08

Central Bank Annual Report

Central Bank &
Financial Services
Authority of Ireland

EUROSYSTEM

EUROSYSTEM
THE FIRST TEN YEARS

Central Bank and Financial Services Authority of Ireland

30 June 2009

Dear Minister

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

I have the honour to enclose herewith the Activities and Annual Accounts of the Central Bank and Financial Services Authority of Ireland for the year ended 31 December 2008.

Yours faithfully

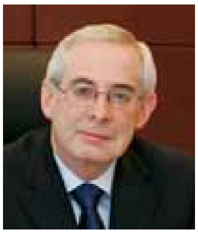
John Hurley

John Hurley

Governor

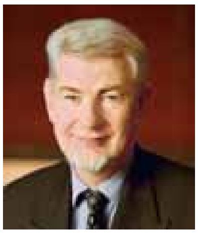
Board of Directors

as at 30 June 2009



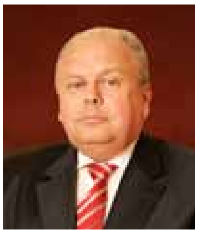
John Hurley, Governor

Tony Grimes, Director General



David Begg

Gerard Danaher



David Doyle

John Dunne

Jim Farrell

Alan Gray

Brian Hillery

Mary O'Dea

Deirdre Purcell

Dermot O'Brien

Brian Halpin, Secretary

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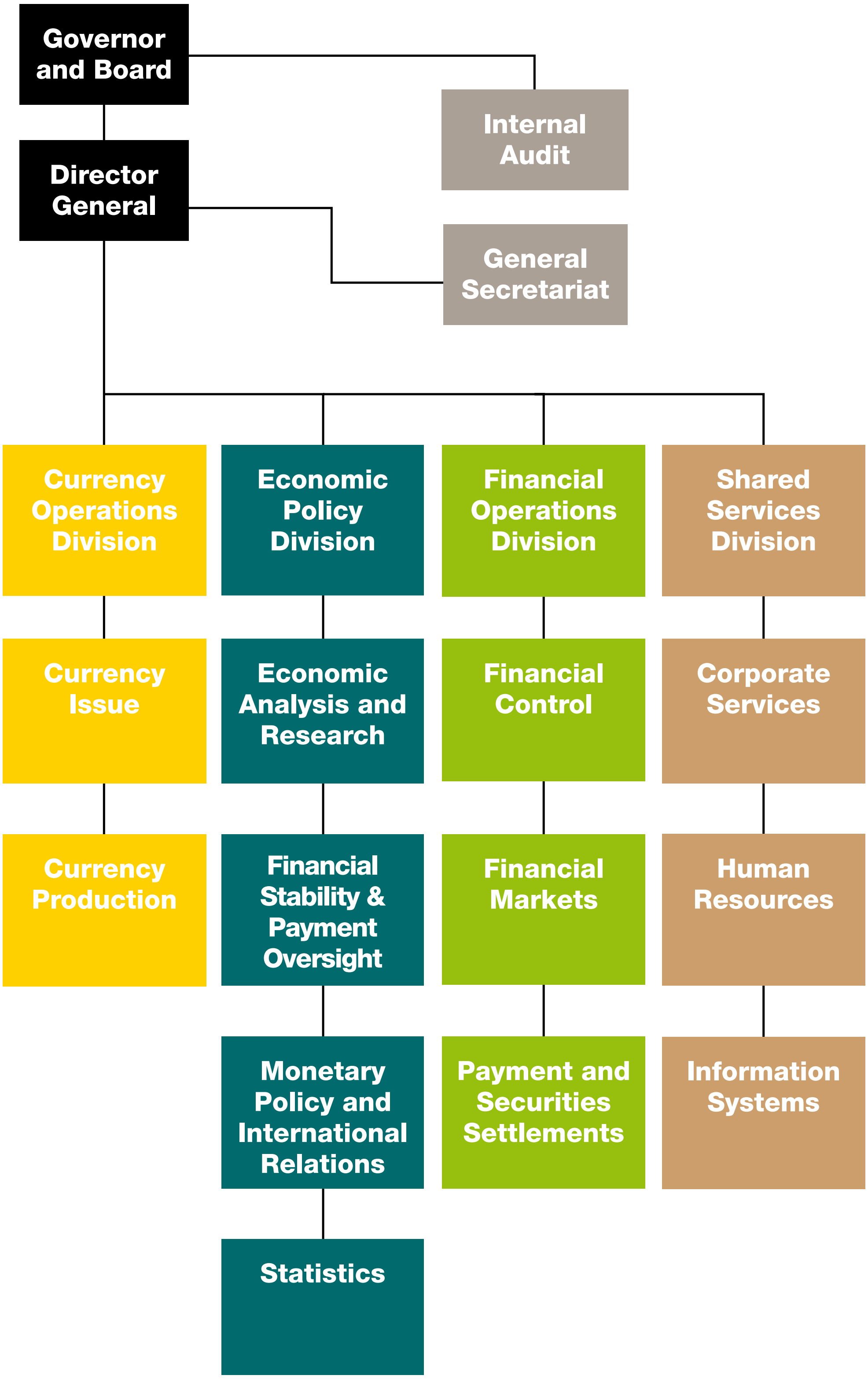
Organisation Chart

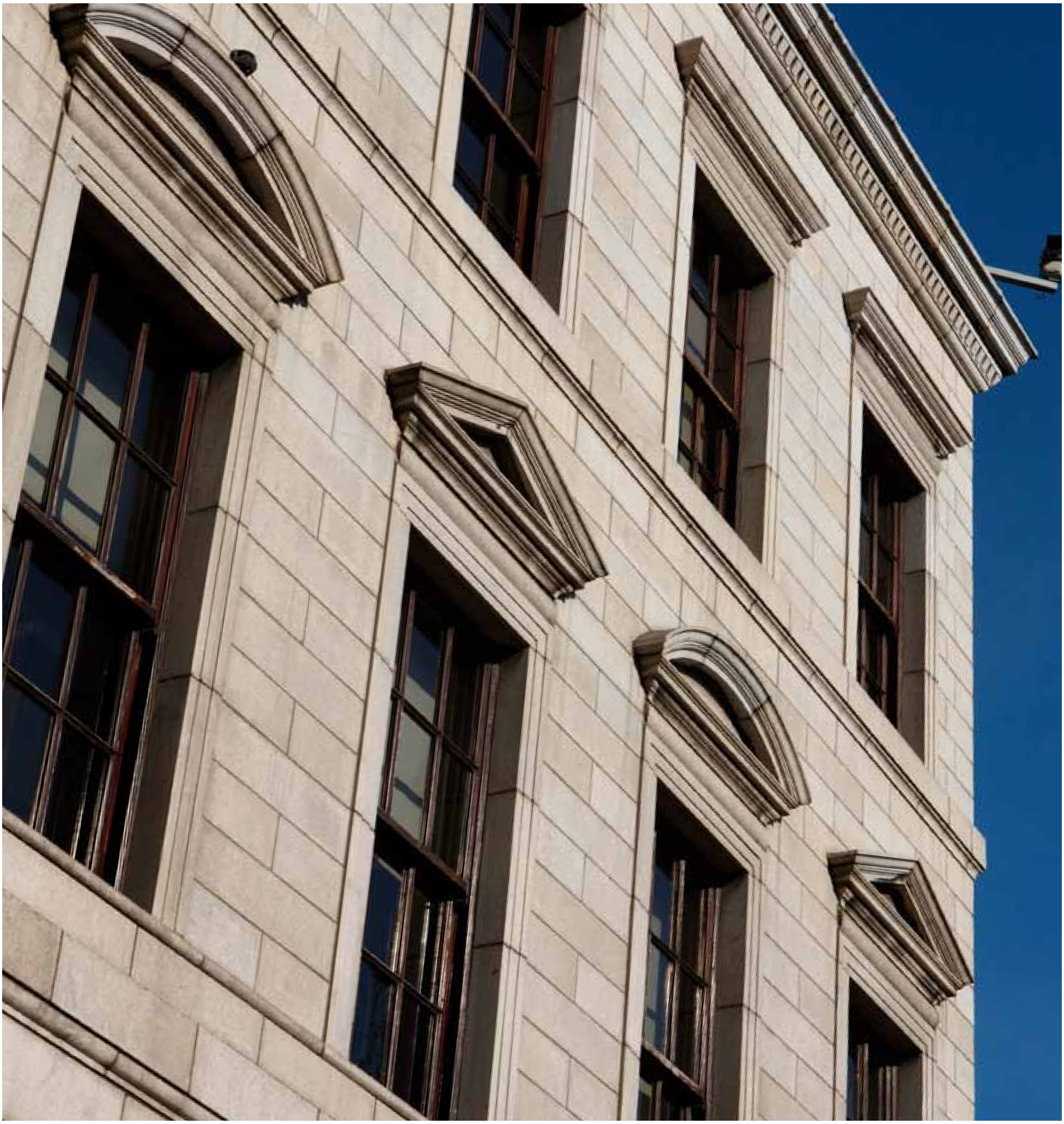


Management

	Function/Sub-function	Head of Function	Deputy Head
Director General			
Tony Grimes	**General Secretariat**	Neil Whoriskey	
	- ESCB Co-ordination		Allan Kearns
	- Legal		Joe Doherty
	- Strategy and Planning		Bernie Keppel
	Internal Audit	Pat Treanor	
Deputy Director General (Financial Operations Division) and Secretary of the Bank			
Brian Halpin	**Financial Control**	Dermot Maher	
	- Financial Control		Michael Fagan
	- Risk Control		Peter Sinnott
	Financial Markets	Robert O'Hara	Michael Maher
	Payment and Securities Settlements	Peter Charleton	Michael Bushe
Assistant Director General (Currency Operations Division)			
Jim Cummins	**Currency Issue and Production**	Daragh Cronin	Des Lane
Assistant Director General (Economic Policy Division)			
Tom O'Connell	**Economic Analysis and Research**	John Flynn	
	- Economic Analysis		Terry Quinn
	- Research		Kieran McQuinn
	Financial Stability and Payment Oversight	Frank Browne	
	- Financial Stability		Mark Cassidy
	- Payments Oversight		Paul O'Brien
	Monetary Policy and International Relations	Maurice McGuire	Gerard O'Reilly
	Statistics	John Kelly	Joe McNeill
Assistant Director General (Shared Services Division)			
Mary Sheehy	**Corporate Services**	Michael Enright	Kay Mooney
	Human Resources	Lucy O'Donoghue	Martin Langan
	Information Systems	Michael Power	Clare Byrne Declan Collins Georgina O'Neill
	Electronic Content Management	Anne Marie McKiernan	

Part 1:

Chapter 1:
Governor's Overview



Introduction

The year 2008 will be remembered as one during which the disruption to international financial markets developed into a crisis of historic proportions. Policy-makers everywhere took unprecedented steps to restore stability to their banking systems and to limit the damage to the real economy.

In Ireland, policy-makers had to contend not only with acute pressures on our banking sector but also with a sharper-than-expected contraction in the economy. The pressures on the domestic banking sector became particularly acute in the wake of the Lehman Brothers bankruptcy in mid-September 2008. The public authorities have demonstrated their willingness to take whatever measures are necessary to stabilise the financial system, including a State guarantee, recapitalisations and restructuring of banks' balance sheets by means of the purchase of impaired assets at written-down values. Irish banks continue to face very difficult conditions in 2009. This arises not only from the continuing stress in international financial markets, but also from the impact of the deterioration in the Irish economy, related in large part to the substantial correction and contraction in the property market. The downturn in the Irish economy has been sudden and sizeable in 2009 and the impact will persist into 2010. For the economy to achieve its potential and to grow solidly again in the medium term, it will be necessary for the Government to remain focussed on putting the public finances on a sound footing, restoring the health of the banking system, and regaining competitiveness.

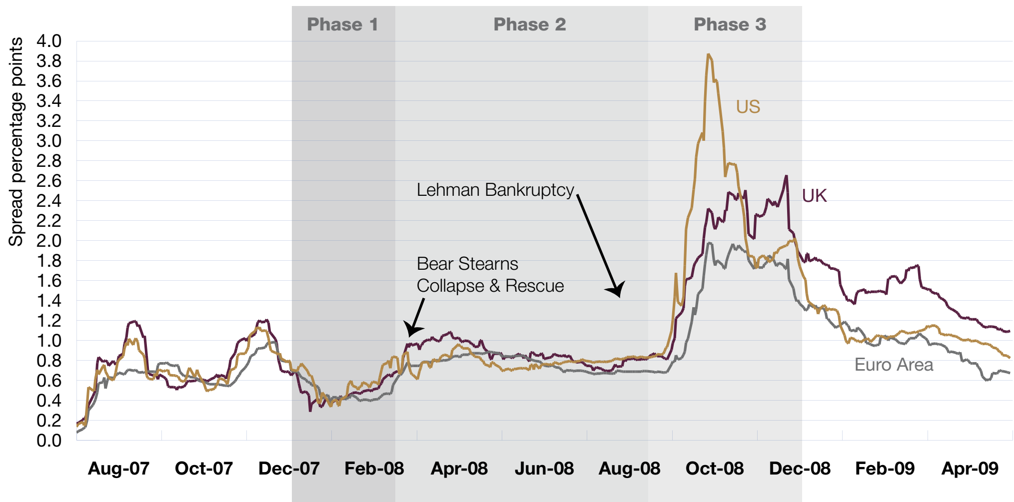
International Economic Developments

The year 2008 was characterised by some of the most dramatic economic and financial developments in the global economy for many decades. Following many years of strong growth in the world economy, low inflation and generally stable financial markets, the situation deteriorated rapidly from the summer of 2007 onwards. Most notable was the onset of the turmoil in the US subprime mortgage market in August 2007, which rapidly affected many other financial markets. At the same time, US growth slowed markedly, reflecting reduced output of the housing sector, and global inflation rose significantly due to the influence of higher commodity prices. The sudden change in financial conditions, however, had deeper causes. The crisis was preceded by a long period of low real interest rates and ample liquidity, and this fuelled risk-taking, large increases in asset prices and debt accumulation. Global current account imbalances reflected excess savings in some regions being channelled to other regions, while financial innovation amplified and accelerated the consequences of excess liquidity and rapid credit expansion, and ultimately many financial assets became mispriced.

Looking at the evolution of the global financial crisis during 2008, it is possible to identify three distinct phases: early 2008, March to mid-September, and mid-September onwards. In contrast to late 2007, there was some respite in early 2008 as year-end effects, which had increased banks' demand for liquidity, faded and there were no major disruptive events. The first significant event of 2008 occurred in mid-March, with the collapse and rescue of the US-based investment bank, Bear Stearns. There then followed some additional disruption in normal money market operations between banks which continued until September (illustrated in Chart 1).

In mid-September, the situation deteriorated dramatically with the failure of Lehman Brothers investment bank in the United States. Lehman Brothers was a global financial services firm. Its failure served both to accentuate and accelerate the adverse effects of the crisis across global financial markets. In

Chart 1: The Spread Between Unsecured and Secured Inter-bank Lending



Source: Bloomberg and CBFSAI calculations.

subsequent days, inter-bank money markets seized up, even at the shortest maturities. Among developed countries, as confidence and trust waned, even the strongest banking systems were affected. This led to unprecented intervention by governments and central banks as well as a wave of European bank rescues.

In the first three quarters of 2008, global economic activity had steadily lost momentum. From mid-September, however, the situation deteriorated in an exceptional way as consumer and business confidence fell sharply and the resulting weakness in demand was rapidly transmitted internationally through financial and trade channels, ensuring that the downturn was highly synchronised across the global economy. Following modest growth rates in the US, UK, Japan and the euro area in the first quarter of 2008, all had experienced a contraction in output to some degree by the end of the third quarter. This downward trend continued at a sharply accelerated pace in the final three months of the year, and overall output in the US, UK, Japan and the euro area declined by an average of 2 per cent in the final quarter, resulting in a contraction of the global economy. These trends continued into the first quarter of 2009, although small improvements in some economic indicators in the second quarter suggest that the decline in output may be moderating.

In parallel with the rapid decline in global activity, inflation pressures have moderated significantly. For much of 2008, global inflationary pressures mounted due to rising food and energy prices, with emerging economies, in particular, experiencing very strong inflationary pressures, reflecting the higher weighting of food in private consumption. In the latter part of the year, however, the very rapid global economic downturn and a sharp reversal in commodity prices alleviated global inflationary pressures substantially. Given the extent of the fall in commodity prices and the speed of the deterioration in global activity, inflation will turn negative temporarily in a number of advanced economies in 2009.

In response to the negative feedback between weakening activity and intense financial sector strains, policy-makers across the world have taken unprecedented steps to limit the impact of the downturn, through direct financial sector interventions, as well as monetary and fiscal policy responses. Recapitalisations, deposit guarantee extensions, the provision of credit and liquidity, and programmes to deal with distressed assets were all undertaken to support financial institutions, while central banks have cut policy rates to historically low levels and have introduced a range of unconventional monetary policy measures.

The European Central Bank (ECB) has actively played a key role in addressing the crisis. Overall, between October 2008 and May 2009, the Governing Council lowered the key ECB interest rates by 325 basis points. In addition, the ECB significantly enlarged its liquidity provision to the euro area banking system, providing unlimited funds to banks against collateral, resulting in a steep fall in overnight money market rates. In May 2009, the ECB also announced the purchase of €60 billion worth of euro-denominated covered bonds in the euro area. These unprecedented measures taken in the light of declining inflationary pressures and risks, were fully in line with the ECB's mandate to maintain price stability.

Responding to the unprecedented crisis in both international financial markets and the domestic financial system dominated the activities of the Central Bank in 2008. The Bank reacted to the crisis as a member of the Eurosystem through the provision of liquidity and the Governor's participation in the formulation of monetary policy and, on its own account, primarily by means of the provision of both financial stability and economic policy advice to Government. *The details are reported in Chapter 2.*

Fiscal policy has also been deployed to limit the impact of the downturn, whether through the operation of automatic stabilisers or through discretionary tax and spending measures. At an international level, both the EU and G-20 have played a role in co-ordinating policy actions - the EU responded with its Concerted Action Plan in October 2008, and the G-20 has also played a key role in getting advanced and emerging economies to work together to tackle the international financial and economic crisis. Steps have also been taken internationally to learn from the crisis and to put in place systems that will prevent a recurrence.

In spite of the large scale of policy interventions, and some tentative signs of improvement, the prospects for the global economy remain clouded by significant uncertainty. World GDP is expected to decline in 2009 for the first time in many decades according to the IMF, reflecting a sharp contraction in advanced economies coupled with a significant slowdown in emerging and developing ones. While confidence in financial markets and economic sentiment more generally has improved somewhat, the prospects for an early and rapid economic recovery are limited by the sharp declines in asset prices that have occurred and by continuing strains in parts of the financial system. While global output growth is forecast to be positive once again in 2010, activity levels in many of the advanced economies may remain sluggish for some time to come.

Domestic Economic Developments

After more than a decade of very strong growth, domestic economic activity turned down sharply over the course of 2008, with real GDP and GNP contracting by 2.3 per cent and 3.1 per cent, respectively. This reflects the interaction of a series of negative influences, both domestic and external, which have reinforced each other and, cumulatively, have had a significant dampening effect on activity. As a result, a slowdown in growth related to the need for a rebalancing of the economy after a long expansionary cycle, which had increasingly come to be fuelled by construction activity, has been made much worse by exceptionally difficult global economic and financial conditions.

The turnaround was sudden and sizeable and the contraction in activity is set to persist in 2009 and 2010. While the initial fall in activity was driven by the sharp decline in the domestic property and construction sectors, this has now broadened into a marked weakening of domestic demand generally. The impact on the Irish economy is being significantly amplified by global financial market turbulence, the collapse of world trade and severe recession in all our main trading partners.

Given the highly open nature of the economy and the character of economic growth in the years preceding 2007, Ireland was both exposed and vulnerable to the global financial and economic shocks that have emerged. The Irish economy is significantly more open than most other EU economies and has extensive links with both the US and UK economies which have been particularly adversely affected by the financial turmoil and have seen a significant depreciation of their currencies. These two countries account for around 40 per cent of our trade. Past experience has shown that external shocks emanating from these countries tend to be transmitted quickly to the Irish economy. This has been a key factor in turning the expected downturn into the deep contraction in growth that we are currently experiencing.

As has been the case elsewhere, the pace of deterioration in economic activity has accelerated since last autumn. The common factor appears to have been that the exceptionally elevated stress in financial markets following the collapse in Lehman Brothers triggered a sharp fall in consumer and business sentiment across the globe. This prompted a marked heightening of precautionary behaviour. In Ireland, this was reflected in consumers reining back spending even further and firms responding to the changed economic environment by cutting production further and acting quickly to lower costs. With exports weakening and a fiscal stimulus not possible, this has accelerated the fall-off in demand and has been reflected in a sharp rise in unemployment.

The steep contraction of economic activity was reflected in an exceptionally sharp annual decline in real GDP of 7.5 per cent in the fourth quarter of 2008. This acute weakness in activity persisted and deepened in the early part of 2009. Domestic demand continues to account for most of the decline in overall activity. The fall in consumption is reflected in a decline of about two-thirds in car sales and a decline of about 8 per cent in the other components of retail sales. Within the construction sector, the decline in housing output has now been matched by comparable weakness in commercial and industrial building. At this stage, it seems likely that the cumulative decline in housing completions from their peak in 2006 could be as much as 90 per cent before output begins to stabilise next year.

External demand has also weakened significantly and is reflected in a decline in the volume of exports. However, this has been mitigated to some extent by favourable composition factors - exceptionally weak sectors such as motor vehicles and capital equipment are relatively under-represented in Irish exports.

The decline in exports together with the weakness in domestic demand has contributed to a very sharp decline in the volume of imports. As a result, the balance of payments deficit has declined significantly and may turn to surplus as early as the final quarter of this year. Reversing the trend of the previous five years, the recent improvement in the balance of payments has been driven primarily by developments in domestic demand. In the earlier period, overheating in the domestic economy contributed to a widening of the external deficit both directly through an increase in import demand and indirectly by increasing the domestic cost base thereby eroding the competitiveness of the export sector. This process is now being reversed. Exceptionally weak domestic demand has resulted in a virtual collapse in import demand and has exerted strong downward pressure on the domestic cost base with a consequent improvement in the economy's competitive position.

The decline in activity in the economy is reflected in very weak labour market conditions. Employment has declined in virtually all sectors of the economy while unemployment has increased sharply. In these difficult circumstances, many firms in the private sector have negotiated reductions in wage rates while in the public sector the introduction of a pension contribution has resulted in a effective reduction in salaries of about 7.5 per cent. The decline in wage rates, while undoubtedly painful for those concerned, will mitigate the decline in employment in the short term and contribute to an improvement in competitiveness. This should leave the economy better placed to benefit from a recovery in world demand when it materialises. Nevertheless, the short term outlook for external demand remains poor. The Bank's latest projection for economic activity overall is for a significant contraction over the next two years. The level of output, as measured by GDP is projected to decline by about 9 per cent in 2009 and by a further 3 to 3.5 per cent in 2010. On the basis of a gradual recovery in external demand thereafter, a recovery in exports should lead to a return to modestly positive growth in the following year. One consequence of the downturn in growth has been a sharp turnaround in inflation. The consumer price index is forecast to fall by 4.4 per cent this year and to be broadly flat next year (the HICP index, which excludes mortgage interest payments, is projected to fall by 1.6 per cent this year). Inflation in Ireland is now below the average for the euro area and is likely to remain so for some time. It is important this trend continues in order to reduce the differential between the Irish consumer price level and that of our main trading partners so that we improve our competitive position.

Beyond the short term, the Irish economy retains some important strengths. Over the past two decades, Ireland has demonstrated a strong ability to exploit its advantages – in the form of flexible markets, a competitive economy and a highly-skilled and educated labour force – to generate growth. In more recent times, these strengths have come to be masked by other factors. However, there is much evidence that Ireland still retains a relatively flexible and adaptable economy. Combined with our skills base and the capacity for a rebound in productivity growth, this holds out the prospect of a return to a potential growth rate of 2.5-3 per cent in the medium term. However, our ability to realise this potential will be very much dependent on how we deal with the significant challenges that we face, specifically:

» to put the public finances on a sound footing;

» to restore the health of the banking system; and,

» to regain competitiveness.

The series of Government decisions since September 2008 with respect to the banking sector reflect the need to minimise the risk of damage to the real economy as a result of the financial crisis, by creating the conditions in which banks can both continue lending to credit-worthy borrowers while meeting the required capital and liquidity standards. In particular, the guarantee scheme helped to ensure that banks have access to longer-term funds. The recapitalisation scheme addressed, in part, market participants' requirements for banks to maintain higher core Tier 1 capital ratios than before the crisis. Both schemes were in line with general approaches across the European Union. The challenge now is to address Irish banks' exposures to land and development loans and, specifically, the uncertainty over the eventual impact of loan losses from these exposures on the banks' capital positions. International commentators, such as the IMF, have emphasised generally that cleaning banks' balance sheets of non-performing assets is an essential step in recovering from the crisis. It is in this context that the Government has announced the decision to set up the National Asset Management Agency (NAMA) which will purchase up to €90bn of property development and property investment loans from the banks.

Stabilising the public finances is also an essential requirement. The deterioration in the fiscal position over a relatively short period has been a cause for serious concern – both on the part of domestic residents and foreign creditors. To restore confidence, it is imperative to return the public finances to a stable path. The Government has agreed with the European Commission to correct our Excessive Deficit position by 2013. The series of recent significant fiscal adjustment measures, including the public sector pension levy and the measures contained in the April 2009 Supplementary Budget, underline a determination to adhere to that target.

It is recognised that future lower medium-term growth potential means that cyclical recovery will not solve our fiscal problems. The Commission on Taxation and the Special Group on Public Service Numbers and Expenditure Programmes, whose work is currently underway, will have a key role to play in identifying measures that will improve the budgetary situation in coming years. Adjustment will be painful, but correcting the fiscal position is necessary to restore confidence, deal with financing concerns and underpin the medium-term growth potential of the economy.

In addition to the need for fiscal adjustment, the Irish economy must also restore its competitiveness. Economy-wide productivity gains have been very modest and labour costs have been relatively high in recent years compared to our main trading partners. This deterioration in competitiveness must be addressed if we are to return to a sustainable growth path. A strategy to restore competitiveness must encompass action on a number of fronts including pay and non-pay costs, infrastructure improvements which support productivity growth, the enhancement of competition in sheltered sectors, continuing to encourage innovation and R&D activity and enhancing the skill levels of the labour force.

In particular, a flexible approach to pay developments is essential. More recently, in the face of the sharp contraction in economic activity, many firms have taken action to reduce their costs including the negotiation of reductions in pay rates, with a view to protecting employment. While this has undoubtedly been painful for those concerned, it nevertheless reflects encouraging evidence of the flexibility and realism that is needed if the economy is to maintain the maximum possible number of jobs in the short-term while placing Ireland in a favourable position to benefit from an eventual recovery in world demand.

In summary, we are now in a very difficult and challenging environment. It is vital to ensure that policy remains focussed on sound economic management and that timely decisions are taken to deal with the unfolding situation. Ireland has benefited considerably from following such an approach in the past. It has underpinned domestic economic stability, helped to attract substantial foreign investment and greatly facilitated growth. It is vital for our prospects for a sustainable recovery in growth that we continue to follow such a path. If we do so, the economy has the potential to grow solidly again in the medium term.

The Central Bank's profit for the year to 31 December 2008 amounted to €364.2 million compared with a corresponding amount of €228 million in 2007. After retained earnings, surplus income of €290.1 million will be paid to the Exchequer.

The support and contribution of the Board of Directors has been crucial in what has been an extremely busy and challenging year. I express my sincere appreciation for their efforts.

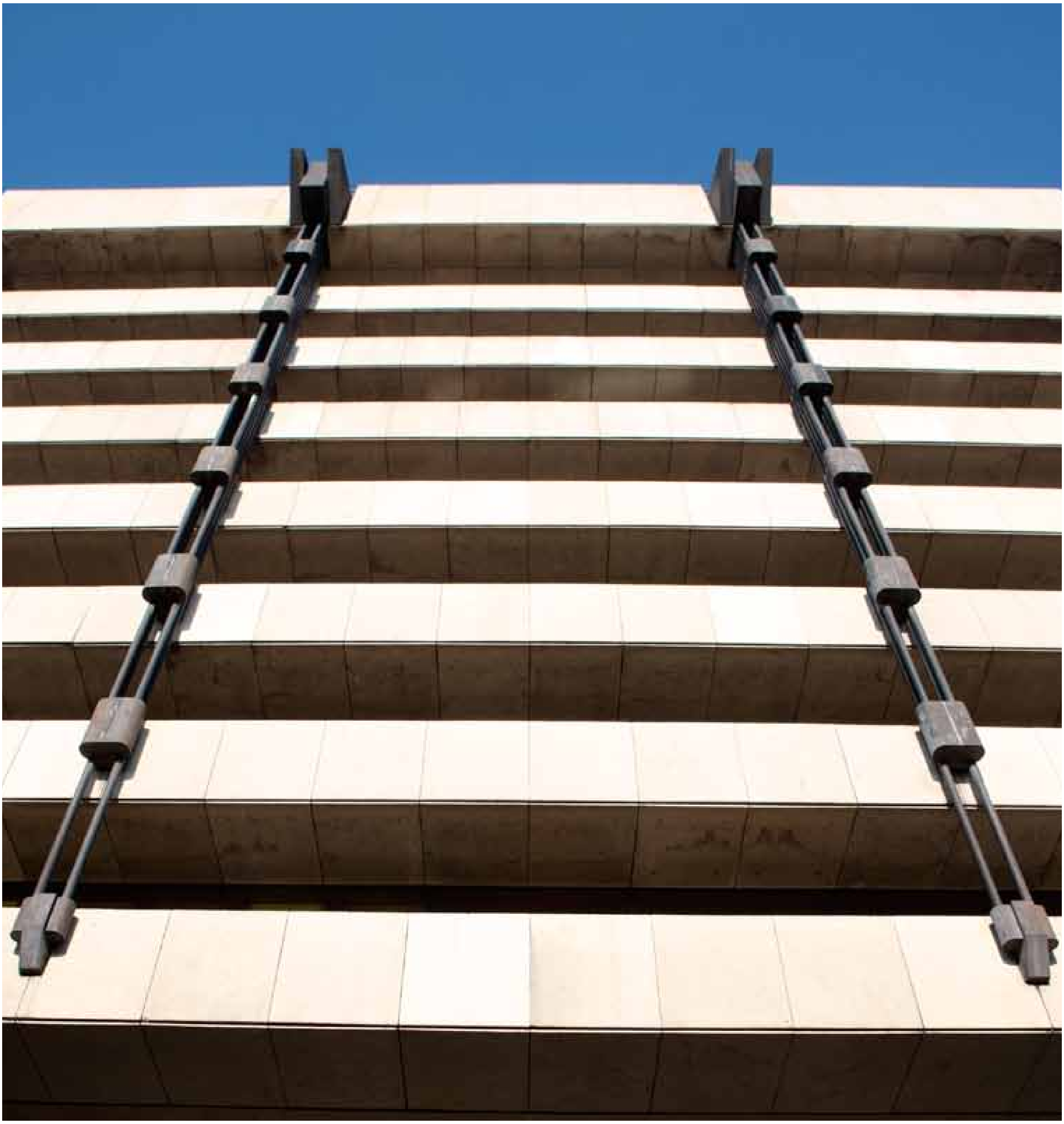
I would like to thank the staff of the Financial Regulator for their ongoing co-operation.

Finally, I pay particular tribute to the management and staff of the Central Bank for the exceptional effort they made in responding to the financial crisis.

John Hurley

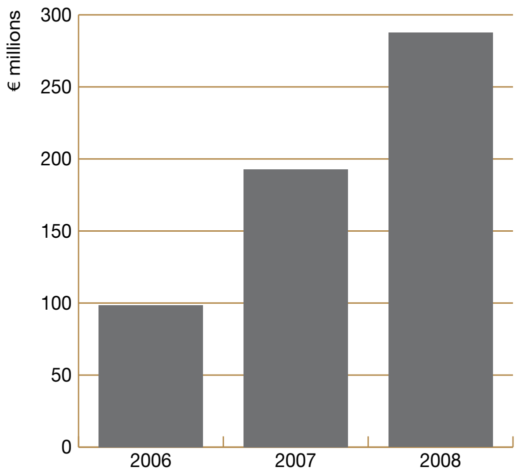
John Hurley
Governor

2008 **at a glance**



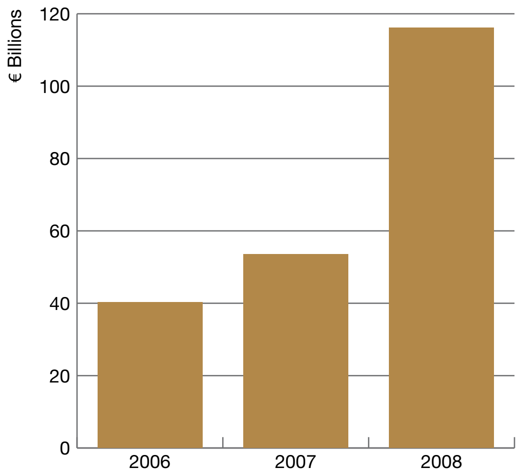
2008: The Bank at a glance

Surplus Income Payable to Exchequer



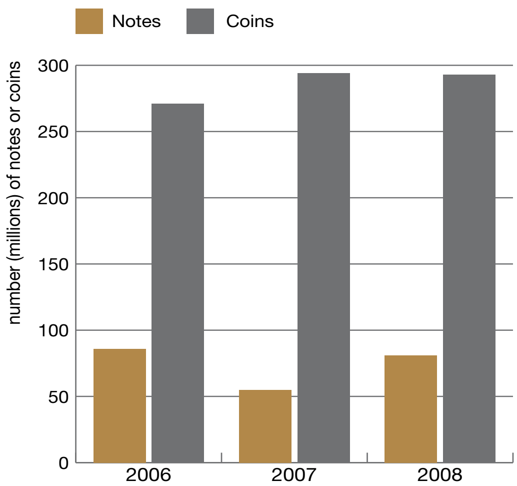
Surplus income paid to the Exchequer increased to €290.1 million.

Total Assets



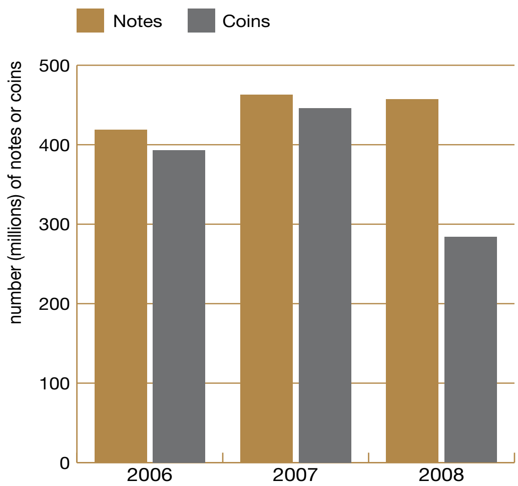
Total Assets increased to €116.1 billion.

Production of Banknotes and Coins



The number of banknotes produced increased to 81 million and coin production remained stable at 292.6 million.

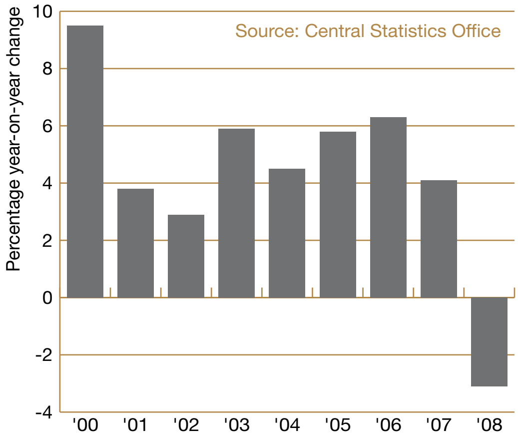
Issuance of Banknotes and Coins



The number of banknotes issued remained stable (457 million) but the number of coins issued fell (284 million in 2008 from 446 million in 2007).

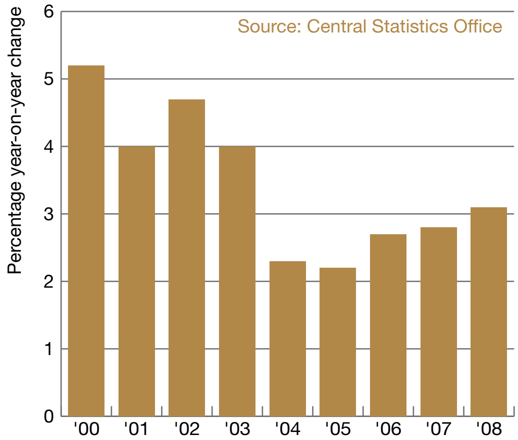
2008: The Economy at a glance

Real GNP Growth



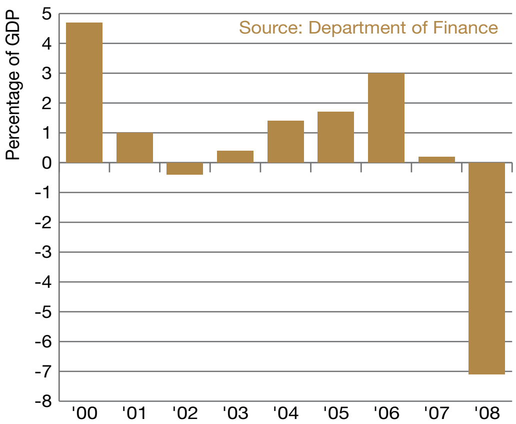
The economy contracted in 2008 with GNP falling by 3.1 per cent in real terms.

Inflation (HICP)



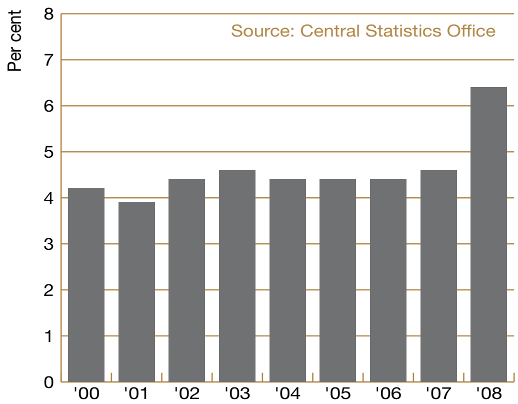
The rate of HICP inflation at end-2008 was 3.1 per cent.

General Government Balance



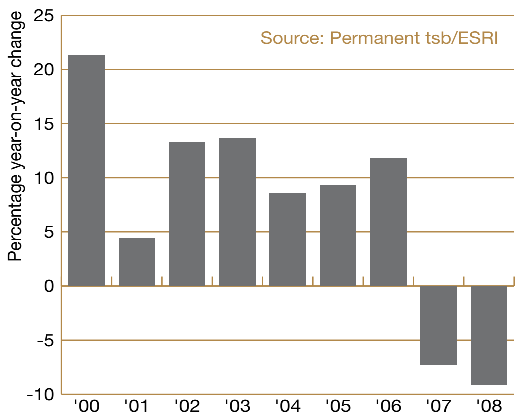
The General Government deficit equated to 7.1 per cent of GDP.

Unemployment Rate



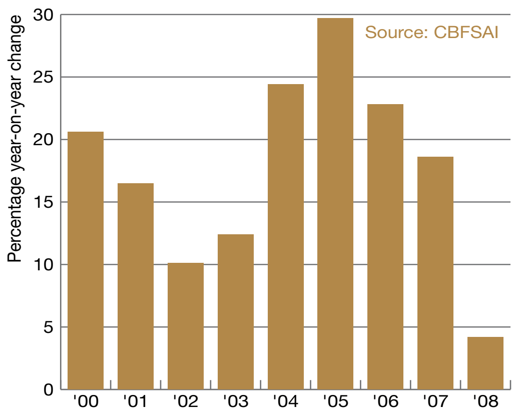
The unemployment rate increased to an average of 6.1 per cent.

House Prices



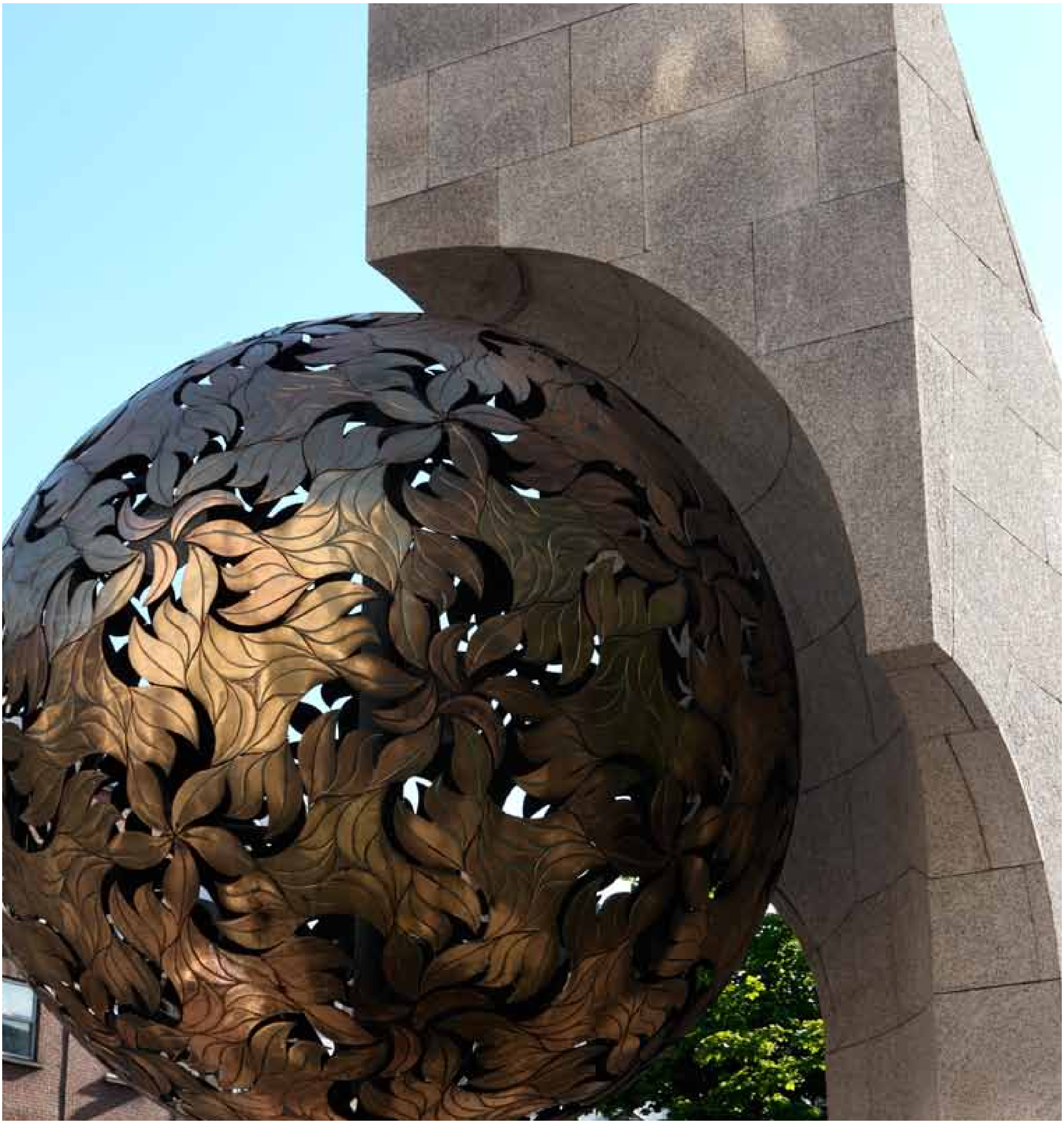
National house prices continued to fall, with prices falling by 9.1 per cent by end-2008.

Private-Sector Credit



The rate of increase in private-sector credit fell to 4 per cent by end-2008.

Chapter 2:
Key Activities and Developments



Introduction

Actions that were taken in response to the unprecedented crisis in both international financial markets and the domestic financial system dominated the activities of the Bank in 2008. The Bank reacted to the crisis as a member of the Eurosystem through the provision of liquidity and the Governor's participation in the formulation of monetary policy and, on its own account, primarily by means of the provision of both financial stability and economic policy advice to Government.

While the primary focus of the Central Bank in 2008 was dominated by the ongoing financial crisis, a large number of significant projects, including those committed to in the Bank's Strategic Plan, were advanced or completed during the year. These ranged across the Bank's main functional areas, including monetary policy, economic analysis and research, oversight and provision of payments systems, currency production and issuance and the management of investment assets. In addition, the Bank continued to contribute to the various tasks and activities of the Eurosystem. It also developed and enhanced many of its key internal processes.

Monetary Policy Stance and Implementation

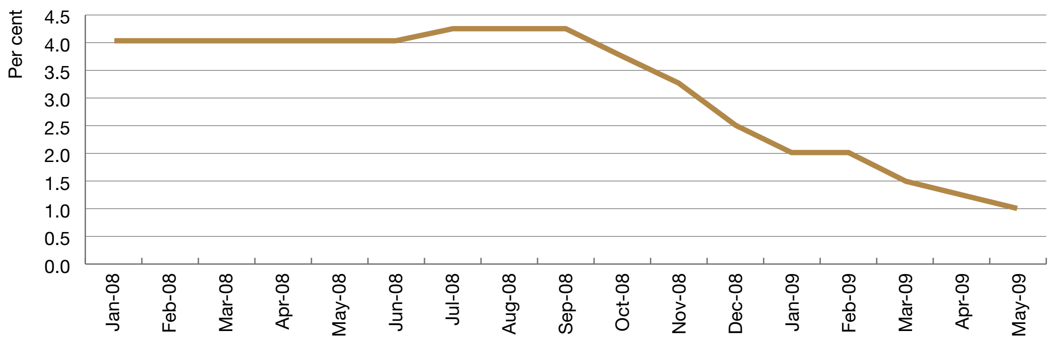
Monetary Policy Decisions

As a member of the Governing Council of the European Central Bank, Governor Hurley participates in all decisions, including those relating to the stance of monetary policy where all members of the Council have an equal voice. These decisions are arrived at following intensive and detailed discussions and analysis and usually involve extensive input from the Eurosystem's Committees. The Governor is assisted by the advice and expertise of Bank staff.

Stance of Monetary Policy

In 2008, monetary policy responded relatively quickly to the deteriorating economic and financial conditions in the euro area following the global financial turbulence. Monetary policy focussed on the need to deal with the impact of the banking crisis on the transmission of monetary policy measures to the real economy. To this end, a range of liquidity measures to alleviate the stress in the short-term money markets accompanied changes in the Main Refinancing Rate of the ECB. Key ECB interest rates remained unchanged in the first half of the year, were raised by 25 basis points in July and then lowered in three stages by a total of 175 basis points in the fourth quarter. This rapid easing continued into 2009 and was accompanied by an expansion of the Eurosystem's balance sheet through the unlimited provision of liquidity against collateral for longer terms, contributing to a further lowering of market interest rates.

Chart 1: Evolution of ECB Policy Interest Rate



Source: European Central Bank

The Governing Council continued to make substantial reductions in policy interest rates to unprecedented low levels in 2009. In addition, the Governing Council decided to implement an enhanced credit support approach, namely, the introduction of a very long-term refinancing operation with a maturity of one year, the designation of the European Investment Bank as an eligible counterparty for Eurosystem monetary policy operations, and the purchase by the Eurosystem of euro-denominated covered bonds issued in the euro area.

Monetary Policy Operations

Actively supporting the liquidity of the main domestic banks is the single most important direct way that the Bank responded to the crisis and contributed to financial stability in 2008. In response to the pressures and strains in financial markets, the Central Bank, on behalf of the Eurosystem, has provided very large volumes of liquidity to the banking sector. Although the Eurosystem entered this crisis with a relatively broad collateral and counterparty framework for supplying liquidity to banks, in comparison with other major central banks, it has since made its liquidity even more easily accessible for banks. It has done this by extending the maturity of its operations, providing liquidity in currencies other than euro and, after the Lehman Brothers bankruptcy, providing as much liquidity as banks required in addition to widening its list of eligible collateral. These developments had significant implications for the Bank's operational areas.

In the period January to October 2008, the Bank on behalf of the Eurosystem continued to provide the additional longer-term refinancing operations that had been introduced in late 2007 to provide banks with access to term liquidity. In early 2008, the 3-month supplementary operations were renewed and additional 3-month operations introduced. The average maturity of refinancing operations was increased further in April 2008 with the introduction of operations with maturities of six months. These operations were generally conducted as variable rate tenders whereby counterparties specified both the amount and the interest rate at which they wished to borrow. For the rest of 2008, these facilities were renewed on maturity. A decision was also taken to reactivate US dollar providing operations, which were first introduced in December 2007 and temporarily discontinued in February 2008, to allow euro area banks to access US dollar funding markets.

In the period following the Lehman Brothers bankruptcy, the Eurosystem adopted additional liquidity management measures to deal with the ensuing liquidity crisis. First, from mid-October onwards, the Eurosystem decided to conduct operations on the basis of a fixed rate tender with full allotment. Essentially, banks would no longer have to compete for Eurosystem liquidity as all requests for liquidity were satisfied in full at a set price. Second, the gap between the Eurosystem's marginal lending rate and the rate on its overnight deposit facility was narrowed symmetrically from 200 basis points to 100 basis points. This effectively made it cheaper for credit institutions that had to resort to the ECB marginal lending facility while also facilitating banks who wanted to place deposits securely with the ECB. Third, there were additional longer-term (six-month) refinancing operations, US dollar operations and the introduction of Swiss franc operations. Finally, the list of eligible collateral provided by counterparties was expanded temporarily until the end of 2009. This was achieved through the lowering of the credit rating for marketable and non-marketable assets from A- to BBB- (with the exception of asset backed securities) and accepting a wider range of debt instruments.

The number of liquidity operations completed by the Bank on behalf of the Eurosystem increased sharply in response to the financial crisis: from some 70 pre-crisis operations annually to a rate of about 350 operations by end-2008. The complexity of these operations also increased with US dollar and Swiss franc liquidity being provided as well as euro liquidity; and with foreign exchange swaps being used in addition to repurchase agreements. Total monetary policy lending provided by the Bank rose from €39.4 billion at end-2007 to €93.4 billion by December 2008. The number of counterparties for liquidity operations was 45 at end-2008. The Bank, as a member of the Eurosystem provided increased levels of liquidity to the banking sector in 2009, as reflected in the Bank's monthly financial statement. Total monetary policy lending (including the marginal lending facility) by the Bank has increased from €93.4 billion at end-2008 to €118.1 billion at end May-2009.

The Bank was also actively involved in the assessment of eligible assets to ensure that counterparties had adequate collateral available against the backdrop of an extension of the collateral framework. In 2008, one new institution was approved for the issuance of mortgage-backed promissory notes (MBPNs), bringing the total number of approved institutions to eight.

Following a decision of the ECB Governing Council, extensive work was undertaken to allow for the integration of credit unions into the minimum reserve system. This included participation in seminars with credit unions at several locations throughout the country.

Financial Stability Policy Advice

The Bank's interaction with the Financial Regulator, the Department of Finance, the National Treasury Management Agency (NTMA) and the domestic banks has intensified as the crisis entered different phases. A number of special joint meetings of the Bank's Board and of the Regulatory Authority were convened to discuss the evolving situation. In late-2008, the Bank provided information and advice to Government in advance of two key decisions:

» In the immediate aftermath of the Lehman Brothers bankruptcy and a wave of European bank rescues, in order to protect financial systems, and to limit the spillovers to economies, policy-makers internationally moved from interventions in individual institutions to scaled-up assistance on a system-wide basis, including funding guarantees and recapitalisations. Domestically, the Governor and senior management participated in meetings involving the Financial Regulator, the Department of Finance and the NTMA in the lead-up to the decision by the Government on September 29th to introduce the Guarantee Scheme. The Governor advised that, in the light of the serious threat to the supply of funding to the Irish banking system, the risks to financial stability had become unacceptably high with serious knock-on effects for the wider economy. A key consideration was the highly concentrated nature of our banking sector such that there was a high risk of difficulties in any one institution spreading to others. A pan-European initiative to address the deterioration in international financial markets had not yet been developed. Accordingly, the Government decision to guarantee key liabilities of the banking sector for two years was taken at that time to protect the stability of the domestic financial system by renewed access to funding for Irish financial institutions. The measure was successful in helping to stem the outflow of funds from the institutions covered by the guarantee and to help those firms to raise term funds on the international markets.

» While the Guarantee Scheme addressed the liquidity issue in the short term, the focus then moved to issues concerning capital. The domestic banks' capital ratios were in excess of the existing international regulatory minimum requirements, but market participants revised upwards their expectations of these requirements particularly in the light of increased uncertainty about banks' asset quality. Irish banks were not exposed to the US sub-prime mortgage market, but they faced mounting pressure on property valuations because of a significant contraction in the economy. This created uncertainty over the extent of loan losses that might eventually have to be absorbed by Irish banks' capital buffers. As there was a concern that banks would attempt to achieve higher capital ratios only by curtailing credit to the economy, in December 2008, a recapitalisation programme was set out for three of the banks covered under the Scheme. Again, there was very close and intensive interaction between the Bank, the Financial Regulator, the NTMA and Government on this issue. The programme was developed further in early 2009, covering Allied Irish Banks and Bank of Ireland initially, and outlining not only the procedure for recapitalisation but also provisions to ensure the supply of credit to the real economy. A recapitalisation proposal for Anglo Irish Bank was subsequently announced.

The Bank continued to advise the Government in advance of a number of key decisions concerning the financial system in 2009. In January, the Government decided to bring

Anglo Irish Bank into full public ownership. The Government proceeded with the planned recapitalisations of Allied Irish Banks and Bank of Ireland. Finally, in early April the Government announced the creation of the National Asset Management Agency (NAMA) to purchase land development and land investment loans from banks, thereby helping to reduce the uncertainty over the likely impact of loan losses on banks' capital positions.

With respect to international financial stability issues more generally, there has also been intensive interaction within the Eurosystem. In December, the ECB's Governing Council published recommendations on (i) government guarantees for bank debt and (ii) on the pricing of recapitalisations. In the context of the crisis, the ECB issued a large number of opinions on national rescue measures concerning, for example, state guarantees, recapitalisation schemes, and revisions to deposit guarantee schemes.

Economic Analysis and Statistics

Commentary and Research

The Bank plays an important role in influencing economic policy through its commentaries, forecasts, research and provision of financial statistics. The Bank communicates these through its regular publications and research papers, other domestic and international journals, speeches and interviews by the Governor and other public events, as well as contributions to conferences and seminars. The Governor attended two Joint Oireachtas Committee meetings in 2008 in which he updated members on the evolving situation with respect to the international financial crisis and the Irish economy, including the potential challenges for Ireland, in 2009 and beyond, arising from those developments. A full list of the Bank's statements and publications in 2008 is contained in Appendix 1.

The Bank enhanced the communication of its research work in 2008 with the inaugural publication of a new regular *Research Bulletin*. This bulletin contains non-technical summaries of the Bank's published technical papers. In addition to the Bank's commentary, macroeconomic projections and policy advice, other areas of research that were covered included: modelling housing demand; wage inflation and unemployment; oil prices and inflation; and sectoral stock prices as a predictor of euro area GDP. The Bank has concentrated some of its research on the area of growth and productivity in recent years. This was further progressed in 2008 through a number of papers focussed on export activity and behaviour and job turnover in manufacturing.

As with previous years, staff continued to publish much of this research in prestigious international economic journals. In particular, two Bank economists were in receipt of international and domestic awards for their work. The author of a paper on the export activities of Irish-owned firms was presented with a young economist award by the European Economic Association at its annual conference, while a paper on wage inflation and unemployment was awarded the Barrington prize for the best paper by a young Irish economist.

Surveys

During 2008, the Bank was actively involved in a number of household and firm surveys as part of the new Eurosystem Research Network, the results of which are to be presented to the Governing Council of the ECB. The Bank also carried out a pre-test of a new euro-wide household survey of consumption and wealth which will assist in the design of the final European-wide survey in 2010.

Statistics

The Bank continued to meet its statutory reporting obligations to the ECB for a wide range of financial statistics in 2008. Among the major initiatives agreed during the year were updates to the ECB Regulations on the collection of money and banking and interest-rate statistics. Projects are already underway to implement these new reporting requirements in 2010. A new ECB Regulation on the collection of statistical information from Financial Vehicle Corporations was also agreed, and these entities will begin reporting to the Bank at the end of 2009. The Bank also contributed to an ECB recommendation to amend the European Council Regulation concerning the collection of statistical information by the ECB – this is currently being discussed by the European Council Working Party on Statistics.

On the domestic front, the Bank continues its close working relationship with the Central Statistics Office (CSO) which has helped to reduce the reporting burden on financial sector respondents. Since the beginning of 2008, the Bank receives security-by-security information from banks and over 4,000 investment funds and sub-funds as part of a joint project involving both institutions. This close co-operation has enabled the Bank to extend its data delivery to the ECB in the fields of balance of payments and Monetary Union Financial accounts. It has also assisted the Central Statistics Office in the publication of annual Institutional Sector accounts.

The Bank continues to make available a wide range of statistics, particularly money, credit and banking statistics, through its monthly and quarterly publications. A further report on private motor insurance statistics, analysing trends in premium income, accident frequency, claims costs, and market share and pricing is produced annually for the Financial Regulator.

Payments Systems and Currency Services

The Migration from TARGET to TARGET2

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

TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer System) was an inter-bank payment system for the real-time processing of cross-border transfers throughout the European Union. It worked by linking different national systems. TARGET2 is the new single pan-European system used by each of the national payment systems to ensure a uniform wholesale payment infrastructure, thus promoting further efficiency and integration in European financial markets. The Irish banking community successfully migrated to TARGET2 on 19 February 2008.

In 2008, a total of 94.7 million payments with a total value of €682 trillion were processed through TARGET and TARGET2, an increase of 1 per cent on 2007 for the system as a whole. The average daily number of transactions was 369,966, representing an average daily value of €2.7 trillion. The Irish share of this traffic amounted to 5,300 transactions per day representing an average daily value of €31 billion.

In April 2008, the Bank commenced provision of central bank money for the euro operations of Euroclear UK and Ireland equity settlements following the withdrawal of the Bank of England from this service. The project to provide cash settlement services for euro-denominated securities transactions in the UK-based CREST settlement system was completed in May 2008.

T2S and CCBM2

In July, the Governing Council of the ECB decided to launch the TARGET2 Securities (T2S) and the Collateral Central Bank Management (CCBM2) projects. T2S is a pan-European settlement system for securities. The Bank continued to participate in the T2S Advisory Group and to chair the T2S National User Group. CCBM2 is a next generation system allowing the Eurosystem to manage collateral for both domestic and cross-border operations on a harmonised basis. These are two long-term projects and are expected to become operational around 2013.

SEPA

The Single Euro Payments Area (SEPA) was formally launched in January 2008 with the introduction of the SEPA Credit Transfer Scheme and the SEPA Cards Framework. SEPA allows customers to make non-cash euro payments to any beneficiary located anywhere in the euro area using a single bank account and a single set of payment instructions. As well as improving the efficiency of euro payments, SEPA will also introduce new business rules and technical standards. All retail electronic payments, domestic and international, will be affected, and all credit transfers, direct debits and card payments will migrate eventually to SEPA standards. Implementation of SEPA in Ireland is the responsibility of the Irish Payment Services Organisation's (IPSO) SEPA Implementation Task Force (or SITF), membership of which comprises IPSO staff members, representatives of IPSO member banks and the Bank in its capacity as payment systems overseer.

Issuance of Banknotes and Coins in 2008

Table A: Banknote Issues

Denomination	€5	€10	€20	€50	€100	€200	€500	Total
No. of Banknotes (million)	54	44	130	227	1	-	-	457
Value €million	268	445	2,604	11,365	149	6	42	14,878

Note: Figures may not sum due to rounding.

Table B: Coin Issues

Denomination	1c	2c	5c	10c	20c	50c	€1	€2	Total
No. of coins (million)	89	64	50	35	21	9	4	11	284
Value €million	1	1	2	3	4	5	4	23	44

Note: Figures may not sum due to rounding.

Currency Services

The Bank produces and issues banknotes and coins to meet the needs of the public and business. Banks were supplied with their full requirement of banknotes and coin in 2008.

In 2008, 292.6 million coins were produced. However, during the course of the year, coin demand fell substantially. A total of 283.6 million coins were issued representing a thirty six per cent fall from the previous year. This was largely due to a fall off in demand for smaller denomination coin and may reflect a reduction in hoarding of such coins as economic activity weakened.

Under the ECB pooled production arrangements, the Bank printed 81 million banknotes in the €20 denomination in 2008. Other denomination banknotes were received from other euro area NCBs and issued by the Bank. The Bank supplied a total of 457 million new and re-issuable banknotes in the year.

Agreements to implement the ECB Framework for Banknote Recycling (BRF) were concluded with the four main commercial banks. The BRF establishes a pan-euro area policy for the recirculation of euro banknotes. It defines uniform rules and minimum standards for banknote recycling which are to be followed by credit institutions and other professional cash handlers.

A number of collector coins and commemorative coin sets were produced in 2008. These included the 2008 Annual Mint Set featuring the national heritage site of the ancient passage tomb at Newgrange. A €10 silver proof coin marking the UNESCO heritage site of Skellig Michael, which also featured on a gold proof coin, was produced. A €100 gold proof coin and €5 silver proof coin, which featured the Arctic Explorers, Crean and Shackleton, was produced to celebrate the International Polar Year. In addition, 3.6 million €2 circulating coins were produced to commemorate 10 years of EMU.

The Bank continued to accept Irish banknotes and coin issued prior to the introduction of the euro. At end-2008, there was €243.8 million in Irish banknotes outstanding and €126 million worth of coin outstanding.

Double box set of Polar coins 2008.

European and International Relations

Eurosystem

The Eurosystem comprises the European Central Bank and the national central banks of the euro area. The Eurosystem and the wider European System of Central Banks (which covers the entire EU) was a decade old in June 2008. *See Chapter 4 - Ten Years of the Euro.*

The Governor is a member of the Governing Council of the European Central Bank – the main decision making body in the Eurosystem. He is also Chairman of the ECB's Audit Committee. The Governing Council is supported in its role by a network of committees. The Bank is represented on all these committees as well as various working groups and task forces which report to the committees.

European and International Meetings

The Governor accompanies the Minister for Finance to the bi-annual informal ECOFIN meetings. The Bank is also represented on a number of high-level EU committees, including the Economic and Financial Committee, the Economic Policy Committee and the Eurostat Committee on Monetary, Financial and Balance of Payments Statistics.

The Governor or Director General generally attend the IMF / World Bank annual meetings in Washington and the IMF Spring meetings. The Eurosystem also fosters links with other regions and the Bank participated in high-level contacts between the Eurosystem and central bankers in a number of other non-euro area regions last year.

The Bank continued to promote its role in the wider Eurosystem and international arenas during 2008. International speaking engagements undertaken by Governor Hurley in 2008 included contributions at the event to mark the 10th anniversary of the Banque Centrale du Luxembourg; at the fourth ECB Conference on Statistics entitled 'A strategic vision for statistics: Challenges for the next 10 years', and at the high-level seminar of central banks in the East Asia Pacific Region and the Euro area. The bi-annual Whitaker Lecture in honour of Dr. TK Whitaker, former Governor of the Bank, was hosted in Dublin Castle. The lecture was delivered by Mario Draghi, Chairman of the Financial Stability Forum and Governor of the Banca d'Italia. In addition, the Bank also hosted a number of visiting Governors from other NCBs.

Governor John Hurley, Governor Mario Draghi and Dr. TK Whitaker at the Whitaker Lecture 2008.

Asset Management

Investment Portfolio

At the end of 2008, the Bank's investment portfolio comprised euro-denominated assets of €15.6 billion and US dollar holdings of €0.5 billion equivalent. The total represents an increase of €3.8 billion on 2007 due to additional purchases (€3 billion) of euro assets for the Hold to Maturity portfolio and accumulation of dividends and income.

The Bank's investment portfolio was managed in line with parameters approved by the Board. A number of revisions to the investment benchmarks were made during the year in response to the impact of the global financial crisis on the markets and instruments in which the Bank invests.

Total earnings on the Bank's investment portfolios amounted to €821 million in 2008 compared to €472 million in 2007. In terms of the rate of return, earnings on the investment portfolios were 5.77 per cent which was 1.80 per cent higher than in 2007 due to the significant fall in bond yields in 2008. The duration of the euro portfolio was reduced towards the end of 2008 with a further reduction to be implemented in the first half of 2009. The Bank's investment strategy, including the instruments and procedures employed, was reviewed by an external consultant in 2008.

ECB Reserves

Each national central bank manages a proportion of the European Central Bank's reserves. In Ireland's case that amounts to €484 million, which is proportionate to the Bank's shareholding in the ECB. At the end of 2008, the ECB's net foreign reserves amounted to €49.5 billion.

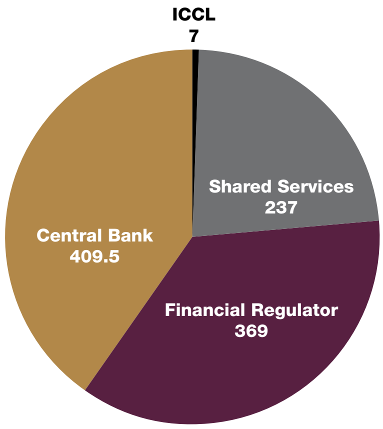
Following a request from the Central Bank of Malta, the Bank commenced the management of Malta's portion of ECB reserves in conjunction with its own share, with effect from 1 January 2008.

Internal Management and Communication

Human Resources

At the end of 2008, the Bank and the Financial Regulator employed 1022.5 permanent staff, from an approved complement of 1069. Of this number, 409.5 were assigned to the Central Bank, 369 to the Financial Regulator and 237 to shared services. A further 7 staff were assigned to the Investor Compensation Company Limited (ICCL). The total represented an increase of 4.4 per cent on 2007, mainly due to the recruitment of additional staff by the Financial Regulator.

Chart 2: Actual Staff Numbers at end-2008



Towards the end of the year, in response to the financial turmoil and consequent impact on the banking sector, an additional 20 high-level contract positions were approved to support the implementation of the Government Guarantee Scheme.

A new Graduate Development Programme was commenced in 2008 with the first graduates under this programme due to take up their posts in Autumn 2009.

As part of the Bank's training and development programme, staff continued to be provided with both internal and external programmes covering all aspects of the organisation. A comprehensive management development programme was delivered in 2008.

Following an extensive consultation process, "Success Through People", a Strategy for Human Resources 2008-2010, was approved by the Board and launched in September 2008.

Information Technology

In 2008, the Information Systems function was re-structured to provide a more efficient utilisation of resources and delivery of service. Following an internal review and extensive consultation, an Information Systems Strategy to 2011 was prepared and approved.

Work continued in 2008 on developing new systems for various business areas in the organisation. These included the further development and roll out of electronic reporting, including the commencement of the integration of credit unions into the Bank's statistical reporting process; the re-development of the Financial Regulator website; the introduction of a new management accounts system and the commencement of a new Enterprise Content Management project. The Enterprise Content Management project will set standards and policies, and develop software solutions, for more consistent and efficient filing of electronic content across the organisation. A new electronic time management system, offering significant efficiencies in terms of attendance and records management, was introduced.

Significant development of the technical infrastructure was carried out in line with the objectives of the Bank's Business Continuity Plan.

Premises

A major project undertaken in 2008 was to source additional accommodation to cater for the expanding work-force and to relieve congestion in the existing accommodation. At the end of 2008, new leased premises at Spencer Dock in Dublin's financial district were ready for occupation by 183 staff.

Communication

The organisation received a very significant increase in media queries during 2008, up 30 per cent on 2007, primarily due to the ongoing financial crisis. A large number of statements, press briefings and interviews were given around the financial crisis issues.

A Charter on Internal Communications was developed and circulated to all staff.

The Bank fulfilled its ongoing obligations under the Official Languages Act Scheme. New policies and procedures on adherence to data protection legislation were prepared and adopted.

Operational Risk and Business Continuity

The bank's operational risk policy was reviewed during 2008 and a number of enhancements were made to it. A formal business continuity management policy was adopted. A business continuity crisis management team, with responsibility for invoking the business continuity plan and overseeing recovery, was also established during 2008.

Internal Audit

In addition to ongoing regular reviews of internal controls, audits were also performed on the CREST system, project management, vault and treasury operations, consumer protection functions and value for money audits. The Bank also participated in a series of audits conducted on an ESCB-wide basis.

Strategy and Planning

Much of the work of the Central Bank is informed by its three-year strategic plan. In 2008 work continued on the implementation of the 2007-2009 plan. While the continuing market turbulence had a major impact on the regular work in many areas of the organisation, in general, the main focus areas in the strategic plan remained on target for completion within the agreed timeframe.

A number of measures to increase operational efficiency were undertaken. These included a benchmarking exercise of HR processes.

The next phase of strategic planning will focus on the significant structural and policy changes that are required to be implemented following the announcement by the Government in April 2009 of the restructuring of the CBFSAI to enhance financial stability oversight and financial supervision.

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

John Hurley, Governor

Brian Halpin, Secretary

The 30th day of June, 2009

Appendix 1: Statements and Published Papers by the Bank in 2008

Key Publications

Quarterly Bulletin

Annual Report 2007 – July 2008

Press Conference Statements

Governor's statement to mark the publication of the *Annual Report* of the Central Bank and Financial Services Authority of Ireland - July

Governor's statement on Government decision to guarantee key liabilities of Covered Institutions - October

Appearances at Oireachtas Committees (Opening Statements)

Governor to Joint Oireachtas Committee on Finance and Public Service - January

Governor to Joint Oireachtas Committee on Finance and Public Service - July

Tom O'Connell (ADG) to Oireachtas sub-committee on Ireland's future in the EU - November

Governor's Speeches and Presentations

Address by Governor at launch of Single European Payments System - January

Address to Irish Association of Pension Funds Annual Dinner - February

Address to Institute of External Auditors - April

Presentation entitled "Managing financial stability in Ireland" at Banque Centrale du Luxembourg (BCL) on the occasion of launch of its Financial Stability Report and the 10th anniversary year of the creation of the BCL - April

Presentation entitled "Monetary and financial statistics: evolving to meet the user needs" at the Fourth ECB Conference on Statistics - April

Presentation entitled "New challenges from financial integration and deepening: stocktaking and policy implications" at the High-Level Seminar of Central Banks of the East Asia-Pacific Region and the Euro Area - June.

Articles in Central Bank Quarterly Bulletins

A Monetary Perspective on the Relationship between Commodity and Consumer Prices - Frank Browne and David Cronin - No. 1 2008

Job Gains and Losses – Manufacturing and Internationally Traded Services - Martina Lawless and Alan P. Murphy - No. 1 2008.

Changing Participation Rates in the Euro Area : The Case of the Celtic Tiger - Yvonne McCarthy and Kieran McQuinn - No. 2 2008.

Irish Results of the BIS Foreign Exchange and Over-the-Counter Derivatives Survey - Aisling Menton - No. 2 2008.

The Impact of Asset Price Trends on Irish Households - Mary Cussen, John Kelly and Gillian Phelan - No. 3 2008

A Sectoral Analysis of the Average Work Week in Euro Area Countries - Suzanne Linehan and Kieran McQuinn - No. 3 2008

Research Technical Papers

Are Sectoral Stock Prices Useful for Predicting Euro area GDP? - Magnus Andersson and Antonello D'Agostino - April

Identifying and Forecasting House Price Dynamics in Ireland - Antonello D'Agostino, Kieran McQuinn and Gerard O'Reilly - June

Job Turnover in Irish Manufacturing 1976 – 2006 - Martina Lawless and Alan P. Murphy - June

Deconstructing Gravity: Trade Costs and Extensive and Intensive Margins - Martina Lawless - August

Where do Firms Export, How Much and Why? - Martina Lawless and Karl Whelan - September

Wage Inflation and Structural Unemployment in Ireland - Mary J. Keeney - October

Quantifying the Impact of Oil Prices on Inflation - Colin Birmingham - November

Now-casting Irish GDP - Antonello D'Agostino, Kieran McQuinn and Derry O'Brien - November

Statistical Publications

Sectoral Developments in PSC - Quarterly

Euro area Bank Lending Survey - Irish Results - Quarterly

Statistical Appendix in Quarterly Bulletins - Quarterly

Publications in Academic Journals by Staff Members

Prospects for Growth in the Euro area - Kieran McQuinn and Karl Whelan - CESifo Economic Studies, Vol 54(4), pp.642-680, 2008

Assessing the Role of Income and Interest Rates in Determining House Prices - Kieran McQuinn and Gerard O'Reilly - Economic Modelling, Vol. 25 pp.377-390, 2008

Measuring Bank Profit Efficiency - Kieran McQuinn and Trevor Fitzpatrick - Applied Financial Economics, Vol, 18, pp.1-8, 2008

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

The Governor John Hurley attending the fourth ECB Conference on statistics in Frankfurt.

Chapter 3:
Governance and Accountability

Statutory Background

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

Board Structure

Responsibility for the management of the Bank is vested in the Board, which comprises the Governor, the Director General of the Central Bank, the Secretary General of the Department of Finance, the Chairperson of the Financial Regulator, the Chief Executive of the Financial Regulator and seven non-executive Directors appointed by the Minister for Finance. Ex-officio Directors are members of the Board for as long as they hold the office by virtue of which they are appointed to the Board. Non-executive Directors are appointed by the Minister for renewable fixed terms of five years. Four of the non-executive Directors are appointed by virtue of their membership of the Regulatory Authority. The sole shareholder of the Bank is the Minister for Finance.

Members of the Board

The Members of the Board as at 30 June 2009, were:

Name	Occupation	Date first Appointed	Date Last Appointed
John Hurley	Governor	11.03.02	11.03.09
Tony Grimes	Director General	17.08.07	17.08.07
David Begg	General Secretary, Irish Congress of Trade Unions	12.05.95	01.05.08
Gerard Danaher	Senior Counsel	15.10.98	01.05.08
David Doyle	Secretary General, Department of Finance	01.07.06	01.07.06
John Dunne	Chairman, IDA	01.05.03	01.05.08
Jim Farrell	Chairman, Financial Regulator	01.05.08	01.05.08
Alan Gray	Managing Partner, Indecon International	21.12.06	21.12.06
Brian Hillery	Chairman Independent News & Media plc	01.05.08	01.05.08
Dermot O'Brien	Economist	01.05.08	01.05.08
Deirdre Purcell	Author	01.05.03	01.05.08
Mary O'Dea	Appointed Acting Chief Executive of the Financial Regulator with effect from 31 January 2009, following the retirement of Patrick Neary as Chief Executive. The Chief Executive of the Financial Regulator is an ex-officio member of the Board.		

Notes: Total fees paid to Directors in respect of membership of the Board in 2008 amounted to €151,667. The Director General, Tony Grimes, was appointed acting Governor from 19 July until 19 September 2008.

Governor

The Governor is appointed by the President, on the advice of the Government, for a term of seven years. John Hurley, the current Governor, was first appointed with effect from 11 March 2002. The Governor was reappointed for a second term on 11 March 2009. The Governor is the Chairman of the Board and is also an ex-officio member of the Governing Council of the European Central Bank (ECB). He has sole responsibility for the performance of the functions imposed, and the exercise of powers conferred, on the Bank by or under the EU Treaties or the ESCB Statute.

The Governor's salary, since taking a voluntary 10 per cent reduction in November 2008, is €369,078 per annum. Superannuation terms attaching to the Governor's salary are in accordance with the terms of the Civil Service Superannuation Scheme. The Governor is also provided with the use of a car.

Board Procedures

The Board holds eleven regular meetings each year. A quorum of seven normally applies for all meetings. The Governor approves the agenda and papers, which are circulated to the Directors one week in advance of meetings. Additional Board meetings may be called by the Governor at short notice either on his own initiative or at the request of any two Directors. The Secretary of the Bank keeps minutes of all Board meetings.

The agenda for meetings typically includes:

» Governor's Report;

» Reports on monetary and financial developments;

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

» Management of the investment assets of the Bank;

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

» General management, planning and budgetary issues; and,

» Quarterly and annual financial statements and results.

Board Sub-Committees

The Board has established three sub-committees as follows:

» the Audit Committee;

» the Remuneration and Budget Committee; and,

» the Investments Committee.

Membership in each case comprises of Directors - of whom one is appointed as Chairman - and a member of the Regulatory Authority, who is not also a member of the Board and who participates at meetings of both the Audit Committee and Remuneration and Budget Committee. The Secretary of the Bank, or a nominee, minutes all meetings of the sub-committees and, when approved, these minutes are circulated to the Board.

The members of the sub-committees, as at 30 June 2009, were as follows:

Audit Committee	David Begg (Chair) Alan Gray* Deirdre Purcell* Alan Ashe**
Remuneration and Budget Committee	John Dunne* (Chair), Brian Hillery*** Dermot O'Brien*** Dermot Quigley** Tony Grimes**** Mary O'Dea****
Investments Committee	Gerard Danaher (Chair) Tony Grimes Jim Farrell*

* Members of both the Board and the Regulatory Authority.
** Members of the Regulatory Authority who are not also members of the Board but who participate at meetings of the above Board committees.
*** Members of the Central Bank Board only.
**** The Director General and the Chief Executive are members of this Committee only when meeting on budgetary matters.
Board regulations detail the terms of reference, and specifically the duties, of each sub-committee.

The role of the Audit Committee is expressed in terms of oversight and review. Its key responsibilities are to monitor the integrity of the Bank's Financial Statements; to review the internal control and risk management system; to monitor the effectiveness of the internal audit function, and to liaise with the Comptroller and Auditor General and the external Auditor.

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

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

Powers Delegated to Governor

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

Management Boards

The Central Bank Management Board, which is chaired by the Director General, and includes the Deputy Director General and three Assistant Director Generals, manages the performance of the Central Bank on behalf of the Governor and Board. The Central Bank Management Board is the top-level forum for co-ordinating the development and implementation of management policies and decisions of the Central Bank. The responsibilities of the Management Board relate to corporate governance, policy development and organisational efficiency as follows:

A Corporate Governance

» Ensure that appropriate planning, budgeting, resource allocation and management review processes are in place and implemented;

» Monitor the financial performance and budgetary outturn; and,

» Co-ordinate and oversee the preparation of reports for the Board.

B Policy Development

» Ensure that policies and procedures are in place to achieve the strategic goals of the organisation.

C Organisational Efficiency

» Ensure that the highest standards are maintained in relation to all operations;

» Ensure that appropriate financial controls and audit systems are maintained; and,

» Ensure that the optimal structural arrangements are in place.

A Joint Management Board, comprising the senior executives of both the Central Bank and the Financial Regulator, co-ordinates the development and implementation of management policies in respect of all organisational matters of common interest. These include planning, budgeting, and utilisation of shared services and corporate resources including staffing, information technology, physical infrastructure and corporate services.

Accountability

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

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

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

Internal Audit

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

The Head of Internal Audit reports directly to the Governor and the Chairman of the Financial Regulator and has unrestricted access to the Audit Committee and members of the Joint Management Board. The Internal Audit function submits four-monthly written reports to the Governor, the Chairman of the Financial Regulator, the Audit Committee and the Joint Management Board. The Internal Audit function also reports to the Internal Auditors Committee of the ECB on the outcome of ESCB audits and other audit issues.

Code of Practice for Directors and Staff

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

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

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

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

» The Ethics in Public Office Regulations, 1997, have prescribed membership of the Board of the Bank as a designated directorship for purposes of the *Ethics in Public Office Act, 1995* and the *Standards in Public Office Act, 2001*. In accordance with this, members of the Board submit annual statements of interests to the Public Offices Commission and to the Secretary of the Bank. The Ethics in Public Office Regulations also prescribe executive positions in the Bank at or above the Professional 1 level as designated positions; and

» All members of the Board and staff of the Bank are subject to the provisions of the *Prevention of Corruption Acts, 1906 and 1916*. The Bank has a written code of conduct for staff.

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

The Governor and the Director General attend meetings of both the Governing and General Councils of the ECB. The Governing Council comprises the six members of the executive board of the ECB and the governors of the national central banks of the euro area countries. It is the primary decision-making body of the ECB. Its responsibilities are to adopt the guidelines and take the decisions necessary to ensure the performance of the tasks entrusted to the Eurosystem (which consists of the ECB and national central banks) and to formulate monetary policy for the euro area.

The General Council comprises the President and the Vice-President of the ECB and the governors of the National Central Banks of all 27 EU Member States. Its work includes contributing to the advisory and coordinating functions of the ECB and tasks relating to the national central banks of non-euro area Member States.

In order to enhance corporate governance, the Governing Council created an ECB Audit Committee in 2007. This committee continues to be chaired by Governor Hurley.

Central Bank Participation in Governance at the International Monetary Fund

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

Chapter 4:
Ten Years of the Euro

By Governor John Hurley

New Year's Day 2009 marked a very significant milestone for the euro, as on that day ten years ago, Ireland and ten of our European neighbours officially adopted a common currency. It would be another three years before the euro was issued in the physical form of banknotes and coins, but on 1 January 1999 the currency was born and began to be traded on financial markets. On the same day, the Eurosystem – comprising the European Central Bank (ECB) and the National Central Banks that made up the euro area, including our own Central Bank – assumed responsibility for the formulation and implementation of monetary policy in the region. The introduction and launch of the euro was a major achievement and one that took place very smoothly.

Of course, there were concerns at the time about how sustainable the euro might be. Given the diverse nature of the European economy, some commentators felt that it was only a matter of time before different economic developments in member states led to possible conflict and severe strains on the system. The last decade – and the current period of very high uncertainty has demonstrated the robust nature of monetary union, however, and has also brought to light its many benefits, both from a euro area and domestic perspective.

It is clear that Europe has benefited significantly from the establishment of the common currency. Prices in the region have been remarkably stable over the last decade, despite a series of global shocks. It is generally accepted that monetary policy can contribute to economic activity by maintaining a sound, stable, low-inflation economic environment. This provides the best basis for economic growth, employment creation and improvements in living standards. In this context, inflation in the euro area has averaged just over 2 per cent since 1999, compared with a rate of over 4 per cent at the beginning of that decade. Furthermore, there has been a greater stability in medium and long-term inflation expectations across the region, a development that has been most impressive in recent years, given the backdrop of very sharp changes in global commodity prices. This stability in expectations reflects the high level of credibility that the ECB has built up in a very short period of time. Linked to these favourable inflation developments, monetary union has also led to historically low interest rates across Europe.

Since 1999, there has also been a significant improvement in the euro area's labour market, with close to 16 million jobs created. Further progress in structural reforms is required, however, before the full growth potential of the region can be realised.

An additional benefit of monetary union has been the continued progress in European economic and financial integration over the last decade. The former is evident from the increase in trade activity that has occurred between euro area members, while the latter has manifested itself in the deepening of euro-area money and capital markets and in a gradual portfolio re-allocation, away from domestic financial instruments towards financial instruments issued by other countries in the region. In 2010, the Single Euro Payments Area (SEPA) will be established, allowing payments to be made as easily and inexpensively throughout the euro area as they can be locally.

Of course, by becoming a member of a monetary union each national economy loses whatever independence it may have had in regard to monetary and exchange rate policies. In reality, however, prior to EMU Ireland had limited independence in these policy areas, reflecting links to sterling and the EMS. Since the launch of the euro, however, all of the Governors of the participating central banks have a seat and an equal voice in decisions on monetary policy made at the Governing Council of the ECB, with such decisions being taken by reference to economic conditions in the euro area as a whole.

The single currency has led to an increase in price transparency and competition. It has also eliminated exchange rate risk and has reduced transaction costs. It is in the current harsh economic and financial environment, however, that the benefits to a small open economy of being in a large single currency area are most clear. The global economic environment is experiencing a period of substantial turmoil and the economic outlook remains clouded by significant uncertainty. Problems in financial markets are affecting the real economy across the world and global activity is expected to contract in 2009 for the first time in sixty years. In this context, there needs to be a focus domestically on improving our competitiveness. In the short term, this means being very flexible and adaptable in responding to adverse economic developments while putting in place policies for the medium term that will boost living standards. It is worth noting that a separate domestic currency would have been extremely vulnerable to market sentiment in the current environment, with the potential for sharp volatility. Given our position in a large currency area, however, such a concern is no longer relevant. Irish financial institutions, meanwhile, have been able to access the ECB's well-developed liquidity facilities that were established long before the recent financial turmoil began.

The coming period will be an extremely challenging one for the global and, indeed, the domestic economy, but monetary union has already proven itself resilient to challenges. Over the next decade, I have no doubt that the euro will establish itself further as an alternative reserve currency. In the ten years since EMU, we have seen the region expand, with five additional economies adopting the currency since its launch, including Slovakia on New Year's Day 2009. The continued attractiveness of monetary union is evidenced by the desire of most of the other EU member states outside the euro area to join, as soon as their economic circumstances permit.

This is based on an article by the Governor that first appeared in The Irish Times on 30 December 2008.

ECB President Jean-Claude Trichet cutting the birthday cake at the ceremony to mark the tenth anniversary of the ECB at the Alte Oper Frankfurt on 2 June 2008. Left to right: José Manuel Barroso, Jean-Claude Juncker, Jean-Claude Trichet, Aline Trichet, Hans-Gert Pottering, Gretta Duisenberg, Janez Jansa.

Part 2: Financial Operations

Accounting Policies

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

Auditing and Reporting Standards

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

Under Article 27 of the Statute of the European System of Central Banks (ESCB), the Accounts of the Bank must be audited by an independent external auditor recommended by the Governing Council of the ECB and approved by the European Council. Deloitte & Touche was appointed as the independent external auditor of the Bank for 2008.

As a member of the Eurosystem, the Bank complied with regular extensive reporting requirements to the ECB, comprising both statistical and financial data during 2008.

Sharing of Monetary Income

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

Financial Results for 2008

Profit for the year to 31 December 2008 amounted to €364.2 million compared with a corresponding amount of €228.0 million in 2007.

Net interest income for 2008 increased by €232.2 million to €615.3 million. Interest income amounted to €2,724.8 million, which was €1,205.9 million greater than the previous year. This increase was primarily attributable to interest earned on significantly higher levels of lending to credit institutions by the Bank as part of the Eurosystem, particularly in the final quarter of the year. These advances were provided in the context of unprecedented and intense funding pressures in the interbank markets. The Bank also benefited from a widening in interest rate differentials between the rates earned on this provision of liquidity to banks and market overnight rates paid on demand deposits, while interest earned on the investment portfolio increased due to higher average holdings of securities. Interest payable rose by €973.7 million to €2,109.4 million. The major contributory factor was a charge of €476.2 million on Intra-Eurosystem balances (compared to income earned of €39.6 million in the previous year). There were also increases in the interest payable on Government deposits (€265.6 million), credit institution deposits (€87.2 million) and on the Bank's euro banknote issue over and above its capital key share of total circulation (€108.1 million).

The result of financial operations, write-downs and risk provisions was a net gain of €11.4 million in 2008 compared to an equivalent loss of €15.3 million for the previous year. The 2008 outcome incorporated realised capital gains of €83.3 million on the investment portfolio, which mainly reflected a decision to shorten the duration of the portfolio. These were offset by a charge of €73.1 million arising from the establishment of a provision against counterparty risks in Eurosystem monetary policy operations[1]. Unrealised gains, which are not carried to profit under ECB accounting

1 This amount represents Ireland's share of a total Eurosystem-wide provision of €5.7 billion.

rules, but are transferred to revaluation reserves, were €153.7 million in 2008 reflecting capital gains on the investment portfolio.

The pooling of Eurosystem Monetary Income gave rise to a net payment of €169.8 million compared to €41.1 million in 2007. The level of this charge denotes the proportionately large share of total system monetary policy operations conducted by the Bank relative to other Eurosystem national central banks.

Total operating costs, which are charged against profit, amounted to €119.9 million and comprise pay, non-pay, banknote raw materials and depreciation. This represents an increase of €13.3 million, or 12.5 per cent on the previous year. Staff costs including pay increased by €6.0 million (7.9 per cent) to €81.8 million, while non-pay operating expenses increased by €6.2 million (27.5 per cent) to €28.7 million. The major contributory factor to this increase in non-pay operating expenses related to the cost of external consultancy assistance (€3.8 million) provided to the Financial Regulator in connection with the introduction of the Government Guarantee Scheme for Irish banks. A detailed analysis of the Bank's operating costs is given in Note 8 to the Statement of Accounts.

After transfers to reserves and adjustments related to the recognition of superannuation liabilities as required under Financial Reporting Standard 17, the Bank's Surplus Income amounted to €290.1 million, which is payable to the Exchequer.

Balance Sheet Developments

Total balance sheet assets as at 31 December 2008 were €116.1 billion, which is €62.6 billion greater than the corresponding figure for 31 December 2007. As alluded to above, there was a substantial rise in the level of advances provided to credit institutions, which was primarily due to the sustained elevated funding pressures in the inter-bank market following the failure of Lehman Brothers in September 2008.

At end year, the Bank's proportional share of total euro banknotes in circulation amounted to €8.9 billion, which represented an increase of almost €1 billion on the previous year and reflects a general increase of 12.5 per cent in the value of euro banknotes outstanding worldwide. Liabilities to euro area credit institutions (commercial banks) decreased by €2.4 billion. Liabilities to other euro area residents denominated in euro, essentially Government deposits, increased by €17.8 billion to €25.8 billion, while Intra-Eurosystem net liabilities to the ECB increased by €45.8 billion. This large increase was mainly due to an increase of €43.8 billion in the Bank's liability to other central banks of the Eurosystem in respect of cross-border payments in euro through the ESCB's large-value payment system – TARGET2[2]. The remainder is attributable to an increase of €2 billion in the value of the net issue by the Bank of euro banknotes over and above its capital key share of the total issue.

Redemption of Irish Banknotes

Irish banknotes ceased to be legal tender with effect from 9 February 2002. As at 31 December 2002, notes to the value of €299.7 million were outstanding, at which point the proceeds were transferred to the Exchequer less a provision of €60 million to meet obligations in respect of unredeemed Irish notes. During 2008, an amount of €3.2 million was redeemed (compared to €4.3 million in 2007) leaving €243.8 million in Irish banknotes still outstanding and a balance on the provision account of €4.1 million at end-December 2008.

Proceeds of Coin

During 2008, the value of euro coin issued was €43.9 million (€65 million in 2007). After deduction of expenses, seigniorage of €30 million was paid to the Exchequer. The Bank continues to redeem Irish coin issued prior to the introduction of the euro in January 2002. In 2008, Irish coin redeemed totalled €0.5 million (compared with €0.6 million in the previous year). Full details are incorporated in Note 32 of the Statement of Accounts.

2 Trans-European Automated Real-time Gross settlement Express Transfer system

Prompt Payment of Accounts 2008

The Bank is obliged to comply with the provisions of the European Communities (Late Payment in Commercial Transactions) Regulations, 2002, which provides that penalty interest will become payable if payments for commercial transactions are not met within 30 days, unless otherwise specified in a contract or agreement. The regulations do not apply where the interest penalty is less than €5. The rate of interest applicable to late payments is the ECB main refinancing rate plus 7 percentage points, with the relevant rate at 1 January and 1 July each year applying for the six-month period after these dates. In 2008, interest was payable at a rate of between 10 and 11 per cent per annum.

The following is a summary of interest payments made to suppliers during 2008 in accordance with the provisions of the Regulations referred to above.

Total number of late payments	72
Total value of all late payments (A)	€767,166
Total value of all payments (B)	€60,580,799
A as % of B	1.27%
Total amount of interest paid on late payments	€5,728

Statement of Accounts

Statement of Directors' Responsibilities

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

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

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

John Hurley, Governor

David Begg, Director

30 June 2009

Statement on Internal Financial Controls

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

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

The systems of control include:

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

An operational risk framework has been developed for the whole organisation. Each business area is responsible for the management of risk and the implementation of appropriate controls and procedures aimed at minimising and monitoring such risks. An Operational Risk Committee, which comprises senior management, has responsibility for the oversight of the management of operational risk. A full review of operational risk is furnished by the Bank Audit Committee to the Board on an annual basis. To assist departments in the ongoing assessment of risk, an operational risk database has been developed.

Details of the risk controls deployed in respect of the management of investment assets are outlined in the Activities Chapter under Risk Management and in Note 35 to the Statement of Accounts.

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

I can confirm that the Board reviewed the effectiveness of the system of internal financial controls during the year ended 31 December 2008.

John Hurley, Governor
30 June 2009

Accounting Policies

(a) Form of Presentation of Accounts

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

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

The accounting unit is the euro.

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

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

(b) Income Recognition

The accruals concept in accounting for income has been adopted.

(c) Fixed Assets

(i) Measurement

Fixed assets are stated at cost and are not revalued.

(ii) Depreciation

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

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

(d) Superannuation

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

Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at interest rates applicable to high-

1 Throughout this document the use of the term the European System of Central Banks (ESCB) refers to the twenty-seven National Central Banks (NCBs) of the Member States of the European Union on 31 December 2008 plus the European Central Bank (ECB). The term ‘Eurosystem’ refers to the fifteen NCBs of the Member States participating in the Monetary Union, plus the ECB, on the same date.

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

quality corporate bonds of the same currency and term as the liabilities. The current service cost and any past service costs for the general body of staff are charged to the Profit and Loss and Appropriation account and to the Currency Reserve in respect of Mint staff. Actuarial gains and losses are recognised in the appropriation account.

In determining the value of scheme liabilities, assumptions are made as to price inflation, pension increases, earnings growth and demographics. The assumptions underlying the 2008 liabilities and pension cost are set out in Note 34.

(e) Coin Provision and Issue

Proceeds and expenses relating to the provision and issue of coin are transferred directly to the Currency Reserve under the provisions of the *Coinage Act*, 1950, the *Decimal Currency Acts*, 1969-1990 and the *Economic and Monetary Union Act*, 1998. The cost of production of coin is charged to the Currency Reserve in the year in which it is incurred. Proceeds from the issue of coin are credited to the Currency Reserve in the year in which they are received (Note 32). Section 14A of the *Economic and Monetary Union Act*, 1998 (as inserted by Section 137 of the *Finance Act*, 2002) which came into operation on 25 March 2002 provides for the net proceeds from the issue of coin, from 1 January 2002, to be passed directly to the Exchequer as directed by the Minister.

(f) Foreign Currency Transactions

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

(g) Amortised Income

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

(h) Valuation Policy

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

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

Securities held in long-term investment portfolios are not valued but are held at cost until maturity.

(i) Recognition of Gains and Losses

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

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

Unrealised losses are accounted for through the Profit and Loss and Appropriation account to the extent that they exceed previous revaluation gains. Unrealised losses accounted for through the Profit and Loss and Appropriation account in this manner may not be reversed in subsequent years against future unrealised gains.

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

(j) Repurchase Agreements

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

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

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

(k) Euro System Accounting Guidelines

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

(i) Trade Date Accounting[3]

Transactions in assets and liabilities are generally booked at the settlement date (usually the trade date plus two days), unless a year-end falls between the trade date and the settlement date, in which case they have to be recognised at the trade date i.e., all gains and losses arising from these transactions are booked in the current year. In 2008, there were no transactions effected over the year-end.

(ii) Intra-ESCB balances

All NCBs of the Eurosystem maintain accounts with each other for the purpose of making bilateral payments including cross-border payments through the TARGET2[4] system. All bilateral balances at the close of business each day are netted by means of a multilateral netting process and replaced by a single outstanding debt-obligation to the ECB by each NCB or vice versa as appropriate. At end-2008, five non-participating countries (Denmark, Latvia, Lithuania, Poland and Estonia) were members of TARGET2 and, therefore, included in the multilateral netting process.

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

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

(iii) ESCB Capital Key

The capital key is the percentage of each NCB's share capital in the ECB. The capital key is a measure of the relative national size of member countries and is a 50:50 composite of GDP and population size and must be adjusted at least every five years under ESCB statute.

As of 1 January 2008, the Eurosystem expanded owing to the accession of the Maltese and Cypriot central banks, which paid their capital shares to the ECB in full. As a result, the Bank's share in the fully paid-up subscribed capital of the ECB declined marginally from 1.2782 to 1.2748 per cent on 1 January 2008. The subscribed capital key 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.

(iv) Banknotes in Circulation

The ECB and the 15 participating NCBs, which together comprise the Eurosystem, issue euro banknotes[5&6]. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with each NCB's banknote allocation key[7].

The ECB has been allocated a share of 8 per cent of the total value of euro banknotes in circulation, whereas the remaining 92 per cent has been allocated to NCBs in the Eurosystem in proportion to their respective paid-up shares in the capital of the ECB. In the year under review, the Bank had a 1.2748 per cent share in the fully paid-up capital of the ECB (Accounting Policy (k)(iii)) and therefore a 1.1728 per cent share of the euro banknotes in circulation in accordance with the banknote allocation key. The share of banknotes allocated to each NCB is disclosed under the balance sheet liability item "Banknotes in circulation" (Note 22).

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest[8], are disclosed in the Balance Sheet under "Intra-Eurosystem: Liabilities (net)" (Accounting Policy (k)(ii) and Note 27). The interest income (Note 1) and interest expense (Note 2) on these balances are cleared through the accounts of the ECB and disclosed under "Net interest income" in the Profit and Loss and Appropriation account.

The Governing Council of the ECB has decided that the segniorage income of the ECB arising from the 8 per cent share of euro banknotes allocated to the ECB shall be distributed separately to the NCBs in the form of an interim distribution of profits[9] (Note 5). It also decided that, from 2006 onwards this income is due to the NCBs in the financial year in which it accrues, but is to be distributed on the second working day of the following year[10]. It is distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and subject to any decisions by the Governing Council to make transfers to a provision for foreign exchange rate, interest rate and gold price risks and to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against this income. For the financial year 2008, the ECB retained €1,339 million of the ECBs income to fund the risk provision. The remaining income of €1,322 million was distributed among the national central banks, as interim

5 Decision of the European Central Bank of 6 December 2001 on the issue of euro banknotes (ECB/2001/15), OJ L 337, 20.12.2001, pp. 52-54.
6 Central Bank of Slovenia has only participated in the Eurosystem since 2007 and Central Bank of Cyprus and Central Bank of Malta since 2008.
7 The banknote allocation key refers to the percentages that result from taking into account the ECB's share of the total euro banknote issue and applying the ESCB capital key to the participating NCBs' share of such total.
8 Decision of the European Central Bank of 6 December 2001 on the allocation of monetary income of the National Central Banks of participating Member States from the financial year 2002 (ECB/2001/16), OJ L 337, 20.12.2001, pp. 55-61.
9 Decision of the European Central Bank of 21 November 2001 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the National Central Banks of the participating Member States (ECB/2002/9) the *Official Journal of the European Union* L 323, pp. 49-50.
10 Decision ECB/2005/11 of 17 November 2005 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the national central banks of the participating Member States, OJ L 311, 26.11.2005, p.41. This Decision repealed Decision ECB/ 2002/9.

profit for 2008 in accordance with respective capital key shares. The Bank's share of €16.9 million is shown in the Profit and Loss and Appropriation account under "Income from equity shares and participating interests" (Note 5).

(v) Net Result of Pooling of Monetary Income

The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base.

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

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

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

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

(vi) Claims Equivalent to the Transfer of Foreign Reserves

The *Treaty on European Union*, 1992 and Section 5A of the *Central Bank Act*, 1942, (as inserted by Section 4 of the *Central Bank Act*, 1998) as substituted by Section 5B(o) of the *Central Bank and Financial Services Authority of Ireland Act*, 2003 provides that the Bank has the power to "transfer assets, income or liabilities to the European Central Bank where required under the ESCB Statute". Accordingly, the Bank transferred an amount equivalent to €424.8 million to the ECB in January 1999, at the commencement of European Monetary Union, and received in turn a corresponding claim on the ECB equivalent to this amount. As a result of subsequent capital key changes, an additional €87.9 million was transferred on 1 January 2004, €0.3 million on 1 May 2004 and a reduction of €1.2 million on 1 January 2007. In 2008, the marginal change in the capital key did not give rise to a change in the level of reserves. The resulting claim on the ECB is remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations adjusted to reflect a zero return on the gold component (Note 1 and 18, and Accounting Policy (k)(iii)).

(vii) Off-Balance Sheet Items

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

Profit and Loss and Appropriation Account for year ended 31 December 2008

	Note	2008 €000	2007 €000
Interest income	1	*2,724,752*	*1,518,859*
Interest expense	2	*(2,109,440)*	*(1,135,739)*
Net Interest Income		**615,312**	**383,120**
Net realised gains/(losses) arising from financial operations	3	*85,051*	*(324)*
Write-downs on financial assets and positions	3	*(577)*	*(14,972)*
Transfers (to)/from provision for foreign exchange, price & other operational risks	3	*(73,124)*	*-*
Net result of financial operations, write-downs and risk provisions		**11,350**	**(15,296)**
Income from fees and commissions	4	**3,016**	**2,414**
Income from equity shares and participating interests	5	**19,209**	**2,459**
Net result of pooling of monetary income	6	**(169,768)**	**(41,070)**
Other income	7, 41	**4,965**	**2,904**
TOTAL NET INCOME		**484,084**	**334,531**
Staff expenses	8	**(81,837)**	**(75,824)**
Other operating expenses	8	**(28,747)**	**(22,543)**
Depreciation	8	**(6,576)**	**(6,568)**
Banknote raw materials	8	**(2,712)**	**(1,595)**
PROFIT FOR THE YEAR BEFORE UNREALISED GAINS AND APPROPRIATION OF PROFIT		**364,212**	**228,001**
Net movement in Unrealised Gains	31	**153,660**	**30,031**
Transfers to Revaluation Accounts	31	**(153,660)**	**(30,031)**
Transfer to General Reserve	32	**(74,158)**	**(35,185)**
Transfer to General Reserve	32	**(76,405)**	**(33,880)**
Actuarial Gain on Pension Scheme	34	**76,405**	**33,880**
Initial Contribution to Pension Fund	34	**(400,000)**	**-**
Reduction in Pension Liability	34	**400,000**	**-**
SURPLUS INCOME PAYABLE TO THE EXCHEQUER	9	**290,054**	**192,816**

The accounting policies together with Notes 1 to 42 form part of these accounts.

Banc Ceannais agus Údarás Seirbhísí Airgeadais na hÉireann

John Hurley, Governor
Brian Halpin, Deputy Director General
30 June 2009

Balance Sheet as at 31 December 2008

ASSETS	Note	2008 €000	2007 €000
Gold and gold receivables	10	120,014	109,721
Claims on non-euro area residents in foreign currency	11	587,327	521,987
Claims on euro area residents in foreign currency	12	5,062,698	445,504
Claims on non-euro area residents in euro	13	1,274,271	1,552,502
Lending to euro area credit institutions related to monetary policy operations in euro	14	93,412,329	39,449,415
Other claims on euro area credit institutions in euro	15	113,547	428,913
Securities of euro area residents in euro	16	14,222,053	9,883,885
Intra-Eurosystem claims		585,421	568,564
Participating interest in ECB	17	*56,730*	*56,730*
Claims equivalent to the transfer of foreign reserves	18	*511,834*	*511,834*
Other claims within the Eurosystem	5	*16,857*	*-*
Items in course of settlement	19	3,872	7,481
Other assets	20	728,566	560,586
Pension assets	34	21,730	-
TOTAL ASSETS		116,131,828	53,528,558

The accounting policies together with Notes 1 to 42 form part of these accounts.

Banc Ceannais agus Údarás Seirbhísí Airgeadais na hÉireann

John Hurley, Governor
Brian Halpin, Deputy Director General
30 June 2009

Balance Sheet as at 31 December 2008

LIABILITIES	Note	2008 €000	2007 €000
Banknotes in circulation	22	8,947,351	7,957,251
Liabilities to euro area credit institutions related to monetary policy operations in euro	23	19,447,188	21,839,389
Liabilities to other euro area residents in euro	24	25,817,192	8,025,289
Liabilities to non-euro area residents in euro	25	6,932	2,282
Counterpart of special drawing rights allocated by the IMF	26	96,413	93,720
Intra-Eurosystem liabilities (net)		58,739,356	12,896,178
Liabilities related to the allocation of euro banknotes within the Eurosystem	27	*14,375,692*	*12,300,943*
Other liabilities within the Eurosystem (net)	28	*44,363,664*	*595,235*
Other liabilities	29	1,442,330	1,029,289
Pension liability	34	-	424,950
Provision	30	77,182	7,326
Revaluation accounts	31	241,897	88,237
Capital and reserves	32	1,315,987	1,164,647
TOTAL LIABILITIES		116,131,828	53,528,558

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

John Hurley, Governor
Brian Halpin, Deputy Director General
30 June 2009

Notes to the Accounts

Note 1: Interest Income

	2008	2007
	€000	€000
Deposit Income	12,466	73,832
Coupons on Securities	546,345	367,518
Reverse Repurchase Agreements (i)	22,903	9,257
(Premiums)/Discounts on Securities (ii)	5,787	26,490
Monetary Policy Operations (iii)	2,113,599	1,029,486
Income from Transfer of Foreign Reserve Assets to ECB (iv)	17,852	17,340
Other	5,800	(5,064)
Total	**2,724,752**	**1,518,859**

(i) There were no Reverse Repurchase Agreements outstanding at 31 December 2008. Accounting Policy (j).

(ii) Accounting Policy (g).

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

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

Note 2: Interest Expense

	2008	2007
	€000	€000
Government Deposits	579,127	313,575
Credit Institutions Deposits	534,400	447,160
Intra-Eurosystem Balances (net) (i)	476,239	(39,606)
Remuneration of Liability in respect of Euro Banknotes in Circulation (ii)	519,582	411,449
Repurchase Agreements (iii)	92	3,161
Total	**2,109,440**	**1,135,739**

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

(ii) Accounting Policies (k)(ii) and (k)(iv).

(iii) There were no Sale and Repurchase Agreements outstanding at 31 December 2008. Accounting Policy (j).

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

Net Realised Gains/(Losses) arising from Financial Operations	2008	2007
	€000	€000
Net Realised Price Gains/(Losses) on Securities	83,337	(654)
Net Realised Exchange Rate Gains	1,714	330
Total	**85,051**	**(324)**

Write Downs on Financial Assets and Positions	2008	2007
	€000	€000
Unrealised Price Losses on Securities	(270)	(12,337)
Unrealised Exchange Rate Losses	(307)	(2,635)
Total	**(577)**	**(14,972)**

Transfers (to)/from Provision for Foreign Exchange, Price and Other Operational Risks	2008	2007
	€000	€000
Transfer to Eurosystem Monetary Policy Operations Counterparty Risk (i)	(73,124)	-
Total	**(73,124)**	**-**

(i) In accordance with the general accounting principle of prudence, the ECB Governing Council has deemed it appropriate to establish a buffer totalling €5,736 million against counterparty risks in monetary policy operations. In accordance with Article 32.4 of the Statute[1], this buffer will be funded among all the national central banks of participating Member States (NCBs) in proportion to their subscribed capital key shares in the ECB prevailing in 2008. As a result, a provision of €73.1 million, equivalent to 1.2748 per cent of the total provision was created by the Bank.

Note 4: Income from Fees and Commissions

	2008	2007
	€000	€000
Service Fees and Charges	793	829
Securities Lending	1,680	1,463
Other	543	122
Total	**3,016**	**2,414**

1 Statute refers to the Statute of the European System of Central Banks and of the European Central Bank.

Note 5: Income from Equity Shares and Participating Interests

	2008	2007
	€000	€000
Share of ECB Profits (i)	16,857	3
BIS Dividend (ii)	2,352	2,456
Total	**19,209**	**2,459**

(i) This is the claim on the ECB of €16.9 million arising from the distribution of ECB income from banknotes allocated to it. Accounting Policy (k)(iii). In 2007 no dividend was received from the ECB (Note 17). The figure shown for 2007 represents income accrued as a result of a decrease in Bank's share in the ECB's equity following the capital key change on 1 January 2007.

(ii) This item represents dividends received on shares held in the Bank for International Settlements (Note 20(i)) and from the Bank's participating interest in the ECB.

Note 6: Net Result of Pooling of Monetary Income

This item represents the difference between the monetary income pooled by the Bank (€520.5 million) and that reallocated to the Bank (€350.9 million) following the distribution of total Eurosystem monetary income among NCBs in accordance with respective capital key shares, plus interest charged (€0.1 million) on the net result for the year. Accounting Policy (k)(v).

Note 7: Other Income

	2008	2007
	€000	€000
Financial Regulator Net Industry Funding (Note 41(i))	27,944	22,309
Interest on Pension Scheme Liabilities (Note 34(i))	(23,767)	(20,777)
Other	788	1,372
Total	**4,965**	**2,904**

Note 8: Expenses

€000	Head Office*		Printworks		Total Head Office and Printworks		Mint (i)		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Salaries/Allowances (ii)	53,278	47,971	11,818	10,021	65,096	57,992	853	618	65,949	58,610
PRSI	3,577	3,170	729	641	4,306	3,811	50	41	4,356	3,852
Pensions (Note 34(i))	10,864	12,327	1,571	1,694	12,435	14,021	102	107	12,537	14,128
Staff Expenses	**67,719**	**63,468**	**14,118**	**12,356**	**81,837**	**75,824**	**1,005**	**766**	**82,842**	**76,590**
Training, Recruitment & Other Staff Costs	2,763	2,555	415	432	3,178	2,987	13	11	3,191	2,998
Maintenance of Premises	1,324	1,265	1,432	1,188	2,756	2,453	5	8	2,761	2,461
Energy	799	702	778	571	1,577	1,273	-	-	1,577	1,273
Rent & Rates	2,470	1,126	457	452	2,927	1,578	-	-	2,927	1,578
Equipment, Stationery & Requisites	1,269	1,417	186	137	1,455	1,554	4	4	1,459	1,558
Post & Telecommunications	531	548	146	169	677	717	2	3	679	720
Investment Services & Bank Charges	1,744	1,494	31	25	1,775	1,519	-	-	1,775	1,519
Business Travel	1,723	1,836	191	238	1,914	2,074	24	17	1,938	2,091
Publishing & Media Relations	2,963	3,225	9	15	2,972	3,240	1	1	2,973	3,241
Professional Fees (iii)	7,129	2,893	88	26	7,217	2,919	10	5	7,227	2,924
Works Machine Maintenance	-	-	750	984	750	984	259	289	1,009	1,273
RTGS System Costs	903	518	-	-	903	518	-	-	903	518
Miscellaneous (iv)	606	675	40	52	646	727	-	-	646	727
Other Operating Expenses	**24,224**	**18,254**	**4,523**	**4,289**	**28,747**	**22,543**	**318**	**338**	**29,065**	**22,881**
Depreciation	**3,555**	**3,394**	**3,021**	**3,174**	**6,576**	**6,568**	**123**	**145**	**6,699**	**6,713**
Raw Materials	**-**	**-**	**2,712**	**1,595**	**2,712**	**1,595**	**14,504**	**7,960**	**17,216**	**9,555**
Total Expenses	**95,498**	**85,116**	**24,374**	**21,414**	**119,872**	**106,530**	**15,950**	**9,209**	**135,822**	**115,739**

*Head Office expenses include all expenses (including Financial Regulator) other than those of the Printworks and Mint. Details of the Financial Regulator's income and expenditure in 2008 are shown in Note 41.

(i) Expenses incurred at the Mint relating to the provision and issue of coin are charged directly to the Currency Reserve under the provisions of the *Coinage Act*, 1950, the *Decimal Currency Acts*, 1969-1990 and the *Economic and Monetary Union Act*, 1998 and not to the Profit and Loss and Appropriation account. Accounting Policy (e).

(ii) Total fees paid to Directors of CBFSAI and Members of the Financial Regulator in respect of 2008 were €338,334 (2007: €315,000). This is allocated as follows:

	2008 (€)	2007 (€)
CBFSAI	151,667	140,000
Financial Regulator	186,667	175,000

(iii) Professional fees increased by 146 per cent in 2008 to €7.2 million (2007: € 2.9 million) mainly due to the increase in fees for consultancy services associated with the introduction of the Government Guarantee Scheme. Auditors fees for 2008 in respect of both the Comptroller and Auditor General and Deloitte & Touche amounted to €262,990 (2007: €264,078), of which €30,250 (2007: €27,578) were for non-audit services by Deloitte & Touche.

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

Note 9: Surplus Income

Surplus Income of €290.1 million was payable to the Exchequer in respect of the year ended 31 December 2008 (2007: €192.8 million).

A payment on account of €40.6 million (2007: €40.6 million) of Surplus Income was made during 2008 leaving a balance of €249.5 million (2007: €152.2 million) (Note 29(i)). These arrangements are in accordance with Section 6G of the *Central Bank Act*, 1942 (as inserted by Section 7 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003), which provides that the Bank may at any time pay into the Exchequer such sums on account of Surplus Income as may be agreed upon by the Minister for Finance and the Bank.

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

Note 10: Gold and Gold Receivables

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

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

	2008	2007
	€000	€000
Receivables from the IMF (i)	187,843	127,730
Balances with Banks and Security Investments, External Loans and other External Assets (iv)	399,484	394,257
Total	**587,327**	**521,987**

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

	2008	2007
	€000	€000
Quota	926,306	900,440
Less IMF Holdings of euro	(808,884)	(841,019)
Reserve Position in IMF (ii)	**117,422**	**59,421**
SDR Holdings (iii)	**70,421**	**68,309**
Total	**187,843**	**127,730**

(ii) Reserve Position in IMF:

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

(iii) Special Drawing Rights (SDRs):

The SDR is an international reserve asset, which was created by the IMF and allocated to member countries in the 1970s and 80s in order to increase international liquidity. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of exchange rates of four currencies (US dollar, sterling, yen and euro).

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

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

	2008	2007
	€000	€000
Balances with Banks	620	41,325
Security Investments – MTM (v)	398,864	352,932
Total	**399,484**	**394,257**

Maturity Profile	2008	2007
	€000	€000
0 – 3 months	106,556	46,623
3 months – 1 year	258,372	16,077
1 – 5 years	34,556	331,557
Total	**399,484**	**394,257**

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

Note 12: Claims on Euro Area Residents in Foreign Currency

	2008	2007
	€000	€000
Balances with Banks (i)	4,989,088	412,840
Security Investments – MTM (ii)	73,610	32,664
Total	**5,062,698**	**445,504**

Maturity Profile	2008	2007
	€000	€000
0 – 3 months (i)	5,002,900	414,200
3 months – 1 year	59,798	8,324
1 – 5 years	-	22,980
Total	**5,062,698**	**445,504**

(i) This item consists mainly of a claim arising from reverse operations with Eurosystem counterparties amounting to €4,977 million (2007: €399.1 million), in connection with the short-term US dollar liquidity providing programme (US dollar Term Auction Facility). Under this program, US dollars were provided by the Federal Reserve to the ECB by means of a temporary reciprocal currency arrangement (swap line) with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct liquidity-providing operations with Eurosystem counterparties (Note 37).

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

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

	2008	2007
	€000	€000
Balances with Banks	67,072	410,508
Security Investments – MTM (i)	539,929	658,039
Security Investments – HTM (i)	667,270	483,955
Total	**1,274,271**	**1,552,502**

Maturity Profile	2008	2007
	€000	€000
0 – 3 months	125,256	485,465
3 months – 1 year	170,220	184,713
1 – 5 years	680,236	613,385
5 – 10 years	298,559	268,939
Total	**1,274,271**	**1,552,502**

(i) MTM (Mark-to-Market) refers to marketable securities held and valued at mid-market closing prices at year-end. HTM (Held to Maturity) refers to securities held in long-term investment portfolios. HTM securities are not valued but held at cost until maturity. Accounting Policy (h).

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

	2008	2007
	€000	€000
Main Refinancing Operations (i)	44,431,000	12,140,354
Longer Term Refinancing Operations (ii)	48,981,329	27,309,061
Total	**93,412,329**	**39,449,415**

These balances consist of advances to local credit institutions and reflect the Bank's participation in Eurosystem monetary policy operations. All the advances are fully secured by collateral approved by the Eurosystem. There was a significant increase in the level of advances during 2008 reflecting the additional liquidity provided by the ECB to address elevated funding pressures in financial markets. In October 2008, the ECB announced the introduction of fixed rate, 100 per cent allotment for Main Refinancing and Longer Term Refinancing Operations. Total liquidity provided by the ECB in 2008 to the Eurosystem amounted to €857 billion, an increase of €219 billion over the end-2007 position.

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

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

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

	2008	2007
	€000	€000
Balances with Banks	113,547	428,913
Total	**113,547**	**428,913**

Note 16: Securities of Euro Area Residents in Euro

	2008	2007
	€000	€000
Security Investments – MTM	8,600,510	7,190,572
Security Investments – HTM	5,621,543	2,693,313
Total	**14,222,053**	**9,883,885**

These securities comprise debt issued by specified euro area and supranational issuers. MTM (Mark-to-Market) refers to marketable securities held and valued at mid-market closing prices at year-end. HTM (Held to Maturity) refers to securities held in long-term investment portfolios which are not valued but are held at cost until maturity. Accounting Policy (h).

Maturity Profile	2008	2007
	€000	€000
0 – 3 months	1,334,065	344,485
3 months – 1 year	3,401,069	668,946
1 – 5 years	6,938,306	7,428,462
5 – 10 years	2,548,613	1,441,992
Total	**14,222,053**	**9,883,885**

Note 17: Participating Interest in ECB

This represents the Bank's contribution to the capital of the European Central Bank. On 1 January 2008, a change of the ECB's capital key occurred as a result of the accession of two member states, Cyprus and Malta. This change did not result in an adjustment to the Bank's contribution to the capital of the ECB. Accounting Policy (k)(iii) and Note 5.

Note 18 Claims Equivalent to the Transfer of Foreign Reserves

These represent the Bank's claims arising from the transfer of foreign reserve assets to the ECB in accordance with the provisions of the ESCB Statute. The claims are denominated in euro at a value fixed at the time of their transfer. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component. The adjustments to the capital key weightings of the ECB on 1 January 2008 resulted in no adjustment of the claim of the Bank with respect to the foreign reserve assets transferred to the ECB. Accounting Policy (k)(vi) and Note 1.

Note 19: Items in Course of Settlement

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

Note 20: Other Assets

	2008	2007
	€000	€000
Shares in the Bank for International Settlements (i)	16,918	15,766
Stocks of Materials for Banknote Production	3,315	2,606
AIB plc/ICAROM Interest Bearing Loan (ii)	98,246	70,108
Accrued Interest Income	448,293	333,185
Prepayments	882	373
Fixed Assets (Note 21)	72,663	60,737
Other	88,249	77,811
Total	**728,566**	**560,586**

(i) The Bank holds 8,564 shares (2,564 paid up) in the Bank for International Settlements, the market value of which is €16.9 million (Notes 5 and 33).

(ii) Under arrangements, which commenced in 1993 for the financing of the administration of ICAROM plc (formerly Insurance Corporation of Ireland plc), €11.1 million per annum until 2012 is being collected from AIB plc and passed on to the Administrator of ICAROM plc.

Note 21: Fixed Assets

€000	Premises (i)		Plant and Machinery		Computer Equipment		Other Equipment		Furniture, Fixtures & Fittings		Total Fixed Assets	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
At Cost – 1 January	53,099	53,038	47,081	47,004	13,988	12,575	9,231	9,059	9,649	9,383	133,048	131,059
Acquisitions (+)	11,025	61	83	77	2,868	1,413	4,467	273	219	266	18,662	2,090
Disposals	-	-	-	-	-	-	(28)	(101)	(37)	-	(65)	(101)
At Cost – 31 December	64,124	53,099	47,164	47,081	16,856	13,988	13,670	9,231	9,831	9,649	151,645	133,048
Accumulated Depreciation at 1 January	12,446	11,291	33,989	31,136	10,798	9,674	6,901	6,138	8,177	7,449	72,311	65,688
Depreciation for Year (ii)	1,171	1,155	2,665	2,853	1,298	1,124	929	846	634	728	6,697	6,706
Disposals	–	–	–	–	–	–	(14)	(83)	(12)	–	(26)	(83)
Accumulated Depreciation at 31 December	13,617	12,446	36,654	33,989	12,096	10,798	7,816	6,901	8,799	8,177	78,982	72,311
Net Book Value at 31 December	**50,507**	**40,653**	**10,510**	**13,092**	**4,760**	**3,190**	**5,854**	**2,330**	**1,032**	**1,472**	**72,663**	**60,737**

(i) The increase in premises relates to the purchase of property in College Green and the fit-out of newly leased premises in Spencer Dock.

(ii) Of the total of €6.7 million (2007: €6.7 million) depreciation charge,€0.12 million (2007: €0.15 million) in respect of Mint machinery was charged to the Currency Reserve.

Note 22: Banknotes in Circulation

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

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

	2008	2007
	€000	€000
Minimum Reserve (i)	8,535,113	10,820,031
Overnight Deposits (ii)	10,912,075	3,019,358
Fixed Term Deposits (iii)	-	8,000,000
Total	**19,447,188**	**21,839,389**

(i) Credit institutions in the euro area are required to hold minimum average reserve deposits with their respective NCBs. The purpose of these reserve requirements is to maintain a structural liquidity shortage. Interest is paid on these deposits at rates close to short-term market interest rates (Note 14).

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

(iii) A fixed term deposit is a fine-tuning operation used to drain excess liquidity from the market for a fixed period, normally overnight.

Note 24: Liabilities to Other Euro Area Residents in Euro

	2008	2007
	€000	€000
General Government Deposits (i)	25,817,192	8,025,191
Other	-	98
Total	**25,817,192**	**8,025,289**

These items have a maturity of less than one year.

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

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

	2008	2007
	€000	€000
Central Banks	1	6
International Financial Institutions	90	97
EU Agencies	6,841	2,179
Total	6,932	2,282

These items have a maturity of less than one year.

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

This is the liability of the Bank to the IMF in respect of the allocation of SDRs to Ireland. The Bank's SDR assets can change as a result of IMF lending operations or exchanges of SDRs for foreign currency with the IMF itself, IMF members and other official holders of SDRs. SDR holdings may also change as a result of interest payments made by the IMF on the Bank's Reserve Position in the IMF and on the Bank's SDR holdings net of SDR allocations.

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

This item consists of the liability of the Bank *vis-à-vis* the Eurosystem in relation to the allocation of euro banknotes within the Eurosystem. Accounting Policies (k)(ii) and (k)(iv) and Note 22.

Note 28: Other Liabilities within the Eurosystem

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

Note 29: Other Liabilities

	2008	2007
	€000	€000
AIB plc/ICAROM Deposit (Note 20)	98,246	70,108
Profit & Loss Appropriation (i)	249,425	152,184
Deposit Protection Accounts (ii)	669,408	526,093
Interest Accruals	408,860	272,336
Other Accruals	5,902	5,040
Other	10,489	3,528
Total	**1,442,330**	**1,029,289**

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

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

Note 30: Provision

The following provisions were maintained at 31 December 2008:

(i) In accordance with the general accounting principle of prudence, the ECB Governing Council has deemed it appropriate to establish a buffer totalling €5,736 million against counterparty risks in monetary policy operations. In accordance with Article 32.4 of the Statute, this buffer will be funded among all the national central banks of participating member states (NCBs) in proportion to their subscribed capital key shares in the ECB prevailing in 2008. As a result, a provision of €73.1 million equivalent to 1.2748 per cent of the total provision was created by the Bank, reflecting the Bank's share of the aggregate provision for the Eurosystem.

(ii) Irish banknotes formerly issued by the Bank ceased to be legal tender with effect from 9 February 2002. As at 31 December 2002, notes to the value of €299.7 million were outstanding, at which point a provision of €60 million was created to meet obligations in respect of unredeemed Irish pound banknotes. At 31 December 2008, the provision stood at €4.1 million (2007: €7.3 million) (Note 33).

Note 31: Revaluation Accounts

	2008	2007
	€000	€000
At 1 January	88,237	58,206
Movement in Revaluation Accounts - Surplus	153,660	30,031
At 31 December	**241,897**	**88,237**

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

	2008	2007
Currency	**Rate**	**Rate**
US dollar	1.3917	1.4721
Japanese yen	126.14	164.93
Sterling	0.9525	0.73335
Swiss franc	1.485	1.6547
Danish krone	7.4506	7.4583
Swedish krona	10.87	9.4415
Canadian dollar	1.6998	1.4449
SDR	0.9051	0.9311
The gold prices used were:		
Euro per fine ounce	621.542	568.236

Note 32: Capital and Reserves

€000	Capital (i)	General Reserve	Currency Reserve	Total
At 31 December 2007	**30**	**812,941**	**351,676**	**1,164,647**
Retained profit for the year (ii)	-	74,158	-	74,158
Transfer to Pension Liability (iii) (Note 34 (i))	-	-	(225)	(225)
Net Proceeds of Coin Issue (iv)	-	-	31,002	31,002
Transfer to the Exchequer (v)	-	-	(30,000)	(30,000)
Actuarial gain on Pension Liability (Note 34 (ii))	-	76,405	-	76,405
At 31 December 2008	**30**	**963,504**	**352,453**	**1,315,987**

(i) The authorised capital of the Bank is fixed under Section 9(1) of the *Central Bank Act*, 1942 at €50,790. Issued and paid up capital is €30,474 all of which is held by the Minister for Finance. The balance is payable as agreed by the Board and the Minister.

(ii) Under the *Central Bank of Ireland (Surplus Income) Regulations*, 1943, the Board approved a transfer from the Profit and Loss and Appropriation account of €74.2 million and a transfer from the Pension Liability of €76.4 million in respect of an actuarial gain on the pension liability for 2008 to the General Reserve account (Note 34 (i)).

(iii) The transfer to the pension liability account of €224,869 is in respect of interest on pension liability of €197,000 and a charge of €27,869 in respect of employer contributions for staff involved in the production of coin. The current service cost of €102,000 for such staff is included in the Mint operating costs (Note 8).

(iv) Under the provisions of the *Coinage Act*, 1950, the *Decimal Currency Acts*, 1969-1990 and the *Economic and Monetary Union Act*, 1998, income and expenses related to coin are transferred directly to the Currency Reserve. Accounting Policy (e) and Note 8.

(v) As a result of the Finance Act, 2002, and as directed by the Minister for Finance the Bank is permitted to transfer the proceeds from the issue of coin directly to the Exchequer. In 2008 the Bank transferred €30 million to the Exchequer. Details of net proceeds for the year are included in the table below:

Net Proceeds of Coin Issue	2008	2007
	€000	€000
Coin issued into circulation	43,891	65,032
Specimen Coin Sets	3,455	2,624
Withdrawn Irish coin	(532)	(580)
Proceeds from smelted coin	138	151
Total	**46,952**	**67,227**
Less Operating Costs (Note 8)	**(15,950)**	**(9,209)**
Net Proceeds	**31,002**	**58,018**

Note 33: Contingent Liabilities and Commitments

(i) Contingent liabilities

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

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

The Bank has a contingent liability in relation to Irish pound banknotes that are no longer legal tender and that may be presented at a future date (€299.7 million was outstanding at 31 December 2002). At 31 December 2008, there was €243.8 million of Irish pound banknotes still outstanding (Note 30).

(ii) Operating lease commitments

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

Note 34: Superannuation Liabilities

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

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

An update of the actuarial review was completed as at 31 December 2008 to comply with disclosure requirements under FRS 17.

Note 34: Superannuation Liabilities (continued)

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

	2008	2007	2006
	€000	€000	€000
Interest on pension scheme liabilities	**23,964**	**20,947**	**16,973**
Net charge debited to other income (Note 7)	23,767	20,777	16,835
Net charge debited to currency reserve (Note 32(iii))	197	170	138
Current service cost	15,119	16,355	14,857
Employee contributions	(2,582)	(2,227)	(1,898)
Total	**12,537**	**14,128**	**12,959**
Net charge debited to staff expenses (Note 8)	12,435	14,021	12,861
Net charge debited to currency reserve (Note 32 (iii))	102	107	98
Total pension cost of defined benefit scheme	**36,501**	**35,075**	**29,932**

(ii) Actuarial Gain on Pension Scheme

	31 December 2008
	€000
Actuarial gain on pension liability	72,856
Actuarial gain on plan assets	3,549
Total	**76,405**

Cumulative Actuarial gains/(losses) recognised in the Appropriation account is (€53.9 million) for accounting periods ending on or after 31 December 2004.

(iii) Balance Sheet Recognition

The amounts recognised in the balance sheet are as follows:

	31 December 2008
	€000
Present value of wholly or partly funded obligations	382,927
Present value of unfunded obligations	-
Fair value of plan assets	(404,657)
Net liability/(asset) recognised in balance sheet	**(21,730)**

Note 34: Superannuation Liabilities (continued)

(iv) Movement in Liability during the year

	2008	2007	2006
	€000	€000	€000
Present value of scheme obligations at beginning of year	(424,950)	(428,447)	(387,644)
Movement in year:			
Current service cost	(15,119)	(16,355)	(14,857)
Pensions paid	8,250	6,919	6,183
Interest on pension scheme liabilities	(23,964)	(20,947)	(16,973)
Actuarial gain/(loss) recognised in appropriation account	72,856	33,880	(15,156)
Present value of scheme obligations at end of year	**(382,927)**	**(424,950)**	**(428,447)**

(v) Movement in Fair Value of Plan Assets

	31 December 2008
	€000
Initial contribution	400,000
Actuarial gain recognised in the appropriation account	3,549
Employer contribution	2,480
Employee contribution	657
Pensions paid	(2,029)
Closing value of plan assets (bid value)	**404,657**

(vi) Financial Assumptions

	2008	2007
	%	%
Discount rate	5.75	5.50
Expected return on assets	2.48	N/A
Rate of increase in salaries	3.50	4.25
Rate of increase in pensions	3.50	4.25
Rate of price inflation	2.00	2.50

Note 34: Superannuation Liabilities (continued)

The following amounts were measured in accordance with the requirement of FRS17 'Retirement Benefits':

(vii) Demographic Assumptions

	2008	2007
Mortality Pre Retirement*	62% PNML00 (males) 70% PNFL00 (females)	PMA92/PFA92 (c=2030)
Mortality Post Retirement*	62% PNML00 (males) 70% PNFL00 (females)	PMA92/PFA92 (c=2030)
Allowance for future improvements in mortality**	Yes	No
Retirements	Evenly spread over age 60 to 65 (for those with option to retire at 60)	Evenly spread over age 60 to 65 (for those with option to retire at 60)
Ill Health Retirement	Allowance made	Allowance made
Early Retirement	No allowance	No allowance
Withdrawals	No allowance	No allowance
Percentage married	90%	90%
Age difference between spouses	A male is assumed to be 3 years older than his spouse	A male is assumed to be 3 years older than his spouse

* PMA92/PFA92 are both published mortality tables prepared for the Actuarial Profession in the UK by the Continuous Mortality Investigation Bureau. The mortality assumptions chosen are based on standard tables reflecting typical pensioner mortality and they allow for increasing life expectancy over time.

** The mortality tables used in 2007 are based on mortality rates in the year 2030 for all employees, without allowance for additional improvements. The mortality tables for 2008 are based on current mortality rates (for the year 2008) with projected improvements for all employees and ex employees retiring after 2008.

(viii) Plan Assets of the Scheme

The Expected Return on Assets and Asset Distribution as at 31 December 2008 was as follows:

Class	Expected Return	Distribution
	%	%
Equities	7.75	-
Fixed Interest	3.75	-
Property	6.25	-
Cash	2.28	100

Note 34: Superannuation Liabilities (continued)

(ix) Prior Year Comparatives

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

31 December	2008	2007	2006
	€000	€000	€000
Defined benefit obligation	(382,927)	(424,950)	(428,447)
Fair value of plan assets	404,657	-	-
Surplus/(deficit) in the plan	21,730	(424,950)	(428,447)
Experience adjustment arising on			
- the plan liabilities	(2,059)	(4,081)	(14,810)
As a percentage of the scheme liabilities	*(0.5%)*	*(1.0%)*	*(3.4%)*
- the plan assets	3,549	-	-
As a percentage of the scheme assets	*0.9%*	*0.0%*	*0.0%*

(x) Expected Contributions to the Plan for the Period Ending 31 December 2009

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

	Year Ended 31 December 2009
	€000
Contributions by the employer	10,117
Contributions by plan participants	2,680
Total	**12,797**

Note 35: Management of Financial Risk

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

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

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

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

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

Note 36: Investor Compensation Act, 1998

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

Note 37: Unmatured Contracts in Foreign Exchange

Unmatured Foreign Exchange Contracts at 31 December 2008 were as follows:

	Unmatured Purchases	Unmatured Sales	Unmatured Purchases and sales
		' 000s of currency units	
Euro	5,591,265	101,150	5,490,115
US dollar	142,500	7,377,332 (i)	(7,234,832)

(i) Forward liabilities to the ECB with an equivalent value of €4,977 million remained outstanding as at 31 December 2008. These are matched by equivalent liquidity operations with counterparties and arose in connection with the US dollar Term Auction Facility established by the US Federal Reserve (Note 12).

Note 38: Unmatured Contracts in Securities

As a result of commitments made in December 2008 there were unmatured forward purchases of €13 million at end-year.

All contracts had matured by 5 January 2009.

Note 39: Related Parties

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

The main services during the year to 31 December 2008 were:

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

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

Note 40: Post-Balance Sheet Events

The CBFSAI, as a member of the Eurosystem, has provided increased levels of liquidity to the banking sector since the reporting date.

A change in the organisational structure of the CBFSAI has been outliined by the Minister for Finance, including a proposal to integrate prudential regulation and the functions of the Central Bank under a single Central Banking Commission board structure.

Note 41: The Irish Financial Services Regulatory Authority

The Irish Financial Services Regulatory Authority (Financial Regulator) was established in May 2003 under the terms of the *Central Bank and Financial Services Authority of Ireland Act* 2003. It is a constituent part of the CBFSAI and is responsible for the regulation of the financial services industry in Ireland. The following is a summary of the income and expenditure of the Financial Regulator for the year ended 31 December 2008 together with comparatives for the year ended 31 December 2007.

Irish Financial Services Regulatory Authority – Statement of Income and Expenditure for 2008

Income		2008	2007
		€000	€000
Industry Funding			
Credit Institutions		12,288	8,174
Insurance Undertakings		5,683	4,707
Intermediaries		2,287	2,071
Securities and Investment Firms		1,945	1,653
Collective Investment Schemes and Service Providers		4,215	4,318
Credit Unions		1,435	1,417
Moneylenders		162	187
Approved Professional Bodies		11	22
Exchanges		148	168
Bureau de Change/Moneytransmitters		49	40
Total Funding		**28,223**	**22,757**
Less: Provision/Write Offs	**(i)**	**29**	**448**
Less: Provision for repayments to revoked entities	**(ii)**	**250**	**-**
Monetary Penalties	**(iii)**	**-**	**-**
Net Industry Funding	**(i)**	**27,944**	**22,309**
Excess of Income over Expenditure from previous year		599	2,193
Subvention from Central Bank and Financial Services Authority of Ireland	**(iv)**	29,090	25,375
		57,633	49,877
Other Income	**(v)**	1,732	3,329
Total Income		**59,365**	**53,206**
Expenses			
Direct Expenses	**(vi)**	40,198	33,651
Shared Services	**(vii)**	17,952	15,627
		58,150	49,278
Other Expenses	**(v)**	1,732	3,329
Total Expenses		**59,882**	**52,607**
(Shortfall)/Excess of Income over Expenditure Carried Forward	**(viii)**	**(517)**	**599**

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

(i) Net Industry Funding and Provisioning

Under the provisions of the *Central Bank Act,* 1942 (Section 33J) Regulations 2008 a supplemental levy was imposed on credit institutions covered by the Credit Institutions (Financial Support) Scheme 2008 to recoup 100 per cent of certain additional costs associated with the review of the financial and capital position of the credit institutions covered by the Credit Institutions (Financial Support) Scheme 2008.

Net Industry Funding income is included in the Statement of Accounts of the CBFSAI under Other Income. This figure comprises income from levies imposed upon the above industry categories (net of appeals and adjustments) under the *Central Bank Act*, 1942 (Sections 33J and 33K), Regulations 2004 (as amended by the 2008 Regulations) and other income in respect of fees and charges. An amount of €29,000 in respect of provision/write-offs has been offset against total funding income to arrive at Net Industry Funding. Outstanding levy amounts are being pursued as part of the ongoing debt recovery process.

The provision/write-offs are as follows:

	2008	2007
	€000	€000
Opening Provision for Unpaid Levy Notices	396	186
Less: Write-Offs 2004 Levy	-	82
Less: Write-Offs 2005 Levy	-	148
Less: Write-Offs 2006 Levy	25	8
Less: Write-Offs 2007 Levy	22	–
Less: Write-Offs 2008 Levy	-	–
Add: Charge to Income & Expenditure Account – Provision/Amounts Written Off	**29**	**448**
Closing Provision for Unpaid Levy Notices	**378**	**396**

(ii) Provision for repayments to revoked entities

As part of a broad consideration of funding issues undertaken in 2007 and 2008, the Financial Regulator noted that the Annual Funding Regulations were stated as applying to “regulated” entities. Accordingly, an entity whose authorisation was revoked during the period prior to the date on which the Regulations came into force could have reasonably argued that it was not subject to the levy for the year in question, on the basis that it ceased to be a regulated entity on the date on which its authorisation was revoked. In the interests of fairness and transparency, the Financial Regulator will be writing to affected entities to invite any entity, which believes that it may be due such a pro-rata repayment in relation to the year in which their authorisation was revoked, to apply to have their case considered. Interest will be applied to any such repayments and the amount of the provision represents management’s best estimate of any such repayments.

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

(iii) Monetary Penalties

Monetary penalties imposed represents monies payable to the Financial Regulator in 2008 by financial services providers following the conclusion of Settlement Agreements with financial services providers in relation to breaches of regulatory requirements. The amount of €3.7 million is held in suspense with the proposal that it be utilised to meet costs which may arise in relation to legal action or special investigations.

	2008 €000	2007 €000
Monetary Penalties Imposed	3,700	-
Transfer to Suspense Account	(3,700)	-
Included in Income & Expenditure Statement	-	-

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

By agreement with the Minister for Finance in September 2006, over the three-year period 2007-2009 approximately 50 per cent of the total costs of the Financial Regulator have been met by the imposition of levies on the industry. The balance of the total annual costs is provided by the CBFSAI in accordance with Section 33(L) of the *Central Bank Act*, 1942 (as inserted by Section 26 of the *Central Bank and Financial Services Authority of Ireland Act*, 2003). In 2008, the CBFSAI, with the approval of the Minister for Finance, bore the full cost of certain securities market supervision activities carried out within the Financial Regulator. These costs totalling €2.8 million were excluded from the Net Industry Funding levies issued to the industry in 2008. Under the provisions of the *Central Bank Act,* 1942 (Section 33J) Regulations 2008, a supplemental levy was imposed on credit institutions covered by the Credit Institutions (Financial Support) Scheme 2008 to recoup 100 per cent of the review of the financial and capital position of the credit institutions covered by that scheme.

(v) Other Income/Other Expenses

In 2008 the Irish Stock Exchange collected €1.7 million in fees payable to the Financial Regulator in accordance with Regulation 109 of the Prospectus (Directive 2003/71/EC) Regulations, 2005, and Regulation 78 of the Transparency (Directive 2004/109/EC) Regulations, 2007. In accordance with Part 17(h) of the Prospectus Directive and Market Abuse Directive delegation agreements entered into by the Financial Regulator with the Irish Stock Exchange, the Financial Regulator confirmed to the Irish Stock Exchange that it could retain the sum of €1.7 million to put towards the costs that it had incurred in undertaking the delegated functions under the delegation agreements.

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

(vi) Direct Expenses

	2008	2007
	€000	€000
Salaries/Allowances	24,483	22,231
PRSI	1,798	1,573
	26,281	23,804
Pension Provision	3,732	3,380
Staff Expenses	**30,013**	**27,184**
Training, Recruitment & Other Staff Costs	425	477
Equipment, Stationery & Requisites	422	449
Business Travel	795	775
Publishing & Media Relations	2,604	2,833
Professional Fees	5,776	1,749
Miscellaneous	163	184
Non-Pay Operating Expenses	**10,185**	**6,467**
Direct Expenses	**40,198**	**33,651**

Total expenditure for the year ended 31 December 2008 exceeded the budget by €2.4 million due mainly to the cost of unanticipated expenditure of the order of €3.8 million in professional fees arising from the review of credit institutions covered by Credit Institutions (Financial Support) Scheme 2008. This was offset to a certain extent by factors such as:

(i) Lower than anticipated level of legal advice sought from external legal advisers.

(ii) Decisions taken, following a cost benefit analysis not to outsource the Financial Regulator's levy invoicing and collection process.

(iii) Lower than anticipated participation in training courses and seminars due to other work priorities.

(iv) Lower than anticipated attendance at meetings and seminars abroad combined with lower than anticipated costs associated with conduct of off-site reviews and inspections outside the Greater Dublin Area again due to other work priorities.

(v) Decision taken to curtail advertising in the latter part of the year and to defer/cancel other work in relation to consumer guides.

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

(vii) Shared Services

Shared services (excluding the pension provision of €1.3 million) are included in the Statement of Accounts of the CBFSAI as set out in Note 8 to the accounts.

The Financial Regulator receives various services including premises, human resources administration, accounting, internal audit, statistical and information technology services from the CBFSAI. The cost of these services in 2008 was €18.0 million (2007: €15.6 million).

The costs involved have been determined by the application of a cost allocation methodology which has previously been reviewed by independent external consultants. Allocation is based on well-recognised industry practice including occupied floor space, PC numbers and headcount (staff numbers) as appropriate. The main components of the above costs are as follows:

	2008	2007
	€000	€000
Corporate Services incl. Premises	8,802	7,576
Information Technology Services	3,172	2,848
Human Resources	2,577	2,242
Other Services (i)	3,401	2,961
Total	**17,952**	**15,627**

(i) Other services

Other services include accounting and other administrative services (2008: €1.9 million; 2007: €1.4 million), statistical services (2008: €0.2 million; 2007: €0.4 million) and estimated actuarial pensions costs (2008: €1.3 million; 2007: €1.1 million) in respect of Central Bank staff engaged in the provision of services to the Financial Regulator.

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

This represents the shortfall in the amount of levies collected from industry in 2008 as compared with the 2008 funding requirement. The 2008 funding requirement is the total of Direct Expenses and Shared Services (€58.2 million) expenditure less the subvention from the CBFSAI. The shortfall of income as compared with expenditure has been carried forward and the calculation of the amount of industry levies for 2009 has been adjusted to take account of this shortfall.

Note 42: Approval of Accounts

The Board of Directors approved the Statement of Accounts on 30 June 2009.

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

I have audited the Statement of Accounts of the Central Bank and Financial Services Authority of Ireland ("the Bank") for the year ended 31 December 2008 under the *Central Bank Act*, 1942, as amended by the *Central Bank and Financial Services Authority of Ireland Act 2003*.

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

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

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

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

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

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

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

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

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

Basis of Audit Opinion

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

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

Emphasis of Matter

During the course of the audit I sought and received information, explanations and representations from the Financial Regulator regarding the implementation of changes in regulatory practice recommended in a better practice review commissioned by the Regulator, additional tasks assumed under bank stabilisation measures introduced by the Government and measures to address identified shortcomings in the supervisory regime operated by the Regulator. The results of these audit inquiries will be published in a report under section 9 of the Comptroller and Auditor General (Amendment) Act 1993.

Opinion

In my opinion, the Statement of Accounts, which has been properly prepared on the basis described in paragraph (a) of the Accounting Policies, gives a true and fair view of the state of the Bank's affairs at 31 December 2008 and of its surplus income for the year then ended.

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

John Buckley
Comptroller and Auditor General

30 June 2009

Independent Auditors' Report To The Board Of Directors Of The Central Bank And Financial Services Authority Of Ireland

We have audited the Statement of Accounts.

Respective responsibilities of directors and auditors

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the Statement of Accounts has been properly prepared on the basis described in paragraph (a) of the accounting policies and, on this basis, the Statement of Accounts gives a true and fair view of the state of the Bank's affairs as at 31 December 2008 and of its profit for the year then ended.

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

Deloitte & Touche
Chartered Accountants and Registered Auditors
30 June 2009

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Central Bank & Financial Services Authority of Ireland

EUROSYSTEM

Banc Ceannais agus Údarás Seirbhísí Airgeadais na hÉireann

CÓRAS AN EURO

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