Philip R Lane: Publication of the Annual Report 2017

Introductory statement by Mr Philip R Lane, Governor of the Central Bank of Ireland, at the media briefing on Bank of Ireland's 2017 Annual Report, Dublin, 9 May 2018.

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Welcome to the Central Bank's Dockland Campus for this media briefing on our Annual Report.

I am joined by Deputy Governor Sharon Donnery, Deputy Governor Ed Sibley, Director General Derville Rowland and Chief Operations Officer Gerry Quinn.

2017 was a busy year for us. The Annual Report, Statement of Accounts and our Annual Performance Statement, which will be published later, all reflect this high level of activity.

These reports are a central part of our accountability framework:

- Our Annual Report sets out what we did in 2017 – and how we fulfilled our responsibilities;
- Our Annual Performance Statement details our regulatory actions in 2017 – and our goals for 2018; and
- The Statement of Accounts – incorporated in our annual report – provide an overview of our financial operations.

Our accounts show the Central Bank is reporting a financial profit of €2.6 billion for 2017. This means, net of retained earnings, approximately €2.1 billion will be transferred to the Exchequer. Over the medium term, our headline profits will normalise, in line with the ongoing disposal of the special portfolio.

Looking to the future, we expect that the ongoing economic recovery at Irish, European and global levels - supported across the eurosystem by the accommodative monetary strategy of the European Central Bank – will be a significant driver of monetary and financial conditions in Ireland. Stronger economic performance is very welcome in terms of its positive impact on living standards and financial stability. However small, highly globalised countries like Ireland are more volatile than larger economies, which means that we can grow strongly for extended periods but are especially vulnerable to tail risks. High stocks of both public and private debt and the inherent volatility of the Irish macro-financial system requires ongoing vigilance in terms of limiting pro-cyclical tendencies in the operation of the financial system and the wider economy. To this end, in our role as the macroprudential authority, we are committed to improving the resilience of the Irish financial system in the event of adverse shocks.

The implementation of the eurosystem's asset purchase programmes has been a major priority in recent years. In addition to the acquisition of assets, this has required extensive activity in relation to risk management and our policies in relation to setting the appropriate level of reserves in our balance sheet. The ongoing disposal of the special portfolio of floating rate notes remains an additional priority in our financial operations.

Considerable progress has been made in the Tracker Mortgage Examination. Our end-March report shows that the redress and compensation figure is now €459 million– with 37,100 cases identified. The supervisory phase will conclude this year. Enforcement activity also remains ongoing, with investigations initiated against six banks. We are also undertaking a wide-ranging assessment of the underlying organisational culture of the five main banks.

In 2017, we moved to ensure we were appropriately set up to meet the demands of our expanded regulatory mandate by establishing prudential regulation and financial conduct pillars. Across the four pillars (central banking, prudential regulation, financial conduct, operations), we work as an integrated organisation in fulfilling our mandate.

In terms of our regulatory priorities for 2018, in addition to the Tracker Mortgage Examination, managing the impact of Brexit is a major task. We expect to see an increased number of firms that want to establish a presence in Ireland. We also required regulated firms already here to have robust plans to deal with Brexit in whatever shape it materialises, especially those companies with exposure to the United Kingdom. In this regard, the level of preparation by some firms is a concern. We also continue to highlight the potential Brexit-related risks to the economy, the financial sector and individual firms.

We closely monitor developments in the mortgage market. Our macroprudential toolkit – and in particular the mortgage measures – are central to increasing the resilience of banks and borrowers and avoid the risks of credit-house price spirals emerging. A high priority remains tackling the outstanding stock of non-performing loans in the banking system.

We are also currently working to develop our strategic plan for 2019–2021. To help inform the plan we are inviting submissions from the public to help shape our future priorities. The submission phase runs until early June and we encourage comments and suggestions from all interested parties.

Finally, on behalf of the senior management team, let me express our gratitude to the members of the Central Bank Commission for their support throughout the year. I would also like to thank all staff members for their continued hard work in delivering the mandate of the Central Bank.

I am happy to take your questions.