Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Risk Appetite

Introduction

The mission of the Central Bank of Ireland is to *safeguard financial stability* and *protect consumers*.

In fulfilling its mission, the Bank is exposed to a very broad range of risks which arise as a consequence of performing its duties within the domestic financial sector and as a member of the European System of Central Banks (hereafter 'Eurosystem').

In support of effective governance and risk-informed decision-making, the Commission of the Central Bank of Ireland has set out a risk appetite statement for those risks which, to a lesser or greater extent, are within its control to mitigate and manage. The risk appetite statement specifies the amounts and types of risk the Bank is willing to accept in fulfilling its mandate and informs policies on the allocation of accountabilities and resources to managing its risk exposures.

The risk appetite contributes to the Central Bank of Ireland's (the 'Bank') commitment to uphold the highest standards of governance and professional conduct, consistent with maintaining credibility with its broad-ranging stakeholder groups and in full compliance with applicable legal and regulatory obligations.

The key elements of the Risk Appetite are summarised below.

Risk Appetite Objectives:

The Central Bank of Ireland has a limited appetite for assuming risk on a discretionary basis. Eurosystem National Central Banks assume financial risks on a non-discretionary basis, as part of their participation in monetary policy operations and, in the event of implementing financial stability measures. Any incremental discretionary risk assumed by the Bank must also consider the potential impact of such non-discretionary risk exposures on the Bank's overarching risk profile.

In support of the Bank's mission, the risk appetite focusses on five overarching risk management objectives, namely;

- Upholding the highest ethical standards of conduct;
- Preserving the long-term financial resilience of the Bank;
- Avoiding losses when investing public money;
- Ensuring compliance with legal and regulatory obligations;
- Maintaining a robust internal control environment and safeguarding operational continuity.

A wide range of internal risk indicators and tolerances are defined through with the Bank's risk profile is monitored relative to its risk appetite for its principal risk exposures. The Commission reviews and approves the risk appetite.

Principal Organisational Risks:

The Bank's principal own risk exposures are *strategic*, *financial* and *operational*. These risks are relevant to the Bank's risk appetite as they are its *own* organisational risks which arise as a consequence of it performing its statutory role.

a. Strategic Risks

Strategic risks relate to factors that could prevent the Bank from fulfilling its mission, with particular emphasis on meeting the objectives set out in its Strategic Plan. Strategic risks can arise due to a wide range of internal and external factors. These include, for instance, failing to deliver strategic initiatives effectively in accordance with the organisation's requirements and resources, or a fundamental alteration to the original assumptions upon which the strategic initiatives were predicated.

b. Financial Risks

The Bank is exposed various financial risks types including; Credit, Market, Currency, Liquidity, Income risks. The Bank is exposed to credit risk in the management of its investment assets and in the standard and non-standard monetary policy operations it conducts as a participant within the Eurosystem. Its exposure to market risk primarily arises through the interest rate sensitivity of its marked-to-market investment assets and through non-standard or emergency measures to address financial and/or price instability. Liquidity risk, defined here as the risk of financial loss or difficulties associated with converting assets into cash, may arise on a discretionary basis from the Bank's holdings of investment assets.

Currency or exchange rate risk is defined as the risk of capital losses arising from fluctuations in the value of currencies relative to one another. In the context of the euro area where there is a reduced likelihood of the Bank being required to conduct extraordinary foreign exchange interventions, the Bank's holdings of volatile foreign assets have been reduced to the minimum. Income risk comprises two related dimensions, namely the risk that the Bank's income streams fail to cover its costs, or, that the Bank's operating costs grow in excess of its income generating capacity within a given time period. Failure to manage this risk can compromise the operational independence of the Bank.

c. Operational Risks

Operational risk is defined as the risk of direct or indirect losses, or of reputational damage, arising from inadequate or failed internal processes, people and systems or from external events. The primary categories of operational risk of concern to the Bank are those relating to Technology, Data, Fraud, Physical and Information Security, Business Continuity, Conduct and Compliance. The Bank recognises the potential for significant and material adverse consequences of operational risks materialising as incidents. The Bank aims therefore to ensure the systematic identification, mitigation, monitoring and reporting of operational risks and incidents.