Annual Report
& Financial Statements
2019

Here to build business.
Strategic Banking
Corporation of Ireland

About the SBCI

The Strategic Banking Corporation of Ireland (SBCI) was set up in September 2014 to ensure that SMEs in Ireland have access to stable, lower cost, long-term funding options. As a state-owned promotional institution, and in common with its more established European peers, the SBCI has become an integral part of the business finance framework. By supporting and helping to develop an effective market for SME finance, it ensures that SMEs have access to finance in both positive and negative market conditions.

The SBCI provides wholesale finance and guarantees to SMEs through its on-lending partners, ensuring that the benefit of its support is delivered to the ultimate SME borrower and not its on-lending partners.

Our Vision

The SBCI is a flexible State financing partner that delivers positive impact for SMEs and supports economic development in Ireland.

Our Mission

The SBCI's mission is to deliver effective financial supports to SMEs that address failures in the Irish credit market, while driving competition and innovation, and ensuring the efficient use of available EU resources.

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Loan numbers: % by Region

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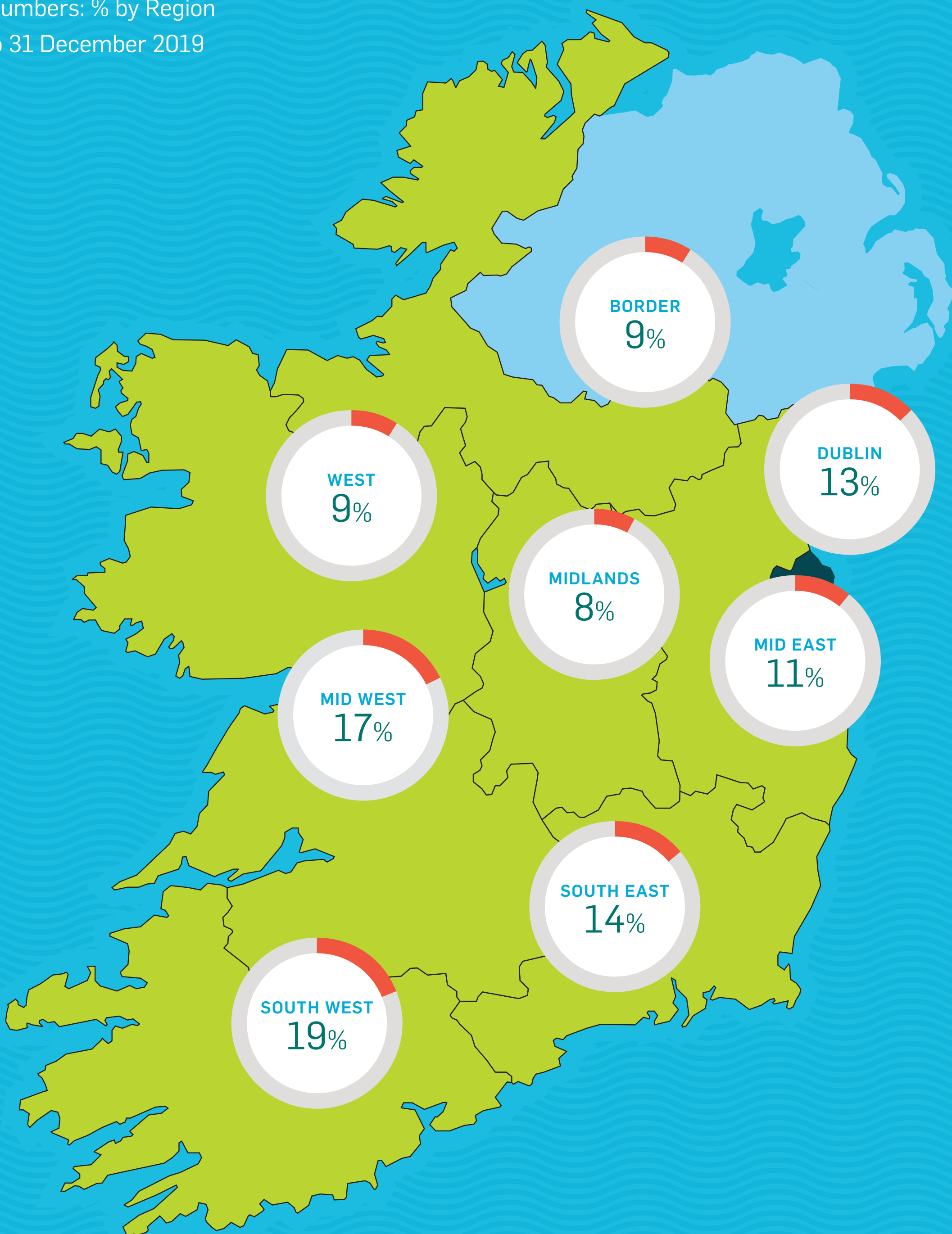


Key Business Highlights

Year to 31 December 2019

Loans sanctioned

€247m

Average Loan Size

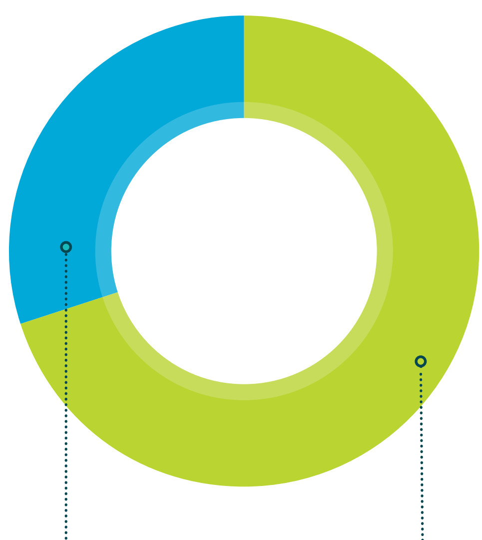
€86,000

SMEs

2,877

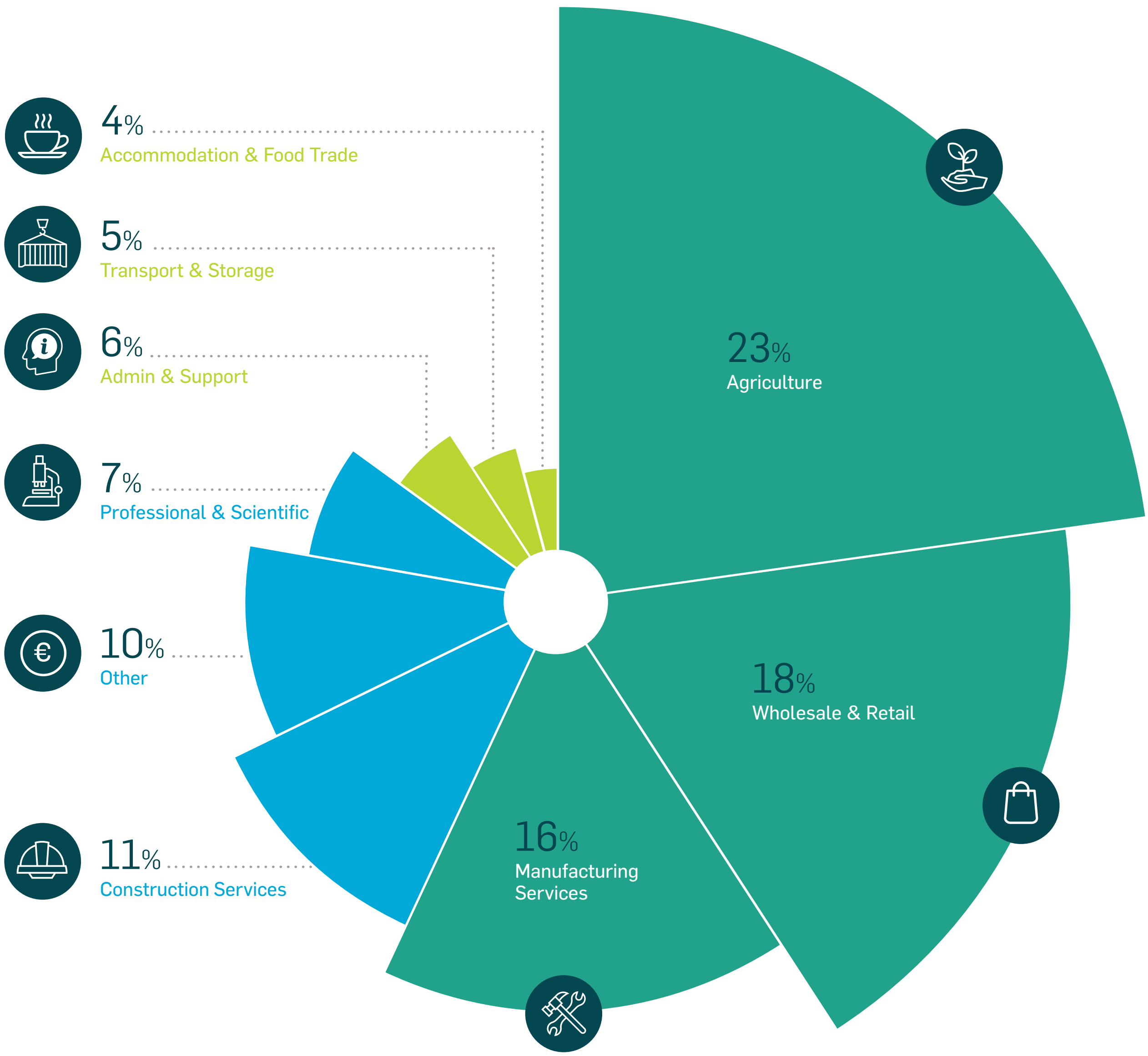
SMEs in Ireland have drawn down SBCI loans

What SMEs used SBCI loans for in 2019



SBCI liquidity funding is benefiting a wide range of sectors

Year to 31 December 2019



Chairperson's Statement

2019 was another eventful and successful year as the SBCI continued to increase its on-lending partners and delivered a further risk share Scheme of €300m – the Future Growth Loan Scheme.

The Future Growth Loan Scheme (FGLS) was delivered to the market by the SBCI in June 2019. The Scheme is supported by the Department of Business, Enterprise and Innovation and the Department of Agriculture, Food and the Marine. There has long been a strong demand from SMEs and farmers in Ireland for a longer term, low-cost loan. There was a gap in the market as banks do not ordinarily provide longer term loans to businesses given the associated risks of longer term finance.

With the support of the government bodies, the European Investment Bank (EIB) and the European Investment Fund (EIF) the SBCI was able to step into this market gap and develop a long-term loan product for investment and growth in Irish businesses. The term of the loans made available is between 8-10 years. The maximum interest rates applicable are 4.5% for loans less than €250,000 and 3.5% for loans greater than €250,000. SMEs are not required to provide security for loans up to €500,000 which can often act as a barrier to SMEs accessing finance. The FGLS was a huge success in 2019, with four banks participating in the Scheme. Of the four, we are delighted to welcome KBC Bank as a new risk share partner of SBCI.

2019 saw a protracted and uncertain period for Irish businesses with the looming exit of the United Kingdom from Europe. The UK finally ceased to be a member of the European Union at 23.00 GMT on 31 January 2020. This is only the beginning of the uncertainty for Irish businesses as negotiations on trade talks and future relationships continue between the EU and the UK. Trade relations remain the same during the transition period which will end on 31 December 2020. However, businesses are still uncertain as to what a future trade deal will look like, and businesses are continuing to seek out alternative markets to mitigate the impacts.

The SBCI still has availability for working capital loans for businesses affected by Brexit through the Brexit Loan Scheme (BLS). Deployment of loans under the BLS has been slow to date. This is due to uncertainty of the withdrawal of the UK and uncertainty among SMEs as to what they should be investing in to mitigate the risks. The Scheme has been extended and the SBCI will continue to offer BLS loans to Irish businesses to mitigate the impacts of Brexit in 2020.

The arrival of Covid-19 in Ireland has resulted in a significant negative impact on many SMEs. The SBCI was set up to operate in a counter-cyclical manner and support the SME sector in times of economic downturn or recession. The SBCI has reacted to this impact with the quick development and implementation of the SBCI Covid-19 Working Capital Loan Scheme, making an initial €200m in funding available in March 2020. This Scheme will deliver low-cost 3-year loans (4% fixed maximum rate) to assist SMEs address the Covid-19 challenge. Our significant focus for the SBCI will be to do all we can to support Irish businesses during this challenging time.

The SBCI was delighted to announce two additional on-lending partners, Capitalflow and SME Finance & Leasing which were approved by the SBCI Board in 2019 and launched to the market in early 2020. These new on-lending partners are key to achieving our core aim to increase competition and provide additional lenders of lower cost and flexible funding to the SME sector in Ireland.

The SBCI moved to a five-year Strategic Plan in 2019. The Strategic Plan 2020-2025 has been approved by the Department of Finance and the SBCI Board. The SBCI will continue to focus on its core mandate of serving the needs of the SME sector and to develop and foster innovation for SMEs. The SBCI is also committed to supporting the government's Climate Action Plan where possible. The SBCI finalised its new Strategic Plan in December 2019 and will launch this as circumstances allow. We look forward to implementing and delivering on the Plan during 2020 and beyond.

At Board level, Richard Pelly and Eilish Quinlan were reappointed to the SBCI Board with effect from March 2020. Rosheen McGuckian did not seek reappointment and her term on the Board ended in March 2020. Rosheen was a wonderful member of the SBCI Board and I would like to thank her for her significant contribution during her tenure. We wish her all the best in the future. We have initiated a process through the Public Appointments Service to find a suitable replacement.

I would like to thank all of my fellow Board members, the committee members, the management team and staff for their work throughout the year and I look forward to their continued commitment during 2020.

BARBARA COTTER
Chairperson

Chief Executive Officer's Review

The SBCI had another strong year in 2019, culminating in the launch of the Future Growth Loan Scheme and its rapid take up. This, combined with the addition of new on-lenders, has increased the capabilities of the organisation to support SMEs. Through these developments more SMEs can avail of a wider range of products and most importantly obtain access to very long-term funding for the first time in many cases.

In January 2019, the SBCI issued an Open Call for Expressions of Interest to invite financial intermediaries to participate in a new risk share scheme – the Future Growth Loan Scheme. The SBCI team worked with real purpose and determination to deliver the Scheme to the market on behalf of our key stakeholders in the Departments of Business, Enterprise and Innovation and Agriculture, Food and the Marine. Working with the Departments and a team from the European Investment Bank Group to address a key gap in the Irish market, the SBCI was able to deliver a €300m scheme to support long-term, low-cost loans for businesses and farmers to invest and grow their businesses. I would like to thank our colleagues in the Departments for their continued leadership, support and backing in delivering these high impact supports for Irish businesses and farmers.

The SBCI worked with four banks namely Allied Irish Banks, Bank of Ireland, KBC Bank and Ulster Bank to bring the Scheme to market. KBC were a new addition to SBCI's risk share products and we are delighted to have them on board in offering our products to the market. The Scheme was launched to the market in June of 2019 which was a great achievement for all parties involved in the complex legal and operational set up. As at 31 December 2019, 473 loans were approved under the Scheme totalling €85.5m with an average loan size of €180,921.

In 2019, the SBCI continued to offer its Brexit Loan Scheme (BLS) albeit deployment was slower than anticipated. As at 31 December 2019, 223 loans were approved totalling €46,647.300 with an average loan size of €214k. We have secured an extension of the Scheme and will continue to offer BLS loans into 2020 as a key support to businesses.

In March 2020, the country was hit by the immediate impact of the Covid-19 virus. The SBCI was able to act quickly and develop an initial €200m Covid-19 Working Capital Loan Scheme in March for affected businesses. The SBCI, as a national promotional bank, is key to impacting the counter-cyclical nature of the SME market and will prove a key support to businesses in these difficult times. We hope that the Covid-19 Scheme is the first of a number of support mechanisms offered by SBCI to businesses and we will continue to work relentlessly in 2020 to support Irish businesses.

During 2019, the SBCI Board approved lending to two new on-lending partners – Capitalflow and SME Finance & Leasing. Adding new on-lending partners is a key focus of the SBCI Team which serves to enhance competition and increase access to SBCI finance throughout the market.

The SBCI supported sanctioned lending for the year, across all its product lines, totalled €247m with 2,877 loans to SMEs and an average loan size of €86,000. New loans were deployed across a broad regional spread with Agriculture accounting for 23% of loans, 18% Wholesale & Retail and Construction Services 11%. The SBCI continues to work on a pipeline of potential on-lenders to deliver lower cost finance to the market.

The financial results for 2019 show an operating loss of €408k, compared to a profit of €38k in 2018. The decrease is reflective of a reduction in interest income, primarily due to a decline in loans and receivables as a result of repayments during the year.

The SBCI continued to build on its brand awareness throughout 2019. Media activity was more focused on the SBCI's Social Media Channels, Twitter, LinkedIn and YouTube, utilising SME case studies to promote its range of products. The SBCI continued to engage with SMEs across the country, attending 90 events during the year.

In 2019, the SBCI developed a new 5-year Strategic Plan. The SBCI is focused on three impact themes: 1) SMEs First, in support of the development of the broader SME credit market; 2) SME Innovation, which supports lending to higher risk but faster growing SMEs; and 3) Climate Action, where the SBCI will develop financing solutions to address the challenges posed by climate change to SMEs and the broader economy. Looking ahead to 2020, we will continue both to develop risk sharing schemes as a key support for SMEs and engage with our pipeline of potential on-lending partners.

2019 saw an increase in the number of employees to support the growing number of schemes and on-lenders. There are currently 23 employees working in SBCI as we grow and expand to prepare for the future challenges ahead. Without the hard work and experience of all staff we would not been able to deliver on our mandate. I would like to thank them and the SBCI Board for their continued dedication and energy during this past year.

NICK ASHMORE
Chief Executive Officer

Strategy

The SBCI's strategy remains grounded in its mission to deliver effective financial supports to SMEs and address failures in the Irish credit market, while driving competition and innovation, ensuring the efficient use of available EU resources.

Our Purpose

The strategy of the SBCI is to support the development and maintenance of an effective market for the provision of credit to SMEs in Ireland, while maintaining its ability to respond to major market dislocations and the policy delivery needs of government.

The SBCI does this through the delivery of financial support in the form of low-cost liquidity for finance providers, the sharing of risk on underlying loans and the development of innovative new forms of financial instrument.

The SBCI has consciously developed itself as a flexible, adaptable and innovative provider of solutions and policy measures to address failures in the SME credit market. This remains a critical feature of the organisation and requires the SBCI to continuously develop its capabilities, as well as innovative solutions that are aligned with the SME environment.

The SBCI's supports utilise both government and European backing and are designed to address failures in the market, to provide finance to SMEs, including farmers, when there is a policy requirement and where this supports economic development and enhanced competition. These products are designed and delivered by the SBCI's own team and in partnership with its broad set of institutional relationships in the Irish market.

As the SBCI looks ahead to the next five years, it is set to build on its significant progress by offering a wider range of supports both to the SME sector and the development of the economy, while maintaining its own sustainability and ability to respond to market dislocation and deliver government policy measures.

The SBCI has reflected on its progress to date and the changes in the market environment to update the core elements of its strategy, including its values and beliefs and its purpose and vision, to create an effective strategic framework and clear strategy to deliver on its mandate. To enable this, the SBCI is focused on three impact themes: SMEs First, in support of the development of the broader SME credit market; SME Innovation, which supports lending to higher risk but faster growing SMEs; and Climate Action, where the SBCI will develop financing solutions to address the challenges posed by climate change to SMEs and the broader economy. These impact themes are closely aligned with Government policy and will be supported by three policy delivery pillars: Networks and Relationships; Skilled team with NTMA support; and Government and EU backing.

It is important to note that unforeseen market developments may emerge, which require the SBCI to reprioritise or change direction.

Strategic Framework

SMEs First

- Large scale risk sharing via banks
- Non bank liquidity
- Non bank risk sharing
- New large scale distribution channel

Climate Action

- Bank delivered Energy Retrofit Scheme for SME, Farm and Residential Buildings
- Non Bank SME custom facilities scheme

SME Innovation

- SME Mezz and Second Lien guarantees
- SME Innovation Lending platform

Networks & Relationships

- On-Lending Channel
- Peer Networks
- Research
- Marketing and SME Awareness

Skilled Team with NTMA support

- Adaptive and Collaborative Culture
- Technical and Structuring Capabilities
- Customer Service/Hub Tech Platform
- Credit Risk Management

Government & EU Backing

- First Loss Funding
- Balance Sheet and Liquidity
- European Support
- Working with Departments to Develop and Deliver products

Lines of Business

The SBCI operates three lines of business

Lending

The lending business model of the SBCI is to serve as a wholesale on-lending financial institution. It provides lower cost, long-term wholesale finance to suitable on-lenders with the benefit of the lower interest cost being passed to SME borrowers. The SBCI's strategy is based on developing a strong pipeline of potential on-lenders to achieve diversity in the market and drive competition while being cognisant of not distorting the market in any lending sector.

Risk Sharing

The risk sharing business model is to provide partial credit guarantees to finance providers to facilitate the advancement of credit to SMEs, including where access to credit is constrained by specific sectoral or economic cycle market failures. The SBCI avails of and leverages risk capacity from State and European supports to design financial instruments which make efficient use of capital and enhance SME access to finance. Examples of risk sharing products include SBCI Agriculture Cashflow Loan Scheme, the Brexit Loan Scheme and the Future Growth Loan Scheme.

Service Provision

In October 2016, the SBCI was appointed as operator and manager of the Credit Guarantee Scheme (CGS) by the Minister for Jobs (now Business), Enterprise and Innovation. This established the SBCI as the primary conduit for risk sharing products (credit guarantees) in Ireland. A revised Credit Guarantee Scheme with enhanced features was launched in July 2018 and is currently on the market.

Business Model

The business model of the SBCI is to serve as a wholesale institution providing lower cost finance and risk-sharing to on-lenders in the business market in Ireland. The SBCI operates under a sustainability mandate rather than a profit maximisation approach. In supporting the development of new areas in the market, the SBCI aims to develop a functioning commercial market rather than a state-supported market. The SBCI aims to adapt to market requirements and create targeted product offerings with flexibility regarding the product terms. This enables the SBCI to react to specific market failures through bespoke product offerings. As the SBCI matures, it will adopt a counter-cyclical approach, scaling back the proportion of the market it is supporting as the market strengthens and scaling up in weaker environments.

The SBCI employs a small team of highly qualified professionals in order to transmit the maximum benefit to SMEs while carrying out its function of developing products and services. To this end, the SBCI leverages the resources of the NTMA. The SBCI staff are employees of the NTMA and are assigned to the SBCI while most of the SBCI's corporate services are provided by the NTMA. The SBCI reimburses the NTMA for the provision of these services, including staff costs.

How the SBCI works

The SBCI supports Small & Medium Enterprises

€

With these products

- Contract Hire
- Hire Purchase
- Guaranteed Term Loans
- Invoice Discounting
- Leasing
- Working Capital

€

Partnering with

- AIB
- Bank of Ireland
- Bibby Financial Services
- Fexco
- Finance Ireland
- KBC
- Ulster Bank

€

With funding from

- Council of Europe Development Bank
- European Investment Bank
- European Investment Fund
- Ireland Strategic Investment Fund
- NTMA

Business Review

During 2019 the SBCI focused on progressing its risk sharing activities and developing its non-bank partner liquidity operations. The €300m Future Growth Loan Scheme was launched in June 2019. The SBCI continued to develop its engagement with potential and new on-lenders, deploying an additional €70m in liquidity to non-bank partners and establishing a relationship with a new bank on-lender KBC Bank. The SBCI will continue to work towards adding new on-lenders to further increase the variety and availability of funding to SMEs.

During 2019, the SBCI has supplied over €247m to 2,877 SMEs its product suite. Across all SBCI products there was a broad regional spread of loans ranging from 19% in the South-West to 8% in the Midlands.

Funding Sources

During 2019, the SBCI lowered its €200m Council of Europe Development Bank (CEB) facility to €100m thereby reducing its key sources of funding to €965m from a mix of four funders, two international facilities and two national programmes. The SBCI has credit facilities of: €100m from the Council of Europe Development Bank (CEB); €400m from the European Investment Bank (EIB); €250m in a Guarantee Notes Programme with the NTMA and €215m from the Ireland Strategic Investment Fund (ISIF).

Council of Europe Development Bank €100 MILLION

The Council of Europe Development Bank was founded as a multilateral development bank in 1956 with an initial mandate for the repatriation of refugees, post-World War II, and to address the resulting resettlement and social issues. This mandate has broadened since to address emerging general social and environmental issues in Europe, including the provision of support to micro, small and medium-sized enterprises with a view to both job preservation and job creation, through low-cost funding and guarantee mechanisms. Ireland has been a member of the CEB since 2004.

European Investment Bank €400 MILLION

The European Investment Bank is the European Union's (EU) bank, supporting both credit and equity market failures across Europe. A key priority of the EIB's mandate is to provide financing and enhance access to finance for the European Small and Medium Enterprise community. Provision of funding to the SBCI has been under this objective of SME financing support.

European Investment Fund €1012 MILLION

The European Investment Fund (EIF) is part of the European Investment Bank group. Its central mission is to support Europe's micro, small and medium-sized businesses by helping them access finance. EIF designs and develops venture and growth capital, guarantees (COSME and InnovFin), microfinance instruments which specifically target this market segment. In this role, EIF fosters EU objectives in support of innovation, research and development, entrepreneurship, growth and employment acting as a conduit for EU Commission funding and initiatives.

NTMA €250 MILLION

The NTMA is responsible for borrowing on behalf of the government and managing the National Debt in order to ensure liquidity for the Exchequer and to minimise the interest burden over the medium-term. The NTMA facility to the SBCI is in the form of a Guaranteed Notes Programme where the NTMA will invest in Guaranteed Notes issued by the SBCI on agreed terms with a maximum ten-year maturity.

Ireland Strategic Investment Fund (ISIF) €215 MILLION

The ISIF was established in December 2014 to invest on a commercial basis in a manner designed to support economic activity and employment in Ireland. The assets of the National Pensions Reserve Fund (NPRF), the ISIF's predecessor fund, transferred to the ISIF. Funding has been provided to the SBCI on foot of a direction from the Minister for Finance to the NPRF Commission. The ISIF funding is a ten-year revolving facility with capacity for conversion to capital at the Minister's request. In February 2017, following the request of the Minister, €25m of the revolving facility was converted to capital to support risk-sharing schemes being delivered to the market in the course of the year.

SBCI Products

In 2019, the SBCI continued to add to its product suite, adding a new long-term risk-sharing scheme, the Future Growth Loan Scheme. This scheme is designed to assist SMEs to make long-term investments in their businesses and help them to grow into the future by providing them with loans with terms of 8 to 10 years. The development of the Future Growth Loan Scheme, the SBCI's third risk-sharing product, was supported by the Department of Business, Enterprise and Innovation, the Department of Agriculture, Food and the Marine, the European Investment Bank and the European Investment Fund. The Future Growth Loan Scheme benefits from a guarantee from the European Union under the European Fund for Strategic Investments (EFSI) and continues the integral role of the SBCI in the appropriate promotion of EU financing and consequent support to SMEs.

Lending

In 2019 the SBCI continued to develop its relationships with existing and new on-lenders adding one new bank on-lender, KBC Bank. The SBCI continues to work to increase the number of on-lending partnerships to provide a greater variety of competitive funding options for SMEs and to enhance the diversity of lenders and types of finance available in the Irish market.

With its bank on-lenders (AIB, Bank of Ireland, KBC Bank and Ulster Bank), the SBCI focused on increasing its risk-sharing portfolio with the addition of the €300m Future Growth Loan Scheme in June 2019.

Through its current non-bank on-lenders (Bibby Financial Services, Fexco Asset Finance and Finance Ireland), the SBCI provides hire purchase, contract hire and leasing loans available to eligible SMEs to finance cars, commercial vehicles and plant and machinery assets. In addition, the SBCI provides invoice finance products to eligible SMEs through its on-lender, Bibby Financial Services Ireland. Invoice finance is a working capital facility which releases cash tied up in outstanding customer invoices which improves the cash-flow availability for SMEs. In June 2019 Bibby Financial Services expanded its SBCI supported product range by launching the new Trade Finance Product, which allows businesses to buy, receive and sell goods before needing to pay for them, this product is complementary to its existing invoice discounting offering. In 2019 the SBCI also increased the wholesale funding it provides to its non-bank on-lenders by approving an additional €70m facility to Fexco Asset Finance.

The SBCI will continue to strive to add diversity to the products it supports into the business market in 2020.

Risk-Sharing

Over the course of 2019, the SBCI successfully expanded its risk-sharing capability and products to support additional lending to SMEs in Ireland and to act as a conduit for European SMEs financing initiatives. This capability was further developed through 2019 with the addition of the Future Growth Loan Scheme and the enhanced Credit Guarantee Scheme for SMEs. Risk-sharing allows for the sharing of the credit risk on the overall loan portfolio to the benefit of the partnering financial institution. Despite the current availability of liquidity in the Irish market, there have been persistent gaps in the provision of credit, particularly for more risky projects, as similarly experienced across EU post-crisis. The SBCI supports the provision of additional lending to SMEs through its role as operator and manager of the Credit Guarantee Scheme and its own guaranteed loan products, the Brexit Loan Scheme and the Future Growth Loan Scheme.

SBCI Progress to year end 2019

December 2014
€200m to Bank of Ireland

February 2015
€200m to Allied Irish Banks

October 2015
€51m to Finance Ireland

November 2015
€25m to Merrion Fleet (closed July 2017)

November 2015
Additional €200m of funds to Allied Irish Banks

December 2015
€75m to Ulster Bank

May 2016
€40m to First Citizen Agri Finance

June 2016
€45m to Bibby Financial Services Ireland

November 2016
€70m to Fexco Asset Finance

January 2017
€150m Launch of ACSL Scheme

March 2017
ACSL Scheme fully allocated

June 2017
Completion of bank on-lending

October 2017
BLS announced in budget speech

March 2018
€300m Launch of BLS

May 2018
Additional €25m to Bibby Financial Services Ireland

July 2018
Launch of 2017 CGS

October 2018
FGLS announced in budget speech

December 2018
Additional €75m to Finance Ireland

March 2019
€300m Launch of FGLS

June 2019
Bibby Financial Services Ireland launch of "Trade Finance Product" as part of SBCI €70m funding facilities

August 2019
Moody's assigned first-time A2 issuer rating to the SBCI

September 2019
€50m facility to KBC Bank

ACSL Agri Cashflow Support Loan Scheme | **CGS** Credit Guarantee Scheme | **BLS** Brexit Loan Scheme | **FGLS** Future Growth Loan Scheme

Brexit Loan Scheme (BLS)

The €300 million Brexit Loan Scheme is offered in partnership with the Department of Business, Enterprise and Innovation, the Department of Agriculture, Food and the Marine and is supported by the InnovFin SME Guarantee Facility, with the financial backing of the European Union under Horizon 2020 Financial Instruments. The BLS is designed to provide funding support to enable eligible SMEs to implement necessary changes to address the challenges posed by Brexit. The scheme is currently on the market and will remain open until 28 March 2021.

Who can apply?

To be eligible, a business must meet the following criteria:

- ✔ Be a viable business with up to 499 employees (SMEs and Small Midcaps);
- ✔ Be Brexit impacted;
- ✔ Meet the scheme criteria (Brexit-related criteria and InnovFin criteria).

Key features of the scheme

- → €25,000 to €1.5m per eligible enterprise;
- → Maximum interest rate 4%;
- → Term ranging from 1 year to 3 years;
- → Loans are unsecured up to €500,000;
- → Optional interest-only repayments provided at the start of the loans.

Loans can be used for

Future working capital requirements to fund innovation, change or adaptation of the business to mitigate the impact of Brexit.

Approval of loans are subject to the finance providers' own credit policies and procedures.

Future Growth Loan Scheme (FGLS)

The Future Growth Loan Scheme is offered in partnership with the Department of Business, Enterprise and Innovation and the Department of Agriculture, Food and the Marine, with the financial backing of the European Investment Fund. This scheme is available to eligible SMEs and the primary agriculture and seafood sectors to support strategic long-term investments (8-10 years)[1].

Who can apply?

The scheme is available to:

- ✔ SMEs, Small Midcaps and the primary agriculture and seafood sectors.

Key features of the scheme

- → Loans from €100,000 up to €3m for eligible SMEs;
- → Loans from €50,000 up to €3m for eligible SMEs in the primary agriculture sector;
- → Term ranging from 8 years to 10 years;
- → Loans are unsecured up to €500,000;
- → Initial maximum interest rate 4.5% for loans up to €249,999 and 3.5% for loans equal to or greater than €250,000*.

Loans can be used for

1. Investment in tangible or intangible assets for the purpose of process and organisational innovation, or
2. Investment in tangible and intangible assets on agricultural holdings linked to primary agricultural production.

** Variable interest rates are subject to change.*

Approval of loans are subject to the finance providers' own credit policies and procedures.

1 To end of 2019 there has been very strong demand from SMEs and farmers for this longer term, lower cost finance. This demand has resulted in a rapid take up of the scheme and consequently limited remaining capacity. AIB, Bank of Ireland and Ulster Bank were at their FGLS limits, while KBC continued to have capacity available. However, KBC's product range is aimed at SME business customers and it does not offer funding in the Agriculture sector.

Credit Guarantee Scheme (CGS)

The revised SME Credit Guarantee Scheme was launched by the Government in 2018 to replace the previous 2012 scheme. The CGS aims to assist viable SMEs which under normal lending criteria are unable to borrow from their bank. The scheme operates by providing an 80% guarantee to participating finance providers on qualifying loans to SMEs.

Who can apply?

To be eligible, a SME must meet the following criteria:

- ✔ Be involved in a commercial activity;
- ✔ Be a sole trader, partnership, franchise, co-operative or limited company;
- ✔ In the lender's opinion have a viable business proposal;
- ✔ Able to repay the facility.

Key features of the scheme

- ➜ Facilities of €10,000 to €1m;
- ➜ Maximum 2% annual premium (in addition to the interest rate/fee charged by the bank);
- ➜ Term of up to 7 years;
- ➜ Term Loans, Demand Loans and Performance Bonds.

The scheme has been designed to address three barriers to lending

1. Inadequate collateral.
2. Novel business market, sector or technology which is perceived by finance providers as higher risk under current credit risk evaluation practices.
3. Need for refinancing caused by the exit of a lender from the Irish market.

Approval of loans are subject to the finance providers' own credit policies and procedures.

Marketing and Promotion

The SBCI is continuing to build its brand as a trusted support in the financial architecture of the Irish credit market. The SBCI's key challenge in this area is to raise awareness of the role it plays in delivering its products to SMEs across Ireland through on-lending partners. The SBCI seeks to ensure that its message reaches a wide range of audiences, from individual SMEs and their advisors through to industry and State bodies. Work to date has focused on the creation of a brand that is easily recognisable, relevant to the SBCI core audiences and achieves impact in a crowded brand environment.

A public awareness campaign is in place to market the SBCI and encompasses a marketing and promotional campaign, including attendance at trade shows, conferences and business events and a media campaign. The 2019 media campaign placed more focus on the development of the SBCI's social media channels and the promotion of its products through SME and scheme explainer case studies. The SBCI utilises Twitter, LinkedIn and in 2019 opened its own YouTube channel to maximise the reach of its social media campaigns. In addition to this, the SBCI attended more than 90 events across the country during 2019, engaging with SMEs and their advisors.

The Department of Finance Credit Demand Survey (April-September 2019) records awareness of the SBCI at 31% amongst SMEs participating in the survey, an increase in the 2018 figure of 22%.

Stakeholder and Peer Engagement

Stakeholder engagement is important in ensuring that the SBCI activities are aligned with government policy and meet the financing needs of SMEs. The SBCI achieves this through regular and effective engagement and collaboration with all stakeholders, including SMEs, representative bodies advisors to SMEs (e.g. ISME, SFA, IFA, etc.), government departments and agencies, on-lenders and funders/guarantors both at a national and EU level. During 2019 the SBCI has increased its engagement with SMEs through its direct eligibility process for the Brexit Loan Scheme and Future Growth Loan Scheme.

National Promotional or Development Banks/Institutions (NPB/Is) exist across Europe to address identified local or regional market failures. While their respective mandates may vary, depending on jurisdictional priority, they have a commonality of purpose which has driven the creation of strong network groups or associations with specific market focus. The SBCI is a member of NEFI (Network of European Financial Institutions for SMEs), ELTIA (European Long-Term Investors Association) and AECM (European Association of Guarantee Associations). In September 2019, the SBCI CEO, Nick Ashmore, was appointed Vice President of ELTIA. These fora provide the SBCI with support and experience from other markets that is invaluable in the development of its role as the provider of key credit interventions in the Irish market. The SBCI, as a national promotional institution, provides a local conduit to the Irish market for EU financing initiatives.

Market Overview

Irish SMEs continued to face challenges and uncertainty during 2019, with growing awareness of the potential negative implications of Brexit and the increasing focus on environmental issues. However, the market also showed some positive signs and evidence of growth.

The Central Statistics Office (CSO) noted that Ireland's Gross Domestic Product (GDP) grew by 5.5% in 2019, making it one of the EU's fastest growing economies. Furthermore, most economic sectors saw record growth in 2019[2]. The Central Bank of Ireland (CBI) data showed that total gross new SME lending for non-financial, non-real estate sectors during the year to Q3 2019 was €3.9 billion[3]. Total Gross new lending to SMEs up to Q3 2019 demonstrated a 3.5% decline compared to the previous year.

Overall credit demand has decreased by 7% compared to the previous year, with just 13% of Irish SMEs applying for bank within the six months up to September 2019, according to the ECB Survey on the Access to Finance of Enterprises (SAFE) September 2019[4]. For those Irish SMEs that applied the success rate was 51% (EU average of 72%), while the rejection rate was found to be 10% (EU average of 5%). The SAFE survey suggests that finding customers (30%) continues to be the main problem facing SMEs, followed by the availability of skilled labour (17%). However, access to finance was considered to be a less important obstacle over the past six months – just 8% of Irish SMEs view it as their most important issue, similar to Euro are SMEs (7%).

The SBCI recognises the positive performance of SMEs and their continued use of internal financing. According to the European Investment Bank Investment Survey 2019 (EIBIS), internal funds account for 75% of Irish firms' investments, an increase from 69% the previous year, while for micro/smaller firms 82% rely on internal finance for investments[5]. The survey notes that Irish micro/small firms, with 36%, are the most likely to say they are happy to rely exclusively on internal sources of finance. Indeed, these findings correlate with that of the CBI data showing the decline of €868 million in net lending to SMEs during Q3 2019; this was the largest quarterly decrease since late 2016[6]. The CBI notes that over the past five years, the level of debt owed by SMEs has fallen by more than a third, where SMEs are increasingly using retained earnings to fund spending and investment.

However, the SBCI would suggest that continued financing of investments from internal or short-term finance may lead to a risk of a gap emerging in longer term business investment. The Future Growth Loan Scheme has been successfully introduced into the market to address this emerging risk. Overall, SMEs in all EU countries reported more moderate increases in fixed investment, inventories and working capital and employment. SMEs in Ireland reported the third highest net increase in fixed investment.

According to the SAFE report, the availability and needs of external funding were found to be balanced in the latest survey edition in Ireland[7]. SMEs continued to indicate improvements in the availability of external sources of finance. The net percentage of SMEs reporting an improvement in the availability of bank loans increased slightly to 10%, up from 9%. The survey results are consistent with expectations of subdued growth despite more positive financing conditions.

Irish SME interest rates are higher than euro area averages. The average interest rate for SME loans less than €250,000 was 5.7% in January 2019, while similar loans for SMEs in the euro area averaged just 2.5%[8]. In part, this may be a reflection of historical credit experiences; however, the SBCI is committed to ensuring that competitive interest rates are available to SMEs in Ireland.

Ireland is ranked 24th on the World Bank's 2020 "Ease of Doing Business" Index, down from 23rd in 2019, scoring well in the areas of regulatory ease of setting up a business and protection of minority shareholders[9]. However, compared to the 2019, more firms in Ireland expect both the political/regulatory and economic climate to worsen in 2020[10].

2 CSO (2020), *Quarterly National Accounts and International Accounts Quarter 4 2019 and Year 2019 (Preliminary)*

3 Central Bank of Ireland (2019), *Statistical Release: Trends in SME and Large Enterprise Credit and Deposits: Q3 2019*

4 ECB (2019), *Survey on the Access to Finance of Enterprises (SAFE) in the Euro Area: April to September 2019*

5 EIB (2019), *Survey on Investment and Investment Finance 2019 - Ireland*

6 Central Bank of Ireland (2019), *Statistical Release: Trends in SME and Large Enterprise Credit and Deposits: Q3 2019*

7 ECB (2019), *Survey on the Access to Finance of Enterprises (SAFE) in the Euro Area: April to September 2019*

8 Central Bank of Ireland (2019), *SME Market Report 2019*

9 The World Bank (2019), Doing Business 2020 - *Economy Profile: Ireland*

10 EIB (2019), *Survey on Investment and Investment Finance 2019 - Ireland*

Governance and Corporate Information

Directors

Barbara Cotter

Chairperson

(Reappointed 12 March 2019 for a five-year term)

Barbara Cotter was a Partner at A&L Goodbody for over 20 years. During her time as a banking lawyer, Barbara supported Irish SMEs and advised lenders and investors to the SME community. She is a graduate of University College Dublin and is a member of the Solicitors' Disciplinary Tribunal.

Nick Ashmore

Board member

(Chief Executive Officer and ex officio member) Member of the Credit Committee

Nick Ashmore is the Chief Executive Officer of the SBCI. Prior to taking up this role, he served as Project Director during the SBCI's establishment phase. Nick joined the NTMA in 2006 as part of the team managing the National Pensions Reserve Fund, where he served as Head of Private Equity and Infrastructure before becoming Deputy Director in 2011. Before joining the NTMA, Nick was an investment manager with Greenaap Consultants Limited, a private family office. He is a graduate of the University of Aberdeen and a member of the Scottish Institute of Chartered Accountants.

Eoin Dorgan

Board member

(Appointed September 2018 for a five-year term)

Eoin Dorgan is a Principal Officer in the Banking Division in the Department of Finance, with responsibility for policies on Central Bank powers and functions, NTMA-managed funding and investment strategies, and supporting the operation of the Financial Stability Group. He was previously Special Adviser to the Minister for Finance and Press Officer to the Minister and Department of Finance. He is a graduate of University College Dublin and Trinity College Dublin.

Tom McAleese
Board member

(Reappointed 12 March 2019 for a five-year term) Chairperson of the Audit and Risk Committee

Tom McAleese is a Managing Director of Alvaraz and Marsal, UK and Head of the Bank Restructuring Practice in Europe with over 25 years' experience in financial services. Prior to joining Alvarez and Marsal, he was Managing Director for five years at Barclays Bank Ireland plc. He previously worked with ABN AMRO Bank where he held a number of senior positions and with GPA Group plc and KPMG. Tom is a Fellow of the Institute of Chartered Accountants, a Fellow of the Institute of Bankers and a Member of the American Institute of Certified Public Accountants. He is currently President of the Trinity Business Alumni and audit chair of the Dublin Chamber of Commerce.

Rosheen McGuckian
Board member

(Appointed 27 March 2015 for a five-year term and resigning on 12 March 2020) Member of the Credit Committee, Chairperson of the Remuneration Committee

Rosheen McGuckian is Group Chief Executive Officer of NTR plc. She has extensive senior executive experience in both the private sector and the public sector in Greenstar, GE Capital and ESB. She is a graduate of Trinity College Dublin and holds a PhD from Dublin City University.

AJ Noonan
Board member

(Reappointed 12 March 2019 for a five-year term) Member of the Audit and Risk Committee, Member of the Remuneration Committee

AJ Noonan is a founder and Managing Director of Rhonellen Developments. He was previously founder and Managing Director of Noonan Recruitment and Professional Placement Group. AJ was Chairperson of the Small Firms Association from 2013 to 2016 and remains a member of the National Council. He is a graduate of the Dublin Institute of Technology.

Conor O'Kelly
Board member

(Reappointed 12 March 2019 for a two-year term) Member of the Remuneration Committee

Conor O'Kelly is Chief Executive of the NTMA. He is the former Deputy Chairman of Investec Holdings (Ireland) Ltd. Prior to that, he was Chief Executive of NCB Group which was subsequently acquired by Investec plc. Before joining NCB as Head of Fixed Income, he spent 11 years with Barclays Capital, where he held a number of senior management positions.

Richard Pelly
Board member

(Reappointed 12 March 2020 for a five-year term) Chairperson of the Credit Committee

Richard Pelly is the former Chief Executive of the European Investment Fund. He was previously a member of the GE Capital European management team and a Managing Director at Lloyds TSB. He is a graduate of Durham University and a member of the Institute of Bankers.

Eilis Quinlan
Board member

(Reappointed 12 March 2019 for a five-year term) Member of the Audit and Risk Committee

Eilis Quinlan is principal in Quinlan & Co. Accountants, a fellow of the ACCA and a Chartered Director. She currently serves as Director of the Irish Small and Medium Enterprise Association and previously served as Chairperson. Since 2011, Eilis has been the Irish representative to the Association of Chartered Certified Accountants Global Forum for SMEs. She also represents the ACCA on FEE, the Federation of European Accountants in Brussels. Eilis is a graduate of Griffith College Dublin, a Fellow of the ACCA.

Governance Statement and Board Members' Report

Governance

The SBCI was incorporated pursuant to the *Strategic Banking Corporation of Ireland Act 2014* (the 'SBCI Act 2014') in September 2014 and in July 2016 converted to a Designated Activity Company under the Companies Act 2014. The functions of the SBCI are set out in section 8 of this SBCI Act 2014. The Board is accountable to the Minister for Finance. The Board is responsible for ensuring good governance and performs this task by setting strategic objectives and targets and taking strategic decisions on all key business issues. The regular day-to-day management, control and direction of the SBCI are the responsibility of the Chief Executive Officer (CEO) and the senior management team. The CEO and the senior management team must follow the broad strategic direction set by the Board and must ensure that all Board members have a clear understanding of the key activities and decisions related to the entity, and of any significant risks likely to arise. The CEO acts as a direct liaison between the Board and management of the SBCI.

Board Responsibilities

The functions of the SBCI are prescribed in Section 8 of the SBCI Act 2014. There is a formal schedule of matters reserved for decision by the Board. This includes:

- Annual Report and Financial Statements
- Risk Management Policy and Framework
- Risk Appetite Statement
- Strategic Plan
- Budget
- Financing facilities
- Credit and Risk-sharing proposals
- Appointment and terms and conditions of the Chief Executive Officer (after consultation with the Minister)
- Overall remuneration policy

The SBCI is required by the SBCI Act 2014 to prepare financial statements in respect of its operations for each financial year. The financial statements are prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Ireland and in accordance with the Companies Act 2014.

In preparing these financial statements, the SBCI Board is required to:

- Select suitable accounting policies and apply them consistently,
- Make judgements and estimates that are reasonable and prudent,
- Prepare the financial statements on a going concern basis unless it is inappropriate to do so and,
- Disclose and explain any material departure from applicable accounting standards.

The Board is responsible for ensuring that the SBCI keeps, or causes to be kept, adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the Financial Statements and Directors' Report comply with the Companies Act 2014 and enable the financial statements to be audited.

The Board is responsible for approving the SBCI income and expenditure budget and corporate strategy. Forecasts against budget and goals are reviewed by the Board during the year and out-turns are reviewed at year end.

The Board is also responsible for safeguarding its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board considers that the financial statements of the SBCI give a true and fair view of the financial performance and the financial position of the SBCI at 31 December 2019.

Board Structure

The SBCI's Constitution provides that there shall be a minimum of two and a maximum of nine directors, one of whom will be the Chief Executive Officer as an ex-officio member of the Board. The first directors were appointed by the Minister on the formation and registration of the SBCI. The Board may appoint subsequent directors on the nomination of the Minister and shall implement the terms of the Minster's nomination. The Chairperson is appointed by the Minister. A director's term of office shall not exceed five years. Details of the current directors and their appointment periods are set out on pages 19 to 21.

The Board conducts an annual evaluation of its own performance and its Committee's. In 2019, 2017 and 2016 this performance evaluation process was conducted internally. In 2018, in accordance with the requirement under Provision 4.6 of the Code of Practice for the Governance of State Bodies to have it externally facilitated every three years, the Board's performance evaluation process was conducted externally by Praesta.

The Board has established three committees to assist it in discharging its responsibilities, each with formal terms of reference:

- Audit and Risk Committee
- Credit Committee
- Remuneration Committee

For further information on the Board's committees, see Committee Reports on pages 26 to 27.

The Board is supported in its functions by the Board Secretary who also co-ordinates the operations of the various Board committees.

Schedule of Attendance, Fees and Expenses

A schedule of attendance at the Board and Committee meetings for 2019 is set out below including the fees and expenses received by each member in their capacity as a Board or Committee member:

	Board	Audit and Risk Committee	Credit Committee	Remuneration Committee	Fees 2019 €	Expenses 2019 €
Number of Meetings	**8**	**5**	**3**	**3**		
Board members						
Nick Ashmore	8		3			
Barbara Cotter	8	1/1(p)			€15,750	-
Eoin Dorgan	8				-	-
Tom McAleese	8	5			€15,750	-
Rosheen McGuckian	7		3	3	€15,750	-
AJ Noonan	8	3/3(p)		3	€15,750	-
Conor O'Kelly	5			3	-	-
Richard Pelly	8		3		€15,750	€833
Eilis Quinlan	8	5			€15,750	-
Staff Members						
John Coleman			2/2(p)		-	-
Ray Mangan			3		-	-

((p) refers to the number of meetings it was possible to attend relative to the dates of appointment)

Conor O'Kelly NTMA CEO, Nick Ashmore SBCI CEO and official from the Department of Finance, Eoin Dorgan, do not receive any remuneration in respect of their membership of the Board. Members of staff do not receive any additional remuneration in respect of membership of committees.

Key Personnel Changes

Conor O'Kelly, Barbara Cotter, Tom McAleese and AJ Noonan were reappointed to the Board with effect from 12 March 2019. Barbara Cotter took over the role of Chairperson from Conor O'Kelly effective 12 March 2019. Richard Pelly and Eilis Quinlan were reappointed to the Board with effect from 12 March 2020. Rosheen McGuckian resigned as Director with effect from 11 March 2020 and a process is underway to seek a suitable replacement under the Public Appointments Service (PAS).

Damien Mulholland resigned as Company Secretary and was replaced by Macken McNicholas with effect from 13 September 2019.

Remuneration

The SBCI Act 2014 provides that the NTMA shall assign so many of its staff to the SBCI as the SBCI determines to be necessary for the performance of its functions. Thus, all SBCI staff are employees of the NTMA.

The NTMA's remuneration model is based on confidential, individually negotiated employment contracts, with competitive, market-aligned remuneration. The typical remuneration package comprises a fixed-base salary, pension entitlement and provision for discretionary performance-related pay.

Discretionary performance-related payments are intended to reward exceptional performance having regard to the employee's own performance, the performance of the employee's area of responsibility, and the overall performance of the SBCI. Performance-related payments are made in accordance with parameters approved by the Board on the recommendation of the Remuneration Committee. The overall amount of performance related payments made in respect of any year is also subject to the approval of the Board.

The SBCI made performance-related payments to seven staff in 2020 in respect of 2019. These payments totalled €103k in aggregate.

Employee Short-Term Benefits Breakdown

Employees' short-term benefits in excess of €50,000 in 2019 are categorised into the following bands:

Range	No. of Employees
€50,001 to €75,000	3
€75,001 to €100,000	5
€100,001 to €125,000	1
€125,001 to €150,000	0
€150,001 to €175,000	2
€175,001 to €200,000	2
€200,001 to €225,000	0
€225,001 to €250,000	0
€250,001 to €275,000	0
€275,001 to €300,000	1
Total	**14**

Note: For the purposes of this disclosure, short-term employee benefits rendered during 2019 include salary, other taxable benefits paid to employees (including performance related payments), and other payments made on behalf of employees, but exclude employer's PRSI.

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

The Board is responsible for ensuring that the SBCI has complied with the requirements of the Code of Practice for the Governance of State Bodies ("the Code"), as published by the Department of Public Expenditure and Reform in August 2016. The following disclosures are required by the Code:

Consultancy Costs

Consultancy costs include the cost of external advice to management and exclude outsourced 'business-as-usual' functions.

	2019 €'000	2018 €'000
Legal advice	309	327
Financial advice	298	319
Public relations/marketing	107	84
Human Resources	16	1
Other	1	3
Total consultancy costs	**731**	**734**
Consultancy costs capitalised	0	0
Consultancy costs charged to the Statement of Comprehensive Income	731	734
Total consultancy costs	**731**	**734**

Legal Costs and Settlements

No expenditure was incurred in 2019 in relation to legal costs and settlement.

Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2019 €'000	2018 €'000
Domestic		
– Board	0	0
– Employees	18	18
International		
– Board	1	1
– Employees	15	12
Total	**34**	**31**

Hospitality Expenditure

The Statement of Comprehensive Income includes €4.7k in respect of staff hospitality expenditure in 2019 (2018: €3.6k).

Statement of Compliance

The SBCI has complied with the Code of Practice for the Governance of State Bodies, as published by the Department of Public Expenditure and Reform with a limited number of adaptions/variations which have been agreed with the Department of Finance as summarised below:

Matters Reserved for Decision by the Board

The Code sets out a formal schedule of matters specifically reserved for decision by the Board. Other than "significant amendments to the pension benefits of the Chief Executive and staff" which is a matter for the NTMA Board as all SBCI staff are employees of the NTMA and are members of the NTMA superannuation scheme, the Schedule of Reserved Matters includes the items set out in the Code. There are some differences in wording with regard to the items on significant acquisition and disposal of assets and major investments and capital projects to reflect the nature of the SBCI's business (obtaining and granting financing facilities).

Non-Compliance with Statutory Obligations

In view of the wide range of relevant statutory obligations to which the SBCI is subject, it is proposed to address the requirement that the Chairperson bring incidences of non-compliance with any statutory obligations to the attention of the Minister to material instances of non-compliance only.

Relations with the Oireachtas, Minister and Parent Department

Those provisions of Section 8 of the Code dealing with the acquisition or disposal of assets, capital investment appraisal, establishment or acquisition of subsidiaries, participation in joint ventures and the acquisition of shares do not apply to the business activities of the SBCI as set out in the SBCI Act 2014 and the SBCI's Constitution. The SBCI Constitution sets out specific activities in respect of which ministerial consent is required.

Public Spending Code

The Public Spending Code is likely to be limited in its application to the SBCI as its principal activities are the sourcing of funding, and the provision of long-term, low-cost finance to on-lending institutions for distribution through the supply of credit to SME borrowers and the extension of risk-sharing facilities. If, and when, the SBCI engages in capital projects or new current expenditure programmes it will comply with the relevant provisions of the Public Spending Code.

Remuneration and Superannuation

The SBCI Act 2014 provides that the NTMA shall assign so many of its staff to the SBCI as the SBCI determines to be necessary for the performance of its functions. Thus, all SBCI staff are employees of the NTMA.

Remuneration matters in respect of NTMA employees assigned to the SBCI are approved by the NTMA Chief Executive, representing the NTMA as employer, in accordance with criteria and oversight arrangements agreed from time to time with the SBCI. With regard to these criteria and oversight arrangements, the SBCI Board has established a Remuneration Committee and has put in place a formal remuneration policy. In complying with the Code's provisions in respect of remuneration, the SBCI has adopted the provisions applying to commercial State bodies, adapted in light of its particular governance and reporting structures and remuneration model.

Committee Reports

Audit and Risk Committee Report

The Audit and Risk Committee's role is to assist the Board in the oversight of:

- The quality and integrity of the financial statements; the review and monitoring of the effectiveness of the systems of internal control; the internal audit process and the compliance function; and the review of the outputs from the external auditor, the Comptroller and Auditor General (C&AG);
- The SBCI's risk management framework including setting risk appetite; the monitoring of adherence to risk governance and ensuring risks are properly identified, assessed, managed and reported.

The Committee comprises of three non-executive members appointed by the Board. The current members of the Committee are:

- Tom McAleese, Chairperson
- Eilis Quinlan
- AJ Noonan

The Committee met on 5 occasions in 2019.

Financial Reporting

The Committee reviewed the draft financial statements and recommended them to the Board. The review focused on the accounting methods, the Companies Act 2014 and the clarity and completeness of disclosures in line with applicable accounting standards, and relevant provisions of the Code of Practice for the Governance of State Bodies. The Committee also reviewed the Governance Statement and Board Members' Report, and statements on risk management for inclusion in the SBCI Annual Report. As part of its review of the financial statements, the Committee met with representatives of the Office of the Comptroller and Auditor General to discuss its Audit Findings Report.

Internal Controls

The Committee reviewed the effectiveness of the system of internal control. It also reviewed the Statement on Internal Control to be included in the 2019 financial statements and recommended it to the Board. The review was informed by a report from management in relation to the assertions contained in the Statement and also the Committee's detailed work programme, including regular internal audit and risk reports.

Internal Audit

The Committee received regular reports from the internal auditor. It reviewed the key findings from the outcome of individual internal audit reviews completed under the 2019 risk-based internal audit plan and monitored the implementation of audit recommendations. It approved the 2020 internal audit plan. It also approved the use of the NTMA Internal Audit Charter which now includes specific reference as applying to the SBCI. The Committee reviewed the effectiveness of the internal auditor. The Committee meets privately with the NTMA Head of Internal Audit without management present at least annually.

External Audit

The SBCI's external auditor is the Comptroller and Auditor General. The Committee reviewed the external audit plan, the key areas of focus and the audit terms of engagement. It also monitored management's responses to the external auditor's findings arising from the audit of the 2018 financial statements. The Committee meets with the external auditor without management present at least annually.

Risk

The Committee reviewed and approved updates to a number of specific risk policies, and recommended updates to the Board, as provided for under the Risk Management Policy and Framework. It also approved the Risk Management Plan for 2020 and monitored progress against the 2019 plan. It received regular reports on the SBCI's risks and the controls in place to mitigate risks. The Committee meets privately with the Head of Risk without management present at least annually.

Compliance and Protected Disclosures

The Committee reviewed and approved updates to the Reporting of "Relevant Wrongdoing" and Protected Disclosures Policy. It received the annual compliance report and reviewed the services performed by NTMA Compliance. The Committee meets with the NTMA Head of Compliance without management present at least annually.

On-Lender Reviews

The Committee received regular reports from external service provider KPMG in respect of On-Lender Reviews. It approved the On-Lender Review Plan for 2020. It reviewed the key findings from the outcome of individual On-Lender Reviews completed under the plan and monitored the implementation of KMPG's recommendations.

Other

The Committee reviewed its terms of reference and recommended amendments to the Board. It also undertook a review of its own effectiveness and reported to the Board on its review. The Committee's priorities in respect of 2020 were approved as part of its Work Programme 2020.

Credit Committee Report

The Credit Committee's role is to assist the Board in its review and approval of credit decisions, and the oversight and monitoring of credit risk.

The Committee comprises of two non-executive members of the Board, and members who are senior staff members of the SBCI or the NTMA. The Chief Executive Officer is also a member.

The current members of the Committee are:

- Richard Pelly, Chairperson, (Board member)
- Eoin Dorgan, (Board Member)
- Nick Ashmore (CEO and Board member)
- Ray Mangan (SBCI staff member)

Eoin Dorgan was appointed a member of the Credit Committee with effect from 28 February 2020 replacing Rosheen McGuckian whose term on the Committee expired on 24 February 2020. John Coleman resigned from the Committee with effect from 8 October 2019 following him ceasing to be a member of staff of the NTMA.

The Credit Committee met on three occasions in 2019. Its main activity involved the review of detailed credit proposals from management. It also reviewed the annual credit reviews of on-lenders performed by management.

The Committee also reviewed its terms of reference and recommended a number of amendments to the Board.

Remuneration Committee Report

The Remuneration Committee assists the Board on remuneration matters in respect of the NTMA employees assigned to the SBCI in accordance with the criteria and oversight arrangements agreed with the NTMA. The Board is responsible for the SBCI's overall Remuneration Policy and is guided in its responsibilities by the advice and recommendations of the Remuneration Committee.

The Committee comprises of two non-executive members appointed by the Board. Its current members are:

- Conor O'Kelly
- AJ Noonan

Rosheen McGuckian was a member and Chairperson of the Remuneration Committee until her resignation as Board member with effect from 12 March 2020. The Board will consider a suitable replacement and alternative Chairperson for future meetings in 2020.

The Committee met on three occasions in 2019. It reviewed and recommended the total amount of performance related payments (PRP) to be made in respect of 2019.

The Committee also reviewed its terms of reference and recommended a number of amendments to the Board.

Risk Management

The SBCI aims to manage risk in an informed and proactive manner, in accordance with its Risk Management Policy and Framework and its Risk Appetite Statement, such that the level of accepted risk is consistent with its underlying business activity, and that the SBCI understands and is able to manage or absorb the impact of any risks that may materialise. The SBCI complies with the risk management provisions of the Code of Practice for the Governance of State Bodies (2016).

In 2019, the Audit and Risk Committee and the Board reviewed the Risk Register on a regular basis, and the Board received regular updates in respect of risk management and high and emerging risks.

Roles and Responsibilities

Board

The Board is responsible for setting the risk appetite and overseeing and guiding risk management activity across the SBCI. The Board has mandated that risk management be integrated and embedded into the tone and culture of the SBCI and this has been adopted across the SBCI, with all members of the SBCI team responsible for regularly reviewing the risk register and individually confirming that the stated controls are in place.

Audit and Risk Committee

The Audit and Risk Committee is responsible for overseeing the implementation of the SBCI Risk Management Policy and Framework and ensuring that the SBCI's risk management governance model provides appropriate levels of independence and challenge. The Audit and Risk Committee reports to the Board.

Three Lines of Defence

First Line of Defence

The SBCI's Risk Management Policy and Framework is predicated on the three lines of defence model. Within this model, the SBCI team and senior management (first line of defence) incur and own the risks.

Second Line of Defence

The SBCI Risk function and other control functions (the second line of defence) provide independent oversight and objective challenge to the first line of defence. They also provide risk monitoring and reporting.

Third Line of Defence

The Internal Audit function acts as part of a third line of defence by providing independent, reasonable, risk-based assurance to key stakeholders on the robustness of the SBCI risk management system, its governance and the design and operating effectiveness of the internal control environment.

Audit

In accordance with statutory requirements, the SBCI is audited by the Comptroller and Auditor General. The SBCI's internal audit process is managed by the NTMA Internal Audit function and includes an external firm, currently KPMG, appointed to carry out internal audit work reporting to the NTMA Head of Internal Audit.

Principal Risks

The SBCI is exposed to a wide variety of risks which have the potential to affect its financial and operational performance. The Risk Management Policy and Framework establishes the processes to identify, assess, report and mitigate risk. The SBCI has identified the following principal risks which may adversely affect the achievement of its objectives. In addition, the SBCI maintains a comprehensive Risk Register which identifies all of the risks facing the SBCI, including macro financial risk, political risk, liquidity risk, interest rate risk and reputational risk among others.

Risk	Description of the Risk	Risk Mitigation Measure
Strategic Risk	The SBCI relies on demand from on-lenders and businesses to meet its key strategic objective of providing credit to enterprises in Ireland to address failures in the Irish credit market. Should it fail to structure its products appropriately and deploy a suitable delivery strategy, there is a risk that on-lenders will not participate as envisaged and businesses will not have an appetite for the product offered.	This risk is mitigated by active engagement with stakeholder groups, diversity of SBCI products to ensure that the needs of on-lenders and SMEs are addressed, and proactive marketing campaigns to raise awareness of the SBCI and its products.
Credit Risk	The SBCI is exposed to the risk that a borrowing counterparty defaults on its obligations and fails to repay its debt in full, resulting in losses to the SBCI. The SBCI is exposed to credit risk (i) due to its loans to on-lenders and (ii) in respect of its risk-sharing schemes, due to loans made to final beneficiaries which have been guaranteed by the SBCI.	Mitigation measures in place in respect of this risk include thorough due diligence in advance of any lending decisions, ongoing monitoring and review of on-lending facilities, as well as regular review of compliance with the respective covenants and undertakings. Other measures include monitoring of the key risk indicators detailed in the Risk Appetite Statement and assessment of credit risk by the Credit Committee and Board.
Operational Risk	The SBCI is exposed to a range of operational risks arising from the people, systems and processes involved in meeting its objectives. Key operational risks include systems failures, process errors, over-reliance on key individuals, failure to follow procedures, reporting errors, etc. which could ultimately result in the SBCI failing to meet its objectives and significant reputational damage.	This risk is mitigated by operational support and services provided by the NTMA, as provided for under the SBCI Act, and adherence to relevant policies and procedures. New systems and processes are subject to comprehensive review and approval by the appropriate authority and robust project management methodology is used to manage new projects.
Resourcing Risk	The SBCI is a small company that relies on skilled specialist professionals to meet its statutory objectives. There is a risk that the SBCI is not adequately resourced with the appropriate experience and expertise, resulting in failure to achieve its objectives.	Risk mitigation measures in place for this risk include the approval of an annual staffing plan by the SBCI Board, and assignment of suitably qualified staff from the NTMA. The SBCI also engages temporary contract staff, or outsourced service providers, as the need arises. Staff training, and development are incorporated into the SBCI's continuous performance management programme.
Compliance Risk	The SBCI's activities are subject to EU State Aid and other regulations and there is a risk that the SBCI fails to comply with those regulations, resulting in reputational or financial damage to the SBCI. The probability of this risk occurring is low; however, the impact could be high if it did occur.	This risk is mitigated by engaging internal and external legal and compliance advice, design of products to ensure adherence to relevant laws and regulations, and adherence to relevant policies and procedures.

Energy Efficiency Report

SBCI staff are employees of the NTMA and are assigned to the SBCI. The SBCI operates out of Treasury Dock Building, North Wall Quay, Dublin 1. The NTMA's Energy Efficiency Report itemises energy usage across these premises and is published with the NTMA's Annual Report.

Financial Statements

Company and Other Information

Directors

Barbara Cotter *(appointed as Chairperson on 12 March 2019)*

Nicholas Ashmore *(Chief Executive Officer, "CEO")*

Eoin Dorgan

Tom McAleese

Rosheen McGuckian

AJ Noonan

Conor O'Kelly *(resigned as Chairperson on 11 March 2019)*

Richard Pelly

Eilis Quinlan

Company Secretary

Damien Mulholland *(resigned 13 September 2019)*

Macken McNicholas *(appointed 13 September 2019)*

Registered Office

Treasury Dock
North Wall Quay
Dublin 1
D01 A9T8

Bankers

Citibank
1 North Wall Quay
Dublin 1
D01 T8Y1

Central Bank of Ireland
New Wapping Street
North Wall Quay
Dublin 1
D01 F7X3

Auditor

Comptroller and Auditor General
3A Mayor Street Upper
Dublin 1
D01 PF72

Directors' Report

The Directors of the Strategic Banking Corporation of Ireland (the "Company" or "SBCI") present their report and audited financial statements for the financial year ended 31 December 2019 (the "financial year").

Principal activities

The Company was established pursuant to the Strategic Banking Corporation of Ireland Act 2014 (the "SBCI Act 2014") and incorporated under the Companies Act 1963 to 2013 on 12 September 2014, and then converted to a designated activity company under the Companies Act 2014 on 28 July 2016. The Company avails of national and international sources of funding to support the provision of credit to enterprises in Ireland. This is achieved by providing third party on-lenders with liquidity and risk sharing products. These on-lenders are required to pass on the advantageous rate to enterprises in Ireland.

The SBCI's principal activities during the financial year were focused on core business and new product development. The SBCI continued its core activity of providing finance to and establishing risk sharing schemes for on-lending institutions to facilitate the provision of credit to small and medium sized enterprises ("SMEs") and Small MidCap[1] borrowers in Ireland. New product activities included the delivery of a risk sharing scheme, the Future Growth Loan Scheme ("FGLS") to provide long-term lower cost investment loans to eligible borrowers.

Business review

The 2019 Annual Report forms part of the Directors' Report. The Chairperson's Statement and Chief Executive Officer's Review in the Annual Report outline the development and performance of the SBCI during the financial year and significant events that occurred during that period. Further information on the SBCI's strategy and business model is set out in the Strategy section of the Annual Report, while a comprehensive review of the operations of the SBCI is set out in the Business Review section.

During the financial year, the SBCI focused on developing each of its three lines of business, namely lending, risk sharing and service provision. During the financial year, the SBCI continued to progress its lending business by advancing additional credit to on-lenders and new risk sharing products were both developed and deployed. The Company also continued to operate the Credit Guarantee Scheme (the "CGS") on behalf of the Minister for Business, Enterprise and Innovation. During the financial year, the following represents the key performance outturn:

- €45m advanced by the SBCI to its on-lenders for the purposes of onward lending to SMEs;
- €247m of lower cost loans advanced by on-lenders to SMEs;
- A scheme of up to €300m of loans made available to SMEs and Small MidCaps under the FGLS;
- €117m of loan principal repayments made by on-lenders to the SBCI.

Principal risks and uncertainties

The principal risks and uncertainties facing the SBCI are:

Strategic Risk

- The SBCI relies on demand from on-lenders and businesses to meet its key strategic objective of providing additional credit to enterprises in Ireland. Should it fail to structure its products appropriately and deploy a suitable delivery strategy, there is a risk that on-lenders will not participate as envisaged and businesses will not have an appetite for the products offered.

1 Small MidCap refers to an enterprise which has up to 499 employees and is not classified as an SME.

Credit Risk

- The SBCI is exposed to the risk that a borrowing counterparty defaults on its obligations and fails to repay its debt in full, resulting in losses to the SBCI. The SBCI is exposed to credit risk (i) due to its loans to on-lenders and (ii) in respect of its risk sharing schemes, due to loans made to final beneficiaries which have been guaranteed by the SBCI.

Resourcing Risk

- The SBCI is a small company that relies on skilled specialist professionals to meet its statutory objectives. There is a risk that the SBCI is not adequately resourced with sufficient numbers of persons with the appropriate experience and expertise, resulting in failure to achieve its objectives.

Compliance Risk

- The SBCI's activities are subject to EU State aid and other regulations and there is a risk that the SBCI fails to comply with those regulations, resulting in reputational or financial damage to the SBCI. The probability of this risk occurring is low, however the impact could be high if it did occur.

Financial risk management

The SBCI is exposed to credit risk, market risk, liquidity risk, capital risk and concentration risk in the normal course of its business. Further details on Company policy and how it manages these risks are set out in Note 14 to the financial statements.

Directors

The following are the names of the persons who, at any time during the financial year, were Directors of the Company:

Barbara Cotter *(appointed as Chairperson on 12 March 2019)*

Nicholas Ashmore

Eoin Dorgan

Tom McAleese

Rosheen McGuckian

AJ Noonan

Conor O'Kelly *(resigned as Chairperson on 11 March 2019)*

Richard Pelly

Eilis Quinlan

Directors' interests

The Directors had no beneficial interest in the Company during the financial year or at the financial year end (see Note 27). The issued share capital of the Company is owned solely by the Minister for Finance (see Note 22).

Adequate accounting records

The Directors ensure compliance with the Company's obligations with regards to keeping accounting records required under sections 281 to 285 of the Companies Act 2014, through the use of qualified accounting personnel and appropriate systems and procedures, as set out in the Statement on Internal Control. The accounting records are kept at the Company's registered office at Treasury Dock, North Wall Quay, Dublin 1, D01 A9T8.

Results and dividends

The results for the financial year and state of affairs of the Company are set out in the Statement of Comprehensive Income and the Statement of Financial Position.

The Company did not pay any dividends during the financial year to its sole shareholder, the Minister for Finance, and does not propose to pay any dividends for this financial year.

Events after the reporting period

Refer to Note 28 of the financial statements.

Auditor

The Comptroller and Auditor General (C&AG) is the Company's auditor by virtue of section 19 of the SBCI Act 2014. So far as each of the Directors are aware, there is no relevant audit information of which the C&AG is unaware pursuant to section 330(1)(a) of Companies Act 2014.

Approved and authorised for issue by the Board of Directors and signed on its behalf:

Nicholas Ashmore
Chief Executive Officer
Strategic Banking Corporation of Ireland

Barbara Cotter
Chairperson
Strategic Banking Corporation of Ireland

15 April 2020

Directors' Responsibilities Statement

Company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the financial statements in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Ireland ("relevant financial reporting framework") and in accordance with the Companies Act 2014.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company as at the end of the financial year and of the profit or loss of the Company for the financial year, and that they otherwise comply with the Companies Act 2014.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Prepare the financial statements on a going concern basis unless it is inappropriate to do so;
- State whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards.

The Directors are responsible for ensuring that the Company keeps, or causes to be kept, adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' report comply with the Companies Act 2014 and enable the financial statements to be audited.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the financial and other information on the company's website (www.sbci.gov.ie). Legislation in Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved and authorised for issue by the Board of Directors and signed on its behalf:

Nicholas Ashmore
Chief Executive Officer
Strategic Banking Corporation of Ireland

Barbara Cotter
Chairperson
Strategic Banking Corporation of Ireland

15 April 2020

Statement on Internal Control

Scope of Responsibility

On behalf of the Board of Directors' of the SBCI (the "Board"), we acknowledge the Board's responsibility for ensuring that an effective system of internal control is maintained and operated. This responsibility takes account of the requirements of the Code of Practice for the Governance of State Bodies (2016).

Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a tolerable level rather than to eliminate it. The system can therefore only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or detected in a timely way.

The system of internal control, which accords with guidance issued by the Department of Public Expenditure and Reform, has been in place in the SBCI for the year ended 31 December 2019 and up to the date of approval of the financial statements.

Capacity to Handle Risk

The SBCI has an Audit and Risk Committee ("ARC") comprising of non-executive members of the Board with financial and audit experience, one of whom acts as the Chairperson of the ARC. The ARC met five times in 2019.

The ARC oversees the internal audit activities of the SBCI, which are based on a programme of work proposed by the National Treasury Management Agency's ("NTMA") internal audit function and approved by the ARC. The internal audit activities of the SBCI are performed by the NTMA's internal audit function.

The NTMA provides certain finance, human resources, legal, internal audit, risk, compliance and procurement services to the SBCI, as provided for under section 10 of the SBCI Act 2014, and as agreed in the Service Level Agreement between the NTMA and the SBCI. The SBCI therefore depends to a significant degree on the controls operated by the NTMA. The NTMA has developed a comprehensive system of internal control and any services provided to the SBCI under the Service Level Agreement are provided in the context of the NTMA's system of internal control. The SBCI has received a letter of confirmation from the NTMA that the NTMA's system of internal control in respect of services provided to the SBCI has operated effectively in respect of the year 31 December 2019.

Risk and Control Framework

The SBCI has implemented a risk management system which identifies and reports key risks and the management actions being taken to address and, to the extent possible, mitigate those risks.

A Risk Register is in place, which identifies various key risks facing the SBCI, and these have been, evaluated and graded according to their significance. Where risks have been identified, controls are implemented to manage and mitigate those risks. The Risk Register is reviewed by (i) the ARC on a quarterly basis and (ii) the Board at least once every financial year. The outcome of these reviews is used to plan and allocate resources to ensure risks are managed to an acceptable level. The management team is required to attest on a quarterly basis that the controls noted in the Risk Register are in place and effective, to the best of its knowledge.

The Risk Register (i) details the controls and actions needed to mitigate risks and (ii) assigns responsibility for the operation of such controls and actions to specific staff. We confirm that the control environment contains the following elements:

- Documented procedures for key business processes;
- Systems ensuring the security of the information and communication technology systems;
- Regular review and assessment of financial assets;
- A comprehensive budgeting system including an annual budget which is reviewed and approved by the Board;
- Regular reviews of periodic financial reports which detail financial performance against forecasts;
- Formal project management disciplines;
- Adherence to the Reporting of 'Relevant Wrongdoing' and Protected Disclosures Policy and the Anti-Fraud Policy.

Ongoing Monitoring and Review

Formal procedures have been established for monitoring control processes. Any control deficiencies are communicated to those responsible for taking corrective action and to management and the Board, where relevant, in a timely way. We confirm that the following ongoing monitoring systems are in place:

- Key risks and related controls have been identified and processes have been put in place to monitor the operation of those controls and report any identified deficiencies;
- Reporting arrangements have been established at all levels where responsibility for financial management has been assigned; and
- There are regular reviews by senior management of periodic/annual performance and financial reports which indicate performance against budgets/forecasts.

Procurement

Pursuant to the SBCI business model, procurement support is provided to the SBCI by the NTMA. The SBCI adheres to the NTMA Procurement Policy (published on its website) and associated procedures, which are consistent with the current Office of Government Procurement (OGP) guidelines.

In certain instances it is deemed appropriate to obtain duly authorised exceptions from the Policy and Procedure (i.e. not run a competitive tender process) in respect of services, supplies or works valued below the EU thresholds e.g. for reasons of confidentiality, conflicts of interest, urgency, protection of intellectual property rights, sole source of supply etc. Such exceptions are approved by the CEO, and do not amount to non-compliant procurement.

During 2019, the CEO approved a procurement exception to the value of €0.036m (i.e. below the EU threshold for service contracts) to ensure the SBCI engaged a recognised and reputable market operator to assign SBCI an independent credit rating. Separately the SBCI engaged an insurance broker through a legacy arrangement to procure professional indemnity insurance required for the operation of the Credit Guarantee Scheme which cost €0.087m, going forward this will be procured through the NTMA.

Statement on Internal Control continued

Review of Effectiveness

We confirm that the SBCI has procedures in place to monitor the effectiveness of its risk management and control procedures. The SBCI's monitoring and review of the effectiveness of the system of internal control is informed by the work of the NTMA's internal audit function, the ARC which oversees its work, the senior management within the SBCI responsible for the development and maintenance of the internal control framework and the C&AG.

We confirm that the Board conducted an annual review of the system of internal control for 2019.

Internal Control Issues

No weaknesses in the system of internal control were identified in relation to the year ended 31 December 2019 that require disclosure in the financial statements.

Barbara Cotter
Chairperson
Strategic Banking Corporation of Ireland

Tom McAleese
Chairperson, Audit and Risk Committee
Strategic Banking Corporation of Ireland

15 April 2020

Report of the Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas Strategic Banking Corporation of Ireland

Opinion on the financial statements

I have audited the financial statements of the Strategic Banking Corporation of Ireland (the company) for the year ended 31 December 2019 as required under the provisions of the Strategic Banking Corporation of Ireland Act 2014. The financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes, including a summary of significant accounting policies.

In my opinion, the financial statements

- give a true and fair view of the assets, liabilities and financial position of the company at 31 December 2019 and of its income and expenditure for 2019
- have been properly prepared in accordance with Financial Reporting Standard (FRS) 102 — *The Financial Reporting Standard applicable in the UK and the Republic of Ireland*, and
- have been properly prepared in accordance with the Companies Act 2014.

Basis of opinion

I conducted my audit of the financial statements in accordance with the International Standards on Auditing (ISAs) as promulgated by the International Organisation of Supreme Audit Institutions. My responsibilities under those standards are described in the appendix to this report. I am independent of the company and have fulfilled my other ethical responsibilities in accordance with the standards.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions related to going concern

As described in the appendix to this report, I conclude on

- the appropriateness of the use of the going concern basis of accounting by the directors and
- whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern.

I have nothing to report in that regard.

Opinion on matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, I report that in my opinion

- the information given in the directors' report is consistent with the financial statements, and
- the directors' report has been prepared in accordance with the Companies Act 2014.

I have obtained all the information and explanations that I consider necessary for the purposes of my audit.

In my opinion, the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited, and the financial statements are in agreement with the accounting records.

The Companies Act 2014 also requires me to report if, in my opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made. I have nothing to report in that regard.

Report of the Comptroller and Auditor General continued

Report for presentation to the Houses of the Oireachtas Strategic Banking Corporation of Ireland

Report on information other than the financial statements, and on other matters

The directors have presented certain other information with the financial statements. This comprises the annual report including the governance statement, the directors' report and the statement on internal control. My responsibilities to report in relation to such information, and on certain other matters upon which I report by exception, are described in the appendix to this report.

I have nothing to report in that regard.

Seamus McCarthy
Comptroller and Auditor General

23 April 2020

Appendix to the report

Responsibilities of the Directors

As detailed in the governance statement and directors' report the directors' are responsible for

- the preparation of financial statements in the form prescribed under the Companies Act 2014
- ensuring that the financial statements give a true and fair view in accordance with FRS102
- ensuring the regularity of transactions
- assessing whether the use of the going concern basis of accounting is appropriate, and
- such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Comptroller and Auditor General

I am required under section 19 of the Strategic Banking Corporation of Ireland Act 2014 to audit the financial statements of the company and to report thereon to the Houses of the Oireachtas.

My objective in carrying out the audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. In doing so,

- I identify and assess the risks of material misstatement of the financial statements whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.
- I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.
- I conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the company to cease being a going concern.
- I evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Appendix to the report continued

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Information other than the financial statements

My opinion on the financial statements does not cover the other information presented with those statements, and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, I am required under the ISAs to read the other information presented and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with knowledge obtained during the audit, or if it otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

Reporting on other matters

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation. I report if I identify material matters relating to the manner in which public business has been conducted.

I seek to obtain evidence about the regularity of financial transactions in the course of audit. I report if I identify any material instance where public money has not been applied for the purposes intended or where transactions did not conform to the authorities governing them.

Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	2019 €000	2018 €000
Interest income	*5*	5,273	5,793
Interest expense	*6*	(298)	(456)
Net interest income		**4,975**	**5,337**
Other income	*7*	4,020	4,603
Operating expenses	*8*	(9,403)	(9,902)
Operating (loss)/profit		**(408)**	**38**
(Loss)/profit for the year		**(408)**	**38**
Other comprehensive income		-	-
Total comprehensive income for the year		**(408)**	**38**

The accompanying notes form an integral part of the financial statements.

Approved and authorised for issue by the Board of Directors and signed on its behalf:

Nicholas Ashmore
Chief Executive Officer
Strategic Banking Corporation of Ireland

Barbara Cotter
Chairperson
Strategic Banking Corporation of Ireland

15 April 2020

Statement of Financial Position

as at 31 December 2019

	Note	2019 €000	2018 €000
Non-current assets			
Intangible assets	*11*	550	894
Financial Assets – Loans and receivables	*12*	406,450	509,350
		407,000	510,244
Current assets			
Financial Assets – Loans and receivables	*12*	148,977	117,904
Other receivables	*16*	1,023	217
Cash and cash equivalents	*13*	31,902	39,678
		181,902	157,799
Creditors; amounts falling due within 1 year			
Funding and borrowings	*17*	54,167	76,667
Other liabilities	*18*	50,820	52,854
		104,987	129,521
Net current assets		**76,915**	**28,278**
Total assets less current liabilities		483,915	538,522
Creditors; amounts falling due after 1 year			
Funding and borrowings	*17*	454,167	508,333
Provisions for liabilities	*19*	-	33
Net assets		**29,748**	**30,156**
Capital and reserves			
Called up share capital presented as equity	*22*	35,000	35,000
Retained losses		(5,252)	(4,844)
Total equity		**29,748**	**30,156**

The accompanying notes form an integral part of the financial statements.

Approved and authorised for issue by the Board of Directors and signed on its behalf:

Nicholas Ashmore
Chief Executive Officer
Strategic Banking Corporation of Ireland

Barbara Cotter
Chairperson
Strategic Banking Corporation of Ireland

15 April 2020

Statement of Changes in Equity

For the financial year ended 31 December 2019

	Share capital €000	Retained losses €000	Total equity €000
Balance as at 1 January 2018	35,000	(4,882)	30,118
Total comprehensive income for the period	-	38	38
Balance at 31 December 2018	**35,000**	**(4,844)**	**30,156**
Total comprehensive income for the year	-	(408)	(408)
Balance at 31 December 2019	**35,000**	**(5,252)**	**29,748**

Approved and authorised for issue by the Board of Directors and signed on its behalf:

Nicholas Ashmore
Chief Executive Officer
Strategic Banking Corporation of Ireland

Barbara Cotter
Chairperson
Strategic Banking Corporation of Ireland

15 April 2020

Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 €000	2018 €000
Cash flows from operating activities			
On-lending loans issued		(45,000)	(56,000)
On-lending loans principal repayments received		116,650	115,000
Interest receipts		5,082	5,581
Interest payments		(246)	(532)
Administration costs recovered		341	397
Other income received		252	438
Brexit Loan Scheme guarantee payments		(245)	-
Agriculture Scheme guarantee payments		(366)	-
Agriculture Scheme subsidy payments		(1,192)	(2,262)
Operating expenses paid		(7,875)	(6,129)
Net cash from operating activities		**67,401**	**56,493**
Cash flows from investing activities			
Purchase of intangible assets	*11, 25.2*	(132)	(551)
Net cash used in investing activities		**(132)**	**(551)**
Cash flows from financing activities			
Funding loans received		-	50,000
Funding loans repaid		(76,515)	(150,000)
Minister for Business, Enterprise and Innovation funding		1,470	9,000
Minister for Agriculture, Food and the Marine funding		-	-
Net cash used in financing activities		**(75,045)**	**(91,000)**
Net decrease in cash and cash equivalents		**(7,776)**	**(35,058)**
Cash and cash equivalents at 1 January		**39,678**	**74,736**
Cash and cash equivalents at 31 December	*13*	**31,902**	**39,678**

Notes to the Financial Statements

1. Reporting entity

The SBCI is a company registered and domiciled in Ireland. The Company was established pursuant to the SBCI Act 2014 and incorporated under the Companies Acts 1963 to 2013 with registered number 549539 on 12 September 2014. The Company avails of national and international sources of funding to support the provision of credit to enterprises in Ireland through its on-lenders.

The Company was converted to a designated activity company under the Companies Act 2014 on 28 July 2016. The issued share capital of the SBCI is owned solely by the Minister for Finance. The Company's registered office is at Treasury Dock, North Wall Quay, Dublin 1, D01 A9T8.

2. Statement of Compliance

The Company's financial statements for the financial year ended 31 December 2019 have been prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* issued by Financial Reporting Council in the UK for use in the Republic of Ireland, having elected to apply the recognition and measurement rules of IAS 39 Financial Instruments: Recognition and Measurement and in accordance with the Companies Act 2014.

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 102 requires the use of estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on a number of factors, including expectations of future events believed to be reasonable under the circumstances.

Management believes the underlying assumptions used are appropriate and the Company's financial statements, therefore, present the financial position and results fairly. The areas involving (i) a higher degree of judgement or complexity and (ii) areas where assumptions and estimates are significant to the financial statements are described below:

3.1. Key sources of estimates and judgements

The following are the key assumptions concerning future events and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.1.1. Loan impairment assessment

In line with the requirements of IAS 39 as permitted by FRS 102, the Company reviews its portfolio of loans for indication of impairment at the statement of financial position date. In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income at the reporting date, the SBCI uses internal and external sources of information to assess whether there is any indication that an asset may be impaired (in line with IAS 39.59). Indications may include the following:

- Significant financial difficulty of the borrower;
- A breach of contract, such as a default in interest payments or principal repayments;
- The granting of a concession to the borrower for economic or legal reasons relating to the borrower's financial difficulty that wouldn't otherwise be considered;
- Where it is probable that the borrower will enter bankruptcy or other financial reorganisation.

3. Critical accounting estimates and judgements (continued)

If any objective evidence of impairment exists the SBCI performs a detailed impairment calculation on each loan individually to determine whether an impairment loss should be recognised. The amount of the impairment loss is measured as the difference between the loan's carrying amount and the present value of the estimated cash flows discounted at the loan's original effective interest rate in line with IAS 39. The assessment is reviewed and approved by the SBCI management, including the Head of Risk, Finance & Operations and the CEO. See Note 12 for the carrying amount of the loans.

3.1.2. Financial guarantee assessment

At each reporting date for the financial guarantees it has issued, the SBCI considers whether payments under each guarantee are probable for a financial liability to be recognised in line with FRS 102.21. In order to assess the probability of a payment under a guarantee contract, the Company reviews any relevant data to assess the amount of the loans which are at risk of defaulting and being subject to a claim by an on-lender.

A financial liability for any probable claims, which can be reliably measured, is recognised in the accounting records of the SBCI. If a financial liability is recognised, and the financial liability amount is greater than the existing carrying amount, an adjustment is required to reflect the financial liability and recognise the difference in the Statement of Comprehensive Income. Where a financial liability is not required, a contingent liability is disclosed in the financial statements for the total amount payable under SBCI's financial guarantee contracts. See also Notes 23 and 24.

3.1.3. Intangible asset useful life

The charge in respect of periodic amortisation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Changing an asset's expected life or its residual value would result in a change in the amortisation charge.

The useful lives of the Company's assets are determined by management and reviewed at least annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their lives. See Note 11 for the carrying amount of Intangible assets.

3.2. Significant accounting judgements in applying accounting policies

As management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities. Apart from the estimates (see Note 3.1 above), the Company was not required to make any additional significant judgements when applying its accounting policies.

4. Significant accounting policies

4.1. Basis of preparation

The financial statements are prepared on a going concern basis and the Board is satisfied that the Company will continue as a going concern for the foreseeable future.

In its consideration of whether accounting on a going concern basis is appropriate, the Board has had regard to the functions of the SBCI as set out in the SBCI Act 2014 and in the Constitution of the SBCI, and believes it is reasonable to assume that, given the purpose of the legislation, the State will take appropriate steps to ensure that the Company is put in a position to discharge its mandate.

4. Significant accounting policies (continued)

4.1. Basis of preparation (continued)

The functions of the Company are, inter alia, to provide, and promote the provision of, additional credit in a prudent manner to enterprises or other persons in the State, particularly SMEs, and to provide finance to projects which promote the economic development of the State. The Company's activities are subject to risk factors including credit, liquidity, market concentration and capital risk. The Board has reviewed these risk factors and all relevant information to assess the Company's ability to continue as a going concern. Both the Board and ARC review key aspects of the Company's activities on an on-going basis and review, whenever appropriate, the critical assumptions underpinning its long-term strategies.

The financial statements are presented in euro (€), which is the Company's functional and presentational currency. The figures shown in the financial statements are stated in € thousands unless otherwise indicated. Where used, '000' or 'k' denotes thousand, and 'm' denotes millions. As permitted by paragraph 4 in Schedule 3 of the Companies Act 2014, the Directors have adapted the arrangements and headings and subheadings otherwise required by Profit and Loss Account Format 1 and Balance Sheet Statement Format 1 as the special nature of the Company's business requires such adaptation.

4.2. Basis of measurement

The financial statements have been prepared under the historic cost convention.

4.3. Interest income and expense

Interest income and expense for all financial instruments is recognised in the Statement of Comprehensive Income using the Effective Interest Rate ("EIR") method.

The EIR method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant financial period. The EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial asset or liability. When calculating the EIR, the Company estimates cash flows considering all contractual terms of the financial instrument.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the original rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income received on loans to on-lenders is accounted for within operating activities in the Statement of Cash Flows as on-lending is a core operation of the Company.

Interest income received on loan notes issued by the Company is accounted for within operating activities in the Statement of Cash Flows and is classed as other interest income in Note 5.

Interest expense paid on loans from funders is presented within operating activities in the Statement of Cash Flows. Interest expense paid on cash deposits and cash management products is presented within operating activities in the Statement of Cash Flows and is classed as other interest expense in Note 6.

4. Significant accounting policies (continued)

4.4. Other income

The SBCI recovers costs from the Minister for Business, Enterprise and Innovation ("Minister for BEI") and/or the Minister for Agriculture, Food and the Marine ("Minister for AFM"), as (i) operator of the CGS (Note 14.7), (ii) pursuant to the Brexit Loan Scheme (Note 14.6), (iii) pursuant to the Agriculture Scheme (Note 14.5) and (iv) pursuant to the Future Growth Loan Scheme (Note 14.8), based solely on the reimbursement of costs incurred by the SBCI.

Funding provided by the Minister for AFM and/or the Minister for BEI to the SBCI in conjunction with the schemes are released to the Statement of Comprehensive Income as costs relating to the schemes are incurred. The amount is recognised in line with FRS 102 Section 24 Government Grants.

4.5. Costs reimbursable to the NTMA

In accordance with section 10 of the SBCI Act 2014, the NTMA provides business and support services and systems to the SBCI in addition to assigning staff to the SBCI. Costs reimbursable to the NTMA are recognised on an accruals basis. These expenses are recovered from the SBCI by the NTMA at cost. Further information on costs reimbursable to the NTMA is included in Note 8.2.

4.6. Financial instruments

The Company recognises and measures its financial assets and financial liabilities in accordance with IAS 39 as permitted by FRS 102. The Company determines the classification of its financial instruments at initial recognition.

4.7. Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, the loans are measured at fair value plus incremental direct transaction costs that are directly attributable to the issue of the loan. They are then subsequently measured at amortised cost using the EIR method as described in Note 4.3.

4.8. Financial liabilities

Funding and borrowings

Funding and borrowings are those loans drawn down by the Company from its funders in order to support its on-lending activities. The Company recognises these loans in its Statement of Financial Position on the date the loan is drawn down. These loans are measured initially at fair value plus incremental direct transaction costs that are directly attributable to the issue of the financial liability. They are subsequently measured at amortised cost using the EIR method as described in Note 4.3.

4.9. De-recognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets have also been transferred. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

4. Significant accounting policies (continued)

4.10. Impairment of financial assets

The Company assesses at the end of each financial period whether there is objective evidence that a financial asset or group of financial assets, measured at amortised cost, is impaired.

For loans and receivables, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR. The amount of the impairment loss is recognised in the Statement of Comprehensive Income.

The loans to each on-lender are objectively assessed for evidence of impairment at the end of the financial period.

Objective evidence that a financial asset is impaired includes:

- Significant financial difficulty of the on-lender;
- Non-compliance by the on-lender with its respective loan covenants and undertakings, and any other terms and conditions imposed by the SBCI;
- Breaches of contract, such as default or delinquency in interest payments or principal repayments;
- Signs that the on-lender will enter bankruptcy or other financial reorganisation.

SBCI recognises interest income following impairment using the rate of interest used to discount the future cash flows in measuring that impairment. If, in a subsequent financial period, the amount of the impairment loss decreases due to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed proportionately. The amount of the reversal is recognised in the Statement of Comprehensive Income.

Where there is no further prospect of recovering the carrying value of a loan, or a portion of a loan, SBCI writes the amount that is not recoverable off against the related impairment loss (i.e. in this circumstance, there is no additional charge to the Statement of Comprehensive Income). Write-off of loan amounts must be approved by the SBCI Board (or relevant authorised Committee). Subsequent recoveries of amounts previously written off proportionately decrease the amount of the allowance for loan impairment in the Statement of Comprehensive Income.

4.11. Financial guarantees

Financial guarantee contracts are contracts that require the Company to make specified payments to reimburse the beneficiary for a loss the beneficiary incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt obligation. The SBCI has issued guarantees to on-lenders in respect of each of (i) the Agriculture Scheme (Note 14.5), (ii) the Brexit Loan Scheme (Note 14.6) and (iii) the Future Growth Loan Scheme (Note 14.8).

These financial guarantees are initially recognised at fair value on the date that the guarantee is given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the amount initially recognised less, where appropriate, cumulative amortisation and the best estimate of the expenditure required to settle any financial obligation arising pursuant to of the guarantees at financial year end.

4. Significant accounting policies (continued)

4.11. Financial guarantees (continued)

The best estimate of expenditure is determined in accordance with FRS 102.21. Financial guarantee liabilities correspond to the cost of settling the obligation, which is the expected loss, estimated on the basis of all relevant factors and information available to the Company at financial year end. A financial liability arising from a financial guarantee contract is presented as provisions for liabilities in the Statement of Financial Position.

Any increase or decrease in the financial liability relating to financial guarantees, other than the payment of guarantee calls, is recognised in the Statement of Comprehensive Income. In circumstances where a financial liability is not required to be recognised, a contingent liability is disclosed in the financial statements for the total amount payable under SBCI's financial guarantee contracts (Note 23).

4.12. Counter-guarantees

Where some or all of the expenditure required to settle a financial guarantee liability is expected to be reimbursed pursuant to a counter-guarantee agreement, the reimbursement shall be recognised when it is virtually certain that reimbursement will be received if the Company settles the obligation.

The Company recognises a reimbursement as a separate asset. The Company nets off the impairment loss charge for the guarantee liability with the recoverable portion in the Statement of Comprehensive Income. Should a recovery not be recognised, then the financial statements disclose a contingent asset for the total amount recoverable under SBCI's counter-guarantee contracts (Note 24). The SBCI has entered into counter-guarantees with the European Investment Fund (EIF) in respect of each of (i) the Agriculture Scheme (Note 14.5), (ii) the Brexit Loan Scheme (Note 14.6) and (iii) the Future Growth Loan Scheme (Note 14.8).

4.13. Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

The Statement of Cash Flows shows the changes in cash and cash equivalents arising during the financial year from operating activities, investing activities and financing activities. The cash flows from operating activities are reported using the direct method, whereby major classes of gross cash receipts and gross payments are disclosed.

4.14. Intangible assets

Intangible assets comprise software acquired by the Company. They are measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised in the Statement of Comprehensive Income on a straight line basis over its estimated useful life, from the date on which it is available for use. The estimated useful life of SBCI's current software is 5 years.

4. Significant accounting policies (continued)

4.14. Intangible assets (continued)

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The SBCI assumes that the residual value of its intangible assets is zero unless:

- There is a commitment by a third party to purchase the asset at the end of its useful life; or
- There is an active market for the asset; and:
  - Residual value can be determined by reference to that market; and
  - It is probable that such a market will exist at the end of the asset's useful life.

At each reporting date, the Company reviews the carrying amount of its software to determine whether there is any indication of impairment. If any such indication exists, these assets are subject to an impairment review.

The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount. The recoverable amount is determined as the higher of the fair value less costs of disposal of the asset and its value in use.

Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. This discount rate reflects the current market assessment of the time value of money and the risks specific to the asset for which future cash flow estimates have not been adjusted.

The carrying value of the software is written down by the amount of any impairment and this loss is recognised in the Statement of Comprehensive Income in the financial period in which it occurs. A previously recognised impairment loss may be reversed in part or in full if the reasons for the impairment loss have ceased to apply. An assessment is carried out each period on whether there are any indications that an impairment loss may have ceased to exist or decreased. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised.

4.15. Other receivables

Other receivables which are due within one year are measured at the undiscounted amount of the cash or other consideration expected to be received.

4.16. Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

4.17. Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but disclosed in the notes to the financial statements unless the probability of the transfer of economic benefit is remote. See Note 23.

4. Significant accounting policies (continued)

4.18. Contingent assets

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. If the realisation of income becomes virtually certain then the related asset is recognised. See Note 24.

4.19. Leasing

Rentals under operating leases are charged on a straight line basis over the lease term, to the Statement of Comprehensive Income in line with FRS 102 Section 20 Leases.

4.20. Key management personnel

Key management personnel in the SBCI consist of the members of the Board, the Chief Executive Officer and the senior management team reporting directly to the CEO. See Note 8.

5. Interest income

	2019 €000	2018 €000
Interest on loans and receivables	4,904	5,397
Other interest income	369	396
	5,273	**5,793**

Interest on loans and receivables relates to interest income from loans provided to on-lenders. Other interest income relates to negative interest earned on the loan notes issued by the Company to the NTMA (Note 25.2).

6. Interest expense

	2019 €000	2018 €000
Interest on funding and borrowings	-	223
Other interest expense	298	233
	298	**456**

Other interest expense relates to negative interest paid on cash held on deposit.

7. Other income

	Note	2019 €000	2018 €000
CGS administration costs recovered	*7.1*	290	494
Brexit Loan Scheme administration costs recovery	*7.2*	656	1,006
Future Growth Loan Scheme administration costs recovery	*7.2*	1,060	440
Agriculture Scheme administration costs recovery	*7.2*	373	281
Agriculture Scheme interest subsidy recovery	*7.2*	1,608	2,342
Financial counter-guarantee income	*7.3*	33	-
Miscellaneous income		-	40
		4,020	**4,603**

7.1. CGS administration costs recovered

Pursuant to an agreement dated 13 October 2016, as amended and restated on 14 May 2019, between the Minister for BEI and the SBCI (the "CGS Co-Operation Agreement"), the SBCI assumed the role of operator of the CGS on behalf of the Minister for BEI. The SBCI receives payments from the Minister for BEI based on the recovery of the costs and expenses incurred by the SBCI in providing the services as set out in the CGS Co-Operation Agreement. No financial gain or loss is made by the SBCI in providing the services (see Note 14.7).

7.2. Scheme cost recovery

Under an agreement between the Minister for AFM, the Minister for BEI and the SBCI dated 15 December 2017 (the "Brexit Loan Scheme Co-Operation Agreement"), the SBCI recovers the costs for its role in operating the Brexit Loan Scheme (see Note 14.6).

Under an agreement between the Minister for AFM, the Minister for BEI and the SBCI dated 21 December 2018 (the "Future Growth Loan Scheme Co-Operation Agreement"), the SBCI recovers the costs for its role in operating the Future Growth Loan Scheme (see Note 14.8).

Under an agreement between the Minister for AFM and the SBCI dated 20 December 2016 (the "Agri Co-Operation Agreement"), the SBCI recovers the costs for its role in operating the Agriculture Scheme including the cost of interest rate subsidies (see Note 14.5).

7. Other income (continued)

7.3. Financial counter-guarantee income

At 31 December 2019, the SBCI receives payments under its financial counter guarantees to cover payments made under its financial guarantees.

		2019 €000	2018 €000
Guarantee expenses	– Agri Loan scheme	(350)	(33)
	– Brexit Loan scheme	(245)	-
Counter guarantee income	– Agri Loan scheme	383	-
	– Brexit Loan scheme	245	
		33	**(33)**

8. Operating expenses

	Note	2019 €000	2018 €000
Costs reimbursable to the NTMA	*8.2*	5,740	5,275
Board fees	*9*	95	95
Amortisation	*11*	473	633
Agriculture Scheme interest subsidy expense	*8.1.1*	1,608	2,342
Financial guarantee expense	*8.1.2*	-	33
Other expenses	*8.1.3*	1,487	1,524
		9,403	**9,902**

8.1.1. Agriculture Scheme interest subsidy expenses

Agriculture Scheme interest subsidy expenses comprise expenses incurred by the Company in providing an interest rate subsidy to participating on-lenders of the Agriculture Scheme.

8.1.2. Financial guarantee expense

At 31 December 2019, the SBCI has considered whether payments under its financial guarantees are probable. In accordance with FRS 102.21, the SBCI recognises €Nil (2018: €33k) in respect of probable claims which have been notified to the SBCI and may be payable under the Agriculture Scheme.

8.1.3. Other expenses

Other expenses comprise all other expenses paid directly by the Company. These primarily comprise marketing costs €0.48m (2018: €0.54m) and legal and professional fees €0.76m (2018: €0.79m).

8. Operating expenses (continued)

8.2. Costs reimbursable to the NTMA

	Note	2019 €000	2018 €000
NTMA staff costs	*8.2.1*	2,700	2,467
Business services	*8.2.2*	2,959	2,685
Professional fees		35	97
Other operating costs		46	26
		5,740	**5,275**

8.2.1. NTMA staff costs

NTMA staff costs include the remuneration (inclusive of pension costs) and other staff related costs, such as temporary staff costs, recruitment costs and staff training costs, of the NTMA staff directly assigned to the SBCI. All employee benefits costs have been expensed during the financial year and accordingly no costs were capitalised.

8.2.2. Business services

Business services costs comprise costs incurred during the financial year in relation to the premises occupied by the Company and the cost of support services provided by the NTMA.

8.3. Remuneration

The following remuneration disclosures are required under the Code of Practice for the Governance of State Bodies 2016:

8.3.1. Aggregate employee benefits

	Note	2019 €000	2018 €000
Staff short-term benefits	*8.3.2*	2,081	1,953
Employer's contribution to social insurance costs		211	196
		2,292	**2,149**

The total number of whole time equivalent staff employed at year end was 23 (2018:17). Pension costs incurred by the Company during the financial year of €0.27m (2018: €0.26m) are included in NTMA staff costs in Note 8.2. Pension costs charged to the Statement of Comprehensive Income represent contributions made by the company to the NTMA scheme in accordance with actuarial recommendations. No amounts are included in these financial statements in relation to pension liabilities. The relevant assets and liabilities are recognised in the NTMA Administration Account.

8. Operating expenses (continued)

8.2. Costs reimbursable to the NTMA (continued)

8.3.2. Staff short-term benefits

	2019 €000	2018 €000
Basic pay	1,929	1,829
Performance related pay	103	85
Allowances	49	39
	2,081	**1,953**

8.3.3. Key management personnel

	2019 €000	2018 €000
Board fees and management short-term benefits	985	971
Performance related pay	76	44
Allowances	42	31
Health insurance	5	5
	1,108	**1,051**

Key management personnel in the SBCI consists of the members of the Board, the CEO and the senior management team reporting directly to the CEO. The total value of employee benefits for key management personnel is set out above (excluding employer's contribution to social insurance costs).

This does not include the value of retirement benefits earned in the period. The key management personnel (excluding the Board) are members of the NTMA pension scheme and their entitlements in that regard do not extend beyond the terms of the model public service pension scheme.

8.3.4. Chief executive officer (CEO) salary and benefits

Nicholas Ashmore (CEO)	2019 €000	2018 €000
Annual salary	250	250
Performance related pay	25	25
Annual taxable benefits	23	23
Contributions to the defined benefit retirement schemes	36	36
	334	**334**

The amounts paid to the CEO are included in the costs reimbursable to the NTMA. The CEO is a member of the NTMA's pension scheme and his entitlements in that regard do not extend beyond the standard terms of the model public service pension scheme.

9. Board fees and expenses

An annual fee of €15,750 (2018: €15,750) is paid to certain Directors as specified by the Minister for Finance in accordance with the Constitution of the SBCI. The Directors received no other benefits or remuneration, including retirement benefits, as a result of their services to the Company.

Board member	2019 €	2018 €
Barbara Cotter	15,750	15,750
Tom McAleese	15,750	15,750
Rosheen McGuckian	15,750	15,750
AJ Noonan	15,750	15,750
Richard Pelly	15,750	15,750
Eilis Quinlan	15,750	15,750
	94,500	**94,500**

The CEO, NTMA staff members and any officials of the Department of Finance, (being Eoin Dorgan), did not receive any remuneration in respect of their membership of the Board.

Directors are reimbursed approved expenses on a vouched basis. Expenses relate to travel to attend meetings in SBCI's offices in Dublin. During the financial year, the following was incurred in respect of board member expenses:

Board member	2019 €	2018 €
Richard Pelly	833	941

The expenses paid to Directors relate to travel and are included in other expenses in Note 8.

10. Tax charge

The Company is exempt from corporation tax by virtue of section 23(1)(b) of the SBCI Act 2014.

11. Intangible assets

2019	Cost €000	Accumulated amortisation €000	Net book value €000
Balance as at 1 January 2019	1,917	(1,023)	894
Acquisitions	132	-	132
Disposals	(3)	-	(3)
Amortisation	-	(473)	(473)
Balance at 31 December 2019	**2,046**	**(1,496)**	**550**

2018	Cost €000	Accumulated amortisation €000	Net book value €000
Balance as at 1 January 2018	1,292	(390)	902
Acquisitions	625	-	625
Amortisation	-	(633)	(633)
Balance at 31 December 2018	**1,917**	**(1,023)**	**894**

Intangible assets relate to IT software purchased by the Company during the financial year. Amortisation charged during the financial year is included in operating expenses in the Statement of Comprehensive Income. No assets (2018: €4k) were under development at financial year end.

There were no impairment losses incurred on the software assets during the financial year.

12. Loans and receivables

	2019 €000	2018 €000
Loans to on-lenders due within one year	148,977	117,904
Loans to on-lenders due after more than one year	406,450	509,350
	555,427	**627,254**

The split of the loans to on-lenders between secured and unsecured loans is as below:

	2019 €000	2018 €000
Secured	175,800	151,255
Unsecured	379,627	475,999
	555,427	**627,254**

12. Loans and receivables (continued)

At the end of the financial year, the SBCI had loans in issue to six on-lenders (2018: six). Three of these on-lenders are banks (2018: three), and three on-lenders are non-bank finance providers (2018: three). The remaining terms of the on-lender loans in issue range from 0.5 to 6 years and interest is charged by the SBCI at 6 month Euribor plus a margin. The Company assesses at the end of each financial year whether there is objective evidence that the on-lender loans are impaired (see Note 4.10). Following the impairment assessment of the loans as at 31 December 2019, the Company concluded that no evidence of impairment existed at the reporting date (2018: €Nil). At the end of the financial year, the Company had €60m (2018: €115m) in undrawn loan commitments.

13. Cash and cash equivalents

	2019 €000	2018 €000
Cash and cash equivalents	31,902	39,678

The cash held by the Company at 31 December 2019 includes cash for operating activities and funding provided to the Company to cover the costs of operating the Agriculture Scheme, the Brexit Loan Scheme and the Future Growth Loan Scheme. See Note 14 for further information on these schemes.

14. Risk management

The Company aims to be risk aware and to actively manage its risks. The critical activities performed by the SBCI and the reliance placed on its good reputation means that there is a strong emphasis on implementing an appropriate range of risk controls.

The SBCI aims to manage risks in an informed and proactive manner, in accordance with its risk appetite, such that the level of risk is consistent with the underlying business activity. Any new risks that materialise will be reviewed by the SBCI and a decision will be made on the acceptance and management of those risks.

The principal risk categories identified and managed by the Company in its day-to-day activities and which potentially have the greatest impact on its financial statements are credit risk, liquidity risk and market risk.

Risk Management Policy and Framework

The Board is responsible for setting the Company's Risk Appetite and for overseeing and guiding risk management across the SBCI. To this end, the Board has mandated that risk management be integrated and embedded into the tone and culture of the SBCI.

The ARC is responsible for overseeing the implementation of the SBCI Risk Management Policy and Framework and seeks to ensure that the SBCI's risk management governance model enables appropriate levels of independence and challenge. The ARC therefore reports to the Board independently.

The SBCI's Risk Management Policy and Framework is in accordance with the principles of the Code of Practice for the Governance of State Bodies 2016.

14. Risk management (continued)

The SBCI relies on the services provided by the NTMA for certain elements of risk management, namely:

- Business continuity management;
- Compliance and legal services;
- Counterparty credit risk management for cash management purposes;
- Internal audit services.

First line of defence:

The SBCI management is responsible for the Company's day-to-day management and for ensuring that adequate controls are both in place and operating effectively. Management reports on this to the ARC. The key steps in the risk management process are:

- Identify all risks that may affect or prevent the SBCI from achieving its established objectives;
- For each risk identified, determine its impact and its probability of materialising;
- For each risk identified, determine whether the risk can be accepted in full or should be mitigated or avoided;
- For each risk identified, regardless of its impact or probability of occurrence, consider mitigating actions to reduce risk;
- Following the implementation of mitigating actions review the residual impact and probability of occurrence, as well as the criticality status of each risk identified;
- Review and monitor risk and mitigating actions on an on-going basis.

Second line of defence:

The SBCI Risk function and the NTMA Compliance function, in respect of specific areas of responsibility, provide independent challenge and oversight to ensure effective implementation of the SBCI Risk Management Policy and Framework.

Third line of defence:

The NTMA Internal Audit function, overseen by the SBCI ARC, acts as part of a third line of defence by providing independent, reasonable, risk-based assurance to key stakeholders on the robustness of the SBCI's risk management system, its governance and the design and operating effectiveness of the internal control environment.

14.1. Credit risk

Credit risk is the most significant risk to the SBCI's business. Credit risk is the risk that one party to a financial instrument will cause loss for the other party by failing to pay for its obligation. In other words, credit risk primarily arises from the potential failure of an on-lender to repay in full its loans to the SBCI. The Company is also exposed to credit risk in respect of guarantees issued to on-lenders, and counter guarantees obtained from the EIF.

To achieve its key objectives and fulfil its mandate, the SBCI must assume a certain level of credit risk.

14. Risk management (continued)

14.1. Credit risk (continued)

As a fundamental principle, and in line with its Risk Appetite Statement, the SBCI seeks to assume credit risk in a prudent manner that accepts the minimum level of credit risk required to achieve its objectives. The SBCI, therefore, carefully manages its exposure to credit risk and this risk is measured, assessed and controlled for all transactions or credit events entered into.

The SBCI endeavours to minimise its credit risk exposure by undertaking an extensive due diligence process in advance of any decisions to lend or provide guarantees. The Company's credit risk management process includes:

- Thorough assessment of each prospective on-lender, its management, operational capability, credit underwriting experience, financial performance, risk management, systems, product offering and repayment capacity;
- On-site visits and face to face meetings with management;
- Assessment of the financial performance of each prospective on-lender utilising available information, including audited accounts, management accounts and financial projections;
- Independent commercial due diligence in respect of non-bank finance providers;
- Independent legal due diligence;
- Analysis of the on-lender's repayment capacity, including clear and reasonable demonstration of the on-lender's ability to meet its obligations and discharge the SBCI debt in full;
- Review and recommendation by the SBCI Credit Committee of each potential counterparty;
- Obtaining adequate collateral in respect of loans (where appropriate), including fixed or floating charge security over assets of the on-lender;
- All credit decisions reserved to the Board, or appropriate committees of the Board;
- On-going monitoring and review of credit facilities;
- Regular review of compliance with the respective covenants and undertakings and any terms and conditions imposed by the SBCI;
- Formal on-lender review process which is carried out, at a minimum, on an annual basis on each approved counterparty;
- Assessment of collateral requirements in the context of a number of factors including the financial strength of the on-lender;
- Obtaining counter-guarantees and/or cash for loss reserves to cover, or partially cover, the SBCI's guarantee liabilities.

14. Risk management (continued)

14.1. Credit risk (continued)

The maximum exposure to credit risk for loans, cash and guarantees at 31 December 2019 is €683.4m (2018: €808.8m). This maximum exposure to credit risk is presented below per class of financial instrument, and also includes the loan commitments of the Company at financial year end:

	Note	2019 €000	2018 €000
Loans and receivables		555,427	627,254
Cash and cash equivalents		31,902	39,678
		587,329	666,932
Loan commitments		60,000	115,000
Guarantees	23	36,100	26,900
		683,429	**808,832**

The below table sets out the credit quality of the SBCI's financial assets, some of which have been rated by Standard & Poor's. Non-rated relates to non-bank entities.

	2019 €000	2018 €000
AAA	16,957	16,935
A+ to A-	34,987	52,748
BBB to BB+	359,585	445,994
Non-rated	175,800	151,255
	587,329	**666,932**

14.2. Liquidity risk

Liquidity risk is the risk that the SBCI cannot meet its short-term debt obligations. It is the risk of loss arising from a situation where there will not be enough cash to fund day-to-day operations and that the SBCI will be unable to convert assets into cash in a timely manner. The SBCI's liquidity risk management process includes:

- Adherence to the SBCI Liquidity and Market Risk Management Policy and associated limits;
- Effective management of day-to-day funding requirements, including the monitoring of future expected cash flows, e.g. future lending commitments, to ensure that requirements can be met as they fall due;
- Asset and liability management by monitoring the maturity profile outlined in the SBCI's Statement of Financial Position to ensure that sufficient cash resources are retained and/or funding established where mismatches are likely to occur, thereby minimising the impact of liquidity outflows;
- Managing liquidity risk by aligning, to the greatest extent possible, the maturity profile of the SBCI's assets and liabilities thereby eliminating refinancing risk where possible. The SBCI sources long-term floating rate funding from its funders, and where possible, it structures the tenor and repayment schedule of its loans to reflect that funding maturity profile;
- Maintaining a cash liquidity buffer to address any short-term liquidity needs that may arise.

14. Risk management (continued)

14.2. Liquidity risk (continued)

The timing of the contractual repayments due by the SBCI are summarised in the below table. The amounts presented are undiscounted. Other liabilities of €50.8m (2018: €52.9m) (see Note 18) are also included. Amounts due "within 1 year" consist of accrued interest and other liabilities, amounts due after 1 year consist of principal loan repayments to funders.

	Within 1 year €000	1 to 5 years €000	After 5 years €000	Total €000
2019 repayments due	105,016	404,762	49,405	559,183
2018 repayments due	129,521	422,618	85,715	637,854

14.3. Market risk

Market risk is the risk that changes in market prices will cause the fair value or future cash flows of a financial instrument to fluctuate. The SBCI's market risk comprises interest rate risk. Market risks may arise from open positions in interest rate products which are exposed to general and specific market movements, as well as changes in the volatility of interest rates. The SBCI manages its market risk in accordance with the SBCI Liquidity and Market Risk Management Policy and associated limits.

Interest rate risk

The SBCI is exposed to interest rate risk on its loans and receivables and cash and cash equivalents. Where possible, the SBCI's lending facilities reflect the interest rate risk profile of the underlying funding agreements in order to minimise incidents of material interest rate mismatches. Any residual risk will be identified, monitored and managed by the SBCI.

Given that the SBCI's current risk profile for both funding and on-lending is on a six month floating rate basis, its interest rate risk exposure is limited. Any mismatches that arise are largely offset as interest rates are re-fixed. In the event of a large re-fixing mismatch or where the bases of the fixings do not match, the SBCI will seek to hedge these positions.

The amounts exposed to interest rate risk at 31 December 2019 are detailed below:

Financial assets	2019 €000	2018 €000
Cash and cash equivalents	31,902	39,678
Loans and receivables	555,427	627,254
	587,329	**666,932**

Financial liabilities	2019 €000	2018 €000
Funding and borrowings	**508,334**	**585,000**

Currency risk

The SBCI is not directly exposed to currency risk, as all of its funding and lending activities are denominated in euro.

14. Risk management (continued)

14.3. Market risk (continued)

14.3.1. Market risk measurement

Interest rate risk sensitivity

Information provided by the sensitivity analysis below does not necessarily represent the actual change in fair value that the SBCI would incur under normal market conditions because, due to practical limitations for calculation purposes, all variables other than the specific market risk factor are held constant.

The following table represents the interest rate sensitivity arising from a 50 basis point increase or decrease in the interest rate (6-month EURIBOR). The risk is measured as the net present value (NPV) impact on the cash flows of the loans receivable and payable because of that change in interest rates. The interest rates are set as at 31 December 2019.

Interest Rate Sensitivity Analysis - a 50bp move

2019	**+50bp €000**	**-50bp €000**
Net cashflow impact	(6)	(1,079)

2018	**+50bp €000**	**-50bp €000**
Net cashflow impact	(221)	464

The interest rate sensitivities are not symmetric due to several factors including the maturity profile of the portfolio and the interest payment dates of the loans. The maturity profile of the portfolio is actively managed and will vary over time.

14.4. Capital management

The SBCI is not subject to externally imposed capital requirements. The Company is committed to ensuring it is adequately capitalised as there is a risk that inappropriate management of its capital could result in the inability to absorb any potential credit losses. The SBCI's paid-up share capital as at 31 December 2019 is €35m (2018: €35m), which was provided by the SBCI's sole shareholder, the Minister for Finance. In addition, the SBCI has available callable capital of €215m (2018: €215m) which it may call on at its discretion from the Minister for Finance, as provided for in the SBCI Act 2014.

The SBCI's capital management process includes adhering to the capital adequacy requirements of the SBCI Risk Appetite Statement to ensure that it remains adequately capitalised to absorb any potential losses. The Board reviews the capital adequacy as part of its regular review of risk reporting at each scheduled Board meeting.

14. Risk management (continued)

14.5. Agriculture Cashflow Support Loan Scheme ("Agriculture Scheme")

The SBCI entered into an agreement with the Minister for AFM dated 20 December 2016 (the "Agri Co-Operation Agreement") under which the SBCI received cash of €25m from the Minister for AFM to support the establishment and operation of the Agriculture Scheme. Under the Agriculture Scheme, the SBCI has issued guarantees to participating institutions in respect of loans by the institutions to agricultural SMEs. The SBCI's guarantees cover 80% of credit losses on a loan-by-loan basis, subject to an overall portfolio cap of 15% and a maximum portfolio of €150m. As a result at financial year end, the Company has a contingent liability of €17.0m (2018: €17.3m) related to potential credit losses covered under the scheme. This contingent liability of €17.0m is offset by a counter-guarantee agreement from EIF to the value of €8.5m, and by cash of €8.5m held as a loss reserve (from the €25m received from the Minister for AFM). The balance of the funding received from the Minister for AFM (€16.5m) is used for the payment of interest rate subsidies to the participating institutions, which are passed on in full to the SME borrowers, and to reimburse the SBCI for the costs of operating the scheme. SBCI's net exposure to credit losses under the Agriculture Scheme is €Nil (2018: €Nil) taking into account the €8.5m counter-guarantee and the €8.5m loss reserve funding from Minister of AFM. Amounts incurred for financial guarantee expenditure and income received from counter guarantees are included in note 7.3.

14.6. Brexit Loan Scheme ("BLS")

The SBCI entered into an agreement with the Minister for AFM and the Minister for BEI dated 15 December 2017 (the "Brexit Loan Scheme Co-Operation Agreement"), under which the Ministers advanced €23m to the SBCI to be used in the BLS to support enterprises affected by Brexit.

Under the BLS, the SBCI has issued credit guarantees to participating institutions in respect of loans to businesses affected by Brexit. The SBCI's guarantees will cover 80% of credit losses on a loan-by-loan basis, subject to a maximum portfolio of €300m. As a result at financial year end, the Company has a contingent liability of €27.8m (2018: €9.6m) related to potential credit losses covered under the scheme. This contingent liability of €27.8m is offset by a counter-guarantee agreement from EIF to the value of €13.9m, and by cash of €17.5m held as a loss reserve (from the €23m received from the Ministers). The balance of the funding received from the Ministers (€5.6m) is used to cover expected credit losses and to reimburse the SBCI for the costs of operating the scheme.

SBCI's net exposure to credit losses under the BLS is €Nil (2018: €Nil) taking into account the €13.9m EIF counter-guarantee and the €17.5m loss reserve funding from the Ministers of AFM and BEI. Amounts incurred for financial guarantee expenditure and income received from counter guarantees are included in note 7.3.

14.7. Credit Guarantee Scheme ("CGS")

The SBCI has been appointed as the operator of all schemes created under the Credit Guarantees Acts 2012 and 2016 on behalf of the Minister for BEI. The SBCI has no credit risk exposure to the credit guarantees issued under these Schemes. The SBCI's role is solely administrative in nature and the SBCI manages the operational risk arising from the processing of payments and claims under its internal processes and procedures (see Note 7).

14.8. Future Growth Loan Scheme ("FGLS")

The SBCI entered into an agreement with the Minister for AFM and the Minister for BEI dated 21 December 2018 (the "Future Growth Loan Scheme Co-Operation Agreement"), under which the Ministers committed to advance €17m to the SBCI to be used in the FGLS to support long-term investment loans to enterprises in Ireland. The first tranche of €9m was received by the SBCI in December 2018. Second and third tranches of €1.25m and €0.22m were received by SBCI in January 2019 and December 2019 respectively.

14. Risk management (continued)

14.8. Future Growth Loan Scheme ("FGLS")

Under the FGLS, the SBCI has issued credit guarantees to participating institutions in respect of loans to qualifying businesses. The SBCI's guarantees cover 80% of credit losses on a loan-by-loan basis, subject to a maximum portfolio of €300m. The SBCI entered into a counter-guarantee agreement with EIF to off-set 80% of its guarantee exposure. As a result at financial year end, the Company has a contingent liability of €69.8m (2018: €Nil) related to potential credit losses covered under the scheme. This contingent liability of €69.8m is offset by a counter-guarantee agreement from EIF to the value of €55.9m, and by cash of €11m held as a loss reserve of which €10.5 was received by 31 December 2019.

SBCI's net exposure to credit losses under the FGLS Scheme is €2.9m (2018: €Nil) taking into account the €55.9m counter-guarantee and the €11m loss reserve funding from Ministers of AFM and BEI. However, the probability that this potential liability will crystallise is deemed to be negligible and as such does not require a provision.

14.9. Concentration risk

Concentration risk is the risk that the SBCI is exposed to any single exposure or group of exposures that has the potential to produce losses large enough to threaten the ability of the SBCI to continue operating as a going concern.

The SBCI manages this risk by adhering to the limits set out in the Risk Appetite Statement which has been approved, and is regularly reviewed, by the Board. The Risk Appetite Statement defines the maximum amounts of credit facilities to be committed to certain categories of borrower, both in absolute terms and also relative to the SBCI's overall committed credit facilities. The Risk Appetite Statement also addresses the concentration risk among the SBCI's funders by defining the maximum concentration permitted in terms of exposure to any one funder.

The measures are intended to ensure that the risk profile of the overall portfolio is appropriately diversified and not unduly exposed to excessive concentration of risk.

The SBCI's key geographic concentration of risk assets is in Ireland and the key sectorial concentration of risk is to financial institutions, arising from its statutory mandate to make credit available to entities and persons in the State, as set out in the SBCI Act 2014. The Company's geographic concentration risk exposure from its loans and receivables is €555.4m (2018: €627.3m).

The Company's key concentrations of liabilities are to Irish and European funders.

15. Fair value of financial assets and liabilities

15.1. Comparison of carrying value to fair value

The table below summarises the carrying amounts and fair values of the financial assets and liabilities not presented on the Company's Statement of Financial Position at their fair value.

Level 1 - Financial assets and liabilities measured using quoted market prices (unadjusted).

Level 2 - Financial assets and liabilities measured using valuation techniques which use observable market data.

Level 3 - Financial assets and liabilities measured using valuation techniques which use unobservable market data.

15. Fair value of financial assets and liabilities (continued)

15.1. Comparison of carrying value to fair value (continued)

The fair values of these financial instruments are measured according to the following fair value hierarchy:

Financial assets 2019	**Carrying value €000**	**Level 1 €000**	**Level 2 €000**	**Level 3 €000**	**Fair value €000**
Cash and cash equivalents	31,902	31,902	-	-	31,902
Other receivables	1,023	-	-	1,023	1,023
Loans and receivables	555,427	-	-	555,427	555,427
2018					
Cash and cash equivalents	39,678	39,678	-	-	39,678
Other receivables	217	-	-	217	217
Loans and receivables	627,254	-	-	627,254	627,254

Financial liabilities 2019	**Carrying value €000**	**Level 1 €000**	**Level 2 €000**	**Level 3 €000**	**Fair value €000**
Other liabilities	50,820	-	-	50,820	50,820
Funding and borrowings	508,334	-	-	508,334	508,334
2018					
Other liabilities	52,854	-	-	52,854	52,854
Funding and borrowings	585,000	-	-	585,000	585,000

15.2. Fair value measurement principles

Loans and receivables and funding and borrowings

The fair value of these financial instruments is equal to their carrying value due to the defined nature/purpose of these facilities. Carrying value is at amortised cost.

16. Other receivables

	2019 €000	2018 €000
Scheme administration costs recovery due	666	184
Counter guarantee receivable	297	-
On-lender fee recovery due	39	-
Interest receivable	21	33
	1,023	**217**

Interest receivable relates to negative interest earned on the loans notes issued by the Company to the NTMA (Note 25.2) and is receivable at year end.

17. Funding and borrowings

	2019 €000	2018 €000
Funding and borrowings due within one year	54,167	76,667
Funding and borrowings due after one year	454,167	508,333
	508,334	**585,000**

These funding liabilities have been guaranteed by the Minister for Finance, as is permitted under section 18 of the SBCI Act 2014.

At the end of the financial year, the SBCI had loans outstanding with three funders (2018: three). Two of these funders are European financial institutions and one is the NTMA. The remaining terms of these loans range from 1 to 9 years and interest is charged to the SBCI at 6 month Euribor plus margin. For those debts due after 5 years, the repayments are a mixture of semi-annual and bullet principal repayments depending on the terms of the applicable funding agreement.

At the end of the financial year, the company had €380m (2018: €480m) in undrawn funding facilities.

18. Other liabilities

		2019 €000	2018 €000
Minister for AFM payable	– Agricultural Scheme	18,572	20,666
	– Brexit Loan Scheme	8,354	8,606
Minister for BEI payable	– Brexit Loan Scheme	12,994	13,388
	– Future Growth Loan Scheme	9,292	8,560
Amounts due to the NTMA		826	1,177
Interest subsidy payable		500	80
Other liabilities		282	377
		50,820	**52,854**

18. Other liabilities (continued)

As set out in Note 14.5, in 2016 the Minister for AFM advanced €25m to the SBCI to be used in the Agriculture Scheme to support SMEs in the agricultural sector in Ireland. An amount of €2.0m (2018: €2.6m) was recognised in other income in the year (see Note 7) leaving a balance of €18.6m (2018: €20.7m). Funds that remain unutilised during the life of the Agriculture Scheme are repayable to the Minister for AFM. Funds advanced under the Agriculture Scheme have been classified as a grant liability under FRS 102 Section 24.

Similarly, as set out in Note 14.6, the Minister for AFM and the Minister for BEI advanced €23m to the SBCI to be used in the BLS to support enterprises affected by Brexit. An amount of €0.7m (2018: €1.0m) was recognised in other income in the year (see Note 7) leaving a balance of €21.3m (2018: €22.0m). Funds that remain unutilised during the life of the BLS are repayable to the Minister for AFM and the Minister for BEI.

Furthermore, as set out in Note 14.8, the Minister for AFM and the Minister for BEI advanced €10.5m to the SBCI to be used in the FGLS to support long-term investment loans to enterprises. An amount of €1.1m (2018: €0.4m) was recognised in other income in the year (see Note 7). Of this €1.1m, €0.3m was accrued in other receivable and €0.8m was recognised in other liabilities leaving a balance of €9.3m (2018: €8.6m). Funds that remain unutilised during the life of the FGLS are repayable to the Minister for AFM and the Minister for BEI.

19. Provisions for liabilities

	2019 €000	2018 €000
Balance at 1 January	33	-
Charges to comprehensive income	(33)	33
Balance at 31 December	**-**	**33**

As at 31 December 2019, the SBCI considered whether payments under its financial guarantees are probable. In accordance with FRS 102.21, the SBCI has recognised €Nil (2018: €33k) in respect of probable claims which have been notified to the SBCI and may be payable under the Agriculture Scheme, see Note 14.5. The claims paid in 2019 and were offset by a 50% reimbursement of the value of the claims from the EIF under the counter guarantee. The timing and final amount of the claims are dependent on actual receipt of the claims from the relevant on-lender.

20. Maturity analysis of assets and liabilities

The below table presents the breakdown of those assets and liabilities which contain a non-current element which has a contractual right to be recovered or settled more than 12 months after the reporting date. Current amounts represent those amounts expected to be recovered or settled within 12 months for each asset and liability.

2019	Current €000	Non-current €000	Total €000
Financial assets			
Loans and receivables	148,977	406,450	555,427
Financial liabilities			
Funding and borrowings	54,167	454,167	508,334

2018	Current €000	Non-current €000	Total €000
Financial assets			
Loans and receivables	117,904	509,350	627,254
Financial liabilities			
Funding and borrowings	76,667	508,333	585,000

Note 14.2 provides further detail on the expected timescale of the settlement of those funding and borrowings which are due for repayment more than 12 months after the reporting date.

21. Auditor's remuneration

	2019 €000	2018 €000
Audit of financial statements	34	32

The C&AG (as external auditor) does not provide any other assurance, tax advisory or other non-audit services to the SBCI.

22. Equity

The authorised share capital of the Company is €250,000,000 divided into 250,000,000 shares of €1.00 each. In accordance with section 11 of the SBCI Act 2014, the Company's authorised share capital may be increased to such other amount, up to a maximum of €1,000,000,000, as may be determined by the Minister for Finance by order from time to time.

As at 31 December 2019, the Minister for Finance had subscribed for, and was issued with 35,000,000 (2018: 35,000,000) of the Company's authorised shares.

23. Contingent liabilities

Under the terms of the Agriculture Scheme, the Company has issued capped partial guarantees to the participating on-lenders to cover 80% of credit losses on a loan-by-loan basis, subject to an overall portfolio cap of 15%, and a maximum portfolio of €150m. As a result, at financial year end, the Company has a contingent liability of €17.0m (2018: €17.3m) related to financial guarantee credit losses covered under the Agriculture Scheme.

Under the terms of the BLS, the Company has issued partial guarantees to the participating on-lenders to cover 80% of credit losses on a loan-by-loan basis, subject to a maximum portfolio of €300m. As a result, at financial year end, the Company has a contingent liability of €27.8m (2018: €9.6m) related to financial guarantee credit losses covered under the BLS.

Under the terms of the FGLS, the Company has issued partial guarantees to the participating on-lenders to cover 80% of credit losses on a loan-by-loan basis, subject to a maximum portfolio of €300m. As a result, at financial year end, the Company has a contingent liability of €69.8m (2018: €Nil) related to financial guarantee credit losses covered under the FGLS.

24. Contingent assets

The SBCI has entered into a counter-guarantee agreement with EIF to partially offset the SBCI's guarantees under the Agriculture Scheme. The value of the counter-guarantee is €8.5m and the terms and conditions of this counter-guarantee are consistent with SBCI's guarantees to the on-lenders. As such, the SBCI has a contingent asset of up to €8.5m (2018: €8.65m) related to the Agriculture Scheme at the end of 2019.

The SBCI has also entered into a counter-guarantee agreement with EIF to partially offset the SBCI's guarantees under the BLS. The value of the counter-guarantee is €13.9m and the terms and conditions of this counter-guarantee are consistent with SBCI's guarantee to the on-lenders. As such, the SBCI has a contingent asset of up to €13.9m (2018: €4.8m) related to the BLS at the end of 2019.

The SBCI has also entered into a counter-guarantee agreement with EIF to partially offset the SBCI's guarantees under the FGLS. The value of the counter-guarantee is €55.9m and the terms and conditions of this counter-guarantee are consistent with SBCI's guarantee to the on-lenders. As such, the SBCI has a contingent asset of up to €55.9m (2018: €Nil) related to the FGLS at the end of 2019.

25. Related parties disclosures

25.1. Related parties

Minister for Finance

The issued share capital of the SBCI is owned solely by the Minister for Finance. The authorised share capital of the Company may be increased from its current level of €250,000,000 to such other amount, up to a maximum of €1,000,000,000, as may be determined by the Minister for Finance by order from time to time pursuant to of section 11(i) of the SBCI Act 2014.

NTMA

The NTMA provides staff and business support services to the SBCI. The costs incurred by the NTMA are charged to the SBCI, in accordance with the terms of the Service Level Agreement between the SBCI and the NTMA. In addition, the NTMA provides funding to the SBCI.

25. Related parties disclosures (continued)

25.1. Related parties (continued)

Other Government controlled entities

The Ireland Strategic Investment Fund (the "ISIF"), the Central Bank of Ireland and Allied Irish Banks plc are related parties of the SBCI as each is under the control of the Minister for Finance.

Government Ministers and Departments

The Department of AFM and the Department of BEI, and their respective Ministers, are related parties of the SBCI as the Irish State has control of both of these Departments and is the ultimate owner of the Company.

Key management personnel

Key management personnel in the SBCI are disclosed in Note 8.

25.2. Transactions and balances with related parties

Minister for Finance and ISIF Loan Facility

In February 2017, the Minister for Finance was issued an additional 25 million ordinary shares in the Company through the conversion of a €25m loan from the ISIF to equity. There is currently a nil balance on the ISIF loan facility (2018: €Nil), and the committed funding available under the facility is €215m.

NTMA recharge

The NTMA incurs costs for the running of the SBCI, which it recharges to the Company. The total of these costs for the financial year was €5.8m (2018: €5.3m). Further details in respect of these costs are disclosed in Note 8. There is an amount of €0.9m payable (2018: €1.2m) to the NTMA at the end of the financial year.

NTMA developed software

The SBCI purchased software developed internally by the NTMA at a cost of €0.1m (2018: €0.6m) during the financial year. €Nil (2018: €40k) of the €0.9m payable to the NTMA at the end of the financial year relates to the purchase of software.

SBCI Debt Instrument

€25m of loan notes issued by the Company to the NTMA in 2016 were outstanding at financial year end (2018: €85m) and are included in the funding and borrowings figures in the Statement of Financial Position. The Company received negative interest of €369k (2018: €396k) from the NTMA in relation to the issuance of the loan notes.

Future Growth Loan Scheme

The Company received a total of €1.5m (2018: €9m) during the financial year from the Minister for AFM and the Minister for BEI to be used in the FGLS. See Note 18 for further details on the FGLS and the funding received during the financial year.

25. Related parties disclosures (continued)

25.2. Transactions and balances with related parties (continued)

Credit Guarantee Schemes

During the financial year, the Company recognised €0.29m (2018: €0.49m) of income for the recovery of its administration costs in its role as operator of Schemes created under the Credit Guarantee Acts 2012 and 2016 on behalf of the Minister for BEI. €0.13m (2018: €0.18m) of this income was receivable by the Company at financial year end. See the Directors' Report and Note 7 for further information on the SBCI's role in these schemes.

Central Bank of Ireland account

At the end of the financial year, the Company held €17.0m (2018: €16.9m) at the Central Bank of Ireland. There was €169k (2018: €41k) of interest payable to the Central Bank of Ireland by the Company.

Allied Irish Banks p.l.c

The Company has issued loans of €215m (2018: €295m) to Allied Irish Banks p.l.c. for the purpose of on-lending to Irish SMEs. These loans were outstanding at financial year end and are included in the loans and receivables figures in the Statement of Financial Position.

Key management personnel

Transactions with key management personnel are disclosed in Note 8.

26. Commitments

In February 2019, SBCI entered into a lease for office accommodation at 1 Treasury Dock, North Wall Quay, Dublin 1, until May 2033. Rental charges incurred in the period were €178k. The nominal future minimum rentals payable under non-cancellable operating lease are as follow:

	2019 €000
Within one year	292
In two to five years	1,168
Over five years	2,190
	3,650

27. Disclosures of interest

The SBCI is a prescribed public body for the purposes of the Ethics in Public Office Acts 1995 and 2001. There are also disclosures of interest requirements on Directors under the Companies Act 2014, the Company's Constitution and the Code of Practice for the Governance of State Bodies (2016). The SBCI has put in place procedures to assist Directors and members of staff in meeting their disclosure of interest obligations during the period under review.

28. Events after the end of the reporting period

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets and may adversely affect business and consumer spending in Ireland. On 19th March 2020, the Board approved the amendment of the Brexit Loan Scheme so that it may provide working capital loans to SMEs affected by the COVID-19. The remaining capacity of the scheme (approximately €250m of the total €300m) was made available to support eligible SMEs who are negatively impacted by the crisis.

29. Approval of the financial statements

The financial statements were approved by the Directors on [15 April 2020].

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