Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Annual Report 2021 & Annual Performance Statement 2021-2022

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* These sections of the report address the Annual Performance Statement reporting obligations under Section 32L of the Central Bank Act 1942 (as amended).

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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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Governor's Foreword

2021 marked another year of uncertainty and change.

We saw the re-emergence of public health concerns stemming from the path of the pandemic, but the impact on the financial sector began to dissipate. The economic recovery continued, but the combination of a surge in demand, supply bottlenecks and some constraints in the labour market led to higher consumer and broader price pressures.

Amid this turbulent economic outlook, the Central Bank closed our three-year strategic cycle, adapting as necessary to anticipate and respond to emerging risks. When that cycle began in 2019, nobody had heard of COVID-19. By its conclusion in 2021, central banks globally – including the European Central Bank - had provided unprecedented support to mitigate the worst risks to the economy and financial system.

The pandemic served to illustrate, once again, that uncertainty will always be a central feature of the economy and financial system. We are seeing further tragic evidence in real-time. The Russian invasion is a humanitarian tragedy for the Ukrainian people. The economic consequences of the war are being felt across Europe and has sparked a chain of events that presents significant challenges to the outlook for inflation and growth. The war has led to increased uncertainty and complicated the path to a permanently less disruptive existence with the virus.

In dealing with such uncertainty, organisations such as the Central Bank must be forward-looking and agile in our strategic approach, to ensure we are capable of moving at speed when new problems arise, working in conjunction with our international counterparts. This is essential if we are to deliver on our mission of serving the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy.

Our new Strategy, covering the period 2022-2026, is designed with that in mind. Our strategy's four connected themes (future-focused, open & engaged, transforming and safeguarding) represent a renewal and repositioning to ensure that our direction and ambitions are responsive and forward looking.

Future-Focused. The world in which we operate is changing rapidly. The economy, the financial system and financial services and products are changing and will continue to change over the coming years. We want to be ready to deliver our Mission through these changes and that will require a shift in our focus, our analysis and our frameworks.

Open & Engaged. It will also require a step-change in our engagement. The rapid pace of change and the expectations of our stakeholders means that we need to be well-connected with them. It will require us to explain what we are doing and what we are not doing. It will also require us to listen to individuals and businesses (and not only regulated firms) across the country so that we can understand the issues they are facing and help them to understand the actions we are taking in response.

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Transforming. In a rapidly changing world, we have to transform the way that we operate if we are to succeed. We will need to invest in new skills and capabilities, becoming more agile, and looking for continuous improvement in the way we work to meet the challenges of an evolving financial system. Our ability to turn data into information and to provide our people with the tools to use it effectively will be an important platform for our transformation.

Safeguarding. We will remain steadfast (working with our European colleagues in particular) to maintain price stability and the stability of the financial system overall, as well as the effective regulation of financial services and markets, while ensuring that the best interests of consumers of financial services are protected.

The Annual Report outlines many achievements of the work of the Central Bank throughout 2021. Some specific ones that I would like to mention here include our people continuing to work both on-site in critical operations and remotely with the sustained support from our colleagues in the Central Bank to facilitate this, the broad ranging work of our pandemic response team, the development of our Future@Work model, delivering on our commitment to being a socially responsible and sustainable organisation as independently certified, engagement with the public on our policies such as our Mortgage Measures Framework Review, our continued work on market-based finance to address potential sources of financial vulnerability that could affect resilience in future periods of stress, and our focus on conduct, culture and customer treatment through our work on issues of Differential Pricing and Business Interruption Insurance.

Our values: integrity and care, courage and humility, teamwork and excellence guide us through this uncertainty and change, in the execution of our Strategy and in the delivery our Mission. The Central Bank is ultimately about its people. On behalf of the Commission, I want to thank them for their dedication and commitment to work in the public interest.

Gabriel Makhlouf
Governor
29 April 2022

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The Central Bank Commission (as at 31 December 2021)

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

John Hogan*
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

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Part 1:
Annual Report 2021 & Annual Performance Statement 2021-2022

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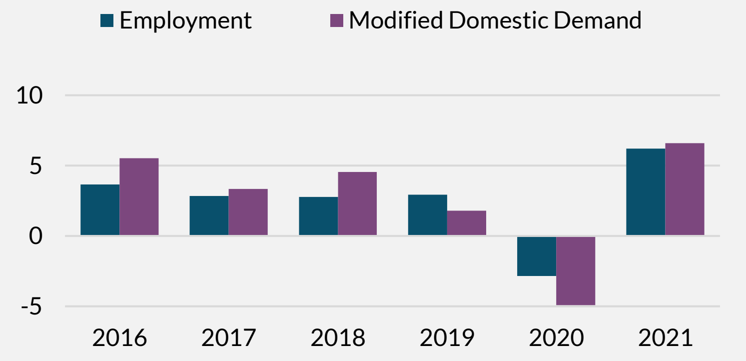
Part 1: Annual Report 2021 & Annual Performance Statement 2021-2022

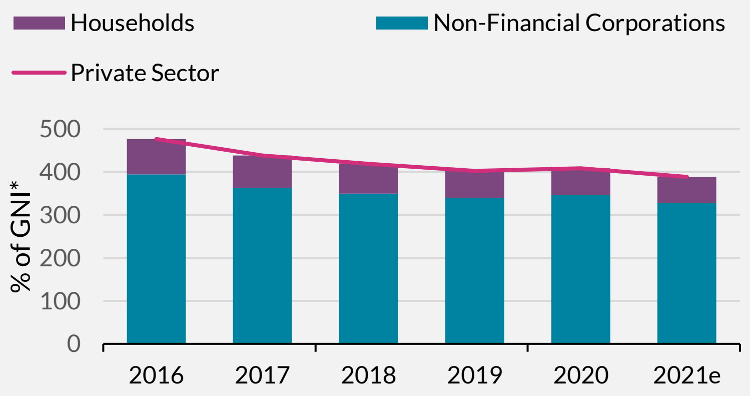
2021: The Irish Economy at a Glance

Real Activity in the Irish Economy



Source: Central Statistics Office (CSO)

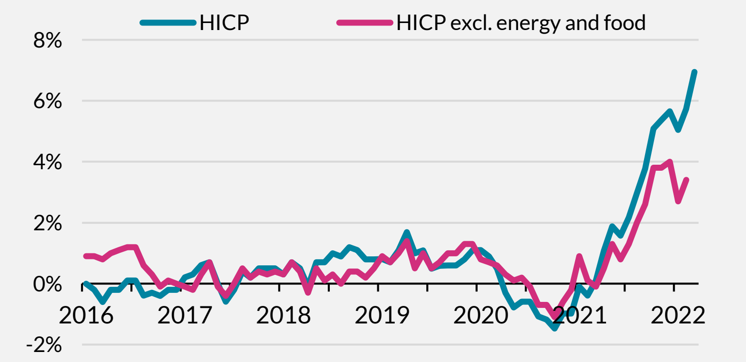
Private Sector Debt to GNI*



Source: Central Bank of Ireland

Note: Data for 2021 are the average of the first 3 quarters of 2021. Private sector debt includes the multinational enterprises (MNEs sector in Ireland.

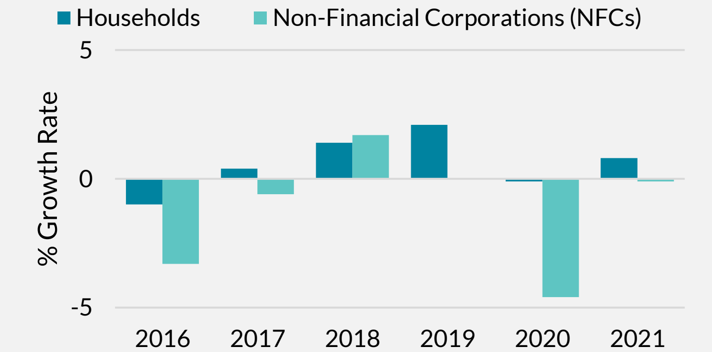
Ireland HICP inflation



Source: Eurostat

Note: HICP – Harmonised Index of Consumer Prices

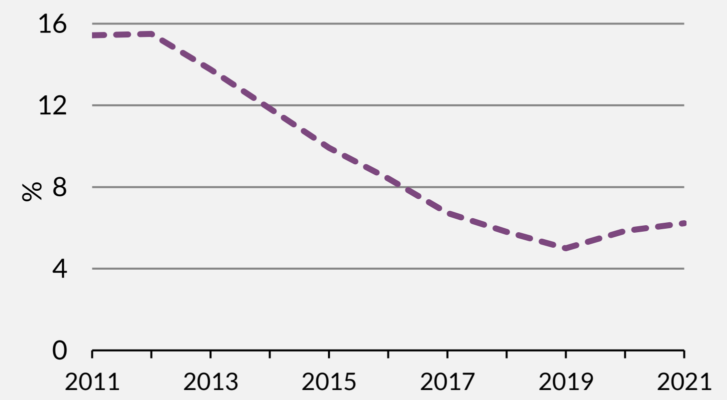
End-Year Annual Rates of Change in Lending



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.

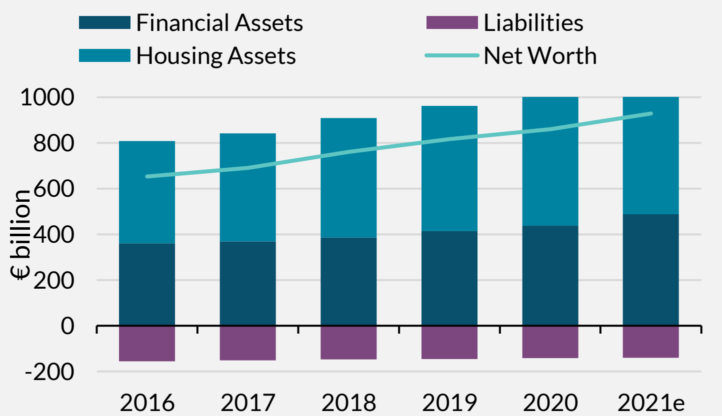
Unemployment Rate



Source: CSO

Note: International Labour Organisation (ILO) unemployment rate

Household Net Worth



Source: Central Bank of Ireland

Note: Data for 2021 are the average of the first 3 quarters of 2021

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Chapter 1:
Closing our 2019-2021 Strategic Cycle

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Chapter 1: Closing our 2019-2021 Strategic Cycle

Central to an effective organisational strategy is the ability to rapidly respond to changing circumstances and emerging risks. In that context, the Central Bank's three-year Strategic Plan (2019-2021) was progressed in an unexpectedly challenging operating environment. Significant key risks materialised during the Plan, including the UK's delayed agreement on leaving the European Union (EU) and the emergence of the COVID-19 pandemic (from January 2020 onwards). The Central Bank adjusted accordingly to respond to such risks, seeking to mitigate the economic and financial system related impacts in line with our mandate, while continuing to progress the overall Plan.

The Plan comprised five core themes. Key outcomes under these themes are highlighted over the following pages. Some residual strategic actions have been incorporated within the 2022-2026 Strategy, which was published in November 2021.

Strengthening Resilience

The Central Bank worked to strengthen resilience and mitigate risks in the financial system so that it can better withstand future shocks and crises and that the impact of these events is mitigated. Resilience in the financial system was crucial throughout the 2019-2021 period, particularly during the COVID-19 crisis. The strengthening of banking resilience in the years preceding the pandemic reflects a number of factors, including improvement in loan portfolio composition due to the Mortgage Measures,

Desired Outcome:

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

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the 2018 activation of the countercyclical capital buffer aimed at building capital buffers sufficiently early in the cycle and better risk measurement from the Single Supervisory Mechanism Targeted Review of Internal Models exercise.

This improved resilience enabled the Central Bank to take policy actions to mitigate the immediate effects of the pandemic, including the release of the countercyclical capital buffer and usability of other macro and micro-prudential capital buffers.

The lessons learned around non-performing loans informed the system-wide approach to payment breaks for borrowers. In parallel, there was an increased focus on near-term preparedness for bank recovery and resolution, including the publication of the Central Bank's Approach to Resolution for Banks and Investment Firms in 2019.

The establishment of an internal COVID-19 Crisis Response Task Force (COVID-19 Task Force) allowed for rapid and coordinated monitoring of pandemic-related risks on a cross-sectoral basis, including facilitating the international cooperation needed to address vulnerabilities.

There was continued progress throughout this period in deepening the understanding of the impact of COVID-19 and broader risks to financial stability, as outlined in published Financial Stability Reviews. Sustained progress was made on the framework reviews for the mortgage measures, the capital framework and the consideration of macro-prudential limits on property funds. International engagement around strengthening the framework for the investment fund sector continues, with particular contributions to the work of the Financial Stability Board, European Systemic Risk Board and European Central Bank (ECB) in this space.

Accelerated by the pandemic, collaborative engagement in the assessment of system, sector and firm specific risk has continued to serve us well in tailoring supervisory engagement to deliver effective supervision in an integrated manner. Substantial efforts were made in 2021 to understand firm/sector response in the ongoing COVID-19 context and the Central Bank continued to address existing, and assess the new, vulnerabilities within the financial system. In particular, the work programme included intensive supervisory engagement and challenge of firms' distressed debt strategies post payment breaks and ahead of government supports ending.

In early-2021, the Central Bank established a Climate Change Unit to take a strategic overview of the work on climate change and integrate climate risk considerations into its supervisory and financial stability assessments.

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Brexit

The Central Bank delivered on its strategic priority of mitigating the risks posed to the economy, financial system, regulatory environment and consumer protection by the impact of the departure of the UK from the EU.

This involved extensive work on the research and analysis of the risks arising from Brexit. 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.

The Central Bank enhanced its regulatory tools and supervisory approaches to ensure that the wider financial stability, market and conduct risks associated with the increased nature, scale and complexity of the Irish financial system were understood and effectively mitigated. In addition, actions were progressed to ensure regulated firms were appropriately prepared for the range of possible impacts and had measures in place to safeguard the interests of their customers. Finally, the Central Bank also ensured a robust and effective authorisation process of all firms seeking authorisation, including the increased volume arising from Brexit.

Throughout the EU-UK negotiations process, the Central Bank engaged extensively with domestic and European stakeholders to ensure any risks posed by Brexit to the regulatory framework and to the Irish financial services sector were appropriately resolved.

Engagement continued with relevant UK supervisory authorities on a range of topics to address the risks and with a view to ensuring effective supervisory cooperation after the UK left the EU.

The Central Securities Depository migration project was finalised in 2021. A number of regulated firms, in cooperation with the Irish securities market, progressed the migration of Irish corporate securities to a new central securities depository. The Central Bank worked closely with the Department of Finance monitoring progress of the migration and this was completed successfully in March 2021.

Desired Outcome:

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

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Strengthening Consumer Protection

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.

Significant progress was made during the three-year Plan to strengthen protections for consumers and investors. This was done by enhancing regulatory frameworks and continuing to deliver risk-based supervision underpinned by a credible threat of enforcement.

In relation to the supervisory framework, the Central Bank adopted a more systematically risk-based approach to identifying and mitigating conduct risk, focusing on firms and products posing the greatest risk of harm.

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. In particular, a customer-focused approach to the resolution of business interruption insurance issues ensured that firms accepted cover for valid claims and proactively engaged with their customers.

Separately, through the Differential Pricing Review, the Central Bank brought forward plans to ban the practice of price walking in the private home and motor insurance markets, which will take effect from July 2022.

The Tracker Mortgage Examination was concluded, resulting in lenders paying more than €700m in redress and compensation to affected customers. Another important milestone was concluding the Central Bank's Behaviour and Culture Review of the Irish retail banking sector, in which it was recommended that an enhanced Individual Accountability Framework for individuals working in regulated firms should be introduced to improve governance in both the banking and wider financial services sector. The Government has now brought forward legislation to introduce such a framework.

In the area of investor protection, 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.

The Central Bank also worked to implement a new approach to the conduct supervision of wholesale markets, and in driving a root and branch overhaul of governance in the funds sector.

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Proportionate and robust enforcement action continued to underpin our powers. Over the three years, we progressed enforcement cases against firms and individuals, resulting in total fines of more than €97m.

The Central Bank continued to contribute to combatting money laundering and terrorist financing through its supervisory engagements and legal and policy work throughout this period. This included various engagement activities with the higher risk firms, and engagements with other firms as required, input to discussions and participation in working groups at the European Banking Authority and Financial Action Task Force and significant input to the development of domestic legislation.

Engaging and Influencing

The Central Bank continued to play an influential role domestically and internationally, including at the European level, leveraging its mandate in an integrated manner. In the period, a new EU Engagement Strategy was developed, aimed at further enhancing how the Central Bank engages with peers and stakeholders as part of fulfilling its role in Europe.

The Central Bank actively contributed to key debates related to monetary policy through the Governor's membership of the ECB Governing Council and through participation in European System of Central Banks (ESCB) committees. These committees assist the ECB's decision-making bodies, and contribute significantly to cooperation within the Eurosystem, which comprised the ECB and the national central banks of those countries that have adopted the euro.

The Central Bank, through the Deputy Governor, Central Banking, co-chaired the High Level Task Force on Eurosystem Collaboration and was represented on the high level task forces on the Digital Euro, on Climate Change-related Sustainable and Responsible Investments for Non-Monetary Policy Portfolios, and on the Integrated Reporting System for banking data. The Director General, Financial Conduct, was elected chair of the European Securities and Markets Authority's Investment Management Standing Committee.

The Central Bank continued to work with European and international counterparts to further strengthen the regulatory framework and respond to emerging risks. Impactful engagement took place in respect of *inter alia* sustainable finance and innovation discussions at the Governing Council, the Single Supervisory Mechanism Supervisory Board and in the European Supervisory Authorities. There was significant input to the European Securities and Markets Authority's work on Common Supervisory Actions, to the Single Supervisory Mechanism and on anti-money laundering matters.

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.

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The Central Bank has continued to engage widely with the public and key stakeholders through various channels on a range of themes particularly relating to COVID-19 and its impact on society.

Enhancing Organisational Capability

Maintaining a robust control environment through continuous risk management and governance was a key feature of the period. This included ongoing operational responses to the COVID-19 pandemic, including the transition to and continued facilitation of remote working and the necessary uplift in information security and network capability. These measures sought to ensure business continuity and operational resilience in the context of changes in the Central Bank's working arrangements.

A new longer-term workplace model has been developed to enable hybrid working arrangements between the Central Bank's premises and remote locations, which will commence in full during 2022.

The Central Bank has made significant progress with respect to enhancements to its data governance and core data capabilities through delivery and upgrades of new platforms. The Data Strategy met a significant milestone with the implementation of the Unity external portal to all industry sectors.

Work on the existing People Strategy progressed well, with an ongoing focus on capacity and capability, organisational culture and workplace experience.

In terms of embedding principles and values in the Central Bank's culture, significant progress was made. The Central Bank has continued to deliver on its Diversity & Inclusion commitments, with the publication of its fourth Gender Pay Gap Report, the launch of the Gender Identity and Expression in the Workplace Policy and the Central Bank has become a signatory of the Business in the Community Ireland Elevate Pledge, for workplace inclusion.

The Campus Development is progressing well to a revised timeline given pandemic-related delays.

Good progress has also been made on the Corporate Social Responsibility agenda and details can be found in its annual report.

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.

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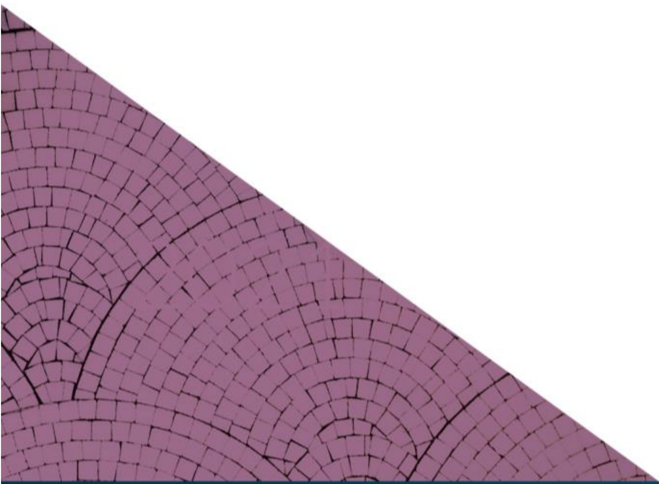
Chapter 2:
Key Activities in 2021



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Chapter 2: Key Activities in 2021

COVID-19 Response

Crisis Management

The COVID-19 pandemic continued to exercise a material influence on the Central Bank's activities and priorities. During 2021, the COVID-19 Task Force continued its work coordinating the Central Bank's overall policy response to the pandemic, seeking to ensure that the financial system continued to serve households and businesses. This included prioritising work streams on financial and operational risks to firms and sectors, the protection of consumers and the wider stability of the financial system.

Following the evolution of the Central Bank's COVID-19 crisis response into a more stable and extended phase of work, the Central Bank's crisis management arrangements were deactivated in November 2021 and COVID-19 activities were transitioned to ongoing work. This included the continued monitoring of distressed debt and the impact of the withdrawal of government supports on the financial system. A lessons learned exercise was undertaken to identify any considerations for future work. Key learnings identified as part of this exercise included: information on the differing levels of resilience and vulnerabilities in financial sectors; the role of policy actions in mitigating household and firm distress; firms' level of crisis preparedness; the business interruption insurance market; further interconnections and linkages in the financial system; and the use of high frequency data to support economic analysis.

The interagency crisis management arrangements with the Department of Finance and National Treasury Management Agency, that had been invoked in March 2020 under the auspices of the Financial Stability Group, were also stood down during 2021 and work commenced on identifying learnings on the interagency crisis response.

Regulatory Response

The COVID-19 pandemic continued to present a number of system, sector, firm, investor and consumer concerns, which required reprioritisation of work and agility to manage emerging risks while continuing to deliver on our wider mandate. In addition, the risk-based supervisory framework was further enhanced to ensure that it continues to support the identification and mitigation of risk, focusing on firms and products posing the greatest potential harm. Further detail on regulatory activity over the past year is detailed later in Chapter 2 under the sections on Conduct and Consumer Protection, Supervision and Enforcement and Regulatory Policy Development.

Price Stability

Throughout the year, the Central Bank actively contributed to monetary policy formulation and decision-making in the Eurosystem through the Governor's membership of the ECB Governing Council and through active participation by staff in relevant Eurosystem committees.

ECB Strategy Review

The ECB's Strategy Review, launched in January 2020, concluded in July 2021, against the backdrop of vaccine rollouts, changes in the inflation outlook and an economy emerging from restrictions. The Governing Council's new monetary policy strategy included a symmetric 2% inflation target over the medium term, providing a defined anchor for inflation expectations. Moreover, the strategy outlined the need for forceful monetary policy responses to disinflationary shocks when operating close to the effective lower bound. The new strategy also recommended the inclusion of owner-occupied housing in Harmonised Index of Consumer Prices calculations and approved an action plan to include climate change considerations into the monetary policy framework.

Monetary Policy Decisions

During the COVID-19 pandemic, the ECB's monetary policy response acted to foster favourable financial conditions and provide support as disruptions to economic activity persisted. Key to preserving favourable financing conditions were the purchases under the pandemic emergency purchase programme, the third series of targeted longer-term refinancing operations and the continued net monthly asset purchases under the asset purchase programme. The Governing Council adjusted its monetary policy measures several times to mitigate the impact of the pandemic. The inflation rate in the euro area averaged 2.6% in 2021, which represented a significant increase from 0.3% in 2020.

For the first two months of 2021, both weak demand as well as labour market slack kept inflation below the target rate at 0.9%. In January 2021, the Governing Council reconfirmed its monetary policy stance (of December 2020), making no changes to the interest rates on the main refinancing operations (0.00%), deposit facility (-0.50%) and marginal lending facility (0.25%), continuing the purchases under pandemic emergency purchase programme with a total envelope of €1,850bn, and keeping net asset purchases under the asset purchase programme at a monthly pace of €20bn. Headline inflation increased to 1.3% by the end of Q1 2021, largely due to the increase in energy prices. However, underlying inflation rates remained subdued well into the second quarter of 2021. In March, the Governing Council increased the pace of asset purchases under the pandemic emergency purchase programme in light of rising market

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interest rates, which had been climbing since December. This marked the Governing Council's first recalibration of monetary policy measures in 2021. The remaining policy measures were left unchanged and no further adjustments were made until the beginning of Q3 2021.

Following the conclusion of the ECB's Strategy Review in July, the Governing Council revised its forward guidance on key ECB interest rates while reaffirming the other policy measures. By September, the economic situation was much improved, with output on track to exceed its pre-pandemic levels by December. Headline and core inflation had increased substantially, to 3.4% and 1.9% respectively, and the medium-term inflation outlook was improving. In light of this development, the Governing Council decided on a moderately lower pace of asset purchases under the pandemic emergency purchase programme.

Over the course of Q4, further hikes in energy prices, demand outpacing constrained supply and the emergence of the Omicron variant, all contributed to the unexpected slowdown in economic growth. Meanwhile, inflation continued to rise sharply, peaking at 5.0% in December. At its final monetary policy meeting of 2021, the Governing Council announced a step-by-step reduction in the pace of the pandemic emergency purchase programme and its eventual discontinuation in March 2022. The Governing Council also extended the reinvestment horizon for the pandemic emergency purchase programme until at least the end of 2024. Furthermore, it decided on a monthly net purchase pace of €40bn in Q2 of 2022 and €30bn in Q3 under the asset purchase programme, reducing to €20bn a month from October 2022 onwards.

Eurosystem Monetary Policy Operations

In 2021, the Eurosystem, including through the Central Bank, conducted purchases under the asset purchase programme and pandemic emergency purchase programme smoothly, continuing to provide broad based monetary accommodation.

The Eurosystem carried out the last four operations of the third series of targeted longer-term refinancing operations programme in 2021. After taking into account repayments from other targeted longer-term refinancing operations, the net liquidity effect of these operations was an expansion in Eurosystem targeted long-term lending of €432.9bn to €2,198.0bn. Given the high level of excess liquidity in the system and the more favourable pricing of targeted longer-term refinancing operations or comparable market instruments, the usage of the weekly main refinancing operations and three-month longer-term refinancing operations remained at or close to record low levels during the year. Finally, the Eurosystem conducted the last four pandemic emergency longer-term refinancing operations during 2021, which saw an average take up of €842m.

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Due to the sustained improvement in US dollar funding conditions, the 84-day US dollar liquidity providing operation was discontinued in July 2021. The standing seven-day US dollar operation continued to be carried out on a weekly basis, albeit with low participation.

Excess liquidity across the Eurosystem continued to increase during 2021, moving from €3,343.8bn on 31 December 2020 to €4,136.3bn at 2021 year-end, mainly reflecting the increase in targeted longer-term refinancing operations outstanding borrowing amounts and the purchase programme activity.[1]

Irish Monetary Policy Operations

Within the asset purchase programme, the Central Bank purchases bonds under the public sector purchase programme and the third covered bond purchase programme. Public sector purchase programme holdings on the Central Bank's balance sheet, which are held at its own risk, increased to €34.5bn at the end of 2021, from €31.6bn at the end of 2020. Holdings of covered bonds under the third covered bond purchase programme, which are risk-shared with the Eurosystem, fell to €2.5bn at the end of 2021 from €3.2bn a year earlier. Meanwhile, the Central Bank's holdings of Irish government bonds under the pandemic emergency purchase programme increased by €11.4bn over the year to €21.4bn at the end of 2021.

During 2021, the Central Bank allotted €16.9bn via targeted longer-term refinancing operations. Total outstanding monetary policy borrowings by Irish counterparties stood at €21.0bn as of 31 December 2021, compared to €7.3bn at the end of 2020. In line with broader Eurosystem experience, the Central Bank also observed a continued rise in the level of reserve holdings with average excess liquidity almost doubling from €44.5bn throughout 2020 to €84.1bn by the end of the year.

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

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[1] 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.

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Financial Stability

Safeguarding the stability of the financial system is at the core of the Central Bank's mission to ensure that the financial system works in the best interests of the community.

Financial Stability Assessment and Analysis

The Central Bank published two Financial Stability Reviews in 2021.[2] The Financial Stability Review evaluates the main risks facing the financial system and assesses the resilience of the financial system to those risks. Over the course of 2021, as economic activity rebounded strongly, some of the near-term risks to the financial system stemming from the pandemic shock started to recede. At the same time, more medium-term vulnerabilities, such as those stemming from developments in international financial markets and higher levels of global indebtedness, continued to build.

To deepen its understanding of the financial stability environment and the effectiveness of macro-prudential policy, the Central Bank continued to conduct in-depth research and analysis. In 2021, key areas of focus included the following:

- Developments in the mortgage housing markets.
- The continued impact of the COVID-19 shock on different sectors of the economy, including the commercial real estate market, the small and medium-sized enterprises sector and household finances.
- The market-based finance sector in Ireland, including through the completion of the deep dive on property funds, launching the new Market-Based Finance Monitor.

The Central Bank communicated this research through a range of channels, including the publication of Financial Stability Notes and Research Technical Papers.

Macro-prudential Policy

Since the onset of the COVID-19 pandemic, the Central Bank's macro-prudential policy stance has aimed to support the banking sector in absorbing the pandemic shock, so that it can continue to serve the real economy in a sustainable manner.

As is the case each year, the Financial Stability Review for the second half of the year included the communication of a number of significant macro-prudential policy decisions, including the annual review of the mortgage

[2] Financial Stability Review 2021:I and Financial Stability Review 2021:II.

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measures and the other systemically important institutions buffer, as well as the fourth quarterly review of the counter cyclical buffer.

In addition, the Central Bank has commenced a number of in-depth reviews as it seeks to continue to mature the macro-prudential framework in Ireland. These in-depth reviews are currently taking place with respect to each of the three pillars: borrowers, banks and non-banks. The reviews are reflecting on international best practice, lessons learned from the COVID-19 pandemic, and the rapidly evolving global economy and financial system.

The Central Bank's mortgage measures are an integral part of the macro-prudential policy framework. As part of the framework review, the Central Bank engaged directly with the public through an online survey and a series of listening events. Analysis of this feedback, along with research and analysis conducted during 2021, underpinned the specific proposals outlined in the Central Bank's consultation paper on the mortgage measures framework, published in December 2021.

The review of the bank capital framework is considering how the different macro-prudential buffers are set and the interactions between those buffers and other elements of the capital framework, such as minimum requirements.[3]

The third pillar of the review considers the market-based finance sector in Ireland, and in particular Irish domiciled investment funds. As part of the second Financial Stability Review, the Central Bank issued a Consultation Paper to assess proposals to strengthen the resilience of the property funds sector in Ireland, consistent with its broader strategy to develop the macro-prudential framework beyond the banking system.

The IMF's Financial Sector Assessment Programme

The IMF's Financial Sector Assessment Programme is a comprehensive and in-depth assessment of a country's financial sector. The current assessment for Ireland, which commenced in 2021, marks an important external assessment of the resilience of the financial sector, the quality of the regulatory and supervisory framework, and the capacity to manage and resolve financial crises. The Financial Sector Assessment Programme will conclude in 2022.

Climate Change

Climate change and the transition towards a more sustainable economy will have broad consequences for economic and financial outcomes in the future, with implications that cut across all of the Central Bank's

[3] See remarks by Governor Makhlouf, "Birth, growth and towards maturity: macro prudential policy in Ireland", 8 November 2021.

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mandates.[4] Climate change is already having profound effects on the world's societies and economies with the increased frequency of severe weather events, and heightened risks for food and energy security. In line with the Irish Government's "Climate Action Plan", the Central Bank is committed to playing its part. In this context, the Central Bank established a new Climate Change Unit in 2021, to work with the relevant business areas to embed, over time, climate risk and sustainable finance considerations into day-to-day work of the Central Bank, and to ensure cohesion and consistency in its overall approach. To this end, a broad work programme has been designed, encompassing four key areas: (1) macro-financial linkages; (2) safety and soundness of regulated firms to climate change; (3) sustainable finance, including its consumer and investor protection dimensions, and (4) filling data gaps.

In November 2021, the Central Bank issued a Dear CEO letter to firms to highlight their statutory obligations and related supervisory expectations relating to climate and sustainability issues. Boards and executives in regulated financial services providers need to act now to understand and address the challenges associated with climate change. The Central Bank also issued a pledge to reaffirm its commitment to tackling climate change in the context of its mandate and announced the establishment of the Climate Risk and Sustainable Finance Forum, to share knowledge and build understanding of the implications of climate change for the Irish financial system.

[4] Makhlouf, Gabriel (2021). "Climate change: towards action", Governors Blog; Lane, Philip R. (2019). "Climate change and the Irish financial system", *Economic Letter*, Vol. 2019(1); Donnery, Sharon (2019). "Risks and opportunities from climate change", Address to Department of Finance and Sustainable Nations Ireland conference.

Central Credit Register

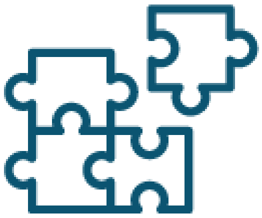
The Central Credit Register provides important granular credit data to the Central Bank which supports financial stability, supervision, statistical and other activities. It also provides reliable credit information to lenders for creditworthiness assessments. Borrowers can request their credit report online at www.centralcreditregister.ie. Further information regarding the operation of the Central Credit Register is also available on the website.

Following the receipt of a statutory request from the Central Statistics Office, the transfer of Central Credit Register data commenced in 2021, supporting their work in collecting, analysing and making available statistics about Ireland's people, society and economy.

The number of lenders submitting information to the Central Credit Register at the end of 2021 was 581 (2020: 583) and the Central Credit Register contained information on 5.3m records (2020: 5.5m).

Lenders requested 1.8m credit reports in 2021 (2020: 1.7m) and 22,315 credit reports were provided to borrowers (2020: 15,728).

Resolution



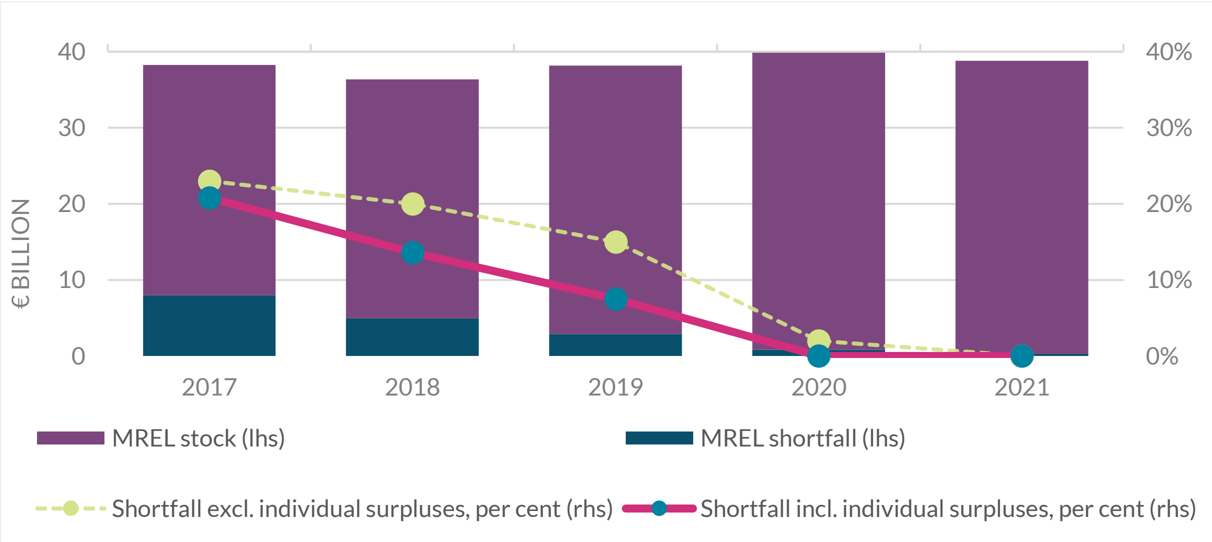
Resolution Planning and Enhanced Resolvability

Significant progress was made on resolvability in 2021. Irish banks continued to build suitable loss absorbing capacity to ensure compliance with their 1 January 2022 intermediate binding minimum requirement for own funds and eligible liabilities (MREL) targets, ensuring a linear build-up to final 1 January 2024 targets (See Chart 1 below). To facilitate use of the bail-in resolution tool, banks also began to operationalise resolution action preparedness by developing and testing playbooks. Firms also made good progress in meeting the Single Resolution Board expectations for banks by end-2023.

MREL Compliance

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 Single Resolution Board determines the requirements for significant institutions, while the Central Bank determines the requirements for less significant institutions and in-scope investment firms. Irish banks have made significant progress in building up loss absorbing capacity and complying with targets up to 2021. This progress will need to be maintained as banks' balance sheets continue to evolve in future.

Chart 1: Irish retail banks' progress toward MREL targets



Source: Central Bank of Ireland

The above chart illustrates stocks and shortfalls from MREL targets in the Irish retail-banking sector. The solid 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.

Resolution Actions

The Central Bank was not required to take resolution actions against any regulated entities in 2021. The liquidation of Rush Credit Union was formally completed on 22 July 2021. The Central Bank is continuing to monitor other cases in which it obtained winding up orders and, where required, it has actively engaged with the appointed liquidators to ensure that the liquidations can be progressed and brought to a close.

Key Resolution Framework Developments

The Central Bank plays an active role in developing both the domestic and EU crisis management frameworks, including via the Single Resolution Board, the European Banking Authority, and EU committees/working groups, and provision of technical advice to the Department of Finance.

In January 2021, the EU Commission launched a consultation seeking views on its review of the EU Crisis Management and Deposit Insurance Framework. In April 2021, the Central Bank issued a public response to the consultation. The Central Bank remains a strong advocate of strengthening the overall framework and of completing the Banking Union.

The Department of Finance, in collaboration with the Central Bank, issued a public consultation on 1 September 2021 seeking views on the introduction of a possible domestic resolution framework for insurers. The feedback from this consultation will help inform engagement on the proposed EU framework Directive, the Insurance Recovery and Resolution Directive, at EU fora.

Public Engagement

The second edition of the Central Bank's Approach to Resolution was published in October 2021, alongside a new Approach to Minimum Requirement for Own Funds and Eligible Liabilities document. The updated document reflects changes arising from the Risk Reduction Measures Banking Reform Legislative Package and other relevant policy developments. The document provides an overview of the Central Bank's powers and discretions concerning MREL and subordination.

The Central Bank held its fourth Resolution Industry Briefing Event on 8 December 2021 on the theme of Resolution - An Evolving Framework.

Resolution Funds

The Central Bank has statutory responsibilities with respect to three resolution funds. In 2021, the Central Bank collected €216m from Irish banks contributing to the Single Resolution Fund on behalf of the Single Resolution Board. The Single Resolution Fund has reached c. €52bn of its

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original c. €60bn overall target, and to date has not been called upon to fund resolution actions.

Levy contributions of €11.4m were collected for the Bank and Investment Firm Resolution Fund by the Central Bank in 2021, bringing the total fund to €38m. This fund has not been called upon to date.

In 2021, €5m was collected for the Credit Institutions Resolution Fund, bringing the total fund to €56m. There were no resolution actions in 2021.

Deposit Guarantee Scheme and Insurance Compensation Fund

The Deposit Guarantee Scheme and Insurance Compensation Fund are administered by the Central Bank. In 2021, the Deposit Guarantee Scheme levied €151m in contributions from credit institutions to the fund. The Insurance Compensation Fund made payments of €11.1m to the State Claims Agency for the liquidation of three insurance companies.

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Payment Systems and Currency

Digital Euro

As part of the Eurosystem, the Central Bank is investigating the potential issuance of a central bank digital currency (CBDC) – a digital euro, which would complement euro banknotes and coins.

Following the publication of the ECB's Digital Euro report in 2020 and subsequent public consultation, the Eurosystem launched a two-year investigation phase to explore the possible technical and policy options that could form the basis of a digital euro design. This investigation, which commenced in October 2021, will consider how the digital euro could be distributed and used by citizens and businesses and the potential impact it may have on the European economy and society. Following the completion of the investigation phase (scheduled for September 2023), the Eurosystem will decide if further work should be undertaken to develop a digital euro, including creating and testing design solutions. Only when these phases are complete will a decision to issue a digital euro be made.

Payment Systems

The Central Bank maintains the Irish TARGET2 component, TARGET2-Ireland of the euro settlement system. In 2021, TARGET2-Ireland processed 760,837 real-time gross settlement (RTGS) transactions, an increase of 2.5% compared to 2020, for a total value of €3.009tn (+0.36% year-on-year). Direct participants in TARGET2-Ireland increased by one to 15 year-on-year.

The TARGET2 and TARGET2-Securities consolidation project progressed throughout 2021 and is due to go live in November 2022. This project seeks to replace TARGET2 with a new real-time gross settlement system to optimise liquidity management across all TARGET Services.

The Central Bank provides banking services to the Government and other European and international institutions and agencies. During 2021, the Central Bank assumed responsibility for the processing of financial transactions related to COVID EU Recovery and Resilience Programs including Support to mitigate Unemployment Risks in an Emergency, Brexit Adjustment Reserve, and the Recovery and Resilience Facility.

In 2021, the National Treasury Management Agency issued two new Government bonds with a nominal value of €9.0bn, and sold a further €9.5bn on existing bonds (Taps) with €7.5bn on Treasury Bills. At end-2021, the nominal value of bonds and treasury bills on the Register amounted to €156.1bn, representing an 11.7% increase overall.

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Currency

Banknotes

In 2021, the Central Bank issued 173m banknotes (value €5,555m), representing a 9% decrease on the190m banknotes (value €6,418m) issued in 2020. This decrease is driven by a reduced demand for cash during the first half of 2021 due to increased adoption of cashless payments and the impact of COVID-19 restrictions. In 2021, the Central Bank received banknote lodgements volume of 120m (value €3,212m) which represents a decrease of 5.8% on the 127m (value €3,408m) received in 2020. This decrease in banknote activities is also indicative of a continuation of market-led activities to facilitate recirculation of banknotes.

Table 1 Banknote Issues

No. of Banknotes (m) Issued			Value €m	
Denomination	**2021**	**2020**	**2021**	**2020**
€5	21	22	105	108
€10	22	24	225	238
€20	43	39	854	785
€50	87	105	4,337	5,242
€100	0	0	34	46
€200	0	0	0	0
€500	0	0	0	0
Total	**173**	**190**	**5,555**	**6,418**

Note: Figures may not sum due to rounding

Coin

The Central Bank, acting as agent for the Minister for Finance issued 80m coins (value €41m) into circulation in 2021. This represents a 53% increase in coins issued when compared with the 52m coins (value €24m) issued in 2020. This increased demand is driven by the re-opening of the hospitality sector during 2021. While demand increased across all coin denominations, the level of increase in high denomination coin was particularly strong. The Central Bank received lodgements of 37.8m coins (value €18m) which represents a 38% decrease on 2020 coin lodgements of 61m (value €32m).

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Table 2 Coin Issues

No. of Coin (m)			Value €m	
Denomination	2021	2020	2021	2020
1c	3	2	0	0
2c	1	0	0	0
5c	21	20	1	1
10c	12	9	1	1
20c	14	5	3	1
50c	8	5	4	3
€1	9	5	9	5
€2	11	7	22	14
Total	80	52	41	24

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. During 2021, the Central Bank issued three coin products for sale to the public. This included two annual coin sets and a Gothic Architecture silver proof collector coin, which features a unique design of Christ Church Cathedral.

National Cash Cycle Developments

During 2021, the Central Bank continued its engagement with cash cycle stakeholders to promote efficiency, effectiveness and resilience in the cash cycle. In response to the various levels of restriction introduced by Government during 2021 to combat COVID-19, the Central Bank led the National Cash Contingency Group ensuring actions were taken to mitigate the risk of any disruption to the supply of cash to the economy throughout the year.

Economic Analysis and Statistics

Economic Analysis

In 2021, the Central Bank contributed to the formation of national economic policy through the provision of independent economic advice via regular commentaries, forecasts, research and the provision of high quality financial statistics. These were communicated through the Quarterly Bulletin series, Economic Letters, Research Technical Papers, 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 2021.

Six macroeconomic forecasting exercises were completed during the year, 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. In addition, the Central Bank participated in other forecasting and policy forums, e.g. Organisation for Economic Co-operation and Development, EU, and consultations with visiting external partner missions from the EU and IMF, rating agencies and other international bodies.

The economic effects of the COVID-19 pandemic, including its impact on labour markets, private consumption and savings and on the public finances, continued to be the focus of macroeconomic analysis during 2021. The Business Cycle Indicator tracked the economic impact of the pandemic through the year and the Central Bank's suite of macroeconomic models was used to simulate alternative scenarios regarding the efficacy and speed of distribution of vaccines. Alternative applications of the Central Bank's suite of macroeconomic models included an analysis of the impact on the Irish economy of US fiscal stimulus, macro-prudential policy analysis, and, more generally, to enhance the Central Bank's economic analysis and forecasting capabilities. Other research and analysis focused on a broad range of topics including the resilience of Irish exports, trade flows in the early aftermath of Brexit and the medium term outlook for the public finances.

Statistics

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. Publications in 2021 included credit conditions and household spending patterns during COVID-19, as well as new insights into activities

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of pension funds. The series also contained the Central Bank's first statistical release on green bond markets.

The Central Bank developed new and expanded datasets on financial activity in Ireland. This included improving coverage of the growing non-bank lenders to small and medium enterprises and enhancements to existing datasets, most notably on the high frequency indicators of household card payment and on the assets and liabilities of Irish occupational pension funds. The Central Bank also worked closely with the Central Statistics Office delivering on the need for a consistent, high quality suite of macroeconomic and financial statistics in Ireland. The Central Bank and the Central Statistics Office established a new Statistics Memorandum of Understanding in 2021, which outlines the responsibilities, working arrangements and a set of principles governing the relationship between the organisations.

The Central Bank continued to expand information and statistics through the National Claims Information Database. The Central Bank has undertaken a number of measures to increase transparency to policyholders and improve data availability under the National Claims Information Database, with associated annual publications. The achievements in 2021 included the first report on the Employers' Liability, Public Liability and Commercial Property markets in July while the third Private Motor Insurance Report was published in November. Key enhancements in 2021 to the Private Motor Insurance Report was the inclusion of historic data on income, expenditure and profitability, and additional data on reinsurance, commissions and pandemic-related premium rebates.

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Conduct and Consumer Protection[5]

In 2021, the Central Bank's consumer protection work has continued to focus on the need to ensure fair treatment of customers across issues including business interruption insurance, banking consolidation, mortgage arrears and insurance pricing.

During the year, the Central Bank continued to enhance its framework for supervising regulated entities to ensure that the best interests of consumers are protected. This included dealing with issues arising in the context of the continuing pandemic, such as ensuring fair outcomes for business interruption insurance policyholders and consumers in, or facing, financial distress. The Central Bank also placed a particular focus on the resolution of long-term mortgage arrears, intervening with lenders, setting clear expectations of how they should treat their customers, while also actively monitoring the experiences and views of consumers. Data indicates a progressive reduction in the levels of such arrears.

In June 2021, the Central Bank wrote to regulated retail banks to set out its consumer protection expectations during this period of fundamental structural change and consolidation based on an assessment of possible risks to consumers. The Central Bank will continue to actively engage with firms on these expectations to ensure their behavioural and cultural change programmes take full account of consumer interests.

The Central Bank intervened on the systemic issue of differential pricing in the home and motor insurance markets, deciding to ban price walking, while ensuring customers retain the opportunity to shop around for better priced premiums. New measures have been introduced to strengthen the consumer protection framework and these will be effective from 1 July 2022.

Proposal to ban the practice of 'price walking' in motor and home insurance

The Central Bank also engaged proactively with the insurance sector on the issue of business interruption insurance, to ensure that insurance providers adopted a customer-focused approach. The Central Bank conducted a system-wide supervisory examination, with a multi-disciplinary team dedicated to deploying the supervisory framework through rigorous challenge of firms. This work seeks to minimise the potential for widespread consumer detriment related to business interruption.

[5] This section of the report addresses the Annual Performance Statement reporting obligations under Section 32L(2)(b) of the Central Bank Act 1942 (as amended).

This intervention has resulted in more than €163m being paid to 5,128 policyholders through settled claims and interim payments to end-December 2021. We will continue to monitor compliance so that all valid claims are handled and paid by the firms in compliance with their legal and regulatory obligations.

€163m paid to 5,128 policyholders in insurance claims related to business interruption

Retail Conduct Supervisory Framework

During 2021, the Central Bank completed work on the enhancement of our retail conduct supervisory framework, and will now move to testing and implementing. This framework provides for a more systematic and structured approach to identifying and mitigating conduct risk, focusing on the firms and products that have the potential to pose the greatest harm to consumers.

Another key component of work in this area is to foster longer-term behavioural and cultural change in regulated financial services firms. The Central Bank recognised a need to develop a new toolkit for supervisors to make it more effective in supervising culture as a specific risk issue. In 2021, the Central Bank made significant progress on the development of a Behavioural and Cultural Risk Framework, for implementation in 2022.

This approach will drive financial services firms to implement structures, controls and behaviours that will support a cultural change and improved outcomes which are prudentially sound and in the best interests of customers.

Collaboration and Engagement (Consumer Protection)

The Central Bank actively engages and works with many organisations to deliver an effective consumer protection framework, including the Financial Services and Pensions Ombudsman and the Competition and Consumer Protection Commission. Through this collaboration, the aim is to deliver the shared objective of strong protections and trustworthy outcomes for consumers and investors.

The Central Bank was re-elected to the Governing Council of the International Financial Consumer Protection Organisation and continues to support the work of that organisation to raise standards in consumer protection around the world.

Consumer Advisory Group

The Consumer Advisory Group is a statutory advisory panel, established under the Central Bank Reform Act 2010, and comprises a range of expertise, with consumer, industry, regulatory and academic representatives. It 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.

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During 2021, the Consumer Advisory Group input was sought on a number of significant strategic issues including:

- The Central Bank's consultation on stakeholder engagement.
- The Central Bank's Strategic Plan 2022-2026, and the approach to 2022 planning in the context of the new strategy.
- The changing retail banking landscape, including withdrawals from the Irish market and branch closures.
- The Insurance Resolution Framework.

In addition to these strategic issues, other topics discussed during 2021 included:

- Policy proposals for addressing differential pricing in home and motor insurance markets.
- The ongoing review of the Consumer Protection Code.
- Markets in crypto-assets ahead of the new EU Regulation anticipated in 2023.
- The Central Bank Sectoral Risk Assessment.
- The launch of a new home reversion-type product in Q2 2021.

Supervision and Enforcement[6]

ǂ All figures are as at 31 December 2021. 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 Single Supervisory Mechanism.
+ This firm is also regulated as a benchmark administrator.

[6] This section of the report addresses the Annual Performance Statement reporting obligations under Section 32L(2)(b) of the Central Bank Act 1942 (as amended).

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The actions taken by regulators and firms since the last financial crisis contributed to strengthening the resilience of the financial system and restoring confidence in its functioning. That resilience was demonstrated at the onset of the COVID-19 pandemic as the potentially significant adverse effects of the health crisis on the financial system were substantially mitigated. Enhanced operational and financial resilience helped the system to absorb, rather than amplify the shock, while regulated firms were able to continue to support their customers and the real economy.

This focus on resilience remained a supervisory priority in 2021 across all sectors in addition to climate risk, authorisation of new entrants, consolidation in banking, sustainable business models, and recovery and resolution planning. The Central Bank continued to evolve and develop its supervisory approach and ensure that it is operating to, and influencing, European supervisory policy positions.

The Central Bank's mandate continued to expand with an increased pipeline of new legislation, a substantial growth in market activity and more complex products and services. In pursuit of stronger protection for investors and consumers, the Central Bank continued to embed robust gatekeeper principles by applying a risk-based approach to applications, including enhanced scrutiny for higher risk applications. The Central Bank prioritises early engagement with firms, enabling them to gain information and guidance about the authorisation process.

The importance of operational resilience has been further reinforced by the experience of the immediate shock of the pandemic, the ongoing shift in consumer behaviour, and reliance on remote working. The pace of change should be a key focus area for firms, their boards and their senior management. Throughout 2021, supervisors assessed and monitored operational risks, including risks relating to outsourcing, IT risk management, and cyber security. The Central Bank issued cross-industry Guidance on Operational Resilience in December 2021. The guidance gives advice on how to prepare, respond and recover from an operational disruption that affects the delivery of business services in the financial services sector.

Ongoing investment in data analytics and data architecture has advanced data driven supervision and has resulted in greater coordination of industry engagement, a significant increase in the number of risk mitigation programmes issued to firms, and a notable improvement in data quality across related datasets.

Stakeholder Engagement (Supervision)

Outside of supervisory engagements, extensive engagement also continued throughout 2021 with industry stakeholders, representative bodies and at relevant European fora, through various channels such as meetings, speeches, presentations, circulars and publications. A selection of some of the key highlights are listed below for information:

- The Annual Information Seminar for credit unions was held in October with more than 250 attendees.
- The eighth edition of the statistical release, Financial Conditions of Credit Unions, was published in December.
- The Central Bank engaged with peer credit union regulators and chaired the annual conference of the International Credit Union Regulators Network.
- A Climate and Emerging Risk industry report was published for the insurance sector in Q2 and an insurance industry briefing was published in June.
- As part of its outreach, the Central Bank issued the Bulletin on the Central Bank's Anti-Money Laundering/Countering the Financing of Terrorism/Financial Sanctions supervisory engagements with Funds and Fund Management Companies and the updated Anti-Money Laundering/Countering the Financing of Terrorism Guidelines for the Financial Sector which were revised on 23 June 2021.
- The Central Bank participated in supervisory colleges, with both European and international competent authorities, for firms with branches and subsidiaries established in Ireland. In addition, the Central Bank also hosted supervisory colleges in 2021.

Some further highlights in relevant sectors are outlined below:

Banking Sector

The ongoing evolution of the COVID-19 pandemic meant that firms continued to operate in a highly uncertain and challenging environment. The announcement by two retail banks of their intention to withdraw from the Irish market will result in further structural change in the Irish banking landscape, continuing a trend observed since the financial crisis. In the near term, the transactions entail both financial and operational risks, which need to be managed appropriately by the relevant firms and their respective boards. The Central Bank has been clear in its expectations that lenders take a customer-centred approach throughout this period of change.

The investment banking sector continues to expand post-Brexit, both in size and complexity in terms of markets and products. Engagement with this sector continues to focus on the strategic outlook and the execution of expansion activity in a risk-focused manner.

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Credit Risk/Distressed Debt

Throughout 2021, the Central Bank continued to ensure that banks provided consistent and effective support for borrowers in arrears, including mortgage arrears (distressed debt). The supervisory work programme included intensive engagement and challenge of firms' distressed debt strategies. Furthermore, supervisors remained focused on ensuring the timely and accurate recognition of any deterioration in the risk profile of borrowers.

Financial Resilience

Across the banking sector, in 2021, capital ratios remained above regulatory requirements. A number of Irish banks were subject to either the European Banking Authority EU-wide stress test or the parallel Single Supervisory Mechanism stress test of banks directly supervised by the ECB. Stress test findings were used to inform the 2021 Supervisory Review and Evaluation Process for participating banks. Overall, the impact of the stress test was more severe than the results from the 2018 exercise, reflecting a more severe scenario. Nevertheless, even though uncertainties remain high, the benefits of resilience built up in recent years are evident, with banks having sufficient capital to absorb the impact of the severe stress scenario.

The liquidity position of the banking system continued to remain resilient in 2021. Supervisors continued to monitor the liquidity profiles of credit institutions in order to ensure that any potential signs of liquidity stress were identified at an early stage.

Credit Union Sector

While 2021 was another challenging year, credit unions maintained continuity of services to their members throughout the pandemic.

Supervisory Effectiveness

2021 supervisory engagement included a thematic review of credit union risk management resulting in a request to all credit unions to review the findings and recommendations and to proactively consider how they can embed a strong risk management culture. This is key to ensuring that credit unions can continue to serve their members' financial needs and protect their savings.

The supervisory strategy in 2021 also sought to help to address challenges and support sector sustainability.

Intervention and Restructuring

There were 14 transfers and one voluntary dissolution completed during 2021, with a future pipeline of transfers identified. Ongoing restructuring is continuing to reshape the profile of the sector with 66 credit unions as at

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31 December 2021 reporting assets of over €100m (representing 68% of sector assets).

There was also a focus on effective sector de-risking through specific intervention activities including accelerated restructuring of a small number of credit unions. These interventions focused on remediating financial, operational and governance weaknesses to protect members' savings and the financial stability of the credit union sector.

Tailored and Proportionate Regulation
The Central Bank continued to support the implementation of significant regulatory framework changes for credit unions introduced over recent years. This included publication of a Credit Union Investments Report, which concluded that the investment classes and limits in the investment regulations continue to provide an appropriate range of investment choices and diversification opportunities for credit unions.

On additional services and activities, a further 16 applications for the provision of Member Personal Current Account Services were approved. Three applications to avail of additional lending capacity for house and business lending were also approved. A review of the range of services that credit unions can provide without the need for specific approval was undertaken with a consultation paper (CP148) issued in January 2022. A consultation paper (CP147) on application of minimum competency requirements to credit union personnel providing savings and loans services was also issued in January 2022.

Insurance Sector

In addition to core supervisory engagements in 2021, supervisors also engaged on a material number of transactions relating to consolidation, changes in firms' strategies and structures in the insurance sector.

During this period, a focus was also given to digitalisation, the pension landscape, London Interbank Offered Rate transition risk and the launch of a study on the ethical use of big data and associated technologies in (re)insurance processes.

A Framework for Recovery Planning and Supporting Guidelines was finalised and published in Q2 2021. The regulations promote awareness and allow firms to prepare for a range of possible adverse situations. This contributes to achieving policyholder protection, as well as maintaining financial stability.

Domestically, the Central Bank supported the Government's Action Plan for Insurance Reform, which sets out a range of initiatives to address consumer and business concerns on the cost and availability of insurance.

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Payment Institutions/E-money Institutions Sector

Payment and e-money firms play an increasingly important role in the financial system and in the lives of consumers. Given the dynamic nature of the sector, the Central Bank is seeing increasing volumes of notifications of material changes in business models and in some cases extension of authorisation requests.

In December 2021, the Central Bank issued a Dear CEO letter with the purpose of setting out clearly the Central Bank's expectations for all payment and e-money firms and the actions it expects the boards and senior management of these firms to undertake to ensure effective governance and risk management arrangements. In addition to this, the Central Bank also issued a communication to clearly set out the expectations for all firms applying for authorisation, and to remind applicant firms of the authorisation principles, approach and the core elements that will be assessed by the Central Bank.

Securities and Markets Sector

The Central Bank conducted the annual Securities Markets Risk Outlook Report, which identified emerging risks and assessed their potential impact. This work promoted the appropriate mitigation and management of risks and informed the Central Bank's work programmes.

During 2021, there was growth in both the volume of regulated entities and new legislative mandates in this sector. Ireland remains a leading choice for entities to locate, evidenced by strong growth in activities within the securities and markets sector. The funds authorisation area experienced strong growth in 2021 as the number of investment funds authorised in Ireland increased to 8,371, representing €4.067tn in assets as at 31 December 2021. 920 prospectus documents were processed, in addition to 26,396 related filings. Enhanced scrutiny was also applied on a risk-based approach to those applications presenting the highest risks for investors.

Work on new legislation and process amendments was also completed, including the implementation of the Sustainable Finance Disclosure Regulation and Taxonomy Regulation, which are key priorities for the Central Bank. For both pieces of legislation, funds were required to make amendments to their documentation and engage with the Central Bank. In April 2021, the Central Bank published a consultation paper (CP142) setting out its proposals to revise prospectus fees and prospectus approval service standards which resulted in the implementation of revisions in early-2022.

Supervisory activities continued to assess the compliance of regulated entities with their obligations. The supervision of fund service providers included the completion of core risk assessments across key risks such as governance, operational, capital and IT risk. In addition, there was proactive engagement with entities on their operational, resourcing and governance arrangements, including the closure actions arising from the 2020 thematic review of Fund Management Companies' Governance, Management and Effectiveness.

Market Abuse

In 2021, a thematic review was completed to assess how firms, issuers and advisors complied with Irish market abuse law including the Market Abuse Regulation. The review evidenced failures by market participants to sufficiently consider and manage their market abuse risk. As a result, the Central Bank imposed risk mitigation programmes on the entities assessed. On 12 July, the Central Bank published Dear CEO letters to Regulated Firms, Issuers and Advisors advising market participants to critically assess their compliance arrangements against the published findings. Furthermore, the Central Bank continued to emphasise its expectations on the importance of reporting suspicious transactions as a record 330 reports were assessed in 2021.

Anti-Money Laundering/Countering the Financing of Terrorism

Risk-Based Supervision Approach

During 2021, the Central Bank's supervision included 34 inspections, 87 review meetings and the issuance of 630 Risk Evaluation Questionnaires to firms. The inspections and review meetings resulted in 131 findings being issued to firms. These findings resulted in 340 actions being issued to the firms, which will be pursued until completion.

Legislative Changes

Ireland transposed the fifth Anti-Money Laundering Directive into Irish law by way of the Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Act 2021 and the provisions that relate to Virtual Asset Service Providers commenced on 23 April 2021.

Enforcement

During 2021, the Central Bank delivered significant and varied enforcement outcomes, including notable fines. These outcomes reflect the targeted and proportionate application of enforcement tools to address serious breaches of regulatory requirements and misconduct by firms or individuals.

The total of more than €67m in fines in 2021 is the highest amount imposed in a single year to date. Details of outcomes and cases at inquiry are available on the Central Bank's website.

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Enforcement
Key 2021 Statistics

Over €67m in Fines*

5 Firm Settlements	**1** Individual Settlement	**1** Prohibition Notice
1 Enforcement Order	**2** Revocation of Authorisations	**90** Warning Notices Published

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

Administrative Sanctions Procedure
The enforcement actions concluded in 2021 underpin the Central Bank's focus on key areas including: consumer protection (Ulster Bank Ireland DAC) and (Keystone Insurance Limited), operational resilience (The Governor and Company of the Bank of Ireland), management of conflicts of interest (J&E Davy), delegate oversight (Sarasin Funds Management (Ireland) Limited), and individual accountability (former Head of Commercial Lending (UK) at Irish Nationwide Building Society (INBS)).

Inquiries
INBS - Following conclusion of the case against the former Head of Commercial Lending (UK), the inquiry continued in respect of the sole remaining person concerned. The final evidential hearings concluded in 2021.

Permanent tsb p.l.c. (PTSB) Inquiry - An inquiry concerning a person formerly concerned in the management of PTSB commenced in 2021.

Fitness and Probity and Revocations of Authorisations
One fitness and probity prohibition notice was issued to an individual and two firms' authorisations were revoked.

Operational costs
The Regulatory Decisions Unit incurred total operational costs of €123,961 (ex VAT) in 2021, in respect of its role across the following four regulatory regimes operated by the Central Bank: the Administrative Sanctions Procedure Inquiries; the Fitness and Probity Regime; the Assessor Regime and the Refusals or Revocations of Authorisations.

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In 2021, the Central Bank appointed a new panel of decision makers who may be authorised to exercise certain regulatory decision-making powers.

Unauthorised Firms

The Central Bank published 90 warning notices in respect of unauthorised firms.

Following investigations, the Central Bank escalated its response to an unauthorised provider and secured an enforcement order from the High Court to restrain the provision of certain regulated activities without authorisation.

The Central Bank encourages consumers to take precautions such as the SAFE test, before engaging with financial services firms.

Protected Disclosures

Protected disclosure reports are an important tool to assist the Central Bank in discharging its supervisory and enforcement mandate. 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.

The Central Bank received 231 protected disclosures during 2021, up from 202 in 2020. The Central Bank encourages individuals to report concerns or information relating to suspected regulatory wrongdoing in financial services. Protected disclosures can lead to supervisory/enforcement action, and in 2021 led to enhanced supervision, risk mitigation programmes, inspections, warning notices and enforcement action.

Regulatory Policy Development[7]

Individual Accountability Framework

In 2021, the Central Bank supported the Department of Finance in developing an enhanced framework for individual accountability in financial services. The General Scheme of the Central Bank (Individual Accountability Framework) Bill 2021 was published in July 2021 (final legislation is expected in 2022). The Individual Accountability Framework is about incentivising positive behaviours, promoting an improved culture in financial services firms to ensure good standards of governance and behaviour and benefiting consumers and investors.

EU and International Engagement and Policy

The Central Bank contributed to key aspects of regulatory development at EU and international level, including advising the Department of Finance on key EU financial services proposals, revisions to the Capital Requirements Directive and Regulation, review of Solvency II, the Markets in Crypto Assets Regulation and the Digital Operational Resilience Act.

The Central Bank continued its influential role in the European Supervisory Authorities in relation to regulatory developments in the areas of consumer protection and banking, insurance and markets sectors. The Central Bank contributed to shaping the European Supervisory Authorities' responses to COVID-19, sustainable finance and climate risk, digital finance, securitisation, review of Solvency II, market infrastructure and sustainable investments in the fund sector. The Director General, Financial Conduct, is the Chair of the European Securities and Markets Authority's Investment Management Standing Committee. The Central Bank co-chairs the European Banking Authority Standing Committee on Regulation and Policy.

The Central Bank and the Department of Finance worked on the transposition of the EU Directive bringing the new prudential regime for investment firms into Irish law. The new regime, applicable from 26 June 2021, introduced proportionate capital, liquidity and governance requirements for investment firms.

At a global level, the Central Bank was active at the board and committees of the International Organisation of Securities Commissions, particularly in the areas of retail market conduct, investment funds and systemic risk. The Central Bank is an active member of the Executive Committee of the International Association of Insurance Supervisors, contributing to issues on the international capital standard, implementation of the Holistic Framework, and sustainable finance. In October 2021, the Financial

[7] This section of the report addresses the Annual Performance Statement reporting obligations under Section 32L(2)(b) of the Central Bank Act 1942 (as amended).

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Stability Board published its final report on money market funds reforms. Jurisdictions have been asked to consider what reforms might be required to enhance the resilience of money market funds for their local markets, though stopping short of introducing new global minimum standards.

Stakeholder Engagement (Regulatory Policy Development)

In November 2021, following a public consultation, the Central Bank published a feedback statement setting out enhancements to engagement with consumers, civil society, financial industry, and the business community. These include: enhancing the Consumer Advisory Group and Civil Society Roundtable; establishing an Industry Forum, a Business Forum and a Financial Services Conference.

The Innovation Hub is the Central Bank's point of contact for innovating firms. It saw an increase of 19% in its engagements in 2021, and an increase of 25% in 2020. In March 2022, the Innovation Hub published its annual update.

The Standard Financial Statement gathers financial information from a borrower in, or facing, financial difficulties, to enable a regulated entity to assess the borrower's case, and to consider whether an alternative repayment arrangement is appropriate. Following stakeholder workshops and a public consultation process, the Central Bank published a revised version of the Standard Financial Statement to assist borrowers in July 2021.

In December 2021, the final Cross-Industry Guidance on Outsourcing was published, outlining the Central Bank's expectations on the management of outsourcing risk with a view to promoting higher standards of operational resilience.

Strengthening the Supervisory Framework

In 2021, work continued on the review and enhancement of PRISM, the Central Bank's risk-based framework for the supervision of regulated firms. The review includes the PRISM Impact Review, a review of supervisory minimum engagement and further consideration of the Central Bank's supervisory risk appetite. This work included a review of the impact of the funds sector and enhancing the supervisory risk management framework. It will continue in 2022.

Funding and Staffing of Financial Regulation[8]

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 for items including balances or deferred income from prior years.

The Central Bank published a consultation on funding the cost of prospectus approval activities in 2021, including the proposal on how it will implement its strategy of moving towards full industry funding, and revising the current prospectus approval service standards.

In the year ahead, 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 2021, there was the equivalent of 977.4 full time staff involved in regulatory activities, down from 1,028.5 in December 2020. The decrease in the number of full time equivalent staff in 2021 was principally attributable to the following factors:

1. A return to more normal levels of voluntary turnover in the second year of the pandemic. At December 2021, staff turnover for Financial Regulation was 6.3%. (Central Bank level voluntary turnover in 2020 was 3.9% versus 5.1% in 2021).

2. There was also an increased demand in the external talent market, particularly in specialist areas, due to the post-Brexit expansion of

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[8] This section of the report addresses the Annual Performance Statement reporting obligations under Section 32L(2)(b) of the Central Bank Act 1942 (as amended).

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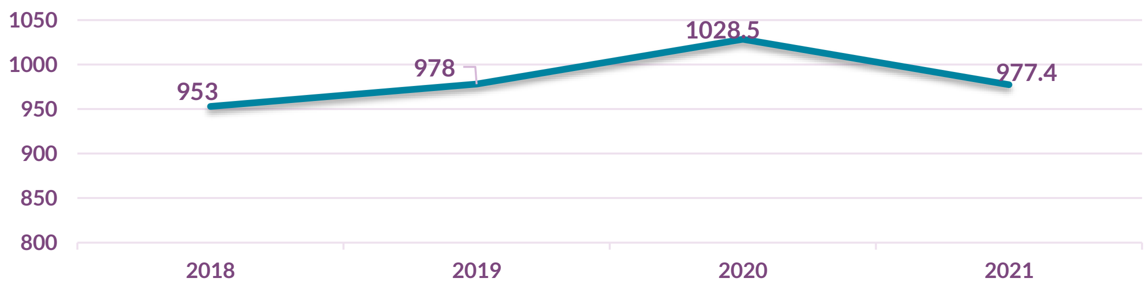
the financial system, which contributed to vacancies in some areas at year-end.

Chart 2 below shows staffing levels working in Financial Regulation over the last four years.

Chart 2: Headcount in Financial Regulation 2018-2021



Regulatory and Business Services[9]

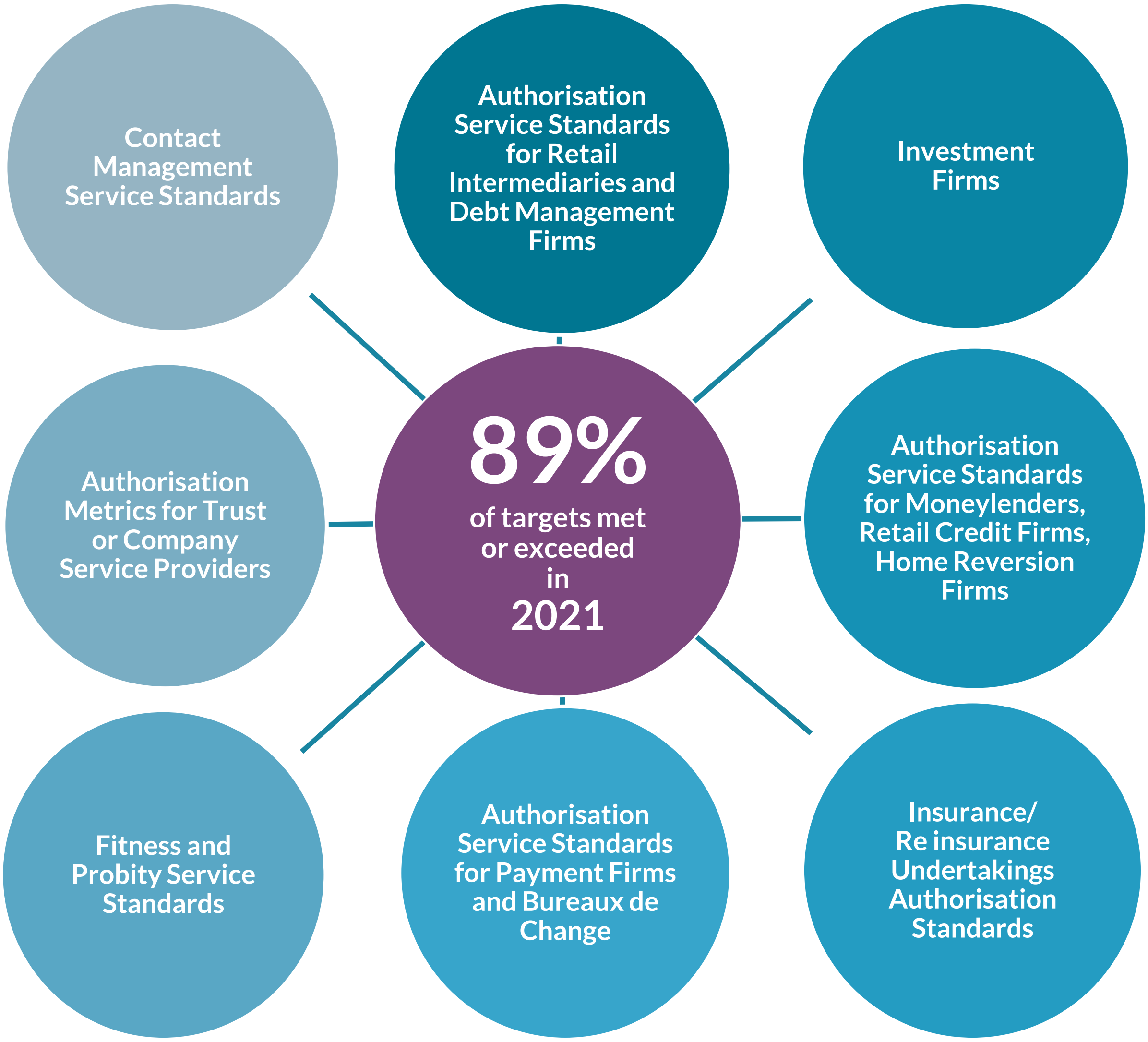
Service Standards for Processing Applications and Contact Management

The Central Bank operates a centralised and automated service for core transactions, such as fitness and probity, funds and fund service provider authorisations, passporting, returns management and contact management processes. This approach aims to support the consistency of decision-making, reduced risk and the delivery of a measurable and transparent service with consistent turnaround times. The Central Bank publishes two half-yearly reports outlining its performance against service standard commitments in respect of (i) assessment of Fitness & Probity applications, (ii) authorisation of financial service providers and investment funds and (iii) contact management services.[10] A summary of the Central Bank's performance against the service standards is set out in Figure 1 below.

[9] This section of the report addresses the Annual Performance Statement reporting obligations under Section 32L(2)(b) of the Central Bank Act 1942 (as amended).

[10] H1 Service Standards Report and H2 Service Standards Report.

Figure 1: Service Standards Achieved in 2021



Authorisations

Ireland is a global centre for financial services with innovation and new market entrants continuing to drive both its size and complexity. All regulated firms must be authorised by the Central Bank.

As part of our robust gatekeeper process the Central Bank prioritises early engagement with firms, enabling them to engage at the preliminary or speculative phase to gain information and guidance about the authorisation process. The majority of applications across sectors result in authorisations. Our authorisation standards are in line with international norms. There has been an extensive level of approvals since 2018. Resourcing is also deployed to firms who submit, but later withdraw, applications for commercial reasons. Chart 3 below indicates the regulated firms authorisation activity since 2018.

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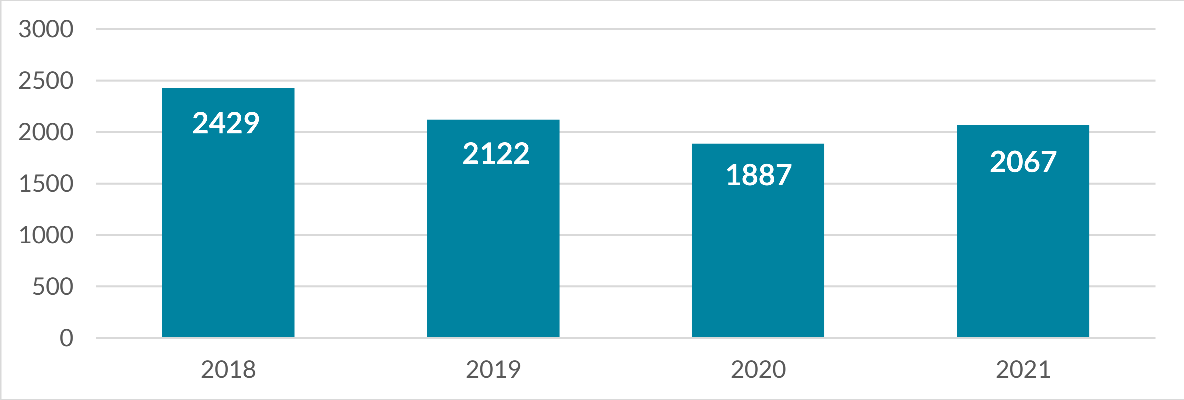
Chart 3: Authorisations Activity of Regulated Firms 2018-2021

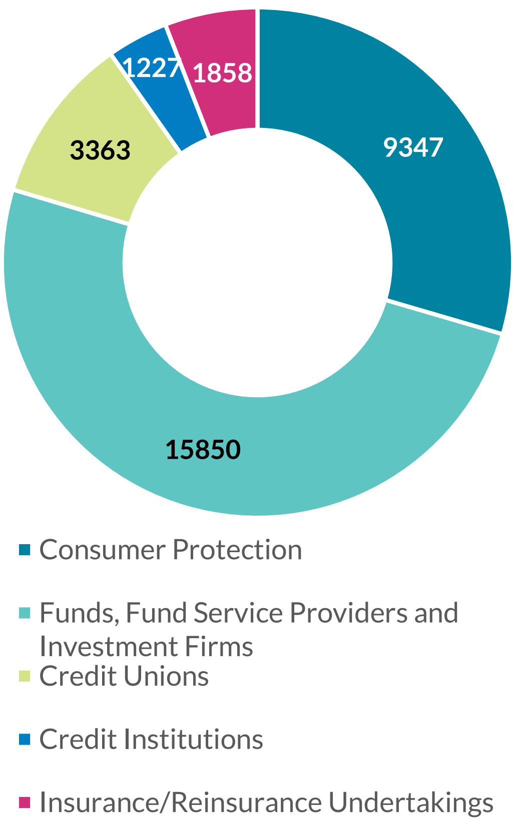


Regulatory Services

In February 2021, the Central Bank commenced processing access requests in relation to the Beneficial Ownership Register for Certain Financial Vehicles. The register identifies the ultimate owners and/or controllers of Irish Collective Asset-management Vehicles, credit unions, unit trusts, investment limited partnerships and common contractual funds and allows for specified access by the public, designated persons and competent authorities. In 2021, the Central Bank processed a total of 588 access requests.

Chart 4 highlights regulatory contacts by sector and channels. Queries during 2021 totalled 31,645, an 11% increase in volumes on the previous year. The increase in queries reflected trends seen throughout 2020 and 2021, 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 10%, from 37,834 returns due in 2020 to 41,799 returns due in 2021. The largest increase was in the area of statistical and XBRL reporting.

Chart 4: Regulatory Contacts by Sector



During 2021, 3,394 fitness and probity Pre-Approval Controlled Function (PCF) applications were assessed, representing a 4% decrease (2020: 3,553). The decrease in applications assessed was primarily due to the impact of the COVID-19 pandemic as less applications were submitted. Chart 5 provides a breakdown of fitness and probity applications by status. Of the applications that were completed in 2021, 85% were approved while 15% were either returned as incomplete or were withdrawn by the applicant (this compares with 81% and 19% respectively in 2020). In 2021, 168 applicants were involved in the fitness and probity interview process - 24 (14%) of whom withdrew their applications following this process.

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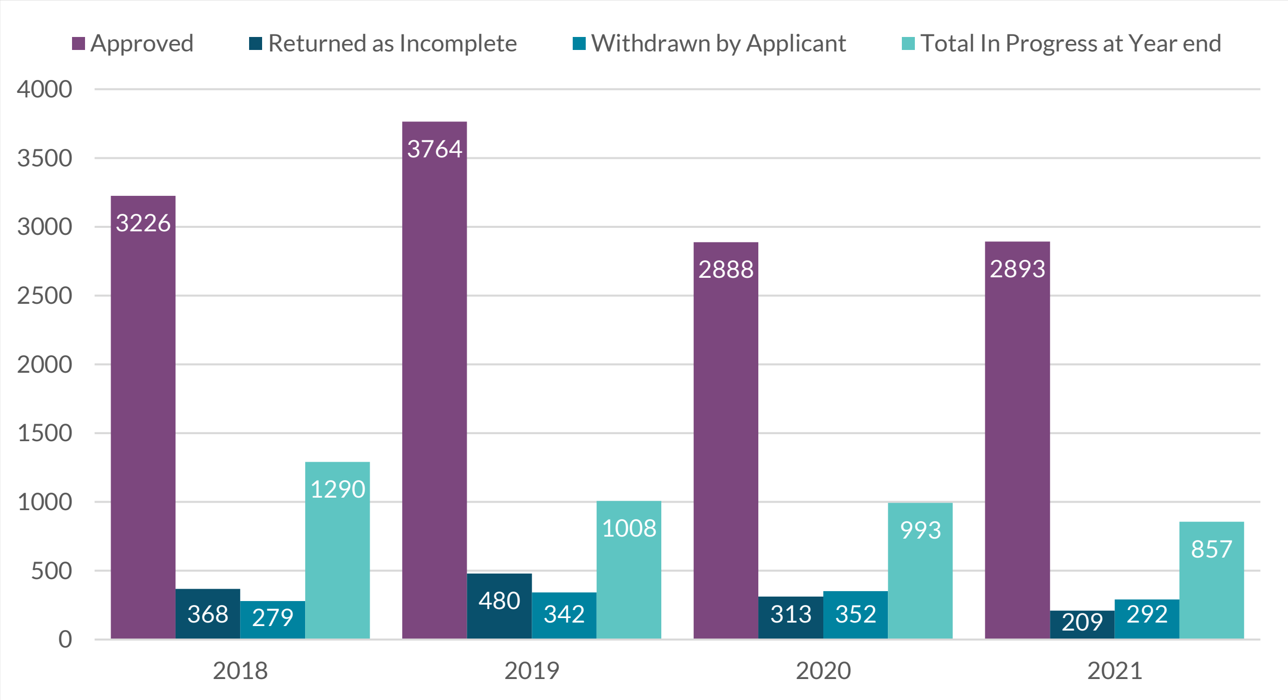
Chart 5: Fitness and Probity Applications by Status



International Peer Reviews[11]

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. Although work was initiated during 2021, no Section 32M peer reviews were completed during the period.

[11] This section of the report addresses the Annual Performance Statement reporting obligations under Section 32L(2)(c) of the Central Bank Act 1942 (as amended).

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Supporting Our Organisation

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Chapter 3: Supporting Our Organisation

People Strategy

The Central Bank's People Strategy 2019-2021 placed its people at the heart of the organisation and centred around three strategic imperatives in addition to the provision of core people services. These were (1) Capacity and Capability, (2) Organisational Culture and (3) Workplace Experience.

There was a continued focus on building talent and capability in 2021, with over 340 roles filled throughout the year. Other initiatives included the roll out of a leadership talent management framework and identification of priority organisational capabilities. A wide range of learning and development opportunities were provided including leadership development, mentoring, professional skills training, further education and the bespoke Professional Certificate and Diploma in Central Banking and Financial Regulation. The Central Bank's suite of Leadership Development Programmes were endorsed by the Irish Institute of Training & Development.

The Central Bank's culture and values were further embedded and integrated into key practices such as induction, recognition and performance management. There was a slight increase in the overall annual employee engagement survey results, with improvement in the areas of communications and involvement, strategy and direction and performance management.

The Central Bank continued to adopt a people-first approach in supporting colleagues through the pandemic and in preparations for returning to work on-site. Enhanced leadership and employee supports were provided in the areas of wellbeing, resilience and change management.

Significant progress was made in developing a future working model that creates a flexible, collaborative and integrated working environment. In preparation, a series of Future@Work Leadership Forums were held to support leaders in creating a fulfilling hybrid workplace for our people.

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Diversity & Inclusion

The Central Bank continued to strengthen its ambition for Diversity & Inclusion (D&I) by successfully delivering its Action Plan 2020-2021 and building on its commitment to fostering a workplace grounded in fairness, respect and belonging in the development of its new five-year D&I Strategy 2022-2026.

During 2021, the Central Bank's vision has been supported by the launch of a Gender Identity and Expression in the Workplace Policy, toolkit and awareness training and enhanced D&I focus within its talent acquisition process. In addition, the Central Bank published its fourth annual Gender Pay Gap Report (2.2% gap in favour of males as at 1 January 2021). The Central Bank's valuable Employee Networks continued to thrive, hosting over 40 virtual events in 2021.

Externally, the Central Bank was pleased to be a founding signatory of the Business in the Community Ireland Inclusive Workplace Pledge. It won the D&I category of the Chartered Accountants Ireland Leinster Society Published Accounts Awards and received a bronze award in the Grad Ireland Diversity Recruitment category.

Data Strategy

The Central Bank gathers, processes, and analyses a significant volume of data as part of performing its various statutory functions. Developing and maintaining its data management capabilities is, therefore, one of the Central Bank's key organisational objectives. For 2021, 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 achievements include:

- The Unity Portal has been successfully rolled out across all industry sectors with approximately 5,000 firms registered. The functionality of the portal will be enriched through future developments.

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- A new project is underway to deliver the enhanced internal platform for the management, transformation and use of data returns.
- As part of the strategy process, the future strategic roadmap has been drawn up and continues to focus on enhancing the role of data as a source of organisational intelligence.

Technology

There were a number of key technology achievements in 2021 including:

- A project commenced to select a provider for the data centre and managed services. The market has responded to the first stage of the tendering process. Work will continue through the procurement process to award the contract. This arrangement will form an important element of the provision of IT services to the Central Bank for the next 7-10 years.
- There is a continued focus on cyber security with its security operations and processes addressing the growing threat landscape. There is ongoing investment in capabilities and tooling to increase the efficiency and effectiveness in this domain.
- Additional and enhanced infrastructure has been provided to continuously improve facilities required in the hybrid working environment and to prepare for onboarding of new areas in the office campus.
- Delivery of a significant portfolio of projects remains the focus for change capability in IT. In addition to enhancing the organisational capability, this portfolio is driven by the demands arising from the growing mandate of the organisation and changing regulatory needs. The growing adoption of agile methodologies is generating significant growth in efficiencies and effectiveness.

Communications

Engaging with our people

During 2021, the Central Bank continued to prioritise clear and frequent internal communications to help connect and support staff and management during the pandemic.

A wide range of internal communications channels and forums continued virtually in 2021 for its people, including Leadership Network events, monthly briefings, lunch and learns, topical talks and "Ask Me Anything" sessions. These all helped foster a "One Bank" approach and helped to keep people aligned and informed throughout the year.

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These communications included a comprehensive video to help people understand the extensive steps being taken to support their health and wellbeing on returning to the office. It demonstrated how the working environment had changed since they began working from home and helped them to understand the safety measures in place and navigate the changed physical working environment. This video and the accompanying communications all helped alleviate concerns about the return to the office and demonstrated how the organisation was prioritising the needs of staff as part of the initial phased return in Q4 2021.

External Communication

The Central Bank continued to communicate and engage widely with the public and its key stakeholders through a variety of channels on a range of themes. While the pandemic posed challenges for some aspects of the Central Bank's traditional engagement approaches, external communications were augmented through more extensive use of digital channels for communications, outreach and consultations. Notable developments in the period include:

- The delivery of digital content through consumer explainers and videos, in particular relating to the Central Bank's role in protecting consumers from the worst impacts of the pandemic.
- Significantly increased volume of media queries and instances of direct public engagement.
- The consultation on the Central Bank's approach to stakeholder engagement (CP136).
- Timely responses to a substantial volume of Oireachtas queries and parliamentary questions.
- The Central Bank further developed its approach to public consultations with greater use of digital/online in respect of topics such as the mortgage measures (where 4,000 responses were received), the ECB Strategy review (through engagement groups) and consultation on the Central Bank's strategy formulation.
- A variety of virtual stakeholder events were held, with an overwhelmingly positive reception from stakeholder groups and Central Bank staff participants.

Complaints Handling

Complaints can be made under the Central Bank's Complaints Handling Procedure in relation to a Central Bank staff member or the way in which the Central Bank conducts its business, i.e., services received. The Central Bank also has a Disability Complaints Handling Procedure under the Disability Act 2005. The investigation of complaints about regulated firms or disclosures made under the Protected Disclosures Act 2014 are dealt with under separate procedures.

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There were 16 formal complaints processed from members of the public during 2021. Complaints were across a range of issues, with the largest number relating to issues concerning the Central Credit Register. There were no complaints received under the separate Disability Complaints Procedure.

Freedom of Information

The Central Bank processed 76 Freedom of Information requests during 2021. A total of 33 requests were granted/part-granted and 33 were refused under the various provisions of the FOI Act. In addition, 10 requests were withdrawn after engaging with the requester.

Corporate Social Responsibility

The Central Bank is committed to delivering its mission in a socially responsible and sustainable way. The 2021 CSR Annual Report captures some of the key initiatives and highlights that were progressed during the year, across the five pillars of Environment, Workplace, Community, Marketplace and Governance/Communications.

The Central Bank achieved the Business Working Responsibly Mark from Business in the Community Ireland in 2021. This accreditation provides an independent, root-to-branch review of the organisation and assesses and certifies corporate social responsibility and sustainability management system across the five pillars.

BUSINESS WORKING RESPONSIBLY

Collective Mark

Legal

The Central Bank liaised with Government Departments 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 mentioned earlier in Chapter 2 under the Regulatory Policy Development section, the Counterfeiting Act 2021 and the Consumer Protection (Regulation of Retail Credit and Credit Servicing Firms) Bill 2021.

The Central Bank continued to strengthen the regulatory framework through Central Bank Regulations in 2021 and a number of new regulations were prepared, including the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Recovery Plan Requirements for Insurers) Regulations 2021. The Central Bank also assisted with the transposition and implementation of a number of EU directives and regulations, including Regulation (EU) 2020/1503 on European crowdfunding service providers for business.

The first inquiry management meeting in respect of the inquiry into a person formerly concerned in the management of permanent tsb, took place remotely on 9 February 2022. The purpose of this meeting is to assist in the efficient running of the inquiry and to narrow the issues to be determined at inquiry to the greatest extent possible.

Premises and Facilities

Campus Development

During 2021, the Central Bank continued to progress the development of its integrated campus at North Wall Quay. Government mandated construction site shut-downs and other consequences of the pandemic continued to significantly impact on the construction and fit out programme for the new building in Mayor Street, and initial occupation of the premises remains on track for summer 2022. The approach to the sale of the Spencer Dock premises was also impacted by pandemic developments and the premises has been offered to the market in two individual lots or as one entire lot. There has been good market interest in leasing the space in the Mayor Street premises, held as a long-term investment and allocated for leasing.

Facilities Management

The Central Bank ensured its buildings and facilities remained fully operational and were safe in line with the Government Guidelines and its people first approach. There was ongoing support for the "Working from Home" model including the induction of new entrants into the organisation. This enabled 95% of staff to continue to work in locations outside of the Central Bank's premises.

The carefully planned Return to Work Programme commenced in Q4 2021. On average there were 250-300 people on site per day in the North Wall Quay premises. The feedback from staff returning was very positive and operating models performed to plan. In line with Government Guidelines, this return to the office was suspended in mid-November and the operating models were adapted to reflect the prevailing Government advice.

Environment, Health and Safety

The Central Bank operates to a certified integrated Environmental, Safety and Energy management system across all locations. Scope 1 and 2 emissions increased by 12% due to the response required to the challenges of the pandemic. A range of related indicators are measured and available on the Central Bank's website in the Environmental, Health and Safety Annual Performance Report.

Investment Portfolio Management

At end-2021, the Central Bank's balance sheet included an investment portfolio comprising assets with a market value of €17.4bn, including an allocation of €4.2bn equivalent to foreign currency denominated portfolios

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(US dollar, Australian dollar, Singapore dollar, Chinese renminbi and Korean won) for diversification purposes.[12]

The fall in the size of the investment portfolio from €18.1bn at end-2020 was mainly attributable to a reduction in the size of the hold-to-maturity portfolio following redemptions and transfers. During 2021, the Central Bank increased its holdings in Chinese renminbi via deposits with the Bank for International Settlements and invested in a Bank for International Settlements Korean won-denominated fund. The Central Bank also increased its holdings of physical gold during 2021 as part of the diversified longer-term investment strategy for the discretionary investment assets, aimed at improving balance sheet resilience.

Holding diversified assets supports investment returns and reduces overall volatility in the long run, notwithstanding some potential for variability in returns over the short-term. In addition, during 2021, the Central Bank invested in both the US dollar and euro-denominated green bond investment funds for central banks established by the Bank for International Settlements. The investments reflect the Central Bank's commitment to embedding climate change considerations in its own operations and to addressing climate risk.

The size of the investment portfolio is also subject to the Central Bank's obligations under the Eurosystem's Agreement on Net Financial Assets. However, these obligations did not contribute to any changes in 2021.[13] Total earnings on the Central Bank's investment portfolio (ex-gold and equities) amounted to €149.2m in 2021 compared to €208.2m in 2020.

[12] The figure of €17.4bn now includes gold holdings and equity allocation and the 2020 figure has been updated in this text to also reflect that change.
[13] 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

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Strategic Priorities of Financial Regulation 2022

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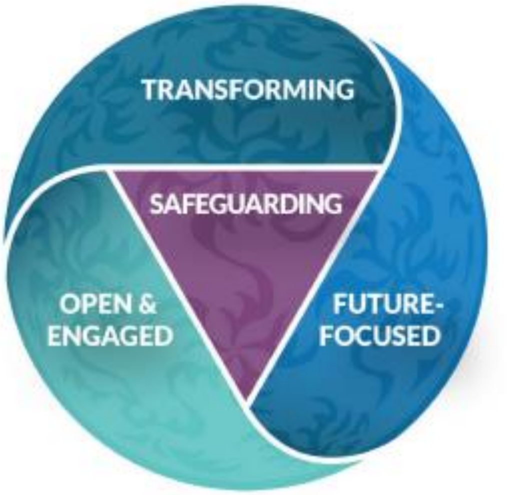
Chapter 4: Strategic Priorities of Financial Regulation 2022[14]

Strategy 2022-2026



Our Strategy highlights and responds to the dynamic and growing financial services system in Ireland. This growth presents both economic and consumer benefits, but also creates risks, frictions and increasing complexity in the financial system.

The Central Bank's priorities are informed by the demands of this changing environment, and by our focus on promoting a resilient and trustworthy financial system which sustainably serves the needs of citizens and the economy; and in which market participants adhere to appropriate standards of conduct. We aim to discharge our duties through a high-quality regulatory framework, delivering effective gatekeeping and intrusive supervision underpinned by a proportionate recourse to powers of enforcement.

Our financial regulation priorities can be grouped under the four key themes identified in our Strategy:

- The **Safeguarding** theme reflects our steadfast commitment to the effectiveness of the design, implementation and operation of our core policy and supervisory frameworks, through which we aim to deliver on our statutory functions and the best overall outcomes for financial services users and the economy.
- Under the **Future Focused** theme, we are working to ensure the financial system adapts well to the world of rapid change and disruption, so that the interests of citizens and the economy are served by change, innovation and competition. We will also continue to step up our work on climate change to both ensure the financial system can support the transition to a carbon neutral economy and is suitably resilient to the risks. [15]
- We will be **Open and Engaged** with stakeholders domestically and abroad. We will implement the enhancements in stakeholder engagement identified in the recent consultation (CP 136). This includes deepening engagement with the users and consumers of

[14] This chapter of the report addresses the Annual Performance Statement reporting obligations under Section 32L(2)(a) of the Central Bank Act 1942 (as amended).
[15] See Central Bank pledge on climate change action – November 2021.

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financial services, an Industry Stakeholder Forum, and a Financial Services Conference to be held later in the year.

- Our broad and deep mandate allows us to take a comprehensive and integrated view, using our knowledge and insights across many sectors to tackle challenges across the entire, inter-connected, financial system, including as an integral part of the EU and its institutions and frameworks. To continue delivering on the mandate, we recognise the importance of building on the foundations we have built and **Transforming** to be a more agile, diverse and intelligence-led organisation, meeting the challenges and opportunities of the rapidly changing environment.

Financial Regulation Priorities 2022

The plan and priorities for 2022 build on the significant progress that has been made in maintaining and developing the resilience and trustworthiness of the financial services system over the course of the COVID-19 pandemic. It is essential to draw on the lessons of the pandemic to consider how we assess risks and probabilities, and how we further deepen confidence, resilience and crisis preparedness.

Allied to this, we are in a period of rapid and deep technological innovation with all of the benefits that this can bring to consumers and the economy, but also the risks that need to be managed. We need to ensure that financial services play a positive role in the transition to a net zero economy, consistent with the national Climate Action Plan.

None of this can be done effectively in isolation. The Central Bank will continue to focus on being a leading contributor to EU and International regulatory development, reflecting Ireland's role as a major international financial services jurisdiction.

Amongst the initiatives that we will be taking forward this year – recognising that the design and implementation of most will be multi-year in nature - are the following:

1. **With a focus on the resilience of the financial system we will, *inter alia*:**
    - Complete the review of the macro-prudential mortgage measures, assessing the need to adapt them in light of experience and the prevailing housing context including supply, finance, and affordability.
    - Contribute to the European review of capital buffers for banks, including ensuring their usability in times of crisis and at domestic level and conclude the macro-prudential capital framework review.

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- Play a leading role in developing a macro-prudential framework for investment funds, including introducing new measures to address risks in Irish property funds.
- In the context of the rapidly changing landscape, maintain our focus on the financial and operational resilience of the financial sector. Work will include:
    - Stress testing and other financial resilience-related work across multiple sectors.
    - Supervision of business model and technology-related change, as firms implement new technologies and respond to changing customer preferences.
    - A continued focus on operational resilience, covering cyber resilience, critical infrastructure and outsourcing. [16]
- Continue to strengthen crisis management capabilities and continue to progress the resolvability of financial services firms, engaging with the Department of Finance in relation to the remaining gaps in the legislative framework.

2. **We will continue to drive for fair outcomes and consumer and investor interests to be at the centre of financial services, for example through:**
    - Focused thematic reviews across the key risks identified through the annual consumer and investor risk assessments.
    - Extensive supervisory engagement across relevant areas, including business interruption insurance, long-term mortgage arrears and oversight of the withdrawal of two retail banks from the Irish market, and customer migration to new service providers.
    - Publishing a discussion paper on the Review of the Consumer Protection Code and engaging widely with stakeholders on it. The discussion paper will examine the role of consumer protection in supporting a well-functioning financial system and the balance of key aspects such as trust, innovation, and predictability.
    - Adapting the regulatory framework to implement the new legislation on Crowdfunding and Hire Purchase, Personal Contract Plans, and Buy-Now-Pay-Later products while also feeding the Central Bank's supervisory experience into the consideration of ongoing reviews of legislation at domestic and EU-level across funds, investment firms, banking and insurance.

[16] Expectations of firms are outlined in the recently completed guidelines on (i) Outsourcing and (ii) Operational Resilience.

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- Overseeing the implementation of the Differential Pricing Regulation for non-life insurance.
- Continuing to enhance the reports from the National Claims Information Database to support the wider policy agenda towards a better functioning non-life insurance sector.
- Continuing to improve the financial services sector's approach to anti-money laundering/countering financing of terrorism, while preparing for the forthcoming significant changes in approach at a European level.

3. **In the context of the rapid change and the associated opportunities and risks, we will continue to evolve regulatory frameworks and supervisory approaches to ensure that the interests of citizens and the economy are well served by change, innovation and competition in the financial sector. Relevant work this year includes:**
    - Authorisation of new firms – we will continue to prioritise authorisation work across multiple sectors, recognising the benefits of innovation, disruption and competition, but also the importance of protecting consumers of financial services. In line with Our Strategy, the Central Bank will continue to engage openly and apply clear and consistent standards and processes for firms seeking authorisation.
    - Review the functioning of the Innovation Hub to support engagement between the Central Bank and innovators.
    - Work to evolve the regulatory framework to reflect advances in crypto technology and distributed finance. We will continue to support the Department of Finance in finalising negotiations on the Markets in Crypto Assets Regulation Proposal and the Digital Operational Resilience Act and will prepare for their implementation in Ireland.
    - Develop authorisation criteria for funds offering crypto asset investments.
    - Commence a public discussion exercise on the Consumer Protection Code to ensure the Code remains fit for purpose for the years ahead.
    - Enhance the payments environment - this will include participating in the work to consider issuing a digital euro; promoting low-cost instant payments domestically and across Europe; and contributing to the review of the Payment Services Directive and the functioning of open banking.

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4. **Continue to enhance the governance of financial services firms and individuals' accountability for the actions they take through:**
   - Supporting the Department of Finance in the legislative process to introduce the Individual Accountability Framework. [17]
   - Using the full supervisory toolkit, including enforcement powers, in support of the high quality functioning of the financial system.
   - Adopting a targeted and proportionate approach to enforcement action to address serious breaches of regulatory requirements in order to deter misconduct and promote compliance in the financial services sector.
5. **Support the transition to a carbon-neutral economy through:**
   - Continuing to adapt supervision to ensure that financial firms are adapting business models and building resilience in the face of growing climate and transition risks.
   - Focusing on the development and marketing of 'green' financial services products and services such that they are meeting high standards of quality and disclosure.
   - Learning from, contributing to and applying international best practices and the development of relevant regulation and guidelines through participation in the Network for the Greening of the Financial System and work in the European Supervisory Authorities.
6. **Be open and engage domestically and internationally to continue to enhance the regulatory framework, the execution of supervision and the continued building of the reputation and credibility of Ireland as a leading financial services jurisdiction. We will be directly engaged with the Department of Finance on a number of legislative developments, including:**
   - Anti-Money Laundering/Countering the Financing of Terrorism Regulation, and preparing for the new EU infrastructure, which will mark a structural sea change in the European approach to the underlying risks.
   - Revisions to: the capital requirements framework for banks (CRR3/CRD6), the solvency framework for insurers (Solvency II review), the Alternative Investment Funds Directive (AIFMD), the Markets in Financial Instruments Regulation and Directive (MiFID II review) and work on the review of the second Payment Services Directive (PSD2 review).

[17] A consultation paper will be issued setting out the proposed supporting regulation and guidance immediately following the passage of the legislation.

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The Central Bank's work in the European Supervisory Authorities, the European Systemic Risk Board, the Single Supervisory Mechanism, the Financial Stability Board, the International Organisation of Securities Commissioners, the International Association of Insurance Supervisors, and the Network for the Greening of the Financial System includes all of the above and the following:

- Enhancement of the regulatory framework for investment funds.
- Engagement in initiatives to harness the benefits of technological innovation for consumers, investors, and the economy.
- Regulatory and supervisory change to support the transition to a net zero economy.
- Implementation of an international capital standard for insurers.

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Chapter 5: Internal Audit Statement

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Chapter 5: Internal Audit Statement[18]

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 2021, IAD conducted a range of reviews on supervisory activities, central banking functions, IT and other operational functions. These reviews included a continued focus on the potential for increased operational risks due to COVID-19.

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 March, the Audit Committee approved IAD's 2021-2023 Audit Divisional Strategy. Additionally in November, the Audit Committee approved the rolling three-year Audit Plan.

Along with colleagues from other national central banks, 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 findings. 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.

[18] This chapter also addresses the Annual Performance Statement reporting obligations under Section 32L(3)(a) of the Central Bank Act 1942 (as amended).

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Chapter 6:
Governance

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Chapter 6: Governance

This section sets out the processes applicable to the governance of the Central Bank during 2021.

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 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 Commission has adopted its own Terms of Reference, which set out how it can best deliver on those responsibilities. Further information on the Commission is contained in the Commission Members' Report, which forms part of the Annual Accounts in Part 2 of this report.

Commission Membership and Gender Balance

The Central Bank 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-2021 there were six appointed members. Further details on the statutory functions of the Commission and its members can be found on the Central Bank website.

The gender balance of the Commission at end-2021 was 60% male and 40% female. Of the appointed members, the gender balance is 50% male and 50% female. When making the most recent 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 published Code of Practice for the Governance of State Bodies' Annex on Gender Balance, Diversity and Inclusion.

Organisational Structure

The Act sets out the Central Bank's functions and provides for the structures within which the Central Bank carries out such functions. These functions also 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 Central Bank Commission is, in the first instance, tasked with the performance of most of the Central Bank's functions (with the exception of ESCB functions and resolution functions). However, this is subject to statutory delegations and assignment of responsibility.

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

Governance Framework

The Central Bank's Governance Framework document takes account of the requirements of the Central Bank Acts and the EU Treaties, the Code of Practice for the Governance of State Bodies, and other internal governance arrangements.

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 the development and implementation of policies and advising on major issues. The Central Bank's committee structure comprises both operational and mandate-related committees, which contribute, among other things, towards the development and execution of the Central Bank's strategy, risk appetite and organisational culture.

More details on the internal governance structures and the various Committees can be found on the Central Bank website.

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.

During 2021, the Commission engaged in the formulation of the Central Bank's new Strategic Plan 2022-2026, which was published in November 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 on the regulation of financial services for submission to the Minister for Finance by 30 April each year.

Appearances before 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, including relating to the Annual Performance Statement, and to provide that Committee with information as it requires, subject to the Treaty on the Functioning of the EU and the ESCB Statute and to the Central Bank's professional secrecy and confidentiality obligations.

In 2021 the Central Bank made six separate appearances before Oireachtas Committees.

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 national central bank, or another person or body whom the Governor has certified as appropriate, following consultation with the Minister.

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 developing our Strategy, we considered our role under the Public Sector Human Rights and Equality Duty, and conducted an assessment of the equality and human rights issues relevant to our purpose and functions. We were also informed by feedback on our public sector duty obligations received from our internal and external stakeholders.

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Details of the specific actions we will prioritise in the context of our public sector duty obligations are set out in our Strategy.

In 2021, we also conducted an annual assessment of our public sector duty actions as set out in our previous Strategic Plan 2019-2021. This assessment concluded that, across all of the relevant functions identified, there continues to be a range of policies and procedures in place to ensure that the Central Bank is addressing the human rights and equality issues relevant to our public sector duty.

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

Gabriel Makhlouf	**Neil Whoriskey**
Governor	Secretary
29 April 2022	29 April 2022

Part 2:
Financial Operations

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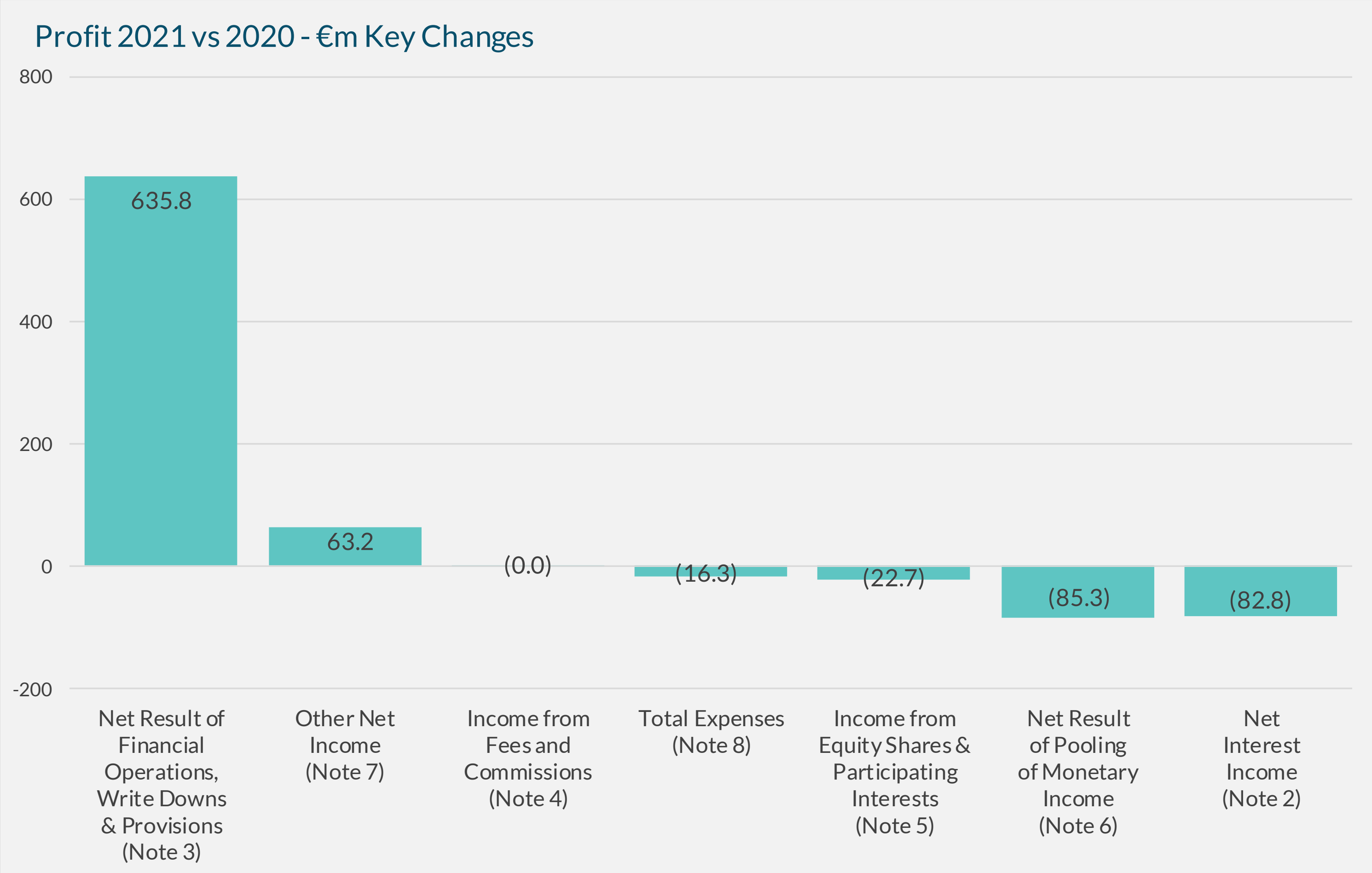
Part 2: Financial Operations

Financial Results for 2021

Profit and Loss – Key Movements



Profit for the year to 31 December 2021 amounted to €1,321.5m, an increase of €491.9m against a corresponding amount of €829.6m in 2020.

The main drivers of this increase in profits are:

- Increase in “Net Realised Gains arising from Financial Operations” due to increased sales of securities held in the Central Bank’s Special Portfolio.
- Increased “Other Net Income” due to increases in financial regulation monetary penalties and financial regulation industry funding levy and a decrease in interest on pension scheme liabilities.

Offset by:

- A reduction in “Net Interest Income” due to increased expenses on targeted longer-term refinancing operations (TLTRO) lending,

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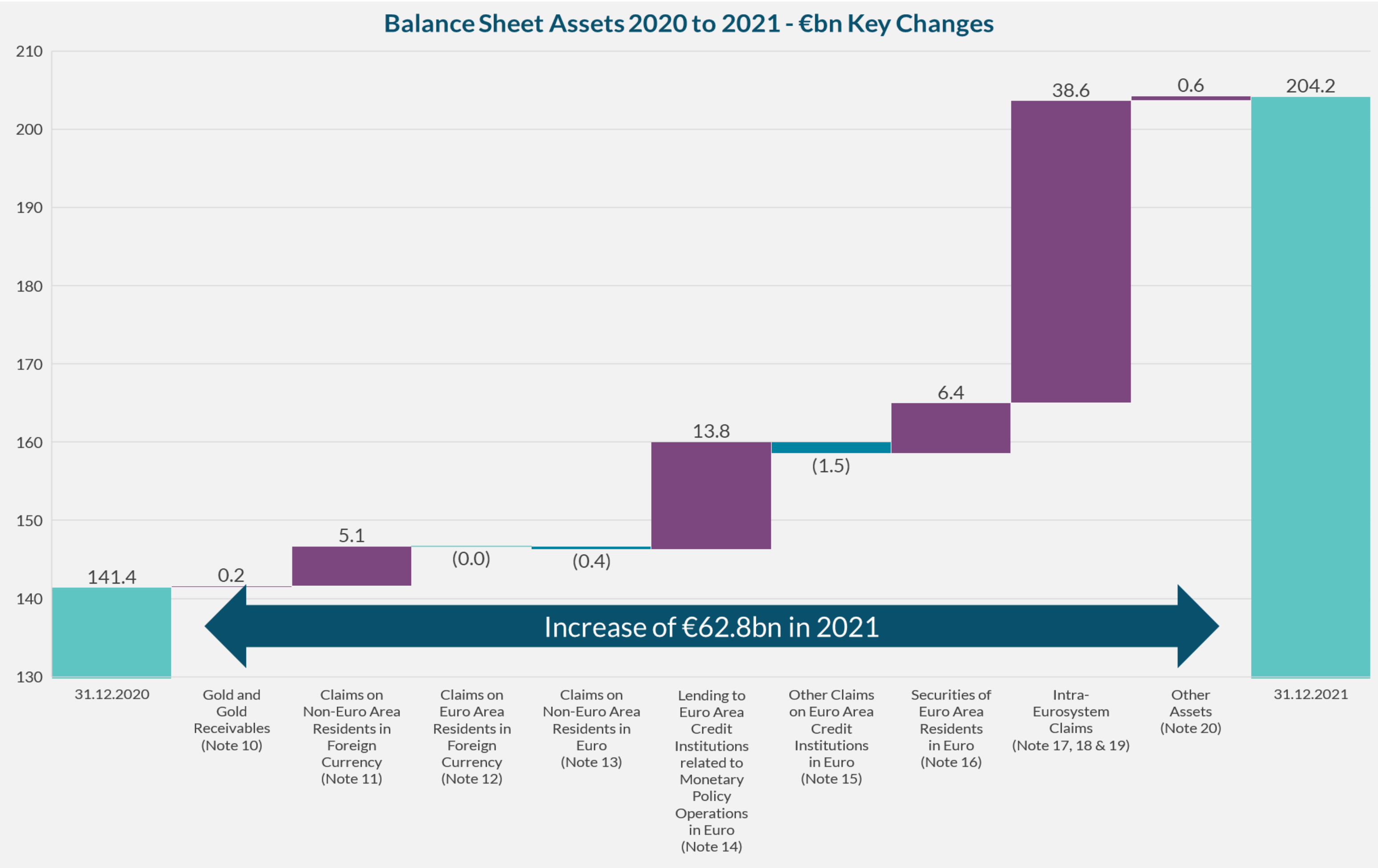
lower income and higher expenses on the monetary policy portfolio securities, lower interest earned due to sales of the Special Portfolio securities and lower holdings in the held-to-maturity (HTM) portfolio due to bonds maturing.

- A decrease in the "Net Pooling of Monetary Income" due to an increase in the net payment due to the ECB compared to 2020 largely relating to increased TLTRO lending throughout the Eurosystem.
- A decrease in "Income from Equity Shares and Participating Interests" due to a reduced profit distribution by the ECB compared to 2020 due to a decrease in its overall profits.

Balance Sheet

Total Balance Sheet Assets / Liabilities as at 31 December 2021 were €204.2bn, an increase of €62.8bn against a corresponding balance of €141.4bn in 2020.

Balance Sheet Assets – Key Movements



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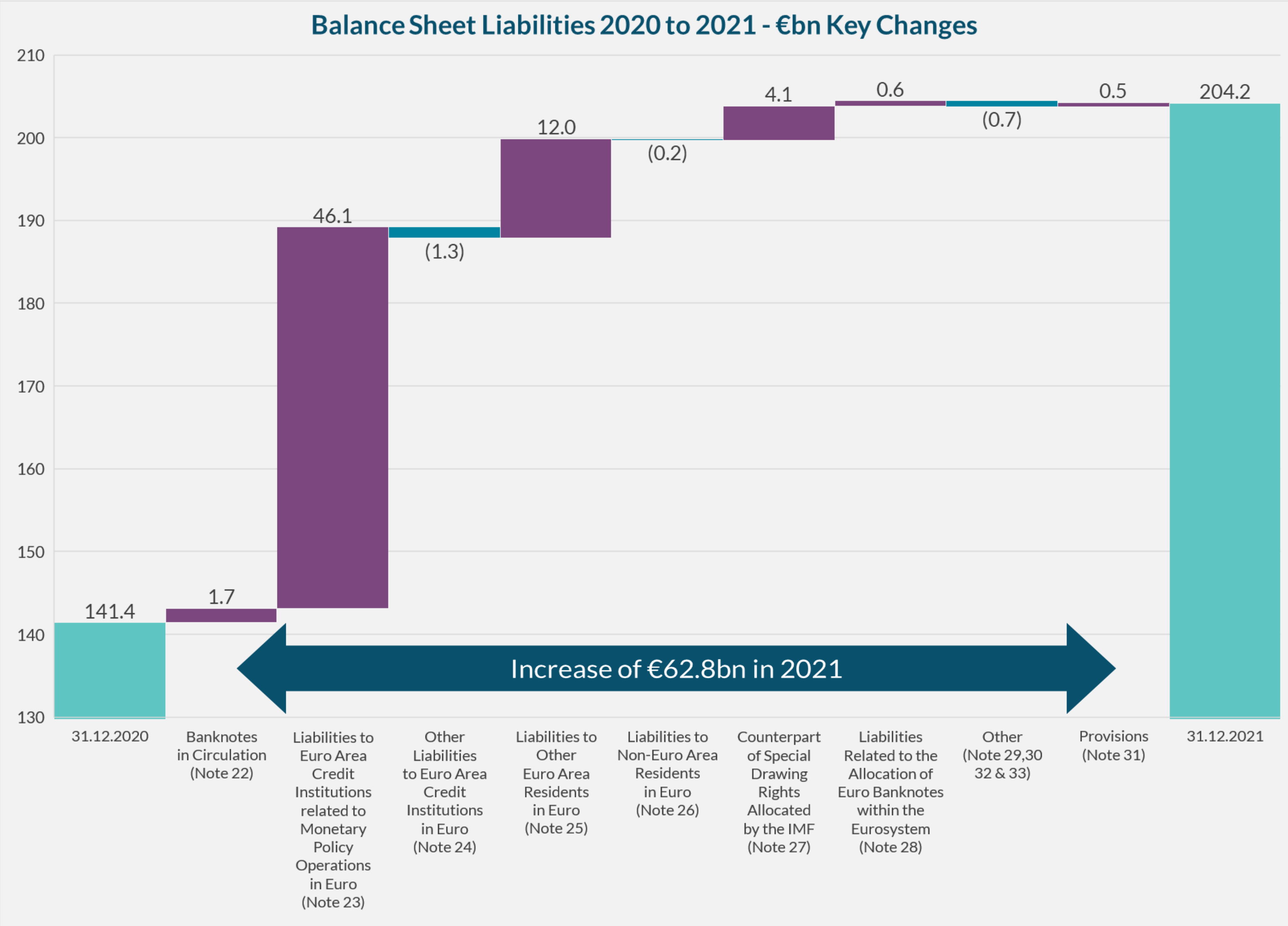
The main drivers of this increase in the Balance Sheet Assets are:

- Credit institution reserve accounts increased and as a result "Intra-Eurosystem Claims" increased.
- An increase in "Lending to Euro Area Credit Institutions related to Monetary Policy Operations" due to the introduction of the TLTRO-III operations and the special interest rate on these operations.
- An increase in "Securities of Euro Area Residents in Euro" due to an increase in Monetary Policy holdings largely as a result of increased purchases under the pandemic emergency purchase programme (PEPP) portfolio.
- An increase in "Claims on Non-Euro Area Residents in Foreign Currency" due to a general allocation of special drawing rights (SDRs) by the IMF and an increase in foreign currency deposits.

Balance Sheet Liabilities – Key Movements



The main drivers of this increase in the Balance Sheet Liabilities are:

- An increase in "Liabilities to Euro Area Credit Institutions related to Monetary Policy Operations in Euro" as a result of the introduction of the two-tier system for reserve remuneration resulting in credit institutions being able to hold reserves of excess liquidity up to six times greater than their minimum reserve requirement without incurring interest charges.
- An increase in "Liabilities to Other Euro Area Residents in Euro" due to an increase in government deposits.
- An increase in "Counterpart of Special Drawing Rights allocated by the IMF" due to a general allocation of SDRs by the IMF.

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Statement of Accounts of the Central Bank of Ireland

for the year ended 31 December 2021

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

Governance Statement and Commission Members' Report

Introduction

The functions of the Central Bank are set out in section 5A of the Central Bank Act 1942 (as amended) (the Act). The functions of the Central Bank's Commission (the Commission) are set out in section 18B of the Act, which 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 coordinated 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 for the assignment of such responsibilities (most recently reviewed and approved in July 2019). 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,

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supports and constructively challenges them as appropriate. It also approves the Central Bank's strategy and reviews its implementation on a bi-annual basis.

Commission Responsibilities

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

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

The Commission is satisfied that the ESCB Accounting Guideline (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. [19]

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.

[19] 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.

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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 2021 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
Patricia Byron[20]	1 January 2019
Shay Cody	1 December 2020
Sharon Donnery*[21]	1 March 2021
John Hogan*[22]	8 June 2021
Sarah Keane	1 December 2020
David Miles	1 December 2020
Niamh Moloney	11 September 2018
Derek Moran*[23]	15 July 2014
Ed Sibley*	1 September 2017
John Trethowan	11 September 2018

** Ex-officio members*

This membership is in line with the requirement to have regard to the skills, diversity and gender mix within State Boards in the Annex on Gender Balance, Diversity and Inclusion under the Code of Practice for the Governance of State Bodies (the Code).

Committees of the Commission

In January 2021, the Commission reviewed its sub-committee structures. It approved the continuance of the Audit and Risk Committees, the dis-establishment of the Budget and Remuneration Committee and the establishment of two new committees - Remuneration Committee and a Major Projects Committee (the latter to be established at a later date, pending the development and finalisation of the new Strategy). The following committees were in place at year-end:

- Audit Committee
- Remuneration Committee

[20] Patricia Byron was first appointed on 1 January 2014, and was reappointed on 1 January 2019.
[21] Sharon Donnery was first appointed on 1 March 2016, and was reappointed on 1 March 2021.
[22] John Hogan is the Secretary General of the Department of Finance.
[23] Derek Moran's term as a Commission member ended on 7 June 2021 given his retirement as Secretary General of the Department of Finance.

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- Risk Committee.

Audit Committee

The Audit Committee is appointed by the Commission and comprises three non-executive members. The membership of the Audit Committee, as at 31 December 2021, comprised Patricia Byron (Chair), Shay Cody and John Trethowan.

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

Remuneration Committee

The Remuneration Committee was established by the Commission during 2021, and comprises three non-executive members. The membership of the Remuneration Committee, as at 31 December 2021, comprised Niamh Moloney (Chair), Sarah Keane and David Miles.

The Commission has established the sub-committee to provide support to the Commission in meeting its responsibilities for issues relating to remuneration policy and remuneration. It was established following a review of sub-committees undertaken by the Commission in January 2021. It carries over the responsibilities relating to remuneration that were previously discharged by the Budget and Remuneration Committee, which was stood down in 2021. Budgetary items are now considered directly at Commission level.

Risk Committee

The Risk Committee is appointed by the Commission and comprises seven members - four non-executive members, two executive members (the Deputy Governors of Central Banking and Prudential Regulation) and the Chief Operations Officer. The membership of the Risk Committee, as at 31 December 2021, comprised John Trethowan (Chair), Patricia Byron, Sharon Donnery, David Miles, Niamh Moloney, Gerry Quinn and Ed Sibley.

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. The Committee achieves this through reviewing the comprehensiveness, reliability and integrity of assurances to the Commission.

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Schedule of Attendance

A schedule of attendance at the Commission and Committee meetings for 2021 is set out below.

Commission Member	Commission	Audit Committee	Risk Committee	Remuneration Committee	Joint meetings of Audit and Risk Committees
Gabriel Makhlouf	9/9	-	-	-	-
Patricia Byron	9/9	4/4	2/2	-	1/1
Shay Cody	9/9	3/4	-	-	1/1
Sharon Donnery	9/9	-	6/6	-	1/1
John Hogan	4/5	-	-	-	-
Sarah Keane	9/9	-	-	1/1	-
David Miles	9/9	-	6/6	1/1	1/1
Niamh Moloney	9/9	-	5/6	1/1	1/1
Derek Moran	4/4	-	-	-	-
Ed Sibley	8/9	-	5/6	-	1/1
John Trethowan	9/9	4/4	6/6	-	1/1

Membership Changes

Derek Moran retired as Secretary General of the Department of Finance in 2021. He was succeeded by John Hogan who was appointed Secretary General on 8 June 2021 and therefore became a member of the Commission from this date. Sharon Donnery was reappointed as Deputy Governor, Central Banking, on 1 March 2021 and therefore remains in her position as Commission member.

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

The following disclosures are included in Note 8 – "Total 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 2021.

Statement of Compliance

The Commission has adopted the Code, adapted in some instances to take account of the Central Bank's particular governance framework and the statutory requirements of the Central Bank Acts and the ESCB Treaties, including the requirement for the Central Bank to be independent. The Commission has put procedures in place to ensure the application of relevant provisions with the Code. In that context, each provision has been assessed, and the Central Bank is either currently 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.

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.

Gabriel Makhlouf
Governor

Patricia Byron
Member of the Commission

5 April 2022

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 2016 (the Code). In some instances, the Code was adapted to take account of the Central Bank's particular governance framework and the statutory requirements of the Central Bank Acts and the ESCB Treaties, including the requirement for the Central Bank to be independent. 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 2021. 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 2021, 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, 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.

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 as indicated above; 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

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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.
- **Data Protection:** Control measures designed to ensure that the privacy rights of subjects are protected in accordance with relevant regulatory requirements.
- **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.

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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 Central Bank's 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, Commission Committee or an employee of the Central Bank. The Commission cannot delegate to a committee any function of the Central Bank that a provision of the Act requires the Governor to perform. 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

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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, 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.

In January 2021, the Commission reviewed its sub-committee structures. It approved the continuance of the Audit and Risk Committees, the dis-establishment of the Budget and Remuneration Committee and establishment of two new sub-committees - Remuneration Committee and a Major Projects Committee (the latter to be established at a later date, pending the development and finalisation of the new Strategy). The responsibilities of the Audit Committee include the oversight and review of the Statement of Accounts, the external auditors, internal audit and risk management, compliance and internal control, and governance oversight. The responsibilities of the Risk Committee include the review of the Central Bank's current risk exposures and risk management strategy, and monitoring of the internal control environment. The responsibilities of the Remuneration Committee include oversight of the remuneration policy, and remuneration. It carries over responsibilities relating to remuneration which were previously discharged by the Budget and Remuneration Committee, which was stood down in 2021. Budgetary matters are now considered directly at Commission level.

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.

The framework includes an internal committee structure and an internal executive structure, which provides oversight. 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. Other executive-level committees, as set out in the framework also support the Central Bank's control environment.

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

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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 for 2019–2021 is set out in two parts. Part one sets out the Central Bank's strategic objectives as they align to five strategic themes, which are Strengthening Resilience, Brexit, Strengthening Consumer Protection, Engaging and Influencing and Enhancing Organisational Capability. Part two of the Strategic Plan sets out the Central Bank's strategic objectives under its statutory objectives, its organisational objectives and a review of the Strategy 2016-2018. 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 Executive Leadership Committee on a bi-annual basis. The SIM is also reviewed bi-annually by the Commission. As 2021 is the final year under the current Strategic Plan a review of the progress and completion status of the Central Bank's Strategic Plan 2019-2021 has been carried out and reviewed by the Executive Leadership Committee and Commission in January 2022.

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.

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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, there are quarterly reviews that consider the risk profile relative to the thresholds set out within the RAF. Allied to the RAF is the requirement to ensure accurate identification and assessment of risk, as this provides the basis for comparing risk profile exposures to the RAF, and consequently determining where deviations are or have the potential to become of risk management concern. The 2021 annual review of the RAF has been deferred due to divisional reprioritisation and will now be completed in 2022. However, the Commission approved Risk Appetite Framework continues to be applied and reported on quarterly.

Strategic Risk Assessment

From a top-down enterprise level, a Strategic Risk Assessment (SRA) is periodically 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. Following the development of the new Strategy, the methodology for the SRA is being defined and will result in the SRA being prepared for review by the Commission at the beginning of H2 2022.

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

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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 1998-2018 and the General Data Protection Regulation (the GDPR) outlines the various obligations in which personal data should be processed. The Central Bank has developed a Data Protection Policy, Personal Data Operating Framework and associated operating procedures to ensure compliance with these requirements. These document the roles and responsibilities in relation to data protection, and outline how the key principles of data protection are implemented in the Central Bank. In accordance with the GDPR requirements, the Central Bank has appointed a Data Protection Officer (DPO), whose role includes; provision of data advice, monitoring and assessing compliance with the data protection obligations, coordinating any data protection related incidents, responding to access requests and to regularly report to oversight committees.

In the period under review, the Central Bank identified the need to further enhance its control measures in respect of personal data retention and the oversight of third parties processing personal data on its behalf. Targeted remediation measures have been initiated in respect of these aspects of the Personal Data Operating Framework, and the RMC and Risk Committee of the Commission have been updated on the status of these measures.

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.

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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.
- 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 the Audit Committee periodically. The Central Bank did not award any non-compliant contracts in 2021. During 2021, no expenditure was incurred on the one pre-existing non-compliant contract (2020: €0.02m across two contracts). This represents 0.00% of the Central Bank's committed spend (2020: 0.03%). The remaining contract will run to term on completion of services. A breakdown of these non-compliant contracts is provided in the table below.

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. Spend on this contract was €10,183,673 (ex VAT) in 2021 and €1,106,635 (ex VAT) in the period 17 November to 31 December 2020.

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Table 1.1 Breakdown of Non-Compliant Contracts

Reason for direct award	Number of contracts 2021	Spend € 2021	Number of contracts 2020	Spend € 2020
Sensitive or confidential nature of work prohibited a competitive tender process	1*	0	1	0
Rollover of existing contract pending conclusion of tender process	0	0	2	24,369
Rollover of existing contract which will run to term	0	0	0	0
Total	**1**	**0**	**3**	**24,369**

**At the end of 2021, 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 Management and members of the Commission. The activities of IAD are guided by its Internal Audit Charter and Annual Audit Plan that are approved by the Audit Committee. IAD evaluates compliance with the Central Bank's policies and procedures and applicable laws and regulations, and provides independent and objective assurance on the adequacy and effectiveness of risk management, System of Internal 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 2021. 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 2022. This review of the effectiveness of the System of Internal Controls included:

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- 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.
- Consideration of maintaining effective internal controls whilst managing the ongoing impacts of the COVID-19 pandemic:
    - Changes to the working model in response to the Covid-19 crisis and its aftermath (future of work) are being managed within a structured change management project, with senior executive oversight.
    - The Central Bank has continued to apply all of its risk management frameworks in the context of the extended remote working. This has included the second line division completing a quality assurance exercise of fraud risks during 2021 and a development of a Living with COVID model for time critical market operations.
    - There has been a continued focus on cultivating an effective risk culture, through director and management team risk cascades, risk coordinator training, and ongoing information security awareness initiatives.

Based on the above, the Central Bank considers that its System of Internal Controls for the financial year ending 31 December 2021 is effective.

Gabriel Makhlouf
Governor

Patricia Byron
Member of the Commission

5 April 2022

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PROFIT AND LOSS AND APPROPRIATION ACCOUNT FOR YEAR ENDED 31 DECEMBER 2021

	Note	2021 €000	2020 €000
Interest income	2	1,017,413	946,432
Interest expense	2	(214,019)	(60,265)
Net interest income	2	803,394	886,167
Net realised gains arising from financial operations	3	1,273,644	652,206
Write-downs on financial assets and positions	3	(13,054)	(131,121)
Transfer to provisions	3	(502,214)	(398,447)
Net result of financial operations, write-downs and provisions	3	758,376	122,638
Income from fees and commissions	4	3,258	3,262
Income from equity shares and participating interests	5	14,385	37,122
Net result of pooling of monetary income	6	(166,015)	(80,742)
Other net income	7	264,182	201,024
Funding levy income		192,001	174,401
Other		72,181	26,623
TOTAL NET INCOME		1,677,580	1,169,471
Staff expenses	8	(255,800)	(232,122)
Other operating expenses	8	(77,429)	(81,972)
Depreciation	8	(15,033)	(14,609)
Currency production raw materials	8	(7,851)	(11,159)
TOTAL EXPENSES	8	(356,113)	(339,862)
PROFIT FOR THE YEAR BEFORE UNREALISED GAIN MOVEMENTS, ACTUARIAL GAIN/(LOSS) AND APPROPRIATION OF PROFIT		1,321,467	829,609
Net movement in unrealised gains	32	(1,662,206)	(240,523)
Transfers to revaluation accounts	32	1,662,206	240,523
Actuarial gain/(loss) on pension scheme	30	261,851	(216,134)
Transfer of retained profit to general reserve	33	(515,745)	(163,906)
Transfer from reserves	33	-	216,134
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	9, 29	1,067,573	665,703

The accounting policies together with Notes 1 to 41 form part of these accounts.

Gabriel Makhlouf
Governor

5 April 2022

Sharon Donnery
Deputy Governor
Central Banking

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BALANCE SHEET AS AT 31 DECEMBER 2021

ASSETS	Note	2021 €000	2020 €000
Gold and gold receivables	10	**492,855**	**299,039**
Claims on non-euro area residents in foreign currency	11	**10,847,854**	**5,747,665**
Claims on euro area residents in foreign currency	12	**189,539**	**229,401**
Claims on non-euro area residents in euro	13	**1,904,463**	**2,263,577**
Lending to euro area credit institutions related to monetary policy operations in euro	14	**21,048,400**	**7,288,900**
Other claims on euro area credit institutions in euro	15	**2,489,097**	**3,988,928**
Securities of euro area residents in euro	16	**79,219,600**	**72,776,455**
Securities Held for Monetary Policy Purposes		61,903,311	49,533,972
Other Securities		17,316,289	23,242,483
Intra-Eurosystem claims		**85,514,733**	**46,974,026**
Participating interest in ECB	17	226,940	216,609
Claims equivalent to the transfer of foreign reserves	18	683,175	683,175
Other claims within the Eurosystem (net)	19	84,604,618	46,074,242
Other assets	20	**2,459,935**	**1,839,518**
Total Assets		**204,166,476**	**141,407,509**

The accounting policies together with Notes 1 to 41 form part of these accounts.

Gabriel Makhlouf
Governor

5 April 2022

Sharon Donnery
Deputy Governor
Central Banking

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BALANCE SHEET AS AT 31 DECEMBER 2021

LIABILITIES	Note	2021 €000	2020 €000
Banknotes in circulation	22	24,061,535	22,349,697
Liabilities to euro area credit institutions related to monetary policy operations in euro	23	108,147,764	62,073,627
Other liabilities to euro area credit institutions in euro	24	1,779,277	3,101,460
Liabilities to other euro area residents in euro	25	31,239,889	19,229,123
Liabilities to non-euro area residents in euro	26	10,580	186,200
Counterpart of special drawing rights allocated by the IMF	27	5,044,920	913,917
Liabilities related to the allocation of euro banknotes within the Eurosystem	28	20,219,846	19,599,173
Other liabilities	29	1,517,401	958,969
Retirement benefits	30	663,141	868,570
Provisions	31	1,806,231	1,304,420
Revaluation accounts	32	4,176,055	5,838,261
Capital and reserves	33	5,499,837	4,984,092
Total Liabilities		**204,166,476**	**141,407,509**

The accounting policies together with Notes 1 to 41 form part of these accounts.

Gabriel Makhlouf
Governor

5 April 2022

Sharon Donnery
Deputy Governor
Central Banking

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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.[24] Article 27.1 of the Statute of ESCB and of the ECB requires the appointment of independent external auditors.

(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.[25, 26] The Central Bank's Statement of Accounts are 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.[27] The Financial Reporting Standard applicable in the UK and Republic of Ireland is

[24] 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 2021 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.

[25] 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.

[26] 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.

[27] 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.

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Financial 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*[28]

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

[28] 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).

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business days), as opposed to the regular approach whereby transactions are booked on the trade date.[29]

(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 19(i)), and give rise to bilateral balances in the TARGET2 accounts of EU NCBs.

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, administration of borrowing and lending operations with the Eurosystem including repayments in connection with the Support to mitigate Unemployment Risks in an Emergency Programme (SURE)), 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 19). Intra-ESCB balances versus non-euro area NCBs arising from TARGET2 are disclosed under "Liabilities to Other Euro Area Residents in Euro" (Note 25) and "Liabilities to Non-Euro Area Residents in Euro" (Note 26) respectively.

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 22, Note 28).

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 17).

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 18).

(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

[29] 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.

national size of EU Member States and is a 50:50 composite of Gross Domestic Product and population size. Pursuant to Article 28 of the ESCB Statute, the ESCB NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which must be adjusted every five years. 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, as a result the Central Bank's share of the ECB's subscribed capital increased from 1.1754% to 1.3772%.

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.[30] 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.[31]

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 22).

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation gives rise to remunerated Intra-Eurosystem balances. These claims, in the case of a shortfall of issuance relevant to the banknotes allocation key, are presented on the Balance Sheet under "Other Claims within the Eurosystem (net)" (Note 1(c)(ii), Note 19). The liabilities, in the case of excess issuance relevant to the banknote allocation key, are presented on the Balance Sheet under "Liabilities Related to the Allocation of Euro Banknotes within the

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[30] 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.

[31] 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 %).

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Eurosystem" (Note 1(c)(ii), Note 28). Interest is received on the shortfall and paid on the excess issuance on a quarterly basis.[32] This is cleared through the accounts of the ECB and included in "Net Interest Income" (Note 2) 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.[33] 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 5(i), Note 19(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 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

[32] 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.
[33] 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).

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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. [34, 35, 36, 37]

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 6(i)).

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

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[34] 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.

[35] 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.

[36] 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.

[37] 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.

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 18).

(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 20(xi)) or "Other Liabilities" (Note 29) 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 "Net Interest Income" (Note 2).

(ix) *Securities Held for Monetary Policy Purposes*

These securities were acquired by the Central Bank within the scope of the purchase programme for CBPP3, debt securities acquired in the scope of

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the SMP, the PSPP, and the PEPP.[38, 39, 40, 41] The securities are measured at amortised cost and are subject to impairment (Note 2(ii), Note 16(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.

(x) *Special Drawing Rights (the 'SDRs') and the International Monetary Fund (the 'IMF')*

SDRs are treated as a currency for accounting purposes and are disclosed under "Claims on Non-Euro Area Residents in Foreign Currency" (Note 11(ii)).

The SDRs are international reserve assets, created by the IMF, to which Ireland is a member. SDRs are defined in terms of a basket of currencies and its value is determined by the weighted sum of the exchange rates of five major currencies (US dollar, Euro, Chinese Renminbi, Japanese Yen and Sterling).

The holdings of SDRs currency position is converted into Euro using the exchange rate of Euro against the SDR as at the last day of the reporting period.

The liability of the Central Bank to the IMF in respect of the allocation of SDRs to Ireland is disclosed as "Counterpart of SDR Allocated by the IMF" (Note 27). 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.

(xi) Marketable investment funds

Marketable investment funds held for investment purposes, without the Central Bank intervening in the decisions on the purchase or sale of the underlying assets, are valued at market prices on a net fund basis (Note 1(j)(ii)). These funds denominated in foreign currencies do not form part of the overall currency position but form part of a separate currency holding.

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[38] 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.

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

[40] 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.

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

They are disclosed in "Other Assets" (Note 20 (ii),(iii)). There is no netting between the revaluation results of different marketable investment funds.

(xii) Targeted longer-term refinancing operations (TLTRO)

TLTROs are open market operations executed by the Eurosystem. They aim to provide liquidity, of a longer duration than other refinancing operations, to credit institutions (Note 14).

All TLTRO advances are fully secured by collateral approved by the Eurosystem.[42] 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 34).

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.

Initial recognition

TLTROs are recorded at the nominal value of the transaction. Transactions are reported on the settlement date of the respective transaction under "Lending to Euro Area Credit Institutions related to Monetary Policy Operations in Euro" (Note 14).

Subsequent measurement

These loans are not subject to revaluation and are assessed for impairment when such indicators are identified. In the event that some individual loans or deposits were assessed as impaired, they would be accounted for in accordance with Article 32.4 of the ESCB Statute, as described above.

Interest receivable and payable

Interest is accrued at the agreed interest rate of the transaction. Accruals are included in "Other Assets" (Note 20(i)) or "Other Liabilities" (Note 29(ii)). For collateralised loans, the coupon of the underlying collateral is not accrued, as it belongs to the owner of the security, who records it on their Balance Sheet (an exception may apply in the case of repurchase/reverse repurchase transactions). Accruals should be calculated on the basis used in the market in which the transaction was conducted. The first day or the last day accruals method is allowed. The Central Bank applies the last day accruals method.

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[42] The approved collaterals are listed on the ECB website at: http://www.ecb.europa.eu/mopo/assets/html/index.en.html

(xiii) Shares in the Bank for International Settlements

Shares in the BIS are disclosed under "Other Assets" (Note 20 (viii)) and are valued in accordance with the Guideline using mid-market closing exchange rates at year-end (Note 1 (j)(ii)).

A dividend received on shares held in the BIS is recorded as "Income from Equity Shares and Participating Interests" (Note 5).

(xiv) Participating Interest in the ECB

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 (Note 17).

The participating interest includes the Central Bank's key for subscription of the ECB's capital, and the net amounts paid or received by the Central Bank due to the increase or decrease in its share in the ECB's equity value resulting from all previous ECB capital key adjustments.

(xv) Balances held with banks and balances held on behalf of other parties

Balances held with banks and balances held on behalf of other parties represent assets and liabilities disclosed at nominal value converted at the foreign exchange market rate (Note 11, Note 12, Note 13, Note 15, Note 25, Note 29).

(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, are not revalued and are subject to impairment.

(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 estimated useful lives may deviate from the Guideline's recommended depreciation rates. These depreciation rates are as follows:

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Property Plant and Equipment

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

Intangible Assets

Computer Software	-	3 - 5 years

(iii) *Impairment*

PPE and Intangible Assets are reviewed for impairment if events or changes in circumstances indicate 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 21(i)(d)).

(f) Retirement Benefits

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

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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 (Note 30). 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 8, Note 30(i)) and the difference between the expected return on scheme assets and the interest cost of scheme liabilities (Note 7, Note 30(i)). 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.[43] Actuarial gains and losses are recognised in the Profit and Loss and Appropriation Account (Note 29(i), Note 30(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 2021 liabilities and pension costs are set out in Note 30.

(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 (including local overhead 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

[43] 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.

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year they are received (Note 25(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 32).

(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).

(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 32). 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 11(i)(a), Note 12(ii), Note 13(i), Note 16(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(c)(xi), (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 13(i), Note 16(ii)(b)).

(iv) Gold is valued at the closing mid-market price (Note 10, Note 32).

(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 11(i)(a), Note 12(ii), Note 13(i), Note 16(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

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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, including accrued interest. Repurchase agreements are recorded on the liability side of the Balance Sheet as there is a corresponding obligation to return the consideration (Note 24, Note 26(ii)). 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.

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, including accrued interest. Reverse repurchase agreements are recorded on the asset side of the Balance Sheet as there is a corresponding obligation on the seller to return the consideration (Note 11(i)(c), Note 12(i), Note 13(ii), Note 15(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.

Repurchase and reverse repurchase agreements give rise to interest income or interest expense in the Profit and Loss and Appropriation Account. The difference between the sale and repurchase price or the purchase and resale price is treated as interest income or interest expense and is accrued over the life of the agreement (Note 2(v)).

(m) Provisions

(i) Impairment

All provisions are reviewed annually (Note 31). 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 3(iii), Note 31).

(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.

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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 3(iii), Note 31(i)).

(iii) Restructuring Provision

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 31(iii)).

(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.

(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 3(iii))
- Provisions: (Note 31)
- Depreciation rates: (Note 1(e)(ii), Note 21)
- Defined Benefit Pension Scheme valuation: (Note 30)
- Valuation of the Special Portfolio: (Note 1(j)(ii)(v), Note 16(ii)(a)(i))
- Levy Income: (Note 39(ii)).

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(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 9, Note 29(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 20(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 “Other Net Income” (Note 7(iv)).

The aggregate benefit of lease incentives is recognised as a reduction to the expense recognised over the lease term on a straight-line basis.

(q) Central Credit Register

The Central Credit Register (CCR), a national mandatory database of personal and credit information, is maintained and operated by the Central Bank under the Credit Reporting Act 2013 and associated regulations. The operation of the CCR by the Central Bank should not give rise to a profit or loss and as such all costs associated with it are recouped through fees charged to the Credit Information Providers (CIPs). Fees charged to CIPs for credit reports issued, are recorded in “Other Net Income” (Note 7(iii)). Staff and all other costs (including an allocation of indirect costs) are included within the relevant cost categories in the Profit and Loss and Appropriation Account. In order to ensure no profit or loss arises on the operation of CCR, any costs which are not yet recouped through fee income, are reflected in the CCR asset account in Other Assets (Note 7(iii), Note 20(x)).

Note 2: Net Interest Income

	2021 €000	2020 €000
Credit Institutions Deposits (i)	316,144	129,768
Securities for Monetary Policy Purposes (ii)	244,016	262,872
Securities - MTM (iii)	153,186	208,698
Government Deposits (i)	139,703	136,275
Securities - HTM (iv)	137,531	192,018
Repurchase Agreements (v)	12,197	10,145
SDR (vi)	7,039	1,891
Deposit Income (vii)	5,831	682
Other (viii)	1,008	3,518
Reverse Repurchase Agreements (v)	400	161
Insurance Compensation Fund Income (ix)	288	268
DGS Contributory Fund Income (x)	70	136
Interest Income	**1,017,413**	**946,432**
Open Market Operations (xi)	(165,804)	(31,474)
Securities for Monetary Policy Purposes (ii)	(19,790)	(3,429)
Reverse Repurchase Agreements (v)	(19,214)	(15,626)
Swap Expenses (xii)	(6,614)	(8,159)
Other (xiii)	(1,837)	(814)
Deposits (xiv)	(760)	(762)
Repurchase Agreements (v)	-	(1)
Interest Expense	**(214,019)**	**(60,265)**
Total	**803,394**	**886,167**

(i) 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 Credit Institution deposits and Government deposits amounting to €316.1m (2020: €129.8m) and €139.7m (2020: €136.3m) 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 23, Note 25).[44]

Credit Institution Deposits

	2021 €000	2020 €000
Current accounts (covering the minimum reserve system)	269,735	95,488
Deposit facility	46,409	34,280
Total	**316,144**	**129,768**

[44] The marginal interest rate used by the Eurosystem in its tenders for main refinancing operations is currently 0.0%.

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(ii) This item incorporates income on securities held for monetary policy purposes broken down as follows (Note 1(c)(ix), Note 16(i)):

Securities Held for Monetary Policy Purposes

	2021 €000	2020 €000
PSPP	219,900	220,017
SMP	13,899	30,985
CBPP3	10,217	11,870
PEPP	(19,790)	(3,429)
Total	**224,226**	**259,443**

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 net income earned in 2021 is a reflection of the associated levels of activity under each programme and the relative returns on the assets (Note 16(i)).

Income on securities held for monetary policy purposes includes coupon income and amortisation.

(iii) 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 €141.5m (2020: €192.5m). 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 16(ii)(a)).

Interest income earned on other securities (other than the special portfolio) in the MTM portfolios decreased to €11.7m (2020: €16.2m). This decrease is due to reduced yields on the Central Bank's 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.

(iv) 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 €137.5m (2020: €192.0m) as a result of a decision made by the Central Bank to reduce the size of the HTM as part of its investment strategy (Note 13(i), Note 16(ii)(b)).

(v) This relates to income earned or interest incurred 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 or expenses generated represents the difference between the sale and repurchase/purchase and subsequent sell prices (Note 1(l), Note 11(i)(c), Note 12(i) Note 13(ii), Note 15(i), Note 24, Note 26(ii)).

(vi) The increase in SDR income primarily relates to the distribution of resources on Ireland's Special Contingent Account (SCA-1) and deferred charges adjustments to the Administered Account held with the IMF. Ireland participated in two debt relief programs as part of the Heavily Indebted Poor Countries (HIPC) Initiative, in March 2020 and June 2021 utilising the SCA-1 and deferred charges funds amounting to €6.5m (SDR5.4m). Income of €6.5m (SDR5.4m) has been recognised in 2021 by the Central Bank. A corresponding debtor has been included in Other Assets in 2021 (Note 20(ix)).

(vii) Deposit income primarily relates to income earned on foreign currency deposits. The increase in income to €5.8m (2020: €0.7m) is largely due to an increase in CNY and USD deposits in 2021 (Note 11(i)(b)).

(viii) The decrease in Other income to €0.9m (2020: €3.5m) is mainly due to a decrease in interest income relating to variation margins on futures contracts and a decrease in USD funding income (Note 36(ii)).

(ix) This relates to income on the Insurance Compensation Fund (Note 29(iv)).

(x) This relates to income on the Deposit Guarantee Scheme (DGS) Contributory Fund (Note 29(iii)).

(xi) 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.[45] 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.

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

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The final 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 2021 and the period between 24 June 2021 and 23 June 2022 – referred to as the special interest rate period and the additional special interest rate period respectively – 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%.

The actual interest rates can only be known at the maturity or early repayment of each operation and before that a reliable estimate is only possible as far as the interest rate related data regarding the special interest rate period and the additional special interest rate period have already been communicated to the counterparties. Consequently, it was deemed a prudent approach to use the average interest rate on the deposit facility minus 50 basis points, with a ceiling of -1.0%, for calculating the TLTRO-III interest over the two special interest rate periods, and the deposit facility rate for calculating the TLTRO-III interest over the rest of the life of an operation, until more reliable data is available. This means, that for the annual accounts 2021, the following rates are used for calculating the TLTRO-III interest accruals: interest rates over the special interest rate periods until 23 June 2021, for which the interest rate related data was communicated to the counterparties on 9 September 2021 and 1 October 2021 , and the average interest rate on the deposit facility minus 50 basis points, with a ceiling of -1.0%, over the additional special interest rate period from 24 June 2021 until 31 December 2021.

The increase in the expense to €165.8m (2020: €31.5m) is as a result of increased TLTRO borrowings in 2021 due to the favourable borrowing conditions (Note 14).

(xii) 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 34% reduction in the size of the SDR foreign exchange contracts in 2021 (Note 36(i)).

(xiii) The increase in Other interest expense primarily relates to an increase in interest expenses relating to variation margins on futures contracts and fees associated with new fund investments (Note 36(ii)).

(xiv) This relates to interest expense payable on deposit bank account balances (Note 15).

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

(i) Net Realised Gains arising from Financial Operations

	2021 €000	2020 €000
Realised Price Gains on Securities	1,273,304	652,149
- Special Portfolio (i)	*1,273,000*	*649,750*
- MTM Portfolios (ii)	*304*	*2,399*
Realised Exchange Rate Gains (iii)	340	57
Total	**1,273,644**	**652,206**

(i) This reflects the realised gains on the sales of the Floating Rate Notes (FRNs) (Note 16(ii)(a)(i)). Gains on the sales of the special portfolio have increased to €1,273.0m (2020: €649.8m) due to higher sales in 2021 (€2.0bn nominal) compared to 2020 (€1.0bn nominal).

(ii) This reflects the realised gains on securities in the MTM portfolios, other than special portfolio securities (Note 11(i)(a), Note 12(ii), Note 13(i), Note 16(ii)(a)).

(iii) This reflects the realised exchange rate gains on the sale of assets in the Central Bank's investment portfolio (Note 11(i), Note 12).

(ii) Write-Downs on Financial Assets and Positions

	2021 €000	2020 €000
Unrealised Price Losses on Securities (i)	(11,763)	(739)
Unrealised Price Losses on Funds (ii)	(1,241)	-
Unrealised Exchange Rate Losses (iii)	(50)	(130,382)
Total	**(13,054)**	**(131,121)**

(i) The increase in unrealised price losses on securities to €11.8m (2020: €0.7m) relates to reduced market value of securities at year-end (Note 11(i)(a), Note 12(ii), Note 13(i), Note 16(ii)(a)).

(ii) The Central Bank invested in a number of BIS funds in 2021. Losses on these funds relate to lower market values on the funds at year-end (Note 20(ii)).

(iii) The unrealised exchange rate loss in 2021 relates to a 2020 loss resulting from an IMF debt relief transaction in March 2020 (Note 20(ix)).The decrease in unrealised exchange rate losses to €0.1m (2020: €130.4m) is mainly as a result of exchange rate movements in the currencies impacting the Central Bank's foreign exchange portfolios, including US dollar (USD), Singapore dollar (SGD), Australian dollar (AUD) and Chinese renminbi (CNY) portfolios (Note 11(i), Note 12).

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(iii) Transfer to Provisions

	2021 €000	2020 €000
Provision for Financial Risks (Note 31(i))	(500,000)	(400,000)
Restructuring Provision (Note 31(iii))	(2,214)	1,553
Total	**(502,214)**	**(398,447)**

Note 4: Income from Fees and Commissions

	2021 €000	2020 €000
Securities Lending	1,336	1,475
TARGET2 Distribution of Pooled Income	1,300	1,145
Service Fees and Charges	622	642
Total	**3,258**	**3,262**

Note 5: Income from Equity Shares and Participating Interests

	2021 €000	2020 €000
Share of ECB Profits (i)	9,027	37,122
BIS Dividend (ii)	5,358	-
Total	**14,385**	**37,122**

(i) This item represents the Central Bank's share of the ECB's profit (Note 1(c)(v), Note 19(ii)).

In 2021, the Governing Council of the ECB decided to transfer €610.0m of the ECB's profit to the ECB's general risk provision as at 31 December 2021 bringing its size to its upper limit. The upper limit of the ECB's general risk provision is defined by the size of the ECB's paid-up capital by the euro area NCBs (€8,193.7m at end-2021). As a consequence of (i) the withdrawal of the UK from the EU and (ii) the Governing Council's decisions on the ECB's capital, the ECB's paid-up capital by the euro area NCBs will increase by €610.0m in both 2021 and 2022. The Central Bank's share of this increase is €10.3m in 2021 and 2022, the first instalment of which was paid up on 29 December 2021.

An amount of €150.0m (2020: €1,260.0m) was paid to the Eurosystem NCBs on 31 January 2022 in accordance with their Eurosystem capital key as an interim distribution of the ECB's profits for the year. The Central Bank's share of the interim profit amounted to €2.5m (2020: €21.3m) (Note 19(ii)). The final distribution of profit for 2020 paid in February 2021, amounting to €6.5m, is also presented in the 2021 figures (the corresponding figure in 2019, paid in 2020 was €15.8m). The final distribution of ECB profit for 2021 was paid on 18 February 2022 and will be accounted for in the Central Bank's 2022 accounts (Note 38).

(ii) This item represents a dividend received on shares held in the Bank for International Settlements (Note 20(viii), Note 34(i)).

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Note 6: Net Result of Pooling of Monetary Income

	2021 €000	2020 €000
Net Result of Pooling of Monetary Income (i)	(166,015)	(82,216)
Release/(Creation) of provision for Share of Impaired Eurosystem Securities (ii)	-	425
Utilisation of provision for Share of Impaired Eurosystem Securities (ii)	-	1,049
Total	**(166,015)**	**(80,742)**

(i) This represents the difference between the monetary income pooled by the Central Bank of €188.3m (2020: €152.3m) and that reallocated to the Central Bank of €19.8m (2020: €73.2m) 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 €2.5m (2020: €3.1m) (Note 1(c)(vi)).

	2021 €000	2020 €000
Monetary income pooled	(188,296)	(152,312)
Monetary income reallocated	19,815	73,171
Net (Payer)/ Receiver of Monetary Income	**(168,481)**	**(79,141)**
Previous Years' Eurosystem Adjustments	2,466	(3,075)
Total (Note 19)	**(166,015)**	**(82,216)**

(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 a 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 2021.

Note 7: Other Net Income

	2021 €000	2020 €000
Financial Regulation Net Industry Funding Levy (i)	185,336	170,062
Financial Regulation Monetary Penalties (ii)	67,031	24,685
Other (iii)	7,041	7,054
Expected Return on Pension Fund Assets (Note 30(i))	5,000	8,600
Other Financial Regulation Income (Note 39)	6,665	4,340
Rental Income (iv)	3,309	1,583
Interest on Pension Scheme Liabilities (Note 30(i))	(10,200)	(15,300)
Total	**264,182**	**201,024**

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(i) The composition of Financial Regulation Net Industry Funding Levy is provided in Note 39.

(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 €67.0m (2020: €24.7m), is included in "Surplus Income Payable to the Exchequer" (Note 9).

(iii) Central Credit Register (CCR) Income of €6.5m (2020: €5.8m) 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 1(q), Note 20(x)).

(iv) 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 20(vii)). In July 2021, following the finalisation of a scheduled rent review, the annual rent increased from €1.6m to €2.6m with effect from the official rent review date per the lease of 11th May 2020.

Note 8: Total Expenses

	Total Head Office & Printworks*		Mint **		Total	
	2021 €000	2020 €000	2021 €000	2020 €000	2021 €000	2020 €000
Salaries/Allowances (i)	158,120	157,292	2,192	859	160,312	158,151
PRSI	16,080	15,330	218	88	16,298	15,418
Pensions (Note 30(i))	81,600	59,500	-	-	81,600	59,500
Staff Expenses	**255,800**	**232,122**	**2,410**	**947**	**258,210**	**233,069**
Communications and IT	35,771	36,851	52	120	35,823	36,971
Professional Fees (ii)	9,110	9,396	24	4	9,134	9,400
Facilities and Maintenance	7,009	8,042	544	32	7,553	8,074
Payments and Asset Mgt Charges (iii)	6,259	6,406	30	4	6,289	6,410
Miscellaneous (iv)	6,112	5,766	1	(2)	6,113	5,764
Rent and Utilities	4,430	4,810	300	-	4,730	4,810
Recruitment & Staff Costs (v)	3,167	3,811	-	-	3,167	3,811
External Research and Corp Subscriptions	3,068	2,828	7	1	3,075	2,829
Training, Education & Conferences	2,084	2,742	11	10	2,095	2,752
Publishing & Public Relations	237	580	-	-	237	580
Office Administrative Expenses	149	236	6	7	155	243
Business Travel (vi)	33	504	1	2	34	506
Other Operating Expenses	**77,429**	**81,972**	**976**	**178**	**78,405**	**82,150**
Depreciation	**15,033**	**14,609**	**157**	**116**	**15,190**	**14,725**
Currency Production Raw Materials (vi)	**7,851**	**11,159**	**199**	**1,172**	**8,050**	**12,331**
Total Expenses	**356,113**	**339,862**	**3,742**	**2,413**	**359,855**	**342,275**

* 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 25(ii)).

(i) Payments in lieu of notice totalling €1,661 were paid to two individuals during the year (2020: Nil).

Included in Pay is €15,500 in relation to two settlements for 2021 (2020: no payments). Included in Professional Fees is €7,500 contribution to the legal costs of one individual involved in these settlements and €35,743 in relation to the Central Bank's own legal costs.

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Staff Expenses are further analysed into the following:

Staff Expenses (including Mint)

	2021 €000	2020 €000
Staff short-term benefits	160,310	158,151
Pensions (Note 30(i))	81,600	59,500
Employers PRSI	16,298	15,418
Termination benefits	2	-
Total	**258,210**	**233,069**
Staff Numbers (FTE) at 31 December	2,110	2,115

FTE – full time equivalents inclusive of maternity cover and interns

Staff Salaries and Allowances are analysed into the following:

Short Term Benefits (including Mint)

	2021 €000	2020 €000
Basic Pay	158,904	156,626
Allowances	845	887
Overtime	561	638
Total	**160,310**	**158,151**

Included in Basic Pay is an accrual in respect of untaken annual leave of €11.4m (2020: €11.9m) (Note 29(v)).

Remuneration of the Executive Commission members in 2021

Name	2021	Salary	2020	Salary
Gabriel Makhlouf Governor (a) (b)	1 January - 31 December	€293,257	1 January - 31 December	€288,224
Sharon Donnery Deputy Governor Central Banking (a)	1 January - 31 December	€255,006	1 January - 31 December	€250,630
Ed Sibley Deputy Governor Prudential Regulation (a)	1 January - 31 December	€255,006	1 January - 31 December	€250,630

Salaries increased in line with Public Service pay agreements since 2013. The Commission approved increases for the executive commission members in December 2021, dating back to October 2021, and these were processed in January 2022 (€2,003).

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Fees of Non-Executive Commission Members

Name	2021	2020
John Trethowan (c)	€14,936	Nil
Patricia Byron	€14,936	€14,936
Niamh Moloney	€14,936	€14,936
Shay Cody (Appointed – 1 Dec 2020)	€14,936	€1,245
Sarah Keane (Appointed – 1 Dec 2020)	€14,936	€1,245
David Miles (Appointed – 1 Dec 2020)	€14,936	€1,245
Derek Moran (c) (Retired – 30 May 2021)	Nil	Nil
John Hogan (c) (Appointed - 8 June 2021)	Nil	-
John FitzGerald (Retired – 30 Sep 2020)	-	€11,202
Alan Ahearne (Retired – 7 March 2020) (c) (d)	-	Nil

Expenses of Non-Executive Commission Members

Name	Travel	Accommodation and Subsistence	Total 2021	Total 2020
John Trethowan	€191	€269	€460	€1,457
Patricia Byron	Nil	Nil	Nil	Nil
Niamh Moloney	Nil	Nil	Nil	Nil
Shay Cody	Nil	Nil	Nil	Nil
Sarah Keane	Nil	Nil	Nil	Nil
David Miles	€545	€218	€763	Nil
Derek Moran	Nil	Nil	Nil	Nil
John Hogan	Nil	Nil	Nil	Nil
John FitzGerald	Nil	Nil	Nil	Nil
Alan Ahearne	Nil	Nil	Nil	Nil

(a) Governor Gabriel Makhlouf's, Deputy Governor Sharon Donnery's and Deputy Governor Ed Sibley's pension scheme entitlements do not extend beyond the standard entitlements in the Central Bank's defined benefit superannuation scheme (Note 30).

(b) Governor Gabriel Makhlouf is also in receipt of a UK public service pension.

(c) In keeping with the One Person One Salary principle, two (2020: 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 was in place to compensate the full-time public sector employers of one member in 2020 for costs incurred due to their absence on Commission business. During 2020, an expense of €3,246 in relation to the National University of Ireland, Galway was

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incurred (includes €476 in travel related expenses). No such charges are applicable in 2021.

Remuneration of Key Management Personnel[46]

	2021 €000	2020 €000
Salary	11,498	10,859
Total	**11,498**	**10,859**

The Central Bank operates a Revenue Commissioners approved holiday loan scheme for all staff. Included in this amount are advances totalling €29,950 (2020: €22,700) to six Key Management Personnel (2020: five Key Management Personnel). As at 31 December 2021 all advances under this scheme have been fully repaid (2020: fully repaid).

Employees Short-term Benefits in excess of €60,000[47]

Pay Bands	2021 No. of People	2020 No. of People
60,000-70,000	296	440
70,000-80,000	341	169
80,000-90,000	142	176
90,000-100,000	316	251
100,000-110,000	54	100
110,000-120,000	88	13
120,000-130,000	37	58
130,000-140,000	60	32
140,000-150,000	11	23
150,000-160,000	30	20
160,000-170,000	2	-
170,000-180,000	2	2
180,000-190,000	6	9
190,000+	12	9
Total	**1,397**	**1,302**

[46] Key Management Personnel refers to staff at Head of Division and above, and includes the executive Commission members disclosed separately in Note 8, 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.
[47] Short-term benefits includes Basic Pay, Allowances and Overtime payments to staff.

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(ii) Included in Professional Fees are Auditors' fees payable to Mazars and the Comptroller and Auditor General which amounted to:

Auditors' Fees[48]	2021 €000	2020 €000
Audit of Individual Accounts	**334**	**304**
Mazars	171	155
Comptroller and Auditor General	163	149
Other Assurance Services	**54**	**53**
Mazars	54	53
Other Non-Audit Services	**113**	**398**
Mazars	113	398
Total	**501**	**755**

Included in Professional Fees and analysed in the following table are Consultancy costs totalling €5.7m (2020: €5.8m). The balance of €1.7m (2020: €0.6m) is included in PPE and Intangible Assets (Note 21).

Consultancy

	2021 €000	2020 €000
IT	2,325	2,177
Premises	1,403	1,009
Legal Advice	1,332	1,010
Other	1,063	937
Financial	991	875
Pensions & HR	174	330
Business Improvement	115	106
Total	**7,403**	**6,444**
Consultancy Costs Charged to Income and Expenditure	5,675	5,873
Consultancy Costs Capitalised	1,728	571
Total	**7,403**	**6,444**

Included in Professional Fees are legal costs in relation to legal proceedings totalling €1.7m (2020: €1.7m).

Legal Fees

	2021 €000	2020 €000
Legal fees – legal proceedings	1,702	1,707
Total	**1,702**	**1,707**

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 17 separate legal cases (2020: 14).

48 Auditors' Fees are shown exclusive of VAT so that the net amount received by the supplier is disclosed.

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The Central Bank's insurance company paid Nil (2020: €0.2m) relating to legal costs and settlements.

(iii) Included in Payment and Asset Management Charges are Prompt Payments charges. 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 2021, with corresponding figures for 2020.

Late Payments	2021	2020
Total Number of Late Payments	9	51
Total Value of All Late Payments (A)	€55,882	€3,622,628
Total Value of All Payments (B)	€205,939,038	€182,284,958
A as a % of B	0.03%	1.99%
Total Value of Interest Paid on Late Payments	€540	€15,085

(iv) Included in Miscellaneous are the expenses of the Financial Services Appeals Tribunal €0.1m (2020: €0.1m) which the Central Bank discharges, in accordance with the provisions of Section 57AX(4) of the Central Bank Act, 1942 (as amended).

(v) Included in Recruitment & Other Staff Costs above is Hospitality Expenditure of €0.1m for 2021, analysed as follows:

Hospitality Expenditure	2021 €000	2020 €000
Staff Hospitality	97	46
Client Hospitality	-	-
Total	**97**	**46**

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.

(vi) The spend on Travel is analysed as follows:

Travel (including Mint)

	2021 €000	2020 €000
Domestic		
Commission	1	3
Staff	24	68
International		
Commission	4	11
Staff	4	424
Total	**33**	**506**

*Commission includes both executive and non-executive members.

(vii) Currency Production Raw Materials expense relates to the production of banknotes €7.9m (2020: €11.2m) and coin €0.2m (2020: €1.2m). The reduced banknote costs in 2021 was due to a higher bank note allocation requirement in 2020. Coin materials decreased in 2021 as materials purchased in 2020 were utilised for 2021 coin production requirements.

Note 9: Surplus Income Payable to the Exchequer

Surplus Income of €1,067.6m is payable to the Exchequer in respect of the year ended 31 December 2021 (2020: €665.7m) (Note 1(o), Note 29(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 10: Gold and Gold Receivables

	2021 €000	2021 Fine Ounces of Gold	2020 €000	2020 Fine Ounces of Gold
Gold and Gold Receivables	492,855	306,221	299,039	193,693
Total	**492,855**	**306,221**	**299,039**	**193,693**

Gold and gold receivables consist of coin stocks held in the Central Bank, together with gold bars held at the Bank of England and Banque de France. The increase in the balance at year-end 2021 is due to purchases of gold as part of the Central Bank's long term investment strategy and the change in the market value of gold holdings from the year-end 2020 to 2021 (Note 1(j)(iv), Note 32(iii)).

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

	2021 €000	2020 €000
Balances with Banks and Security Investments, External Loans and other External Assets (i)	4,843,846	3,996,215
Receivables from the IMF (ii)	6,004,008	1,751,450
Total	**10,847,854**	**5,747,665**

(i) Balances with Banks and Security Investments, External Loans and other External Assets

	2021 €000	2020 €000
Security Investments - MTM (a)	3,179,681	3,015,617
Balances with Banks (b)	1,664,165	964,707
Reverse Repurchase Agreements (c)	-	15,891
Total	**4,843,846**	**3,996,215**

(a) These securities comprise debt issued by non-euro area issuers (Note 1(j)(ii)).

The increase compared to 2020 reflects the increase in investment in the CNY, JPY, SGD and USD securities portfolio as part of the Central Bank's non-euro portfolios during 2021.

(b) The increase in balances with banks to €1,664.2m (2020: €964.7m) relates to increased deposits on the USD and CNY portfolios (Note 1(c)(xv)).

(c) As part of the management of its investment assets, the Central Bank uses repurchase transactions with approved counterparties under GMRA legal agreements. The decrease in reverse repurchase agreements with non-euro area residents in foreign currency to Nil (2020: €15.9m) relates to a general reduction in reverse repurchase trading (Note 1(l)).

Breakdown by foreign currency

	2021 €000	2020 €000
USD	2,470,036	1,723,106
JPY	941,483	911,018
AUD	510,083	518,238
CNY	509,235	204,293
SGD	412,216	389,695
DKK	-	249,252
Other	793	613
Total	**4,843,846**	**3,996,215**

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Maturity Profile

	2021 €000	2020 €000
0 - 3 months	1,808,332	1,518,415
3 months - 1 year	1,111,039	794,043
1 - 5 years	1,924,475	1,683,757
Total	**4,843,846**	**3,996,215**

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

	2021 €000	2020 €000
Quota	4,267,911	4,079,925
Less IMF Holdings maintained by the Central Bank	(3,270,867)	(3,129,098)
Reserve Position in IMF (a)	997,044	950,827
SDR Holdings (b)	5,006,964	800,623
Total	**6,004,008**	**1,751,450**

(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.[49] 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% (2020: 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 weighted sum of exchange rates of five currencies (US dollar, euro, Japanese yen, Chinese renminbi and pound sterling). During 2021, the Central Bank received Ireland's share (€4.0bn) of a new general allocation of SDRs by the IMF (Note 27).

[49] 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.

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Note 12: Claims on Euro Area Residents in Foreign Currency

	2021 €000	2020 €000
Reverse Repurchase Agreements (i)	112,583	151,942
Security Investments - MTM (ii)	75,549	77,038
Balances with Banks	1,407	421
Total	**189,539**	**229,401**

Breakdown by foreign currency

	2021 €000	2020 €000
USD	172,862	229,372
AUD	16,673	16
SGD	4	13
Total	**189,539**	**229,401**

Maturity Profile

	2021 €000	2020 €000
0 - 3 months	168,453	162,195
3 months - 1 year	-	28,540
1 - 5 years	21,086	38,666
Total	**189,539**	**229,401**

(i) As part of the management of its investment assets, the Central Bank uses repurchase transactions with approved counterparties under GMRA legal agreements. The decrease in reverse repurchase agreements with euro area residents in foreign currency to €112.6m (2020: €151.9m) relates to a general reduction in reverse repurchase trading (Note 1(l)).

(ii) These securities comprise debt issued by euro area issuers in foreign currency (Note 1(j)(ii)). The year-end 2021 balance relates to USD and AUD bonds issued by EU residents.

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

	2021 €000	2020 €000
Security Investments - HTM (i)	1,817,765	1,926,346
Balances with Banks	46,799	41,302
Security Investments - MTM (i)	39,899	110,306
Reverse Repurchase Agreements (ii)	-	185,623
Total	**1,904,463**	**2,263,577**

Maturity Profile

	2021 €000	2020 €000
0 - 3 months	71,639	310,688
3 months - 1 year	49,980	110,327
1 - 5 years	1,544,173	1,278,582
5 - 10 years	238,671	563,980
Total	**1,904,463**	**2,263,577**

(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 repurchase transactions with approved counterparties under GMRA legal agreements. The decrease in reverse repurchase agreements with non-euro area residents in euro to Nil (2020: €185.6m) 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 1(l)).

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

	2021 €000	2020 €000
Longer Term Refinancing Operations of which TLTROs	21,048,400	7,288,900
Total	**21,048,400**	**7,288,900**

Maturity Profile

	2021 €000	2020 €000
0 - 3 months	-	-
3 months - 1 year	9,720	-
1 - 5 years	21,038,680	7,288,900
Total	**21,048,400**	**7,288,900**

These balances consist of advances to local credit institutions and reflect the Central Bank's participation in Eurosystem monetary policy operations. As at 31 December 2021, total Eurosystem lending to euro area credit institutions related to monetary policy operations denominated in euro, which includes both main refinancing operations and longer term

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refinancing operations, amounted to €2,201.9bn (2020: €1,793.2bn), of which the Central Bank held €21.0bn (2020: €7.3bn) (Note 1 (c)(xii)).

In March 2016, the Governing Council introduced a series of operations, TLTRO-II with a four-year maturity. 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 last of these operations matured in 2021.

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. Furthermore, on 10 December 2020 the Governing Council added three further operations to this series, which were conducted between June and December 2021. These operations have a three-year maturity. For the first seven TLTRO-III, from September 2021, starting 12 months after the settlement of each TLTRO-III, participants have the option on a quarterly basis of terminating or reducing the amount of TLTRO-III concerned before maturity. For the eighth or subsequent TLTROs-III, participants have that option on a quarterly basis starting in June 2022. Similar 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. 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 2021 and the period between 24 June 2021 and 23 June 2022 - referred to as the special interest rate period and the additional special interest rate period respectively - 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%.

The actual interest rates can only be known at the maturity or early repayment of each operation and before that a reliable estimate is only possible as far as the interest rate related data regarding the special interest rate period and the additional special interest rate period have already been communicated to the counterparties. Consequently, it was deemed a prudent approach to use the average interest rate on the deposit facility minus 50 basis points, with a ceiling of -1.0%, for calculating the

TLTRO-III interest over the two special interest rate periods, and the deposit facility rate for calculating the TLTRO-III interest over the rest of the life of an operation, until more reliable data is available. This means, that for the annual accounts 2021, the following rates are used for calculating the TLTRO-III interest accruals: interest rates over the special interest rate periods until 23 June 2021, for which the interest rate related data was communicated to the counterparties on 9 September and 1 October 2021, and the average interest rate on the deposit facility minus 50 basis points, with a ceiling of -1.0%, over the additional special interest rate period from 24 June 2021 until 31 December 2021.

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

	2021 €000	2020 €000
Maturities less than one year:		
Reverse Repurchase Agreements (i)	2,334,277	3,833,460
Balances with Banks	154,820	155,468
Total	**2,489,097**	**3,988,928**

(i) As part of the management of its investment assets, the Central Bank uses repurchase transactions with approved counterparties under GMRA legal agreements. The decrease in reverse repurchase agreements with euro area residents in euro to €2,334.3m (2020: €3,833.5m) relates to a general reduction in reverse repurchase trading (Note 1(l)).

Note 16: Securities of Euro Area Residents in Euro

	2021 €000	2020 €000
Securities Held for Monetary Policy Purposes (i)	61,903,311	49,533,972
Other Securities (ii)	17,316,289	23,242,483
Total	**79,219,600**	**72,776,455**

This item comprises two portfolios:

(i) Securities Held for Monetary Policy Purposes

"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.

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As at 31 December 2021, this item consisted of securities acquired by the Central Bank within the scope of the CBPP3, the SMP, the PSPP and the PEPP.

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:

	2021 €000 Amortised Cost	2021 €000 Market Value	2020 €000 Amortised Cost	2020 €000 Market Value
CBPP3	2,524,404	2,549,089	3,213,626	3,269,070
SMP	101,026	122,918	359,752	397,680
PSPP *of which*	37,896,147	39,564,062	36,024,340	39,303,188
Government/Agency Securities (Own-Risk)	*34,470,479*	*35,974,827*	*31,594,062*	*34,571,052*
Supranational Securities (Shared-Risk)	*3,425,668*	*3,589,235*	*4,430,278*	*4,732,136*
PEPP *of which*	21,381,734	21,090,494	9,936,254	10,134,974
Government/Agency Securities (Own-Risk)	*21,375,822*	*21,084,580*	*9,930,303*	*10,129,010*
Covered Bonds (Shared-Risk)	*5,912*	*5,914*	*5,951*	*5,964*
Total	**61,903,311**	**63,326,563**	**49,533,972**	**53,104,912**

Maturity Profile

	2021 €000 Amortised Cost	2020 €000 Amortised Cost
0 - 3 months	3,786,316	921,719
3 months - 1 year	3,180,309	1,136,884
1 - 5 years	18,291,347	17,296,096
5 - 10 years	21,494,122	18,156,893
10-15 years	4,883,080	5,468,430
> 15 years	10,268,137	6,553,950
Total	**61,903,311**	**49,533,972**

Purchases under the SMP were terminated on 6 September 2012.

In 2021, the Eurosystem conducted its net asset purchases under the APP which constitutes the CBPP3, the ABSPP, the PSPP and the Corporate Sector Purchase Programme (CSPP) at a monthly pace of €20.0bn on

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average.[50, 51, 52, 53] In December 2021, the Governing Council decided on a monthly net purchase pace of €40.0bn in the second quarter and €30.0bn in the third quarter of 2022.[54] From October 2022 onwards, the Governing Council will maintain net asset purchases at a monthly pace of €20.0bn 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.

In addition, in 2021, the Eurosystem carried on its net asset purchases under PEPP, with a total envelope of €1,850.0bn.[55, 56] Purchases were conducted in a flexible manner based on the assessment of financing conditions and the inflation outlook. In December 2021, the Governing Council also decided to discontinue net asset purchases under the PEPP at the end of March 2022 but they could be resumed, if necessary, to counter negative shocks related to the pandemic. Furthermore, the Governing Council extended the reinvestment horizon for the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions. The future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

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 2021 (2020: Nil).

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[50] Further details of the APP can be found on the ECB's website.

[51] Decision ECB/2014/45 of 19 November 2014 on the implementation of the asset backed securities purchase programme.

[52] 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.

[53] Under this programme, the NCBs may purchase investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area.

[54] See the press release of 16 December 2021 on the Governing Council's decisions.

[55] Further details on the PEPP can be found on the ECB's website.

[56] If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full.

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The Eurosystem aggregate holdings of monetary policy securities at end-December 2021 amounted to €4,713.5bn of which the Central Bank held €61.9bn (2020: €3,694.6bn of which the Central Bank held €49.5bn) (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	2021	6,522	429	2,406	298,167	2,487,136	28,477	309,676	1,580,665	4,713,478
	2020	28,663	452	2,764	287,545	2,341,608	29,497	250,403	753,711	3,694,643
Bank	2021	101	-	-	2,524	37,896	-	-	21,382	61,903
	2020	360	-	-	3,214	36,024	-	-	9,936	49,534

(ii) Other Securities

"Other Securities" includes marketable securities that are not held for monetary policy operations of the Eurosystem.

	2021 €000	2020 €000
Security Investments - MTM (a)	10,892,938	14,879,389
Security Investments - HTM (b)	6,423,351	8,363,094
Total	**17,316,289**	**23,242,483**

Maturity Profile

	2021 €000	2020 €000
0 - 3 months	1,724,268	1,005,641
3 months - 1 year	2,173,729	2,414,395
1 - 5 years	3,953,309	5,747,119
5 - 10 years	531,757	1,079,986
10 - 15 years	-	-
> 15 years	8,933,226	12,995,342
Total	**17,316,289**	**23,242,483**

(a) Security Investments - MTM

	2021 Closing Market Value €000	2020 Closing Market Value €000
Special Portfolio (i)	8,933,227	12,995,343
Treasury Bills	1,607,884	1,005,398
Government Issue Bonds	351,827	798,635
Financial Issue Bonds	-	80,013
Total	**10,892,938**	**14,879,389**

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(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 2021, the Central Bank sold €2.0bn nominal of the 2051 FRNs realising gains amounting to €1.3bn (2020: sold €1.0bn nominal of the 2051 FRNs, gain €0.6bn) (Note 3(i)). On a cumulative basis, the Central Bank has disposed of €19.5bn 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 2021, the remaining FRNs of €5.5bn nominal (2020: €7.5bn nominal) were valued at €8.9bn (2020: €13.0bn) giving rise to an unrealised gain of €3.4bn (2020: €5.5bn) (Note 32(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 €0.5bn (2020: €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 €0.5bn (2020: €0.8bn).

	BOOK VALUES				REVALUATION MOVEMENTS			SUMMARY		
€000	2020 Closing Balance	Purchases	Sales/ Redemptions	2021 Closing Balance	2020 Closing Balance	Opening Revaluation on Disposal	Movement on Retained Portfolio	2021 Closing Balance	2020 Closing Market Value	2021 Closing Market Value
Floating Rate Notes	7,534,000	-	(2,000,000)	5,534,000	5,461,343	(1,396,960)	(665,156)	3,399,227	12,995,343	8,933,227
Total	**7,534,000**	**-**	**(2,000,000)**	**5,534,000**	**5,461,343**	**(1,396,960)**	**(665,156)**	**3,399,227**	**12,995,343**	**8,933,227**

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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: 2022-2023 (€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 to €6.4bn (2020: €8.4bn) relates to a decision by the Central Bank to reduce the size of the HTM.

Securities purchased under the HTM portfolio are measured on an amortised cost basis subject to impairment (Note 1(j)(iii)). There was no impairment of these securities held at 31 December 2021 (2020: Nil) (Note 13(i)).

Note 17: Participating Interest in ECB

	2021 €000	2020 €000
Participating Interest in ECB	226,940	216,609
Total	**226,940**	**216,609**

This represents the Central Bank's contribution to the capital of the ECB (Note 1(c)(xiv)). It is adjusted every five years or in the event that a 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 is 1.3772% (2020: 1.3772%).

The subscribed capital of the ECB is €10,825.0m. After the Bank of England's withdrawal from the ESCB on 31 January 2020, the ECB kept its subscribed capital unchanged and the share of the Bank of England in the ECB's subscribed capital was reallocated among both the euro area NCBs and the remaining non-euro area NCBs.

The ECB's paid-up capital also remained unchanged at €7,659.0m in 2020, as the remaining NCBs covered the withdrawn Bank of England's paid-up capital of €58.0m. In addition, the Governing Council decided that the euro area NCBs would pay up in full their increased subscriptions in two annual instalments in 2021 and 2022.[57] As a result, the Central Bank was required to pay up the first instalment of €10.3m on 29 December 2021, increasing its share in the paid-up capital of the ECB from €128.4m in 2020, to €138.7m in 2021. The second instalment will be paid-up in 2022.

Note 18: Claims Equivalent to the Transfer of Foreign Reserves

	2021 €000	2020 €000
Claims equivalent to the transfer of foreign reserves	683,175	683,175
Total	**683,175**	**683,175**

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 Central Bank's claim in respect of those assets is €683.2m (2020: €683.2m), 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 2021 is 1.6934% (2020: 1.6934%).

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 19: Other Claims within the Eurosystem (net)

	2021 €000	2020 €000
TARGET2 Balance (net) (i)	84,768,093	46,135,118
Share of ECB Profits (ii)	2,540	21,340
Net Result of Pooling of Monetary Income (iii)	(166,015)	(82,216)
Total	**84,604,618**	**46,074,242**

(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 €84.8bn (2020: €46.1bn) (Note 1(c)(ii)). The increase in the TARGET2 asset reflects a net inflow of euro into the State, via the Central Bank's

[57] In particular, Decision (EU) 2020/138 of the ECB of 22 January 2020 on the paying-up of the European Central Bank's capital by the national central banks of Member States whose currency is the euro and repealing Decision (EU) 2019/44 (ECB/2020/4), Decision (EU) 2020/136 of the ECB of 22 January 2020 on the paying-up of the European Central Bank's capital by the non-euro area national central banks and repealing Decision (EU) 2019/48 (ECB/2020/2) and Decision (EU) 2020/139 of the ECB of 22 January 2020 laying down the terms and conditions for transfers of the European Central Bank's capital shares between the national central banks and for the adjustment of the paid-up capital and repealing Decision (EU) 2019/45 (ECB/2020/5).

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TARGET2 account over the period. The inflows were largely channelled through credit institutions' reserve accounts (Note 23).

At year-end 2021, 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 2021 was €150.0m. The Central Bank's share of the ECB's interim distribution of profit for 2021 was €2.5m (2020: €21.3m) (Note 1(c)(v), Note 5(i)).

(iii) This represents the Central Bank's monetary income payable. The 2020 balance has been reclassified from Other Liabilities within Eurosystem (net) to Other Claims within Eurosystem (net) as it is more appropriate to present on the Balance Sheet as a single net asset/liability position (Note 1(c)(iii), Note 1(c)(vi), Note 6(i)).

Note 20: Other Assets

	2021 €000	2020 €000
Accrued Interest Income (i)	726,238	661,055
Property, Plant, Equipment and Intangible Assets (Note 21)	472,224	448,668
- Tangible - Plant, Property, Equipment (Note 21(i))	*451,139*	*429,238*
- Intangible - Computer Software (Note 21 (ii))	*21,085*	*19,430*
BIS Funds (ii)	440,614	-
Equity Fund (iii)	400,776	305,107
Funding Levy (iv)	187,856	181,176
Other (v)	84,908	65,688
Accrued Interest Purchased (vi)	57,394	49,328
Investment Property (vii)	50,740	51,400
Shares in the Bank for International Settlements (viii)	21,828	20,852
IMF Debt Relief (ix)	6,712	-
Prepayments	5,934	4,517
Central Credit Register Recoverable Costs (x)	4,711	7,062
Unrealised Gains on forward contracts (xi)	-	44,665
Total	**2,459,935**	**1,839,518**

(i) This item includes the accrued income earned on the Central Bank's portfolio of securities.

(ii) The Central Bank invested in a number of bond funds in 2021 as part of its long term investment strategy. These funds are externally managed

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by the BIS on behalf of the Central Bank (Note 1(j)(ii), (k), Note 3(ii), Note 32, Note 35).

(iii) 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), (k), Note 32, Note 35).

(iv) The net funding levy of €187.9m (2020: €181.2m) relates to income owed to the Central Bank from industry regulated entities of €190.7m (2020: €184.6m) which will be levied in 2022 as well as a provision for outstanding levies of €2.8m (2020: €3.4m) (Note 39(iv)).

(v) Included in Other is an amount of €39.1m (2020: €30.3m) which relates to accrued interest income on government accounts, €24.7m (2020: €9.9m) relating to debtors and €14.6m (2020: €9.7m) relating to other accrued interest income.

(vi) Accrued interest purchased has increased to €57.4m (2020: €49.3m) which is largely driven by the increased investment in monetary policy securities.

(vii) In November 2015, the Central Bank acquired Block R, Spencer Dock. The property, which comprises both commercial and retail space, is partially assigned to 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 14 years, with a break clause in 6 years. The lease includes a provision for a five-yearly rent review according to prevailing market conditions. The most recent review was agreed on 27 July 2021.

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 €0.7m from €51.4m in 2020 to €50.7m in 2021. Any unrealised losses in relation to this revaluation are treated in accordance with the Guideline (Note 1(p), Note 7(iv), Note 32).

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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

	2021 €000	2020 €000
Not later than one year	2,636	1,583
After one year but not more than five years	10,546	6,332
After five years	22,038	14,815
Total	**35,220**	**22,730**

(viii) The Central Bank holds 8,564 shares (2020: 8,564 shares) in the Bank for International Settlements, the euro equivalent of which is €21.8m (2020: €20.9m) (Note 5(ii), Note 34(i)).

(ix) This debtor relates to monies due to the Central Bank from the Exchequer (€6.5m) in respect of income transferred from Ireland's Special Contingent Account (SCA-1) and deferred charges adjustments to the Administered Account held with the IMF. These funds were utilised to fund Ireland's contribution to the two debt relief programs to countries eligible for the Heavily Indebted Poor Countries (HIPC) Initiative, in March 2020 and June 2021 (Note 2(vi)). Included in the total IMF Debt relief of €6.7m is a related unrealised exchange rate gain of €0.2m.

(x) The balance in the CCR asset account was €4.7m (2020: €7.1m) representing the costs of the CCR yet to be recouped through fees charged to CIPs (Note 1(q), Note 7(iii)).

(xi) Unrealised Gains on foreign exchange contracts have decreased to Nil (2020: €44.7m).

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Note 21: 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	
	2021 €000	2020 €000	2021 €000	2020 €000	2021 €000	2020 €000	2021 €000	2020 €000	2021 €000	2020 €000	2021 €000	2020 €000	2021 €000	2020 €000
At Cost - 1 January	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
Transfer	-	85	190	148	3,960	201	106	200	-	726	(4,256)	(1,360)	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	35,560	30,232	35,560	30,232
Disposals (a)	-	(140)	(35,851)	-	-	(147)	(112)	-	(46)	-	-	(346)	(36,009)	(633)
At Cost - 31 December	163,789	163,789	44,414	80,075	19,281	15,321	7,133	7,139	16,799	16,845	291,198	259,894	542,614	543,063
Accumulated Depreciation at 1 January	28,624	24,676	53,858	51,161	11,433	8,476	6,826	6,748	13,084	10,927	-	-	113,825	101,988
Depreciation for Year (b)	3,965	3,964	2,680	2,697	3,005	3,104	91	78	2,267	2,157	-	-	12,008	12,000
Transfer	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	(16)	(34,200)	-	-	(147)	(112)	-	(46)	-	-	-	(34,358)	(163)
Accumulated Depreciation at 31 December	32,589	28,624	22,338	53,858	14,438	11,433	6,805	6,826	15,305	13,084	-	-	91,475	113,825
Net book value at 31 December	**131,200**	**135,165**	**22,076**	**26,217**	**4,843**	**3,888**	**328**	**313**	**1,494**	**3,761**	**291,198**	**259,894**	**451,139**	**429,238**

(a) Print machinery with an original acquisition value of €35.9m, of which €34.2m had been depreciated, resulting in a book value of €1.7m, was disposed of during the year giving rise to proceeds of €1.4m.The loss of €0.3m on the disposal has been recognised as an expense in the Profit and Loss and Appropriation account (Note 8, Note 29(i)). Additionally, disposals across the other asset classes primarily relate to the retirement of zero value assets that are no longer in use by the Central Bank.

(b) Of the total depreciation charge of €12.0m (2020: €12.0m), €0.1m in respect of Mint machinery was charged to the Currency Reserve (2020: €0.1m).

(c) Assets Under Construction relates to capital expenditure incurred on assets which have not yet come into use by the year-end (Note 1(e)(v)). An amount of €285.1m relates to the building of the Mayor Street premises, which is part of the Campus Development strategy of the Central Bank.

(d) The Central Bank currently holds an art collection valued at €2.1m based on a 2021 valuation (2020: €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)).

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(ii) Intangible Computer Software

	Computer Equipment		Assets Under Construction (a)		Total Intangible Fixed Assets	
	2021 €000	2020 €000	2021 €000	2020 €000	2021 €000	2020 €000
At Cost - 1 January	39,236	46,633	12,573	14,039	51,809	60,672
Transfer	11,900	2,110	(11,900)	(2,110)	-	-
Acquisitions	-	-	4,837	3,653	4,837	3,653
Disposals	(15)	(9,507)	-	(3,009)	(15)	(12,516)
At Cost - 31 December	51,121	39,236	5,510	12,573	56,631	51,809
Accumulated Depreciation at 1 January	32,379	39,162	-	-	32,379	39,162
Depreciation for Year	3,182	2,724	-	-	3,182	2,724
Disposals	(15)	(9,507)	-	-	(15)	(9,507)
Accumulated Depreciation at 31 December	35,546	32,379	-	-	35,546	32,379
Net Book Value at 31 December	**15,575**	**6,857**	**5,510**	**12,573**	**21,085**	**19,430**

a) Assets Under Construction (AUC) relates to capital expenditure incurred on assets which have not yet come into use by the year-end (Note 1(e)(v)). The Unity programme is concerned with delivery of a strategic solution for master data management and enhancing the strategic self-service analytics capability through provision of master data along with the delivery of an external industry portal. This will include 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. Phase 1 of this programme (€7.8m) was delivered, and included, in the €11.9m transfer from the AUC account to the Intangible Computer Equipment asset category.

Note 22: Banknotes in Circulation

	2021 €000	2020 €000
Total value of euro banknotes issued into circulation by the Central Bank	44,281,381	41,948,870
Liability resulting from the ECB's share of euro banknotes in circulation	(2,092,182)	(1,943,336)
Liability according to the Central Bank's weighting in the ECB's capital key	(18,127,664)	(17,655,837)
Total	**24,061,535**	**22,349,697**

This item consists of the Central Bank's share of total euro banknotes issued by the Eurosystem. The total value of euro banknotes in circulation is allocated to each NCB on the last working day of each month in accordance with the banknote allocation key.

The value of the euro banknotes actually issued by the Central Bank increased by 5.6% (2020: 7.7%) in 2021, from €41.9bn to €44.3bn. The total value of banknotes in circulation within the Eurosystem increased by 7.7% (2020: 10.9%) from 1 January 2021 to end-December 2021. According to the allocation key, the Central Bank had euro banknotes in circulation worth €24.1bn at year-end 2021, compared to €22.4bn at year-end 2020. As the banknotes actually issued by the Central Bank were more than the allocated amount, the difference of €20.2bn (2020: €19.6bn) is shown in "Liabilities Related to the Allocation of Euro Banknotes within the Eurosystem" (Note 1(c)(iv), Note 28).

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

	2021 €000	2020 €000
Current Accounts (covering the minimum reserve system) (i)	95,525,764	48,761,443
Deposit Facility (ii)	12,622,000	13,312,184
Total	**108,147,764**	**62,073,627**

(i) Credit institutions in the euro area are required to hold minimum average reserve deposits, excluding funds of credit institutions that are not freely disposable and accounts of credit institutions exempt from minimum reserve requirements, 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 2021 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 of -0.5% (Note 2(i)).

Note 24: Other Liabilities to Euro Area Credit Institutions in Euro

	2021 €000	2020 €000
Repurchase Agreements	1,779,277	3,101,460
Total	**1,779,277**	**3,101,460**

These items have a maturity of less than one year.

As part of the management of its investment assets, the Central Bank uses repurchase transactions with approved counterparties under GMRA legal agreements. The decrease in repurchase agreements with euro area residents in euro to €1,779.3m (2020: €3,101.5m) relates to a general reduction in repurchase trading (Note 1(l)).

Note 25: Liabilities to Other Euro Area Residents in Euro

	2021 €000	2020 €000
General Government Deposits (i)	31,231,682	19,215,112
Other Liabilities	5,128	9,588
Currency Reserve Relating to Net Proceeds of Coin (ii)	3,079	4,423
Total	**31,239,889**	**19,229,123**

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 (Note 2(i)).

(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)). Expenses in relation to the production of coin are captured in Note 8. Expenses related to retirement benefits are included in Note 30. Details of net proceeds for the year are included in the table below:

	2021 €000	2020 €000
Coin issued/(redeemed) into Circulation	22,590	(8,141)
Specimen Coin Sets	295	609
Withdrawn Irish Coin	(163)	(120)
Less Operating Costs (Note 8)*	(3,742)	(2,413)
Net Proceeds of Coin Issue	**18,980**	**(10,065)**
Superannuation Employer Contribution**	(406)	(131)
Transfer (to)/from the Exchequer	(19,918)	11,851
Opening Balance	4,423	2,768
Closing Balance	**3,079**	**4,423**

* Included in 2021 Operating Costs of €3.7m is €2.4m relating to local overhead costs attributable to the provision and issuance of coin.

** Included in Superannuation Employer Contribution of €0.4m is €0.2m relating to pension expenses for staff involved in providing local overhead services.

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 issuance of coin amounting to €22.6m (2020: net redemption €8.1m) from the Central Bank in 2021. As a result, this generated a transfer of €19.9m which was paid to the Exchequer on 23 December 2021 (2020: €11.9m paid from the Exchequer to the Central Bank).

Note 26: Liabilities to Non-Euro Area Residents in Euro

	2021 €000	2020 €000
International Financial Institutions (i)	10,062	61
EU Agencies	518	516
Repurchase Agreements (ii)	-	185,623
Total	**10,580**	**186,200**

The balances above have a maturity of less than one year.

(i) The increase in International Financial Institutions to €10.1m (2020: €0.1m) largely relates to a year-end lodgement by an international organisation.

(ii) As part of the management of its investment assets, the Central Bank uses repurchase transactions with approved counterparties under GMRA legal agreements. The decrease in repurchase agreements with non-euro area residents in euro to Nil (2020: €185.6m) 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 1(l)).

Note 27: Counterpart of Special Drawing Rights Allocated by the IMF

	2021 €000	2020 €000
Counterpart of SDR allocated by the IMF	5,044,920	913,917
Total	**5,044,920**	**913,917**

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. During 2021, the Central Bank received Ireland's share (€4.0bn) of a new general allocation of SDRs by the IMF (Note 11(ii)).

Note 28: Liabilities Related to the Allocation of Euro Banknotes within the Eurosystem

	2021 €000	2020 €000
Liability according to the Central Bank's weighting in the ECB's capital key	18,127,664	17,655,837
Liability resulting from the ECB's share of euro banknotes in circulation	2,092,182	1,943,336
Total	**20,219,846**	**19,599,173**

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 22). 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 29: Other Liabilities

	2021 €000	2020 €000
Profit & Loss Appropriation (i)	1,067,573	665,703
Interest Accruals (ii)	172,300	29,892
DGS Contributory Fund (iii)	154,112	140,532
Insurance Compensation Fund (iv)	53,244	40,938
Other Liabilities	42,549	47,920
Other Accruals (v)	27,622	33,979
Credit Institutions Resolution Fund (vi)	1	5
Total	**1,517,401**	**958,969**

(i) This represents the amount of Surplus Income Payable to the Exchequer (Note 1(o), Note 9).

(ii) This figure primarily relates to the accrued interest expense on TLTRO-II and TLTRO-III operations (Note 14). The 2021 increase is due to increased uptake of TLTRO lending.

(iii) 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	2021 €000	2020 €000
Opening Balance Held with Central Bank	140,532	114,563
Contributions	150,915	128,219
Payments	(84)	(13,458)
Interest - pay out	(70)	(136)
Dividends (a)	1,819	9,344
NTMA Exchequer Note Programme (b)	(139,000)	(98,000)
Closing Balance Held with Central Bank	**154,112**	**140,532**

(a) Dividends arising from the liquidations of Berehaven and Rush Credit Unions were transferred to the DGS Contributory Fund in 2021 as detailed below:

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Dividends	2021 €000	2020 €000
Berehaven Credit Union	1,500	-
Rush Credit Union	319	-
Drumcondra Credit Union	-	9,000
IBRC	-	325
Charleville Credit Union	-	19
Total	**1,819**	**9,344**

(b) This is money deposited with the NTMA. A balance of €561.0m (2020: €422.0m) was held with the NTMA in relation to the DGS Contributory Fund.

(iv) 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 €53.2m (2020: €40.9m) represents deposits with the Central Bank on behalf of the Fund.

(v) Included in other accruals is an accrual of €11.4m (2020: €11.9m) in respect of untaken annual leave (Note 8(i)), capital project accruals (€5.3m) and shared Eurosystem project costs yet to be invoiced (€4.1m).

(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 (2020: €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.

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Note 30: 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 2021 to comply with disclosure requirements under FRS 102.

(i) Amount charged to Profit and Loss and Appropriation Account

	Profit and Loss 2021 €000	Profit and Loss 2020 €000
Expected Return on Assets	5,000	8,600
Interest on Pension Scheme Liabilities	(10,200)	(15,300)
Current Service Cost (i)	(75,100)	(59,500)
Past Service Cost (ii)	(6,500)	-
Total Pension Cost of Defined Benefit Scheme	**(86,800)**	**(66,200)**

(i) Current Service costs charged to the Profit and Loss and Appropriation Account in 2021 was €75.1m (2020: €59.5m) and is based on actuarial assumptions set at the beginning of each year. The increase in the charge compared to 2020 was primarily due to the decrease in the discount rate from 1.10% at 31 December 2019 to 0.60% at 31 December 2020 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.

(ii) The past service cost of €6.5m reflects adjustments made during 2021 to pensions in payment for some retired members and a pensionable salary increase for a small number of active members and deferred members.

The return on the fund in 2021 was 10.7% (2020: 3%).

As at 31 December 2021, there was no previously unrecognised surplus deducted from settlements or curtailments and no gains or losses on any settlements or curtailments.

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

Year Ended 31 December	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
Actuarial gain/(loss) on pension liability	178,361	(231,228)	(291,921)	622	35,345
Actuarial gain/(loss) on plan assets	83,490	15,094	68,211	(34,533)	25,232
Total	**261,851**	**(216,134)**	**(223,710)**	**(33,911)**	**60,577**

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(iii) Balance Sheet Recognition

Year Ended 31 December	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
Present value of Wholly or Partly Funded Obligations (iv)	(1,608,408)	(1,697,988)	(1,393,987)	(1,043,408)	(993,442)
Fair Value of Plan Assets (v)	945,093	829,418	783,815	679,157	687,561
Net Pension Liability	**(663,315)**	**(868,570)**	**(610,172)**	**(364,251)**	**(305,881)**

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.

Projected cash flow amounts were used during the assumption setting process for 31 December 2021. This results in an immaterial difference of €0.2m between the balance on the face of the Balance Sheet under Retirement Benefits (which reflects actual cash flow figures) versus the net actuarial pension liability reflected in Note 30.

(iv) Movement in Scheme Obligations

	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
Opening Present Value of Scheme Obligations	(1,697,988)	(1,393,987)	(1,043,408)	(993,442)	(971,598)
Current Service Cost	(75,100)	(59,500)	(37,900)	(39,300)	(45,100)
Past Service (Cost)	(6,500)	-	-	-	-
Pensions Paid	17,273	15,442	14,691	14,519	12,314
Employee Contributions	(13,930)	(13,062)	(13,843)	(6,632)	(5,631)
Transfers Received	(324)	(353)	(706)	(275)	(272)
Interest on Pension Scheme Liabilities	(10,200)	(15,300)	(20,900)	(18,900)	(18,500)
Actuarial Gain/(Loss)	178,361	(231,228)	(291,921)	622	35,345
Closing Present Value of Scheme Obligations	**(1,608,408)**	**(1,697,988)**	**(1,393,987)**	**(1,043,408)**	**(993,442)**

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(v) Movement in Fair Value of Plan Assets

	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
Opening Fair Value of Plan Assets (Bid Value)	829,418	783,815	679,157	687,561	638,695
Expected Return	5,000	8,600	13,600	13,100	12,100
Actuarial Gain/(Loss)	83,490	15,094	68,211	(34,533)	25,232
Employer Contribution	30,204	23,936	22,989	20,641	17,945
Employee Contributions	13,930	13,062	13,843	6,632	5,631
Pensions Paid	(17,273)	(15,442)	(14,691)	(14,519)	(12,314)
Transfers Received	324	353	706	275	272
Closing Fair Value of Plan Assets (Bid Value)*	**945,093****	**829,418**	**783,815**	**679,157**	**687,561**

* 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 2021 was €14.7m (2020: €0.7m) and €6.9m (2020: €8.9m) respectively.

** Projected asset value used for 31 December 2021. Actual asset value used in prior years.

(vi) Financial Assumptions

	2021 %	2020 %	2019 %	2018 %	2017 %
Discount Rate	1.00	0.60	1.10	2.00	1.90
Rate of Increase in Pensionable Salaries	3.40	3.30	3.30	3.30	3.30
Rate of Increase in Pensions	3.40	3.30	3.30	3.30	3.30
Rate of Price Inflation	2.00	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 2.7%/2.8% (2020: 2.9%/3.0%) 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.

	2021	2020
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: 86.9 Female: 89.3	Male: 86.8 Female: 89.2

(vii) Plan Assets of the Scheme

Class	Distribution	Long Term Distribution
	%	%
Bonds	38.4	40.0
Cash	2.3	-
Equities	40.3	40.0
Multi asset funds (MAF)	9.7	10.0
Property	9.3	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.

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Note 31: Provisions

The following amounts were provided for at 31 December 2021:

	Opening Balance 2021 €000	Created €000	Utilised €000	Released to P&L €000	Closing Balance 2021 €000
Provision for financial risks (i)	1,300,000	500,000	-	-	1,800,000
Unredeemed Irish Pound Banknotes (ii)	4,420	-	-	(403)	4,017
Restructuring Provision (iii)	-	2,214	-	-	2,214
Total	**1,304,420**	**502,214**	**-**	**(403)**	**1,806,231**

(i) The Central Bank has a provision for financial risks (Note 35). 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 €1,800m is included in the 2021 statement of accounts, which represents an increase of €500.0m compared to the provision made for the same risk in 2020 (2020: €1,300.0m). The increase is primarily driven by ongoing purchases under the APP and PEPP, 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 €0.4m was redeemed in 2021 leaving the balance in the provision at €4.0m as at 31 December 2021 (2020: €4.4m) (Note 34(iii)).

(iii) The Central Bank is restructuring the Cash operations function in the Currency Centre and implementing a revised cash operating model. The Central Bank has commenced engagement on the implementation of the new model with impacted staff, their representatives and Trade Unions. The provision of €2.2m relates to expected costs associated with the restructure and is expected to be utilised during 2022.

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Note 32: Revaluation Accounts

	2021 €000	2020 €000	Net Movement in Unrealised Gains €000
Securities (i)	3,403,188	5,476,979	(2,073,791)
Foreign Currency (ii)	316,466	18,035	298,431
Gold (iii)	268,814	250,815	17,999
Equity Fund (iv)	182,395	86,580	95,815
Investment Property (Note 20(vii))	5,192	5,852	(660)
At 31 December	**4,176,055**	**5,838,261**	**(1,662,206)**

(i) The revaluation on securities relates primarily to unrealised capital gain movements arising from the year-end 2021 valuation of the securities acquired following the liquidation of the IBRC. The decrease is due to sales of €2.0bn nominal of the FRNs in 2021, as well as a decrease in FRN prices. (Note 1(j), Note 16(ii)(a)).

(ii) The increase in the foreign currency value at year-end 2021 is mainly as a result of decreased foreign exchange rates on the AUD, USD, CNY and SGD currencies compared to year-end 2020 (Note 1(j)(i), Note 3(ii),(iii), Note 11(i)(a), Note 12 (ii), Note 20(ii),(viii), Note 35).

(iii) The increase in the balance of gold at year-end 2021 is due to the change in the market value of gold holdings as well as an increase in gold holdings from year-end 2020 to 2021 (Note 1(j)(iv), Note 10).

(iv) The increase in the value of the equity fund is due to higher equity prices at year-end 2021 compared to year-end 2020 (Note 1(j)(ii), (k), Note 20(iii), Note 35).

The foreign exchange rates used vis-à-vis the euro for the year-end 2021 valuations are as follows:

Currency	2021 Rate	2020 Rate
Australian Dollar	1.5615	1.5896
Canadian Dollar	1.4393	1.5633
Chinese Yuan Renminbi	7.1947	8.0225
Danish Krone	7.4364	7.4409
Japanese Yen	130.3800	126.4900
SDR	0.8091	0.8485
Singapore Dollar	1.5279	1.6218
Sterling	0.8403	0.8990
Swedish Krona	10.2503	10.0343
Swiss Franc	1.0331	1.0802
US Dollar	1.1326	1.2271
The gold prices used were:		
Euro per fine ounce	1,609.483	1,543.884

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Note 33: Capital and Reserves

	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	-	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**

	Capital (i) €000	General Reserve €000	Currency Reserve €000	Total €000
At 31 December 2020	**30**	**4,632,414**	**351,648**	**4,984,092**
Retained profit for the year (ii)	-	253,894	-	253,894
Actuarial Gain on Pension Scheme	-	261,851	-	261,851
At 31 December 2021	**30**	**5,148,159**	**351,648**	**5,499,837**

(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 to the General Reserve of €515.7m comprising of €253.9m from the Profit and Loss and Appropriation account and an actuarial gain of €261.8m, which was recognised in the Profit and Loss and Appropriation Account (Note 30(ii)).

Note 34: 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 5(ii), Note 20(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 17, Note 18).

(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 2021, Irish pound banknotes to the value of €223.7m (2020: €224.1m) were still outstanding, against which the Central Bank has a provision of €4.0m (2020: €4.4m) (Note 31(ii)).

(iv) *Litigation*

The Central Bank has three on-going legal cases (2020: four) 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 (2020: None).

Commitments

(i) Operating Leases

The Central Bank did not enter into any new operating leases in 2021.

Future Minimum Lease Payments	2021 €000	2020 €000
Not later than one year	102	107
After one year but not more than five years	374	374
After five years	608	701
Total	**1,084**	**1,182**
Actual Lease Payments	96	446

Note 35: 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

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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 and the PEPP), 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

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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.

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

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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 16(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 €500m to €1,800m for 2021 (Note 31).

Foreign Exchange Risk

Foreign exchange risk refers to the risk of loss due to changes in exchange rates. In the context of being 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 unhedged 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 2021, the Central Bank's portfolios were predominantly denominated in euro, in addition to an exposure to certain foreign currency fixed income assets on a hedged basis, an exposure to foreign currency fixed income assets on an unhedged basis, and some gold holdings. 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 2021 (Note 11, Note 12, Note 27).

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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.

Externally Managed Funds

Since 2018, the Central Bank has held an equity portfolio which is subject to movements in equity prices (price risk). In 2021 the Central Bank also established holdings in externally managed bond funds, which are subject to foreign exchange risk, credit risk, and interest rate risk. Risks for external funds are managed via diversification, clearly defined investment mandates and risk limits, and risks are monitored by both the Central Bank and the investment managers on a regular basis.

Note 36: Off-Balance Sheet Items

(i) Unmatured Contracts in Foreign Exchange

	31 December 2021				31 December 2020			
	DKK 000	EUR 000	JPY 000	SDR 000	DKK 000	EUR 000	JPY 000	SDR 000
Unmatured Purchases	-	1,273,232	43,692	-	7,760	1,684,204	66,959	-
Unmatured Sales	-	(334)	(122,743,740)	(273,027)	(1,876,260)	(1,599)	(115,266,959)	(409,427)
Unmatured Purchases and Sales	**-**	**1,272,898**	**(122,700,048)**	**(273,027)**	**(1,868,500)**	**1,682,605**	**(115,200,000)**	**(409,427)**

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 November 2022.

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(ii) Unmatured Contracts in Futures

	2021 €000	2020 €000
Unmatured Purchases	860,000	1,205,893
Unmatured Sales	-	(132,897)
Unmatured Purchases and Sales	**860,000**	**1,072,996**

These contracts are used for hedging interest rate exposure as well as making investments within approved limits. The 2021 balance includes only EUR investments (2020: EUR and USD).

All futures contracts are scheduled to mature by 8 March 2022.

Note 37: 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 2021 were:

- Provision of banking services including holding the principal accounts of Government (Note 25(i)).
- Provision and issue of coin (Note 25(ii)).
- Holding and maintaining the Register of Irish Government securities.
- Administration of borrowing and lending operations with the Eurosystem including the receipt of the funds under the SURE Programme, the temporary instrument established by the European Commission to address the impact of COVID-19 by providing loans to affected Member States.
- Act as a Depository and Fiscal Agent in relation to Ireland's membership of the IMF.

(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 5, Note 6, Note 14, Note 16, Note 23).
- Share of ECB profits (Note 5(i)).
- Participating interest in the ECB capital (Note 17).
- Claims equivalent to the transfer of foreign reserves to the ECB (Note 18).

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- TARGET2 Balance (Note 19).
- Banknotes in circulation (Note 22, Note 28).
- Provisions (Note 31).

(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 2021 the Central Bank recovered costs of €1.0m (2020: €0.8m). At 31 December 2021 a balance of €63,648 was due from ICCL (2020: €171,140) (Note 20(v)). 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 €53.2m (2020: €40.9m) was held with the Central Bank on behalf of the Fund as at 31 December 2021 (Note 29(iv)).

(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 (2020: €0.01m) was held with the Central Bank on behalf of the Fund as at 31 December 2021 (Note 29(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 30.

(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 2021.

(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.

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Note 38: Events after the End of the Reporting Period

(i) ECB Final Distribution of Profits

The Governing Council decided on 17 January 2022 to distribute its remaining profit for 2021, amounting to €41.7m (2020: €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 €0.7m (2020: €6.5m), which was paid on 18 February 2022, and will be accounted for in the 2022 Statement of Accounts.

Note 39: Financial Regulation Activities

				2021 €000	2020 €000
Funding of Financial Regulation Activities	Levy Income	Current year levies		190,730	185,595
		Prior year deficit		457	(1,572)
		Recoup of Deferred Levy Income (i)		(5,964)	(5,964)
		Levy Income (ii)		**185,223**	**178,059**
		Prior year variance on accrual (iii)		858	(5,788)
		Total Levy Income	A	**186,081**	**172,271**
	Provisions	Opening Provisions for Unpaid Levies		3,377	1,193
		Levies Written Off		(1,303)	(25)
		Closing Provisions for Unpaid Levies (iv)		(2,819)	(3,377)
		Charge for Year	B	**(745)**	**(2,209)**
	Financial Regulation Net Industry Funding (Note 7(i))		**C** (A+B)	**185,336**	**170,062**
	Other Income	Securities Market Fees		2,304	2,161
		Additional Supervisory Levy		2,164	2,155
		Miscellaneous		244	24
		Other Income (Note 7)	D	**4,712**	**4,340**
	Total Income		**E** (C+D)	**190,048**	**174,402**
	Subvention	Securities Market Supervision Activities		9,723	9,058
		Other Financial Regulation Costs not Recovered		18,318	23,349
		Prior year variance on accrual (iii)		(1,604)	5,891
		Subvention from Central Bank (v)	F	**26,437**	**38,298**
	Total Funding of Financial Regulation Activities		**G** (E+F)	**216,485**	**212,700**
Costs of Financial Regulation Activities	Direct Expenses	Salaries / Allowances		83,502	83,405
		PRSI		8,640	8,210
		Pension Provision		16,053	12,691
		Staff Expenses	H	**108,195**	**104,306**
		Training & Conferences		156	161
		Business Travel		5	324
		Professional Fees		3,952	3,555
		Other Non-Pay		1,557	1,447
		Communications & IT		666	785
		Facilities, Rent, Depreciation		1,570	2,173
		Non-Pay Operating Expenses	I	**7,906**	**8,445**
		Total Direct Expenses	**J** (H+I)	**116,101**	**112,751**
	Support Services	Premises & Facilities		15,731	15,841
		Information Technology Services		42,990	42,081
		Human Resources		7,014	7,286
		Other Services		35,411	34,717
		Total Support Services (vi)	K	**101,146**	**99,925**
	Provisions	**Restructuring Charge for Year**	L	-	**27**
	Other Income	**Miscellaneous Receipts**	M	**(127)**	**(113)**
	Costs reallocated	**NCID levy costs**	N	**(378)**	-
		Prior year variance on accrual (iii)	O	**(257)**	**110**
	Total Costs of Financial Regulation Activities		**P** (J+K+L+M+N+O)	**216,485**	**212,700**

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(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 being 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 2021 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 an estimate of 2021 levy income and a breakdown of 2020 actual levy income.

	2021 Levy Income Estimate	2020 Actual Levy Income	2019 Deficit / (Surplus)	Amount levied for 2020 Levies	2020 Deficit / (Surplus)
		A (C+D-B) €000	B €000	C €000	D €000
Credit Institutions		76,194	8	76,249	(47)
Insurance Undertakings		48,996	370	47,852	1,514
Intermediaries & Debt Management Firms		5,241	3	6,931	(1,687)
Securities and Investment Firms		34,230	936	35,249	(83)
Investment Funds		10,397	128	10,826	(301)
Credit Unions		4,543	(5)	4,539	(1)
Moneylenders		779	-	762	17
Approved Professional Bodies		19	(9)	10	-
Bureaux de Change		17	-	16	1
Home Reversion, Retail Credit & Credit Servicing Firms		2,287	129	2,313	103
Payment Services & E-Money Institutions		2,199	12	2,184	27
Total Funding	**185,223**	**184,902**	**1,572**	**186,931**	**(457)**

(iii) Prior year variance on accrual

Prior year variance on accrual represents the difference between the 2020 levy income accrued in the 2020 Statement of Accounts and the final funding requirement to cover 2020 costs. The majority of the difference between estimated and final funding requirement for 2020 relates to revised assumptions for the final levy model 2020 which required the

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removal of NCID costs, as it will be invoiced separately from the Industry Funding Levy.

	2020 Final €000	2020 Accrued €000	Variance €000
Total Levy Income	178,918	178,059	859
Provision Charge	(1,728)	(2,216)	488
Other Income	4,340	4,340	-
Subvention from Central Bank	30,803	32,407	(1,604)
Total Funding of Financial Regulation Activities	**212,333**	**212,590**	**(257)**
Total Costs of Financial Regulation Activities (*excluding prior year variance)*	**212,333**	**212,590**	**(257)**

(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 general approach 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 €9.7m (2020: €9.1m) 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 €101.0m (2020: €100.0m).

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 40: Comparatives

Certain comparative information has been reclassified for consistency with current year disclosures.

Note 41: Approval of Accounts

The Commission approved the Statement of Accounts on 5 April 2022.

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INDEPENDENT AUDITORS' REPORT

TO THE COMMISSION OF

THE CENTRAL BANK OF IRELAND

Report on the audit of the Statement of Accounts

Opinion

We have audited the Statement of Accounts of the Central Bank of Ireland ('the Bank') for the year ended 31 December 2021, which comprise the Profit and Loss and Appropriation Account, the Balance Sheet and the notes to the Statement of Accounts, including the summary of significant accounting policies set out in 1 to 41. 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* issued in the United Kingdom by the Financial Reporting Council (FRS 102).

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 2021, and of the Surplus Income Payable to the Exchequer for the year then ended; and
- has been properly prepared in accordance with the Guideline and where the Guideline is silent, FRS 102.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described in the responsibilities of the auditors for the audit of the Statement of Accounts section of our report.

We are independent of the Bank in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – basis of accounting

We draw your attention to note 1 of the Statement of Accounts which describes the accounting principles and valuation methods applicable to the Bank, some of which are specific to the European System of Central Banks. The Statement of Accounts are prepared for the purpose as described therein. As a result, the Statement of Accounts of the Bank may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

mazars

INDEPENDENT AUDITORS' REPORT

TO THE COMMISSION OF

THE CENTRAL BANK OF IRELAND

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the Commission Members' use of the going concern basis of accounting in the preparation of the Statement of Accounts is not appropriate: or
- the Commission Members have not disclosed in the Statement of Accounts any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Statement of Accounts are authorised for issue.

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.

mazars

INDEPENDENT AUDITORS' REPORT

TO THE COMMISSION OF

THE CENTRAL BANK OF IRELAND

Responsibilities of the auditors for the audit of the Statement of Accounts

Our objectives are to obtain reasonable assurance about whether the Statement of Accounts as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Statement of Accounts.

A further description of our responsibilities for the audit of the Statement of Accounts is located on the IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf. This description forms part of our auditors' report.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Commission of the Bank as a body, in accordance with Article 27 of the Statute of the European Central Bank. Our audit work has been undertaken so that we might state to the Commission Members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission for our audit work, for this report, or for the opinions we have formed.

Patrick Gorry

Patrick Gorry

for and on behalf of Mazars
Chartered Accountants & Statutory Audit Firm
Harcourt Centre, Block 3
Harcourt Road
Dublin 2

Date: 05 April 2022

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 for the year ended 31 December 2021 as required under the provisions of the Central Bank Act 1942 (as amended). The statement of accounts comprise

- 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 2021 and of its income and expenditure for 2021 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 an annual report, a governance statement and Commission members' report, and a statement on internal control. My responsibilities to report in relation to such information, and on certain other matters upon which I report by exception, are described in the appendix to this report.

I have nothing to report in that regard.

Seamus McCarthy

Seamus McCarthy
Comptroller and Auditor General

5 April 2022

Appendix to the report

Responsibilities of Board members

The governance statement and Commission members' report sets out the Commission members' responsibilities for

- the preparation of annual statement of accounts in the form prescribed under section 32J(3) of the Central Bank Reform Act 2010
- ensuring that the statement of accounts give a true and fair view in accordance with the financial reporting framework
- ensuring the regularity of transactions
- assessing whether the use of the going concern basis of accounting is appropriate, and
- implementing 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.

Responsibilities of the Comptroller and Auditor General

I am required under 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 are 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.

I 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 are not in agreement with the accounting records.

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 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.

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