffer rates of 0.5-1.5% are being phased in up to 2022.

The Central Bank also outlined that it would not introduce a systemic risk buffer at this time. The systemic risk buffer became part of the Central Bank's macro-prudential toolkit with the transposition of Capital Requirements Directive V into Irish law.

The 2020 review of the mortgage measures found that they have been effective in strengthening bank and borrower resilience and the benefits of that resilience are most evident in times of stress. The Central Bank decided that the loan-to-value and loan-to-income limits, and the related allowances, would remain unchanged in 2021.

Effective Supervision of Firms and Markets

The impact of COVID-19 led to a significant reorientation of our collective work on resilience. Focus shifted from a period of gradually building resilience during a period of strong macroeconomic performance, to a period where the accumulated resilience is expected to be gradually eroded as the financial system absorbs the impact of the COVID-19 shock. Work on monitoring threats to financial stability has been entirely refocused (largely coordinated via the work of the COVID-19 Task Force) to: better understand the immediate and persistent impact on the economy; translate that into an assessment on the forward-looking financial position of different parts of the financial system; and consider what steps need to be taken now to better enable the financial system to support the economy.

Supervisors collaborated to achieve shared outcomes in areas including financial and operational resilience, distressed debt, recovery and resolution, and forbearance. Notwithstanding the postponement of certain activities such as on-site inspections, in terms of outcomes, the pandemic has accelerated aspects of our work and understanding on the overall financial and operational resilience of the banking and insurance sectors.

The risks identified through the work of the COVID-19 Task Force resulted in the formation of a Distressed Debt Working Group to coordinate work on new non-performing loans and also legacy distressed debt.

Resolution and Crisis Preparedness

Single Resolution Mechanism

The Single Resolution Mechanism (SRM) established a centralised decision-making body for the Banking Union area, the Single Resolution Board (SRB), and a resolution financing arrangement, the Single Resolution Fund (SRF), to manage the resolution of failing banks or banking groups under its remit. The SRB works together with national resolution authorities to this end.

In response to the COVID-19 crisis, the SRB enhanced its own crisis readiness and worked closely with national resolution authorities and supervisory authorities to monitor the impact on the EU banking sector. The SRB and Central Bank engaged with banks to alleviate the immediate operational burdens, and provided some flexibility on banks' minimum requirements for own funds and eligible liabilities (MREL), without there being a material impact on resolution plan development.

The Central Bank continues to play a critical role in the ongoing development of both the domestic and EU crisis management framework, including via its participation on SRB and European Banking Authority (EBA) committees and working groups, and in the provision of technical support and advice to the Department of Finance. In 2020, the EU Risk Reduction Measures Banking Reform Package was transposed into national legislation, and there was renewed emphasis on revising the EU Crisis Management and Deposit Insurance framework, which is a key step towards completing the Banking Union.

Resolution Planning & Enhanced Resolvability

A key aspect of resolution planning is to ensure that Irish banks are resolvable, which is a dynamic and multi-layered process. The resolvability of Irish banks continued to make headway on a number of fronts in 2020. Irish banks continue to build-up suitable loss-absorbing capacity to ensure compliance with MREL and to facilitate the use of the bail-in resolution tool, should it be required (See Box 3). Banks have also made good progress in ensuring operational continuity in resolution, in particular in terms of critical services underlying the provision of critical functions and financial market infrastructure contingency access.

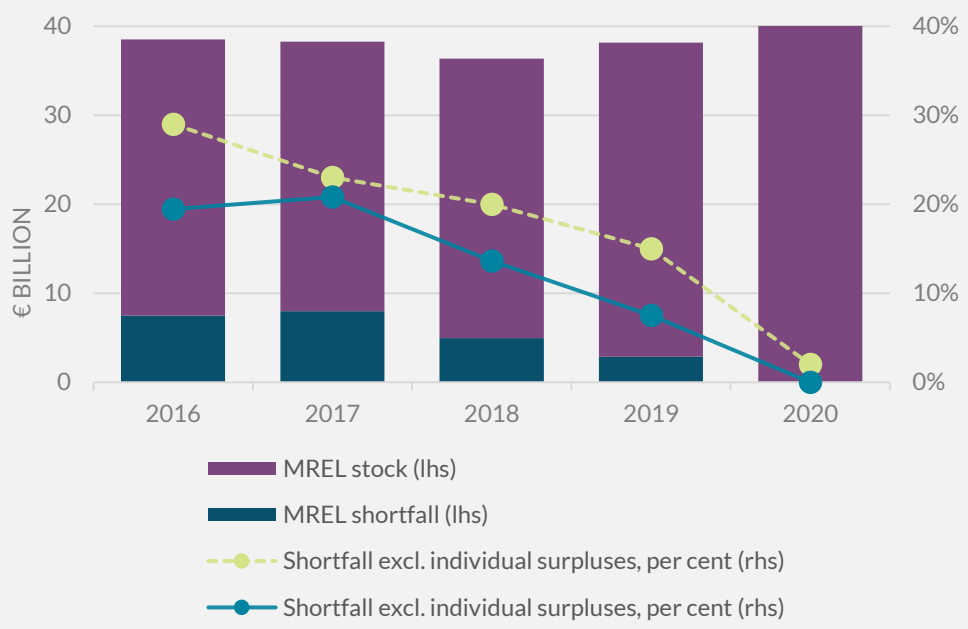
Box 3: MREL Compliance

The ability for banks to absorb losses and recapitalise is a key component for achieving an orderly resolution and minimising the impact on financial stability.

MREL was introduced into the EU resolution framework with the aim of ensuring institutions have sufficient capital and liabilities that can be bailed-in, if necessary. The SRB is tasked with setting the MREL targets for Significant Institutions while the Central Bank determines MREL for Less-Significant Institutions and in-scope investment firms.

While Irish banks have continued to make headway in building up loss-absorbing capacity and complying with MREL targets in 2020, this progress will need to be maintained as banks' balance sheets change over the next few years.

Chart 1: Irish Retail Banks' Progress Toward MREL Targets



MREL stocks and shortfalls from MREL targets in the Irish retail banking sector. The full line represents the aggregate cumulative shortfalls/surpluses of all institutions in the sample, while the broken line represents the aggregate shortfall without the effect of surplus MREL. A cumulative shortfall of zero may not reflect the position of each individual bank in the sample.

Source: Central Bank of Ireland

Resolution Actions

The Central Bank completed two resolution actions against regulated entities in 2020. On 12 March 2020, the Central Bank petitioned the High Court for the appointment of a liquidator to CBL Insurance Europe Dac (CBLIE). CBLIE was authorised by the Central Bank to conduct non-life insurance business and was, since February 2018, in administration. The requirement for this action came following attempts by the administrator to return the company to a sound footing, which proved unsuccessful.

On 2 July 2020, the Central Bank made an application to the High Court for the appointment of provisional liquidators to Drumcondra & District Credit Union (DDCU). The appointment was confirmed on 17 July 2020. DDCU was in a distressed financial position and had been unable to raise and maintain its reserve position to the regulatory reserve requirement of at least 10%. The Deposit Guarantee Scheme (DGS) was invoked following this appointment and to date 99% of eligible depositors have received their compensation payments.

Brexit

Research and Evidence-based Analysis of Risks

The risks posed to the economy as a result of the UK's departure from the EU on 31 January 2020 and the subsequent end of the transition period on 31 December 2020 was an important area of focus.

Desired Outcome:

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

Building on the extensive work undertaken in recent years in preparation for the UK's departure from the EU, in 2020 the Central Bank continued its focus to ensure that the risks posed to the economy, financial system, regulatory environment and consumer protection arising after the end of the transition period were understood and mitigated to the greatest extent possible.

During the year, the Central Bank published a body of research analysing Brexit risks at various stages of the EU-UK negotiation process that assessed the most likely Brexit scenarios. Major developments in the negotiation process were central to the modelling approach and framework with various Quarterly Bulletin editions containing baseline and severe forecast scenarios contingent on Brexit outcomes.

The main body of work examined the possible short-run and long-run impacts on the Irish economy of an EU-UK Free Trade Agreement (FTA) with updates to consider the impact on trade in World Trade Organisation (WTO) terms given the non-extension to the transition period. Given the considerable uncertainty on aggregate estimates of the impact on the economy of either a WTO or FTA basis, analysis was undertaken on the risks posed by non-tariff restrictions to both Irish importers and exporters. Additional work assessed the economic challenges of the COVID-19 crisis interacting with Brexit effects.

Enhancing Regulatory Framework

The Central Bank engaged with the European Supervisory Authorities (ESAs) and other EU stakeholders on sectoral Brexit-related matters to ensure that any risks posed by Brexit to the regulatory framework and to the Irish financial services sector were appropriately resolved.[3]

The Central Bank also continued to engage with the relevant UK supervisory authorities on a range of topics with a view to ensuring

[3] For example, the Central Bank engaged extensively with ESMA to ensure that risks posed to the Irish securities market by Brexit were mitigated to the extent possible, including the publication of a statement by ESMA clarifying the application of the Markets in Financial Instruments Regulation share trading obligation, and the temporary third-country recognition granted by ESMA to the UK central securities depository.

effective supervisory cooperation after the end of the transition period. Internally, the Central Bank prepared for the execution of Memoranda of Understanding (MoUs) that were agreed between the ESAs and the EU and UK supervisory authorities. These sector-specific MoUs focus on information sharing and supervisory cooperation in prudential and conduct supervision between the EU and UK authorities.

Domestically, the Central Bank engaged with the Department of Finance to further develop the domestic temporary run-off regime for insurers and brokers, mitigating the risk of a disruption to the continuity of insurance contracts from the UK to Ireland, published as part of the Government 2020 Brexit Omnibus Act.

Preparedness of Firms

The coordinated work of the Central Bank over the course of 2020 (and previous years) has meant that, on the whole, supervised firms were appropriately prepared for the end of the transition period.

Cliff-edge risks were addressed and firms wishing to be authorised in Ireland to prepare for the new circumstances were subject to high quality, rigorous and timely authorisation processes. In this regard, the Central Bank fulfilled its gatekeeper role by maintaining a rigorous assessment of business as usual and Brexit related applications for authorisation.

Supervisors engaged with newly authorised entities to address queries, to ensure that financial returns were submitted correctly and to monitor compliance with authorisation conditions.

In addition, effective risk assessments, prioritisation of supervisory actions driving change through engagement with regulated entities worked well with COVID-19 focused resilience assessments and actions. Communications and engagement with stakeholders went well, leveraging insights from 2019.

While work undertaken in the context of the pandemic response has included enhancing our understanding of, and approach to, the changes in the Irish financial system resulting from Brexit, work remains to be done in areas such as wholesale conduct risk and the growing non-bank sector located in Ireland. This work will need to be taken forward as part of the ongoing work in these sectors rather than through a Brexit-specific lens.

The central securities depository migration project continued to progress in 2020. Euroclear, in cooperation with the Irish securities market, progressed the migration of Irish corporate securities from

Euroclear UK & Ireland (EUI) to Euroclear Bank. The Central Bank worked closely with the Department of Finance monitoring progress of the migration and this was completed successfully on 15 March 2021.

Strengthening Consumer Protection

Strengthening the Consumer Protection Framework

The Central Bank worked to protect consumers and investors financially impacted by the COVID-19 pandemic, by communicating its expectations to regulated firms across all sectors on the management of COVID-19 related risks. Key areas of focus included engagement with regulated firms to ensure the availability of consumer-focused solutions in the areas of distressed debt and insurance policy rebates and claims, and to challenge the financial and operational resilience of regulated firms across many sectors.

Significant progress was made on reviewing the Consumer Protection Code, to enable it to address emerging trends and risks. On conclusion of the review, the Central Bank will publish a consultation paper, with supporting draft regulations, addressing the areas in which it proposes to strengthen the Code.

In the area of investor protection, the Central Bank acted at national level and as part of the Eurosystem in seeking to ensure that the financial system absorbed the shock caused by COVID-19. This included action to mitigate liquidity issues in financial markets.

Separately, the Central Bank published the outcome of its review of fund management company compliance with its framework for governance, management and oversight (Consultation Paper (CP) 86). The review examined whether the required systems of governance were in place to protect investors' best interests. Where shortcomings were identified, the Central Bank directed that these be reviewed as a matter of priority and has committed to ongoing review and challenge in this area.

In the area of anti-money laundering (AML) and countering the financing of terrorism (CFT), the Central Bank's programme of work continued and was delivered through inspections, engagements and outreach. The publication of the AML bulletin on transaction monitoring was an important element of this work.

The Central Bank continued to liaise with the Department of Finance on the Individual Accountability Framework, the aim of which, once implemented, will be to improve governance and standards of individual and firm conduct.

Desired Outcome:

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

Box 4: Differential Pricing Review

Differential pricing is the practice of charging customers with a similar risk and cost of service different premiums for reasons other than risk and cost of service. Due to the potential risk to consumers arising from this practice, the Central Bank launched a Review of Differential Pricing in the Private Car and Home Insurance Markets (the Review) in 2020.

The Review aims to:

- Establish the impact of differential pricing on consumers.
- Assess the extent to which these pricing practices lead to outcomes consistent with the Consumer Protection Code.
- Identify the drivers of consumer behaviours including how consumers engage with the insurance industry.
- Assess the governance and oversight of differential pricing in the insurance industry.

The Review is being conducted in three phases:

- Phase 1: Market Analysis.
- Phase 2: Quantitative Analysis and Consumer Insights.
- Phase 3: Conclusions and Recommendations.

Following the market analysis work, the Central Bank issued a Dear CEO letter to the insurance sector in September 2020. The letter set out initial observations, next steps and requirements in relation to identified weaknesses regarding governance, culture, conduct and consideration of customer impact.

The Central Bank published an interim report in December 2020, which contained further observations from the market analysis, including detailed data analysis and consumer-led research. These observations, along with those set out in the Dear CEO letter will inform the Central Bank's remaining work. Once concluded, the Central Bank will publish a report and/or a consultation paper on proposals for reform, as appropriate, in 2021.

Protection of Borrowers in Distressed Debt

Throughout 2020, the Central Bank continued to ensure that regulated firms provide consistent and effective support for borrowers in arrears, including mortgage arrears (distressed debt).

As a result of the COVID-19 pandemic, many borrowers fell into financial difficulty and could not afford to keep their loan payments up-to-date. The financial industry introduced a three month COVID-19

payment break in March 2020, which was extended to six months in April. These COVID-19 payment breaks applied to all sectors and provided substantial and immediate support in the first stages of the pandemic. The Central Bank clarified that COVID-19 payment breaks were not to be recorded as restructure events on the Central Credit Register. At the peak in June 2020, the financial industry had approved almost 159,000 payment breaks for Irish borrowers. While the majority of borrowers who availed of payment breaks have since returned to full repayments, a minority of borrowers still require support.

The Central Bank's supervisory engagement in relation to COVID-19 payment breaks extended across the banking, retail credit and credit servicing sectors. The Central Bank clearly set out its expectations of regulated firms, to appropriately protect the interests of borrowers affected by the pandemic. Dear CEO letters were issued in June 2020 and November 2020. The Central Bank worked to ensure that regulated firms were prepared to transition from system-wide payment breaks to case-by-case assessments to support those who could not return to full repayment.

The Central Bank published information for consumers and businesses on its COVID-19 hub, including research and data on the take-up of COVID-19 payment breaks and long-term mortgage arrears.

The Central Bank seeks to ensure that regulated firms continue to engage effectively and sympathetically with borrowers in distressed debt and in line with the relevant regulatory framework and codes. The objective is to ensure regulated firms deliver appropriate and sustainable solutions, which facilitate as many borrowers as possible to return to repaying their debt.

Distressed debt remains a key priority for the Central Bank in 2021.

Ensuring the Fair Treatment of Borrowers in Mortgage Arrears

During 2020, the Central Bank progressed the assessment of applications for authorisation of previously unregulated credit servicing firms, with a number granted full authorisation by end-year. The Central Bank will continue to rigorously challenge the remaining transitional firms, and individuals holding senior positions in regulated firms, to demonstrate that they meet the required authorisation standards and requirements, with a particular focus on their strategy to ensure the fair treatment of borrowers in arrears.

Also, following Central Bank supervisory intervention, 13 regulated firms have ceased the practice of applying costs associated with the

legal process (including third party costs and charging interest on any new costs incurred) to accounts of borrowers in mortgage arrears. These 13 regulated firms are undergoing, or have committed to undergo, remediation projects to unwind the costs previously applied to accounts and to refund interest charged on the costs to c.32,000 affected borrowers' accounts, with c.€79m costs to be unwound by regulated firms and c.€15m interest to be refunded to borrowers (figures as at end-February 2021).

Box 5: Business Interruption

The outbreak of COVID-19 in Ireland and the associated public health initiatives necessary to halt its spread through the population have created significant economic disruption and upheaval.

The issue of whether or not certain insurance policies provide business interruption cover for the losses arising from restrictions imposed by governments on businesses has become a central issue both in Ireland and internationally. The Central Bank has been conducting extensive supervisory engagement and legal analysis in relation to these issues from the outset.

On 5 August 2020, the Central Bank published its COVID-19 and Business Interruption Insurance Supervisory Framework (the Framework). The purpose of the Framework is to seek the early identification and resolution of issues which have the potential to cause customer harm, driving clarity for affected businesses as quickly as possible.

The Framework sets out the Central Bank's overall supervisory approach and the general escalation strategy for intervention to address customer harm where necessary. The Framework makes clear and reinforces the Central Bank's expectations of firms to treat their customers fairly, to settle valid claims swiftly, and how they should approach litigation, recognising the burden of such litigation on the businesses which have felt compelled to take it.

The Central Bank is continuing to work to ensure that the objectives of the Framework are delivered in order to provide clarity for affected businesses as quickly as possible.

Anti-Money Laundering and Countering the Financing of Terrorism

The Central Bank plays a key role in the fight against money laundering and terrorist financing, supervising compliance by regulated entities

with AML/CFT obligations, and contributing to domestic and international legislative and policy development in this area. Details of its regulatory and supervisory activities can be found here.

The Central Bank continued to apply a graduated risk-based approach to AML/CFT supervision throughout 2020. Details on the Central Bank risk-based approach to supervision can be found here.

During 2020, despite the effects of the pandemic, the Central Bank continued to undertake robust risk-based supervision of regulated entities, including 57 inspections, 100 review meetings and the issuance of 400 Risk Evaluation Questionnaires to firms.

AML/CFT failures in the EU in recent years highlighted the absence of a common framework for supervisory cooperation and information exchange between competent authorities on AML/CFT matters. Consequently, the ESAs issued guidelines to support supervisory cooperation and information exchange, and to create a common framework to ensure the effective oversight of cross-border groups from an AML/CFT perspective. Central to this was the establishment of AML/CFT supervisory colleges. In 2020, the Central Bank attended a number of AML/CFT supervisory colleges, with competent authorities from across Europe.

As part of its Outreach programme to guide industry on areas of concern, the Central Bank issued a number of publications throughout 2020. One such publication was the transaction monitoring bulletin which sets out the Central Bank's expectations with regard to the application of transaction monitoring controls. The Central Bank also issued a Dear CEO letter to Schedule 2 Firms in respect of their compliance with obligations under the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (CJA 2010). The letter, which was the culmination of much supervisory engagement, outlined the Central Bank's expectations of firms in relation to AML/CFT and Financial Sanctions (FS) requirements, and detailed follow-up actions to be taken by CEOs and boards in response to the findings outlined. The supervisory engagements highlighted an overall lack of compliance across all areas of the AML/CFT control framework.

Technical assistance was provided to the Department of Finance and Department of Justice and Equality on the transposition into Irish law of the Fifth EU Anti-Money Laundering Directive (5AMLD), which is due to be transposed in early 2021. The area of particular focus for the Central Bank was to ensure the legislation established a robust AML/CFT registration and supervisory regime for Virtual Asset Service Providers.

The Central Bank provided significant input into the AML/CFT developments at a European level by its participation in the EBA's newly formed Standing Committee on AML/CFT, and its submission of a formal response to the European Commission's public consultation on its AML Action Plan. The Central Bank continued its work in developing and contributing to international AML/CFT policy developments through its participation at the Financial Action Task Force, where its work focused on developments in the supervision and regulation of Virtual Asset Service Providers. Additionally at a domestic level, the Central Bank continued its participation in the national AML/CFT committee, including contributing to the update of the risk assessment of Legal Persons and Legal Arrangements section of the National Risk Assessment.

Engaging and Influencing

During 2020, the Central Bank continued to work to enhance engagement with key stakeholders and adopted new approaches to ensure that communications and engagement continued despite COVID-19. The Central Bank focused on active engagement, leadership and participation at EU institutions throughout the year. Senior leaders also reached a diverse range of stakeholders through hosting webinars and virtual engagements with groups such as business representatives, civil society, academia, students, the media and public representatives.

Desired Outcome:

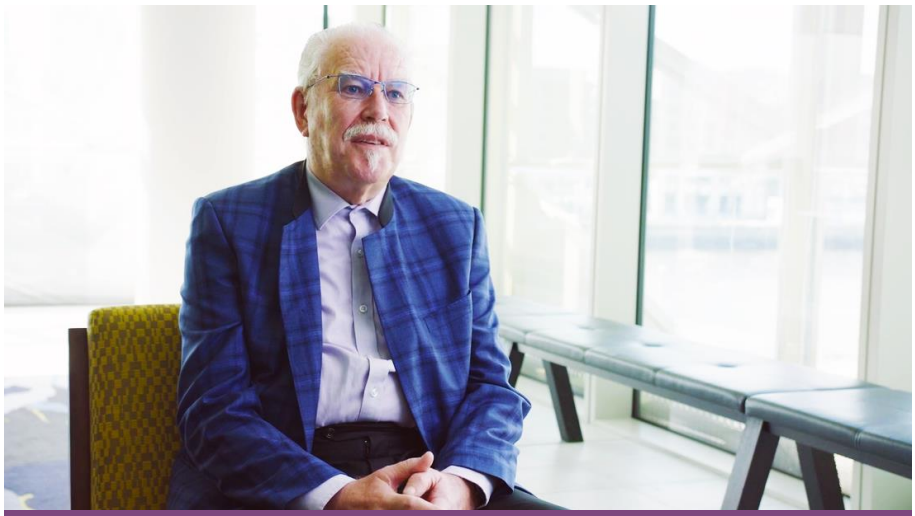
We engage with and listen to the public and stakeholders to inform our work and help build trust in, and understanding of the Central Bank.

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

Engaging with the Public

During 2020, the Governor and other members of the senior team participated in a number of events with key domestic stakeholders to build understanding of the work of the Central Bank and to listen to a range of views from stakeholders across the country. These events included meetings with chambers of commerce throughout the country and discussions with bodies such as Money Advice and Budgeting Service (MABS), Irish Business and Employers Confederation (IBEC) and the Small Firms Association.

While many external public events had to be cancelled in 2020, the Central Bank sought ways to ensure it maintained a high level of outreach and marked key events through online participation; for example, a short documentary with Robert Ballagh "Designing the C Series Banknotes" was produced for Culture Night.



Screenshot of Robert Ballagh video

The Central Bank continued to sponsor the Central Bank Award as part of its partnership with the Young Economist of the Year competition.

The Central Bank also continued its participation in the Generation €uro Students' Award.

Digital Communications

Visual and plain language content continue to be a cornerstone of the Central Bank's digital communications. Throughout 2020, there was a continued focus on enhancing content on www.centralbank.ie with the main focus on the impact of COVID-19 on the economy, consumers and the financial system. Brexit also continued to be an important topic ahead of the end of the transition period on 31 December 2020.

2020 saw the conclusion of the well-received animated explainer series. This series won multiple national awards in 2020.

Alex from the Animated Explainer Series accepting an award in 2020

Infographics have helped to build further awareness and understanding of Central Bank research and publications, including the Quarterly Bulletins and Financial Stability Reviews.

The Central Bank's third language scheme, effective since 2019, highlights its commitment to the Irish language. The Irish website houses a broad range of consumer-focused content.

Box 6: COVID-19 Information Hub and Video Series

With COVID-19 posing a significant threat to the economy and to people's livelihoods in 2020, digital communications became a critical enabler for increasing awareness of the financial/economic implications of COVID-19 and the supports that the Central Bank and ECB put in place.

The Central Bank developed a new COVID-19 Information Hub with FAQs for consumers, SMEs and regulated firms. The Hub includes a regular blog from Governor Makhlouf.

The plain language video series generated over 840,000 views and won the 'Public Body Video Campaign' category at the Social Media Awards 2020.

COVID-19 Video Series

Engagement with Key Domestic Stakeholders

Stakeholder and Media Relations

COVID-19 and its impact on the financial system dominated much of the Central Bank's media and stakeholder relations activity in 2020. Over the year, the Central Bank participated in three Oireachtas Committee hearings on Finance and COVID-19. The Central Bank also assisted with new pieces of legislation and provided assistance and opinions to a number of government departments. 331 Parliamentary Questions were answered and 15 responses to correspondence and requests for Central Bank views from Oireachtas members and committees were published on the Central Bank website.

The Central Bank continued its proactive engagement with domestic and international media during 2020 in order to build understanding of the role of the Central Bank. During the year, the Central Bank facilitated 76 interviews and briefings and published 179 press releases.

Engagement and Policy Making in Europe

During 2020, the Central Bank enhanced its strategic framework for EU and international engagement. The framework supports Bank-wide coordination and prioritisation in relation to the ESCB, SSM, ESAs and ESRB committees, taking account of the overlapping and cross-cutting

nature of EU-level engagement. A key aim of the Central Bank's engagement is to build stronger bilateral relationships both in Europe and internationally. The framework will be further refined in 2021 and will help to guide future engagement.

Throughout 2020, the Central Bank's focus centred on active engagement and leadership at EU institutions, resulting in a number of key achievements in line with its strategic objectives.

The Central Bank actively contributed to key debates related to monetary policy through the Governor's membership on the Governing Council and through participation in ESCB committees. These committees assist the ECB's decision-making bodies, and contribute significantly to cooperation within the ESCB. In the context of the evolving macro-financial environment, the economic impact of the pandemic and the ECB strategy review (See Box 11), this engagement increased on a range of issues during 2020.

The Central Bank co-chaired the EBA Standing Committee on Regulation and Policy, which *inter alia* oversaw the development of the updated EBA advice to the European Commission on Basel III implementation, as well as the EBA's COVID-19 policy response.

The Central Bank also contributed to shaping the European Insurance and Occupational Pensions Authority (EIOPA) advice on Solvency II, via input to both technical and policy discussions and at Board of Supervisors level.

As a member of the ESMA Management Board and Board of Supervisors, the Central Bank advocated strongly for a more risk-based approach to supervisory convergence work, which ESMA is now pursuing.

The Central Bank engaged with SSM colleagues, reflected in active participation at both working group level and through the Deputy Governor, Prudential Regulation's role on the SSM Supervisory Board. This engagement covered a broad range of areas including supervisory, prudential analytics and policy.

Responding to the shifting pattern of risks resulting from COVID-19, the Central Bank participated in ESRB fora. This included leading the ESRB work on market illiquidity and implications for asset managers and insurers, in response to the COVID-19 pandemic.

Box 7: International Regulatory Response to Money Market Fund Systemic Risk Concerns

There were concerns about the systemic resilience of aspects of the money market fund (MMF) sector at the height of the COVID-19 market stress in March and April. This was due to significant outflows from certain types of MMFs, namely those that were invested in non-public sector debt.

A number of regulatory initiatives followed those events. In November 2020, the IOSCO published a thematic note on MMFs that described their experiences during the worst of the market stress, as well as the underlying causes of those experiences. Following this, the FSB initiated work to ascertain whether consequent reforms to MMFs might be needed. EU institutions have begun organising their own work on MMFs to follow international developments, but tailored to the EU MMF sector and regulatory framework specifically.

The Central Bank is an active participant in these discussions. The outcome of this regulatory work will be relevant ahead of the scheduled European Commission review of the MMF Regulation in the EU in 2022.[4]

[4] For further details see Article 26 of the Money Market Fund Regulation (2017/1131).

Enhancing Organisational Capability

People Strategy

The Central Bank's People Strategy was developed with an emphasis on putting people at the centre of the organisation. In 2020, the Central Bank's plans were defined to ensure its people were adequately supported during the pandemic.

In consultation with staff, the Central Bank's values were articulated. These formed the basis for leadership actions and organisational decisions across the year. The One Bank Leadership programmes were embedded and extended, with more than 200 participants completing programmes virtually, and participant satisfaction rates at over 90% for all programmes.

Critical activities including recruitment, onboarding and learning and development were modified to a virtual environment. The organisational approach to performance management was adapted with an increased emphasis on internal communications and continuous feedback in a remote operating model.

Increased guidance was provided to employees and managers to support employee wellbeing, to assist with personal resilience, and to enable the management and engagement of teams in a virtual environment. The Central Bank was once again awarded the IBEC KeepWell Mark accreditation.

Work commenced to build organisational expertise in the areas of strategic workforce planning, talent management and skills and capability development, to enable the sustainable development of the Central Bank's talent over the coming years. There was an increased focus on employee engagement with the introduction of pulse surveys and the annual engagement survey in conjunction with Great Place to Work, the results of which saw an improvement in employee engagement, particularly in relation to trust and credibility.

Diversity & Inclusion

The Central Bank continued to strengthen its focus on building the diversity of its workforce and creating an environment where difference is truly valued and optimised. In the first half of the year, the Central Bank's new D&I Action Plan 2020 – 2021 was published which sets out the priorities and desired outcomes for the period.

Notable developments throughout the year included the introduction of gender representation goals aimed at strengthening the diversity of the Central Bank's overall workforce and senior leadership team.

Desired Outcome:

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

Progress against the goals will be reported on after one full year in operation.

The Central Bank enhanced the D&I data and measures available during 2020 in order to better understand the demographic composition of its workforce and to monitor the impact of its actions and progress over time.

There was a sustained focus on building awareness and understanding of D&I across the organisation. This was achieved through on-going communications and engagement with staff and leaders on various D&I topics using a variety of channels. An Inclusive Leadership module was also delivered virtually as part of the Central Bank's bespoke Leadership Development Programme.

The Central Bank's five employee networks continued to help bring the D&I vision to life by igniting conversations on important issues, contributing to policy and practice development and connecting colleagues whilst working remotely. The Central Bank was delighted to welcome the new Cultural Diversity Network in 2020 which focuses on promoting cultural diversity and fostering an inclusive environment that embraces people from all cultures, ethnicities and nationalities.

Box 8: Gender Pay Gap Report

The Central Bank conducted its fourth annual gender pay gap analysis in early 2021 which looks at the difference between male and female employees average annualised base pay. The Central Bank's pay structures provide for equal pay for equal work, are informed by public sector guidelines and are fully transparent.

As at 1 January 2021, the gender pay profile was 2.2% in favour of male employees.

- The figure remains broadly unchanged from 1 January 2020 (an overall reduction of 0.5% since 1 January 2018 and 0.2% since 1 January 2019).
- The gender pay profile at any given point is heavily correlated to, and impacted by, the timing and impact of employee joiner, leaver and promotion activities.
- It is also influenced by the distribution of men and women across all role levels of the organisation and how this translates into average salary.
- Gender distribution between male and female employees across the organisation remained relatively stable at 52% male/48% female.

The full Gender Pay Gap Report 2021 provides a more detailed analysis of the pay profile and outlines actions the Central Bank is taking to support gender diversity and inclusion.

Data Strategy

One of the Central Bank's key organisational objectives is to have an effective data management solution that meets its current and future needs. For 2020, the Data Strategy Programme continued to build on the central platform (Unity) implemented in 2019, which is designed to maximise the integrity and value of the Central Bank's data. The programme delivered:

- The Unity Portal launched to Industry (Insurance) in August.
- New data collection, processing and management functionality.
- The first self-service return developed using the Unity platform's integrated Decisions Rules engine.

Operational Risk Management

The Central Bank maintains an Operational Risk Management Framework to ensure the consistent assessment, mitigation and reporting of risks associated with the operational capabilities involved in fulfilling its mandate. Under this framework, risk management responsibilities are assigned using a three-lines-of-defence model, comprising first line divisional management and directors, the Organisational Risk Division and the Internal Audit Division. Executive and Commission level committees maintain oversight of the risk profile.

During the year, the Central Bank continued to enhance operational risk management, using an integrated approach to assessing operational risks and incidents. The implementation of a risk taxonomy strengthened oversight of diverse categories of risk, supported by enhanced reporting to improve the quality, transparency, and accessibility of risk information.

The Central Bank maintains a dedicated Business Continuity Management Framework, which seeks to identify, manage and mitigate the potential impacts of disruptive incidents on normal operations. Operational risk incidents with the potential to cause disruption, are assigned an overlay rating to determine whether an Incident Management Team, which governs the initial management response to such incidents, should be invoked. Following each invocation, the completion of formal after-action reviews ensures any learnings are

identified that could further enhance the ability to manage continuity incidents.

The insights from operational risk management, including business continuity, are also considered to determine whether further action can be taken to enhance the Central Bank's longer term operational resilience.

Box 9: Internal Operational Response to the COVID-19 Pandemic

In January, the Central Bank began monitoring the rapid spread in the outbreak of the SARS-Cov-2 virus. In February, the incident management structures were mobilised to ensure readiness to maintain the continuity of operations and to protect visitors to the Central Bank's premises. In March, the outbreak was classified as a global pandemic, leading the Irish Government to implement public health measures, including closure of facilities, restricting travel and implementing social distancing.

Through the Central Bank's continuity planning, preparations were made to enable the majority of staff to work from home from mid-March 2020. Resources were immediately reassigned to ensure staff were supported in home working and that the IT capability remained resilient. Subsequently, as the Government evolved its policies to manage and mitigate the effects of the pandemic, the Central Bank assessed operational risks and introduced new control measures, including requirements to comply with Health and Safety regulations.

Given the extended nature of the pandemic, from April, responsibility for managing operational continuity and effectiveness was taken over by a dedicated Programme. Throughout the remainder of 2020, this Programme enhanced and modified processes, technologies and operating policies to ensure risks arising were effectively mitigated such that the Central Bank could continue to fulfil its mandatory obligations, despite the prevailing pandemic.

Chapter 2:

Delivering on Our Statutory Responsibilities

Chapter 2: Delivering on Our Statutory Responsibilities

Price Stability

Monetary Policy Decisions

The primary objective of monetary policy in the euro area is to maintain price stability. In the pursuit of price stability, the ECB aims at maintaining the annual change in the Harmonised Index of Consumer Prices (HICP) index below, but close to, 2% over the medium term.

The inflation rate in the euro area reached 0.2% on average in 2020, which meant a significant drop from 1.2% in 2019. This disinflationary trend coincided with a strong contraction in the economic activity, reflecting the impact of the COVID-19 pandemic.

At its January 2020 monetary policy meeting, the Governing Council decided to launch a review of the ECB's monetary policy strategy (see Box 11). At the time, while inflation dynamics remained subdued, euro area economic growth was moderate and stable overall. The outlook swiftly deteriorated however, as COVID-19 spread across the world in late February. As a result, at its meeting on 12 March 2020, the Governing Council introduced a broad package to support the economy by easing the terms on targeted longer-term refinancing operations (TLTROs), introducing additional longer-term refinancing operations (LTROs) and adding an additional envelope of €120bn to the asset purchase programme (APP) until the end of the year.

In the days following this meeting, the outlook worsened considerably due the pandemic, forcing many euro area countries into lockdowns. This led to extreme financial market volatility and tightening financing conditions. Against this backdrop, the Governing Council decided on 18 March 2020 to take more forceful measures (see Box 10). Firstly, it introduced additional purchases of €750bn with a new pandemic emergency purchase programme (PEPP). The programme aimed to deliver additional support to the economy and allowed flexibility across asset classes and jurisdictions. Secondly, collateral standards were eased by adjusting the risk parameters of the collateral framework. The Governing Council also loosened conditions on the TLTRO operations. Finally, the ECB supplied swap and repo lines with non-euro area central banks. These measures contributed to an easing of financial conditions, reducing long-term risk free rates and compressing spreads in ten-year government bond yields of euro area countries.

In June, it became clear that the euro area was facing an unprecedented contraction, with severe job losses and heightened uncertainty. The Governing Council therefore provided additional easing by increasing the PEPP package to a total of €1,350bn, and lengthening the horizon for net purchases to the end of June 2021.

At the time of the December 2020 Governing Council meeting, the pandemic intensified again, leading to a worsening of the euro area economy. The Governing Council further increased the PEPP program to a total of €1,850bn, and lengthened the horizon for net purchases until at least March 2022. Similarly, conditions on the TLTRO operations were eased and collateral easing measures were extended until June 2022.

Eurosystem Monetary Policy Operations

In 2020, the Eurosystem implemented the APP smoothly following the recommencement of net asset purchases in November 2019. At the end of 2020, Eurosystem APP holdings stood at €2,909bn, with public sector securities accounting for €2,342bn of total holdings. Purchases under PEPP commenced at the end of March 2020 and total Eurosystem holdings under PEPP stood at €753.7bn at end-2020.

The net liquidity effect of the four operations of the third series of TLTROs in 2020, after taking into account repayments from other operations, was an expansion in Eurosystem borrowings of €1,325.6bn. Borrowing was concentrated in the fourth operation of TLTRO-III in June (TLTRO-III.4).

Regular euro liquidity providing operations, in the form of weekly main refinancing operations (MROs) and three-month longer-term refinancing operations (LTROs), were conducted throughout the year, as well as the 7-day US dollar liquidity providing operations. In response to COVID-19, the frequency of 7-day US dollar operations increased from weekly to daily between 24 March and 1 July, then operated three times per week until returning to the regular weekly frequency from 1 September. Borrowing was concentrated in March and April where the average allotment per operation increased to $3.7bn, compared to $1bn per operation across the year as a whole.

Average holdings of excess liquidity across the Eurosystem increased from €1,807bn in 2019 to €2,517bn in 2020, largely reflecting the increase in TLTRO lending and purchase programme activity.[5] Since

[5] Figures for the level of excess liquidity in the Eurosystem are computed as follows: current account balances, plus deposit facility balances, less total reserve requirements, less marginal lending facility balances.

October 2019, the ECB has implemented a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from negative remuneration at the rate applicable on the deposit facility. The two-tier system applies to excess liquidity held in current accounts with the Eurosystem but does not apply to holdings in the ECB's deposit facility. As a result, the average daily recourse to the deposit facility, for the Eurosystem as a whole, decreased from €525bn in 2019 to €370bn in 2020. Reserve holdings in credit institutions' current accounts have increased, with average holdings in excess of minimum reserve requirements increasing to €2,146bn in 2020, from €1,283bn in 2019.

Box 10: Additional Monetary Policy Measures

The ECB Governing Council introduced a series of additional monetary policy measures in response to the COVID-19 crisis. The PEPP was introduced to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the pandemic. The asset classes already eligible for the existing APP are purchased under PEPP with the maturity range of non-financial corporate commercial paper extended to allow also for purchases of eligible paper with a shorter maturity. In addition, the eligibility requirements for securities issued by the Greek government were waived for PEPP and the minimum residual maturity of public sector securities was reduced to 70 days from one year. While purchases of public sector securities continued to be guided by the capital key of the national central banks (NCBs), purchases under the new PEPP were conducted in a flexible manner, which allowed for fluctuations in the distribution of purchase flows over time, across asset classes and across countries.

The ECB (along with the Bank of Canada, the Bank of England, the Bank of Japan, the US Federal Reserve and the Swiss National Bank) announced the lowering of the pricing on the standing US dollar liquidity swap arrangements, along with the introduction of more frequent refinancing operations (including operations with an 84-day maturity). Borrowing under US dollar operations peaked at over USD145bn in June 2020, concentrated in the 84-day operations.

Conditions on TLTRO-III were eased with effect from the fourth TLTRO-III operation in June (TLTRO.III.4), and a series of longer-term refinancing operations (LTROs) at favourable terms were introduced to bridge

liquidity needs until settlement of TLTRO-III.4. The total allotment over 13 bridge LTROs was €388bn. Pandemic emergency longer-term refinancing operations (PELTROs) were introduced, consisting of seven additional refinancing operations commencing in May 2020 and maturing in a staggered sequence between July and September 2021.

Temporary collateral easing measures to support counterparties' access to the aforementioned refinancing operations included adjustments to the main risk parameters of the collateral framework, the expansion of acceptable additional credit claims and to allow marketable assets and the issuers of such assets that fulfilled minimum credit quality requirements on 7 April 2020 to retain eligibility in case of rating downgrades, within certain parameters.

Irish Monetary Policy Operations

Of the four component purchase programmes under the APP, the Central Bank purchases bonds under the public sector purchase programme (PSPP) and the third covered bond purchase programme (CBPP3). PSPP holdings of Irish government securities on the Central Bank's balance sheet, which are held at its own risk, increased to €31.6bn at the end of 2020, from €27.7bn at the end of 2019. Holdings of covered bonds under CBPP3, which are risk-shared with the Eurosystem, fell to €3.2bn at the end of 2020 relative to €4bn a year earlier. The Central Bank's holdings of Irish government securities under PEPP amounted to €9.9bn at the end of 2020.

The Central Bank conducted 247 liquidity-providing operations on behalf of the Eurosystem in 2020, of which 89 were euro operations and 158 were US dollar operations. In addition, ten TLTRO-linked early repayment operations were conducted. The Central Bank had 23 monetary policy counterparties at the end of 2020, the same number as at end-2019. Total outstanding monetary policy borrowings by Irish counterparties stood at approximately €7.3bn as at 31 December 2020, compared to €2.0bn as at 31 December 2019.

Participation in the weekly MROs was infrequent and limited to a small number of the Central Bank's counterparties, while there was no participation in the 3-month LTROs. The continued low levels of participation in credit operations throughout the year came against a backdrop of excess liquidity.

The Central Bank conducted and settled all monetary policy operations during the year in a timely, efficient and effective manner in compliance with the Eurosystem's operational framework. Furthermore, the

Central Bank monitored the fulfilment of minimum reserve requirements for credit institutions in compliance with ECB procedures.

In line with the considerable increase in excess liquidity throughout the Eurosystem, the Central Bank also observed a steady increase in the level of reserve holdings from its counterparties during 2020. As a result, average excess liquidity increased from €24.05bn during 2019, to €44.53bn during 2020.

Box 11: ECB Strategy Review

The ECB's strategy review started on 23 January 2020. It aims to make the monetary policy strategy fit for purpose, both today and in the future. In the meantime, the Governing Council continues to analyse the evolution of the economy and inflation, and take policy decisions where needed. The strategy review is due to conclude in the second half of 2021.

The strategy review will include all aspects of monetary policy to help us fulfil our price stability mandate, including how we define 'price stability' and the rate of inflation we aim for. Also in scope is how we analyse the economy to ensure risks to price stability are identified and acted on in a timely and effective manner. Other issues that are relevant to our mandate, such as employment, globalisation, climate change and financial stability, are also being explored. The Central Bank is participating in, and contributing to, a range of work streams looking at these key topics for the review.[6]

The strategy review will be based on thorough analysis and will be undertaken in an inclusive manner. The ECB and the NCBs are hosting a series of listening events with a range of stakeholders including citizens, academics, members of the European Parliament, financial sector representatives and civil society organisations. The Central Bank is hosting a number of these events to gather and consider economic perspectives and concerns from a broad range of citizens, academics and the business community. The findings from these events will be made available on the Central Bank's website.

[6] A full list of the work streams can be found through the following link: https://www.ecb.europa.eu/home/search/review/html/workstreams.en.html

Economic Analysis and Statistics

Economic Analysis[7]

The Central Bank plays an important role in the formation of national economic policy through the provision of independent economic advice via regular commentaries, forecasts, research and the provision of high quality financial statistics. These are communicated through the Quarterly Bulletin series, research papers and economic letter publications, in statements and speeches by the Governor and other members of senior management, and in contributions to conferences and seminars. A detailed description of the Central Bank's research output is provided in the Research Bulletin 2020.

During 2020, six macroeconomic forecasting exercises were completed; two of these were conducted within the context of the Eurosystem's Broad Macroeconomic Projection Exercise and the remaining four were published in the Central Bank's Quarterly Bulletin series. In addition, the Central Bank participated in other forecasting and policy forums, e.g., OECD, EU, and consultations with visiting half-yearly External Partner missions from the EU and the IMF and with rating agencies and other international bodies.

In terms of macroeconomic analysis, a large body of work throughout the year focused on the impact of the COVID-19 crisis on the Irish economy and assessing the unprecedented effects on consumption, public finances, monetary policy and the labour market. In addition to understanding COVID-19 effects, other research outputs focused on a broad range of topics such as inflation expectations, household wealth, credit cycles and switching activity in the Irish mortgage market.

Box 12: Real-time Data used to Monitor Developments in the Pandemic

The COVID-19 pandemic has widely disrupted economic activity, while understanding the full-scale effects can be challenging due to time lags in key economic data. A wide range of data sources and analytical approaches were used to help better understand real-time economic performance.

The Central Bank began collecting daily Credit and Debit Card Statistics. These high-frequency transactions data are an early indicator for

[7] Economic Analysis for Brexit-related activity is set out in the Brexit section of Part 1: Annual Report, Chapter 1.

household consumption and economic activity. The initial pandemic months saw sharp declines in consumer spending and household lending. Transactions started to recover during the summer months as the restrictions were eased, however the resurgence in cases and reintroduction of restrictions posed challenges for the economy. Household deposits significantly increased as the pandemic curtailed consumption, while both government supports and payment breaks helped ease financial pressure.

An additional measure of real-time activity is the Business Cycle Indicator (BCI), which is constructed from monthly economic and financial data for the purpose of capturing co-movements within these data. The BCI provides a single number representing higher or lower than average economic growth. Figures declined by 1.8% in November due to labour market and retail sales developments, yet remained above the 6.5% decline in April at a time of stringent containment measures.

Finally, other real time and high frequency indicators developed include daily monitor of new credit enquiries by households and firms, and daily indicators of firm births and insolvencies.

Statistics

Statistical data constitutes a key component of the Central Bank's assessment of the economy and financial stability, facilitating the monitoring of funding and credit developments within the financial sector and across the wider domestic economy. The Central Bank collects, compiles and disseminates a wide range of statistics to support the ESCB and external users such as market participants, public institutions, media and the general public.

The Behind the Data series shines a light on interesting financial and economic trends by taking a closer look at data collected by the Central Bank. Releases in 2020 analysed topics in light of the COVID-19 shock such as the changing demand for loans, the categorisation of payment breaks amongst borrowers and sectors and the increasing level of household deposits.

The Central Bank developed a new dataset on occupational pension funds. The data provides an overview of the unique structure of the sector, identifying the large number of entities that exist and where the concentration of assets lie. In addition to publishing statistical information releases on a quarterly basis, the next steps in developing this dataset will include investigating the asset breakdowns by their

sector and geography to further explore these household investment exposures.

The Central Bank released the second Private Motor Insurance report of the National Claims Information Database (NCID). The report contained several enhancements including more detailed information on claims development patterns and increase in the granularity of settlement channels. Progress was also made in the preparatory work to expand the NCID to employer and public liability insurance. The first report on these insurance lines will be released by the Central Bank in 2021.

Central Credit Register

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

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

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

583 lenders were submitting information to the CCR at the end of 2020 (2019: 533) and the CCR contained information on 5.5m records (2019: 5.5m).

1.7m credit reports were requested by lenders in 2020 (2019: 1.7m) and 15,728 credit reports were provided to borrowers (2019: 9,848).

For further information, including how to request a credit report, see www.centralcreditregister.ie.

Payments, Settlements and Currency

Payments and Settlements

The payment systems/schemes and securities settlement systems on which electronic payments are reliant in Ireland remained unchanged in 2020, i.e., financial market infrastructures outside Ireland are relied on for the purpose of clearing and settlement of payments and securities.

In April 2020, the Central Bank published a paper entitled "Ireland's Payment and Securities Settlement Systems Infrastructure". The paper provided a broad overview of Ireland's current payment and securities settlement systems infrastructure, explaining what payment and securities settlement systems are, why they are important and outlines the oversight role of the Central Bank.

In light of technological evolution, developments in the payments ecosystem with new services, products and new players, the Central Bank contributed to the review of existing frameworks and the development of a more holistic, harmonised, up-to-date and future proof framework that is based on recognised oversight standards. The oversight framework for all types of electronic payment instruments, schemes and arrangements (the PISA framework) was developed with a public consultation conducted in Q4, 2020.

The Central Bank continued to monitor developments in the area of retail payments, by engaging with relevant stakeholders on initiatives that align with the Eurosystem's retail payments strategy. The Central Bank also participated in the Eurosystem's High Level Task Force for Central Bank Digital Currency (CBDC), which is exploring the potential benefits and risks of a digital euro (see Box 13).

Box 13: Digital Euro

Against the backdrop of increased digitalisation and innovation in the area of retail payments, and changes in consumer behaviour, the ECB and the NCBs of the euro area are exploring the benefits and risks of a digital euro.

A digital euro would guarantee that citizens in the euro area can maintain costless access to a simple, universally accepted, safe and trusted means of payment. In these respects, a digital euro would be the digital

equivalent of a euro banknote – complementing rather than replacing cash.

A digital euro could support the digitalisation of the European economy and encourage innovation in retail payments. It would be designed to be interoperable with private payment solutions, facilitating the provision of pan-European solutions and additional services to consumers. The protection of privacy would be a key priority.

The Eurosystem has not decided whether to issue a digital euro and is currently in a preparation phase; developing the concept, conducting experimentation, listening to the views of the broader public and stakeholders. In mid-2021, it is expected that a decision on whether to launch a digital euro project will be made. Such a project would enable us to be prepared for the possible issuance of a digital euro at some point in the future.

In 2020, TARGET services transactions rose compared to previous years and TARGET2 services processed over 232m transactions comprised of over 88.5m real-time gross settlement (RTGS) transactions and 143.5m transactions on Dedicated Cash Accounts.[8] The total value of RTGS transactions increased in comparison to 2019, by over 5% to €465.79tn, with an average daily value of €1.81tn.

The Irish TARGET2 component, TARGET2-Ireland, processed 741,427 transactions; this represented a decrease of almost 16% compared to 2019. However, the value of transactions processed via the Irish component increased marginally by 0.02% to a total value of €2,998tn. As of close of business on 31 December 2020, TARGET2-Ireland had 14 direct participants, one less than 2019 as a UK entity lost access due to Brexit.

Upcoming TARGET services include T2-T2S consolidation which is a project to replace TARGET2 with a new RTGS system and to optimise liquidity management across all TARGET services. On 22 July 2020, the Governing Council approved a one-year extension to the timeline of the T2-T2S consolidation project from November 2021 to November 2022 due to challenges posed to the financial industry by the COVID-19 pandemic and the rescheduling of SWIFT's global migration of cross-border payments to ISO 20022. The Central Bank and the Irish market met all Eurosystem project milestones over the course of 2020

[8] Transactions of TARGET2 Securities (T2S) and TARGET Instant Payments (TIPs). Currently there are no Irish participants using these platforms.

and are well positioned to meet the revised November 2022 go-live date.

In its role as Registrar, the Central Bank makes dividend and redemption payments to account holders on bonds and treasury bills issued by the NTMA. At end-2020, the nominal value of bonds and treasury bills on the Register amounted to €139.7bn, an increase of €8bn over the value outstanding at end-2019 (€131bn). In 2020, two bonds and six treasury bills matured, resulting in redemption payments of €17bn and €6bn respectively. Ten Irish amortising bonds partially redeemed in 2020, resulted in partial redemption payments of €19.5m. The NTMA issued three new Government bonds with a nominal value of €16bn; sold a further €8bn on existing bonds (Taps) and €7.75bn on Treasury Bills. Transactions in respect of Irish Government Bonds are settled in Euroclear Bank, which is based in Belgium.

Currency

Banknotes

In 2020, the Central Bank issued 190m banknotes (value €6,418m) representing a 12% decrease on the 215m banknotes (value €6,636m) issued in 2019. This decrease is largely driven by a reduced demand for cash from March to December due to lower spending activity and increased adoption of cashless payments. In 2020, the Central Bank received banknote lodgements of 127m (value €3,408m) which represents a decrease of 32% on the 187m (value €4,999m) volume received in 2019. This reduction is indicative of the reduced level of issuance and a continuation of market led activities to facilitate recirculation of banknotes.

Table 1: Banknote Issues

No. of Banknotes (m) Issued			Value €m	
Denomination	**2020**	**2019**	**2020**	**2019**
€5	22	40	108	199
€10	24	30	238	296
€20	39	39	785	785
€50	105	106	5,242	5,313
€100*	0	0	46	39
€200*	0	0	0	3
€500*	0	0	0	1
Total	**190**	**215**	**6,418**	**6,636**

Note: Figures may not sum due to rounding

*The actual number of notes issued:

2020	2019
€100: 455,000	€100: 385,100
€200: 2,000	€200: 13,100
**€500: 0	€500: 2,000

** €500 banknote ceased issuance from 26 January 2019

Coin

The Central Bank, acting as agent for the Minister for Finance issued 52m coins (value €24m) into circulation in 2020. This represents a 33% decrease in coins issued when compared with the 77m coins (value €33m) issued in 2019. This decrease is largely driven by a reduced demand for cash from March to December due to lower spending activity and increased adoption of cashless payments.

Throughout 2020, the Central Bank continued to work with industry (such as retail banks and cash-in transit companies) to drive further efficiencies in the management of coin stocks in the market. The primary focus of this work is promoting increased circulation of existing coin in the market.

In 2020, the Central Bank participated in a coin swap with another Member State, as such swaps support the efficient utilisation of excess stocks of coins in the Eurosystem.

Table 2: Coin Issues

No. of Coin (m)			Value €m	
Denomination	**2020**	**2019**	**2020**	**2019**
1c	2	0	0	0
2c	0	0	0	0
5c	20	31	1	2
10c	9	14	1	1
20c	5	13	1	3
50c	5	5	3	3
€1	5	3	5	3
€2	7	11	14	22
Total	52	77	24	33

Note: Figures may not sum due to rounding

Collector Coins

The Central Bank marks significant events in Irish arts, history, heritage, and culture by issuing a range of numismatic products on behalf of the Minister for Finance. In 2020, the Central Bank issued two annual coin sets. Unlike previous years, the Central Bank did not issue any unique collector coins in 2020, due to challenges posed by the COVID-19 pandemic. The Central Bank remains committed to issuing numismatic products on behalf of the Minister for Finance and expects to recommence the issuance of Collector Coins later in 2021.

2020 Irish Endangered Wild Flowers coin set

National Cash Cycle Developments

In 2020, the Central Bank continued to engage with cash cycle stakeholders to promote efficiency, effectiveness and resilience in the cash cycle. In response to the impacts on the cash cycle, as a result of COVID-19, the Central Bank led the National Cash Contingency Group to ensure that the supply of cash was maintained without disruption through the various levels of restriction of the government's Living with COVID-19 plan.

Deposit Guarantee Scheme

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

Schemes) Regulations 2015 (S.I. No. 516 of 2015) require the DGS to reach a target fund level of 0.8% of covered deposits by 2024. The fifth year of annual contributions to the fund, totalling c. €127m, were levied at end-2020.

As indicated in the Strengthening Resilience section of Part 1: Annual Report, Chapter 1, the DGS made compensation payments to eligible depositors of Drumcondra and District Credit Union. Payments of c.€12.9m representing over 95% of eligible deposits covered by the DGS were made to c. 4,600 members on 10 July 2020. Total payments of €13.4m were made up to end-year 2020. Over the course of 2020, the DGS carried out stress tests of its systems and processes in line with EBA guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU. These end-to-end simulation tests involved a broad range of relevant scenarios to ensure the ability of the DGS to compensate depositors in the event of its invocation. A dedicated website providing consumer information on the DGS is available at www.depositguarantee.ie.

Insurance Compensation Fund

Following the enactment of the Insurance (Amendment) Act 2018 in July 2018, the Central Bank was given responsibility for administration of the Insurance Compensation Fund (the Fund) from the Accountant of the Courts of Justice. The Fund is financed through contributions from insurance companies in respect of non-life insurance gross premiums. In the event of a liquidation of a non-life insurance company, and on High Court approval, the Central Bank as administrator of the Fund will pay the relevant amount to the liquidator in the case of an insurance company in Ireland, or to the State Claims Agency (SCA) in respect of an insurance company in another Member State, for distribution to claimants. During 2020, on foot of High Court Orders issued to the SCA, payments of €8.4m in respect of Setanta Insurance Company Limited (in liquidation) and €1.4m in respect of Enterprise Insurance Company Plc. (in liquidation) were made from the Fund to the SCA.

Resolution Funds

The Central Bank has statutory responsibilities with respect to three resolution funds.

From 1 January 2016, Irish-licensed banks were required to contribute to the Single Resolution Fund (SRF), which is managed by the Single Resolution Board (SRB). The SRF may be used to ensure the efficient application of resolution tools and the exercise of resolution powers conferred to the SRB by the Single Resolution Mechanism (SRM)

regulations. In 2020, the Central Bank collected €138m from Irish banks on behalf of the SRB. The SRF had reached €42bn of its c. €60bn overall target, and to date has not been called upon to fund resolution actions.

Irish-licensed investment firms and Irish branches of banks authorised in non-EEA jurisdictions (third country branches) that come within scope of the EU resolution framework are required to contribute to the national resolution fund; the Bank and Investment Firm Resolution (BIFR) Fund. BIFR Fund levy contributions of €9.9m were collected by the Central Bank in respect of the 2020 contribution period, bringing the total fund to €26.6m. This fund has not been called upon to fund resolution actions.

The Credit Institutions Resolution Fund (CIRF) provides a source of funding for the resolution of credit unions under the Central Bank and Credit Institutions (Resolution) Act 2011. In 2020, €5m of credit union sector levy contributions was collected, bringing the total fund to €50.5m. The liquidation of DDCU resulted in legal costs being incurred by the CIRF in 2020.

Chapter 3:
Supporting Our Organisation

Chapter 3: Supporting Our Organisation

Technology

There were a number of key technology achievements in 2020 including:

- The Data Centre and Managed Services contract was awarded to Global Entserv Solutions Ireland Ltd to ensure continuation of this vital service for the Central Bank.
- Organisational information security was enhanced to address the changing threat landscape, particularly in light of the pandemic.
- A series of network enhancements were delivered over the latter part of 2020 including improved performance of collaboration tools.
- A significant portfolio of projects were delivered for the organisation including replacement of our HR systems, an upgrade to our local collateral management systems in line with Euro systems strategic roadmap, delivery of Prospectus Directive 3 and implementation of a new statistics pension fund solution.

Communications

Engaging with our people

During 2020, the Central Bank recognised the increased importance of communicating with and engaging our people, in particular during COVID-19, which saw the vast majority of our people work from home, while a small number of people continued to attend onsite to perform business critical functions.

Our internal communication key message framework emphasised:

1. Putting the health and wellbeing of our people first.
2. Business continuity and adapting to a new way of working.
3. Our response and the importance of our role in the wider economic and financial system.

The Governor and other members of the senior leadership team played an active role in a number of initiatives include regular all-staff emails,

video calls, leadership forums and the creation of a COVID-19 Information Hub.

Complaints Handling

While the Central Bank receives a significant amount of correspondence from the public, which are responded to by the relevant areas, formal complaints can be made by individuals under the Central Bank's Complaints Handling Procedure. Complaints can be made in relation to an individual staff member of the Central Bank or the way in which the Central Bank conducts its business, i.e., services received. The investigation of complaints about regulated firms or disclosures made under the Protected Disclosures Act 2014 are dealt with under separate procedures.

There were 15 formal complaints received from members of the public during 2020. An additional two complaints that were still in progress at end-2019 were also finalised in 2020. One complaint received during 2020 was withdrawn. Complaints were across a range of issues, with the largest number relating to issues concerning the CCR. A separate, but related, procedure was introduced in 2020 concerning the development and publication of a Complaints Procedure required under the Disability Act. No complaints were received under that particular procedure.

Freedom of Information

The Central Bank processed 76 Freedom of Information (FOI) requests during the year. A total of 31 requests were granted/part-granted and 33 were refused under the various exemption provisions of the FOI Act. In addition, 12 requests were withdrawn, or dealt with outside the FOI process.

Corporate Social Responsibility

In serving the public interest, the Central Bank remains committed to being a socially responsible and sustainable organisation. We recognise that 2020 was a very challenging year for the organisation, our people, our local community and the wider public we serve. A number of key initiatives were delivered under the five Corporate Social Responsibility (CSR) pillars indicated below in Box 14 as we responded to the pandemic.

Box 14: Being A Socially Responsible and Sustainable Organisation

Governance and Communication

- CSR 2020 Annual Report was published capturing the key initiatives delivered

Environment

- Carbon emissions reduced by 53%
- Achieved certification against a number of ISO standards relating to environment, health and safety and energy
- BREEAM "Excellent In Use" award for our Docklands Campus

Workplace

- A COVID-19 portal was established on our intranet to provide practical guidance and support through the pandemic
- HR Advisory employee helpline available to support people
- Staff networks supported
- Wellbeing guidance provided for line managers
- Second D&I Action Plan published

Community

- Virtual volunteering opportunities with key partners including Junior Achievement Ireland, Early Learning Initiative and Temple Bar Gallery + Studios
- Support for employment in local community through hosting Docklands Career Fair and other initiatives including Bridging the Gap and Career LEAP programmes
- Support for charities through the Charity Committee activities and matching funds programme and working with Inner City Helping Homeless

Marketplace

- Consumer hub on website for information on the Central Bank's response to the pandemic and Brexit-related issues
- Responded to over 11,600 queries from members of the public through our consumer helpline
- Central Credit Register responded to over 14,200 requests for information from the public
- Engaged with stakeholders through roundtables and webinars

Legal

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

The Central Bank liaised with the Department of Finance on legislative matters and influenced and advocated on primary legislation impacting on its mandate, including the proposed new Central Bank Bill on the Individual Accountability Framework and the Withdrawal of UK from EU (Consequential Provisions) Act, 2020.

The Central Bank continued to strengthen the regulatory framework through Central Bank Regulations in 2020 and a number of new regulations were prepared. The Central Bank also assisted with the transposition and implementation of a number of EU directives and regulations, including the Bank Recovery and Resolution Directive II and the Capital Requirements Directive V/Capital Requirements Regulation 2.

In-house legal resources supported the Central Bank in managing the legal risks arising from key priorities.

Internal legal resources strategically contributed to the Legal Committee of the ESCB, which advises the Governing Council on legal considerations.

Premises and Facilities

Campus Development

During 2020, the Central Bank continued to progress the development of its long-term city centre accommodation strategy which is centred on the occupation of an integrated campus of premises at North Wall Quay (NWQ). This strategy envisages: (i) the full occupation of the existing NWQ premises; (ii) partial occupation of a premises at Mayor Street (linked to the adjacent NWQ premises via a pedestrian bridge); (iii) the leasing of the surplus space of the Mayor Street premises; and (iv) the sale of the premises at Spencer Dock.

Design of the fit out of the Mayor Street premises was originally scheduled to complete by end-Q1 2020. The Government mandated construction site shut-downs and other consequences of the pandemic have significantly impacted on the construction and fit out programme, such that occupation of the premises is unlikely before end-Q2, 2022. The Central Bank took the opportunity to make modifications to the design in response to the COVID-19 pandemic and its possible impacts on ways of working going forward. The Spencer Dock premises were put on sale to the market in November 2020.

Facilities Management

From March 2020, the Facilities Management team prioritised support for the Central Bank's pandemic response, in particular to enable

colleagues successfully work from home and, where appropriate, to continue to safely work from the office, in order to continue to deliver on the Central Bank's mandate.

The Central Bank partnered with our catering supplier to utilise spare capacity and implemented a food distribution programme with a local charity, Inner City Helping Homeless, which saw the production and issue of 180 food parcels daily from December in support of the Central Bank's CSR strategy (see Box 14).

Environment, Health and Safety

The Central Bank operates to a certified integrated Environmental, Safety and Energy management system across all locations. In addition to the energy performance detailed in Table 3, a range of related indicators are measured and available on the Central Bank's website in the Environmental, Health and Safety Annual Performance Report.

Table 3: Energy Use Comparison 2019 and 2020

	Currency Centre		City Centre Sites*		Overall	
	2020 kWh	% change against actual 2019	2020 kWh	% change against actual 2019	2020 kWh	% change against actual 2019
Electricity	2,280,430	-7.61%	3,108,712	-22.17%	5,389,142	-16.61%
Gas	2,290,228	-5.1%	2,646,994	-1.8%	4,937,222	-3.38%
Oil	220,094	+31%	51,663	+41%	271,757	+33%
Total Energy	**4,790,752**	**-5%**	**5,807,369**	**-16%**	**10,598,121**	**-11%****

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

**Reduced energy consumption by 11% across all sites, notwithstanding the impact of the pandemic on the level of operations at each location i.e. 2020 would not represent a standard operational year.

Box 15: Energy, Safety and Environmental Performance Initiatives

The Central Bank undertook a range of initiatives in 2020 to improve its energy, safety and environmental performance, including:

- Exceeding the 2020 National Energy Efficiency Action Plan (NEEAP) 33% energy reduction target with a 61.8% reduction.[9]
- Achieving a 53.93% reduction of scope one and scope two carbon emissions against its BITCI Low Carbon Pledge of 50% by 2030.
- Achieving certification to ISO 14001/45001/50001 across all locations in a single integrated management system.
- Completing 1,329 COVID-19 Home Working Display Screen Equipment (DSE) Assessments.
- Reducing Business Travel Air Emissions by 1,151 tonnes of CO_2 (83%) compared with 2019.

Investment Portfolio Management

The earnings and returns of the Central Bank's investment portfolio are based on the total income generated by the assets and the values below are based on the market value of all assets as at year-end.

At end-2020, the investment portfolio comprised assets of €17.3bn, including an allocation of €3.1bn equivalent to the Central Bank's foreign currency denominated portfolios (US dollar, Australian dollar, Singapore dollar and Chinese renminbi) for diversification purposes.[10] Holding diversified assets of this nature supports investment returns and reduces volatility in the long run, notwithstanding some potential for raised short-term return volatility. Given the challenging investment environment, in particular in the euro area fixed income

[9] Compared with 2009, the Central Bank's baseline year for energy use
[10] This figure does not include gold holdings and equity allocation.

market, the Central Bank will continue to look at opportunities to diversify further its investment assets within a prudent risk management framework. The fall in the size of the investment portfolio from €19.4bn at end-2019 was mainly attributable to a reduction in the size of the HTM portfolio.

The size of the investment portfolio is also subject to the Central Bank's obligations under the Eurosystem's Agreement on Net Financial Assets (ANFA). However, these obligations did not contribute to any changes in 2020. ANFA is an agreement between the NCBs of the euro area and the ECB, which sets rules and limits for holdings of financial assets related to national tasks of NCBs. At the end of 2020, the Central Bank's net financial assets (NFA) under the ANFA stood at €1.1bn. The components of the Central Bank's NFA position are outlined in Table 4 below. In addition, the ECB publishes annual average NFA data for each NCB on its website during the first quarter of each year.[11]

Total earnings on the Central Bank's investment portfolio (ex-gold and equity allocations) amounted to €208.2m in 2020 compared to €262.5m in 2019.[12]

[11] For further details of the Eurosystem's Agreement on Net Financial Assets, see the ECB's website at www.ecb.europa.eu/explainers/tell-me-more/html/anfa_qa.en.html

[12] In the 2019 Annual Report, total earnings noted here for 2019 is presented as €267.8m due to an alternative valuation methodology.

Table 4: Central Bank Balance Sheet as at 31 December 2020

All Figures in EUR '000s

Assets			Liabilities		
Item	**Description**	**Amount**	**Item**	**Description**	**Amount**
A1	**Gold and gold receivables**	**299,039**	**L1**	**Banknotes in circulation**	**22,349,697**
A2	**Claims on non-euro area residents in foreign currency**	**5,747,665**	L1.1	Euro banknotes	22,349,697
A3	**Claims on euro area residents in foreign currency**	**229,401**	L1.2	Banknotes in national euro area currencies	0
A4	**Claims on non-euro area residents in euro**	**2,263,577**	**L2**	**Liabilities to euro area credit institutions related to monetary policy operations in euro**	**62,073,627**
A5	**Lending to euro area credit institutions related to monetary policy operations in euro**	**7,288,900**	L2.1	Minimum Reserve Deposits	48,761,443
A5.1	Main refinancing operations	0	L2.2	Overnight deposits	13,312,184
A5.2	Longer-term refinancing operations	7,288,900	L2.3	Fixed-term deposits	0
A5.3	Fine-tuning reverse operations	0	L2.4	Fine tuning reverse operations	0
A5.4	Structural reverse operations	0	L2.5	Deposits related to margin calls	0
A5.5	Marginal lending facility	0	**L3**	**Other liabilities to euro area credit institutions in euro**	**3,101,460**
A5.6	Credits related to margin calls	0	**L4**	**Debt certificates issued**	**0**
A6	**Other claims on euro area credit institutions in euro**	**3,988,928**	**L5**	**Liabilities to other euro area residents in euro**	**19,229,123**
A7	**Securities of euro area residents in euro**	**72,776,455**	**L6**	**Liabilities to non-euro area residents in euro**	**186,200**
A7.1	Securities held for monetary policy purposes	49,533,972	**L7**	**Liabilities to euro area residents in foreign currency**	**0**
A7.1.1	Covered Bond Purchase Programme	0	**L8**	**Liabilities to non-euro area residents in foreign currency**	**0**
A7.1.2	Securities Markets Programme	359,752	**L9**	**Counterpart of special drawing rights allocated by the IMF**	**913,917**
A7.1.3	Covered Bond Purchase Programme 2	0	**L10**	**Intra-Eurosystem liabilities (net)**	**19,681,389**
A7.1.4	Outright Monetary Transactions	0	L10.1	Liabilities equivalent to the transfer of foreign reserves	0
A7.1.5	Covered Bond Purchase Programme 3	3,213,625	L10.2	Liabilities related to the issuance of ECB debt certificates	0
A7.1.6	ABS Purchase Programme	0	L10.3	Other liabilities within the Eurosystem (net)	0
A7.1.7	Public Sector Purchase Programme - Government securities	31,594,062	L10.4	Other liabilities related to the operational requirements within the Eurosystem	19,681,389
A7.1.8	Public Sector Purchase Programme - Supranational securities	4,430,278	**L11**	**Items in course of settlement**	**0**
A7.1.9	Corporate Sector Purchase Programme	0	**L12**	**Other liabilities**	**1,827,539**
A7.1.10	PEPP – Covered Bonds	5,951	**L13**	**Provisions**	**1,304,420**
A7.1.11	PEPP – Asset-Backed securities	0	**L14**	**Revaluation accounts**	**5,838,261**
A7.1.12	PEPP – Government securities	9,930,303	**L15**	**Capital and reserves**	**4,984,092**
A7.1.13	PEPP – Supranational securities	0			
A7.1.14	PEPP – Corporate Sector securities	0			
A7.2	Other securities of euro area residents in euro	23,242,483			
A8	**General government debt in euro**	**0**			
A9	**Intra-Eurosystem claims**	**47,056,242**			
A9.1	Participating interest in ECB	216,609			
A9.2	Claims equivalent to the transfer of foreign reserves	683,175			
A9.3	Claims related to the issuance of ECB debt certificates	0			
A9.4	Other claims within ESCB (net)	46,135,118			
A9.5	Other claims related to operational requirements within the Eurosystem	21,340			
A10	**Items in course of settlement**	**0**			
A11	**Other assets**	**1,839,518**			
A999	**Total Assets**	**141,489,725**	**L999**	**Total Liabilities**	**141,489,725**

Notes:
1) Net Financial Assets (NFAs) are calculated as A1+A2+A3+A4+A5.6+A6+A7.2+A8+A9.1+A9.2+A9.3+A10+A11-L1.2-L2.5-L3-L5-L6-L7-L8-L9-L10.1-L10.2-L11-L12-L13-L14-L15 adjusted for liquidity providing operations denominated in foreign currency and the amount of cash received as collateral in securities lending activities involving securities from outright portfolios held for monetary policy purposes (which amounted to zero as at 31 December 2020). These items are highlighted in grey in the table.
2) All figures correspond to those reported in the Statement of Accounts for year ended 31 December 2020.
3) "Other liabilities" is the sum of "Other Liabilities" (€958,969) & "Retirement Benefits" (€868,570) as reported in the Balance Sheet in the Statement of Accounts for year ended 31 December 2020.

Assets Acquired as part of the Liquidation of the IBRC

During 2020, the Central Bank's holdings of assets acquired as part of the liquidation of the IBRC, referred to as the Special Portfolio, declined to €7.5bn (nominal) by end-year. This reduction reflected the purchase by the NTMA of €1.0bn of the Irish Floating Rate Note (FRN) 2051 (all nominal amounts).

ECB Reserves

Each NCB manages a proportion of the ECB's foreign exchange reserves in line with its capital key share. Following a request from the Central Bank of Malta, since 1 January 2008 the Central Bank has also managed Malta's share of the US dollar reserves in conjunction with its own share. The ECB reserves under management by the Central Bank at end-year 2020 were proportionate to the sum of the two countries' capital key shareholdings in the ECB.

Box 16: The Central Bank Balance Sheet

Similar to recent years, changes to the Central Bank's balance sheet in 2020 were mainly driven by monetary policy decisions and actions. The ECB Governing Council implemented a substantial package of new accommodative monetary policy measures in March to address the outbreak of the COVID-19 pandemic. The measures included more favourable borrowing terms on TLTROs, an increase to its existing APP and a new PEPP. These policy measures aimed to ensure supportive financing conditions for all sectors in the economy throughout the pandemic crisis. For more information see "COVID-19: Monetary policy and the Irish economy" by Holton et al.

The ECB's policy changes have resulted in a significant expansion in the assets held for monetary policy purposes on the Central Bank's balance sheet in 2020. At the end of 2020, combined holdings of Irish government securities under the public sector purchase programme (PSPP), which forms part of the APP, and the PEPP stood at €41.5bn.

Substantial purchases under these programmes have elevated the financial risk on the Central Bank's balance sheet, including increased risk due to a longer-term interest rate mismatch. This arises as interest

income from the PSPP and PEPP assets will remain broadly static at low or even negative levels, while if policy interest rates rise, the expense associated with the Central Bank's liabilities will increase. This could potentially lead to net losses for the Central Bank in the future. In order to support the Central Bank's financial independence, a range of risk management processes are maintained, including ensuring sufficient financial buffers are held to cover any losses which may arise. To mitigate against increased balance sheet risk arising from the expansion of assets held for monetary policy purposes, the Central Bank has increased its risk provision from €0.9bn in 2019 to €1.3bn in 2020.

Chapter 4:
Internal Audit Statement

Chapter 4: Internal Audit Statement

The objective of the Internal Audit Division (IAD) is to act as the independent "third line of defence" function within the Central Bank's governance framework. IAD provides independent, objective assurance to assist the Central Bank in delivering its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the risk management, control and governance processes.

In 2020, IAD conducted a range of reviews on supervisory activities, central banking functions, IT and other operational functions. During 2020, IAD revised the Audit Plan to reflect the increased risks due to the impact of the COVID-19 pandemic and assisted the Central Bank in conducting advisory reviews on the effectiveness of the work practices and the risk assessment process.

IAD submitted regular dashboards to the Audit Committee detailing the outcome of reviews and the progress made by management in addressing previously identified findings. In November, the Audit Committee approved the rolling three-year audit plan.

Along with colleagues from other NCBs, IAD performed audits as part of the Internal Auditors Committee (IAC) of the ESCB. IAD also reports to the IAC on the outcome of these audits and status of open issues. The IAC submit update reports to the ECB Governing Council and to relevant ESCB Committees.

To build awareness and understanding of developments and risks within the organisation, IAD attended a number of senior executive committee meetings and meetings with divisional representatives from across the Central Bank. In addition, IAD held regular meetings with the Governor to discuss audit-related matters.

Chapter 5:
Governance

Chapter 5: Governance

This section sets out the processes applicable to the governance of the Central Bank during 2020.

Legal Framework and Statutory Objectives

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

As a member of the ESCB, the Central Bank performs ESCB tasks provided for by the Treaty on the Functioning of the EU (the TFEU) and the Statute of the ESCB and of the ECB (the ESCB statute). In addition, it performs certain non-ESCB tasks mandated by national law.

The Central Bank Commission

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

The Commission has adopted its own Terms of Reference, which set out how it can best deliver on those responsibilities. Further information is contained in the Commission Members' Report, which forms part of the Annual Accounts.

Commission Membership and Gender Balance

The Commission comprises four members who serve in an ex-officio capacity – the Governor, two Deputy Governors, and the Secretary General of the Department of Finance – and between six and eight members appointed by the Minister for Finance.

At end-December 2020, the Commission membership comprised as its ex-officio members, Governor Makhlouf, Deputy Governor Sharon Donnery, Deputy Governor Ed Sibley and Derek Moran, Secretary General of the Department of Finance. The appointed members were Patricia Byron, Shay Cody, Sarah Keane, David Miles, Niamh Moloney and John Trethowan. The gender balance of the Commission is 60% male and 40% female. Of the appointed members, the gender balance is 50% male and 50% female. When making three new appointments to the Commission in 2020, the Minister noted that these appointments were in line with the requirement to have regard to the skills, diversity and gender mix within State Boards in the Government's recently published Code of Practice for the Governance of State Bodies' Annex on Gender Balance, Diversity and Inclusion. The Minister has indicated

that any future appointments to the Commission will continue with this approach.

Organisational Structure

The Act establishes the Central Bank as an organisation, sets out its functions and provides for the structures within which the Central Bank carries out such functions. The Central Bank's functions derive from various legal sources, including the EU Treaties, the Central Bank Acts, and other financial services legislation. While some functions may be assigned to specific officers, the Commission is, in the first instance, tasked with the performance of most of the Central Bank's functions (with the exception of ESCB functions and resolution functions). However, this is subject to statutory delegations and assignment of responsibility.

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

Governance Framework

The Central Bank's Governance Framework takes account of the requirements of the Central Bank Acts and the EU Treaties (including the requirement for the Central Bank to be independent), the Code of Practice for the Governance of State Bodies, and other internal governance arrangements in the Central Bank.

Responsibilities of Senior Leaders at the Central Bank

The Central Bank's Responsibilities of Senior Leaders (RSL) document provides an overview of the responsibilities of those holding senior leadership positions within the Central Bank, together with the relevant governance arrangements in place that support decision-making.

Internal Governance Structures

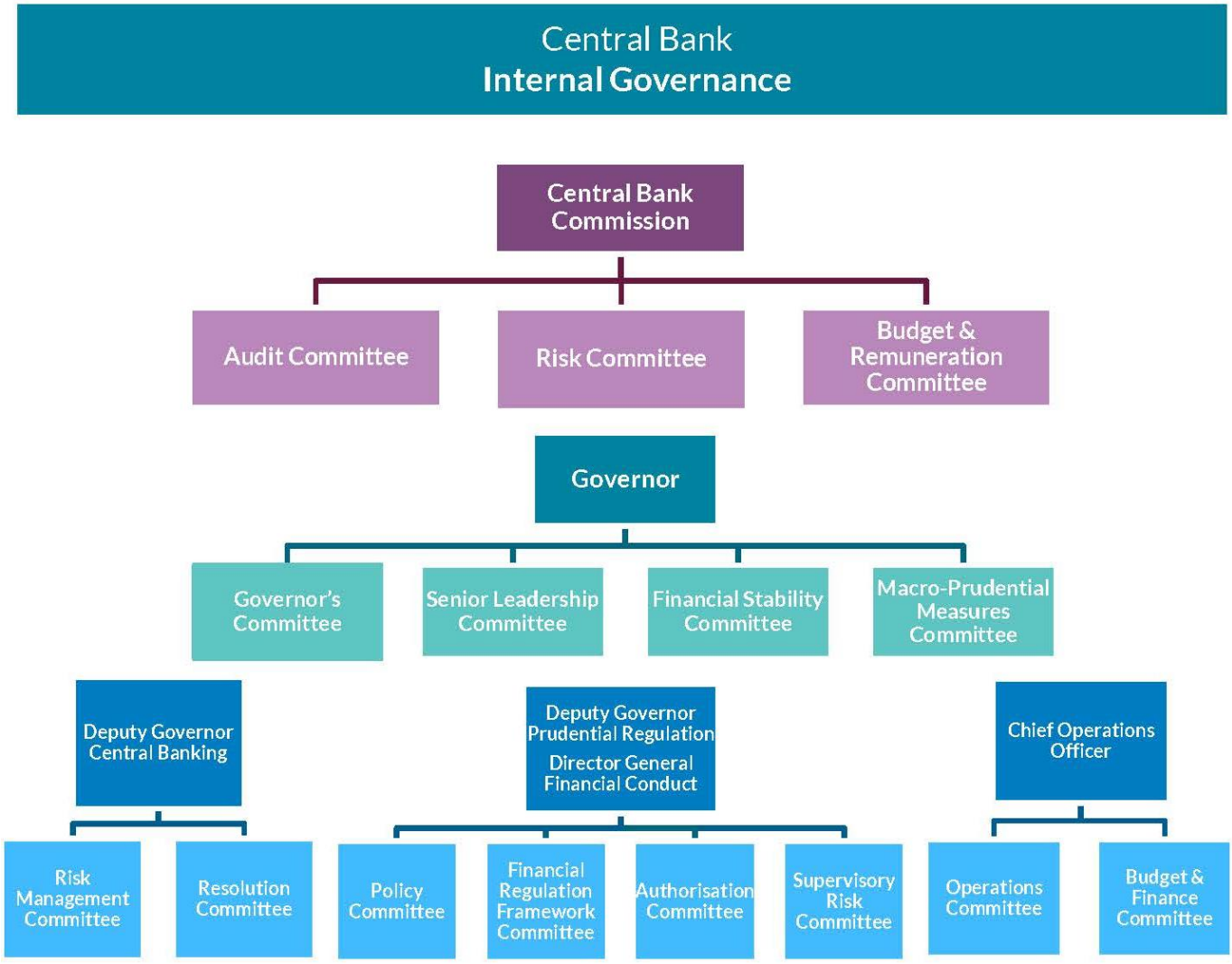
There are a number of internal cross-organisational committees with responsibility for coordinating development and implementation of policies and advising on major issues.

The Central Bank's committee structure comprises both operational and mandate-related committees, all with approved Terms of Reference, which are reviewed on an annual basis. Through involvement with these committees, the Central Bank's senior management contribute, among other things, towards the development and execution of the Central Bank's strategy, risk appetite and organisational culture.

The Governor's Committee (chaired by the Governor) is the key executive decision making body. The role of the Committee is to advise and support the Governor in fulfilling the responsibilities of the role, including those functions delegated by the Commission to the Governor.

The Governor's Committee is supported in this role by other high-level committees which, in part, reflect the structures in place at Commission and its sub-committee level. A list of cross-organisational committees as at end-2020 is set out in Figure 1.

Figure 1: Central Bank Internal Governance



An overview of each committee is available here.

Accountability

Strategic Plan

In accordance with section 32B of the Act, the Central Bank is obliged to prepare and publish a Strategic Plan every three years. Following

receipt of the Strategic Plan, the Minister must lay it before the Oireachtas. As soon as practicable after becoming aware that the Strategic Plan has been laid before the Oireachtas, the Central Bank must publish and take all reasonable steps to implement it. The current Strategic Plan is for the period 2019-2021.

Annual Report and Annual Performance Statement

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

The Central Bank's financial accounts are also audited by independent external auditors as required by Article 27 of the ESCB Statute.

In accordance with Section 32L of the Act, the Central Bank is required to prepare an Annual Performance Statement (APS) on the regulation of financial services for submission to the Minister for Finance by 30 April each year. In accordance with the Act, the APS must be in three parts:

- A Regulatory Performance Plan outlining the aims and objectives of regulatory activity planned for the current year.
- A review of regulatory performance during the preceding year having regard to the Regulatory Performance Plan for that year, including activities carried out by the Internal Audit function and the Registrar of Credit Unions and any other relevant matters.
- A report of any international peer review on the Central Bank's performance of its regulatory functions carried out under this legislation during the year.

Within one month of receiving an APS, the Minister must lay the Statement before each House of the Oireachtas. Since the 2019 reports, the Annual Report and Annual Performance Statement have been provided as one document, issued to the Minister.

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

Appearances before the Oireachtas Committees

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

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

Table 5: Appearances before the Oireachtas Committees in 2020

Date	Oireachtas Committee	Attended by
07/07/2020	Special Oireachtas Committee on COVID-19	Gabriel Makhlouf, Governor Mark Cassidy, Director of Economics and Statistics
21/10/2020	Oireachtas Finance Committee Regular engagement with the Central Bank	Gabriel Makhlouf, Governor Ed Sibley, Deputy Governor Prudential Regulation Derville Rowland, Director General Financial Conduct
15/12/2020	Oireachtas Finance Committee Banking Issues in Ireland	Ed Sibley, Deputy Governor Prudential Regulation Gráinne McEvoy, Director of Consumer Protection

Statutory Inquiries

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

Peer Reviews

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

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

Public Sector Duty

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

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

- The implementation of its People Strategy promotes and supports the equality and human rights of staff.
- Engagement with the public through communications and outreach strategies as part of its commitment to corporate and social responsibility.
- All members of the public who receive services from the Central Bank are provided a professional, efficient and courteous service as set out in the Customer Charter.
- The public is consulted on Central Bank policy developments and the obligations under the 2014 Act will be considered by the Central Bank, where relevant, in the development of such policies.[13]

An updated assessment on the Central Bank's public sector duty commitments was undertaken in 2020. This assessment concluded that overall the Central Bank continues to have in place the relevant policies and practices across each of the areas identified. During 2020, a number of actions were taken to address gaps identified as part of the 2019 assessment and a number of new initiatives were also introduced, such as:

- The development of a new Diversity & Inclusion Action Plan 2020-2021.
- The introduction of a separate Dignity at Work policy for third party contractors to ensure they have appropriate support and reporting mechanisms.
- The launch of a new staff-led Cultural Diversity Network.

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

- The establishment of a Pandemic Response Programme to ensure that changes in service delivery are consistent with our values and are legally compliant.
- The development of enhanced organisation-wide data on how the Central Bank engages directly with members of the public.
- The publication of a revised Customer Charter & Action Plan 2020-2022.
- The introduction of a new Disability Complaints Handling Procedure.

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

Gabriel Makhlouf
Governor

30 April 2021

Neil Whoriskey
Secretary

30 April 2021

Part 2:

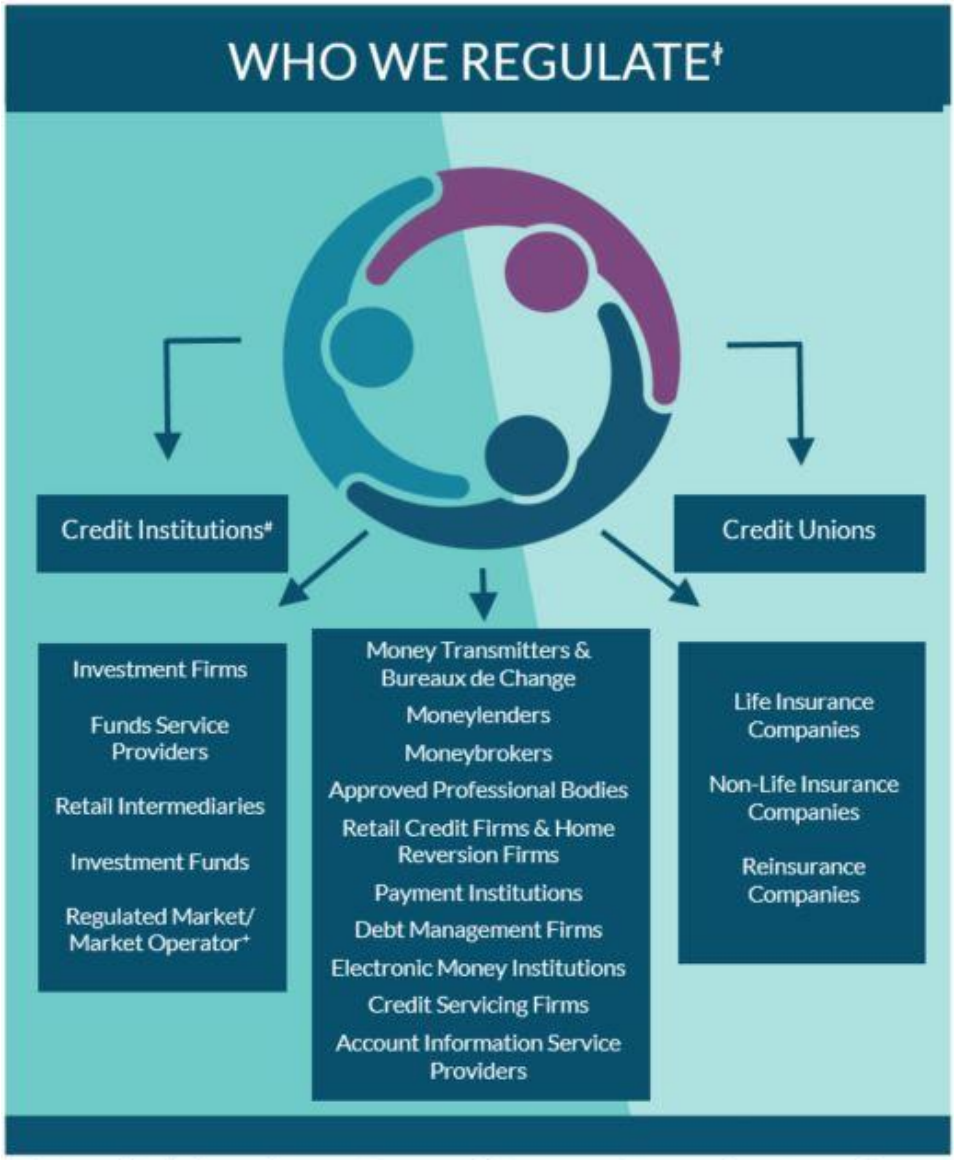
Annual Performance Statement 2020 - 2021

Contents

Part 2: Annual Performance Statement 2020-2021

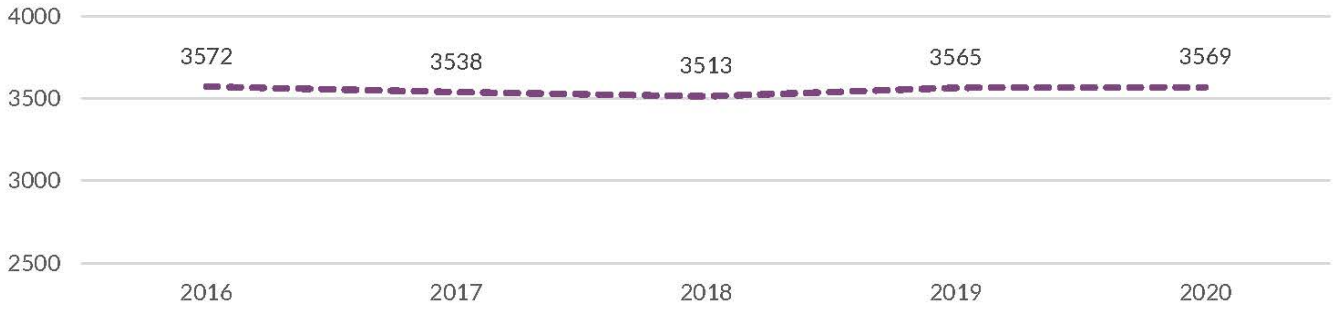
Introduction

The objective of financial regulation is to have a resilient and trustworthy financial system, which sustainably serves the needs of the economy and its customers, in which firms and individuals adhere to a culture of fairness and high standards. We discharge our duties through a high-quality regulatory framework, delivering effective gatekeeping and intrusive supervision underpinned by a credible threat of enforcement.

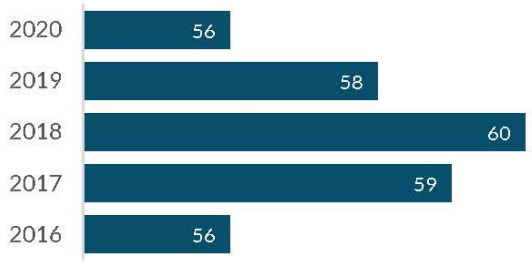


† The Central Bank also regulates specific aspects of the activities of a range of securities market participants including issuers and market counterparties.
# Regulated as part of the SSM.
+ This firm is also regulated as a benchmark administrator.

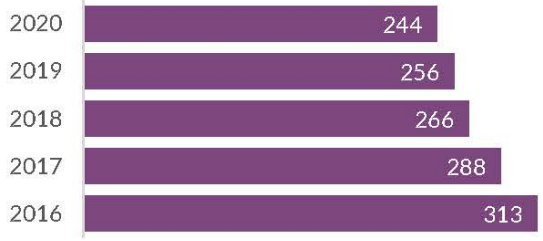
Total Regulated Firms (excl. Funds) 2016-2020



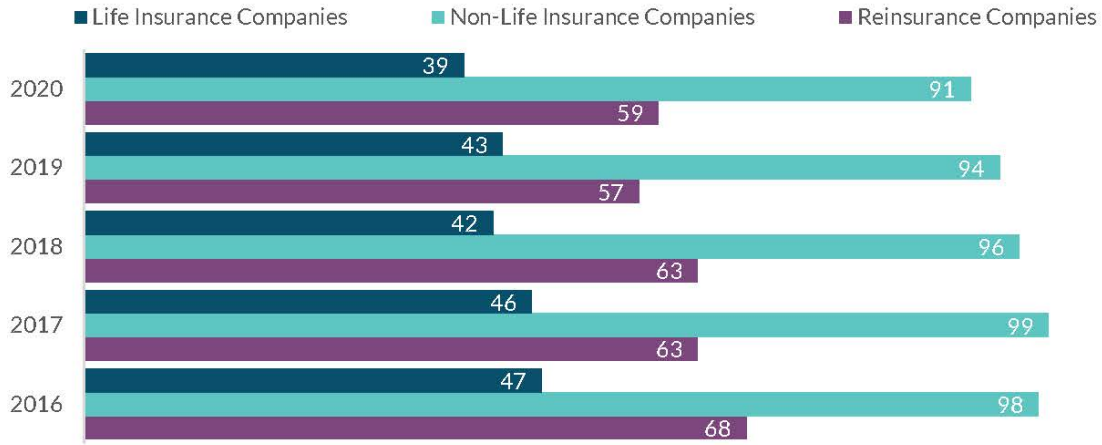
Credit Institutions



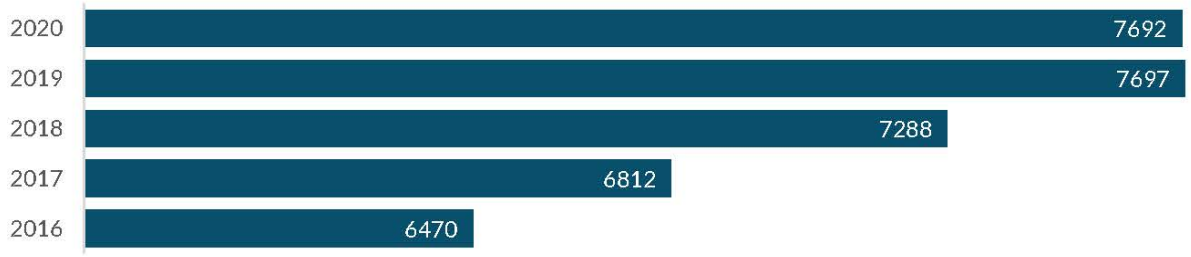
Credit Unions



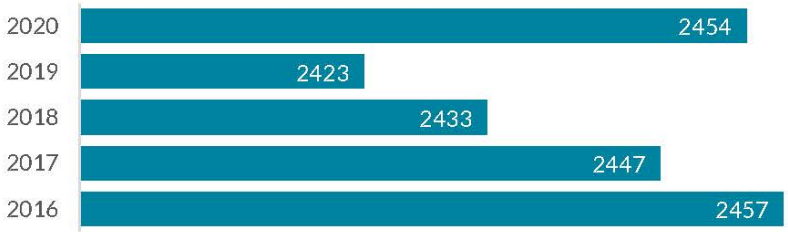
Insurance



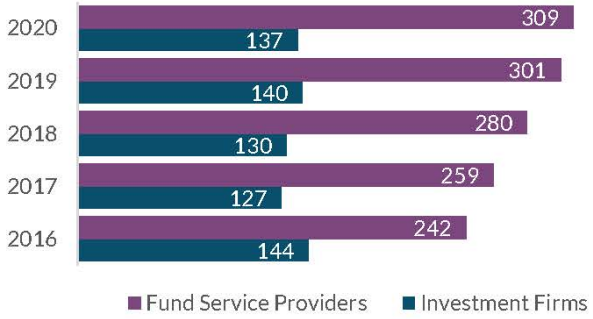
Collective Investment Schemes



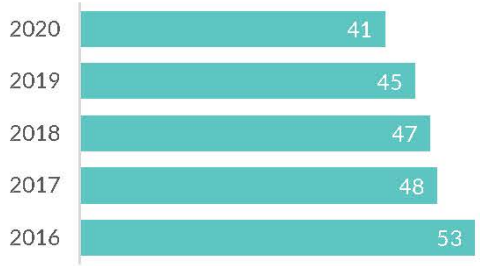
Retail Intermediaries



Investment Firms & Fund Service Providers



Debt Management Firms

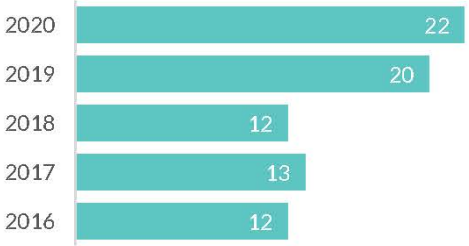


Money Lenders

Retail Credit Firms and Home Reversion Firms

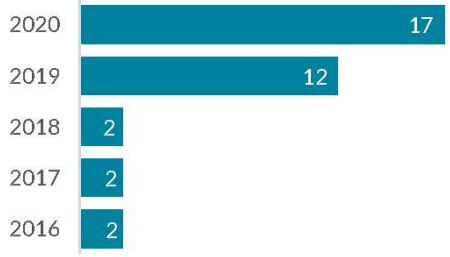
Money Transmitters and Bureaux de Change

Payment Institutions



Moneybrokers

E-Money Institutions



Chapter 1:

Achievements of Strategic Responsibilities in 2020

Chapter 1: Review of Regulatory Activities in 2020

Consumer Protection

As outlined the Strengthening Consumer Protection Section in Part 1: Annual Report, Chapter 1, the Central Bank has continued to play a key role in ensuring that the best interests of consumers and investors are protected while enhancing confidence and trust in the financial system through effective regulation. The Central Bank fulfils consumer protection responsibilities across its entire mandate, using its collective, broad policy and technical expertise in working to protect consumers and investors.

The Central Bank takes an assertive, risk-based, analytical and outcome-focused approach to consumer and investor protection, focusing on regulated firms and products according to the level of risk they pose to consumers. We are clear in our expectations of firms and how they treat their customers. We also listen to the experiences and views of consumers and investors. We undertake high quality consumer research and risk evaluation, which is used to inform our work, ensuring the consumer's voice is at the heart of how risks are identified. The aim is to ensure that firms treat their consumers and investors in a fair and transparent way and fully comply with both regulations and expectations.

Strengthening the Consumer Protection Framework

The COVID-19 pandemic has shown that the work taken in recent years to build a strong and flexible consumer protection framework has been beneficial for all consumers and that our consumer protection framework is responsive and effective in a crisis of this nature, particularly in dealing with the initial disruptions and impact on consumers.

However, the Central Bank also recognises the importance of adapting its regulatory frameworks and has continued to focus its efforts on ensuring that the consumer protection framework is responsive, relevant and appropriate and can react to the issues and challenges ahead.

In 2020, the Central Bank introduced new Regulations for licensed moneylenders which came into effect on 1 January 2021. The new rules are aimed at strengthening protections for moneylending

consumers and enhancing the professional standards in this sector. Prominent warnings are now required in all advertisements for high-cost credit and prompt consumers to consider alternatives and restricting moneylenders in how they offer and promote loans to consumers.

Collaboration and Engagement

The Central Bank actively engages and works with many other organisations to deliver an effective consumer protection framework. The Central Bank works closely with the other bodies responsible for financial services consumer protection in Ireland, the Financial Services and Pensions Ombudsman and the Competition and Consumer Protection Commission, to deliver our shared purpose of strong protections and trustworthy outcomes for consumers and investors. The Central Bank regularly seeks views and input from outside the organisation. This includes engagement with consumer and investor representatives and seeking insight from industry representative groups and regulated firms on sector or issue specific matters.

In November 2020, the Central Bank began a targeted review of the standard financial statement (SFS), which is used to gather information from those in financial distress. We brought together a working group of stakeholders with experience in assisting borrowers in distress to listen and address the challenges that borrowers can face when completing the SFS. As a result of this engagement, the Central Bank published a public consultation on changes to the SFS in March 2021. The proposed enhancements to the SFS and associated supports will benefit not only borrowers who have been directly impacted by the COVID-19 pandemic, but also borrowers who may experience financial difficulties into the future.

The Central Bank has continued to use consumer research to get a greater understanding of consumer attitudes. In 2020, research was conducted on the private car and home insurance markets as part of work on the Differential Pricing Review. Research was also completed on how consumers engage with digital products and tools in banking and financial services. Work also continued to examine and better understand individual consumer experiences of aspects of the mortgage market.

Consumer Advisory Group

The Consumer Advisory Group (CAG) is a statutory advisory panel, established under the Central Bank Reform Act 2010. The CAG provides advice to the Central Bank on the performance of its functions and the exercise of its powers in relation to consumers of financial

services. The CAG comprises consumer, industry, regulatory and academic experts.

During 2020, three meetings of the CAG were held online due to COVID-19 restrictions. Some of the consumer risk topics discussed included:

- COVID-19: Financial difficulties for SMEs and consumers.
- New Moneylending Regulations.
- Supervision of Retail Intermediaries.
- Differential Pricing in Insurance Products.
- Consumer Research of the Mortgage Application process.
- Distressed Debt.
- Brexit-related issues.

Supervision and Enforcement

Effective Supervision of Firms and Markets

Credit Institutions' Supervision

Against the challenges posed by the COVID-19 pandemic in 2020, the Central Bank remained focused on ensuring the resilience of the financial system. It continued to implement its multi-year strategy, which aims to ensure that regulated firms:

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

As a result of the actions taken by regulators and firms since the last financial crisis, the Irish banking system entered the COVID-19 crisis more resilient and with larger buffers of loss-absorbing capital. These factors ensured that banks were better able to continue to support their customers and the real economy throughout 2020.

Early engagement with key stakeholders, both domestically and at a European level, was central to our approach to managing and mitigating the rapidly evolving pandemic-related risks in 2020. This engagement ensured a coherent regulatory response across Europe, and across regulatory sectors. At the outset of the crisis, the Central Bank, in line with measures announced by the SSM and EBA, applied a level of supervisory flexibility to banks to ensure that they continued to serve customers and the wider economy. While banks were expected to continue to meet regulatory and statutory obligations on an ongoing basis, the measures, some of which were approved for a limited time, included:

- Postponement of deadlines for certain regulatory reporting submissions and remedial actions/measures.
- Relief measures regarding capital, liquidity and leverage ratio requirements.

The supervisory response to the onset of the pandemic resulted in a more specific focus on five key risk areas, namely: credit, in particular

distressed debt, financial resilience (capital and liquidity), operational resilience, and recovery and resolution. Other areas of focus in 2020 included supporting the development of supervisory guidelines, standards and methodologies and ensuring that the Central Bank is operating to, and influencing, European supervisory policy positions. The Central Bank also engaged with the ECB and the Less-Significant Institutions (LSIs) with regard to embedding climate-related risks into prudential supervision.

Credit - Distressed Debt

Further information on the Central Bank's work on this topic is set out in the Strengthening Consumer Protection section of Part 1: Annual Report, Chapter 1. Moreover, during the year, the Central Bank and the SSM outlined supervisory expectations to firms and provided guidance on distressed debt related issues and lenders' obligations. The aim here centred on ensuring the timely and accurate recognition of any deterioration in the risk profile of borrowers.

Capital

Under European regulation, regulated firms are required to hold sufficient capital to protect depositors and shareholders against unexpected losses. Given the pivotal role capital plays, both in the resilience of regulated firms and the financial system, it is a key focus area for the Central Bank. Significant work is undertaken annually to ensure regulated firms are adequately capitalised. Pursuant to its financial stability mandate, the Central Bank also uses macro-prudential policy tools such as the countercyclical capital buffer (see Box 2, Part 1: Annual report, Chapter 1).

Across the system, in 2020, capital ratios remained above regulatory requirements. The Financial Stability Review 2020: II provided a more forward-looking assessment of the resilience of the domestic retail banking sector.

During 2020, the ECB, EBA and ESRB issued recommendations that credit institutions exercise extreme prudence when deciding on or paying out dividends or performing share buy-backs aimed at remunerating shareholders.[14] The aim here is to ensure that firms maintain a suitable amount of capital to absorb potential losses and to support the real economy. The Central Bank is aligned with these views that institutions should apply a conservative approach to dividends and

[14] Recommendations of the ECB (ECB/2020/62) and ESRB (ESRB/2020/15) and the EBA (EBA Statement)

other distributions in light of the continued uncertainty surrounding the COVID-19 pandemic.

Liquidity

At the beginning of the pandemic, supervisors initiated enhanced monitoring of the liquidity profiles of credit institutions in order to ensure that any potential sudden liquidity stress was identified at an early stage. The liquidity position of the banking system remained resilient throughout the uncertainty that persisted in 2020.

The Liquidity Coverage Ratio (LCR) is a regulatory measure designed to ensure that regulated firms have an adequate stock of high quality liquid assets, such as cash, treasury bonds or high quality corporate debt, in order to meet contractual payment obligations over a short period of stress (30 days).The LCR of all regulated firms was above the 100% requirement throughout the year to Q3 2020.[15]

Operational Resilience

Similar to the actions taken for financial resilience, supervisors introduced enhanced monitoring of banks operational readiness and ability to provide services while faced with a major disruption. Throughout the year, supervisors assessed and monitored operational risks, including risks relating to outsourcing, critical functions, IT/cyber crime and contact centre performance. In general, banks were found to have taken the necessary steps to be able to continue to provide services despite the challenging environment and were found to have sufficient contingencies in place to maintain critical functions.

Credit Unions Supervision

The statutory mandate of the Central Bank, set out under Section 84 of the Credit Union Act 1997, is to ensure the protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally.

Against the backdrop of the pandemic, while 2020 was an unprecedented year for credit unions operationally and financially, they withstood the challenges arising. Operationally, credit unions were effective in maintaining continuity of services for their members, in large part because of the significant work and commitment of volunteers and staff at individual credit union level and through effective collaboration between credit unions. Financially, credit unions came into this crisis with strong reserves and liquidity positions. Positively, capital and liquidity levels remain largely intact, albeit the

[15] For retail banks, LCR was approximately 173% at end-Q3 2020 (147% at end-Q3 2019). For internationally-focused banks, the LCR was 177% at end-Q3 2020 (175% at end-Q3 2019).

growing gap between savings and loans continues to be of concern, and the sustainability of many individual credit unions remains a challenge.

The Central Bank's vision for the sector, underpinning the statutory mandate, is "Strong Credit Unions in Safe Hands", implemented through four strategic priorities:

1. Supervision and Engagement
2. Intervention and Restructuring
3. Tailored Regulatory Framework for Credit Unions
4. Business Model Engagement.

Supervision and Engagement

During 2020, the Central Bank delivered risk-based, outcome-focused supervision from the perspective of both operational and financial resilience. Strong governance and robust risk management are necessary and critical business enablers in this increasingly challenging environment and accordingly remained a key focus of our supervisory strategy. The Central Bank proactively engaged with credit unions to facilitate business continuity and to ensure members' needs continued to be served. The supervisory approach took account of the impacts of the pandemic and Brexit, and underlined the importance of credit unions maintaining a prudent approach to all aspects of their business affairs, aligned with risk appetite and underpinned by strong governance, operational capabilities and risk management frameworks.

Extensive two-way engagement with the sector and its stakeholders was undertaken through a range of channels including supervisory calls, virtual meetings, presentations, publications (Supervisory Commentary, Financial Conditions) and circulars. Detailed correspondence on important policy issues was published on the Central Bank website. The Central Bank also held an annual Information Seminar for credit unions via webinar with over 250 attendees.

Intervention and Restructuring

Restructuring of the sector, in order to drive more financially and operationally sustainable credit unions, continued during 2020, with 12 transfers completed and a future pipeline of transfers developed. This ongoing consolidation continues to reshape the sector, with 62 credit unions with assets over €100m now holding 64% of sector assets.

As indicated in the Strengthening Resilience section of Part 1:Annual Report, Chapter 1, in July 2020, the Central Bank applied for the winding-up of Drumcondra and District Credit Union Limited. Members' savings were protected through the Deposit Guarantee

Scheme. The Central Bank has supported proposals from other credit unions to ensure that credit union services continue to be available within the local area.

Tailored Regulatory Framework

In 2020, the Central Bank continued to ensure that the tailored regulatory framework is responsive and updated as necessary where prudentially justified. This included a review of the €100,000 individual member savings limit which, in line with the Central Bank's statutory mandate, was introduced in 2016 to ensure protection of members' funds by credit unions and maintenance of the financial stability of the sector. The outcome of this review was to retain the limit reflecting that the need for credit unions to take in large-scale savings had not been demonstrated and that available funding for credit unions continued to far exceed the current demand by members for lending. Changes were implemented to the investment framework in response to specific matters identified, including a Brexit-related transitional arrangement for certain UK-based investments held by credit unions. Regulatory input was contributed to changes to the Credit Union Act, 1997, to enable credit unions have the option to hold virtual general meetings of their members for 2020 and in the future.

Business Model Engagement

The CEO Forum was initiated by the Central Bank in 2018 to encourage CEO-led collaboration on business model development, with secretariat support from the Registry. In December 2020, the Forum launched its own website, which included publications on a range of topics. Credit union CEOs will continue to lead this initiative, and future input from the Central Bank will be focused on its gatekeeper role regarding regulatory assessment and challenge of business model proposals.

Insurance Supervision

The 2020 risk-based insurance programme centred on our COVID-19 response, monitoring and ensuring the financial and operational resilience of firms. This encompassed full risk assessments, engagement meetings and thematic reviews, with supervisors completing over 900 engagements. Supervisors continued to respond to an increasing number of transactions relating to consolidation, changes in firms' strategies and structures during 2020. Outcomes of thematic reviews on Fitness & Probity and Diversity & Inclusion were also communicated in H2 2020.

From a consumer protection perspective, focus centred on engagement with regulated firms to ensure the availability of

consumer-focused solutions in the areas of insurance policy rebates and insurance policy claims. On 5 August 2020, the Central Bank also published the COVID-19 and Business Interruption Insurance Supervisory Framework (see Box 5 in Part 1: Annual Report, Chapter 1). This work is ongoing in 2021, taking account of relevant court judgments. The Central Bank also launched a Review of Differential Pricing in the Private Car and Home Insurance Markets in 2020 and published its interim report in December 2020 (see Box 4 in Part 1: Annual Report, Chapter 1).

With a focus on the longer-term and improved analysis of emerging issues and 'horizon scanning', industry engagement was undertaken on climate risk (including flood cover) and cyber underwriting risks. This will enhance supervisors' ability to identify and respond to risks in the insurance sector in an effective and timely manner.

As set out in the Brexit section of Part 1: Annual Report, Chapter 1, the Central Bank engaged with the Department of Finance on the development of a temporary run-off regime for insurers and brokers.

In terms of communications, extensive engagement continued with industry, representative bodies and EIOPA during the period regarding COVID-19 implications, emerging risks such as climate, together with the publication of insurance industry newsletters and an Insurance Industry Briefing in November 2020.

During August 2020, as part of an organisation wide project, the Central Bank Portal was rolled out to insurance undertakings.

Asset Management and Investments Supervision

In 2020, the Central Bank continued to discharge its responsibility for the authorisation, prudential supervision and inspection of regulated entities within the Irish asset management and investment banking sector.

This was achieved through a risk-based supervisory approach in tandem with a robust client protection focus, supported by skilled resources, effective communication and continued collaboration across the Central Bank.

Supervision

During 2020, the Central Bank's supervisory strategy for the asset management and investment banking sector was revised in response to the COVID-19 pandemic and in light of significant market volatility in Q2.

During this time, supervision was particularly focused on the operational resilience of the sector and the continuity of services.

This approach aligns with our risk-based approach and supported enhanced engagement with firms across the sector. Importantly, it contributed to a number of important supervision outcomes, including:

- Core risk assessments across key risks such as IT, governance and operational risk.
- Proactive engagement with supervised entities on their preparedness for Brexit and risks presented to their business models.
- The completion of the algorithmic trading thematic review to assess the governance and risk management frameworks in place for algorithmic trading firms.
- Enforcement actions to promote compliance with regulatory requirements.
- A skilled person review on risk management, compliance and control functions.
- The conclusion of a thematic review on Fund Management Company Effectiveness Guidance (see in Box 17 below).

Box 17: Fund Management Company Effectiveness Guidance Thematic Review

The Central Bank's Fund Management Company Guidance came into full effect in July 2018, introducing changes for Fund Management Companies (FMCs).[16] This guidance, together with Central Bank requirements, creates a framework of comprehensive rules and guidance on the effective governance, management and organisation of these entities.[17]

In 2019, the Central Bank completed a thematic review assessing how FMCs have implemented Central Bank requirements and related guidance in relation to the organisation of FMCs.[18] The thematic review was undertaken across three phases (a questionnaire, desk based review

[16] Fund Management Company refers to a UCITS management company, an authorised Alternative Investment Fund Manager (AIFM), a self-managed UCITS investment company and an internally managed Alternative Investment Fund which is an authorised AIFM.

[17] The requirements are contained in the Central Bank UCITS Regulations and the Central Bank's AIF Rulebook.

[18] The requirements are supported by the Central Bank's Fund Management Companies – Guidance, dated December 2016.

and series of onsite inspections) and concluded in 2020 with the publication of a Dear Chair letter to industry.

In summary, the review determined that a significant number of FMCs have not fully implemented the framework for governance, management and oversight. Consequently, the Central Bank has required prompt remediation by those firms where shortcomings were identified.

All other FMCs have been required to critically assess their daily operations against the requirements, while taking into account the findings of the review, and implement the necessary changes to ensure full and effective embedding of all aspects of the Central Bank requirements and related guidance.

Client Assets

During 2020, the Central Bank maintained high visibility across supervised entities holding client assets aligned to our risk-based approach to supervision. This included firm specific enhanced operational resilience engagement relating to COVID-19 challenges, continuing our commitment to client asset inspections, evaluating applications for authorisation and monitoring the migration of client assets upon conclusion of mergers and acquisitions.

New Prudential Regime for Investment Firms

Finally, throughout 2020, the Central Bank progressed with its preparation for the implementation of the Investment Firms Regulation (IFR) and Investment Firms Directive (IFD). This has included considering how the IFR/IFD will be incorporated into our Central Bank supervisory framework and engaging with our colleagues across the ESAs in relation to the development of various level two and level three texts.

Securities and Markets Supervision

In 2020, the Central Bank's supervision focus on securities markets was dominated by the COVID-19 pandemic and Brexit. Tasks completed included both trigger-based interventions on foot of daily market monitoring as well as proactive interventions in the form of thematic reviews and targeted engagements with key components of the securities market, including investment funds. Thematic interventions included the completion of the Central Bank's review of the implementation by firms of the Central Bank's framework for fund management companies' governance, management and effectiveness (see Box 17), coordinated supervisory actions with ESMA and other national competent authorities on liquidity management in UCITS,

corporate bond funds and property funds. Each of these interventions led to specific requirements for individual firms and, where appropriate, the relevant industry sector at large to implement specific programmes of work to mitigate the risks identified.

In reaction to the market impact of COVID-19 and increased market trading volumes, the Central Bank also increased monitoring of short selling and disclosures to the market by listed issuers, as well as commencing a review of compliance by issuers and regulated firms with their obligations under the Market Abuse Regulation.

Throughout this work, the Central Bank continued to build its capability to use the data and other intelligence available to inform its supervision of securities markets, including funds. As well as enhancing the market monitoring tools used in the Central Bank's daily work and increasing the scale of reporting to us in reaction to COVID-19 developments, work included on-boarding of new structured data sets in the fields of money market funds and securities financing transactions.

Being an effective gatekeeper is an important safeguard to ensure that securities markets and market participants operate in a transparent and accountable manner, not least in the context of the elevated levels of market volatility seen throughout the year. In 2020, 717 new investment funds were authorised, following robust assessment, which included a significant number of fitness and probity assessments in respect of individuals running the funds. There was also approval of 906 prospectuses under the Prospectus Regulation, including the assessment and review of 3,372 individual submissions, as well as the remaining implementation of the new Prospectus Regulation.[19]

In 2020, the Central Bank continued to embed an increasingly risk-based approach to this gatekeeper work, applying greater scrutiny to those applications that present the greatest risk to its objectives. Applications subject to enhanced scrutiny accounted for approximately 15% of all prospectus submissions and included, most notably, offers to retail investors and applications with a derogation request from prospectus disclosure requirements. It has also involved ensuring that securities offerings describing themselves as asset-backed meet the criteria of having underlying assets and identifiable cash flows, as well as ensuring conflicts of interest are properly disclosed. Enhanced scrutiny was also undertaken for 95 investment fund applications, resulting in the return of 11 applications during the year. Enhanced

[19] Regulation (EU) 2017/1129 (Prospectus Regulation) of the European Parliament and of the Council of 14 June 2017.

scrutiny is undertaken where an investment fund application has features that may impact negatively on investors or have financial stability implications.

Enforcement

The Central Bank has concluded 139 enforcement actions, resulting in monetary penalties of over €123m and 16 disqualifications of individuals.[20] Using its investigation powers under the Fitness and Probity regime, the Central Bank has issued prohibitions in respect of nine individuals.[21] The breadth of the Central Bank's enforcement tools, across its mandate of regulated firms, markets and unauthorised activity, is set out on the Enforcement section of the Central Bank website. Details of outcomes and cases at Inquiry are also available.

The Central Bank delivered a number of notable enforcement outcomes in 2020, built on multi-layered and forensic investigations. Key outcomes and milestones included:

The Central Bank imposed a fine at the highest end of its sanctioning powers on KBC Bank Ireland plc. The fine of just over €18.3m is the second outcome in a series of on-going tracker mortgage investigations, following the €21m fine imposed on permanent tsb p.l.c. in 2019. The fine reflected the gravity of the impact of KBC's failings on its customers, which included significant overcharging and the loss of 66 properties, which in some instances were avoidable. Tracker mortgage-related investigations against a number of other lenders continue.

Separately, the Central Bank fined The Governor and Company of the Bank of Ireland €1.66m, for cyber security-related failings by its former subsidiary, Bank of Ireland Private Banking Limited. Cyber security

[20] As at 31 December 2020.
[21] As at 31 December 2020.

threats remain a challenge to financial services firms and this enforcement outcome highlights to all firms the importance of ongoing vigilance in the area. The fine also reflected significant failures to cooperate with the Central Bank, which frustrated and prolonged the investigation.

The Central Bank has publicly stated its focus on individual accountability and, in 2020, it sanctioned the former executive director and Chief Financial Officer of RSA Insurance Ireland DAC.

All fines collected by the Central Bank are paid to the Exchequer.

Box 18: Administrative Sanctions Procedure Inquiry Process

The Central Bank may commence an enforcement investigation under its Administrative Sanctions Procedure (ASP) where it has concerns that breaches of regulatory requirements (known as prescribed contraventions) may have been committed. Following such investigation, which involves the gathering and interrogation of information, witness interviews and the assessment of evidence against regulatory requirements, the Central Bank will assess whether or not it has reasonable grounds to suspect that a prescribed contravention has been committed. At that point, the Central Bank may decide to:

- Take no further action
- Issue a Supervisory Warning
- Resolve the matter by taking supervisory action
- Agree a settlement imposing sanctions
- Refer the case to Inquiry for determination and sanction.

The Central Bank's power to conclude ASP cases, and impose sanctions, by way of an agreed settlement has proven an effective tool in delivering on its enforcement strategy, with total fines of €123m imposed under the settlement process to end-2020. The settlement procedure offers both the Central Bank and the firm/individual a means of saving resources and costs. The procedure envisages that a discount of up to 30% may be applied to the sanction to recognise this saving of costs and resources through resolution of the investigation.

There are cases, however, that will not be suitable for settlement and firms or individuals subject to the ASP process, who will not make the admissions or agree the sanctions that the Central Bank considers necessary to form the basis of settlement. Such cases are referred to Inquiry for determination.

The inquiry is comprised of one or more impartial decision-maker(s), appointed by the Central Bank to hear evidence. The inquiry's role is ultimately to determine whether the suspected breach(es) occurred or is (are) occurring and, if so, to determine the appropriate sanction(s).

The first inquiries, in respect of persons formerly concerned in the management of Quinn Insurance Limited and Irish Nationwide Building Society, were set up by the Central Bank in 2015. A number of legal challenges were brought, and successfully defended by the Central Bank, in connection with these inquiries.

The delivery of the inquiry process, as mandated under the Central Bank Act 1942, required significant investment by the Central Bank, including to ensure that inquiries were operationally fit for purpose. As the former Central Bank premises could not accommodate inquiries, leasing and equipping appropriate premises was required to hold public and private hearings as well as other regulatory processes. It also included appropriate technology to support the efficient progression of inquiry hearings, which can involve large volumes of complex documentation as well as multiple participants and legal teams. An outline of the operational costs to build the Central Bank's capability to facilitate the running of both inquiries from 1 January 2016 up to 31 December 2020, which in total amounted to €7,820,621 are as follows:

Cost	Amount
Facilities and Maintenance	€831,570
Office Administration	€115,272
Communications and IT	€1,199,791
Rent and Utilities	€1,501,988
Professional Fees (Technology and AV Infrastructure)	€4,172,000
Total	**€7,820,621**

Following the Central Bank's move to the North Wall Quay campus, future inquiry and other hearings in respect of our enforcement processes will be accommodated within the campus. As part of the Individual Accountability Framework, which the Department of Finance is to bring forward in legislative proposals, the Central Bank anticipates a number of enhancements with respect to the inquiry process.

Quinn Insurance Limited Inquiry

2020 marked the conclusion of the Central Bank's inquiry under the Administrative Sanctions Procedure into two former directors of Quinn Insurance Limited (Under Administration) (QIL) pursuant to settlement agreements with the two former directors. This is a significant milestone and outcome for the Central Bank as it

demonstrated the ability and willingness to use the full breadth of powers and refer cases to inquiry where appropriate. Details of the QIL inquiry and the settlement agreements are available on the Central Bank website. In 2016 and 2017, the Central Bank successfully defended High Court proceedings brought by the two former QIL directors challenging the investigation and inquiry and costs were awarded to the Central Bank.

The QIL inquiry concerned one suspected prescribed contravention in respect of two former directors of QIL. Following eight private inquiry management meetings (the first of which took place in April 2016 and the last in April 2019), the seven day public hearing of the inquiry commenced on 28 May 2019 on a paperless basis (approximately 1,300 documents for consideration). The costs incurred in the QIL inquiry amount to €1,896,303 broken down as follows:

Cost	Amount
Inquiry Members' fees and expenses	€216,202
Legal professional fees (advisors to the Inquiry and to Enforcement)	€725,539
Document management and stenography services	€954,562

The costs of successfully defending the related High Court litigation amounted to €364,844, which comprises legal professional fees in addition to other outlays such as stenography fees and legal costs accountants.

Irish Nationwide Building Society Inquiry

The Irish Nationwide Building Society (INBS) inquiry, which commenced in July 2015, continued in respect of two persons concerned, Mr Stan Purcell and Mr Gary McCollum. The INBS inquiry concerns seven suspected prescribed contraventions, and at the outset was in respect of five persons concerned. Two of the former persons concerned (Mr Michael Walsh and Mr Tom McMenamin) entered into settlement agreements with the Central Bank in 2018. In 2019, the inquiry was permanently stayed against one of the persons concerned (Mr Michael Fingleton) on the grounds of ill health.

The inquiry, which operates on a paperless basis, given the scale of the data (over 110,000 documents to be considered), complexity of the case and number of participants, has been divided into four modules. Hearings of evidence concluded on the first three modules in 2018 and 2019 over 73 days. Additionally, there have been 11 pre-hearing inquiry management meetings, as well as two further meetings following commencement of hearings, to deal with a significant number

of applications and submissions. A further three private hearings were held to hear confidential medical evidence. The inquiry members have issued 20 decisions in respect of applications brought by persons concerned and other matters concerning the running of INBS.

In 2020, hearings commenced in the final module, which concerns four suspected prescribed contraventions in respect of INBS's commercial loan book. The hearings progressed during 2020, using the inquiry's bespoke facilities for remote hearings. Due to the significant amount of confidential borrower information involved, the inquiry members directed that hearings in respect of the individual loan evidence would be held in private. The final hearing in the module, to include evidence from multiple witnesses, will be held in public, and it is anticipated that the inquiry will conclude evidential hearings in 2021. Attendance at remote hearings in public session is open to members of the public and the media.

Anglo Irish Bank

The Central Bank's investigation pursuant to the ASP in respect of Anglo Irish Bank (now Irish Bank Resolution Corporation Limited (in special liquidation)) (IBRC) was deferred in 2011 to allow for the criminal investigations and prosecutions that were commenced and pursued by An Garda Síochána, the Office of the Director of Public Prosecutions and the Office of the Director of Corporate Enforcement. A number of prosecutions were taken and concluded in respect of key IBRC individuals between 2014 and 2018. The Central Bank applied to the Court in 2018 for access to evidence relied upon in certain prosecutions. The application was made to ensure that evidence, where relevant, would be available for consideration as part of any relevant fitness and probity assessments for the Central Bank's gatekeeper mandate. The IBRC special liquidation is due to conclude in the near future. In the circumstances, the Central Bank will not be reopening the ASP investigation deferred in 2011.

Regulatory Decisions Panel

In 2020, the Central Bank commenced a process to appoint a new panel of decision makers who could be appointed to hear and determine a number of regulatory processes, including inquiries. The members will comprise of externally recruited senior professional practitioners and business leaders, as well as senior Central Bank staff members. Appointments to the panel, which is for a fixed term, will be made in 2021.

Unauthorised Firms

In 2020, the Central Bank published 86 warning notices in respect of unauthorised firms, which represents a 62% year-on-year increase (53 notices were published in 2019). There is a list of unauthorised firms available on the Central Bank's website. The Central Bank liaises closely with An Garda Síochána in respect of unauthorised activity to ensure such wrongdoing is addressed in an effective manner through crime prevention and consumer protection initiatives.

The Central Bank is very aware that scams can be performed by using various methods to target consumers, for example, using social media, fake websites, cloning/using the details of authorised firms on their websites to increase the appearance of legitimacy. To assist consumers, the Central Bank launched a campaign to encourage consumers to take the SAFE test before engaging with a firm.

Protected Disclosures

Protected Disclosure reports are an important tool to help the Central Bank safeguard the financial system and consumers. The Central Bank received 202 disclosures during 2020 (200 in 2019).

The Central Bank encourages individuals to report concerns or information relating to suspected regulatory wrongdoing in financial services. Relevant experts thoroughly assess each protected disclosure.

The Central Bank can take a number of actions on foot of information received as a protected disclosure. Actions taken during 2020 were critical to a series of important outcomes and included undertaking additional supervisory work such as inspections, requiring a firm to undertake remediation actions, putting firms under higher supervisory focus, the implementation of Risk Mitigation Programmes and enforcement action.

Regulatory Policy and Supervisory Framework

Strengthening the Supervisory Framework

In 2020, work continued on the review and enhancement of PRISM. The review includes the PRISM Impact Review, a review of supervisory minimum engagement and further consideration and articulation of the Central Bank's supervisory risk appetite. It seeks to ensure that the Central Bank continues to deliver a robust, risk-based and outcomes-focused approach to supervision, facilitating the deployment of limited resources to achieve the best supervisory outcomes. Revised prudential impact models were implemented for firms in the asset management, market infrastructure, fund service providers, (re)insurance, credit union, payments and e-money sectors. The Central Bank also revised minimum engagement models in a number of these sectors, enhanced its retail conduct supervisory framework to encompass firm specific supervision in addition to sectoral supervision and focused on enhancing the Central Bank's supervisory risk management framework. This work will continue in 2021, with a particular focus also on the funds sector.

Policy Development

The Central Bank develops and implements regulatory policy in relation to credit institutions, insurance undertakings, investment firms, investment funds and securities and markets, both domestically and internationally.

During 2020, policy measures were quickly introduced to mitigate risks to financial stability and the economy posed by the pandemic. The Central Bank advised the Department of Finance during EU negotiations on amendments to the Capital Requirements Regulation, in response to COVID-19. It engaged extensively with EU and international counterparts. The Central Bank helped develop policies on issues including distributions, supervisory reporting, payment moratoria, and capital, liquidity and leverage ratio relief measures.

Domestically, the development of an enhanced Individual Accountability Framework was a priority. The Central Bank continued to engage with the Department of Finance to bring forward legislative proposals for this enhanced framework. It is envisaged that this framework will set reasonable and expected standards of behaviour in the regulated financial services industry. It will also require firms to provide clarity regarding responsibility and decision-making. This will

ensure that the financial system operates in the best interests of consumers and the wider economy.

Protection of client assets is a key priority for the Central Bank. It published a consultation paper (CP133) proposing significant enhancements to its client asset requirements to further strengthen the regime in light of the changing client asset landscape in Ireland. Stakeholders were invited to submit responses to the Central Bank until 10 March 2021.

On an ongoing basis, the Central Bank reviews the regulatory requirements for funds and fund service providers. It launched consultations on share class features of closed ended qualified investor funds (CP132) and new performance fee guidance for UCITS and certain types of retail funds (CP134).

Outsourcing remained a priority in 2020, building on past activity. The Central Bank developed draft cross-industry outsourcing guidance for public consultation in 2021. The objective of the guidance is to improve standards of governance and management of outsourcing risk by regulated firms.

Sustainable finance is a growing priority for the Central Bank. In response to the European consultation on Renewed Sustainable Finance Strategy, the Central Bank outlined its views on the challenges to development of sustainable finance and mitigation of sustainability risks. The Central Bank contributed to the development of EU regulation and guidance on sustainable finance at the ESAs. It made an important contribution to the development of ECB guidance on climate-related and environmental risk.

Embedding the EU's regulatory framework into supervisory practices continued to be a priority in 2020. The Central Bank assisted the Department of Finance in transposing revisions to the Capital Requirements Directive (CRD V). This Directive introduces a number of new requirements for Irish institutions. These include a supervisory review process, capital, governance, remuneration and an approval process for EU and third country group structures.

Financial Innovation

Financial innovation was a key focus across the Central Bank in 2020. The Central Bank had effective engagement and made good progress on a range of innovation-related issues, under the leadership of its Innovation Steering Group.

In the spirit of open engagement, there were 90 engagements with innovators and other stakeholders via the Innovation Hub. The

Innovation Hub also engaged with innovators via two virtual outreach events.

It was a significant year for EU engagement on innovation. The European Commission published its wide-ranging and multi-faceted Digital Finance Strategy, which the Central Bank assessed and identified key activities over the term of the strategy. The Central Bank outlined its positions in response to two key EU public consultations: a framework for markets in crypto assets and a digital operational resilience framework for financial services. It is providing technical advice to the Department of Finance during negotiations on these two draft legislative texts.

The Central Bank also contributed as a member of the European Forum for Innovation Facilitators, the innovation committees/networks at the ESAs, SSM, ECB, Bank for International Settlements (BIS) and IOSCO. The Central Bank and seven other central banks were key contributors to the Eurosystem's successful application to host a centre of the BIS Innovation Hub.

Funding and Staffing of Financial Regulation

Funding of Financial Regulation

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

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

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

The annual funding requirement reflects the cost of financial regulation, the recovery rates approved by the Minister for Finance and adjustments in relation to balances or deferred income from prior years.

Box 19: Implementing the Central Bank's Funding Strategy

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

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

Progress in relation to these items is as follows:

- Increase the recovery rate: In June 2019, following approval by the Minister for Finance, the Central Bank published the expected path towards 100% industry funding over the next five years. Planned recovery rates are also included in the Central Bank's Industry Funding Guide.
- Levy on the basis of actual cost: Industry's share of 2020 costs will again be levied in arrears in Q3 2021. The move to levying in arrears

on the basis of actual cost was first implemented in relation to 2019 costs.

- Alternative levy methodologies: It is likely that the methodology applied to levy payment institutions and e-money institutions will be revised subject to feedback from CP 137. In 2021, the Central Bank will continue to review levy methodologies and propose improvements where such changes are consistent with the achievement of levies that are predictable, transparent and proportionate.

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

Staffing in Financial Regulation

At end-December 2020, there were 1,028.5 full-time equivalents (FTEs) involved in regulatory activities, up from 978 in December 2019. The increase in staff in 2020 is principally attributable to the successful build out of resourcing levels across each of the regulation directorates in line with Commission approved levels for the period of the strategic cycle.

Key areas that have influenced this build out are:

1. Brexit: As authorisations activity returned to business as usual levels, resources were redeployed to build out supervision teams for newly regulated entities.
2. The build out of Consumer Protection in line with our Strategic Themes 2019-2021.
3. Strengthening priority teams relating to wholesale conduct, quantitative and data analytics and IT & Cyber risk.
4. Annual intake under the Central Bank's Early Career Programmes which support the development of talent through the scholarship and graduate programmes.

Service Standards for Processing Applications and Contact Management

Service Standards

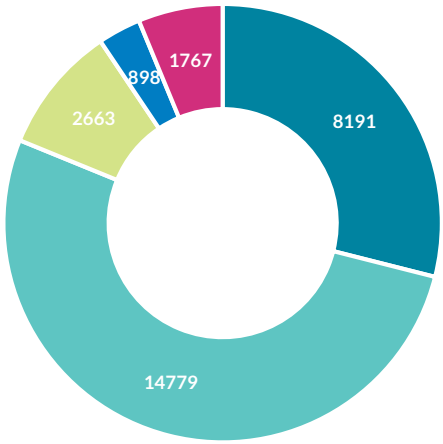
The Central Bank publishes two half-yearly reports[22] outlining its performance against service standard commitments in respect of (i) assessment of Fitness & Probity (F&P) applications, (ii) authorisation of financial service providers and investment funds and (iii) contact management services.

Regulatory Transactions Services

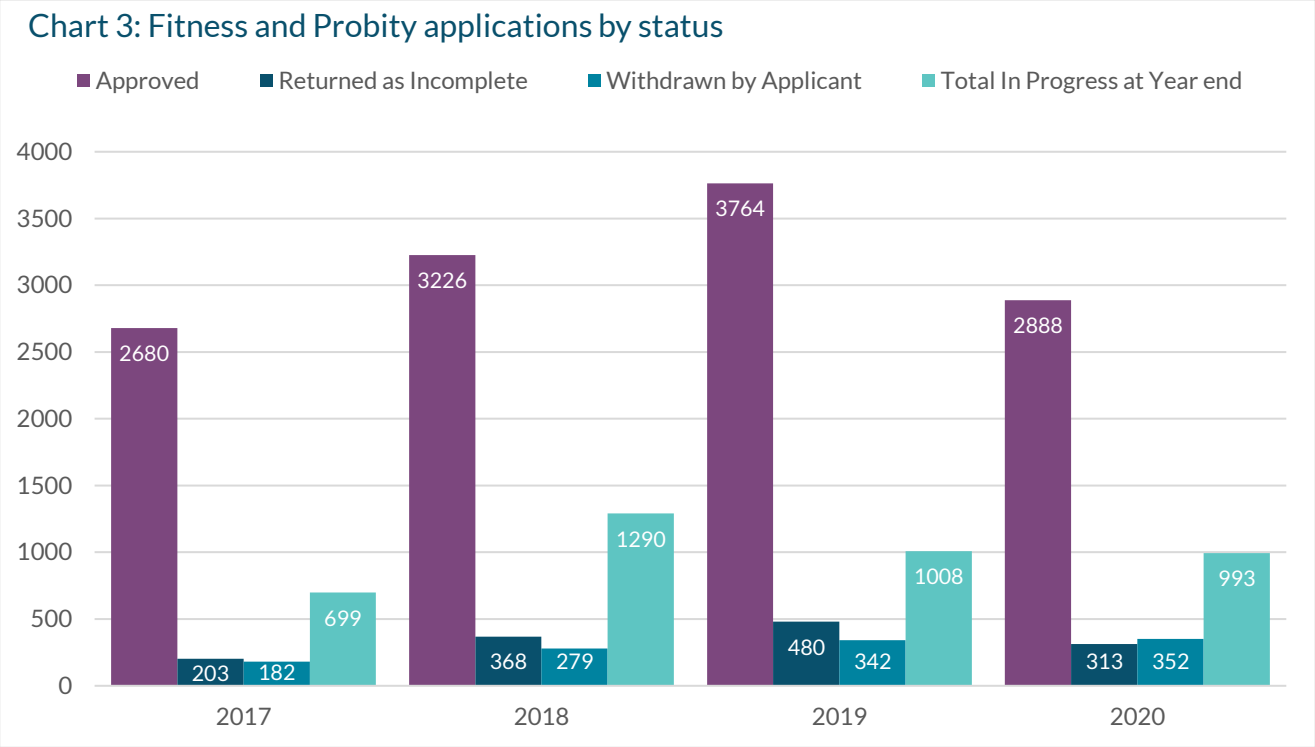
The Central Bank operates a centralised, streamlined and automated service for core transactions, such as fitness and probity, funds and fund service provider (FSP) authorisations, passporting, returns management and contact management processes, thus improving the consistency of decision making, reducing risk and delivering a measurable and transparent service with improved turnaround times.

Queries during 2020 totalled 28,298, a 13% increase in volumes on the previous year. The increase in queries reflected trends seen throughout the year, as firms sought additional support due to remote working arrangements during the COVID-19 pandemic. Additionally, the number of regulatory returns due from regulated firms increased by 21%, from 31,367 returns due in 2019 to 37,834 returns due in 2020. The largest increase was in the area of statistical reporting.

Chart 2: Number of queries dealt with by the Regulatory Transaction Contact Centre



[22] H1 Report and H2 Report



During 2020, 3,553 Pre-Approval Controlled Function (PCF) applications were assessed, representing a 29% decrease (2019: 4,586). The decrease was primarily due to the impact of the COVID-19 pandemic.

Chart 3 highlights F&P applications by status. In 2020, 101 applicants were subject to the interview process and 8 (8%) withdrew their applications. Of the applications that were assessed, 81% were approved while 19% were either returned as incomplete or were withdrawn by the applicant (2019: 82% and 18% respectively).

In 2021, the Central Bank will implement a number of strategic actions, including enhancing its contact management service and further developing interactions between the Central Bank and regulated firms through the roll out of the new Central Bank Portal. In addition, a new ECB Portal for the submission of PCF applications for SSM banks was launched in Q1 2021, which is integrated with Central Bank systems.

Internal Audit

See Part 1: Annual Report, Chapter 4: Internal Audit, which provides details of the Central Bank's internal audit activities and governance processes.

Chapter 2:
Strategic Priorities for 2021

Chapter 2: Strategic Priorities for 2021

The objective of financial regulation is a resilient and trustworthy financial system, which sustainably serves the needs of the economy and its customers, in which firms and individuals adhere to a culture of fairness and high standards. The Central Bank discharges its duties through a high-quality regulatory framework, delivering effective gatekeeping and intrusive supervision underpinned by a credible threat of enforcement.

The current Central Bank Strategic Plan runs to end-2021 and its priority themes will continue to guide much of the Central Bank's focus in financial regulation for 2021. Of those themes, the work related to Brexit is largely complete and so Strengthening Resilience, Strengthening Consumer Protection, Engaging and Influencing and Enhancing Organisational Capability will be to the fore.[23] While Enhancing Organisational Capability is dealt with separately below, Central Bank-wide priorities under the other three themes include, but are not limited to:

1. **Delivering intrusive, risk-based supervision through supervisory strategies** which seeks to ensure that: legacy issues are addressed; emerging risks and issues are identified and mitigated; resilience is maintained and enhanced in the financial system; fair outcomes for consumers and investors are achieved; and the integrity of the system is protected from illicit use by criminals and terrorist organisations.

2. **Enhancing the regulatory and supervisory framework** to safeguard the stability of the system and soundness of firms and markets; protect consumers and investors; and hold firms and individuals to account for regulatory breaches.

3. **Ensuring the financial system can provide services that households and business require**, in good times and in bad, and that they do so fairly, with firms having effective risk management and control arrangements in place.

4. **Strategically influencing and shaping** key policies in Europe and internationally, aimed at strengthening the resilience and

[23] From a financial regulation perspective, much of the work under the Brexit theme was conducted in advance of the UK's departure from the EU and subsequent trade negotiation.

regulation of the financial system, with consumer and investor protection to the forefront at all times.

Key activities under these priorities are set out below.

Delivering intrusive, risk-based supervision through supervisory strategies

- Address distressed debt in the system, ensuring the fair treatment of borrowers in financial distress and preserving financial stability. The Central Bank is focused on ensuring that there is appropriate support for borrowers in distress and that lenders treat them fairly, through consistent processes and in line with relevant codes and regulations. This will involve lenders engaging effectively with distressed borrowers to deliver appropriate and sustainable solutions and facilitate as many borrowers as practical to return to repaying their debt in a sustainable way, while also recognising and prudently accounting for the level of distress in their books.
- Maintain the Central Bank's supervisory focus on the financial and operational resilience of firms and markets, to ensure they continue to support households and businesses through the economic disruption caused by COVID-19, and that they operate in the best interests of the wider economy. While the timing and nature of the COVID-19 shock were largely unforeseen, the Central Bank's work has long recognised the inevitability of economic shocks and downturns, with a focus over the last decade on rebuilding and increasing the financial and operational resilience of the Irish financial system, together with significantly strengthening consumer and investor protection frameworks. This work will continue.
- Focus on strong governance and risk management capabilities in firms and markets to improve culture and decision-making (e.g. highlighting the role of diversity and inclusion) and to ensure that the risks are identified, managed and effectively mitigated, including the risks from disruptive change such as technological and market innovation, as well as climate-related financial risks. Regulated firms must be looking forward, anticipating future significant risks and opportunities to ensure that they remain resilient over the long term. Effective culture is essential to this. Firms must set the right standards and these must be reflected in every business area, from corporate governance structures to individual accountability; from strategy setting to product development; from risk management to people management; and from internal challenge to how whistleblowers are treated.

- Deliver effective supervision of AML/CFT and influence effective changes to the European AML/CFT framework, as part of supporting the fight against money laundering and terrorist financing.
- Progress a number of key areas such as EBA stress testing exercises, the annual Supervisory Review and Evaluation Process, the safeguarding of client assets and management company effectiveness and the development and implementation of appropriate frameworks and policies. For example, the Central Bank will continue with the CARE project to ensure a strengthened regime is in place for a broader landscape of entities holding client assets. The Central Bank will also progress with preparation for the implementation of the Investment Firms Regulation/Investment Firms Directive to ensure MiFID investment firms are supervised in line with this new framework.

Enhancing the regulatory and supervisory framework

- Drive forward the Central Bank's approach to supervision through enhanced data capabilities and by continuing to evolve and enhance the Central Bank's risk-based supervisory framework, so that its supervision is intrusive, challenging, and alive to emerging risks.
- Pursue the Central Bank's multi-year supervisory strategies to ensure that:
    - Firms identify risks/threats to the long-term sustainability of their business models and advance digital and business strategies to support business model sustainability and transformation.
    - Boards and executives must (i) demonstrate an appropriate understanding, ownership, and oversight of business performance, business model evolution and key risks such that strategic decisions are aligned with organisational capability, risk appetite, Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process, (ii) ensure that data aggregation and risk reporting practices are subject to strong Board oversight and (iii) assess whether the culture they espouse is consistent with the culture of the organisation.
- Enhance the Central Bank's regulation and supervision of firms for climate risk. The Central Bank wants to see firms well

prepared to deal with a rapidly evolving operating environment – including the transition to a sustainable economy.

- Progress with preparation for the implementation of the Investment Firms Regulation and Investment Firms Directive to ensure MiFID investment firms are supervised in line with this new framework. The majority of the new requirements apply from 26 June 2021 and will introduce a proportionate set of requirements with respect to prudential reporting, capital, liquidity, governance and remuneration for MiFID investment firms.
- Strengthen the consumer protection framework through the review of the Consumer Protection Code. The objective of the review, which will require extensive consultation and deliberation of policy and legislative issues, is to ensure that the Code reflects the changing financial services landscape.
- Proposed introduction of regulations in accordance with Section 48 of the Central Bank (Supervision and Enforcement) Act 2013. It is the view of the Central Bank that pre-emptive recovery planning is necessary to facilitate increased awareness and preparedness within firms. Pre-emptive recovery planning will inform strategic decision-making processes during a crisis. Developing a strategy during an extreme stress can limit the scope of the planning, the detail of the review, and the efficacy of decision-making.
- Introduce a Senior Executive Accountability Regime (SEAR). Since 2018, the Central Bank has been working with the Department of Finance to progress these legislative provisions and an Individual Accountability Framework in the context of the proposed Central Bank (Amendment) Bill 2019. The proposed reforms are ultimately a matter for the Oireachtas, however, 2021 will see progress towards an external consultation process. The aim is to have clearer accountability by placing obligations on firms and senior individuals to set out clearly where responsibility and decision-making lies for their business.

Ensuring the financial system can provide services that households and business require, and that they do so fairly

- Progress resolution of business interruption insurance issues arising from COVID-19 by ensuring firms adopt a customer-focused approach and by addressing any financial stability concerns that arise. The Central Bank's framework was designed to identify and monitor insurers' approaches to these types of policies, to set out its expectations in relation to these,

and to escalate accordingly where those expectations are not met. The Central Bank's supervisory work in this area is also taking into account relevant court judgments.

- Complete review of price differentiation practices in the Irish insurance market and make policy recommendations if practices give rise to unfair treatment of consumers. Given that differential pricing can be associated with both benefits and costs for consumers, completion of this detailed analysis is essential in order to ensure a full market perspective, evidence-based conclusions, and appropriately calibrated regulatory interventions. Consideration of the likely costs and benefits of any potential solution to risks identified is also essential, with any potential market and consumer price effects given appropriate regard.
- Continue to hold regulated firms and the people who run them accountable where there are serious breaches of regulatory requirements and standards. The Central Bank will utilise the full suite of enforcement tools available to deliver strong outcomes.

Strategically influencing and shaping regulation policy in Europe and internationally

- Seek to ensure that the financial system is resilient and functions in the best interests of consumers and the wider economy in Ireland and the EU. This work is focused on delivering high-quality regulatory, supervisory and resolvability outcomes that support the effective functioning of the financial system, and ensuring that the system as a whole is resilient and better able to absorb, rather than amplify, adverse shocks.
- Contribute to and shape the ongoing integration of the single market in financial services and the completion of the Banking Union. The Central Bank supports the ongoing integration of the Single Market for financial services in the EU based on high quality regulation, supervision, resolvability and macro-prudential policy as it will ensure a more effective and efficient functioning of financial markets, delivering better outcomes for the economy, consumers and investors. An important part of this work is developing the Single Rulebook for the European financial system and convergent approaches to supervisory outcomes across the EU.
- Pursue the evolution of the EU regulatory framework in the context of rapid technological innovation. The rapid evolution of technological change in financial services requires a

corresponding enhancement of the regulatory framework to mitigate emerging risks and anticipate future ones.

- Enhance the regulation of the non-bank sector. The Central Bank has already advanced significant supervisory interventions to require the regulated sector in Ireland, in particular, investment funds, to take steps to enhance their resilience. This year, the Central Bank will continue to work with European and international partners on the development of a comprehensive and proactive macro-prudential framework for the non-bank sector.
- Continue to build relationships with other national competent authorities through bilateral engagement on supervision and authorisation matters.

In 2021, the Central Bank will continue to prioritise legacy issues, issues arising from the COVID-19 pandemic, and the identification of emerging risks to ensure that appropriate steps are taken to mitigate them. The Central Bank also expects regulated firms to be proactive and forward looking in anticipating future opportunities and threats, including those arising from new product/technological innovation and climate change.

Enhancing Organisational Capability

In tandem with working to deliver on the above priorities, the Central Bank will continue to focus on enhancing its organisational capability, effectiveness and efficiency. At the time of writing, the COVID-19 pandemic continues to require the majority of Central Bank staff to work from home. The Central Bank is successfully doing so as a result of the significant investment in IT infrastructure and extensive continuity planning undertaken over the years prior to the pandemic. The Central Bank will continue to invest in culture, resources and capabilities to support the effective and efficient delivery of its mandate whilst maintaining the highest standards of governance and risk management.

Chapter 3:
International Peer Reviews

Chapter 3: International Peer Reviews

Section 32M of the Central Bank Reform Act 2010 requires that, at least every four years, the Central Bank shall make appropriate arrangements for an international peer review of its regulatory performance to be carried out. In 2020, the Central Bank focused on reacting effectively to heightened risks posed by the COVID-19 crises. In the circumstances, no Section 32M peer reviews were carried out during the period.

Glossary

Glossary

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

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

CCyB – Countercyclical Capital Buffer - The CCyB is a time varying capital requirement which applies to in-scope banks and investment firms. It is designed to make the banking system more resilient and less pro-cyclical. Essentially the CCyB will increase the capital requirement of banks when credit growth is 'excessive'.

EBA – European Banking Authority - The EBA is an independent EU Authority, which works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.

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

ESCB – European System of Central Banks - The ESCB comprises the ECB and the NCBs of all EU Member States whether they have adopted the euro or not.

ESMA – European Securities and Markets Authority - ESMA is an independent EU Authority that contributes to safeguarding the stability of the EU's financial system by enhancing the protection of investors and promoting stable and orderly financial markets.

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

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

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

LTROs – Long-term Refinancing Operations - The Eurosystem conducts monthly longer-term refinancing basic tender operations with a three-month maturity in order to steady the supply of liquidity and to assist banks who are active in the money market in the security of their operations.

MiFID – Markets in Financial Instruments Directive – A European regulation that increases the transparency across the EU's financial markets and standardises the regulatory disclosures required for firms operating in the EU.

MMF – Money Market Fund – A kind of mutual fund that invests in highly liquid, near-term instruments. These instruments include cash, cash equivalent securities, and high-credit-rating, debt-based securities with a short-term maturity.

MREL - Minimum Requirement for Own Funds and Eligible Liabilities - A new requirement for banks and investment firms that was introduced under Article 45 of the Bank Recovery and Resolution Directive to facilitate bail-in and to increase the loss absorbing capacity of banks.

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

PSPP – The **Public Sector Purchase Programme** is the largest of the four purchase programmes. This is carried out by the Eurosystem

under which public sector securities are purchased to address the risks of a too prolonged period of low inflation.

PEPP – The **Pandemic Emergency Purchase Programme** is a non-standard monetary policy measure initiated in March 2020 to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the COVID-19 outbreak.

SRB – Single Resolution Board - A European Agency set up to ensure an effective resolution regime for banks, to avoid future bailouts. It is a decision-making body, which is charged with ensuring that resolution decisions across participating Member States are taken in a coordinated and effective manner.

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

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

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

TLTRO – Targeted Longer Term Refinancing Operations - Eurosystem operations that provide financing to credit institutions for periods of up to four years. They offer long-term funding at attractive conditions to banks in order to further ease private sector credit conditions and stimulate bank lending to the real economy.

Part 3:
Financial Operations

Part 3: Financial Operations

Financial Results for 2020

Context

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

Key developments during 2020, in this regard included:

- The continued implementation of Eurosystem non-standard monetary policy measures via the introduction of the Pandemic Emergency Purchase Programme (PEPP) in response to the COVID-19 crisis, the continued net asset purchases under the ECB's Asset Purchase Programme (APP), the expansion of a third series of Targeted Longer-Term Refinancing Operations (TLTRO-III), and the continuation of a two-tier system for reserve remuneration. In addition to these measures, reinvestments of the principal payments from maturing securities purchased under the APP will continue in line with Governing Council forward guidance.
- Further disposals of the Central Bank's holdings in the Special Portfolio of Floating Rate Notes (FRNs), which arose from the liquidation of Irish Bank Resolution Corporation (IBRC). The interest income on the FRNs and the gains from the disposals made a substantial contribution to the Central Bank's profit in 2020.[24] During the course of 2020, prevailing market conditions permitted a total of €1.0bn of nominal holdings of the FRNs to be disposed of by the Central Bank, and purchased by the National Treasury Management Agency (NTMA).
- Lower holdings of securities under the Eurosystem Securities Markets Programme (SMP), which was terminated in 2012, as bonds matured. The aim of this programme was centred on ensuring depth and liquidity in segments of the euro area debt securities markets and restoring an appropriate monetary policy transmission mechanism.

[24] The disposal policy for this portfolio remains unchanged, with the intention to dispose of holdings as soon as possible, provided conditions of financial stability permit. The Central Bank has indicated that it will sell a minimum of these securities in accordance with the following schedule: 2020-2023 (€1bn per annum), and 2024 on (€2bn per annum until all bonds are sold).

Looking ahead, the Central Bank's assessment of its financial risk exposures is for these to remain broadly consistent with the assessment at year-end 2020, as net purchases under the PEPP and the APP continue. Nevertheless, a high degree of uncertainty regarding these exposures arises from geopolitical and economic factors, which may impact financial market conditions in the medium term. The ECB Accounting Guideline (the Guideline) provides for National Central Banks (NCB) to make a provision for financial risks. In line with this guideline, the Central Bank set aside a provision of €1,300.0m (2019: €900.0m) in the 2020 accounts in respect of exposures to interest rate risk, representing an increase of €400.0m (2019: €150.0m).[25]

Financial Results

Profit for the year to 31 December 2020 amounted to €829.6m, a decrease of €1,729.9m against a corresponding amount of €2,559.5m in 2019.

Realised gains on the sales of securities held in the Special Portfolio decreased by €1,086.8m in 2020 to €649.8m (2019: €1,736.6m) due to reduced sales in 2020 to €1.0bn nominal (2019: €3.0bn nominal). A provision charge of €398.4m was included in 2020 (2019: €104.2m), primarily made up of an increase in the provision for financial risks of €400.0m.

Interest Income

Interest income of €944.3m was €60.3m lower than the comparable amount of €1,004.6m in 2019.

The decrease was primarily attributable to significantly lower interest earned on securities held in the Central Bank's Special Portfolio (held in the MTM portfolio) (2020: €192.5m, 2019: €246.4m) mainly due to lower average holdings. Income on the Central Bank's own held-to-maturity (HTM) portfolio also declined by €52.4m to €192.0m (2019: €244.4m) as a result of lower holdings due to bonds maturing.

Interest income earned on securities (other than the Central Bank's Special Portfolio) in the MTM portfolios decreased to €16.2m (2019: €18.1m). This is due to reduced yields on the Central Banks' foreign currency investments which includes the Singapore Dollar (SGD), US Dollar (USD), Australian Dollar (AUD) and Chinese Renminbi (CNY) portfolios, as well as increased negative yields on euro investments.

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

Income earned on securities held for monetary policy purposes decreased by €15.8m in 2020 to €259.4m (2019: €275.2m) reflecting lower holdings in the SMP portfolio as bonds mature and lower holdings in the CBPP3 portfolio. The introduction of the PEPP portfolio has further decreased interest earned due to a negative yield on these securities. This is partially offset by an increase in average holdings in the PSPP portfolios due to continued purchases under the Eurosystem's APP.

The Central Bank earned interest income on government deposits and credit institution deposits amounting to €136.3m (2019: €103.5m) and €129.8m (2019: €91.7m) respectively during 2020.

Interest Expense

Interest expense amounted to €56.9m in 2020 (2019: €39.5m), an increase of €17.4m for the year. A significant driver of the change is attributable to the interest expense of €31.5m (2019: €8.2m) on the Targeted Longer-Term Refinancing Operations (TLTRO-II and TLTRO-III). The third round of TLTROs, TLTRO-III was introduced in 2019 and interest is being accrued at a rate of -1.0% (for the period 24 June 2020 to 23 June 2022) until the actual rate is set as this is deemed most prudent.

Interest expense on reverse repurchase agreements increased by €2.7m in 2020 to €15.6m (2019: €12.9m) reflecting greater transaction rates.

The lower expense on swaps of €8.2m (2019: €14.8m) is due to a general decrease in the interest rates of the underlying basket of currencies that make up the special drawing rights (SDR) of the International Monetary Fund, and a 25% reduction in the size of the SDR foreign exchange contracts in 2020.

Net Result of Financial Operations, Write-Downs and Provisions

The net result of financial operations, write-downs and provisions in 2020 was a gain of €122.6m (2019: €1,637.4m). Realised price gains on the Central Bank's investment portfolio decreased to €652.1m (2019: €1,740.1m) and primarily reflect realised gains of €649.8m in 2020 (2019: €1,736.6) on partial sales of the Special Portfolio.

A provision charge of €398.4m in 2020 (2019: €104.2) mainly relates to an increase to the provision for financial risks of €400.0m (2019: €150.0m).

Net Result of Pooling of Monetary Income

The net result of the pooling of Eurosystem monetary income gave rise to a net payment of €79.1m in 2020 (2019: net receipt €31.7m)

following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares. In addition, there was a revision of €3.1m to previous year reallocations (2019: €0.3m) which resulted in a total payment to the ECB of €82.2m (2019: net receipt €31.4m).

In 2020, assets in the CSPP portfolio, which had been provided for as a result of the annual impairment test in 2019 were sold, realising a loss which was covered by the existing provision. As a result, the Central Bank utilised €1.1m of the €1.5m impairment provision outstanding at year-end 2019 to cover the loss and released the remaining €0.4m provision to the profit and loss account. No new ECB provisions were created in 2020.

Operating Expenses

A detailed analysis of the Central Bank's operating costs is provided in Note 9 of the Statement of Accounts. The total operating expenses of the Central Bank, which is comprised of pay, non-pay, banknote costs and depreciation costs, increased by €40.0m to €339.9m (2019: €299.9m). This increase in operating expenses is primarily due to an increase in current service pension cost, additional untaken annual leave costs, staffing increases and an increase in banknote expenditure.

Staff costs, including pay, increased by €34.5m to €232.1m (2019: €197.6m). €21.8m related to increased current service pension charges driven by a decrease in the discount rate used in the actuarial valuation, €5.0m related to an increase in holiday days due to staff because of the pandemic environment, with the remainder a combination of additional staff and pay increases related to the Public Service Stability Agreement.

Other operating expenses decreased by €2.2m to €82.0m (2019: €84.2m) primarily due to lower professional fees, lower recruitment & staff costs, lower business travel costs and due in part to the pandemic environment.

Currency production costs increased by €9.2m to €11.2m (2019: €2.0m), which relates to an increase in the cost of banknotes issued. This is a result of both the 2019 and 2020 allocation being issued during 2020.

Surplus Income Payable to the Exchequer

After transfers to reserves and adjustments related to the recognition of a net actuarial loss on the Central Bank's pension scheme, as required under Financial Reporting Standard 102 (FRS 102), the

Central Bank's Surplus Income Payable to the Exchequer amounted to €665.7m (2019: €2,050.4m).

Balance Sheet Developments

Total balance sheet assets/liabilities as at 31 December 2020 were €141.5bn, an increase of €25.1bn (22%) over the corresponding balance for year-end 2019 (€116.4bn).

Assets

The securities held for monetary policy purposes balance increased by €11.9bn to €49.5bn at year-end 2020 (2019: €37.6bn) mainly due to the introduction of the PEPP.

The ECB TARGET2 balance increased to €46.1bn at year-end 2020, (2019: €35.4bn), an increase of €10.7bn. This increase is largely due to inflows channelled through credit institution's reserve accounts.

The Lending to Euro Area Credit Institutions related to monetary policy balance also increased to €7.3bn in 2020 (2019: €2.0bn) due to the introduction of the TLTRO-III operations.

An increase in the unrealised price gain of €19.6m to €86.6m (2019: €67.0m) on the equity fund in 2020 was the result of higher equity prices at the balance sheet date, compared to 2019 (Note 34).

This increase has been partially offset by a €1.3bn decrease in the value of assets acquired following the liquidation of IBRC (the Special Portfolio) due to sales of €1.0bn (nominal) and the revaluation of the remainder of the portfolio (Note 17(ii)(a)(i)).

Liabilities

Liabilities under the minimum reserve system increased by €21.8bn to €48.8bn (2019: €27.0bn), partially due to the revised two-tiered system for reserve remuneration (which exempts part of credit institutions excess liquidity holdings from negative remuneration) introduced by the ECB Governing Council which became effective on 30 October 2019 and partially due to increased household savings as a result of the COVID-19 crises (Note 24).

Overnight deposits increased by €3.6bn to €13.3bn in 2020 (2019: €9.7bn) (Note 24).

Government deposits decreased by €2.8bn to €19.2bn in 2020 (2019: €22.0bn) (Note 26).

Redemption of Irish Banknotes

Irish pound banknotes formerly issued by the Central Bank ceased to be legal tender with effect from 9 February 2002. Since then the

Central Bank has maintained a provision for outstanding Irish Pound banknotes of which €0.3m was redeemed in 2020 (2019: €0.7m) leaving €224.1m in Irish banknotes outstanding at year-end 2020 (2019: €224.4m) and a balance of €4.4m in the provision at year-end (2019: €4.7m) (Note 33(ii)).

Proceeds of Coin

During 2020, the net value of euro coin redeemed was €8.1m (2019: €9.6m issued) reflecting a reduction in demand from the public. After deduction of coin production expenses, this generated a transfer of €11.9m which was paid to the Central Bank from the Exchequer (2019: €10.0m net proceeds paid from the Central Bank to the Exchequer). The Central Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2020, Irish coin redeemed totalled €0.1m (2019: €0.1m).

Prompt Payment of Accounts 2020

The Central Bank is obliged to comply with the provisions of the European Communities (Late Payment in Commercial Transactions) Regulations, 2012 (SI.580 of 2012), which provides that penalty interest will become payable if payments for commercial transactions are not met within 30 days, unless otherwise specified in a contract or agreement.

The following is a summary of penalty interest payments made to suppliers during 2020, with corresponding figures for 2019.

	2020	2019
Total Number of Late Payments	51	86
Total Value of All Late Payments (A)	€3,622,628	€2,193,753
Total Value of All Payments (B)	€182,284,858	€184,419,087
A as a % of B	1.99%	1.19%
Total Value of Interest Paid on Late Payments	€15,085	€13,658

Statement of Accounts of the Central Bank of Ireland

for the year ended 31 December 2020

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

Governance Statement and Commission Members' Report

Introduction

The Central Bank of Ireland (the Central Bank) was established by the Central Bank Act 1942 (the Act). The Central Bank has essentially two functions. Firstly, it is Ireland's central bank and a member of the European System of Central Banks (ESCB). Secondly, the Central Bank is responsible for the regulation of Ireland's financial services sector. The functions of the Central Bank are set out in section 5A of the Act (as amended) and the functions of the Commission are set out in section 18B of the Act (as amended). The Act provides that the activities and affairs of the Central Bank (other than ESCB functions) are managed and controlled by the Commission.

Role of the Commission

The Commission has the following statutory functions: management and control of the affairs and activities of the Central Bank; ensuring that the Central Bank's financial regulation and central banking functions are co-ordinated and integrated; and ensuring that the statutory powers and functions conferred on the Central Bank are properly exercised and discharged. The Commission has adopted its own terms of reference, which sets out how it can best deliver on those responsibilities.

Section 18F of the Act provides that any of the statutory functions vested in the Commission may be delegated to the Governor, a Deputy Governor or an employee of the Central Bank. In the interest of the efficient and effective management of the Central Bank and the exercise of its powers and functions, the exercise of most of the Central Bank's statutory functions and powers are delegated. The Commission shall retain the power to exercise any of those functions and powers of the Central Bank delegated from time to time by the Commission where it considers it appropriate to do so. Further, the Commission has adopted a Plan of Assignment of Responsibility (the Plan) in respect of delegations made.

The Commission has delegated the exercise of the majority of the functions and powers of the Central Bank, and has approved the Plan (most recently reviewed and approved in July 2019) for the assignment of such responsibilities. The Commission retains accountability for the effective oversight of the performance of such functions and for ensuring that the powers and functions conferred on the Central Bank

(other than those in respect of which responsibility is conferred solely on the Governor) are being effectively managed and controlled. Where a power has been assigned in accordance with the Plan, that person is accountable to the Governor and to any other person specified in the assignment for its performance.

The Commission engages with management members on issues of strategic importance to the Central Bank (other than ESCB functions), and advises, supports and constructively challenges them as appropriate. It also approves the Central Bank's Strategic Plan and reviews the implementation of the Strategic Plan on a bi-annual basis via a Strategic Implementation and Monitoring (SIM) Framework.

Commission Responsibilities

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

The Commission has overall responsibility for the system of internal controls in the Central Bank, which is designed to safeguard the assets of the Central Bank and to prevent and detect fraud and other irregularities. To discharge this responsibility, the Commission has established appropriate structures. In this regard, the Audit Committee meets periodically with the internal and external auditors and members of the management of the Central Bank to discuss control issues, financial reporting and related matters. The internal and external auditors have full access to the Audit Committee.

The Commission is satisfied that the Guideline, and where this is silent, the accounting standards generally accepted in Ireland - Financial Reporting Standard 102 (FRS 102), and statutory provisions which are applicable to the Central Bank, have been consistently applied and are supported by reasonable and prudent judgements and estimates.

As far as the Commission is aware, there is no relevant audit information of which the Central Bank's auditors are unaware. The Commission has taken all the steps in order to make itself aware of any relevant audit information and to establish that the Central Bank's statutory auditors are aware of that information.

Commission Structure

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

- Governor (Chairperson)
- Deputy Governor (Central Banking)
- Deputy Governor (Prudential Regulation)
- Secretary General of the Department of Finance

In addition, at least six but no more than eight other members are appointed by the Minister for Finance.

The table below lists the members who served on the Commission during 2020 and their appointment, or re-appointment dates (Commission members may be re-appointed for one additional term of five years):

Commission Members	Date Appointed (or Reappointed)
Gabriel Makhlouf*	1 September 2019
Alan Ahearne[26]	8 March 2015
Patricia Byron	1 January 2019
Shay Cody	1 December 2020
Sharon Donnery*	1 March 2016
John FitzGerald[27]	1 October 2015
Sarah Keane	1 December 2020
David Miles	1 December 2020
Niamh Moloney	11 September 2018
Derek Moran*	15 July 2014
Ed Sibley*	1 September 2017
John Trethowan	11 September 2018

** Ex-officio members*

In December 2020, the Minister for Finance made three appointments to the Commission, each appointment being for five years. These appointments brought the number of appointed members of the Commission to six and in line with the requirement to have regard to the skills, diversity and gender mix within State Boards in the Government's recently published Annex on Gender Balance, Diversity and Inclusion under the Code of Practice for the Governance of State Bodies. Given the number of vacancies on the Commission throughout

[26] Alan Ahearne's term as a Commission member ended on 7 March 2020. The Commission approved Mr Ahearne's appointment as Chair of the Risk Committee at its meeting in February 2020, to alleviate a gap in expertise following the conclusion of Mr Ahearne's term, and in the absence of appointments by the Minister for Finance to the Commission. Mr Ahearne stepped down as Chair of the Risk Committee on 20 July 2020 following his appointment as special advisor to An Taoiseach.

[27] John FitzGerald's second term as a Commission member ended on 30 September 2020.

2020, annual reviews of performance of the Commission and its sub-committees were not carried out, but will be scheduled in 2021.

Committees of the Commission

The Commission has established the following committees, which were in place at year end:

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

Audit Committee

The Audit Committee is appointed by the Commission and comprises three non-executive members. The membership of the Audit Committee, during the year, comprised Patricia Byron (Chair), John FitzGerald and John Trethowan. Following the conclusion of Mr FitzGerald's Commission term on 30 September there were only two members of the Audit Committee. A meeting of the Committee was held on 09 November. In line with the terms of reference for the Committee the quorum of two members was met.

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

Budget and Remuneration Committee

The Budget and Remuneration Committee is appointed by the Commission and comprises either two or three non-executive members and the two Deputy Governors. The membership of the Budget and Remuneration Committee, as at 31 December 2020, comprised Niamh Moloney (Chair), Patricia Byron, Sharon Donnery and Ed Sibley. Executive members are not present at meetings of the Committee when matters relating to their remuneration or the remuneration of the Governor is being discussed.

The Commission has established the sub-committee to provide support to the Commission in meeting its responsibilities for issues relating to budget management, remuneration policy, and remuneration. The Committee achieves this through reviewing the comprehensiveness, reliability and integrity of assurances to the Commission.

Due to ongoing vacancies on the Commission, the Commission agreed at its September meeting to postpone forthcoming Budget and

Remuneration Committee meetings until new members were appointed. Items normally considered by the Committee were presented instead to the Commission for consideration.

Risk Committee

The Risk Committee is appointed by the Commission and comprises three non-executive members and the two Deputy Governors. The Commission has established the sub-committee to review and advise the Commission on: investment of the investment assets of the Central Bank, investment policies and practices, reviewing risk exposures and strategy, monitoring operational and business continuity risk and overseeing risk management in the Central Bank.

As the term of the Chair of the Risk Committee was due to conclude on 7 March 2020 and the Minister for Finance had not yet made any appointments to fill this forthcoming vacancy, or other existing Commission vacancies, this created a gap of expertise. Due to the number of vacancies on the Commission, and to allow for the necessary non-executive expertise on the Risk Committee, the Commission appointed Mr Ahearne to the Risk Committee for an interim period, at least until such time as new appointments were made by the Minister for Finance to fill the Commission vacancies. It was also agreed that Mr Ahearne remain as Chair of the Risk Committee and attend meetings of the Commission in his capacity as Chair of the Risk Committee. Mr Ahearne stepped down from this role on 20 July, following his appointment as Special Advisor to An Taoiseach.

Arising from that, and due to ongoing vacancies on the Commission and there no longer being a sufficient number of non-executive members, the Commission agreed at its September meeting to postpone forthcoming meetings of the Risk Committee, until the appointment of new members.[28] In the absence of Risk Committee meetings in September and November, items usually presented to the Committee were considered by the Commission. The membership of the Risk Committee, as at 31 December 2020, comprised Sharon Donnery, Ed Sibley and John Trethowan.

Schedule of Attendance

A schedule of attendance at the Commission and Committee meetings for 2020 is set out below.

[28] The Risk Committee was reconstituted following the appointment of new members to the Commission in December 2020.

Commission Member	Commission	Audit Committee	Risk Committee	Budget and Remuneration Committee	Joint meetings of Audit and Risk Committees
Gabriel Makhlouf	17/17	-	-		-
Alan Ahearne[29]	2/2	-	6/6		1/1
Patricia Byron	17/17	5/5	-	1/1	1/1
Shay Cody	1/1	-	-	-	-
Sharon Donnery	17/17	-	6/6	1/1	1/1
John FitzGerald	14/14	4/5	-	-	1/1
Sarah Keane	1/1	-	-	-	-
David Miles	1/1	-	-	-	-
Niamh Moloney	15/17	-	-	1/1	-
Derek Moran	13/17	-	-	-	
Ed Sibley	16/17	-	5/6	0/1	1/1
John Trethowan	17/17	5/5	6/6	-	1/1

Membership Changes

Alan Ahearne's term as a Commission member ended on 7 March 2020. John FitzGerald's term of ended on 30 September 2020. Shay Cody, David Miles and Sarah Keane were appointed to the Commission by the Minister for Finance on 1 December 2020.

Disclosures Required by Code of Practice for the Governance of State Bodies (2016)

The following disclosures are included in Note 9 – Expenses:

- Employee Short-Term Benefits Breakdown
- Consultancy Costs
- Legal Costs and Settlements
- Travel and Subsistence Expenditure
- Hospitality Expenditure
- Remuneration and expenses paid to Commission members in 2020.

Statement of Compliance

The Commission has adopted the Code of Practice for the Governance of State Bodies (the Code) adapted in some instances to take account

[29] Alan Ahearne attended meetings in January and February 2020 as a member of the Commission. Following the end of his term as a Commission member on 7 March 2020, he was appointed as Chair of the Risk Committee. He then attended Commission meetings in this capacity only, in March, April, May and June.

of the Central Bank's particular governance framework and the statutory requirements of the Central Bank Acts and the ESCB Treaties, including the requirement for the Central Bank to be independent. The Commission has put procedures in place to ensure the application of relevant provisions with the Code. In that context, each provision has been assessed, and the Central Bank is either currently applying the provision, adopting the provision, or adapting the provision to take account of the Central Bank's statutory requirements. Certain provisions have been assessed as not applicable to the Central Bank. In September 2020, the Department of Public Expenditure and Reform published a new Annex to the Code on Gender Balance, Diversity and Inclusion. Appointments to the Commission in December 2020 were made by the Minister for Finance in line with the provisions of this Annex.

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

A copy of the Central Bank's implementation of the Code is available on the Central Bank's website.

Sharon Donnery
Deputy Governor
Central Banking

Patricia Byron
Member of the Commission

13 April 2021

Statement on Internal Control

In April 2017, the Commission decided to adopt certain provisions of the Code of Practice for the Governance of State Bodies (the Code) (Paper No. 115 of 2017). In some instances, the Code was adapted to take account of the Central Bank's particular governance framework and the statutory requirements of the Central Bank Acts and the ESCB Treaties, including the requirement for the Central Bank to be independent. The Central Bank's application of the Code is reviewed annually.

In accordance with the Code, the Commission is required to prepare a statement on the operation of the Central Bank's system of internal controls for the annual reporting period, ending 31 December 2020. On behalf of the Commission, we confirm our overall responsibility for the Central Bank's system of internal controls, its intended alignment with our approved risk appetite and the assurance processes established to maintain and assess its adequacy and integrity.

The Central Bank's system of internal controls comprises an extensive set of policies, procedures, and management and oversight activities. It aims to ensure proportionate measures are in place to manage the risks that inevitably arise in the fulfilment of the Central Bank's wide-ranging statutory mandate and the objectives under the Central Bank's Strategic Plan. These control measures do not seek to eliminate risks (as this would not be possible). Rather, they seek to provide reasonable (as opposed to absolute) assurance against material loss, error or failure.

To ensure the system of internal controls is commensurate with the risks to which the Central Bank is exposed, the Commission has established a consistent risk identification and assessment process which considers the likelihood of risks materialising and their potential operational, financial and reputational implications. Throughout 2020, the Commission and its sub-committees received reports outlining the Central Bank's strategic, financial and operational risk exposures and various aspects of the system of internal controls, and considered the effectiveness of the system as a whole via an annual review procedure. These reports were prepared by the Central Bank's Internal Governance Division (IGD), Organisational Risk (ORD) and Internal Audit (IAD) divisions. Having reviewed these reports, the Commission is satisfied that the overview provided below accurately reflects the status of the system of internal controls in operation during the reporting period.

Furthermore, in line with the three lines of defence, the operation of the system of internal controls is supported to ensure the systematic application of the Commission approved risk management frameworks, including applying assertive challenge to first line divisions, on a scheduled cyclical basis, to ensure consistency in risk identification and grading, facilitating risk-prioritised reporting.

This statement sets out information regarding the Central Bank's system of internal controls including the main features of the control environment, risk identification and assessment, key control activities, risk and controls monitoring and the annual review of the system of internal controls.

Control Environment

The main features of the control environment established by the Commission include: a comprehensive governance structure, an embedded code of ethical conduct, clear management and staff roles and responsibilities, and a continuous performance management system aligned to the achievement of the objectives set out in the Strategic Plan.

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

In accordance with the Central Bank Reform Act 2010, the Central Bank maintains a single, integrated structure with a unitary board, the Commission, which is chaired by the Governor. The Act provides that the functions of the Commission are to:

- Manage and control the affairs and activities of the Central Bank (other than European System of Central Bank (ESCB) functions).
- Ensure that the Central Bank's central banking functions and financial regulation functions are integrated and coordinated.
- Ensure that the statutory powers and functions conferred on the Central Bank are properly exercised and discharged.

The Act provides the Commission with a power to delegate functions and powers of the Central Bank to the Governor, a Deputy Governor,

or an employee of the Central Bank. Such delegations are made in the interests of the efficient and effective management of the Central Bank, and to ensure the proper exercise and discharge of the Central Bank's functions and powers. The exercise, therefore, of most of the Central Bank's statutory functions and powers has been delegated by the Commission. Each of the above persons is empowered to act on behalf of the Central Bank in the discharge of the functions, powers and responsibilities from time to time assigned to them, including forming opinions, making decisions, taking action, exercising powers and carrying out the performance of functions of the Central Bank delegated from time to time. A person to whom the responsibility for the performance of a function has been assigned is accountable for the performance of that function to the Governor. The Commission, through its three sub-committees (Audit, Budget and Remuneration, and Risk), monitors and reviews the performance of these delegations including the operation of the Central Bank's system of internal controls. The functions of the Commission and its sub-committees are set out in separate Terms of Reference.

The responsibilities of the Audit Committee include the oversight and review of the Statement of Accounts, the external auditors, internal audit and risk management, compliance and internal control, and governance oversight. The responsibilities of the Budget and Remuneration Committee include oversight of issues relating to budget management, remuneration policy, and remuneration. The responsibilities of the Risk Committee include the review of the Central Bank's current risk exposures and risk management strategy, and monitoring of the internal control environment.

There is a Commission approved Governance Framework that establishes a centralised framework for the Central Bank that sets out organisational governance structures. The Framework documents these and outlines the relevant governance arrangements in place that support decision-making across the Central Bank, including the role of cross-organisational committees. The Framework also includes a register of Corporate Policies supported by relevant templates and guidance, and similarly a register and guidance for Memoranda of Understanding.

An executive-level Risk Management Committee (RMC) is tasked with maintaining oversight and providing challenge across all risk categories and internal compliance and conduct related matters, and supports the Central Bank's control environment further. An executive-level Budget and Finance Committee (BFC) also supports the Central Bank's control environment. The purpose of the BFC is to formulate, propose and

monitor the Central Bank's annual budget, oversee and advise the Chief Operations Officer (within delegated limits) on the approval of investment envelope items, and consider industry levy financing matters from a process perspective.

The Commission continues to oversee procedures for the assignment of management responsibilities and annual objectives within the Central Bank. Management and staff responsibilities and objectives are defined via a comprehensive role profile framework and a performance management system. Executive management, in conjunction with the Commission, specify the Central Bank's overarching (entity level) objectives within a three-year Strategic Plan. The Central Bank has a Strategic Plan for the period 2019-2021. The Strategic Plan is approved by the Commission and submitted to the Minister for Finance. The Strategic Plan is set out in two parts. Part one sets out the Central Bank's strategic objectives as they align to five strategic themes. Part two of the Strategic Plan sets out the Central Bank's strategic objectives under its statutory objectives and its organisational objectives. The Central Bank has a defined organisational process for implementing, monitoring and reporting on its progress against delivery of the Strategic Plan. The Strategy Implementation and Monitoring (SIM) Framework captures the actions underpinning each strategic objective, as well as the progress on the delivery of these actions. Under the SIM Framework, strategic objectives are assigned to members of the Senior Leadership Committee (SLC). Reporting is achieved through tiered dashboard reporting, where an update on the progress for each strategic objective is received from the SLC owner. This is then summarised to give a view of the overall progress of each strategic theme and statutory objective, and enables the Central Bank to assess the extent to which the Strategic Plan is being delivered. Regarding governance of the SIM Framework, summary dashboards for each of the strategic themes and statutory objectives are reviewed by the SLC and the Governor's Committee on a quarterly basis. The SIM is also reviewed half-yearly by the Commission. A mid-term review of the Strategic Plan was carried out in Q4 2020 and it was agreed that there would be no changes to the current Plan.

In addition, the Commission continues to oversee the implementation and adherence to the Central Bank's Code of Ethics, which seeks to ensure the highest standards of ethical conduct amongst staff and officers of the Central Bank. The Commission has also established an Internal Whistleblowing Policy which it reviews annually. This Policy provides employees with a set of channels to confidentially disclose

information regarding possible wrongdoing within the Central Bank without fear of any personal repercussions.

Risk Identification and Assessment

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

Risk Appetite Framework

The assessment of risk exposures is firstly informed by an approved Risk Appetite Framework (RAF), which includes sub-tolerances for the Central Bank's principal risks. This RAF specifies the amounts and types of risk the Central Bank is willing to accept in the pursuit of its objectives. From a governance perspective, an annual review considering the risk profile relative to the thresholds set out within the RAF is completed. For 2020, the Commission has reviewed the extent to which the Central Bank has operated within the parameters of the RAF and are satisfied that management have taken the necessary actions to ensure that material risk exposures remain within defined tolerances insofar as possible.

Allied to the RAF is the requirement to ensure accurate identification and assessment of strategic, financial and operational risks, as this provides the basis for comparing risk profile exposures to the RAF, and consequently determining where deviations are or have the potential to become of risk management concern.

Strategic Risk Assessment

From a top-down enterprise level, a Strategic Risk Assessment (SRA) is conducted which aims to identify strategic risks which may impede the achievement of the Central Bank's strategic objectives as set out in its Strategic Plan. The SRA represents an advisory input from the Organisational Risk Division to senior stakeholders. The findings of the SRA are subsequently reviewed and challenged by the Executive and Commission Risk Committees and by the Commission.

Risk Control Self-Assessment

From a bottom-up perspective, the operational risk framework is designed to allow for consistently coordinating the risk and control identification and assessment for all divisions within the Central Bank. The approach approved by the Commission comprises a divisional risk and control assessment (RCSA) process. The RCSA ensures that every division within the Central Bank establishes and maintains a standardised register of material operational risk exposures. A full set

of all divisional risk registers is maintained, reviewed and reported on to RMC and Risk Committee.

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

Every division is required to maintain an up-to-date risk and controls register. ORD also undertakes a periodic risk-based quality assurance procedure, referred to as Non-Financial Risk (NFR) engagements, to validate the risks identified and the effectiveness of controls. For the purposes of this procedure, ORD reviews and challenges the content of the registers and ensures that where corrective remedial actions are required these form part of the division's risk management plan. The Head of the respective division and the director signs off on the completeness of their registers as part of this quality assurance checkpoint with ORD. The RMC has reviewed reports on the status of these divisional risks and considered the actions undertaken by management to implement remedial actions and enhance controls throughout the reporting period, with further oversight from the Commission Risk Committee.

The Central Bank processes personal data in the course of carrying out a number of its statutory functions, and also processes personal data in relation to the employment of staff and its engagement with service providers. The Data Protection Acts 1988, 2003 and 2018 and the General Data Protection Regulation (the GDPR) lay down rules about the way in which personal data and sensitive personal data are to be collected, processed and disclosed. The Central Bank's Data Protection Policy was developed in order to ensure compliance with these requirements. This policy documents the roles and responsibilities in relation to data protections, provides examples of personal data held and processed in the Central Bank and outlines the seven principles of data protection. In accordance with data protection requirements, the Central Bank has appointed a Data Protection Officer (DPO), as required under the General Data Protection Regulation (GDPR), whose role includes monitoring and assessing compliance with the various data protection legislation and requirements, coordinating any data protection related incidents, and to regularly report to oversight committees.

The Risk Committee also oversees a dedicated financial risk assessment framework. The financial risk assessment framework principally focuses on current and emerging financial risks impacting the Central Bank's balance sheet arising from the implementation of monetary policy and discretionary investment activities. In the reporting period, the Commission has reviewed reports on the status of these financial risks and considered proposals on the effective control and management of these risks in accordance with the tolerances set out in its approved Risk Appetite Statement.

In the reporting period, it should be noted that following the stepping down of the Chair of the Risk Committee in July, and due to ongoing vacancies on the Commission and there no longer being a sufficient number of non-executive members, the Commission agreed at its September meeting to postpone forthcoming meetings of the Risk Committee until the appointment of new members. In the absence of Risk Committee meetings in September and November, items usually presented to the Committee were considered by the Commission.

Key Internal Control Activities

In the reporting period, the Commission has overseen the implementation of a wide range of control activities to ensure that risks to the achievement of objectives are effectively mitigated, in so far as is operationally and economically feasible. These control activities are performed at all levels of the Central Bank encompassing control of its financial, physical and information assets, its business processes, and its technology environment, and its compliance with various legal and regulatory obligations. While control activities can take a number of different forms, each type aims to provide reasonable assurance that a particular control objective is achieved. The key control activities include:

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

- **Principal Statutory Obligations of the Central Bank:** In compliance with the Code, the Commission was provided with a list of the Central Bank's most pertinent statutory and governance obligations, together with a report identifying, at a high level, the applicable legislation, assignment of responsibility and how compliance is monitored.
- **Human Resource Management:** A human resources governance framework which includes a Commission approved resourcing plan, a talent acquisition policy, formal training programmes for staff, annual performance appraisals and other relevant procedures in place to ensure that staff are competent and adequately trained in carrying out their responsibilities.
- **Financial Management:** Financial planning and annual budgeting processes approved by the Commission, with a comprehensive financial and budget management information system, incorporating accounts payable controls, and regular management and Commission reporting on various aspects of the Central Bank's expenditure framework.
- **Risk Management:** Comprehensive frameworks for risk management, which include organisation-wide operational risk and incident management, financial risk management relating to the Central Bank's investment assets and monetary policy operations and overall balance sheet management.
- **Fraud Management:** Fraud risk management and incident policies and procedures clearly outlining responsibilities for the identification of fraud related risks, and the approach in relation to the reporting and investigation of fraud or suspected fraud incidents within the Central Bank.
- **Business Continuity:** A framework to ensure the Central Bank is able to manage disruptive scenarios, provide contingency premises, recover technologies, maintain in so far as possible the continuity of critical operations, and resume normal business operations in a timely manner.
- **Program and Project Management:** Control activities including a defined governance framework to manage material change within the Central Bank incorporating procedures for change and project management, investment approval and prioritisation.
- **Physical and Information Security:** Control activities designed to protect staff, premises and physical assets and the

confidentiality, integrity and accessibility of information assets from unauthorised alteration, loss or compromise due to accidents, negligence or criminal acts. Furthermore, the Information Management and Technology Division has developed a longer-term strategy and plan to ensure the Central Bank's technologies can continue to support the achievement of its objectives.

- **Internal Audit:** An independent and objective Internal Audit function which uses a risk-based internal audit plan, prepared annually and approved by the Audit Committee.
- **Procurement:** A centralised procurement function responsible for maintaining effective procedures for the tendering and approval of vendors in accordance with Public Procurement requirements, incorporating regular reporting to the Audit Committee of the Commission.

The Central Bank operates a Corporate Procurement Policy (the Policy) that is approved by the Commission. The procurement requirements of the Central Bank are met in line with the Policy and the internal governance framework it establishes.

The Policy is consistent with the principles of the procurement rules and guidelines as set out by the Office of Government Procurement (OGP) save in respect of competitive tenders for goods and services below the EU Threshold (€214,000) where the Central Bank has decided to operate a National Tender threshold entry point of €50,000 and not €25,000, for the reasons of operating efficiency and effectiveness. Three or more written quotes are obtained for all supply/service tenders between €5,000 and €50,000.

In certain limited circumstances, contracts may be awarded without recourse to a competitive tendering process:

- Where the procurement rules provide for an applicable exemption/exception, or
- Where there are exceptional circumstances, e.g. the value is less than the EU threshold and there is no cross border interest.

Any other contracts awarded without recourse to a competitive tendering process are regarded as "non-compliant contracts" and are reported to both the Budget & Finance and Audit Committees periodically. The Central Bank did not award any non-compliant contracts in 2020. During 2020, expenditure of €0.02m was incurred across two of the three pre-existing non-compliant contracts (2019:

€0.23m across eight contracts). This represents 0.03 per cent of the Central Bank's committed spend (2019: 0.1 per cent). Two contracts were regularised in Q4 2019 (related residual spend incurred up to May 2020).[30] The remaining contract will run to term on completion of services. A breakdown of these non-compliant contracts is provided in the table below. Of the three contracts listed, the cumulative spend on two contracts exceeded the adapted national threshold (€50k).

In April 2020, based on the significant importance of the contract, the Central Bank decided to award the contract for Data Centre Hosting and Managed Services without a competitive procedure on grounds of 'extreme urgency' conditions (pursuant to Regulation 32(2)(c) of S.I. 284 of 2016) owing to the COVID-19 emergency. The Central Bank published a Voluntary Ex-Ante Transparency Notice (VEAT) on 3 August 2020, clearly indicating the intention to award a new contract.

Table 1.1 Breakdown of Non-Compliant Contracts

Reason for direct award	Number of contracts 2020	Spend € 2020	Number of contracts 2019	Spend € 2019
Sensitive or confidential nature of work prohibited a competitive tender process	1*	0	1	3,600
Rollover of existing contract pending conclusion of tender process	2	24,369	5	169,307
Rollover of existing contract which will run to term	0	0	2	57,030
Total	**3**	**24,369**	**8**	**229,937**

*At the end of 2020, this is the sole remaining direct award contract (awarded without recourse to a tendering process).

Risk and Controls Review and Monitoring

To ensure that the system of internal controls is operating in accordance with its expectations, the Commission has established independent assurance procedures to review and monitor the performance and effectiveness of the Central Bank's risk management and control activities. The review and monitoring procedures are principally undertaken by IAD.

IAD reports directly to the Governor, with unrestricted access to the Audit Committee and the Senior Leadership Committee (SLC). The activities of IAD are guided by its Internal Audit Charter and Annual Audit Plan that are approved by the Audit Committee. IAD evaluates

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

compliance with the Central Bank's policies and procedures and applicable laws and regulations, and provides independent and objective assurance on the adequacy and effectiveness of risk management, system of internal controls and governance processes by conducting regular audits.

IAD reports its findings directly to the Audit Committee. These reports highlight weaknesses, if any, in the system of internal controls and document the agreed corrective measures to be taken where deemed necessary. The Audit Committee receives updates, on a regular basis, on the status of issues raised by the internal and external auditors and follows up to ensure appropriate and timely action is being taken in respect of the issues raised.

Annual Review of the System of Internal Controls

The Commission reviewed the effectiveness of the Central Bank's system of internal controls for the financial year ending 31 December 2020. A detailed review of the effectiveness of the system of internal controls was performed by the Audit Committee, which reported its findings to the Commission in April 2021. This review of the effectiveness of the system of internal controls included:

- Consideration of reports outlining the Central Bank's strategic, financial and operational risk exposures provided by the Organisational Risk Division and other aspects of the system of internal controls provided by the Internal Governance Division.
- Consideration of the work of the Internal Audit Division and consideration of its reports and findings.
- Overview of regular reports from the Internal Audit Division on the status of the Central Bank's internal control environment and the status of issues raised previously from their own reports and matters raised by the external auditors.
- Consideration of internal financial control issues identified by the external auditors.

The review also included consideration of the challenges of maintaining effective internal controls whilst managing the impacts of the COVID-19 pandemic. Overall, on the basis of the initiatives undertaken the 2nd and 3rd line can provide reasonable assurance that the Central Bank responded on a risk prioritised basis to manage the impacts to the control environment as a result of COVID-19:

- Incident management, continuity and operational risk and control measures facilitated a smooth transition to a

predominantly remote working arrangement, and subsequently enabled the establishment of formal program management structures to implement additional controls and capabilities over the successive phases of public health restrictions.

- Risk identification and assessment methodologies were adapted and critical operational exposures prioritised, to ensure adequate preventative, detective and review-based controls were implemented. Risk information specifically arising in the context of the pandemic are available in the overall evidence repository.
- The supervisory framework has responded well to the crisis, allowing supervisory divisions to pivot their supervisory focus towards emerging and evolving risks in the context of COVID-19.

Based on the above, the Central Bank considers that its system of internal controls for the financial year ending 31 December 2020 is effective.

Sharon Donnery
Deputy Governor
Central Banking

Patricia Byron
Member of the Commission

13 April 2021

PROFIT AND LOSS AND APPROPRIATION ACCOUNT FOR YEAR ENDED 31 DECEMBER 2020

	Note	2020 €000	2019 €000
Interest income	2	**944,318**	**1,004,580**
Interest expense	3	**(56,887)**	**(39,511)**
Net interest income		**887,431**	**965,069**
Net realised gains arising from financial operations	4	**652,206**	**1,743,543**
Write-downs on financial assets and positions	4	**(131,121)**	**(1,937)**
Transfer to provisions	4	**(398,447)**	**(104,186)**
Net result of financial operations, write-downs and provisions	4	**122,638**	**1,637,420**
Income from fees and commissions	5	**3,262**	**2,790**
Income from equity shares and participating interests	6	**37,122**	**33,065**
Net result of pooling of monetary income	7	**(80,742)**	**32,622**
Other net income	8	**199,760**	**188,419**
Funding levy income		*174,401*	*160,051*
Other		*25,359*	*28,368*
TOTAL NET INCOME		**1,169,471**	**2,859,385**
Staff expenses	9	**(232,122)**	**(197,622)**
Other operating expenses	9	**(81,972)**	**(84,151)**
Depreciation	9	**(14,609)**	**(16,131)**
Currency production raw materials	9	**(11,159)**	**(1,954)**
TOTAL EXPENSES	9	**(339,862)**	**(299,858)**
PROFIT FOR THE YEAR BEFORE UNREALISED GAIN MOVEMENTS, ACTUARIAL LOSS AND APPROPRIATION OF PROFIT		**829,609**	**2,559,527**
Net movement in unrealised gains	34	**(240,523)**	**(306,393)**
Transfers to revaluation accounts	34	**240,523**	**306,393**
Actuarial loss on pension scheme	32	**(216,134)**	**(223,710)**
Transfer of retained profit to general reserve	35	**(163,906)**	**(509,079)**
Transfer from reserves	35	**216,134**	**223,710**
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	**10, 31**	**665,703**	**2,050,448**

The accounting policies together with Notes 1 to 43 form part of these accounts.

Sharon Donnery
Deputy Governor
Central Banking

Patricia Byron
Member of the Commission

13 April 2021

BALANCE SHEET AS AT 31 DECEMBER 2020

ASSETS	Note	2020 €000	2019 €000
Gold and gold receivables	11	**299,039**	**262,114**
Claims on non-euro area residents in foreign currency	12	**5,747,665**	**4,898,882**
Claims on euro area residents in foreign currency	13	**229,401**	**77,014**
Claims on non-euro area residents in euro	14	**2,263,577**	**4,159,896**
Lending to euro area credit institutions related to monetary policy operations in euro	15	**7,288,900**	**2,032,720**
Other claims on euro area credit institutions in euro	16	**3,988,928**	**2,348,406**
Securities of euro area residents in euro	17	**72,776,455**	**64,542,578**
Securities Held for Monetary Policy Purposes		49,533,972	37,590,497
Other Securities		23,242,483	26,952,081
Intra-Eurosystem claims		**47,056,242**	**36,315,234**
Participating interest in ECB	18	216,609	213,449
Claims equivalent to the transfer of foreign reserves	19	683,175	681,157
Other claims within the Eurosystem (net)	20	46,156,458	35,420,628
Other assets	21	**1,839,518**	**1,739,464**
Total Assets		**141,489,725**	**116,376,308**

The accounting policies together with Notes 1 to 43 form part of these accounts.

Sharon Donnery
Deputy Governor
Commission
Central Banking

Patricia Byron
Member of the

13 April 2021

BALANCE SHEET AS AT 31 DECEMBER 2020

LIABILITIES	Note	2020 €000	2019 €000
Banknotes in circulation	23	**22,349,697**	**20,082,747**
Liabilities to euro area credit institutions related to monetary policy operations in euro	24	**62,073,627**	**36,672,142**
Other liabilities to euro area credit institutions in euro	25	**3,101,460**	**955,997**
Liabilities to other euro area residents in euro	26	**19,229,123**	**21,970,801**
Liabilities to non-euro area residents in euro	27	**186,200**	**1,892,530**
Counterpart of special drawing rights allocated by the IMF	28	**913,917**	**956,791**
Intra-Eurosystem liabilities		**19,681,389**	**18,868,571**
Liabilities related to the allocation of euro banknotes within the Eurosystem	29	*19,599,173*	18,868,571
Other Liabilities within the Eurosystem (net)	30	*82,216*	-
Other liabilities	31	**958,969**	**2,343,634**
Retirement benefits	32	**868,570**	**610,172**
Provisions	33	**1,304,420**	**907,840**
Revaluation accounts	34	**5,838,261**	**6,078,784**
Capital and reserves	35	**4,984,092**	**5,036,299**
Total Liabilities		**141,489,725**	**116,376,308**

The accounting policies together with Notes 1 to 43 form part of these accounts.

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Central Banking

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Member of the Commission

13 April 2021

Notes to the Accounts

Note 1: Accounting Policies and Related Information

(a) Legal Framework

Throughout the Statement of Accounts the term "Central Bank", where used, refers to the Central Bank of Ireland.

The accounts have been prepared pursuant to Section 32J of the Central Bank Act, 1942 (as amended) which provides that within six months after the end of each financial year, the Central Bank shall prepare and present to the Comptroller and Auditor General a statement of accounts for the financial year concerned. The statement is in the form approved by the Minister for Finance. The form of the accounts reflects the specific nature of the tasks carried out by the Central Bank within the framework of the ESCB and its diverse range of activities.[31]

(b) Accounting Principles

The Central Bank, as a participating member of the ESCB, complies with the accounting policies laid down by the Governing Council in the Guideline.[32,33] The Central Bank's Statement of Accounts for 2020 was prepared in line with the provisions set out in the Guideline, which includes preparation on a going concern basis. In cases where the Guideline does not provide specific direction, accounting standards generally accepted in Ireland and relevant statutory provisions which apply to the Central Bank are followed.[34] The Financial Reporting Standard applicable in the UK and Republic of Ireland is Financial

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[31] The use of the term European System of Central Banks (ESCB) refers to the 27 National Central Banks (NCBs) of the Member States of the European Union as at 31 December 2020 together with the European Central Bank (ECB). The term "Eurosystem" refers to the 19 NCBs of the Member States participating in the Monetary Union, plus the ECB, on the same date.

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

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

[34] The principal statutes governing the Central Bank are: the Central Bank Acts 1942-2014, the Coinage Act 1950, the Decimal Currency Acts 1969–1990, and the Economic and Monetary Union Act 1998. The Central Bank of Ireland (Surplus Income) Regulations 1943 provide for the calculation of the Central Bank's surplus income for each year which, in accordance with section 32H of the Central Bank Act 1942, is paid into the Exchequer. The Central Bank is also subject to the Treaty on European Union and the Treaty on the Functioning of the European Union, incorporating the Statute of the ESCB and of the ECB, and to any EU laws made under those Treaties that apply to the national central banks of the ESCB.

Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The principles and policies laid out in the Guideline are broadly in line with Irish generally accepted accounting principles. The principal differences of relevance to the Central Bank between the Guideline (mandatory and recommended provisions) and FRS 102 are:

a. Unrealised gains, from assets and liabilities measured at market value, are accounted for through the Profit and Loss and Appropriation Account and transferred to the revaluation account in the Balance Sheet.

b. No statement of cashflows is required.

c. A provision for financial risks is included under liability item "Provisions".

The preparation of the Central Bank's Statement of Accounts in conformity with the Guideline and FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Central Bank's accounting policies. Where the Guideline is silent with regard to financial instruments, the Central Bank follows the requirements from FRS 102, of both sections 11 and 12 in full. The areas involving a higher degree of judgement or estimation are disclosed in Note 1(n) "Critical Accounting Estimates and Judgements". Financial assets and liabilities are offset and the net amounts presented in the Statement of Accounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(c) Eurosystem Accounting Guideline

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

(i) *Trade Date Accounting*[35]

The Guideline states that trade date accounting may be implemented either by the "regular approach" or the "alternative approach". The Central Bank uses the alternative approach and as such, transactions in assets and liabilities are booked at the settlement date (usually the

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

trade date plus two business days), as opposed to the regular approach whereby transactions are booked on the trade date.[36]

(ii) *Intra-ESCB balances*

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

These bilateral balances are netted off and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. Intra-Eurosystem balances of the Central Bank vis-à-vis the ECB arising from TARGET2, as well as other Intra-Eurosystem balances denominated in euro (e.g. interim profit distributions to NCBs, monetary income results), are presented on the Balance Sheet of the Central Bank as a single net asset or liability position and disclosed under "Other claims within the Eurosystem (net)" (Note 20, Note 30). Intra-ESCB balances versus non-euro area NCBs arising from TARGET2 are disclosed under "Liabilities to non-euro area residents in euro" (Note 27).

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a single net liability under "Liabilities related to the allocation of euro banknotes within the Eurosystem" (Note 1(c)(iii) Note 1(c)(iv), Note 23, Note 29).

Intra-Eurosystem claims arising from the Central Bank's participating interest in the ECB are reported under "Participating interest in ECB" (Note 1(c)(iii), Note 18).

Intra-Eurosystem balances arising from the transfer of foreign reserve assets to the ECB by the NCBs joining the Eurosystem are denominated in euro and reported under "Claims equivalent to the transfer of foreign reserves" (Note 1(c)(iii), Note 1(c)(vii), Note 19).

(iii) *Capital Key*

The ESCB capital key is the percentage of the subscribed share capital of the ECB held by the respective ESCB NCBs. It is a measure of the relative national size of EU Member States and is a 50:50 composite of GDP and population size. Pursuant to Article 28 of the ESCB Statute,

[36] NCBs who use the regular approach book securities off balance sheet on the trade date. At settlement date the off balance sheet entries are reversed and on balance sheet entries are booked.

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. Subscriptions must also be adjusted in the event that an NCB leaves the ESCB. The latest adjustment took place on 1 February 2020 following the withdrawal of the United Kingdom (UK) from the EU. The Central Bank's share of the ECB's subscribed capital increased from 1.1754% to 1.3772% following the UK's withdrawal from the EU.

A second key, the "Eurosystem capital key", which is derived from the ESCB capital key outlined above, is used as the basis of allocation for a series of important items including monetary income, banknotes in circulation and the sharing of the ECB's profit/loss among Eurosystem NCBs. The Central Bank's share in the Eurosystem capital key increased from 1.6883% to 1.6934% following the UK's withdrawal from the EU.

(iv) *Banknotes in Circulation*

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes.[37] The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with each NCB's banknote allocation key.[38]

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to each NCB is presented on the Balance Sheet under the liability item "Banknotes in circulation" (Note 23).

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation gives rise to remunerated Intra-Eurosystem balances. These claims, in the case of a shortfall of issuance relevant to the banknotes allocation key, are presented on the Balance Sheet under "Other Claims within the Eurosystem (net)" (Note 1(c)(ii), Note 20). The liabilities, in the case of excess issuance relevant to the banknote allocation key, are presented on the Balance Sheet under "Liabilities related to the allocation of euro

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

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

banknotes within the Eurosystem" (Note 1(c)(ii), Note 29). Interest is received on the shortfall and paid on the excess issuance on a quarterly basis.[39] This is cleared through the accounts of the ECB and included in "Interest income" (Note 2) or "Interest expense" (Note 3) in the Profit and Loss and Appropriation Account.

(v) *Distributions by ECB*

The Governing Council has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, as well as the income arising from the securities held under (a) the Securities Markets Programme (SMP), (b) the third Covered Bond Purchase Programme (CBPP3), (c) the Asset-Backed Securities Purchase Programme (ABSPP), (d) the Public Sector Purchase Programme (PSPP), and (e) the Pandemic Emergency Purchase Programme (PEPP) is due to the euro area NCBs in the financial year it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim distribution of profit.[40] It is distributed in full unless it is higher than the ECB's net profit for the year and subject to any decisions by the Governing Council to make transfers to the provision for financial risks. The Governing Council may also decide to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

The amount distributed to NCBs is disclosed in the Profit and Loss and Appropriation Account under "Income from equity shares and participating interests" (Note 6(i), Note 20(ii)).

(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

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[39] ECB decision of 3 November 2016 on the allocation of monetary income of the NCBs of Member States whose currency is the euro (recast) (ECB/2016/36), OJ L 347, 20.12.2016, p. 26.

[40] ECB Decision (EU) 2015/1195 of 2 July 2015 amending Decision (EU) 2015/298 on the interim distribution of the income of the ECB (ECB/2015/25).

within the Eurosystem. Any interest paid on liabilities included within the liability base is deducted from the monetary income to be pooled.

The earmarkable assets consist of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions; intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; and a limited amount of each NCB's gold holdings in proportion to each NCB's capital key.

Gold is considered to generate no income. Securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the first covered bonds purchase programme, Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme and under Decision ECB/2015/10 of 4 March 2015 on a secondary markets public sector asset purchases programme are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. [41,42,43,44]

Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying, to the value of the difference, the latest available marginal rate for the Euro system's main refinancing operations. This amount is added or deducted, as appropriate from the monetary income to be pooled.

The net monetary income pooled by the Eurosystem is allocated between NCBs according to the subscribed Eurosystem capital key. The difference between the monetary income pooled by the Central Bank and that reallocated to the Central Bank constitutes the "Net result of pooling of monetary income" recorded in the Profit and Loss and Appropriation Account (Note 7).

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[41] ECB Decision (EU) 2009/522 of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L 175, 4.7.2009.
[42] ECB Decision (EU) 2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17), OJ L 297, 16.11.2011.
[43] ECB Decision (EU) 2015/774 of 4 March 2015 on a secondary markets public sector asset purchase programme of the ECB (ECB/2015/10), OJ L 121, 14.5.2015, p. 20–24.
[44] The Main Refinancing Operations (MRO) rate is applied to the daily balances of central government/agency/non-financial corporate bonds purchased under the programme, while it is the actual return earned on international and supranational institution bonds purchased under the programme that is pooled.

In the event of the ECB incurring a loss, the loss can be offset against the ECB's general reserve fund and, if necessary, by a decision of the Governing Council, against the monetary income of the relevant financial year in proportion to and up to the amount allocated to the NCBs.

(vii) *Claims Equivalent to the Transfer of Foreign Reserves*

The Treaty on the Functioning of the European Union, 1992 and Section 5B of the Central Bank Act, 1942 (as amended) provides that the Central Bank has the power to "transfer assets, income or liabilities to the European Central Bank where required under the ESCB Statute". Accordingly, the Central Bank transferred an amount equivalent to €424.8m to the ECB in January 1999, at the commencement of the European Monetary Union, and received in turn a corresponding claim on the ECB equivalent to this amount. A total amount of €683.2m has been transferred since 1 January 1999. The resulting claim on the ECB is remunerated at the latest available interest rate for the main refinancing operations adjusted to reflect a zero return on the gold component (Note 1(c)(ii), Note 1(c)(vi), Note 19).

(viii) *Off-Balance Sheet Items*

Gains and losses arising from off-balance sheet instruments are recognised and treated in a similar manner to on-balance sheet instruments (Note 1(k)). Unrealised (valuation) gains are not recognised as income but are accounted for through the Profit and Loss and Appropriation Account and transferred to the revaluation accounts. Unrealised (valuation) losses are taken to the Profit and Loss and Appropriation Account at year-end where they exceed previous revaluation gains in the revaluation accounts on a security-by-security basis.

Unrealised trade date gains/losses on foreign exchange forward contracts are recorded under "Other assets" (Note 21) or "Other liabilities" (Note 31) in accordance with the Guideline having been accounted for through the Profit and Loss and Appropriation Account as outlined above. This method is used for foreign exchange forward contracts and the techniques covering the most significant off-balance sheet financial instruments, which have been identified for possible use by the ESCB as set out in the Guideline, i.e. foreign exchange forwards, foreign exchange swaps, interest rate swaps, forward rate agreements, forward transactions in securities and options.

Future contracts traded on organised markets are recorded off-balance sheet at the notional amount, while daily margin calls paid or

received are recognised as net interest income and expenses, under "Interest income" (Note 2) or "Interest expense" (Note 3).

(ix) *Securities Held for Monetary Policy Purposes*

These securities were acquired by the Central Bank within the scope of the purchase programmes for Covered Bonds (CBPP1, CBPP2 and CBPP3), debt securities acquired in the scope of the SMP, the PSPP, and the PEPP.[45,46,47,48] The securities are measured at amortised cost and are subject to impairment (Note 2(i), Note 17(i), Note33(i)). The Governing Council decided on 15 December 2014 that securities held for monetary policy purposes shall be accounted for at amortised cost (subject to impairment), regardless of the holding intention. The Guideline supports this accounting treatment.

(d) Income and Expense Recognition

Income and expenses are recognised on an accruals basis.

(e) Property, Plant, Equipment, Intangible Assets and Heritage Assets

Property, Plant, Equipment and Intangible Assets

(i) Measurement

Property, Plant, Equipment (PPE) and Intangible Assets are stated at cost less accumulated depreciation and are not revalued.

(ii) Depreciation

All PPE and Intangible Assets (except for PPE under construction) are depreciated on a straight-line basis over their anticipated useful lives. The Central Bank applies the use of accounting estimates and judgement in determining the depreciation rates to be utilised and applies these rates on the basis that they provide an accurate assessment of the anticipated useful lives. In doing so, the useful estimated lives may deviate from the Guideline's recommended depreciation rates. These depreciation rates are as follows:

Property Plant and Equipment		
Premises	-	20 - 50 years

[45] ECB Decision of 2 July 2009 on the implementation of the Covered Bond Purchase Programme (ECB/2009/16), OJ L 175, 4.7.2009, p. 18, ECB Decision of 3 November 2011 on the implementation of the second Covered Bond Purchase Programme (ECB/2011/17), OJ L 297, 16.11.2011, p. 70 and ECB Decision of 15 October 2014 on the implementation of the third Covered Bond Purchase Programme (ECB/2014/40), OJ L 335 22.10.2014, p.22.

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

[47] ECB Decision of 4 March 2015 establishing a secondary markets public sector asset purchase programme (ECB/2015/10), OJ L 121 14.5.2015, p.20.

[48] ECB Decision of 18 March 2020 establishing a pandemic emergency purchase programme (ECB/2020/17), OJ L 91 25.03.2020, p.1.

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

(iii) Impairment

PPE and Intangible Assets are reviewed for impairment if events or changes in circumstances indicate their carrying amount may not be recoverable.

(iv) Derecognition

PPE or Intangible Assets are derecognised when they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at its retirement or disposal. Any gains or losses are recognised in the Profit and Loss and Appropriation Account in the year of retirement or disposal. Gains or losses on the disposal of the asset are determined as the difference between net disposal proceeds and the carrying value of the asset as at the date of the transaction.

(v) Assets Under Construction

Fixed assets that comply with capitalisation criteria, but are still under construction or development, are recorded under the heading 'Assets Under Construction'. The related costs are transferred to the relevant fixed asset heading once the assets are available for use.

Heritage Assets

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

(f) Retirement Benefits

Under the Central Bank's superannuation scheme, Central Bank staff obtain the same superannuation benefits as established civil servants. Up to 30 September 2008, the Central Bank paid these benefits out of current income as they fell due. On 1 October 2008, a funded pension scheme was established under the Central Bank and Financial Services Authority of Ireland Act, 2003. An amount of €400m, on the advice of the Central Bank's actuaries at that time (Willis), was transferred from the Central Bank's resources to the fund to purchase pension fund

assets. The Pension scheme is operated on a non-contributory basis for staff employed before 6 April 1995, with the exception of contributions made to the Spouses' and Childrens' Pension Scheme and payments received from eligible staff for the purchase and transfer of notional added service. In the case of staff employed on or after 6 April 1995, contributions are also payable in respect of the main scheme. All pension benefits are paid out of this fund. In accordance with the Guideline, the Central Bank has reverted to local GAAP and discloses the cost of providing benefits in accordance with FRS 102.

Pension scheme assets are measured at fair value. Pension scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at interest rates applicable to high-quality corporate bonds of the same currency and term as the liabilities. The pension related charge in the Profit and Loss and Appropriation Account comprises the sum of the current service cost and past service cost (Note 9) and the difference between the expected return on scheme assets and the interest cost of scheme liabilities (Note 8). The current service cost, any past service costs and interest cost of scheme liabilities for the general body of staff are charged to the Profit and Loss and Appropriation Account and to the Currency Reserve in respect of Mint staff.[49] Actuarial gains and losses are recognised in the Profit and Loss and Appropriation Account (Note 32(ii)).

In determining the value of scheme liabilities, assumptions are made as to price inflation, pension increases, earnings growth and demographics. The assumptions underlying the 2020 liabilities and pension costs are set out in Note 32.

(g) Coin Provision and Issue

The Central Bank is involved in the production and issuance of coin on behalf of the Minister for Finance. Proceeds and expenses relating to the provision and issue of coin are transferred directly to the Currency Reserve under the provisions of the Coinage Act, 1950, the Decimal Currency Acts, 1969-1990 and the Economic and Monetary Union Act, 1998. The cost of production of coin is charged to the Currency Reserve in the year in which it is incurred. Proceeds from the issue of coin are credited to the Currency Reserve in the year they are received

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

(Note 26(ii)). Section 14A of the Economic and Monetary Union Act, 1998 (as inserted by Section 137 of the Finance Act, 2002) which came into operation on 25 March 2002 provides for the net proceeds from the issue of coin, from 1 January 2002, to be passed directly to the Exchequer as directed by the Minister for Finance. Where the net proceeds of coin issue, together with expenses, result in a net cost to the Central Bank, the Minister for Finance reimburses the difference to the Central Bank.

(h) Functional and Presentational Currency

The functional and presentational currency of the Central Bank is euro. Accounting transactions denominated in foreign currency are converted to euro equivalents at exchange rates prevailing at the date of settlement. Monetary assets and liabilities denominated in foreign currency are converted at the spot rate on the balance sheet date (Note 1(c)(i), Note 34).

(i) Amortised Income

Premiums and/or discounts arising on securities are amortised on a straight-line basis over the period to their maturity and are included in net interest income (Note 2, Note 3).

(j) Valuation Policy

(i) Assets and liabilities denominated in foreign currency, un-matured investments, foreign currency contracts outstanding and shares in the Bank for International Settlements are valued at mid-market closing exchange rates at year-end (Note 34). The exchange rate valuation of assets and liabilities is performed on a currency-by-currency basis.

(ii) In accordance with the Guideline, the valuation of securities is performed on a security-by-security basis unless these securities are, in substance, investments in equity funds which are valued on a net basis. Marketable securities not held for monetary policy purposes and classified as mark-to-market (MTM) are valued at mid-market closing prices at year-end where an active market exists. Where market prices are not available or are considered unreliable, fair values are determined using mark-to-model valuation techniques including discounted cash flow models, which to the extent possible, use observable market inputs in accordance with FRS 102. A mark-to-model valuation approach inevitably incorporates a high level of management judgement in the absence of observable market data or when observable market data is judged to be unreliable. This judgement includes but is not limited to: evaluating available market information for comparator

instruments; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread; adjusting the methodology when observable market inputs become unavailable or are unreliable (Note 12(i)(a), Note 13(ii), Note 14(i), Note 17(ii)(a)).

In accordance with the Guideline applicable to marketable equity instruments, the revaluation of investments in equity funds is performed on a net basis, and not on an individual share basis. Unrealised valuation gains are not recognised as income but are accounted for through the Profit and Loss and Appropriation Account and transferred to revaluation accounts (Note 1(k)).

Unrealised valuation losses are taken to the Profit and Loss and Appropriation Account at year-end where they exceed previous revaluation gains in the revaluation account.

(iii) Marketable securities not held for monetary policy purposes and classified as held-to-maturity (HTM) are carried at amortised cost and are subject to impairment. An impairment review is completed on an annual basis (Note 14(i), Note 17(ii)(b)).

(iv) Gold is valued at the closing mid-market price (Note 11, Note 34).

(v) The financial assets and liabilities of the Central Bank are classified as prescribed in FRS 102. Under the fair value hierarchy, for classification of financial assets and liabilities, Level 1 applies where quoted prices (unadjusted) in active markets for identical assets and liabilities are available; Level 2 applies where inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. developed using market data) are available and Level 3 applies where inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used. All mark-to-market investments are classed as Level 1 financial instruments unless otherwise stated (Note 12(i)(a), Note 13(ii), Note 14(i), Note 17(ii)(a)).

(k) Recognition of Gains and Losses

Realised gains and losses arising from sales of foreign exchange, gold and securities are accounted for through the Profit and Loss and Appropriation Account. All realised gains and losses are calculated by reference to average cost.

The movement in unrealised gains identified at the end of every financial year in accordance with the Central Bank's valuation policy

(Note 1(j)) is accounted for through the Profit and Loss and Appropriation Account and transferred to the revaluation accounts.

Unrealised losses at year-end are accounted for through the Profit and Loss and Appropriation Account to the extent that they exceed previous revaluation gains on a security-by-security basis, or on a net basis in respect of equity funds. Unrealised losses accounted for through the Profit and Loss and Appropriation Account in this manner may not be reversed in subsequent years against future unrealised gains.

(l) Reverse Transactions

Reverse transactions are operations whereby the Central Bank buys or sells assets for cash under a repurchase/reverse repurchase agreement. Under a repurchase agreement, securities are sold for cash with a simultaneous agreement to repurchase them from the counterparty at an agreed price on a set future date. Repurchase agreements are recorded on the liability side of the Balance Sheet (Note 25, Note 27(i)). Securities sold under such an agreement remain on the Balance Sheet of the Central Bank, reflecting the transaction's economic substance as a loan to the Central Bank. The Central Bank retains substantially all of the risks and rewards of ownership. The difference between the sale and repurchase price is treated as interest income or interest expense and is accrued over the life of the agreement (Note 2(v), Note 3(ii)).

Under a reverse repurchase agreement, securities are bought for cash with a simultaneous agreement to sell them back to the counterparty at an agreed price on a set future date. Reverse repurchase agreements are recorded on the asset side of the Balance Sheet (Note 12(i)(b), Note 13(i), Note 14(ii), Note 16(i)) but are not included in the Central Bank's securities holdings, reflecting the transaction's economic substance as a loan made by the Central Bank. They give rise to interest income or interest expense in the Profit and Loss and Appropriation Account. The difference between the purchase and resale prices is treated as interest income or interest expense and is accrued over the life of the agreement (Note 2(v), Note 3(ii)).

(m) Provisions

(i) Impairment

All provisions are reviewed annually (Note 33). Where created, in respect of investment assets, allowances for credit risks are recorded in separate liability accounts (i.e. there is no direct write-down of the carrying amount of individual assets).

In respect of provisions relating to securities, the Central Bank assesses at each balance sheet date whether there is objective evidence that a security or group of securities is impaired. A security or a group of securities is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the security (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the security or group of securities that can be reliably estimated.

Objective evidence of impairment includes observable data about the following loss events, which are not exhaustive:

(i) Delinquency in contractual payments of principal or interest.

(ii) Cash flow difficulties of the debtor.

(iii) The initiation of a debt restructuring arrangement.

(iv) Significant deterioration in the sustainability of sovereign debt.

(v) External rating downgrade below an acceptable level.

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

The Central Bank first assesses whether objective evidence of impairment exists individually for securities that are individually significant, and individually or collectively for securities that are not individually significant. If the Central Bank determines that no objective evidence of impairment exists for individually assessed securities, whether significant or not, it includes the securities in a group of securities with similar credit risk characteristics and collectively assesses them for impairment.

Securities that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a security has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the security's original effective interest rate.

Future cash flows in a group of securities that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group suitably adjusted on the basis of current observable data. Where observable data is not available,

specific formulae are applied to the calculation using management's expert judgement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (Note 4(iii), Note 33).

(ii) Provision for Financial Risks

Given the nature of the operations of a central bank, the Central Bank, in accordance with the Guideline, may recognise a provision on the Balance Sheet for financial risks.

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

This provision is based on a comprehensive assessment of financial risks facing the Central Bank, with due consideration given to the expected impact on the Central Bank's Balance Sheet. The size of and continuing requirement for this provision is reviewed annually, based on the Central Bank's assessment of its exposure to this risk, and taking a range of factors into account. In the event that a provision release is identified from the comprehensive assessment it will be released in the financial year identified (Note 4(iii), Note 33(i)).

(iii) Restructuring Provision

A restructuring is a programme that is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted.

A provision for restructuring costs is recognised when the general recognition criteria for provisions are met.

The Central Bank accounts for restructuring costs in accordance with FRS 102 (Note 4(iii), Note 33(iv)).

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

In accordance with the decision of the Governing Council taken under Article 32.4 of the ESCB Statute, the provision against credit risks in monetary policy operations is allocated between the National Central Banks (NCBs) of participating Member States in proportion to their

subscribed capital key shares in the ECB prevailing in the year when the initial impairment occurred (Note 33(iii)).

(n) Critical Accounting Estimates and Judgements

The preparation of the Statement of Accounts in conformity with the Guideline and FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Central Bank's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the Statement of Accounts are as follows:

- Impairment: (Note 1(j)(iii),(m)(i), Note 4(iii), Note 33(iii))
- Provisions: (Note 33)
- Depreciation rates: (Note 1(e)(ii), Note 22)
- Defined Benefit Pension Scheme valuation: (Note 32)
- Valuation of the Special Portfolio: (Note 1(j), Note 17(ii)(a)(i))
- Levy Income (Note 41(ii))

(o) Surplus Income

The Central Bank complies with Statutory Instrument 93/1943 - Central Bank of Ireland (Surplus Income) Regulations, 1943. The Central Bank may retain up to a maximum of 20% of profit in each year. The amount retained is appropriated to reserves and is subject to the approval of the Commission each year (Note 10, Note 31(i)).

(p) Investment Property

Property held for long term rental yields and capital appreciation is classified as investment property.

Initial Measurement

Investment properties are initially recognised at cost which includes the purchase cost and any directly attributable expenditure and are recorded in "Other assets" (Note 21(vii)).

Subsequent Measurement

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

In accordance with the Guideline, unrealised gains on revaluations are posted to revaluation accounts and unrealised losses are posted to the Profit and Loss and Appropriation Account at the end of the year. Falls

in fair value are offset against revaluation accounts, but only to the extent that they reverse previously recognised unrealised gains.

Rental Income

Rental income is accounted for on a straight-line basis over the lease term and is recognised within Interest Income (Note 2(viii)).

The aggregate benefit of lease incentives is recognised as a reduction to the expense recognised over the lease term on a straight-line basis.

Note 2: Interest Income

	2020 €000	2019 €000
Securities for Monetary Policy Purposes (i)	259,443	275,182
Securities - MTM (ii)	208,698	264,468
Securities - HTM (iii)	192,018	244,409
Government Deposits (iv)	136,275	103,455
Credit Institutions Deposits (iv)	129,768	91,704
Repurchase Agreements (v)	10,145	8,223
Other (vi)	3,518	630
SDR (vii)	1,891	8,183
Rental Income (viii)	1,583	1,583
Deposit Income (ix)	682	5,997
Reverse Repurchase Agreements (v)	161	639
DGS Contributory Fund Income (x)	136	107
Total	**944,318**	**1,004,580**

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

Securities Held for Monetary Policy Purposes

	2020 €000	2019 €000
PSPP	220,017	208,344
SMP	30,985	53,547
CBPP3	11,870	13,291
PEPP	(3,429)	-
Total	**259,443**	**275,182**

In March 2020, the Eurosystem launched the PEPP. Purchases under the PEPP include all assets eligible under the APP and some additional assets, including public sector assets with a minimum remaining maturity of 70 days (as opposed to one year under the PSPP).

The change in the level of income earned in 2020 is a reflection of the associated levels of activity under each programme and the relative returns on the assets (Note 17(i)).

Securities for monetary policies income includes coupon income and amortisation.

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

Income earned on securities held in the Special Portfolio amounted to €192.5m (2019: €246.4m). This portfolio of securities is comprised of floating rate notes and was acquired following the Irish Bank Resolution Corporation (IBRC) liquidation in February 2013. The decrease in interest earned on the Special Portfolio reflects lower average balances as a result of sales during the period (Note 17(ii)(a)).

Interest income earned on other securities (other than the special portfolio) in the MTM portfolios decreased to €16.2m in 2020 (2019: €18.1m). This decrease is due to reduced yields on the Central Banks' foreign currency investments which includes the Singapore Dollar (SGD), US Dollar (USD), Australian Dollar (AUD) and Chinese Renminbi (CNY) portfolios, as well as increased negative yields on euro investments.

(iii) This relates to income earned on bonds classified as HTM in the Central Bank's investment portfolio. Interest earned on these securities has decreased to €192.0m in 2020 (2019: €244.4m) as a result of lower holdings in the HTM portfolio as bonds mature (Note 14(i), Note 17(ii)(b)).

(iv) In June 2014, the ECB introduced a negative deposit facility rate which applies to certain deposits held with the Central Bank. In September 2019, the negative interest rate on the deposit facility decreased by 10 basis points from -0.4% to -0.5%. The Central Bank earned interest income on Government deposits and Credit Institution deposits amounting to €136.3m (2019: €103.5m) and €129.8m (2019: €91.7m) respectively. The Central Bank continues to apply interest on these deposits up to an agreed threshold at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations (Note 24, Note 26).[50]

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

Credit Institution Deposits

	2020 €000	2019 €000
Current accounts (covering the minimum reserve system)	95,488	53,487
Deposit Facility	34,280	38,217
Total	**129,768**	**91,704**

(v) This relates to income earned by the Central Bank as part of the management of its investment assets. The Central Bank uses repurchase/reverse repurchase transactions with approved counterparties under Global Master Repurchase Agreement (GMRA) legal agreements. Income generated represents the difference between the sale and repurchase/purchase and subsequent sell prices (Note 1(l), Note 12(i)(b), Note 13(i) Note 14(ii), Note 16(i), Note 25, Note 27(i)).

(vi) Included in Other is the following: a) interest income relating to variation margins on futures contracts of €2.0m in 2020 (2019: expense €2.3m) (Note 3 (iv), Note 38(ii)) b) €0.5m in relation to investment income on foreign exchange contracts (2019: €0.5m) c) €0.6m in USD funding income (2019: Nil).

(vii) This relates to interest on Ireland's Quota in the IMF and Ireland's SDR holdings (Note 12(ii)). The decrease in interest earned on this holding reflects the aggregate decrease in underlying yields in the constituents of the SDR basket, over the course of 2020.

(viii) Rental income relates to the rental proceeds arising from the portion of Block R, Spencer Dock which is let out on a commercial basis to third parties (Note 1(p), Note 21(vii)).

(ix) Deposit income primarily relates to income earned on foreign currency deposits. The decrease in income to €0.7m (2019: €6.0m) is largely due to a decrease in CNY deposits in 2020.

(x) This relates to income on the Deposit Guarantee Scheme (DGS) Contributory Fund (Note 31(ii)).

Note 3: Interest Expense

	2020 €000	2019 €000
Open Market Operations (i)	31,474	8,206
Reverse Repurchase Agreements (ii)	15,626	12,884
Swap Expenses (iii)	8,159	14,834
Other (iv)	865	2,856
Deposits (v)	762	651
Repurchase Agreements (ii)	1	80
Total	**56,887**	**39,511**

(i) This item consists of the net expense on Longer Term Refinancing Operations (LTROs) held by the Central Bank. In 2016, a second series of Targeted Longer Term Refinancing Operations (TLTROs), known as TLTRO-II were introduced and in 2019 the Governing Council introduced a third series of TLTROs, known as TLTRO-IIIs.[51] These operations are one of the ECB's non-standard monetary policy tools. The amount of money that banks could borrow and the cost of borrowing depended on the amount of loans that they provided to the real economy. The applicable interest rate for TLTRO-II operations was dependent on the individual lending benchmark of the respective counterparties between the date of allotment and January 2018. The actual rate was set in June 2018, with the MRO rate (0%) being applied to the lending of some counterparties, and the deposit facility rate (-0.4%) being applied to the lending of other Eurosystem counterparties. The interest rate applicable to each TLTRO-III operation could be as low as the average interest rate on the deposit facility prevailing over the life of the operation. Furthermore in 2020, in response to the COVID-19 shock, the Governing Council decided that for the period between 24 June 2020 and 23 June 2022 – referred to as the special interest rate period – the interest rate applicable can be as low as 50 basis points below the average interest rate on the deposit facility prevailing over the same period, but in any case may not become less negative than -1.0%.

Before the rate is known on the TLTRO-III, interest is being charged at the deposit facility rate minus 50 basis points (-1%) for the special interest rate period and the deposit facility rate (-0.5%) for the rest of the life of an operation as this is deemed most prudent.

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

The increase in the expense to €31.5m (2019: €8.2m) is as a result of increased TLTRO borrowings in 2020 due to the favourable borrowing conditions (Note 15).

(ii) These items represent interest incurred on repurchase/reverse repurchase transactions. The Central Bank uses repurchase/reverse repurchase transactions with approved counterparties under GMRA legal agreements. Expenses generated represent the difference between the sale and repurchase/purchase and subsequent sell prices (Note 1(l), Note 12(i)(b), Note 13(i), Note 14(ii), Note 16(i), Note 25, Note 27(i)).

(iii) The lower expense is due to a general decrease in the interest rates of the underlying basket of currencies that make up the SDR and a 25% reduction in the size of the SDR foreign exchange contracts in 2020 (Note 38(i)).

(iv) The decrease in Other interest expense primarily relates to variation margins on futures contracts. These future contracts earned income of €2.0m in 2020 (2019: expense €2.3m) (Note 2 (vi), Note 38(ii)).

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

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

(i) Net Realised Gains arising from Financial Operations

	2020 €000	2019 €000
Realised Price Gains on Securities	652,149	1,740,136
- Special Portfolio (i)	*649,750*	*1,736,600*
- MTM Portfolios (ii)	*2,399*	*3,211*
- Monetary Policy Portfolio (iii)	*-*	*325*
Realised Exchange Rate Gains (iv)	57	3,407
Total	**652,206**	**1,743,543**

(i) This reflects the realised gains on the sales of the Floating Rate Notes (FRNs) (Note 17(ii)(a)(i)). Gains on the sales of the special portfolio have decreased by €1,086.9m in 2020 to €649.8m (2019: €1,736.6m) due to reduced sales in 2020 (€1.0bn nominal) compared to 2019 (€3.0bn nominal).

(ii) This reflects the realised gains on securities in the MTM portfolios, other than special portfolio securities (Note 12(i)(a), Note 13(ii), Note 14(i), Note 17(ii)(a)).

(iii) This reflects the realised gains on the sale of assets from the monetary policy portfolio. Sales are carried out on the monetary policy portfolio, when necessary, to ensure continued compliance within the limit framework (Note 17(i)).

(iv) This reflects the realised exchange rate gains on the sale of assets in the Central Bank's investment portfolio (Note 17(ii)(a)).

(ii) Write-Downs on Financial Assets and Positions

Movement in:	2020 €000	2019 €000
Unrealised Exchange Rate Losses (i)	(130,382)	(1,249)
Unrealised Price Losses on Securities (ii)	(739)	(688)
Total	**(131,121)**	**(1,937)**

(i) The unrealised exchange rate losses are largely as a result of the Central Bank's diversification of its investment assets into unhedged foreign exchange portfolios and primarily relate to losses on the US Dollar (USD), Singapore Dollar (SGD) and Chinese Renminbi (CNY) portfolios (Note 12(i)(a)) as well as unrealised special drawing rights (SDR) losses (Note 12(ii)(b)).

(ii) The unrealised price losses on securities of €0.7m (2019: €0.7m) remains largely unchanged. These losses relate to reduced market value of securities at year end.

(iii) Transfer to Provisions

	2020 €000	2019 €000
Provision Release for Securities	-	50,000
Restructuring Provision (Note 33(iv))	1,553	(4,186)
Provision for Financial Risks (Note 33(i))	(400,000)	(150,000)
Total	**(398,447)**	**(104,186)**

Note 5: Income from Fees and Commissions

	2020 €000	2019 €000
Securities Lending	1,475	1,466
TARGET2 Distribution of Pooled Income	1,145	697
Service Fees and Charges	642	627
Total	**3,262**	**2,790**

Note 6: Income from Equity Shares and Participating Interests

	2020 €000	2019 €000
Share of ECB Profits (i)	37,122	30,492
BIS Dividend (ii)	-	2,573
Total	**37,122**	**33,065**

(i) This item represents the Central Bank's share of the ECB's profit (Note 1(c)(v)).

In 2020, as a result of the adjustment of the NCBs' capital key shares following the withdrawal of the UK from the EU and the Governing Council's decisions on the ECB's capital, the ECB's paid-up capital by the euro area NCBs increased by €48.0m to €7,584.0m (2019: €7,536.0m). The size of the ECB's paid-up capital by the euro area NCBs defines the statutory upper limit of the ECB's general risk provision. The general risk provision is therefore currently lower than its upper limit. As a result, an amount of €48.0m was transferred to the ECB's general risk provision at 31 December 2020.

An amount of €1,260.0m (2019: €1,430.9m) was paid to the Eurosystem NCBs on 29 January 2021 in accordance with their Eurosystem capital key as an interim distribution of the ECB's profits for the year. The Central Bank's share amounted to €21.3m (2019: €24.2m) (Note 20(ii)). The final distribution of profit for 2019 paid in February 2020, amounting to €15.8m, is also presented in the 2020 figures (the corresponding figure in 2018, paid in 2019 was €6.3m). The final distribution of ECB profit for 2020 was paid on 19 February 2021 and will be accounted for in the Central Bank's 2021 accounts (Note 40).

(ii) This item represents a dividend received on shares held in the Bank for International Settlements. No dividends were received on BIS shares in 2020. (Note 21(viii), Note 36(i)).

Note 7: Net Result of Pooling of Monetary Income

	2020 €000	2019 €000
Net Result of Pooling of Monetary Income (i)	(82,216)	31,440
Release/(Creation) of provision for Share of Impaired Eurosystem Securities (ii) (Note 33(iii))	425	1,182
Utilisation of provision for Share of Impaired Eurosystem Securities (ii) (Note 33(iii))	1,049	-
Total	**(80,742)**	**32,622**

(i) This represents the difference between the monetary income pooled by the Central Bank of €152.3m (2019: €159.1m) and that reallocated to the Central Bank of €73.2m (2019: €190.8m) following the distribution of total Eurosystem monetary income among NCBs in accordance with their respective capital key shares, together with interest as shown in the table below.

Included within the monetary income reallocation figure is an adjustment on net results for previous years of €3.1m (2019: €0.3m) (Note 1(c)(vi)).

	2020 €000	2019 €000
Monetary income pooled	(152,312)	(159,098)
Monetary income reallocated	73,171	190,801
Net (Payer)/ Receiver of Monetary Income	**(79,141)**	**31,703**
Previous Years' Eurosystem Adjustments	(3,075)	(263)
Total (Note 30)	**(82,216)**	**31,440**

(ii) These items contain the Central Bank's share of the net result of the provisioning against credit risks in monetary policy operations, which was established in relation to securities held by an NCB of the Eurosystem in its CSPP portfolio. The assets initially provided for were disposed of in 2020 realising a loss which was covered by the existing provision. The Central Bank utilised €1.1m of this provision to cover the loss realised on the disposal and the remaining €0.4m was released at year-end 2020. No new related provisions were established in 2020 (Note 33(iii)).

Note 8: Other Net Income

	2020 €000	2019 €000
Financial Regulation Net Industry Funding Levy (i)	170,062	154,576
Financial Regulation Monetary Penalties (ii)	24,685	30,262
Expected Return on Pension Fund Assets (Note 32(i))	8,600	13,600
Other (iii)	7,373	5,406
Other Financial Regulation Income (Note 41)	4,340	5,475
Interest on Pension Scheme Liabilities (Note 32(i))	(15,300)	(20,900)
Total	**199,760**	**188,419**

(i) The composition of Financial Regulation Net Industry Funding Levy is provided in Note 41.

(ii) Monetary penalties represent amounts payable to the Central Bank by financial services providers following the conclusion of settlement agreements with those entities in relation to breaches

of regulatory requirements. The full amount of these penalties, amounting to €24.7m in 2020 (2019: €30.3m), is included in Surplus Income Payable to the Exchequer (Note 10).

(iii) Central Credit Register (CCR) Income of €5.8m (2019: €3.2m) included in Other represents fees charged to Credit Information Providers (CIPs) for credit reports issued. Lenders have been charged for enquiry on the CCR since 1 July 2019 (Note 21(ix)).

Note 9: Total Expenses

	Total Head Office & Printworks*		Mint **		Total	
	2020 €000	2019 €000	2020 €000	2019 €000	2020 €000	2019 €000
Salaries/Allowances (i)	157,292	145,656	859	776	158,151	146,432
PRSI	15,330	14,265	88	77	15,418	14,342
Pensions (Note 32(i))	59,500	37,701	-	199	59,500	37,900
Staff Expenses	**232,122**	**197,622**	**947**	**1,052**	**233,069**	**198,674**
Communications and IT	36,851	35,704	120	28	36,971	35,732
Professional Fees (ii)	9,396	11,088	4	5	9,400	11,093
Facilities and Maintenance	8,042	7,234	32	37	8,074	7,271
Payments and Asset Mgt Charges	6,406	6,614	4	9	6,410	6,623
Miscellaneous (iii)	5,766	3,604	(2)	12	5,764	3,616
Rent and Utilities	4,810	4,694	-	-	4,810	4,694
Recruitment & Staff Costs (iv)	3,811	5,635	-	-	3,811	5,635
External Research and Corp Subscriptions	2,828	2,707	1	3	2,829	2,710
Training, Education & Conferences	2,742	3,138	10	-	2,752	3,138
Publishing & Public Relations	580	862	-	-	580	862
Business Travel (v)	504	2,512	2	5	506	2,517
Office Administrative Expenses	236	359	7	-	243	359
Other Operating Expenses	**81,972**	**84,151**	**178**	**99**	**82,150**	**84,250**
Depreciation	**14,609**	**16,131**	**116**	**111**	**14,725**	**16,242**
Currency Production Raw Materials (vi)	**11,159**	**1,954**	**1,172**	**1,278**	**12,331**	**3,232**
Total Expenses	**339,862**	**299,858**	**2,413**	**2,540**	**342,275**	**302,398**

* Head Office and Printworks expenses comprise all expenses (including financial regulatory and printwork expenses) other than those relating to the Mint.

**Expenses incurred at the Mint relating to the provision and issue of coin are charged directly to the Currency Reserve (Note 1(g), Note 26(ii)).

(i) No payments in lieu of notice were made during the year (2019: one payment totalling €919).

There were no payments to staff members in relation to settlements (2019: 2 staff members €34,500). Legal costs incurred in relation to these settlements in 2019 were €87,680.

Staff Expenses are further analysed into the following:

Staff Expenses (including Mint)

	2020 €000	2019 €000
Staff short-term benefits	158,151	146,396
Termination benefits	-	36
Pensions	59,500	37,900
Employers PRSI	15,418	14,342
Total	**233,069**	**198,674**
Staff Numbers (FTE) at 31 December	2,115	2,061

FTE – full time equivalents inclusive of maternity cover and interns

Staff Salaries and Allowances are analysed into the following:

Short Term Benefits (including Mint)

	2020 €000	2019 €000
Basic Pay	156,626	143,828
Overtime	638	813
Allowances	887	1,755
Total	**158,151**	**146,396**

Included in Basic Pay is an accrual in respect of untaken annual leave of €11.9m (2019: €6.9m), which has increased significantly due to the pandemic environment (Note 31(iv)).

Remuneration of the Executive Commission members in 2020

Name	2020	Salary €	2019	Salary €
Gabriel Makhlouf Governor (a) (b) Relocation Expenses	1 January – 31 December	288,224 -	1 September - 31 December	95,597 8,932
Sharon Donnery Acting Governor (a)	-	-	1 June – 31 August	70,466
Deputy Governor Central Banking (a)	1 January – 31 December	250,630	1 January - 31 December	183,635
Ed Sibley Deputy Governor Prudential Regulation (a)	1 January – 31 December	250,630	1 January – 31 December	244,909
Philip R. Lane Governor (a)	-	-	1 January – 31 May	139,433

Salaries increased in line with Public Service pay agreements since 2013.

Fees of Non-Executive Commission Members

Name	2020 €	2019 €
Alan Ahearne (Retired – 7 March 2020) (c) (d)	Nil	Nil
Derek Moran (c)	Nil	Nil
John Trethowan (c)	Nil	Nil
Des Geraghty (Retired – 30 Sep 2019)	-	11,202
John FitzGerald (Retired – 30 Sep 2020)	11,202	14,936
Patricia Byron	14,936	14,936
Niamh Moloney	14,936	14,936
Shay Cody (Appointed – 1 Dec 2020)	1,245	-
Sarah Keane (Appointed – 1 Dec 2020)	1,245	-
David Miles (Appointed – 1 Dec 2020)	1,245	-

Expenses of Non-Executive Commission Members

Name	Travel €	Accommodation and Subsistence €	Total 2020 €	Total 2019 €
Alan Ahearne	Nil	Nil	Nil	€360
Derek Moran	Nil	Nil	Nil	Nil
John Trethowan	1,052	405	1,457	1,907
Des Geraghty	Nil	Nil	Nil	Nil
John FitzGerald	Nil	Nil	Nil	Nil
Patricia Byron	Nil	Nil	Nil	Nil
Niamh Moloney	Nil	Nil	Nil	1,206
Shay Cody	Nil	Nil	Nil	N/A
Sarah Keane	Nil	Nil	Nil	N/A
David Miles	Nil	Nil	Nil	N/A

(a) Governor Gabriel Makhlouf's, Deputy Governor Sharon Donnery's, Deputy Governor Ed Sibley's and former Governor Philip R. Lane's pension scheme entitlements do not extend beyond the standard entitlements in the Central Bank's defined benefit superannuation scheme (Note 32).

(b) Governor Gabriel Makhlouf is also in receipt of a UK public service pension.

(c) In keeping with the One Person One Salary principle, three (2019: three) non-executive members of the Commission did not receive payment of any fees.

(d) Due to the time commitment necessary to fulfil the functions of the Commission, a time buy-out is in place to compensate the full-time public sector employers of one member (2019: one member) for costs incurred due to their absence on Commission business. During 2020, an expense of €3,246 (2019: €17,443) in relation to the National University of Ireland, Galway was incurred (includes €476 in travel related expenses incurred in 2020 (2019: €2,507)).

Remuneration of Key Management Personnel[52]

	2020 €000	2019 €000
Salary	€10,859	€10,211
Total	**€10,859**	**€10,211**

The Central Bank operates a Revenue Commissioners approved holiday loan scheme for all staff. Advances totalling €22,700 (2019: €27,250) to five Key Management Personnel (2019: one Executive Commission Member and eight Key Management Personnel). As at 31 December 2020 all advances under this scheme have been fully repaid (2019: fully repaid).

Employees Short-term Benefits in excess of €60,000[53]

Pay Bands	2020 No. of People	2019 No. of People
60,000-70,000	440	386
70,000-80,000	169	196
80,000-90,000	176	149
90,000-100,000	251	203
100,000-110,000	100	93
110,000-120,000	13	20
120,000-130,000	58	61
130,000-140,000	32	31
140,000-150,000	23	21
150,000-160,000	20	10
160,000-170,000	-	2
170,000-180,000	2	9
180,000-190,000	9	5
190,000+	9	4
Total	**1,302**	**1,190**

[52] Key Management Personnel refers to staff at Head of Division and above, and includes the executive Commission members disclosed separately in Note 9, as prescribed in the Code of Practice for the Governance of State Bodies 2016. Other than those disclosed in this note, no further benefits have been received by Key Management Personnel.

[53] Short-term benefits includes Basic Pay, Allowances and Overtime payments to staff.

(ii) Included in Professional Fees are Auditors' fees payable to Mazars and the Comptroller and Auditor General which amounted to:

Auditors' Fees[54]	2020 €000	2019 €000
Audit of Individual Accounts	**304**	**304**
Mazars	155	155
Comptroller and Auditor General	149	149
Other Assurance Services	**53**	**34**
Mazars	53	34
Other Non-Audit Services	**398**	**315**
Mazars	398	315
Total	**755**	**653**

Included in Professional Fees and analysed in the following table are Consultancy costs totalling €5.8m (2019: €6.3m). The balance of €0.6m (2019: €1.6m) is included in PPE and Intangible Assets (Note 22).

Consultancy

	2020 €000	2019 €000
IT	2,177	1,199
Legal Advice	1,010	1,719
Premises	1,009	1,210
Other	937	141
Financial	875	1,113
Pensions & HR	330	142
Business Improvement	106	2,390
Total	**6,444**	**7,914**
Consultancy Costs Capitalised	571	1,648
Consultancy Costs Charges to the Income and Expenditure	5,873	6,266
Total	**6,444**	**7,914**

Included in Professional Fees are legal costs in relation to legal proceedings totalling €1.7m (2019: €3.4m).

Legal Fees

	2020 €000	2019 €000
Legal fees – legal proceedings	1,707	3,378
Total	**1,707**	**3,378**

[54] Auditors' Fees are shown exclusive of VAT so that the net amount received by the supplier is disclosed.

The above legal proceedings costs include all legal costs incurred in relation to legal proceedings initiated by or taken against the Central Bank. The cost in relation to legal proceedings above relates to 14 separate legal cases (2019: 14).

The Central Bank's insurance company paid €0.2m (2019: Nil) relating to legal costs and settlements.

(iii) Included in Miscellaneous are the expenses of the Financial Services Appeals Tribunal €0.1m (2019: €0.1m) which the Central Bank discharges, in accordance with the provisions of Section 57AX(4) of the Central Bank Act, 1942 (as amended).

The CCR has been established on the basis that all costs associated with it are recouped through fees charged to the CIPs. Staff and other costs are included within the relevant cost category for those costs. All other relevant items (including an allocation of indirect costs) are included in Miscellaneous expenses, such that all costs incurred for the establishment, maintenance and operation of CCR which are not yet recouped through fee income, are reflected in the CCR asset account (Note 8, Note 21(ix)). This approach will ensure that no profit or loss arises on the operation of the CCR.

(iv) Included in Recruitment & Other Staff Costs above is Hospitality Expenditure of €0.05m for 2020, analysed as follows:

Hospitality Expenditure	2020 €000	2019 €000
Staff Hospitality	46	218
Client Hospitality	-	-
Total	**46**	**218**

The hospitality expenditure disclosed above is classified in accordance with the Code of Practice for the Governance of State Bodies (2016).

The Central Bank does not engage in Client Hospitality. The above amounts do not include expenditure on refreshments/hospitality associated with business operations such as conference hosting, events and meetings.

(v) The spend on Travel is analysed as follows:

Travel (including Mint)

	2020 €000	2019 €000
Domestic		
Commission*	3	13
Staff	68	263
International		
Commission*	11	105
Staff	424	2,136
Total	**506**	**2,517**

*Commission includes both executive and non-executive members.

(vi) Currency Production Raw Materials expense relates to the production of banknotes €11.2m (2019: €2.0m) and Coin €1.2m (2019: €1.3m). The increase in cost of banknotes was due to both the 2019 and 2020 allocation being issued during 2020.

Note 10: Surplus Income payable to the Exchequer

Surplus Income of €665.7m is payable to the Exchequer in respect of the year ended 31 December 2020 (2019: €2,050.4m) (Note 1(o), Note 31(i)). The gross amount is payable to the Exchequer as, under Section 6J of the Central Bank Act, 1942 (as amended), the Central Bank is exempt from Corporation Tax and Capital Gains Tax.

Note 11: Gold and Gold Receivables

	2020 €000	2020 Fine Ounces of Gold	2019 €000	2019 Fine Ounces of Gold
Gold and Gold Receivables	299,039	193,693	262,114	193,571
Total	**299,039**	**193,693**	**262,114**	**193,571**

Gold and gold receivables consist of coin stocks held in the Central Bank, together with gold bars held at the Bank of England. The increase in the balance at year-end 2020 is primarily due to the change in the market value of gold holdings from the year-end 2019 to 2020 (Note 1(j)(iv), Note 34).

Note 12: Claims on Non-Euro Area Residents in Foreign Currency

	2020 €000	2019 €000
Balances with Banks and Security Investments, External Loans and other External Assets (i)	3,996,215	3,079,574
Receivables from the IMF (ii)	1,751,450	1,819,308
Total	**5,747,665**	**4,898,882**

(i) Balances with Banks and Security Investments, External Loans and other External Assets

	2020 €000	2019 €000
Security Investments - MTM (a)	3,015,617	2,135,958
Balances with Banks	964,707	906,230
Reverse Repurchase Agreements (b)	15,891	37,386
Total	**3,996,215**	**3,079,574**

(a) These securities comprise debt issued by non-euro area issuers (Note 1(j)(ii)).

The increase compared to 2019 reflects the increase in investment in the SGD, USD and AUD securities portfolio as part of the Central Bank's foreign currency portfolios during 2020.

(b) As part of the management of its investment assets, the Central Bank uses reverse repurchase transactions with approved counterparties under GMRA legal agreements. The asset represents the consideration paid for securities purchased under agreements to resell at a specified future date, including accrued interest. It is recognised as an asset reflecting the transaction's economic substance as a loan by the Central Bank as there is an obligation on the seller to return the consideration plus interest when repurchasing the assets (Note 1(l)). The difference between the purchase and resale prices is recorded under "Interest Income" (Note 2(v)) and "Interest Expense" (Note 3(ii)) and is accrued over the life of the agreement using the effective interest rate.

The decrease in Reverse Repurchase Agreements with non-euro area residents in foreign currency to €15.9m in 2020 (2019: €37.4m) relates to the counterparty with which the Central Bank

carries out its Reverse Repurchase Agreements relocating from the UK to the Euro area as a result of Brexit.

Maturity Profile

	2020 €000	2019 €000
0 - 3 months	1,518,415	1,504,471
3 months - 1 year	794,043	788,113
1 - 5 years	1,683,757	786,990
Total	**3,996,215**	**3,079,574**

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

	2020 €000	2019 €000
Quota	4,079,925	4,262,064
Less IMF Holdings maintained by the Bank	(3,129,098)	(3,266,631)
Reserve Position in IMF (a)	950,827	995,433
SDR Holdings (b)	800,623	823,875
Total	**1,751,450**	**1,819,308**

(a) Reserve Position in the IMF:

This asset represents the difference between Ireland's Quota in the IMF and the IMF's holdings of euro maintained by the Central Bank. Ireland's Quota is its membership subscription. On 15 December 2010, the Board of Governors of the IMF completed a package of reforms of the Fund's quotas and governance. The conditions for implementing the quota increases agreed were met on 26 January 2016.[55] The holdings of euro by the IMF, maintained with the Central Bank, which initially were equal to 75% of the Quota, have changed from time to time as a result of instructions received from the IMF regarding its lending to member countries. The current percentage holding is 77% (2019: 77%).

(b) Special Drawing Rights (SDRs) Holdings:

The SDR is an international reserve asset, which was created by the IMF and allocated to member countries in the 1970s/80s in order to increase international liquidity. The SDR is defined in terms of a basket of currencies. Its value is determined as the

[55] As a result, Ireland's IMF quota increased by SDR 2,192.3m from SDR 1,257.6m to SDR 3,449.9m on 19 February 2016.

weighted sum of exchange rates of five currencies (US Dollar, Sterling, Japanese Yen, Chinese Renminbi and Euro) (Note 28).

Note 13: Claims on Euro Area Residents in Foreign Currency

	2020 €000	2019 €000
Reverse Repurchase Agreements (i)	151,942	-
Security Investments - MTM (ii)	77,038	76,064
Balances with Banks	421	950
Total	**229,401**	**77,014**

Maturity Profile

	2020 €000	2019 €000
0 - 3 months	162,195	1,952
3 months - 1 year	28,540	1,885
1 - 5 years	38,666	73,177
Total	**229,401**	**77,014**

(i) As part of the management of its investment assets, the Central Bank uses reverse repurchase transactions with approved counterparties under GMRA legal agreements. The asset represents the consideration paid for securities purchased under agreements to resell at a specified future date, including accrued interest. It is recognised as an asset reflecting the transaction's economic substance as a loan by the Central Bank as there is an obligation on the seller to return the consideration plus interest when repurchasing the assets (Note 1(l)). The difference between the purchase and resale prices is recorded under "Interest Income" (Note 2(v)) and "Interest Expense" (Note 3(ii)) and is accrued over the life of the agreement using the effective interest rate.

The increase in Reverse Repurchase Agreements with euro area residents in foreign currency to €151.9m in 2020 (2019: Nil) relates to the counterparty with which the Central Bank carries out its Reverse Repurchase Agreements relocating from the UK to the Euro area as a result of Brexit.

(ii) These securities comprise debt issued by euro area issuers in foreign currency (Note 1(j)(ii)). The year-end 2020 balance relates to USD bonds issued by EU residents.

Note 14: Claims on Non–Euro Area Residents in Euro

	2020 €000	2019 €000
Security Investments - HTM (i)	1,926,346	2,101,427
Reverse Repurchase Agreements (ii)	185,623	1,846,517
Security Investments - MTM (i)	110,306	191,627
Balances with Banks	41,302	20,325
Total	**2,263,577**	**4,159,896**

Maturity Profile

	2020 €000	2019 €000
0 - 3 months	310,688	1,911,134
3 months - 1 year	110,327	194,688
1 - 5 years	1,278,582	1,169,729
5 - 10 years	563,980	884,345
Total	**2,263,577**	**4,159,896**

(i) These securities comprise debt issued by non-euro area issuers (Note 1(j)(ii), Note 1(j)(iii)).

(ii) As part of the management of its investment assets, the Central Bank uses reverse repurchase transactions with approved counterparties under GMRA legal agreements. The asset represents the consideration paid for securities purchased under agreements to resell at a specified future date, including accrued interest. It is recognised as an asset reflecting the transaction's economic substance as a loan by the Central Bank as there is an obligation on the seller to return the consideration plus interest when repurchasing the assets (Note 1(l)). The difference between the purchase and resale prices is recorded under "Interest Income" (Note 2(v)) and "Interest Expense" (Note 3(ii)) and is accrued over the life of the agreement using the effective interest rate.

The decrease in Reverse Repurchase Agreements with non-euro area residents in euro to €185.6m in 2020 (2019: €1,846.5m) relates to the counterparty with which the Central Bank carries out its Reverse Repurchase Agreements relocating from the UK to the Euro area as a result of Brexit.

Note 15: Lending to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

	2020 €000	2019 €000
Longer Term Refinancing Operations of which TLTROs	7,288,900	2,032,720
Total	**7,288,900**	**2,032,720**

Maturity Profile of TLTROs

	2020 €000	2019 €000
0 - 3 months	-	-
3 months - 1 year	-	1,523,000
1 - 5 years	7,288,900	509,720
Total	**7,288,900**	**2,032,720**

These balances consist of advances to local credit institutions and reflect the Central Bank's participation in Eurosystem monetary policy operations. All the advances are fully secured by collateral approved by the Eurosystem.[56] As at 31 December 2020, total Eurosystem monetary policy-related advances amounted to €1,793.2bn (2019: €624.2bn), of which the Central Bank held €7.3bn (2019: €2.0bn). In accordance with Article 32.4 of the ESCB Statute, any losses from lending to euro area credit institutions related to monetary policy operations, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing Eurosystem capital key shares. For specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council of the ECB (Note 37).

Losses can only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient.

In March 2016, the Governing Council introduced a new series of operations, TLTRO-II. These operations had a four-year maturity, with a possibility of repayment after two years. The applicable interest rate for TLTRO-II operations was dependent on the individual lending benchmark of the respective counterparties between the date of allotment and January 2018. The actual rate was set in June 2018, with the MRO rate (0%) being applied to the lending of some counterparties,

[56] The approved collaterals are listed on the ECB website at: http://www.ecb.europa.eu/mopo/assets/html/index.en.html.

and the deposit facility rate (-0.4%) being applied to the lending of other Eurosystem counterparties. There were four opportunities throughout 2020 for Eurosystem counterparties to early repay TLTRO-II borrowings. These early repayment operations were conducted in March, June, September and December.

In March 2019, the Governing Council announced a third round of TLTROs, TLTRO-III. The third TLTRO programme consists of a series of seven targeted longer-term refinancing operations, each with a maturity of three years, starting in September 2019 at a quarterly frequency.[57] Similarly to TLTRO-II, the interest rate to be applied is linked to the participating banks' lending patterns and will be set after the end of the eligible lending period which runs from end March 2019 to end March 2021. The more loans participating banks issue to non-financial corporations and households (except loans to households for house purchases), the more attractive the interest rate on their TLTRO-III borrowings becomes, and could be as low as the average interest rate on the deposit facility (-0.5%) prevailing over the life of the operation. Additionally, in response to the COVID-19 pandemic, in 2020 the Governing Council decided that for a period between 24 June 2020 and 23 June 2022 (referred to as the special interest rate period) the interest rate applicable can be as low as 50 basis points below the average interest rate on the deposit facility (-1.0%).

As the actual interest rates will only be known at the maturity of each operation and that a reliable estimate is not possible until that time, the deposit facility rate minus 50 basis points, with a ceiling of -1.0% is used for calculating the TLTRO-III interest over the special interest period, and, the deposit facility rate is used for calculating the TLTRO-III interest over the rest of the life of an operation.

Note 16: Other Claims on Euro Area Credit Institutions in Euro

	2020 €000	2019 €000
Maturities less than one year:		
Reverse Repurchase Agreements (i)	3,833,460	2,195,997
Balances with Banks	155,468	152,409
Total	**3,988,928**	**2,348,406**

(i) As part of the management of its investment assets, the Central Bank uses reverse repurchase transactions with approved

[57] In December 2020, the Governing Council decided that three further TLTRO-III operations with a maturity of three years will be allotted in June, September and December 2021.

counterparties under GMRA legal agreements. The asset represents the consideration paid for securities purchased under agreements to resell at a specified future date, including accrued interest. It is recognised as an asset reflecting the transaction's economic substance as a loan by the Central Bank as there is an obligation on the seller to return the consideration plus interest when repurchasing the assets (Note 1(l)). The difference between the purchase and resale prices is recorded under "Interest Income" (Note 2(v)) and "Interest Expense" (Note 3(ii)), and is accrued over the life of the agreement using the effective interest rate.

The increase in Reverse Repurchase Agreements with euro area residents in euro to €3,833.5m in 2020 (2019: €2,196.0m) relates to the counterparty with which the Central Bank carries out its Reverse Repurchase Agreements relocating from the UK to the Euro area as a result of Brexit.

Note 17: Securities of Euro Area Residents in Euro

	2020 €000	2019 €000
Securities Held for Monetary Policy Purposes (i)	49,533,972	37,590,497
Other Securities (ii)	23,242,483	26,952,081
Total	**72,776,455**	**64,542,578**

This item comprises two portfolios:

(i) "Securities Held for Monetary Policy Purposes", introduced to reflect the euro-denominated CBPP3 portfolio which began in October 2014, the SMP, which began in May 2010, the PSPP which began in March 2015 and the PEPP which was introduced in March 2020 in response to the COVID-19 pandemic.

(ii) "Other Securities" includes marketable securities that are not held for monetary policy operations of the Eurosystem.

(i) Securities Held for Monetary Policy Purposes

As at 31 December 2020, this item consisted of securities acquired by the Central Bank within the scope of the CBPP3, the SMP, the PSPP and the PEPP. [58,59,60,61]

Securities purchased under all of these programmes are measured on an amortised cost basis subject to impairment (Note 1(c)(ix)).

The amortised cost of the securities held by the Central Bank, as well as their market values (which are not recorded on the Balance Sheet or in the Profit and Loss and Appropriation Account but are provided for comparison purposes only), are as follows:

	2020 €000 Amortised Cost	2020 €000 Market Value	2019 €000 Amortised Cost	2019 €000 Market Value
CBPP3	3,213,626	3,269,070	4,016,411	4,073,934
SMP	359,752	397,680	767,126	834,812
PSPP *of which*	36,024,340	39,303,188	32,806,960	34,833,418
Government Sector (Own-Risk)	*31,594,062*	*34,571,052*	*27,656,882*	*29,509,378*
Supranational (Shared-Risk)	*4,430,278*	*4,732,136*	*5,150,078*	*5,324,040*
PEPP *of which*	9,936,254	10,134,974	-	-
Government Sector (Own-Risk)	*9,930,303*	*10,129,010*	-	-
Covered Bonds (Shared-Risk)	*5,951*	*5,964*	-	-
Total	**49,533,972**	**53,104,912**	**37,590,497**	**39,742,164**

[58] ECB Decision of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L 175, 4.7.2009, p. 18, ECB Decision of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17), OJ L 297, 16.11.2011, p. 70 and ECB Decision of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40), OJ L 335 22.10.2014, p.22.

[59] ECB Decision of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

[60] ECB Decision of 04 March 2015 establishing a secondary markets public sector asset purchase programme (ECB/2015/10) OJ L 121, 14.5.2015, p. 20.

[61] ECB Decision of 24 March 2020 establishing a pandemic emergency purchase programme (ECB/2020/17), OJ L 91 25.03.2020, p.1.

Maturity Profile	2020 €000 Amortised Cost	2019 €000 Amortised Cost
0 - 3 months	921,719	669,424
3 months - 1 year	1,136,884	3,502,255
1 - 5 years	17,296,096	13,165,711
5 - 10 years	18,156,893	10,192,737
10 -15 years	5,468,430	5,537,327
> 15 years	6,553,950	4,523,043
Total	**49,533,972**	**37,590,497**

Purchases under the SMP were terminated on 6 September 2012.

In 2020, the Eurosystem continued its net asset purchases under the APP which constitutes the CBPP3, the ABSPP, the PSPP and the Corporate Sector Purchase Programme (CSPP).[62,63,64,65] In March 2020, the Governing Council decided to add a temporary envelope of additional net asset purchases of €120.0bn until the end of 2020. The Governing Council expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. It also intends to continue the reinvestments for an extended period of time past the date when key ECB interest rates start to rise, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Additionally, in March 2020, the Eurosystem launched a temporary PEPP, with an overall envelope of €750.0bn, to counter the severe risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the COVID-19 pandemic.[66] Purchases under this programme include all the asset categories eligible under the existing APP and some additional assets, including public sector assets with a minimum remaining maturity of 70 days (as opposed to one year under the PSPP). Purchases were initially foreseen until the end of 2020.

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[62] Further details of the APP can be found on the ECB's website https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html.
[63] Decision ECB/2014/45 of 19 November 2014 on the implementation of the asset backed securities purchase programme.
[64] Under this programme, the ECB and the NCBs may purchase, in the secondary market, euro-denominated securities issued by euro area central, regional or local governments, recognised agencies located in the euro area and international organisations and multilateral development banks located in the euro area.
[65] Under this programme, the NCBs may purchase investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area.
[66] Further details on the PEPP can be found on the ECB's website (https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html).

The Governing Council decided to increase the envelope for the PEPP by €600.0bn in June 2020 to a total of €1,350.0bn and by a further €500.0bn to €1,850.0bn in December 2020 and extended the horizon for net purchases to at least the end of March 2022. Furthermore, the Governing Council intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2023.

The securities purchased under all of these programmes are measured on an amortised cost basis subject to impairment. The Governing Council assesses on a regular basis the financial risks associated with the securities held under these programmes. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year-end and are approved by the Governing Council. There was no impairment of securities held under the SMP, ABSPP, CBPP3, PSPP and PEPP programmes as at 31 December 2020 (2019: Nil).

The Eurosystem aggregate holdings of monetary policy securities at end December 2020 amounted to €3,694.6bn of which the Central Bank held €49.5bn (2019: €2,632.1bn of which the Central Bank held €37.6bn) (see table below) (Note 1(c)(ix)):

Amortised Cost	Year	SMP €m	CBPP1 €m	CBPP2 €m	CBPP3 €m	PSPP €m	ABSPP €m	CSPP €m	PEPP €m	Total €m
Eurosystem	2020	28,663	452	2,764	287,545	2,341,608	29,497	250,403	753,711	3,694,643
	2019	47,908	1,760	2,911	263,612	2,102,927	28,435	184,505	-	2,632,058
Bank	2020	360	-	-	3,214	36,024	-	-	9,936	49,534
	2019	767	-	-	4,016	32,807	-	-	-	37,590

(ii) Other Securities

	2020 €000	2019 €000
Security Investments - MTM (a)	14,879,389	16,665,455
Security Investments - HTM (b)	8,363,094	10,286,626
Total	**23,242,483**	**26,952,081**

Maturity Profile

	2020 €000	2019 €000
0 - 3 months	1,005,641	944,006
3 months - 1 year	2,414,395	2,538,802
1 - 5 years	5,747,119	6,956,250
5 - 10 years	1,079,986	2,250,639
10 - 15 years	-	-
> 15 years	12,995,342	14,262,384
Total	**23,242,483**	**26,952,081**

(a) Security Investments - MTM

	2020 Closing Market Value €000	2019 Closing Market Value €000
Special Portfolio (i)	12,995,343	14,262,384
Treasury Bills	1,005,398	800,087
Government Issue Bonds	798,635	1,353,869
Financial Issue Bonds	80,013	249,115
Total	**14,879,389**	**16,665,455**

(i) Special Portfolio – Assets acquired following liquidation of IBRC

Floating Rate Notes (FRNs)

In 2013, the Central Bank acquired eight FRNs amounting to €25.0bn as part of the exchange of assets on the liquidation of IBRC. The eight FRNs acquired ranged in maturity from 2038 to 2053. These are classified as Level 3 type securities (Note 1(j)(v)). During 2020, the Central Bank sold €1.0bn nominal of the 2051 FRNs realising gains amounting to €0.6bn (2019: sold €3.0bn nominal, gain €1.7bn) (Note 4(i)). On a cumulative basis, the Central Bank has disposed of €17.5bn nominal of the FRNs. All holdings of the 2038, 2041, 2043, 2045, 2047 and 2049 FRNs have now been disposed of. As at 31 December 2020, the remaining FRNs of €7.5bn nominal (2019: €8.5bn nominal) were valued at €13.0bn (2019: €14.3bn) giving rise to an unrealised gain of €5.5bn (2019: €5.7bn) (Note 34(i)).

As there is no active market in the FRNs, the Central Bank measures the fair value of the FRNs using an internal model which applies valuation methods and techniques that are generally recognised as standard within the industry. The fair value of these securities has been estimated using a discounted cash flow valuation technique incorporating:

(a) An estimated "6 month forward" Euribor curve which can change over time in response to a variety of factors, including supply and demand for liquidity in banks as well as economic growth and inflation expectations.

(b) A zero coupon yield curve compiled from the Irish yield curve for the period for which directly observable market prices are available, and thereafter extrapolated using observable yields on other relevant European yield curves that are trading in active markets.

Model factors require judgement to ensure they are appropriately estimated over time. The model is periodically evaluated by the Central Bank to ensure that it is consistent with best practice. For illustrative purposes a twenty-five basis point increase in the Irish discount curve used in the pricing model will result in a decrease in valuation by approximately €0.8bn (2019: €0.8bn). A twenty-five basis point decrease in the Irish discount curve used in the pricing model will result in an increase in valuation by approximately €0.8bn (2019: €0.8bn).

	BOOK VALUES				REVALUATION MOVEMENTS			SUMMARY		
€000	2019 Closing Balance	Purchases	Sales/ Redemptions	2020 Closing Balance	2019 Closing Balance	Opening Revaluation on Disposal	Movement on Retained Portfolio	2020 Closing Balance	2019 Closing Market Value	2020 Closing Market Value
Floating Rate Notes	8,534,000	-	(1,000,000)	7,534,000	5,728,384	(651,930)	384,889	5,461,343	14,262,384	12,995,343
Total	**8,534,000**	**-**	**(1,000,000)**	**7,534,000**	**5,728,384**	**(651,930)**	**384,889**	**5,461,343**	**14,262,384**	**12,995,343**

The above table shows the movement in the book values and the valuation of securities which were acquired following the IBRC liquidation during 2013. The Central Bank intends to sell the portfolio of FRNs as soon as possible, provided conditions of financial stability permit. The Central Bank has also indicated that it will sell a minimum of these securities in accordance with the following schedule: 2020-2023 (€1.0bn per annum) and from 2024 on (€2.0bn per annum until all bonds are sold).

(b) Security Investment – HTM

Held-to-maturity securities are securities with fixed or determinable payments and a fixed maturity which the Central Bank intends to hold to maturity (Note 1(j)(iii)). The decrease in the HTM portfolio of €1.9bn to €8.4bn (2019: €10.3bn) relates to a decision by the Central Bank to reduce the size of the HTM.

Note 18: Participating Interest in ECB

	2020 €000	2019 €000
Participating Interest in ECB	216,609	213,449
Total	**216,609**	**213,449**

This represents the Central Bank's contribution to the capital of the ECB. Pursuant to Article 28 of the ESCB Statute, the ESCB NCBs are the sole subscribers to the capital of the ECB. The level of subscriptions is dependent on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which are adjusted every five years or in the event that an NCB leaves the ESCB. The most recent such adjustment took effect on 1 February 2020 following the withdrawal of the UK from the EU.

The Central Bank's share in subscribed capital of the ECB increased to 1.3772% in 2020 (2019: 1.1754%) following the UK's withdrawal from the EU and consequently the Central Bank's participating interest in the ECB increased by €3.2m to €216.6m as a result of the additional capital contribution that was transferred to the ECB (Note 1 (c)(ii), Note 1(c)(iii)).

Note 19: Claims Equivalent to the Transfer of Foreign Reserves

	2020 €000	2019 €000
Claims equivalent to the transfer of foreign reserves	683,175	681,157
Total	**683,175**	**681,157**

These represent the Central Bank's claims arising from the transfer of foreign reserve assets to the ECB when the Central Bank joined the Eurosystem.

The adjustments to the capital key weightings of the ECB on 1 February 2020 resulted in the adjustment of the Central Bank's claim with respect to the foreign reserve assets transferred to the ECB. In order to reflect its increased capital key share, the Central Bank's euro-denominated claim increased by €2.0m to €683.2m on 1 February 2020 which is fixed in proportion to its Eurosystem capital key share (Note 1(c)(ii), Note 1 (c)(iii), Note 1(c)(vii)).

The Central Bank's Eurosystem capital key as at 31 December 2020 is 1.6934% (2019: 1.6883%).

The claims are denominated in euro at a value fixed at the time of their transfer. They are remunerated at the latest available interest rate for the main refinancing operations, adjusted to reflect a zero return on the gold component.

Note 20: Other Claims within the Eurosystem (net)

	2020 €000	2019 €000
TARGET2 Balance (net) (i)	46,135,118	35,365,028
Share of ECB Profits (ii)	21,340	24,160
Net Result of Pooling of Monetary Income (iii)	-	31,440
Total	**46,156,458**	**35,420,628**

(i) This item represents the Central Bank's net asset to the ECB as a result of euro cross-border payments transacted over the TARGET2 system by all NCBs participating in the ESCB, which amounted to €46.1bn at year-end 2020 (2019: €35.4bn) (Note 1(c)(ii)). The €10.7bn increase in the TARGET2 asset reflects a net inflow of euro into the State, via the Central Bank's TARGET2 account over the period. The inflows were largely channelled through credit institutions' reserve accounts (Note 24).

At year-end 2020, five non-participating countries (Bulgaria, Croatia, Denmark, Poland and Romania) were members of TARGET2 and, therefore, included in the multilateral netting process. The remuneration of TARGET2 positions, with the exception of balances arising from back-to-back swap transactions, is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

(ii) Following a decision by the Governing Council, the amount due to euro area NCBs with respect to the ECB's interim profit distribution for 2020 was €1,260.0m. The Central Bank's share of the ECB's interim distribution of profit for 2020 was €21.3m (2019: €24.2m) (Note 1(c)(v), Note 6(i)).

(iii) This represents the Central Bank's monetary income receivable (Note 1(c)(iii), Note 1(c)(vi), Note 7(i)). This is a payable in 2020 (Note 30).

Note 21: Other Assets

	2020 €000	2019 €000
Accrued Interest Income (i)	661,055	673,255
Property, Plant, Equipment and Intangible Assets (Note 22)	448,668	432,986
- Tangible - Plant, Property, Equipment (Note 22(i))	*429,238*	*411,476*
- Intangible - Computer Software (Note 22 (ii))	*19,430*	*21,510*
Equity Fund (ii)	305,107	285,745
Funding Levy (iii)	181,176	165,715
Other (iv)	65,688	60,001
Accrued Interest Purchased (v)	49,328	15,822
Unrealised Gains (vi)	44,665	14,651
Investment Property (vii)	51,400	55,170
Shares in the Bank for International Settlements (viii)	20,852	21,183
Central Credit Register Recoverable Costs (ix)	7,062	7,815
Prepayments	4,517	4,207
Stocks of Materials for Banknote Production	-	2,914
Total	**1,839,518**	**1,739,464**

(i) This item includes the accrued income earned on the securities.

(ii) The Central Bank invests in an equity fund as part of its investment strategy. The equity fund tracks the MSCI World Index. The fund is managed by an asset management company on behalf of the Central Bank, while the underlying assets are held by a custodian (Note 1(j)(ii), Note 1(k), Note 34, Note 37).

(iii) The net funding levy of €181.2m (2019: €165.7m) relates to income owed to the Central Bank from industry regulated entities of €184.6m (2019: €166.9m) which will be levied in 2021 as well as a provision for outstanding levies of €3.4m (2019: €1.2m) (Note 41(ii)).

(iv) Included in Other is an amount of €30.3m (2019: €28.2m) which relates to accrued interest income on government accounts.

(v) Accrued interest purchased has increased to €49.3m (2019: €15.8m) which is largely driven by the increased investment in monetary policy securities.

(vi) Unrealised Gains on foreign exchange contracts have increased to €44.7m (2019: €14.7m).

(vii) In November 2015, the Central Bank acquired Block R, Spencer Dock. The property, which comprises both commercial and retail space, is partially used by the Central Bank in its current operations. The remainder is either let out, or available for letting on the open market and therefore this portion is recognised as an

investment property. In accordance with the Central Bank's accounting policies, management undertake an annual review to determine the fair value of the Central Bank's investment property.

During the year, the investment property continued to be let to a third party. This lease has a remaining term of 15 years, with a break clause in 7 years. The lease includes a provision for a five-yearly rent review according to prevailing market conditions.

The fair value of the investment property was determined by an external, independent property valuator, having recognised professional qualifications and recent experience in the location and category of the property being valued. The fair value measurement provided has resulted in a reduction in value of €3.8m from €55.2m in 2019 to €51.4m in 2020. Any unrealised losses in relation to this revaluation are treated in accordance with the Guideline (Note 1(p), Note 2(viii), Note 34).

This property was put on the market for sale in November 2020. No sale has been concluded up to the date of approval of the Statement of Accounts.

Future Minimum Lease Payments

	2020 €000	2019 €000
Not later than one year	1,583	1,583
After one year but not more than five years	6,332	6,332
After five years	14,815	16,398
Total	**22,730**	**24,313**

(viii) The Central Bank holds 8,564 shares (2019: 8,564 shares) in the Bank for International Settlements, the euro equivalent of which is €20.9m (2019: €21.2m) (Note 6(ii), Note 36(i)).

(ix) The balance in the CCR asset account was €7.1m (2019: €7.8m) representing the costs of the CCR yet to be recouped through fees charged to CIPs (Note 8(iii)).

Note 22: Property, Plant, Equipment and Intangible Assets

(i) Tangible Property, Plant and Equipment (PPE)

	Premises		Plant & Machinery		Computer Equipment		Other Equipment		Furniture, Fixtures & Fittings		Assets Under Construction (c)		Total Tangible Fixed Assets	
	2020 €000	2019 €000	2020 €000	2019 €000	2020 €000	2019 €000	2020 €000	2019 €000	2020 €000	2019 €000	2020 €000	2019 €000	2020 €000	2019 €000
At Cost - 1 January	163,844	163,708	79,927	79,221	15,267	14,673	6,939	7,498	16,119	15,408	231,368	4,311	513,464	284,819
Cost correction	-	(78)	-	(31)	-	(63)	-	-	-	-	-	-	-	(172)
Transfer	85	1,039	148	737	201	657	200	18	726	754	(1,360)	(3,298)	-	(93)
Acquisitions	-	-	-	-	-	-	-	-	-	-	30,232	230,355	30,232	230,355
Disposals	(140)	(825)	-	-	(147)	-	-	(577)	-	(43)	(346)	-	(633)	(1,445)
At Cost - 31 December	163,789	163,844	80,075	79,927	15,321	15,267	7,139	6,939	16,845	16,119	259,894	231,368	543,063	513,464
Accumulated Depreciation at 1 January	24,676	20,760	51,161	47,850	8,476	5,367	6,748	7,243	10,927	8,996	-	-	101,988	90,216
Depreciation for Year (a)	3,964	3,938	2,697	3,311	3,104	3,121	78	82	2,157	1,974	-	-	12,000	12,426
Transfer	-	-	-	-	-	(12)	-	-	-	-	-	-	-	(12)
Disposals	(16)	(22)	-	-	(147)	-	-	(577)	-	(43)	-	-	(163)	(642)
Accumulated Depreciation at 31 December	28,624	24,676	53,858	51,161	11,433	8,476	6,826	6,748	13,084	10,927	-	-	113,825	101,988
Net book value at 31 December	**135,165**	**139,168**	**26,217**	**28,766**	**3,888**	**6,791**	**313**	**191**	**3,761**	**5,192**	**259,894**	**231,368**	**429,238**	**411,476**

(a) Of the total depreciation charge of €12.0m (2019: €12.4m), €0.1m in respect of Mint machinery was charged to the Currency Reserve (2019: €0.1m).

(b) The Central Bank currently holds an art collection valued at €2.0m based on a 2016 valuation (2019: €2.0m), which is not recognised in the annual accounts of the Central Bank on the grounds of materiality in either the current or preceding financial years (Note 1(e)).

(c) Assets Under Construction relates to capital expenditure incurred on assets which have not yet come into use by the year-end. An amount of €253.6m relates to the building of Mayor Street premises, which is part of the Campus Development strategy of the Central Bank.

(ii) Intangible Computer Software

	Computer Equipment		Assets Under Construction (a)		Total Intangible Fixed Assets	
	2020 €000	2019 €000	2020 €000	2019 €000	2020 €000	2019 €000
At Cost - 1 January	46,633	42,174	14,039	12,838	60,672	55,012
Transfer	2,110	4,459	(2,110)	(4,459)	-	-
Acquisitions	-	-	3,653	5,660	3,653	5,660
Disposals (b)	(9,507)	-	(3,009)	-	(12,516)	-
At Cost - 31 December	39,236	46,633	12,573	14,039	51,809	60,672
Accumulated Depreciation at 1 January	39,162	35,346	-	-	39,162	35,346
Depreciation for Year	2,724	3,816	-	-	2,724	3,816
Disposals	(9,507)	-	-	-	(9,507)	-
Accumulated Depreciation at 31 December	32,379	39,162	-	-	32,379	39,162
Net Book Value at 31 December	**6,857**	**7,471**	**12,573**	**14,039**	**19,430**	**21,510**

a) Assets Under Construction relates to capital expenditure incurred on assets which have not yet come into use by the year-end. The Unity programme (which accounts for €9.9m of the €12.6m balance) is concerned with delivery of a strategic solution for master data management and enhancing the self-service analytics capability through provision of master data along with the delivery of an external industry portal. This includes the provision of new and enhanced capabilities in the capturing and processing of returns data submitted by customers, the processing and analysis of this data, and the introduction of the internal portal.

The disposal amount of €3.0m in 2020 represents spend on three projects, where upon receipt of the closure reports, it was deemed that the expenditure no longer qualified for capitalisation and was transferred to operational expenditure (Note 9) as per policy.

b) Following a review of the Fixed Asset Register during the year, fully depreciated computer equipment with an historic cost of €9.5m was written off in 2020 (2019: Nil).

Note 23: Banknotes in Circulation

	2020 €000	2019 €000
Total value of euro banknotes issued into circulation by the Central Bank	41,948,870	38,951,318
Liability resulting from the ECB's share of euro banknotes in circulation	(1,943,336)	(1,746,097)
Liability according to the Central Bank's weighting in the ECB's capital key	(17,655,837)	(17,122,474)
Total	**22,349,697**	**20,082,747**

This item consists of the Central Bank's share of total euro banknotes issued by the Eurosystem. The total value of euro banknotes in circulation is allocated to each NCB on the last working day of each month in accordance with the banknote allocation key.

The value of the euro banknotes actually issued by the Central Bank increased by 7.7% (2019: 5.5%) in 2020, from €39.0bn to €41.9bn. The total value of banknotes in circulation within the Eurosystem increased by 10.9% (2019: 5.0%) from 1 January 2020 to end December 2020. According to the allocation key, the Central Bank had euro banknotes in circulation worth €22.4bn at year-end 2020, compared to €20.1bn at year-end 2019. As the banknotes actually issued by the Central Bank were more than the allocated amount, the difference of €19.6bn (2019: €18.9bn) is shown in "Liabilities related to the allocation of euro banknotes within the Eurosystem" (Note 1(c)(iv), Note 29).

Note 24: Liabilities to Euro Area Credit Institutions related to Monetary Policy Operations in Euro

	2020 €000	2019 €000
Current Accounts (covering the minimum reserve system) (i)	48,761,443	26,992,916
Deposit Facility (ii)	13,312,184	9,679,226
Total	**62,073,627**	**36,672,142**

(i) Credit institutions in the euro area are required to hold minimum average reserve deposits with their respective NCBs for the purpose of liquidity management. Interest is paid on these deposits at the ECB's MRO rate.

Since June 2014, any reserves held in excess of the minimum requirements are charged at the lower of 0% or the deposit facility rate.

Starting on 30 October 2019, the Governing Council introduced a two-tier system for reserve remuneration, which exempts part of

credit institutions' excess liquidity holdings from negative remuneration at the rate applicable on the deposit facility. This part is remunerated at the annual rate of 0%. The volume of reserve holdings in excess of minimum reserve requirements that was exempt at year-end 2020 from the deposit facility rate – the exempt tier – was determined as a multiple of 6 on an institution's minimum reserve requirements. The non-exempt tier of excess liquidity holdings continues to be remunerated at the lower of either 0% or the deposit facility rate.

(ii) The deposit facility is available to counterparties to place funds with the Central Bank on an overnight basis at the deposit facility rate (Note 2(iv)).

Note 25: Other Liabilities to Euro Area Credit Institutions in Euro

	2020 €000	2019 €000
Other Liabilities to Euro Area Credit Institutions in Euro	3,101,460	955,997
Total	**3,101,460**	**955,997**

As part of the management of its investment assets, the Central Bank uses repurchase transactions with approved counterparties under GMRA legal agreements. The liability represents the cash received from the sale of securities under agreements to repurchase at a specified future date. The cash received is recognised as a liability as there is a corresponding obligation to return it, including accrued interest as a liability, which reflects the transaction's economic substance as a loan to the Central Bank (Note 1(l)). The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate (Note 2(v), Note 3(ii)).

The increase in Repurchase Agreements with euro area residents in euro to €3,101.5m in 2020 (2019: €956.0m) relates to the counterparty with which the Central Bank carries out its Repurchase Agreements relocating from the UK to the Euro area as a result of Brexit.

Note 26: Liabilities to Other Euro Area Residents in Euro

	2020 €000	2019 €000
General Government Deposits (i)	19,215,112	21,968,033
Other Liabilities	9,588	-
Currency Reserve Relating to Net Proceeds of Coin (ii)	4,423	2,768
Total	**19,229,123**	**21,970,801**

These items have a maturity of less than one year.

(i) The general government deposits include current accounts and deposits payable on demand held at the Central Bank.

(ii) The costs and proceeds of coin issue are required to be charged or credited to the Currency Reserve. The balance from that activity must be paid into the Exchequer at the direction of the Minister for Finance. Where the net proceeds of coin issue, together with expenses, result in a net cost to the Central Bank, the Minister for Finance reimburses the difference to the Central Bank. The balance on the Currency Reserve relating to coin issue is reported as an asset or liability of the Central Bank (Note 1(g)). All expenses in relation to the production of coin are disclosed in Note 9. Expenses related to retirement benefits are disclosed in Note 32. Details of net proceeds for the year are included in the table below:

	2020 €000	2019 €000
Coin (redeemed)/issued into Circulation	(8,141)	9,572
Specimen Coin Sets	609	1,500
Withdrawn Irish Coin	(120)	(132)
Less Operating Costs (Note 9)	(2,413)	(2,540)
Net Proceeds of Coin Issue	**(10,065)**	**8,400**
Superannuation Employer Contribution (Note 32)	(131)	-
Transfer from/(to) the Exchequer	11,851	(10,009)
Opening Balance	2,768	4,377
Closing Balance	**4,423**	**2,768**

As a result of the Finance Act, 2002, and as directed by the Minister for Finance, the Central Bank is required to transfer the net proceeds from the issue of coin directly to the Exchequer or receive the net receipts of coin directly from the Exchequer. As noted in the table above, there was a net redemption of coin amounting to €8.1m (2019: net issuance €9.6m) from the Central Bank in 2020. As a result, this generated a transfer of €11.9m which was paid from the Exchequer on 24

December 2020 (2019: €10.0m paid to the Exchequer by the Central Bank).

Note 27: Liabilities to Non-Euro Area Residents in Euro

	2020 €000	2019 €000
Repurchase Agreements (i)	185,623	1,846,517
EU Agencies	516	505
International Financial Institutions	61	45,508
Total	**186,200**	**1,892,530**

The balances above have a maturity of less than one year.

(i) As part of the management of its investment assets, the Central Bank uses repurchase transactions with approved counterparties under GMRA legal agreements. The liability represents the cash received from the sale of securities under agreements to repurchase at a specified future date. The cash received is recognised as a liability as there is a corresponding obligation to return it, including accrued interest as a liability, which reflects the transaction's economic substance as a loan to the Central Bank (Note 1(l)). The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate (Note 2(v), Note 3(ii)).

The decrease in Repurchase Agreements with non-euro area residents in euro to €185.6m in 2020 (2019: €1,846.5m) relates to the counterparty with which the Central Bank carries out its Repurchase Agreements relocating from the UK to the Euro area as a result of Brexit.

Note 28: Counterpart of Special Drawing Rights Allocated by the IMF

	2020 €000	2019 €000
Counterpart of SDR allocated by the IMF	913,917	956,791
Total	**913,917**	**956,791**

This is the liability of the Central Bank to the IMF in respect of the allocation of Special Drawing Rights (SDRs) to Ireland. The Central Bank's SDR assets can change as a result of IMF lending operations or exchanges of SDRs for foreign currency with the IMF itself, other IMF members and other official holders of SDRs. SDR holdings may also change as a result of interest payments made by the IMF on the Central

Bank's Reserve Position in the IMF and on the Central Bank's SDR holdings net of SDR allocations (Note 12(ii)).

Note 29: Liabilities Related to the Allocation of Euro Banknotes within the Eurosystem

	2020 €000	2019 €000
Liability according to the Bank's weighting in the ECB's capital key	17,655,837	17,122,474
Liability resulting from the ECB's share of euro banknotes in circulation	1,943,336	1,746,097
Total	**19,599,173**	**18,868,571**

This item consists of the liability of the Central Bank vis-à-vis the Eurosystem in relation to the allocation of euro banknotes within the Eurosystem. It represents the difference between the value of euro banknotes actually issued by the Central Bank and its capital key share of the total Eurosystem issuance (Note 1(c)(ii), (c)(iii) and (c)(iv), Note 23). The remuneration of this liability is calculated daily at the latest available interest rate used by the Eurosystem in its tenders for main refinancing operations.

Note 30: Other Liabilities within the Eurosystem (net)

	2020 €000	2019 €000
Net Result of Pooling of Monetary Income	82,216	-
Total	**82,216**	**-**

This represents the Central Bank's monetary income payable (Note 1(c)(iii), Note 1(c)(vi), Note 7(i), Note 20(iii)). This was a receivable in 2019 (Note 20).

Note 31: Other Liabilities

	2020 €000	2019 €000
Profit & Loss Appropriation (i)	665,703	2,050,448
DGS Contributory Fund (ii)	140,532	114,563
Other Liabilities	47,920	35,020
Insurance Compensation Fund (iii)	40,938	92,279
Other Accruals (iv)	33,979	23,432
Interest Accruals (v)	29,892	27,878
Credit Institutions Resolution Fund (vi)	5	14
Total	**958,969**	**2,343,634**

(i) This represents the amount of Surplus Income Payable to the Exchequer (Note 1(o), Note 10).

(ii) Under the European Union (Deposit Guarantee Schemes) Regulations 2015 (S.I. No. 516) (the 'DGS Regulations'), the Central Bank established the DGS Contributory Fund in 2016. The Deposit Guarantee Scheme must reach an available financial means of 0.8% of covered deposits by 2024. In order to reach this target level, credit institutions are required to contribute to the Fund annually based on their covered deposits and degree of risk.

Under Regulation 18(1) of the DGS Regulations, the DGS Contributory Fund is to be managed and administered by the designated authority (the Central Bank) and under Regulation 18(2), the designated authority shall invest the Fund in a low-risk and sufficiently diversified manner.

Movement in DGS Contributory Fund	2020 €000	2019 €000
Opening Balance	114,563	165,788
Contributions	128,219	112,746
Payments	(13,458)	(68)
Interest - pay out	(136)	(109)
Dividends (a)	9,344	10,206
NTMA Exchequer Note Programme (b)	(98,000)	(174,000)
Closing Balance	**140,532**	**114,563**

(a) Dividends arising from the liquidations of Drumcondra, IBRC and Charleville Credit Unions were transferred to the DGS Contributory Fund in 2020 as detailed below:

Dividends	2020 €000	2019 €000
Drumcondra Credit Union	9,000	-
IBRC	325	7,506
Charleville Credit Union	19	-
Rush Credit Union	-	2,700
Total	**9,344**	**10,206**

(b) This is money deposited with the NTMA.

(iii) The Insurance Act, 1964 provided for the establishment of the Insurance Compensation Fund to meet certain liabilities of insolvent insurers, to provide for the making of a grant and loans to the Fund by the Minister for Finance and contributions to the Fund

by insurers, and for those and other purposes to amend and extend the Insurance Acts, 1909 to 1961.

In accordance with Section 2 (2) of the 1964 Act, the Fund is maintained and administered under the control of the President of the High Court acting through the Accountant. The Insurance (Amendment) Act 2018 provided for the transfer of the administration of the Insurance Compensation Fund to the Central Bank. The Central Bank took over the responsibility for the administration of the Insurance Compensation Fund from the Courts of Justice on 25 August 2018. A separate Report on Administration and Movement of Insurance Compensation Fund is prepared by the Central Bank for the Fund.

The balance of €40.9m (2019: €92.3m) represents deposits with the Central Bank on behalf of the Fund.

(iv) Included in other accruals is an accrual of €11.9m (2019: €6.9m) in respect of untaken annual leave (Note 9(i)).

(v) This figure primarily relates to the accrued interest expense on TLTRO-II and TLTRO-III operations (Note 15).

(vi) A Credit Institutions Resolution Fund was established in 2011 under the Central Bank and Credit Institutions (Resolutions), Act 2011. The balance of €0.01m (2019: €0.01m) represents deposits with the Central Bank on behalf of the Fund. The Central Bank is responsible for the management and administration of the Fund and separate financial statements are prepared by the Central Bank for the Fund.

Note 32: Retirement Benefits

The Central Bank discloses the cost of providing benefits in accordance with FRS 102.

A full actuarial valuation of the Scheme is carried out on a triennial basis. The last full actuarial valuation was carried out as at 31 December 2019 by Lane Clark Peacock (LCP) the Central Bank's actuaries, to comply with section 56 of the Pensions Act. An actuarial report was completed by LCP as at 31 December 2020 to comply with disclosure requirements under FRS 102.

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

	Profit and Loss 2020 €000	Currency Reserve 2020 €000	Total 2020 €000	Profit and Loss 2019 €000	Currency Reserve 2019 €000	Total 2019 €000
Expected Return on Assets	8,600	-	8,600	13,600	-	13,600
Interest on Pension Scheme Liabilities	(15,300)	-	(15,300)	(20,900)	-	(20,900)
Current Service Cost*	(59,500)	-	(59,500)	(37,701)	(199)	(37,900)
Total Pension Cost of Defined Benefit Scheme	**(66,200)**	**-**	**(66,200)**	**(45,001)**	**(199)**	**(45,200)**

* 2020 pension costs for Mint staff have been charged to the Currency Reserve based on the employer contribution paid by the Central Bank to the Superannuation Fund in 2020 (Note 26). 2019 Mint pension costs were based on the 2019 current service cost accounted for in the Central Bank's Profit and Loss account (Note 9) and charged to the Minister for Finance through the Currency Reserve.

Current Service costs charged to the Profit and Loss and Appropriation Account in 2020 was €59.5m (2019: €37.9m) and is based on actuarial assumptions set at the beginning of each year. The increase in the charge compared to 2019 was primarily due to the decrease in the discount rate from 2.00% at 31 December 2018 to 1.10% at 31 December 2019 and the continued increase in the number of staff who have joined the Central Bank after 1 January 2013 and who are members of the Career Average Revalued Earnings (CARE) scheme.

The return on the fund in 2020 was 3% (2019: 12%).

As at 31 December 2020, there was no previously unrecognised surplus deducted from settlements or curtailments and no gains or losses on any settlements or curtailments.

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

Year Ended 31 December	2020 €000	2019 €000	2018 €000	2017 €000	2016 €000
Actuarial (loss)/gain on pension liability	(231,228)	(291,921)	622	35,345	(177,207)
Actuarial gain/(loss) on plan assets	15,094	68,211	(34,533)	25,232	4,267
Total	**(216,134)**	**(223,710)**	**(33,911)**	**60,577**	**(172,940)**

(iii) Balance Sheet Recognition

Year Ended 31 December	2020 €000	2019 €000	2018 €000	2017 €000	2016 €000
Present value of Wholly or Partly Funded Obligations (iv)	(1,697,988)	(1,393,987)	(1,043,408)	(993,442)	(971,598)
Fair Value of Plan Assets (v)	829,418	783,815	679,157	687,561	638,695
Net Pension Liability	**(868,570)**	**(610,172)**	**(364,251)**	**(305,881)**	**(332,903)**

Pension scheme assets are measured at fair value. Pension scheme liabilities are measured on an actuarial basis using the "projected units" method. An excess of scheme liabilities over scheme assets is presented on the Balance Sheet as a liability.

(iv) Movement in Scheme Obligations

	2020 €000	2019 €000	2018 €000	2017 €000	2016 €000
Opening Present Value of Scheme Obligations	(1,393,987)	(1,043,408)	(993,442)	(971,598)	(750,095)
Current Service Cost	(59,500)	(37,900)	(39,300)	(45,100)	(30,900)
Pensions Paid	15,442	14,691	14,519	12,314	11,908
Employee Contributions	(13,062)	(13,843)	(6,632)	(5,631)	(4,979)
Transfers Received	(353)	(706)	(275)	(272)	(25)
Interest on Pension Scheme Liabilities	(15,300)	(20,900)	(18,900)	(18,500)	(20,300)
Actuarial (Loss)/Gain	(231,228)	(291,921)	622	35,345	(177,207)
Closing Present Value of Scheme Obligations	**(1,697,988)**	**(1,393,987)**	**(1,043,408)**	**(993,442)**	**(971,598)**

(v) Movement in Fair Value of Plan Assets

	2020 €000	2019 €000	2018 €000	2017 €000	2016 €000
Opening Fair Value of Plan Assets (Bid Value)	783,815	679,157	687,561	638,695	608,714
Expected Return	8,600	13,600	13,100	12,100	16,400
Actuarial Gain/(Loss)	15,094	68,211	(34,533)	25,232	4,267
Employer Contribution	23,936	22,989	20,641	17,945	16,218
Employee Contributions	13,062	13,843	6,632	5,631	4,979
Pensions Paid	(15,442)	(14,691)	(14,519)	(12,314)	(11,908)
Transfers Received	353	706	275	272	25
Closing Fair Value of Plan Assets (Bid Value)*	**829,418**	**783,815**	**679,157**	**687,561**	**638,695**

* Included in the fair value of plan assets are two bank accounts - the Superannuation Capital Account and the Superannuation Working Account held with the Central Bank. The balance on the Superannuation Capital Account and Superannuation Working Account at 31 December 2020 was €0.7m (2019: €2.1m) and €8.9m (2019: €7.8m) respectively.

(vi) Financial Assumptions

	2020 %	2019 %	2018 %	2017 %	2016 %
Discount Rate	0.60	1.10	2.00	1.90	1.90
Rate of Increase in Pensionable Salaries	3.30	3.30	3.30	3.30	3.30
Rate of Increase in Pensions	3.30	3.30	3.30	3.30	3.30
Rate of Price Inflation	1.90	1.90	1.90	1.90	1.90

The impact of a 0.1% increase/decrease in the discount rate would be a corresponding decrease/increase of approximately 2.9%/3.0% (2019: 2.7%/2.9%) in scheme liabilities.

Demographic and Other Assumptions

ILT15 (males) and ILT15 (females) are both published mortality tables prepared by the Central Statistics Office in Ireland. The life expectancies are calculated using the mortality rates in these tables.

	2020	2019
Mortality Pre Retirement	73% ILT15 (males) 77% ILT15 (females)	73% ILT15 (males) 77% ILT15 (females)
Mortality Post Retirement	58% ILT15 (males) 62% ILT15 (females)	58% ILT15 (males) 62% ILT15 (females)
Allowance for future improvements in mortality	Yes	Yes
Retirements	Evenly spread over age 60 to 65 (for those with options to retire at 60)	Evenly spread over age 60 to 65 (for those with options to retire at 60)
Ill Health Retirement	Allowance made	Allowance made
Early Retirement	No allowance	No allowance
Withdrawals	No allowance	No allowance
Percentage married	90%	90%
Age difference between spouses	A male is assumed to be 3 years older than his spouse	A male is assumed to be 3 years older than his spouse
Life Expectancy Age between 60 and 65 at which 40 years' service completed (for those with option to retire at 60)	Male: 86.8 Female: 89.2	Male: 86.7 Female: 89.1

(vii) Plan Assets of the Scheme

Class	Distribution	Long Term Distribution
	%	%
Bonds	39.2	40.0
Cash	1.5	-
Equities	42.5	40.0
Multi asset funds (MAF)	8.9	10.0
Property	7.9	10.0
Total	**100.0**	**100.0**

In 2014, the Commission of the Central Bank approved the decision to change the asset allocation ratio from 50:50 bonds/equities to 40:40:10:10 bonds/equities/MAF/property. The investment strategy relating to the new composition commenced in 2015, and was completed in the first half of 2016. In 2018, the Commission re-approved the long term asset allocation, while also approving a medium-term re-allocation of 5% from equities to property. This re-allocation will be implemented subject to availability within the selected property fund. The Fund does not invest directly in property occupied by the Central Bank.

Note 33: Provisions

The following amounts were provided for at 31 December 2020:

	Opening Balance 2020 €000	Created €000	Utilised €000	Released to P&L €000	Closing Balance 2020 €000
Provision for financial risks (i)	900,000	400,000	-	-	1,300,000
Unredeemed Irish Pound Banknotes (ii)	4,715	-	-	(295)	4,420
Provision for Share of Impaired Eurosystem Securities (iii)	1,474	-	(1,049)	(425)	-
Restructuring Provision (iv)	1,651	98	(98)	(1,651)	-
Total	**907,840**	**400,098**	**(1,147)**	**(2,371)**	**1,304,420**

(i) The Central Bank has a provision for financial risks (Note 37). The provision follows a comprehensive assessment of the relevant financial risks to which the Central Bank is exposed and which fall within the scope of the Guideline. The assessment identified an interest rate mismatch on the balance sheet, meaning the Central Bank is exposed to a scenario where interest rates on liabilities increase more rapidly relative to assets over the medium term, and the provision corresponds to such a scenario. The analysis was conducted based on the Central Bank's year-end Balance Sheet, and utilised a financial model to quantify a range of potential loss

figures relating to this risk. Given the large amount of uncertainty associated with measuring interest rate risks over the medium term, judgment and estimation were used in evaluating the risk and to determine an appropriate provision.

A provision of €1,300.0m is included in the 2020 statement of accounts, which represents an increase of €400.0m compared to the provision made for the same risk in 2019 (2019: €900.0m). The increase is primarily driven by the introduction of the PEPP and the continuation of purchases under the APP, which results in an increased level of interest rate risk for the Central Bank.

(ii) Irish pound banknotes formerly issued by the Central Bank ceased to be legal tender with effect from 9 February 2002. Since then the Central Bank has maintained a provision for outstanding IEP banknotes from which €0.3m was redeemed in 2020 leaving the balance in the provision at €4.4m as at 31 December 2020 (2019: €4.7m) (Note 36(iii)).

(iii) This item contains the Central Bank's share of the net result of the provisioning against credit risks in monetary policy operations, which was established in relation to securities held by an NCB of the Eurosystem in its CSPP portfolio. With respect to the provision established in 2018 as a result of the annual impairment test of the CSPP portfolio, an amount of €63.6m was used to cover the loss realised after the Governing Council decided to sell the two remaining impaired securities. The Central Bank's share in the utilisation of the provision to cover the loss on sale amounts to €1.0m.

The residual amount of the provision after the coverage of the realised loss resulted in an unused balance of €25.8m which is reflected in the profit and loss account of the NCBs in proportion to their subscribed capital key shares in the ECB prevailing in 2018. The Central Bank's share in the provision released to the P&L is €0.4m.

(iv) During the year, a provision of €0.05m (2019: €2.48m) for compulsory redundancy arising from the decision to cease Euro note production was created and utilised in full. The terms of the scheme were agreed between the Central Bank and the representative trade unions and did not exceed terms available within the public sector.

A provision of €1.65m created in 2019 relating to print machinery no longer in use was reversed in 2020, as a value and a market for

the machinery had been established. The machinery will be disposed of during 2021, and any profit or loss generated will be released to the P&L.

During the year, a restructuring provision was created and utilised in relation to the cessation of a role under the Synergy agreement. A severance payment totalling €0.05m was made (the payment was in line with the terms of the established public service voluntary severance scheme).

Note 34: Revaluation Accounts

	2020 €000	2019 €000	Net Movement in Unrealised Gains €000
Securities (i)	5,476,979	5,738,275	(261,296)
Gold (ii)	250,815	214,080	36,735
Equity Fund (iii)	86,580	67,032	19,548
Foreign Currency (iv)	18,035	49,754	(31,719)
Investment Property (Note 21(vii))	5,852	9,622	(3,770)
PPE Revaluation	-	21	(21)
At 31 December	**5,838,261**	**6,078,784**	**(240,523)**

(i) The revaluation on securities relates primarily to unrealised capital gain movements arising from the year-end 2020 valuation of the securities acquired following the liquidation of the IBRC. The decrease is due to sales of €1.0bn nominal of the FRNs in 2020, partially offset by an increase in FRN prices. (Note 1(j), Note 17(ii)(a)).

(ii) The increase in the balance of gold at year-end 2020 is primarily due to the change in the market value of gold holdings from year-end 2019 to 2020 (Note 1(j)(iv), Note 11)

(iii) The increase in the value of the equity fund is due to higher equity prices at year-end 2020 compared to year-end 2019 (Note 1(j)(ii), Note 1(k), Note 21(ii), Note 37).

(iv) The decrease in the foreign currency value at year-end 2020 is mainly as a result of increased foreign exchange rates on the USD, CNY and SGD currencies compared to year-end 2019 (Note 1(j)(i), Note 4(ii)(i), Note 12(i)(a), Note 13 (ii), Note 37).

The foreign exchange rates used vis-à-vis the euro for the year-end 2020 valuations are as follows:

Currency	2020 Rate	2019 Rate
Australian Dollar	1.5896	1.5995
Canadian Dollar	1.5633	1.4598
Chinese Yuan Renminbi	8.0225	7.8205
Danish Krone	7.4409	7.4715
Japanese Yen	126.4900	121.9400
SDR	0.8485	0.8104
Singapore Dollar	1.6218	1.5111
Sterling	0.8990	0.8508
Swedish Krona	10.0343	10.4468
Swiss Franc	1.0802	1.0854
US Dollar	1.2271	1.1234
The gold prices used were:		
Euro per fine ounce	1,543.884	1,354.1040

Note 35: Capital and Reserves

	Capital (i) €000	General Reserve €000	Currency Reserve €000	Total €000
At 31 December 2018	30	4,399,247	351,648	4,750,925
Retained profit for the year	-	509,079	-	509,079
Actuarial Loss on Pension Scheme	-	(223,710)	-	(223,710)
PPE Revaluation	-	5	-	5
At 31 December 2019	**30**	**4,684,621**	**351,648**	**5,036,299**

	Capital (i) €000	General Reserve €000	Currency Reserve €000	Total €000
At 31 December 2019	30	4,684,621	351,648	5,036,299
Retained profit for the year (ii)	-	163,906	-	163,906
Actuarial Loss on Pension Scheme	-	(216,134)	-	(216,134)
PPE Revaluation	-	21	-	21
At 31 December 2020	**30**	**4,632,414**	**351,648**	**4,984,092**

(i) The authorised capital of the Central Bank is fixed under Section 9(1) of the Central Bank Act, 1942 (as amended) at €50,790. Issued and paid-up capital is €30,474 all of which is held by the Minister for Finance. The balance is payable as and when agreed by the Commission and the Minister for Finance.

(ii) Under the Central Bank of Ireland (Surplus Income) Regulations, 1943, the Commission approved a transfer from the Profit and Loss and Appropriation account to the General Reserve of €163.9m and a transfer from the General Reserve to the Pension Liability Account of €216.1m, which resulted in a reduction in the general reserve of €52.2m at year-end (Note 32(ii)).

Note 36: Contingent Liabilities and Commitments

Contingent Liabilities

(i) *Bank for International Settlements*

The Central Bank holds 8,564 shares in the Bank for International Settlements, of which 2,564 are fully paid up. The Central Bank has a contingent liability in respect of the balance (Note 6(ii), Note 21(viii)).

(ii) *Capital and Foreign Reserve Assets Pledged to the ECB*

Under the Statute of the ESCB, the Central Bank may be called upon in the future, along with all other participating NCBs, to transfer further amounts of capital (Article 28) and foreign reserve assets (Article 30) to the ECB (Note 18, Note 19).

(iii) *Irish Pound Banknotes*

The Central Bank has a contingent liability in relation to Irish pound banknotes that are no longer legal tender and that may be presented at a future date. At 31 December 2020, Irish pound banknotes to the value of €224.1m (2019: €224.4m) were still outstanding, against which the Central Bank has a provision of €4.4m (2019: €4.7m) (Note 33(ii)).

(iv) *Litigation*

The Central Bank has four on-going legal cases (2019: three) which may result in a liability for the Central Bank where claims are being made against the Central Bank. The Central Bank is currently defending these actions. It is premature to determine the outcome and the possible outflow of economic resources cannot be reliably estimated, therefore no legal provisions in respect of these cases are recognised in the Statement of Accounts (2019: None).

Commitments

(i) Operating Leases

The Central Bank did not enter into any new operating leases in 2020.

Future Minimum Lease Payments	2020 €000	2019 €000
Not later than one year	107	447
After one year but not more than five years	374	377
After five years	701	791
Total	**1,182**	**1,615**
Actual Lease Payments	446	450

Note 37: Financial Risk Management

The Central Bank's Balance Sheet is exposed to financial risks arising as a consequence of performing its statutory roles in terms of (i) monetary policy implementation within the domestic financial sector, (ii) investment activities relating to the management of the Central Bank's reserves, (iii) operation of payments and settlement activities and (iv) as a constituent Eurosystem NCB participating in broader monetary policy initiatives such as the APP and the PEPP. From an overall Balance Sheet perspective, these risks typically include credit, interest rate, liquidity and foreign exchange risks.

The Central Bank aims to control these exposures by maintaining a range of financial risk management processes to identify, assess, manage and monitor these risks within defined, internal risk management policies and by reference to Eurosystem risk-management frameworks and procedures where relevant. The Risk Committee of the Commission, supported by the Risk Management Committee (RMC), and the Financial Risk Working Group (FRWG) oversees the Central Bank's financial risk management activities, ensuring adherence to approved standards and policies. The Deputy Governor (Central Banking) is the chair of the RMC.

Four main divisions of the Central Bank are engaged in the active management of the Central Bank's financial risks. The Financial Markets Division (FMD) carries out monetary policy operations on behalf of the ECB (including asset purchases under the APP), monitors the liquidity position of the domestic banks and provides Emergency Liquidity Assistance where necessary, carries out investment activities to manage the Central Bank's investment reserves and the allocated share of the ECB's investment portfolio. The Payments and Securities Settlements Division (PSSD) is responsible for, inter alia, euro payment settlements within the Eurosystem Real Time Gross Settlement Services (TARGET2) framework, the execution of back office activities relating to collateral transactions arising through the implementation of monetary policy and the settlement of transactions relating to the Central Bank's management of its own, and its share of the ECB's,

investment portfolio. The Financial Control Division (FCD) ensures accurate accounting of the Central Bank's financial position and financial reporting.

The Organisational Risk Division (ORD), as the second line of defence, is responsible for, inter alia, defining the risk management policies in addition to assessing and monitoring financial risks in conjunction with the other divisions. The Central Bank defines the investment limits frameworks, conducts collateral due diligence, monitors both monetary and investment policy compliance, and assesses current and emerging risks within the Central Bank's Balance Sheet. In accordance with the Terms of Reference of the Risk Committee of the Commission, the Head of Organisational Risk has free and confidential access to the Chair of the Committee, and the Committee has the authority to ensure that the division has adequate resources and access to information to perform its function effectively and with adequate independence.

The risk management policies and measures applied to each of the Central Bank's principal financial risk exposures are described below.

Credit Risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer or counterparty with obligations to the Central Bank. The Central Bank is exposed to credit risk associated with the Central Bank's investment activities and through monetary policy operations, including non-standard measures such as the APP.

Credit risk in the Central Bank's investment portfolios is controlled by a system of Commission-approved limits based primarily on external credit ratings provided by selected rating agencies. Credit exposure is mitigated on the Central Bank's investment assets by implementation and maintenance of an approved investment policy framework. Credit risks arising from Eurosystem monetary policy implementation are mitigated by applying strict eligibility criteria for counterparties and by compliance with the provisions of Article 18.1 of the Statute of the ESCB, which ensures that all Eurosystem credit operations (i.e. liquidity providing monetary policy operations and intraday credit) are based on adequate collateral. To further control this risk, the Eurosystem Credit Assessment Framework (ECAF) ensures that the Eurosystem requirement of high credit standards for all eligible collateral assets is met. In addition, on-going risk control measures including valuation haircuts, initial and variation margins are also applied. Where applicable, the credit risk to the Central Bank is further moderated by Eurosystem loss-sharing mechanisms which distribute losses arising

from monetary policy operations in proportion to the capital key of member NCBs. In the case of monetary policy operations collateralised by Additional Credit Claims (in the case of the Central Bank, pools of Irish residential mortgage loans), the risk is borne by the NCB accepting the collateral concerned. In this case, risks are further mitigated by conducting an annual dedicated due diligence assessment of the underlying loans. However, for 2020 an alternative review exercise was performed in place of the annual due diligence, given the constraints posed by COVID-19 working arrangements. This review was limited to an operational assessment of mortgage loans subject to a COVID-19 moratorium and a number of other operational checks.

Credit risk in relation to the Eurosystem non-standard monetary policy related portfolios is managed in accordance with the relevant Eurosystem frameworks. Potential losses on securities held on aggregate by the Eurosystem in the SMP, the CSPP and the CBPP3, in addition to a certain portion of the PSPP and PEPP, are borne by the Central Bank on a capital key share basis. Separately, the Central Bank's holdings of Irish government securities under the PSPP and PEPP are held on an own-risk basis.

Interest Rate Risk

Interest rate risk refers to the risk of loss arising from adverse changes in interest rates. The Central Bank's investment portfolios are managed in accordance with the risk management parameters, governance and control frameworks approved by the Commission. Compliance and performance relative to these policies is verified and reported to the FRWG, the RMC and the Risk Committee of the Commission.

A key source of interest rate risk exposure for the Central Bank relates to the sensitivity of the value of its investment assets to interest rate changes. The Central Bank mitigates this interest rate risk exposure on a portion of the investment portfolio through allocation to a hold-to-maturity portfolio. Risk management preferences in relation to the remainder of the investment assets are expressed through an externally compiled benchmark, against which the investment portfolios are measured and managed. The interest rate risk of the Central Bank's mark-to-market portfolios is calculated and managed using modified duration which quantifies the sensitivity of the value of an investment portfolio to changes in bond yields. Value-at-Risk (VaR) and Expected Shortfall are used as supplementary measures of market risk on the Central Bank's portfolios.

The Central Bank is also exposed to interest rate risk on its portfolio of standard marketable Irish Government bonds (floating rate notes or

FRNs) which were acquired following the liquidation of IBRC (Note 17(ii)(a)). Furthermore, portfolios that are held at amortised cost are not sensitive to interest rate movements - this includes the Central Bank's exposures to the Eurosystem's non-standard monetary policy APP and PEPP.

Interest rate risk can also refer to the current or future risk to the Central Bank's capital and earnings arising from movements in interest rates that affect its balance sheet positions. In this respect, the Central Bank is exposed to a potential interest rate mismatch due to its holdings of fixed rate assets under the APP and the PEPP, while its related liabilities are tied to (variable) monetary policy rates. To assess this risk, the Central Bank considers its balance sheet positions regularly in the context of potential interest rate movements over the next number of years, and calculates a range of risk measurement statistics from a distribution of profitability outcomes. Within this, Value-at-Risk and Expected Shortfall are used, alongside expert judgement, to measure the level of interest rate risk on the Central Bank's Balance Sheet. As part of its assessment of interest rate risk, and the identification of a potential interest rate mismatch, the Central Bank has deemed it prudent to increase its provision for financial risks by €400m to €1,300m for 2020 (Note 33).

Foreign Exchange Risk

Foreign exchange risk refers to the risk of loss due to changes in exchange rates. In the context of a member of the euro area and the consequent approach to foreign exchange intervention, the majority of the Central Bank's investment assets are denominated in euro. A strategic allocation to foreign currency denominated fixed income asset holdings, both on a hedged and un-hedged basis, is made in the context of the Central Bank's investment portfolio and balance sheet management. The currency distribution of the investment portfolio has been established using a combination of quantitative methodologies, VaR and stress testing as well as a variety of qualitative factors. At year-end 2020, the Central Bank's portfolios were predominantly denominated in euro, in addition to a small amount of gold priced in US dollars, an exposure to certain foreign currency fixed income assets on a hedged basis, and an exposure to foreign currency fixed income assets on an unhedged basis. The Central Bank is also exposed to currency risk through a net-asset position in IMF SDRs. This exposure was held on a partially hedged basis in 2020 (Note 12, Note 13, and Note 28).

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss in the event of adverse price changes. Liquidity risk is mitigated through the allocation of a portion of the Central Bank's investment portfolio to a liquid mark-to-market portfolio. To avoid excessive concentration, investments within the mark-to-market portfolio are subject to issue limits, thereby minimising exposure to any particular issue that could create acute liquidity risk in a situation where the asset must be sold. In addition, issue limits are coupled to minimum credit ratings to moderate the likelihood of unscheduled disposals due to the potential of an issue being downgraded below the Central Bank's approved investment grade threshold.

Other Market Risk

Since 2018, the Central Bank has held an equity portfolio which tracks the MSCI World Index. This investment is subject to movements in equity prices (price risk). The price risk is managed via diversification and passive management of the portfolio under the investment mandate, and is monitored on a regular basis.

Note 38: Off-Balance Sheet Items

(i) Unmatured Contracts in Foreign Exchange

	31 December 2020				31 December 2019			
	DKK 000	EUR 000	JPY 000	SDR 000	DKK 000	EUR 000	JPY 000	SDR 000
Unmatured Purchases	7,760	1,684,204	66,959	-	10,247	1,959,052	50,873	-
Unmatured Sales	(1,876,260)	(1,599)	(115,266,959)	(409,427)	(2,040,347)	(1,787)	(121,750,873)	(545,827)
Unmatured Purchases and Sales	**(1,868,500)**	**1,682,605**	**(115,200,000)**	**(409,427)**	**(2,030,100)**	**1,957,265**	**(121,700,000)**	**(545,827)**

The outstanding amounts relate to foreign exchange contracts used for hedging certain foreign exchange exposures.

All foreign exchange contracts are scheduled to mature by 21 September 2021.

(ii) Unmatured Contracts in Futures

	2020 €000	2019 €000
Unmatured Purchases	1,205,893	1,204,455
Unmatured Sales	(132,897)	-
Unmatured Purchases and Sales	**1,072,996**	**1,204,455**

These contracts are used for hedging interest rate exposure as well as making investments within approved limits. The balance includes both EUR and USD investments.

All futures contracts are scheduled to mature by 31 March 2021.

Note 39: Related Parties

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

The main services provided during the year to 31 December 2020 were:

- Provision of banking services including holding the principal accounts of Government (Note 26(i)).
- Provision and issue of coin (Note 26(ii)).
- Holding and maintaining the Register of Irish Government securities.

(ii) As a participating member of the ESCB, the Central Bank has on-going relationships with other NCBs and the ECB. The main balances related to other NCBs and the ECB are:

- Interest income and interest expense on items related to monetary policy implementation (Note 2, Note 3, Note 4, Note 5, Note 7, Note 15, Note 17, Note 24).
- Share of ECB profits (Note 6(i)).
- Participating interest in the ECB capital (Note 18).
- Claims equivalent to the transfer of foreign reserves to the ECB (Note 19).
- TARGET2 Balance (Note 20).
- Banknotes in circulation (Note 23, Note 29).
- Provisions (Note 33).

(iii) The Central Bank is one of three shareholders of "The Investor Compensation Company DAC" (ICCL) and provides administrative and other services to it, the costs of which are recovered from the ICCL. The Central Bank is the supervisory authority for the purpose of the Act. The ICCL administers the investor compensation scheme to partially reimburse the clients of failed investment firms. During 2020 the Central Bank recovered costs of €0.8m (2019: €0.8m). At 31 December 2020 a balance of €171,140 was due from ICCL (2019: €59,092) (Note 21(iv)). The

ICCL prepares its own Annual Report and audited Financial Statements.

(iv) The Central Bank is responsible for the administration of the Insurance Compensation Fund pursuant to the Insurance (Amendment) Act 2018 which was enacted on 24 July 2018. A balance of €40.9m (2019: €92.3m) was held with the Central Bank on behalf of the Fund as at 31 December 2020 (Note 31(iii)).

(v) The Central Bank is responsible for the management and administration of the Credit Institution Resolution Fund pursuant to Section 11(1) of the Central Bank and Credit Institutions (Resolution) Act 2011. A balance of €0.01m (2019: €0.01m) was held with the Central Bank on behalf of the Fund as at 31 December 2020 (Note 8, Note 31(vi)).

(vi) The Central Bank established a funded pension scheme on 1 October 2008, under the Central Bank and Financial Services Authority of Ireland Act, 2003. The management and administration of the scheme is operated by the Central Bank for the benefit of its employees. Details on the Central Bank's contributions to the pension funds are set out in Note 32.

(vii) The Central Bank holds a non-controlling interest in Dublin Landings (Estate Management) Company Designated Activity Company, a company which manages the common areas surrounding the Central Bank's North Wall Quay premises. During 2018 a charge totalling €100 in respect of the granting of a leasehold interest of common areas in the wider Dublin Landings development area was made by the Central Bank. This amount remains outstanding at year-end 2020.

(viii) The Central Bank holds a non-controlling interest in Dublin Landings (Car Park Management) Designated Activity Company as a result of the acquisition of Dublin Landings buildings during 2019.

Note 40: Events after the End of the Reporting Period

(i) ECB Final Distribution of Profits

The Governing Council decided on 18 January 2021 to distribute its remaining profit for 2020, amounting to €383.1m, to the euro area NCBs, in proportion to their paid-up shares. The Central Bank's share of this final distribution of profits was €6.5m, which was paid on 19 February 2021, and will be accounted for in the 2021 Statement of Accounts.

(ii) Support to Mitigate Unemployment Risks in an Emergency

In response to the COVID-19 pandemic, the EU granted loans to Member States under its new instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). The ECB and the NCBs of the borrowing EU Member States support the European Commission in the administration of these loans. Ireland applied for a €2.5bn loan under the SURE programme and its application was approved by the European Commission in November 2020. The payment of the loan of €2.47bn was received on 30 March 2021 by Ireland, and will be reflected in the 2021 Statement of Accounts in accordance with ECB guidance.

Note 41: Financial Regulation Activities

				2020 €000	2019 €000
Funding of Financial Regulation Activities	Levy Income	Current year levies		185,595	171,442
		Prior year deficit		(1,572)	(16,482)
		Recoup of Deferred Levy Income (i)		(5,964)	-
		Levy Income (ii)		**178,059**	**154,960**
		Prior year variance on accrual (iii)		(5,788)	-
		Total Levy Income	A	**172,271**	**154,960**
	Provisions	Opening Provisions for Unpaid Levies		1,193	1,826
		Levies Written Off		(25)	(1,017)
		Closing Provisions for Unpaid Levies (iv)		(3,377)	(1,193)
		Charge for Year	B	**(2,209)**	**(384)**
	Financial Regulation Net Industry Funding (Note 8(i))		**C** (A+B)	**170,062**	**154,576**
	Other Income	Securities Market Fees		2,161	2,630
		Additional Supervisory Levy		2,155	2,824
		Miscellaneous		24	21
		Other Income (Note 8)	D	**4,340**	**5,475**
	Total Income		**E** (C+D)	**174,402**	**160,051**
	Subvention	Securities Market Supervision Activities		9,058	9,359
		Other Financial Regulation Costs not Recovered		23,349	35,069
		Prior year variance on accrual (iii)		5,891	-
		Subvention from Central Bank (v)	F	**38,298**	**44,428**
	Total Funding of Financial Regulation Activities		**G** (E+F)	**212,700**	**204,479**
Costs of Financial Regulation Activities	Direct Expenses	Salaries / Allowances		83,405	77,012
		PRSI		8,210	7,656
		Pension Provision		12,691	12,312
		Staff Expenses	H	**104,306**	**96,980**
		Training & Conferences		161	367
		Business Travel		324	1,386
		Professional Fees		3,555	6,323
		Other Non-Pay		1,447	1,472
		Communications & IT		785	773
		Facilities, Rent, Depreciation		2,173	2,525
		Non-Pay Operating Expenses	I	**8,445**	**12,846**
		Total Direct Expenses	**J** (H+I)	**112,751**	**109,826**
	Support Services	Premises & Facilities		15,841	14,372
		Information Technology Services		42,081	39,207
		Human Resources		7,286	7,355
		Other Services		34,717	33,729
		Total Support Services (vi)	K	**99,925**	**94,663**
	Provisions	**Restructuring Charge for Year**	L	**27**	**27**
	Other Income	**Miscellaneous Receipts**	M	(113)	**(37)**
		Prior year variance on accrual (iii)	N	110	-
	Total Costs of Financial Regulation Activities		**O** (J+K+L+M+N)	**212,700**	**204,479**

(i) *Recoup of Deferred Levy Income*

The Central Bank levied pension costs from 2015 to 2018 using a smoothed method in an attempt to reduce the impact of pension volatility over a rolling ten year period, resulting in deferred levy income of €17.9m. In 2019, the Central Bank changed the method of levying pension costs from a smoothed current service cost to a cash contribution basis. The outstanding balance of deferred levy income of €17.9m is expected to be recovered from industry over the 2020 to 2022 levy cycles and so will impact levies issued in the 2021 to 2023 calendar years. On this basis, €6.0m will be recovered from Industry in the 2020 levy cycle.

(ii) *Levy Income*

Levy Income represents an estimate of levies to be billed based on current year actual costs and approved recovery rates. This is adjusted for the recovery of deferred levy income and any carried forward surplus / deficit. The table below provides a breakdown of 2019 actual levy income.

	2020 Levy Income Estimate	2019 Actual Levy Income	2018 Deficit / (Surplus)	Amount levied for 2019 Levies	2019 Deficit / (Surplus)
		A (C+D-B) €000	B €000	C €000	D €000
Credit Institutions		66,703	6,492	73,187	8
Insurance Undertakings		41,013	1,488	42,131	370
Intermediaries & Debt Management Firms		5,986	707	6,690	3
Securities and Investment Firms		22,361	4,909	26,334	936
Investment Funds		7,770	590	8,232	128
Credit Unions		2,770	-	2,775	(5)
Moneylenders		851	(79)	772	-
Approved Professional Bodies		19	(12)	16	(9)
Bureaux de Change		12	-	12	-
Home Reversion, Retail Credit & Credit Servicing Firms		799	1,563	2,233	129
Payment Services & E-Money Institutions		888	824	1,700	12
Total Funding	**178,059**	**149,172**	**16,482**	**164,082**	**1,572**

(iii) *Prior year variance on accrual*

Prior year variance on accrual represents the difference between the 2019 levy income accrued in the 2019 Annual Accounts and the final funding requirement to cover 2019 costs. The majority of the difference between estimated and final funding requirement for 2019

related to approved additional Brexit related subvention which was funded by Central Bank.

	2019 Final €000	2019 Accrued €000	Variance €000
Total Levy Income	149,172	154,960	(5,788)
Provision Charge	(377)	(384)	7
Other Income	5,475	5,475	-
Subvention from Central Bank	50,319	44,428	5,891
Total Funding of Financial Regulation Activities	**204,589**	**204,479**	**110**
Total Costs of Financial Regulation Activities	**204,589**	**204,479**	**110**

(iv) *Closing Provisions for Unpaid Levies*

The Central Bank maintains provisions in respect of levies which remain unpaid at year end. Levies fall due within 28 days of the invoices being issued and are reported as outstanding from day 29 onwards. The policy is to make full provision for levies related to prior years and to make partial provision for outstanding levies related to the current year. Outstanding levies are pursued as part of the on-going debt recovery process.

(v) *Subvention from Central Bank*

By agreement with the Minister for Finance, since 2007 the relevant proportion of the total costs of financial regulation activities has been met by the imposition of levies on the industry. The balance of the total annual costs is provided by the Central Bank in accordance with Section 32I of the Central Bank Act, 1942 (as amended).

Since 2007, the Central Bank, with the approval of the Minister for Finance, has incurred costs in respect of certain securities market supervision activities (relating to the Prospectus, Market Abuse, Transparency and Short Selling Directives) carried out within the organisation. The total cost to the Central Bank of these activities is reduced by Securities Market fees, which are included in Other Income. The remaining estimated costs, relating to securities market supervision, of €9.1m (2019: €9.4m) are included in Subvention.

(vi) *Support Services*

The Financial Regulation Directorates receive various services including premises, human resources administration, accounting, internal audit, statistical and information technology services from

support services directorates in the Central Bank. The estimated cost of these services in the current year is €100.0m (2019: €95.0m).

The costs involved have been determined by the application of a cost allocation methodology. Allocation is based on well-recognised industry practice including headcount (staff numbers) and specific metrics, as appropriate.

Note 42: Comparatives

Certain comparative information has been reclassified for consistency with current year disclosures.

Note 43: Approval of Accounts

The Commission approved the Statement of Accounts on 13 April 2021.

mazars

INDEPENDENT AUDITOR'S REPORT

TO THE COMMISSION OF

THE CENTRAL BANK OF IRELAND

Report on the audit of the Statement of Accounts

Opinion

We have audited the Statement of Accounts of the Central Bank of Ireland ('the Bank') for the year ended 31 December 2020, which comprise the Profit and Loss and Appropriation Account, the Balance Sheet and the related notes 1 to 43. The financial reporting framework that has been applied in their preparation is the Guideline of the European Central Bank on the legal framework for the accounting and financial reporting in the European System of Central Banks ('the Guideline') and, where the Guideline is silent, FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

In our opinion the Statement of Accounts:

- gives a true and fair view of the assets, liabilities and financial position of the Bank as at 31 December 2020, and of the Surplus Income Payable to the Exchequer for the year then ended; and
- has been properly prepared in accordance with the Guideline and where the Guideline is silent, FRS 102.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described in the Auditor's Responsibilities for the audit of the Statement of Accounts section of our report.

We are independent of the Bank in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard for Auditors (Ireland) issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – basis of accounting

We draw your attention to note 1 of the Statement of Accounts which describes the accounting principles and valuation methods applicable to the Bank, some of which are specific to the European System of Central Banks. The Statement of Accounts are prepared for the purpose as described therein. As a result, the Statement of Accounts of the Bank may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

mazars

INDEPENDENT AUDITOR'S REPORT

TO THE COMMISSION OF

THE CENTRAL BANK OF IRELAND

Conclusions relating to going concern

In auditing the Statement of Accounts, we have concluded that the Commission Members' use of the going concern basis of accounting in the preparation of the Statement of Accounts is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period of at least twelve months from the date when the Statement of Accounts are authorised for issue.

Our responsibilities and the responsibilities of the Commission Members with respect to going concern are described in the relevant sections of this report.

Other information

The Commission Members are responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Profit and Loss Appropriation Account, the Balance Sheet, the related notes to the Accounts and our auditors' report thereon. Our opinion on the Statement of Accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information in the Statement of Accounts and, in doing so, consider whether the other information is materially inconsistent with the Profit and Loss Appropriation Account, the Balance Sheet, the related notes to the Accounts or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Profit and Loss Appropriation Account, the Balance Sheet and the related notes or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Respective responsibilities

Responsibilities of the Commission Members for the Statement of Accounts

As explained more fully in the Governance Statement and Commission Members' Report, the Commission is responsible for the preparation of the Statement of Accounts in accordance with the applicable financial reporting framework that give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of Statement of Accounts that are free from material misstatement, whether due to fraud or error.

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INDEPENDENT AUDITOR'S REPORT

TO THE COMMISSION OF

THE CENTRAL BANK OF IRELAND

Auditor's responsibilities for the audit of the Statement of Accounts

Our objectives are to obtain reasonable assurance about whether the Statement of Accounts as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Statement of Accounts.

A further description of our responsibilities for the audit of the Statement of Accounts is located on the IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description of auditors responsibilities for audit.pdf . This description forms part of our auditors' report.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Commission of the Bank as a body, in accordance with Article 27 of the Statute of the European Central Bank. Our audit work has been undertaken so that we might state to the Commission Members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission for our audit work, for this report, or for the opinions we have formed.

Patrick Gorry **Date: 13 April 2021**

for and on behalf of Mazars
Chartered Accountants & Statutory Audit Firm
Harcourt Centre, Block 3
Harcourt Road
Dublin 2

Ard Reachtaire Cuntas agus Ciste
Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

Central Bank of Ireland

Opinion on the statement of accounts

I have audited the statement of accounts of the Central Bank of Ireland for the year ended 31 December 2020 as required under the provisions of the Central Bank Act 1942 (as amended). The statement of accounts comprises

- the profit and loss and appropriation account
- the balance sheet
- the related notes, including a summary of significant accounting policies.

In my opinion, the statement of accounts gives a true and fair view of the assets, liabilities and financial position of the Central Bank of Ireland at 31 December 2020 and of its income and expenditure for 2020 in accordance with the financial reporting framework set out in note 1(b) of the notes to the accounts.

Basis of opinion

I conducted my audit of the statement of accounts in accordance with the International Standards on Auditing (ISAs) as promulgated by the International Organisation of Supreme Audit Institutions. My responsibilities under those standards are described in the appendix to this report. I am independent of the Central Bank of Ireland and have fulfilled my other ethical responsibilities in accordance with the standards.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Report on information other than the statement of accounts, and on other matters

The Central Bank of Ireland has presented certain other information together with the statement of accounts. This comprises the annual report, the governance statement and Commission members' report, and the statement on internal control. My responsibilities to report in relation to such information, and on certain other matters upon which I report by exception, are described in the appendix to this report.

Procurement of data services

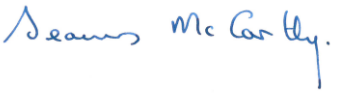
The Central Bank has engaged an external service provider to carry out data centre hosting and managed services, which are critical for the Central Bank's operations. A five-year contract with the service provider was entered into in November 2013, following an open and competitive procurement process. Subsequently, the Central Bank availed of an option to extend the contract for an additional two years (to November 2020) under similar terms.

In 2017, the Central Bank commenced a strategic review of the arrangements for data centre hosting and managed services. In November 2018, the Commission approved a proposal for revised arrangements, where the primary data centre would be owned and operated by the Central Bank, with a back-up service from the Office of the Government Chief Information Officer. To allow the required time for the strategic plan to be implemented, the Central Bank negotiated a new short-term contract with the existing service provider. In July 2020, the Commission approved proposed new contract terms. The contract will be in place until November 2022, with an option to extend for two further periods of 12 months each.

The projected cost of the new contract over the period November 2020 to November 2022 was just under €30 million. The cost to the Central Bank of services provided under the terms of the new contract in November and December 2020 amounted to a total of €1.18 million.

As explained in the statement on internal control, the Commission takes the view that it was appropriate to award the new contract without a competitive procedure on grounds of extreme urgency conditions owing to the Covid-19 emergency. On that basis, it considers that the procurement was compliant with EU procurement rules.

EU procurement rules allow for departures from competitive procurement procedures on grounds of extreme urgency not attributable to the contracting authority and brought about by events unforeseeable to the contracting authority. However, based on the circumstances outlined above and on explanations received from the Central Bank, I am not persuaded that the procurement of services under the new contract is compliant with the relevant EU procurement rules.



Seamus McCarthy
Comptroller and Auditor General

13 April 2021

Appendix to the report

Responsibilities of Commission members

The governance statement and Commission members' report sets out the Commission members' responsibilities for

- the preparation of the statement of accounts in the form prescribed under section 32J(3) of the Central Bank Reform Act 2010
- ensuring that the statement of accounts gives a true and fair view
- ensuring the regularity of transactions
- assessing whether the use of the going concern basis of accounting is appropriate, and
- such internal control as they determine is necessary to enable the preparation of a statement of accounts that is free from material misstatement, whether due to fraud or error.

Responsibilities of the Comptroller and Auditor General

I am required under the provisions of the Central Bank Act 1942 (as amended) to audit the statement of accounts of the Central Bank of Ireland and to report thereon to the Houses of the Oireachtas.

My objective in carrying out the audit is to obtain reasonable assurance about whether the statement of accounts as a whole is free from material misstatement due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the statement of accounts.

As part of an audit in accordance with the ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. In doing so,

- I identify and assess the risks of material misstatement of the statement of accounts whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.
- I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.
- I conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Central Bank of Ireland's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the statement of accounts or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Central Bank of Ireland to cease to continue as a going concern.
- I evaluate the overall presentation, structure and content of the statement of accounts, including the disclosures, and whether the statement of accounts represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Information other than the statement of accounts

My opinion on the statement of accounts does not cover the other information presented with that statement, and I do not express any form of assurance conclusion thereon.

In connection with my audit of the statement of accounts, I am required under the ISAs to read the other information presented and, in doing so, consider whether the other information is materially inconsistent with the statement of accounts or with knowledge obtained during the audit, or if it otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

Reporting on other matters

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation. I report if I identify any material matters relating to the manner in which public business has been conducted.

I seek to obtain evidence about the regularity of financial transactions in the course of audit. I report if I identify any material instance where public money has not been applied for the purposes intended or where transactions did not conform to the authorities governing them.

I also report by exception if, in my opinion,

- I have not received all the information and explanations I required for my audit, or
- the accounting records were not sufficient to permit the statement of accounts to be readily and properly audited, or
- the statement of accounts is not in agreement with the accounting records.

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Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Central Bank of Ireland 2020 Report on Protected Disclosures

2 June 2021

The Protected Disclosures Act 2014 requires public bodies to prepare and publish a report each year relating to the number of protected disclosures made to public bodies in the preceding year in addition to detailing the action taken in response to the disclosures made. Reports are required to be issued no later than 30 June.

The Central Bank of Ireland (the Central Bank) is a prescribed person[1] for the purpose of receiving protected disclosures under the Protected Disclosures Act 2014. In addition, the Central Bank is designated to receive protected disclosures under Part 5 of the Central Bank (Supervision and Enforcement) Act 2013. For the purpose of this report, the Central Bank is including protected disclosures received, from the public, under both the Protected Disclosures Act 2014 and the Central Bank (Supervision and Enforcement) Act 2013.

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

During the reporting period 1 January 2020 to 31 December 2020, the Central Bank received 202 protected disclosures in accordance with our role as a prescribed person. Each of these protected disclosures were thoroughly assessed. Actions taken on foot of information received as a protected disclosure include undertaking additional supervisory work such as inspections, requiring a firm to fix issues, putting firms under higher supervisory focus, the implementation of Risk Mitigation Programmes and Enforcement action.

Internal Reporting Mechanisms

Section 21 of the Protected Disclosures Act 2014 requires that public bodies, including the Central Bank, must have procedures in place to deal with protected disclosures and for these to be made available for its workers. The Central Bank has appropriate confidential procedures in place for its workers. Through this process, the Central Bank received one protected disclosure from a worker during the period 1 January 2020 to 31 December 2020.

[1] As prescribed by Order of the Minister pursuant to section 7 of the Protected Disclosures Act 2014 (Protected Disclosures Act 2014 (Section 7(2)) Order 2014 [S.I. No.339 of 2014]