Annual Report & Financial Statements 2016

Here to build business.
Strategic Banking Corporation of Ireland

About the SBCI

The SBCI is Ireland's national promotional finance institution. Unlike many other European countries, Ireland did not have a state promotional bank or credit institution to sustain funding to businesses throughout the financial crisis. The SBCI was incorporated in September 2014 to ensure that, in future, Irish businesses have access to stable, low cost, long-term funding.

The SBCI avails of national and international sources of funding for the purpose of providing lower cost funding to on-lenders who are required to pass on the advantageous rate to small and medium sized enterprise (SME) borrowers in Ireland.

Our Vision

To be a strong promotional financial institution that provides effective financial support for Irish SMEs and promotes the economic development of the State.

Our Mission

To deliver effective financial supports to Irish SMEs and in time other sectors 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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Key Business Highlights

At end-December 2016

12,593 SMEs

Across Ireland have drawn down SBCI loans

67,150 jobs

In Irish SMEs supported by SBCI loans

1.15 percentage points

Average discount on SBCI loans versus market rates for loans <€250,000

€43,200

Average loan size

(all figures cover the period to December 2016)

What SMEs use SBCI loans for

84%

of loans used for investment in growing the business

5%

used to refinance loans owed to banks exiting the Irish market

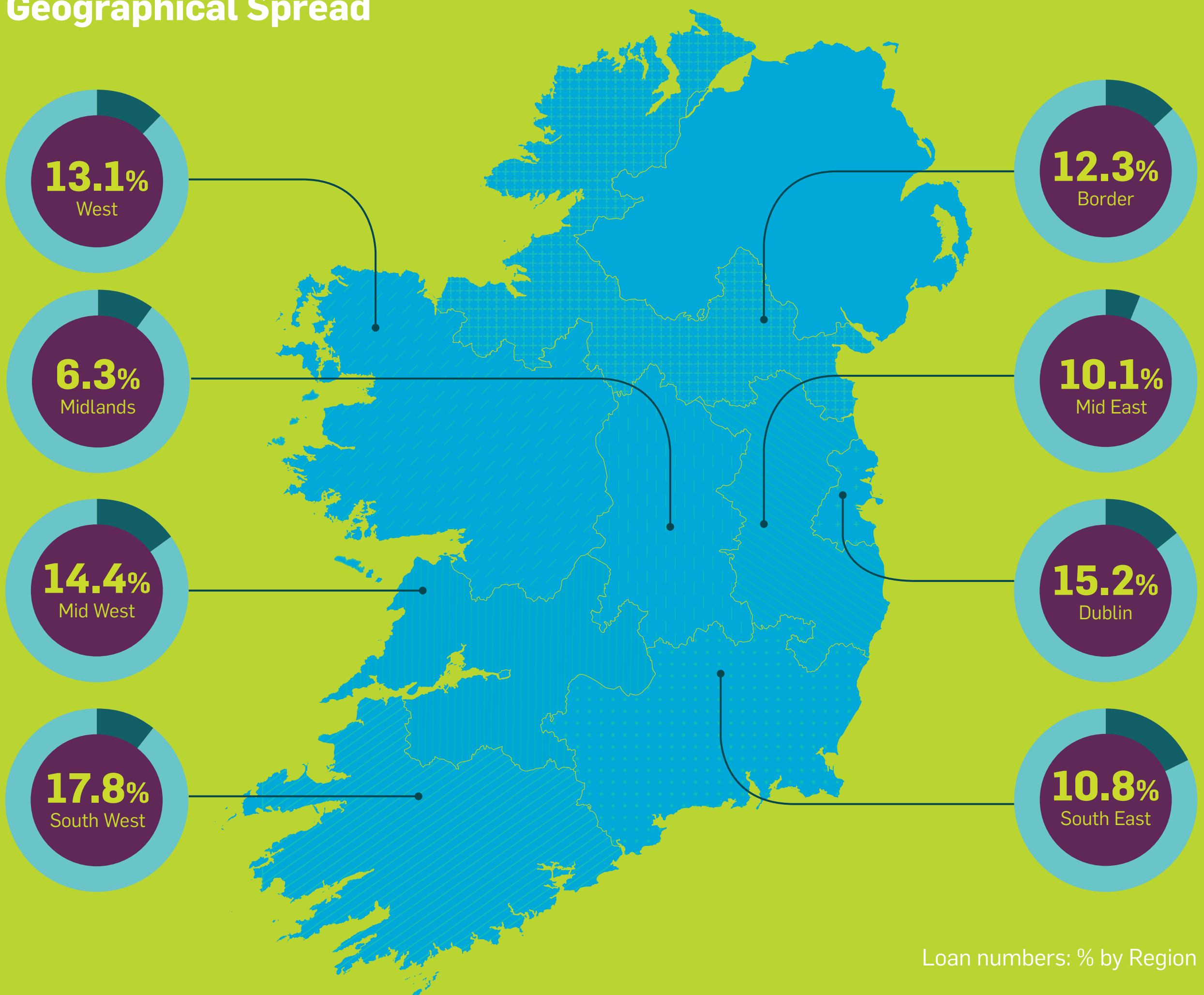
11%

used for working capital

€544m

loans drawn by Irish SMEs

Geographical Spread



Loan numbers: % by Region

SBCI funding is benefiting a wide range of sectors (% of loans by value)

- **22.9%** Agriculture
- **13.6%** Accommodation & Food Trade
- **4.5%** Professional & Scientific
- **4.2%** Transport & Storage
- **7.7%** Manufacturing Services
- **14.5%** Other
- **10%** Admin & Support
- **18.4%** Wholesale & Retail
- **4.2%** Construction Services

Chairperson's Statement

The SBCI continued to make good progress in 2016, broadening our funding base, adding three new on-lending partners and significantly expanding the range of our activities. The SBCI announced its first risk sharing product in 2016, as well as taking over responsibility for the operation of the Credit Guarantee Scheme provided by the Minister for Jobs, Enterprise and Innovation.

The SBCI's primary strategic goal is to deliver financial instruments to the SME market in Ireland, either directly or as a service provider, in order to address market failures in the provision of credit to SMEs. We have a vital role to play in restoring an effective and sustainable market for SME financing in Ireland and a wider role in the long term, as a conduit for State and European financing supports. We are taking a phased market entry approach to the achievement of this strategic goal with delivery of additional long-term, low cost lending to SMEs through the principal banking institutions. Additional credit will also be provided to SMEs, through a range of non-bank finance providers across a diverse range of products and risk-sharing activities.

As of end-2016 the SBCI had secured €1.2 billion in low-cost funding from European and domestic sources. The SBCI will continue to seek to source other European funding with a view to introducing new credit measures in the future and building a central conduit for European supports to the Irish market.

Low cost funding arrangements for three new on-lenders were put in place in 2016 with a focus on specific niche finance. This brought the total number of on-lenders to eight – three banks and five non-bank institutions. At end-2016 total on-lending committed stood at €906 million with €544 million drawn down by SMEs. Through our involvement, some of the SBCI's on-lending partners have been able to enter new market segments, providing finance or leasing products that they have not provided in the past, bringing additional lending capacity, broader choice and lower interest rates to SMEs across the country.

Risk sharing offers the SBCI the opportunity to target new specific SME market segments that may otherwise have difficulty in accessing finance. In 2016 we developed the Agriculture Cashflow Support Loan Scheme. In a parallel programme, the SBCI was appointed as the operator and manager of the Credit Guarantee Scheme.

Looking ahead to 2017, the SBCI will continue to add new on-lenders, and through its model, continue to deploy low cost funding sourced from its partners to SMEs in Ireland. We will also seek to develop innovative risk-sharing products to address market failures. To support its current activities, and the development and delivery of new products, the SBCI raised an additional €25 million of capital in February 2017, through the issuing of shares subscribed for by the Minister for Finance. This equity injection will allow the SBCI to continue to grow and develop its strategy in a prudent manner.

In conclusion, I would like to thank all of my fellow directors for their contribution over the past year. I also want to thank the Chief Executive Officer, Nick Ashmore and the SBCI staff for their dedication and achievements. We have made good progress in 2016 and looking ahead, our goal is to continue to build on this success in order to provide effective financial support that meets the evolving needs of Irish SMEs.

Conor O'Kelly
Chairperson

Chief Executive Officer's Review

During 2016, the SBCI continued to focus on supporting the growth and expansion of SMEs through increased funding of a more diverse range of SBCI on-lenders and a greater range of products.

We broadened our funding base with €450 million of new funding added via the Council of Europe Development Bank and the National Treasury Management Agency (NTMA). This money will be used to fund further new lending through both existing and new on-lending partners.

With three new on-lenders added in 2016, First Citizen Agri Finance, Bibby Financial Services Ireland and Fexco Asset Finance, the SBCI is now partnered with eight on-lenders, bringing the total committed funding to €906 million at the end of 2016. To date our on-lending partners have drawn €655 million of funding with €544 million of these funds deployed across 12,593 loans to SMEs, supporting 67,150 jobs. This represents significant progress from end-2015 when €172 million of SBCI supported loans had been deployed across 4,619 SMEs, supporting 17,000 jobs.

The average size of loans supported by the SBCI is €43,000, with individual loans ranging in size from €1,500 to €5 million. 84% of SBCI supported loans were used for investment in business, with 11% used for working capital and 5% used to refinance facilities from banks exiting the Irish market.

We have been successful in achieving a portfolio of on-lenders that is well balanced in terms of where our borrowers are located and, also in terms of the sectors in which they operate. In short, we are supporting lending to SMEs in every part of Ireland and in a range of sectors – agriculture, wholesale/retail, accommodation and food, administration and support, manufacturing, transport, construction and more. Through these partners, the SBCI has been able to support the provision of term loans, asset leasing, agricultural leasing, contract hire for vehicles and invoice finance – all at lower rates or more flexible terms than were previously available in the market.

Last year represented a significant milestone for the SBCI as our first risk-sharing product, the Agriculture Cashflow Support Loan Scheme, was announced with a launch date in January 2017. The €150 million scheme aims to support farmers experiencing short-term financial pressure due to price and income volatility. It will provide an opportunity for farmers to borrow up to €150,000 at a special rate of 2.95% over periods of up to 6 years to address the difficult market conditions they have faced recently. These loans are available through Allied Irish Banks, Bank of Ireland and Ulster Bank. The success of this scheme will be crucial to allow the SBCI to develop new ways for SMEs to get easier access to finance.

In a related initiative, the SBCI was appointed as the operator and manager of the Credit Guarantee Scheme (CGS) provided by the Minister for Jobs, Enterprise and Innovation in October 2016. As operator and manager of the CGS, the SBCI will be the primary conduit for guarantee products in the State. This initiative, alongside the Agriculture Cashflow Support Loan Scheme, will enable the SBCI to provide a central source of expertise in this area. A new version of the CGS (CGS 2017) is expected to be deployed in the coming months.

One of the biggest challenges we have faced has been generating awareness among SMEs of the benefits SBCI supported finance can bring to them. The SBCI continued to engage in an intensive SME marketing and awareness campaign in 2016 based around a media campaign across radio, social media, and digital channels. SBCI staff attended more than 40 SME events during 2016 including local networking and brand-building events in every region in Ireland. Surveys show that our efforts have been successful in growing brand awareness but we are keen to keep building awareness among SMEs of the SBCI's role and what it can offer.

The SBCI made an operating loss of €1.647 million in 2016 due to the lag in the generation of income as our on-lender partners come on board and draw down funds. Longer term, our financial goal is to cover our costs and otherwise to convert our financial advantage into reduced borrowing rates for SMEs rather than to accumulate profits. The SBCI was capitalised by the Minister for Finance at incorporation to the value of €10 million. To meet the SBCI's expected further capital requirement to support a number of other projects currently in development, the Minister subscribed for additional shares to the value of €25 million in February 2017.

In 2017, the SBCI will continue to expand its offering and has an active pipeline of potential on-lenders at various stages of development. As mentioned by the Chairperson in his statement, the SBCI will continue to seek to source other European supports and funding as required. It will also be a year in which we will continue to build out our risk sharing infrastructure.

Central to our success to date has been the hard work of the SBCI team and the support we have received from the NTMA. The team's experience and hard work was fundamental in the SBCI achieving the progress made last year. I would like to thank our Chairperson and the Board for their support and commitment they have given to us and look forward to working with them to build on the substantial progress made so far in 2017.

Nick Ashmore
Chief Executive Officer

Strategy

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

The primary goal of the SBCI's strategy is to deliver financial instruments to the SME market in Ireland, either directly or as a service provider, to address market failures in the provision of credit to SMEs. To achieve this goal the SBCI is adopting a phased market entry approach.

In order to achieve this mission, the SBCI has set a vision **"to be a strong promotional financial institution that provides effective financial support for Irish SMEs and promotes the economic development of the State".** The SBCI has a vital role to play in restoring an effective and sustainable market for SME financing in Ireland and a wider role in the longer term as a conduit for State and European financing supports.

Vision: To be a strong promotional financial institution that provides effective financial support for Irish SMEs and promotes the economic development of the State.

- Growing funding capacity
- Healthy mix of quality on-lenders
- Healthy pipeline of new on-lenders
- Supporting a variety of finance types
- Strong public awareness
- Effective use of EU supports
- Emerging risk sharing function
- Robust Risk Management

During 2016 the SBCI progressed its phased market entry approach, building on phase 1 and progressing with phases 2 and 3 as follows:

- **Phase 1:** Delivering additional long-term low cost lending to SMEs through the principal banking institutions, Allied Irish Banks, Bank of Ireland and Ulster Bank.
- **Phase 2:** Providing additional credit to SMEs through a range of non-bank finance providers across a diverse range of products including asset finance, contract hire, invoice discounting and equipment leasing.
- **Phase 3:** Commencement of risk-sharing activities, including operation and management of the Credit Guarantee Scheme on behalf of the Minister for Jobs, Enterprise and Innovation.

Lines of Business

Having progressed its phased market entry approach, the SBCI has established three lines of business:

1) Lending

The current lending business model of the SBCI is to serve as a wholesale on-lending financial institution. It provides low 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.

2) 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 sectorial 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 its capital and enhance SME access to finance. The SBCI Agriculture Cashflow Support Loan Scheme which was launched in Q1 2017 exemplifies this approach.

3) Service Provision

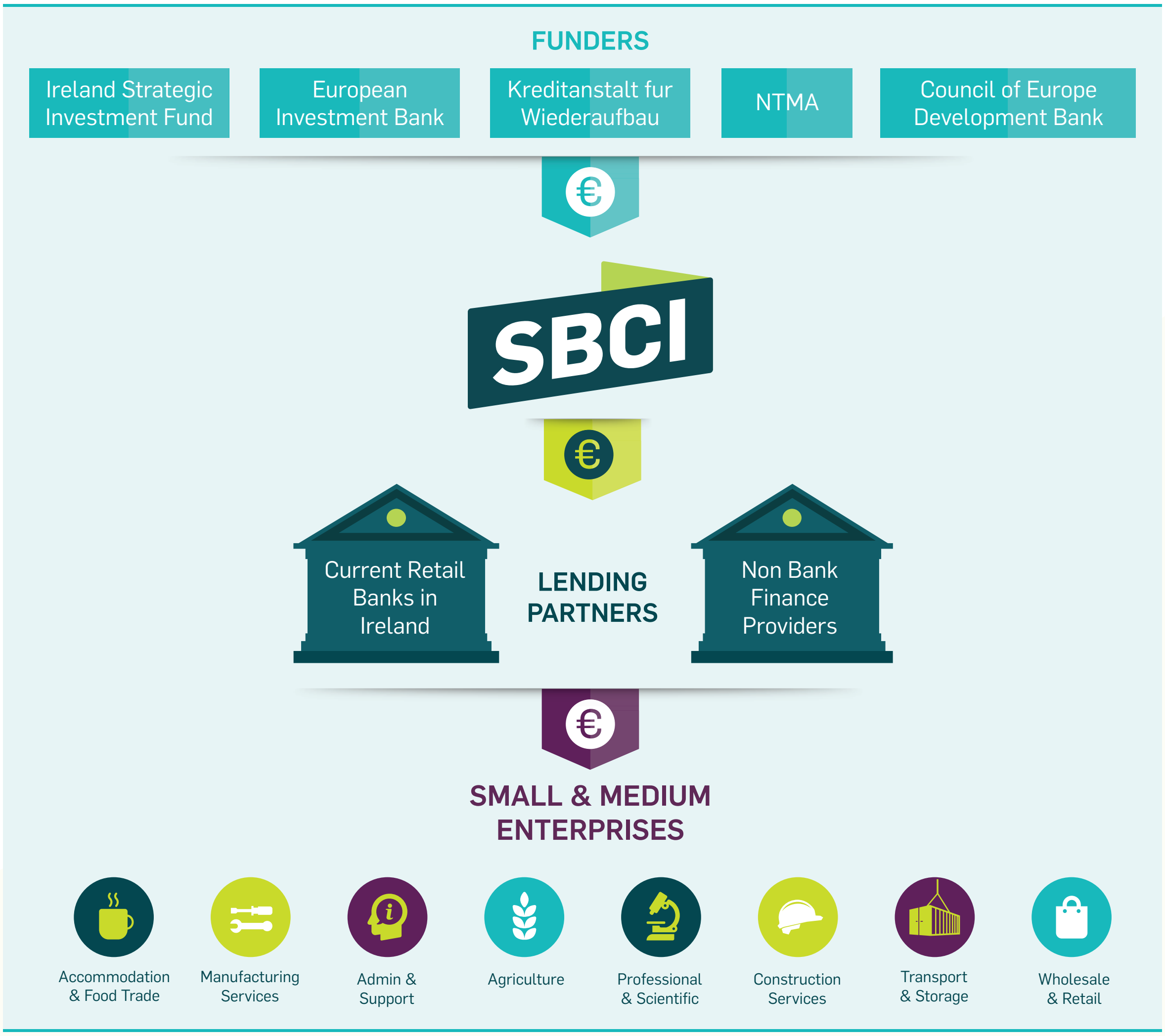
Service Provision acts as a supplementary line of business to the two primary lines of business, Lending and Risk-Sharing. In October 2016, the SBCI was appointed as operator and manager of the Credit Guarantee Scheme by the Minister for Jobs, Enterprise and Innovation. This is important in establishing the SBCI as the primary conduit for risk sharing products in Ireland. The SBCI will provide such services where they strategically enhance or complement the primary lines of business.

Strategy continued

Business Model

The business model of the SBCI is to serve as an on-lending financial institution providing low cost, wholesale finance to on-lenders in the SME market in Ireland. 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. 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, high quality and efficient team 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. 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.



Business Review

During 2016, the SBCI announced three new on-lender partnerships with Bibby Financial Services Ireland, First Citizen Agri Finance and Fexco Asset Finance. This brings the total number of SBCI on-lenders to eight, providing Irish SMEs with more choice and an enhanced range of SBCI funded products.

- First Citizen Agri Finance became SBCI's third non-bank on-lender in May 2016. First Citizen Agri Finance offers hire purchase and leasing facilities to the agriculture sector.
- Bibby Financial Services Ireland became an SBCI on-lender in June 2016. This partnership represented a new product offering for the SBCI. Bibby offers SMEs invoice financing products. Invoice finance is a working capital facility which releases cash tied up in outstanding customer invoices (debtor/sales ledger) and improves cash flow availability for businesses.
- Fexco Asset Finance became the fifth non-bank on-lender to partner with the SBCI in November 2016. Fexco Asset Finance has a strong presence in Munster, and offers specialist leasing finance to SMEs across Ireland.

The SBCI committed a further €155 million of funds in 2016 to its three new on-lenders, bringing the total figure of committed funds since inception to €906 million. Engagement with potential new on-lenders is ongoing and the SBCI expects to announce additional on-lender partners in 2017 as it strives to further increase the availability of funding to SMEs.

By year end 2016, the SBCI had supported 12,593 SMEs and 67,150 jobs with €544 million of funding. It had supplied €457million of investment loans to SMEs, €60 million of working capital loans and €27million for refinancing of loans from banks exiting the Irish market. The average interest rate on all SBCI loans to December 2016 was 4.6%.

There was a broad regional spread of loans ranging from 18% in the South-West to 6% in the Midlands. As was the case in 2015, agriculture continues to be the largest sector supported by the SBCI with 23% of total loans attributed to that sector as of end December 2016. This was followed closely by the wholesale and retail sector with 18% and the accommodation and food sector representing 14% of the total SBCI loans.

Funding Sources

During 2016, the SBCI secured two additional sources of long-term, lower cost funding to the total value of €450 million, from the Council of Europe Development Bank (CEB) and the NTMA. These new sources bolstered the three initial funding agreements that totalled €790 million, in place with the European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW) and the Ireland Strategic Investment Fund (ISIF). This brought the total funding to €1.2 billion at end-2016.

Council of Europe Development Bank - €200 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.

CEB
COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE

Business Review continued

Kreditanstalt fur Wiederaufbau - €150 million

KfW is the German state promotional bank, with a strong and respected brand in capital markets providing it with stable, low cost access to long-term financing. KfW's primary mandate is to support and develop its own domestic retail, commercial and corporate base. KfW uses an on-lender model using local banks to deliver this mandate through its product range and enhancements to competition in the markets. Additionally, KfW also provides its longer term, lower cost funding to other EU States through their respective promotional institutions such as SBCI, to support their complementary mandates.

KFW

Ireland Strategic Investment Fund - €240 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.

Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency
Ciste Infheistíochta Straitéisí d'Éirinn
Ireland Strategic Investment Fund

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 NTMA will invest in Guaranteed Notes issued by the SBCI on agreed terms with a maximum ten-year maturity.

Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

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 Bank The EU bank

Equity Financing

In addition to the €10 million shares issued to the Minister for Finance on incorporation, the Minister subscribed for a further €25 million of SBCI share capital in February 2017. The additional capital raised will enable the SBCI to support its current activities, and the development and delivery of new products to support its mandate of improving access to finance in the Irish credit markets. The shares were paid for by conversion of a portion of the SBCI loan facility from the ISIF.

SBCI Products

In 2016, the SBCI expanded its initial product suite to include invoice financing, further helping to address the financing needs of SMEs which are provided through its on-lenders. Some of the key features of the SBCI products include:

- lower interest rates;
- minimum loan maturity of two years;
- maximum term of ten years; and
- loans available up to €5 million.

1 Investment and Working Capital Loans

SBCI investment loans and working capital loans are available to eligible SMEs through its on-lender partners.

2 Re-finance of Exiting Bank Loans

This SBCI loan product which can be for investment and working capital purposes, is available to eligible SMEs whose loan facilities originated with a bank which is exiting or has exited the Irish market, i.e. ACC Bank; Danske Bank; Lloyds/Bank of Scotland Ireland, Irish Nationwide/IBRC, Anglo Irish Bank/IBRC.

3 Agriculture Investment Loans

The SBCI's agriculture investment loan product is available to eligible SMEs engaged in primary agricultural production or the processing or marketing of agricultural products. This product is available for investment purposes.

4 Leasing and Hire Purchase

Through its current non-bank on-lender partners, the SBCI provides hire purchase, contract hire and leasing loans available to eligible SMEs to finance cars, commercial vehicles and certain plant and machinery assets. These products typically provide terms of between two to six years.

5 Invoice Financing

The SBCI provides its invoice finance product to eligible SMEs through its on-lender partners. Invoice finance is a working capital facility which releases cash tied up in outstanding customer invoices which improves cash flow availability for SMEs.

6 Risk Sharing Products

The SBCI supports the provision of additional lending to SMEs through its role as operator and manager of the Credit Guarantee Scheme, and through its own guaranteed loan product, the Agriculture Cashflow Support Loan Scheme.

Business Review continued

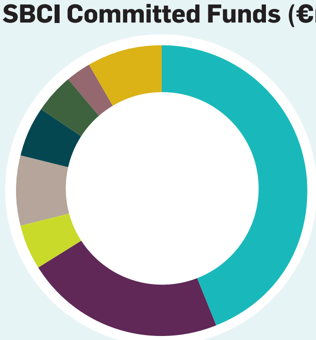
Lending

In 2016, the SBCI entered into agreements with three new on-lenders: First Citizen Agri Finance, Bibby Financial Services Ireland and Fexco Asset Finance. This increased the SBCI's partnerships with on-lenders to eight, further broadening the range of products offered to SMEs and bringing the SBCI's total funding available to SMEs to €906 million at end-2016. The SBCI continues to work on building additional partnerships to provide a greater variety of competitive funding options for SMEs and enhance the diversity of lenders and types of finance.

Risk Sharing

In 2012, the Credit Guarantee Scheme (CGS) was developed and launched by the Department of Jobs Enterprise and Innovation (DJEI) to aid SMEs particularly hard hit by the financial crisis. Over the course of 2016, the SBCI worked to establish risk sharing capability and products to support additional lending to SMEs in Ireland and to act as a conduit for European SME financing initiatives. To this end, the SBCI took over the operation and management of the Credit Guarantee Scheme in October 2016, with a view to launching a more extensive CGS in 2017. In January 2017, the SBCI launched its own SBCI guarantee backed loan product – the Agriculture Cashflow Support Loan Scheme. Risk support for this product was sourced from the European Investment Fund in the form of a counter-guarantee under the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME).

SBCI Committed Funds (€m)



- Allied Irish Banks **€400m**
- Bank of Ireland **€200m**
- Bibby Financial Services Ireland **€45m**
- Fexco Asset Finance **€70m**
- Finance Ireland **€51m**
- First Citizen Agri Finance **€40m**
- Merrion Fleet **€25m**
- Ulster Bank **€75m**

December 2014
€200m to Bank of Ireland

2015

February 2015
€200m to Allied Irish Banks

October 2015
€51m to Finance Ireland

November 2015
€25m to Merrion Fleet

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

December 2015
€75m to Ulster Bank

2016

May 2016
€40m to First Citizen Agri Finance

June 2016
€45m to Bibby Financial Services Ireland

November 2016
€70m to Fexco Asset Finance

European Investment Fund – COSME Programme

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 to access finance. EIF designs and develops venture and growth capital, guarantees and 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.

COSME is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs) running from 2014 to 2020 with a total budget of €2.3bn. In December 2016, the SBCI signed the COSME Loan Guarantee Facility which supports guarantees and counter-guarantees to financial institutions and national promotional institutions to assist their provision of additional loans and lease finance to SMEs. The COSME counter-guarantee provided to the SBCI to support loans to SMEs is the first use of COSME in Ireland. The SBCI will use this counter guarantee in 2017 to support farmers experiencing short term financial pressure due to price and income volatility through an Agriculture Cashflow Support Loan Scheme.

Signing of COSME agreement, December 2016. L-R European Investment Fund Deputy Chief Executive, Roger Havenith; Minister for Finance, Michael Noonan TD; European Investment Bank President, Werner Hoyer; and SBCI CEO, Nick Ashmore.

Credit Guarantee Scheme

The Credit Guarantee Scheme is a government initiative that was set up in 2012 to encourage additional lending to commercially viable SMEs which, under normal lending criteria, are unable to obtain new or additional facilities from their bank. The Scheme facilitates increased credit risk appetite by providing on-lenders with a government-backed guarantee for 75% of the facility value. The Scheme is intended to address three distinct barriers to lending:

- inadequacy of collateral;
- where an SME is seeking to refinance due to its bank exiting the Irish market and there is insufficient collateral available to support this refinancing; and/or
- growing or expanding businesses which operate in sectors which are perceived as higher risk under current credit risk evaluation practices.

In October 2016, the SBCI was appointed operator and manager of the CGS by the Minister for Jobs Enterprise and Innovation. As operator and manager of the CGS, alongside the Agriculture Cashflow Support Loan Scheme, the SBCI will be the primary conduit for guarantee products within the State. A new version of the Credit Guarantee Scheme (CGS 2017) is expected to be delivered in 2017.

Business Review continued

Marketing and Promotion

The SBCI is seeking to position itself as a well-known and trusted part of the financial architecture of the Irish economy. The SBCI continues its efforts to raise awareness of its brand and the role it plays in delivering lower cost, longer-term funding to SMEs across Ireland. It is also necessary for the SBCI to clearly communicate its on-lender operating model. The SBCI needs to ensure its message reaches a wide range of audiences, ranging from individual SMEs and their advisors to industry and State bodies. Key to the achievement of this is the creation of a brand that is easily recognisable, relevant to SBCI core audiences, and achieves impact in a busy SME brand environment. To ensure that SMEs seek out SBCI products, a public awareness campaign was developed to market the SBCI's own brand, products and programmes to SMEs. This comprised a marketing and promotional campaign and an outreach programme of attendance at trade shows, conferences and SME events throughout the country.

The marketing and promotional campaign continued through 2016 and was comprised of a mix of radio and on-line media. The media plan was designed to reach more than 90% of all SMEs over the duration of the campaign and increase awareness of the SBCI. The Department of Finance Credit Demand Survey (30 September 2016) shows awareness of the SBCI as a government support initiative at 21% of participating SMEs, demonstrating good progress in continuing to grow brand awareness of the SBCI. In addition, the SBCI has utilised social media channels, publishing case studies on LinkedIn and Twitter to promote the applicability of SBCI funding to SMEs.

Between January and December 2016, the SME outreach programme saw SBCI staff in attendance at more than 40 events nationwide.

Stakeholder and Peer Engagement

The SBCI recognises a wide group of stakeholders with an interest in its activities. It therefore regards stakeholder engagement as critical to ensuring that the SBCI activities are aligned with government policy and meet the financing needs of the Irish market. The SBCI achieves this through regular and effective engagement and collaboration with all stakeholders including SMEs, representative bodies, SME advisors, government departments, on-lender partners and funders.

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 creation of strong network groups or associations with specific market focus. The SBCI is a member of both NEFI (Network of European Financial Institutions for SMEs) and ELTIA (European Long Term Investors Association). These forums provide the SBCI with support and experience from other markets that is invaluable in the development of its role in the Irish market. The SBCI, as a national promotional institution, provides a local conduit to the Irish market for EU financing initiatives and has been a member of the EIB and NPB/Is working group on the delivery of the European Investment Plan for Europe (otherwise known as the "Juncker plan[1]") during 2016.

Market Overview

Data released by the Central Statistics Office (CSO) in its report of July 2016[2], showed that SMEs in Ireland accounted for 99.8% of businesses, 68.9% of employment and 56.1% of turnover.

1 The "Juncker Plan" or "EU Infrastructure Investment Plan" is an ambitious investment programme first announced by European Commission President Jean-Claude Juncker in November 2014. It aims at unlocking public and private investments in the "real economy" of at least €315bn over a three year fiscal period.

2 CSO Report released 6 July 2016, based on the "Business Demography" of Ireland for the period 2008 to 2014

Gross new lending to SMEs (excluding financial and real-estate) has continued to grow with 2016 showing the highest level of gross funds drawn since 2010. Lending in 2016 totaled €3.2 billion (22% higher than 2015). However, despite this growth, the overall stock of outstanding SME credit is still declining, reducing from €34 billion in mid-2010 to €16.1 billion in Q4 2016.[3] This indicates that the volume of repayments continues to outstrip new lending in each quarter. Although SME perception of banks' willingness to provide credit has improved, the volume of SME applications for credit continued to decline. 23% of SMEs applied for bank finance between April and September 2016 compared to 30% in the same period in 2015.[4] While the return of growth in new lending is encouraging, the SME sector is still highly dependent on a small number of large banks with growth among new entrants and non-bank financing starting from a very low level.

There are currently seventeen credit institutions, residing in Ireland, that contribute data to the CBI's SME lending statistics. The principal bank providers of debt finance to SMEs in the Irish market are Allied Irish Banks, Bank of Ireland and Ulster Bank which together account for circa 93% of new lending in the market.[5] There is a clear requirement to increase the number of market participants providing credit to SMEs to enhance competition. The local branch network continues to be important to SMEs. However, the high cost of providing a distribution network is a significant barrier to entry as evident by the lack of a full-service retail bank entering the market in recent years.

During the period April to September 2016, the average Irish interest rate for SME loans less than €250,000 was 5.5%, which is 3.2pps higher than for loans above €1 million and 2pps higher than that for loans between €250,000 and €1 million. As a positive, the average Irish SME interest rate for loans less than €250,000 is lower than in the previous six month period (5.9% in October 2015 to March 2016). Irish SME interest rates continue to remain higher in 2016 than Euro area averages. The average interest rate in Ireland, for loans less than €250,000 (during the six month period April to September 2016), was 2.6pps higher than the Euro area average[6]. The average cost of SBCI loans from inception to December 2016 is 4.6%.

3 CBoI Statistics, Table A.14.1 Credit Advanced to Irish Resident SMEs
4 SME Credit Demand Survey

5 CBI SME Market Report 2016 H2
6 CBI SME Market Report 2016 H2

Governance

Directors

Conor O'Kelly
Chairperson

Nick Ashmore
Chief Executive Officer

Barbara Cotter

Tom McAleese

Rosheen McGuckian

Ann Nolan

AJ Noonan

Richard Pelly

Eilis Quinlan

1. Conor O'Kelly (Chairperson)

Appointed for a three year term from March 2015
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.

2. Nick Ashmore (Chief Executive Officer)

Ex officio member
Member of the Credit Committee

Nick Ashmore is 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.

3. Barbara Cotter

Appointed March 2015 for a four year term
Member of the Audit and Risk Committee

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.

4. Tom McAleese

Appointed March 2015 for a four year term
Chairperson of the Audit and Risk Committee

Tom McAleese is a Managing Director of Alvarez & 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.

5. Rosheen McGuckian

Appointed March 2015 for a five year term
Chairperson of the Remuneration Committee
Member of the Credit Committee

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

6. Ann Nolan

Appointed for a three year term from March 2015
Member of the Remuneration Committee

Ann Nolan is Second Secretary General at the Department of Finance, with responsibility as deputy Head of Department and is Head of the Financial Services Directorate. Ann has worked in the Department of Finance for 30 years and has extensive experience of policy formulation and the development of strategy in the areas of taxation, expenditure control, banking and financial services.

7. AJ Noonan

Appointed March 2015 for a four year term

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.

8. Richard Pelly

Appointed March 2015 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.

9. Eilis Quinlan

Appointed March 2015 for a five year term
Member of the Audit and Risk Committee

Eilis Quinlan has run her own accountancy and audit practice for the last 20 years. 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 and is a Fellow of the ACCA.

Governance continued

Board and Committees of the Board

The SBCI was incorporated pursuant to the Strategic Banking Corporation of Ireland Act 2014 (the 'SBCI Act') in September 2014 and in July 2016 converted to a Designated Activity Company under the Companies Act 2014. The issued share capital of the SBCI is owned solely by the Minister for Finance.

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.

There were no changes to the membership of the Board during 2016.

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

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

The SBCI's functions are vested in the Board, which may delegate functions to the Chief Executive Officer. In the performance of its duties, the Board focuses on providing strategic direction and oversight to the organisation and ensuring there are appropriate controls in place, while delegating operational matters to management.

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

- Audit and Risk Committee
- Remuneration Committee (established September 2016)
- Credit Committee (established February 2017)

The Board carried out the first annual review of its effectiveness during 2016. This review took the form of a structured, self-assessment evaluation completed by the Board and the Audit and Risk Committee.

The Board of Directors has adopted the Code of Practice for the Governance of State Bodies (the "Code"), as adapted in a limited number of cases in accordance with the SBCI's governance structure and business circumstances. A revised Code came into effect from 1 September 2016. In accordance with clarification issued by the Department of Public Expenditure and Reform on the application of the 2016 Code, the SBCI applied the 2009 Code with regard to the disclosures set out in this Annual Report and Financial Statements. Notwithstanding this, the SBCI already complies with the 2016 Code in many respects and has an implementation plan in place to ensure compliance with the revised Code for the year ending 31 December 2017 and subsequent years.

Attendance at Board and Committee Meetings in 2016

	Board	Audit and Risk Committee	Remuneration Committee
Number of Meetings	**9**	**6**	**1**
Directors:			
Conor O'Kelly	9		1
Nick Ashmore	9		
Barbara Cotter	8	6	
Tom McAleese	9	6	
Rosheen McGuckian	8		1
Ann Nolan	9		1
AJ Noonan	9		
Richard Pelly	8		
Eilis Quinlan	9	6	

The SBCI has in place a Reporting of "Relevant Wrongdoing" and Protected Disclosures Policy whereby staff, may in confidence raise concerns about possible irregularities in financial reporting or other matters.

A Code of Conduct is in place for Directors and was updated in 2016. SBCI staff are employees of the NTMA and assigned to the SBCI. These staff members are subject to the NTMA's Code of Practice on Confidentiality and Professional Conduct. Directors and members of staff are expected to ensure that all their activities are governed by the ethical standards reflected in the relevant code.

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 under the Companies Act 2014, the Company's Constitution and the Code. The SBCI has put in place procedures to assist Directors and Committee members in meeting their disclosure of interest obligations.

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

Governance continued

Committees

Audit and Risk Committee Report

The Audit and Risk Committee assisted 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 statutory auditor, the Comptroller and Audit 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 three non-executive members of the Board:

  - Tom McAleese (Chairperson)
  - Barbara Cotter
  - Eilis Quinlan

There were no changes to the membership of the Committee during 2016.

The Committee met on six occasions in 2016. The principal activities of the Committee in 2016 were as follows:

Financial Reporting

The Committee reviewed the financial statements prior to recommending to the Board. The review focused on the accounting methods, the Companies Act 2014 and the clarity and completeness of disclosures.

Internal Controls

The Committee reviewed the adequacy and effectiveness of the internal control systems and statements to be included in the financial statements concerning internal controls. The Committee's findings were reported to the Board.

Compliance

The Committee reviewed and recommended to the Board updates to a number of compliance related policies including the Reporting of "Relevant Wrongdoing" and Protected Disclosures Policy. It received the Annual Compliance Report and reviewed the services performed.

Statutory Audit

The Committee reviewed the external audit plan in advance of the audit and met with the external auditor to review findings from his audit of the financial statements. It also reviewed management's responses to the findings and implementation of the auditor's recommendations on an ongoing basis. The Committee met privately with the external auditor in 2016.

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 2016 risk based internal audit plan which had been developed focusing on the key risks facing the SBCI. It monitored the implementation of internal audit recommendations and reviewed and approved the 2017 internal audit plan.

The Committee met privately with the NTMA Head of Internal Audit in 2016 and reviewed the effectiveness of the internal auditor.

Risk

The Committee recommended updates to the Risk Management Policy and Framework, and the Risk Appetite Statement to the Board. It received regular reports from the Head of Risk on the SBCI's risks and the controls in place to mitigate risks. It monitored the progress of the Risk function in developing risk management, including the reporting of emerging risks.

The Committee reviewed its terms of reference and recommended a number of amendments to the Board. These amendments were accepted by the Board. It also undertook a review of its own performance.

The Committee's priorities in respect of 2017 were approved as part of its Work Programme 2017.

Remuneration Committee update

The Board established a Remuneration Committee in September 2016 to advise the Board on remuneration matters. The Committee comprises three members:

- Rosheen McGuckian (Chairperson)
- Ann Nolan
- Conor O'Kelly

Subsequent to the Board's decision to establish the Committee, it met on one occasion before end-2016 to consider its terms of reference.

Credit Committee update

The Board established a Credit Committee in February 2017 to assist the Board in reviewing and approving credit decisions, and the oversight and monitoring of credit risk. The Committee comprises two appointed members of the Board, the Chief Executive Officer and no more than two persons who are senior staff members of the SBCI or the NTMA. The Committee comprises four members:

- Richard Pelly (Chairperson)
- Rosheen McGuckian
- Nick Ashmore
- Ray Mangan (Head of Risk, SBCI)

There is currently one vacancy on the Committee.

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 risk is consistent with the underlying business activity, and that the SBCI understands and is able to manage or absorb the impact of a risk in the event that it materialises. The SBCI complies with the risk management provisions of the Code of Practice for the Governance of State Bodies.

The Board reviewed the Risk Register in 2016, and receives a risk management update of high and emerging risks as part of each CEO Report.

Roles and Responsibilities

The Board is responsible for setting the risk appetite, 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.

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

The SBCI's Risk Management Policy and Framework is predicated on the three-lines-of-defence model. Within this model, the SBCI team and management (the first line) incur and own the risks, while the SBCI Risk function and other control functions (the second line) provide independent oversight and objective challenge to the first line of defence, and provide risk monitoring and reporting. The Internal Audit function (the third line) provides independent, reasonable, risk-based assurance to key stakeholders on the robustness of the SBCI risk management system,

Governance continued

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 and Uncertainties

The SBCI is exposed to a wide variety of risks which have the potential to affect the financial and operational performance of the SBCI. The Risk Management Policy and Framework establishes the processes to identify, assess, evaluate, report and mitigate risk. The SBCI has identified the following principal risks and uncertainties which may adversely affect the achievement of its objectives.

Strategic Risk

The SBCI relies on demand from on-lenders and SMEs in order to meet its key strategic objective of providing additional credit to SMEs in Ireland, and in order to achieve financial sustainability. Should it fail to structure its products appropriately and deploy an appropriate strategy for delivering these, there is a risk that on-lenders will not participate as envisaged and SMEs will not avail of the offered 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's primary credit risk exposure is to the on-lenders to which it lends. However, in 2017, the SBCI will assume some credit risk exposure, on a limited basis, to the final beneficiary SMEs whose loans are covered by guarantees issued by the SBCI to on-lenders.

Operational Risk

The SBCI is exposed to a broad 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, which could ultimately result in the SBCI failing to meet its objectives and significant reputational damage.

Resourcing Risk

The SBCI is a small organisation 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.

Energy Efficiency Report

SBCI staff are employees of the NTMA and are assigned to the SBCI. The SBCI operates out of Treasury Building, Grand Canal Street, Dublin 2. The NTMA's Energy Efficiency Report itemises energy usage across these premises and is published with the NTMA's Annual Report.

Financial Statements

Directors' Report

The Annual Report 2016 forms part of the 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 2016 (the "financial year").

The Company was incorporated pursuant to the Strategic Banking Corporation of Ireland Act 2014 (the "SBCI Act 2014") on 12 September 2014 and 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 for the purpose of providing lower cost funding to on-lenders who are required to pass on the advantageous rate to small and medium sized enterprise ("SME") borrowers in Ireland.

On-lenders are banks or non-bank finance providers to whom the SBCI advances funding, who in turn deploy that funding in the provision of credit to eligible SMEs.

Principal activities

The SBCI's principal activities during the financial year were sourcing further funding from international finance providers and State resources, and the provision of long-term low-cost finance to on-lending institutions for distribution through the supply of credit to SME borrowers in Ireland.

Business review and likely future developments

The Chairperson's Statement and Chief Executive Officer's Review in the Annual Report outline the development and performance of the Company during the financial year, significant recent events and likely future developments. 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 of the Annual Report.

During the financial year, the Company focused on sourcing further funding from international funders and State resources, securing additional funders as well as increasing the number of on-lending facilities. The initial business model of the SBCI was to provide low cost wholesale finance to on-lenders (banks and non-bank finance providers) who in turn provide finance to SMEs. During the financial year the SBCI took on the role of manager and operator of the Credit Guarantee Scheme on behalf of the Minister for Jobs, Enterprise and Innovation. During the financial year, the following represents the key performance outturn:

- €450m of additional committed funding facilities sourced by the SBCI under agreements signed with two new funders;
- €155m of additional low cost lending facilities committed by the SBCI to three new on-lenders;
- €420m drawn down by the SBCI's on-lenders for the purposes of onward lending to SMEs;
- €377m of low cost loans advanced by on-lenders to SMEs.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are detailed below.

Strategic Risk

- The SBCI relies on demand from on-lenders and SMEs in order to meet its key strategic objective of providing additional credit to SMEs in Ireland, and in order to achieve financial sustainability. Should it fail to structure its products appropriately and deploy an appropriate strategy for delivering these, there is a risk that on-lenders will not participate as envisaged and SMEs will not avail of the offered 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's primary credit risk exposure is to the on-lenders to which it lends. However, in 2017, the SBCI will assume some credit risk exposure, on a limited basis, to the final beneficiary SMEs whose loans are covered by guarantees issued by the SBCI to on-lenders.

Operational Risk

- The SBCI is exposed to a broad 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.

Resourcing Risk

- The SBCI is a small organisation 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.

Financial risk management

The Company 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 given in Note 13 to the financial statements.

Directors

The following were Directors at any time during the financial year:

Conor O'Kelly

Nicholas Ashmore

Barbara Cotter

Tom McAleese

Rosheen McGuckian

Ann Nolan

AJ Noonan

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 24). The issued share capital of the Company is owned solely by the Minister for Finance (See Note 21 and 25).

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 Financial Control on page 8. The accounting records are kept at the Company's registered office at Treasury Building, Grand Canal Street, Dublin 2, D02 XN96.

Directors' Report continued

Results and dividends

The results for the financial year and state of affairs of the Company are set out in the Income Statement and Other Comprehensive Income and the Statement of Financial Position on pages 34 and 35 respectively.

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 25 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.

Each of the Directors has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the C&AG is aware of that information.

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

Conor O'Kelly
Chairperson
Strategic Banking Corporation of Ireland

12 April 2017

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

Nicholas Ashmore
Chief Executive Officer
Strategic Banking Corporation of Ireland

Conor O'Kelly
Chairperson
Strategic Banking Corporation of Ireland

12 April 2017

Statement on Internal Financial Control

Responsibility for System of Internal Financial Control

The Board of Directors acknowledges its responsibility for maintaining an appropriate system of internal financial control. The system is intended to provide reasonable but not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely period.

Key control procedures

The Board of Directors has taken steps to ensure an appropriate control environment by:

- clearly defining management responsibilities;
- establishing formal procedures for reporting significant control failures and ensuring appropriate corrective action;
- establishing an Audit and Risk Committee to advise the Board of Directors on discharging its responsibilities for the internal financial control system.

The SBCI has established processes to identify and evaluate business risks by:

- identifying the nature, extent and financial implication of risks facing the organisation;
- assessing the likelihood of identified risks occurring;
- assessing the organisation's ability to manage and mitigate the risks that do occur.

The system of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:

- a comprehensive budgeting system with an annual budget which is reviewed and agreed by the Board of Directors;
- regular reviews of periodic financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- formal project management disciplines;
- adherence to the Reporting of 'Relevant Wrongdoing' and Protected Disclosures Policy and Anti-Fraud Policy;
- regular reporting on performance of on-lenders.

The Board of Directors has adopted the Code of Practice for the Governance of State Bodies (the "Code"), as adapted in a limited number of cases in accordance with the SBCI's governance structure and business circumstances. A revised Code came into effect from 1 September 2016. In accordance with clarification issued by the Department of Public Expenditure and Reform on the application of the 2016 Code, the SBCI applied the 2009 Code with regard to the disclosures set out in this Annual Report and Financial Statements. Notwithstanding this, the SBCI already complies with the 2016 Code in many respects and has an implementation plan in place to ensure compliance with the revised Code for the year ending 31 December 2017 and subsequent years.

Audit and Risk Committee

The SBCI has an Audit and Risk Committee which operates in accordance with the principles in the Code. The Audit and Risk Committee's responsibilities include the overseeing of the financial reporting process, reviewing the system of internal control and reviewing the internal and external audit processes.

The internal audit activities of the SBCI, which are performed by the National Treasury Management Agency ("NTMA") internal audit function, are overseen by the Audit and Risk Committee. The work of the internal audit function is informed by an analysis of the risks to which the SBCI is exposed, and an annual internal audit plan is prepared based on this analysis.

The internal audit plan for the financial year was agreed with the management of the SBCI and approved by the Audit and Risk Committee in July 2015. On a regular basis, the internal audit function provides the management of the SBCI and the Audit and Risk Committee with reports of internal audit activity. These reports outline any findings and recommendations in relation to internal controls that have been reviewed. Progress against recommendations is monitored and reported to the Audit and Risk Committee.

NTMA

The SBCI depends to a significant degree on the controls operated by the NTMA which provides certain finance, human resources, legal, internal audit, risk and compliance 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 NTMA has a well-developed system of internal control and any shared services provided to the SBCI are provided within this existing control framework. The SBCI has received assurance from the NTMA that it has reviewed its systems of internal financial control in relation to services provided to the SBCI.

Risk management

The Audit and Risk Committee is responsible for overseeing the implementation of the Risk Management Policy and Framework and the Risk Appetite Statement as approved by the Board of Directors. A Risk Register is maintained which identifies and categorises risks which may prevent the SBCI from achieving its objectives, and assesses the impact and likelihood of various risk events. On the basis of risks identified, controls are implemented to manage and mitigate these risks. The Risk Register is reviewed by the Audit and Risk Committee on a quarterly basis, and by the Board of Directors on an annual basis at a minimum. The management team is required to attest on a quarterly basis that the controls noted in the Risk Register are in place and effective.

Monitoring

The monitoring and review of the effectiveness of the system of internal financial control is informed by the management within the SBCI who have responsibility for the development and maintenance of the financial control framework, the findings from the work of the internal audit function and comments made by the Comptroller and Auditor General in his management letter or other reports.

The Board of Directors monitors the system of internal financial control through the Audit and Risk Committee. The Audit and Risk Committee carries out its functions in accordance with the Audit and Risk Committee's Terms of Reference.

Annual review of controls

We confirm that, in respect of the financial year ended 31 December 2016, the Board of Directors, having taken advice from the Audit and Risk Committee, conducted a review of the effectiveness of the system of internal financial control.

Conor O'Kelly
Chairperson
Strategic Banking Corporation of Ireland

12 April 2017

Report of the Comptroller and Auditor General

to the Minister for Finance

I have audited the financial statements of the Strategic Banking Corporation of Ireland (SBCI) for the year ended 31 December 2016 under the Strategic Banking Corporation of Ireland Act 2014. The financial statements comprise the income statement and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is the Companies Act 2014 and generally accepted accounting practice in Ireland.

Responsibilities of the directors

The directors are responsible for the preparation of the financial statements, for ensuring that they give a true and fair view and otherwise comply with the Companies Act 2014 and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and to report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the SBCI's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made by the directors in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the SBCI's annual report to identify if there are any material inconsistencies with the audited financial statements or to identify if there is any information that is apparently materially incorrect or inconsistent based on the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the financial statements

In my opinion, the financial statements

- give a true and fair view of the assets, liabilities and financial position of the SBCI as at 31 December 2016 and of its loss for the year then ended; and
- have been properly prepared in accordance with generally accepted accounting practice in Ireland; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

Matters on which I am required to report by 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 SBCI were sufficient to permit the financial statements to be readily and properly audited. The financial statements are in agreement with the accounting records.

In my opinion, the information given in the directors' report is consistent with the financial statements.

Matters on which I report by exception

I report by exception if I find

- any material instance where public money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the SBCI's annual report is not consistent with the related financial statements or with the knowledge acquired by me in the course of performing the audit, or
- the statement on internal financial control does not reflect the SBCI's compliance with the Code of Practice for the Governance of State Bodies, or
- the disclosures of directors' remuneration and transactions as specified by the Companies Act 2014 are not made, or
- there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.

Seamus McCarthy
Comptroller and Auditor General

13 April 2017

Income Statement and Other Comprehensive Income

For the financial year ended 31 December 2016

	Note	1 Jan 2016 to 31 Dec 2016 €000	12 Sept 2014 to 31 Dec 2015 €000
Interest income	5	3,498	1,278
Interest expense	6	(612)	(592)
Net interest income		**2,886**	**686**
Other income	7	286	-
Operating expenses	8	(4,819)	(4,416)
Operating loss		**(1,647)**	**(3,730)**
Loss for the period		**(1,647)**	**(3,730)**
Other comprehensive income		-	-
Total comprehensive loss for the period		**(1,647)**	**(3,730)**

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

Conor O'Kelly
Chairperson

Strategic Banking Corporation of Ireland

12 April 2017

Statement of Financial Position

as at 31 December 2016

	Note	2016 €000	2015 €000
Fixed assets			
Intangible assets	*16*	785	505
Financial assets			
Loans and receivables	*12*	600,000	235,000
Current assets			
Cash and cash equivalents	*11*	21,544	120,642
Loans and receivables	*12*	56,444	603
Other receivables	*15*	311	96
Total assets		**679,084**	**356,846**
Non-current liabilities			
Funding and borrowings	*18*	660,000	350,000
Current liabilities			
Funding and borrowings	*18*	122	148
Tax due	*17*	8	16
Other liabilities	*17*	14,331	412
Total liabilities		**674,461**	**350,576**
Shareholder's equity			
Share capital	*21*	10,000	10,000
Retained losses	*21*	(5,377)	(3,730)
Total equity		4,623	6,270
Total equity and liabilities		**679,084**	**356,846**

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

Nicholas Ashmore
Chief Executive Officer

Strategic Banking Corporation of Ireland

Conor O'Kelly
Chairperson

Strategic Banking Corporation of Ireland

12 April 2017

Statement of Changes in Equity

as at 31 December 2016

	Share Capital €000	Retained losses €000	Total equity €000
Balance as at 12 Sept 2014	-	-	-
Issue of share capital	10,000	-	10,000
Loss for the period 12 Sept 2014 to 31 Dec 2015	-	(3,730)	(3,730)
Balance at 31 December 2015	**10,000**	**(3,730)**	**6,270**
Loss for the year	-	(1,647)	(1,647)
Balance at 31 December 2016	**10,000**	**(5,377)**	**4,623**

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

Conor O'Kelly
Chairperson

Strategic Banking Corporation of Ireland

12 April 2017

Statement of Cash Flows

For the financial year ended 31 December 2016

	Note	1 Jan 2016 to 31 Dec 2016 €000	12 Sept 2014 to 31 Dec 2015 €000
Cashflows from operating activities			
On-lending loans issued		(420,000)	(235,000)
Interest receipts		2,657	569
Interest payments		(516)	(443)
Reimbursement of fees by on-lenders		204	49
Operating expenses paid		(4,922)	(4,110)
Net cash used by operating activities		**(422,577)**	**(238,935)**
Cashflows from investing activities			
Interest received		-	106
Interest paid		(114)	-
Purchase of intangible assets		(321)	(529)
Net cash from investing activities		(435)	(423)
Cashflows from financing activities			
Funding loans received		310,000	350,000
Minister for Agriculture, Food and Marine funding	*17*	13,914	-
Issuance of share capital	*21*	-	10,000
Net cash from financing activities		**323,914**	**360,000**
Cash and cash equivalents at the beginning of the period		**120,642**	**-**
Cash and cash equivalents at the end of the period		**21,544**	**120,642**

Notes to the Financial Statements

31 December 2016

1. Reporting entity

The SBCI is a company domiciled in Ireland. The Company was established pursuant to the SBCI Act 2014 on 12 September 2014. The Company avails of national and international sources of funding for the purpose of providing lower cost, flexible funding to Irish SMEs through its on-lenders, and enhancing access to finance for SME borrowers in Ireland.

The Company is a single member, private, designated activity company limited by shares incorporated under the Companies Act 2014 (Registered No. 549539). The issued share capital of the SBCI is owned solely by the Minister for Finance. The Company's registered office is at Treasury Building, Grand Canal Street, Dublin 2, D02 XN96.

2. Statement of compliance

The Company's financial statements for the financial year ended 31 December 2016 have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Ireland 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 that are believed to be reasonable under the circumstances.

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

3.1 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, 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

The Company reviews its portfolio of loans and receivables for indication of impairment at least annually. In determining whether an impairment loss should be recorded in the income statement at the reporting date, the SBCI makes judgements as to whether any observable data exists indicating evidence of impairment which would likely result in a measurable delay in the timing or decrease in realisable amounts of the estimated future cash flows.

The SBCI assesses each loan individually at financial year-end and completes a brief report, having regard to the credit rating of each counterparty (if rated), the payment history and performance of the loan, compliance with covenants, the value of the underlying collateral, market conditions and the economic environment. The assessment is reviewed and approved by the SBCI management, including the Head of Risk and Chief Executive Officer ("CEO").

3. Critical accounting estimates and judgements continued

3.2 Critical 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 critical 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 of Directors of the Company ("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 SBCI's Memorandum of Association, 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. The Board resolved in December 2016 to issue additional share capital of €25 million and the Minister for Finance confirmed his intention in January 2017 to subscribe to the additional shares with a value of €25m. This transaction was completed in February 2017.

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. The Board and Audit and Risk Committee 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.

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 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 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.

Notes to the Financial Statements continued

4. Significant accounting policies continued

4.4 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 ("Effective Interest Rate") method as described in Note 4.7.

4.5 Financial liabilities

Funding and borrowings are the Company's only financial liabilities at year end. Funding loans 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.

4.6 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.

4.7 Interest income and expense

Interest income and expense for all financial instruments is recognised in the Income Statement using the 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. All other interest income is accounted for within investing activities as it relates to cash management activities.

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 investing activities in the Statement of Cash Flows and is classed as other interest expense in Note 6.

4. **Significant accounting policies** continued

4.8 Other income

The income the SBCI receives from the Department of Jobs, Enterprise and Innovation, as operator and manager of the Credit Guarantee Scheme, is based on the costs incurred by the SBCI in providing this service. The SBCI receive a reimbursement of costs incurred only.

4.9 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 Income Statement.

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 with the respective loan covenants and undertakings, and any terms and conditions imposed by the SBCI;
- breaches of contract, such as default or delinquency in interest or principal payments;
- signs that the on-lender will enter bankruptcy or other financial reorganisation.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent financial period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the Income Statement.

When a loan has been subjected to a specific impairment allowance and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect for recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related allowance for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the Income Statement.

4.10 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.

Notes to the Financial Statements continued

4. Significant accounting policies continued

4.11 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 Income Statement 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.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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 should reflect 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 Income Statement in the financial period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset's recoverable amount. 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.

4.12 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.

4.13 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.

4. Significant accounting policies continued

4.14 Costs reimbursable to the NTMA

In accordance with section 10 of the SBCI Act 2014, the NTMA provides business and support services and systems 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 8.1.

4.15 Key management personnel

The Company is controlled by the Company's CEO and its Board. The Chief Executive of the NTMA is an ex-officio member of the Board. The Company's CEO and the Board have the authority and responsibility for planning, directing and controlling the activities of the SBCI and, therefore, are key management personnel of the SBCI.

5. Interest income

	2016 €000	12 Sept 2014 to 31 Dec 2015 €000
Interest on loans and receivables	3,498	1,172
Other interest income	-	106
	3,498	1,278

6. Interest expense

	2016 €000	12 Sept 2014 to 31 Dec 2015 €000
Interest on funding and borrowings	490	591
Other interest expense	122	1
	612	592

7. Other income

	2016 €000	12 Sept 2014 to 31 Dec 2015 €000
Credit Guarantee Scheme management fee	286	-

Pursuant to a Co-Operation agreement dated 13th October 2016 (the "Co-Operation Agreement") between the Minister for Jobs, Enterprise and Innovation (the "Minister for JEI") and the SBCI, the SBCI assumed the role of operator and manager of all schemes created under the Credit Guarantee Acts 2012 and 2016 on behalf of the Minister for JEI.

The SBCI receives a fee from the Minister for JEI based on the recovery of the costs and expenses incurred by the SBCI in providing the services as set out in the Co-Operation Agreement. No financial gain or loss is made by the SBCI in providing the services as set out in the Co-Operation Agreement.

Notes to the Financial Statements continued

8. Operating expenses

	2016 €000	12 Sept 2014 to 31 Dec 2015 €000
Costs reimbursable to the NTMA (See Note 8.1)	3,847	3,672
Board fees (See Note 9)	95	74
Amortisation (See Note 16)	88	71
Other expenses	789	599
	4,819	4,416

Other expenses comprise all other expenses paid directly by the Company. These primarily comprise of marketing costs and legal and professional fees.

8.1 Costs reimbursable to NTMA

	2016 €000	12 Sept 2014 to 31 Dec 2015 €000
NTMA staff costs	1,917	1,847
Business services	1,500	1,163
Professional fees	290	356
Technology	107	254
Other operating costs	33	52
	3,847	3,672

NTMA staff costs

The Company has no employees. All personnel are employed by the NTMA and the remuneration cost of staff who are engaged full time in the SBCI business are recharged to the Company by the NTMA. The average number of employees directly engaged in the Company during the financial year was 12 (2015: 8). At the reporting date there were 15 employees directly engaged in the Company (2015: 9). NTMA staff costs include the remuneration and other staff related costs, such as temporary staff costs, recruitment costs and staff training costs, of the NTMA staff directly engaged in the SBCI.

NTMA staff costs include the CEO's salary which is as detailed below. The remuneration of the CEO is determined in accordance with sections 7(2) and 8 of the National Treasury Management Agency Act 1990.

8. Operating expenses continued

8.1 Costs reimbursable to NTMA continued

Nicholas Ashmore (CEO)	2016	2015
Annual salary	250,000	250,000
Annual taxable benefits	24,548	23,154
	274,548	273,154

No performance related payment was paid to the CEO during the financial year, nor in the prior period, and no such payment is payable at financial year end. The amounts paid to the CEO are included in the costs reimbursable to the NTMA.

The CEO's pension entitlements do not extend beyond the standard terms of the model public sector superannuation scheme.

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.

9. Board fees and expenses

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

	1 Jan 2016 to 31 Dec 2016	12 Sept 2014 to 31 Dec 2015
Barbara Cotter	15,750	12,409
Tom McAleese	15,750	12,170
Rosheen McGuckian	15,750	11,991
AJ Noonan	15,750	12,409
Richard Pelly	15,750	12,409
Eilis Quinlan	15,750	12,409
	94,500	73,797

The Chairperson and Chief Executive Officer did not receive any remuneration in respect of their membership of the Board. Ann Nolan, appointed in her capacity as Second Secretary General of the Department of Finance, did not receive any remuneration in respect of her 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, a total of €1,332 in expenses was incurred in respect of certain Directors.

Notes to the Financial Statements continued

9. Board fees and expenses continued

Board Member	Travel €	Accommodation and subsistence €	2016 Total €	12 Sept 2014 to 31 Dec 2015 Total €
Richard Pelly	1,332	-	1,332	1,231

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

	1 Jan 2016 to 31 Dec 2016	12 Sept 2014 to 31 Dec 2015
Directors fees	94,500	73,797
Salaries and other benefits	274,548	334,811
Contributions to defined benefit retirement schemes	35,500	43,982
Total Directors' Remuneration	404,548	452,590

10. Tax charge

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

11. Cash and cash equivalents

	2016 €000	2015 €000
Balance at Citibank	21,544	5,643
Balance at Central Bank of Ireland	-	114,999
	21,544	120,642

€13.9m of cash held by the Company at 31 December 2016 is ring-fenced for the "Agriculture Cashflow Support Loan Scheme" and is not available to the Company for on-lending or any other activities outside the terms of the scheme. See Note 17 for further information on this scheme.

12. Loans and receivables

	2016 €000	2015 €000
Loans to on-lenders due within one year	56,444	603
Loans to on-lenders due greater than one year	600,000	235,000
	656,444	235,603

In the Company's Statement of Financial Position, loans and receivables have been presented as either current or non-current, according to their maturity. In the prior period they had been presented as one total figure.

12. Loans and receivables continued

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

	2016 €000	2015 €000
Secured	55,116	-
Unsecured	601,328	235,603
	656,444	235,603

At the end of the financial year, the SBCI had loans in issue to seven on-lenders (2015: two). Three of these on-lenders are banks (2015: two), and four on-lenders are non-bank finance providers (2015: zero). The remaining terms of the on-lender loans in issue range from 1.5 to 8.25 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 4.9). Following the impairment assessment of the loans as at 31 December 2016, the Company concluded that no evidence of impairment existed at the reporting date. At the end of the financial year, the Company had €251m (2015: €516m) in undrawn loan commitments.

13. Risk management

The Company aims to be risk aware and to actively manage its risks. The critical activities carried out by the organisation and the reliance on its good reputation mean that there is a strong emphasis on an appropriate range of 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 and the SBCI understands and is able to manage or absorb the impact of the risk in the event that it materialises.

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

Risk Management Policy and Framework

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.

The Audit and Risk Committee is responsible for overseeing the implementation of the SBCI Risk Management Policy and Framework. The Audit and Risk Committee seeks to ensure that the SBCI's risk management governance model provides appropriate levels of independence and challenge. The Audit and Risk Committee 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 2009.

Notes to the Financial Statements continued

13. 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 day-to-day management of risk and for ensuring that adequate controls are in place and operating effectively. Management will report on risk management to the Audit and Risk Committee. The following are the key steps used in the risk management process:

- Identify all risks that may affect/prevent the SBCI from achieving the objectives established by the Board and management, (taking into consideration any historical events/near misses which may have threatened the achievement of such objectives);
- For each risk, determine its initial impact and its probability of occurrence;
- For each risk, determine whether the risk can be accepted or will need to be transferred, reduced or avoided;
- For each risk, regardless of its impact or probability of occurrence, consider actions to reduce risk;
- Review residual impact/probability of occurrence and criticality status of the risk in light of the implemented actions/controls/mitigants;
- Review and monitor 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 implementation of the SBCI Risk Management Policy and Framework.

Third line of defence:

Internal Audit is the third line of defence and provides independent, reasonable, risk based assurance on the robustness of the SBCI's risk management system, governance and the design and operating effectiveness of the internal control environment.

13.1 Credit risk

Credit risk is the risk of incurring financial loss as a result of default or credit migration of a counterparty to a particular transaction. In order to achieve its key objectives and fulfil its mandate, the SBCI must assume a certain level of credit risk.

As a fundamental principle, the SBCI will seek to do so in a prudent manner that assumes the minimum level of credit risk required to achieve its objectives, which is in line with the SBCI's Risk Appetite Statement. Credit risk arises from the potential failure of an on-lender to fulfil its contractual obligations to the Company. The SBCI's main credit risk arises from the performance of its on-lenders.

13. Risk management continued

13.1 Credit risk continued

Credit risk is the most important risk to the Company's business. The Company, therefore, carefully manages its exposure to credit risk. Credit risk is measured, assessed and controlled for all transactions or credit events entered into by the Company.

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

- 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 the prospective on-lender by reference to 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;
- independent risk review and sign off by the SBCI Head of Risk of each potential on-lender;
- 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 on-lender;
- assessment of collateral requirements in the context of a number of factors including the financial strength of the on-lender.

The maximum exposure to credit risk for financial assets with credit risk at 31 December 2016 is €928.9m (2015: €872.2m). This maximum exposure to credit risk is presented by class of financial instrument below and also includes the loan commitments of the Company at financial year end:

	2016 €000	**2015 €000**
Loans and receivables	656,444	235,603
Cash and cash equivalents	21,544	120,642
	677,988	356,245
Loan commitments	251,000	516,000
	928,988	872,245

Notes to the Financial Statements continued

13. Risk management continued

13.1 Credit risk continued

The below table sets out the credit quality of the financial assets of the Company. The analysis has been based on Standard & Poor's ratings where applicable.

	2016 €000	2015 €000
AAA	-	114,999
A+	21,544	-
A	-	5,643
BBB- to BB+	601,328	235,603
Non-rated	55,116	-
	677,988	356,245

13.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet all of its financial obligations as and when they fall due. It is the risk of loss arising from a situation where there will not be enough cash to fund day to day operations.

The Company's liquidity risk management process includes:

- Adherence to the SBCI Liquidity and Market Risk Management Policy and associated limits;
- Management of day-to-day funding 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 within the Company'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 its liquidity risk by aligning, to the greatest extent possible, the maturity profile of its 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.

The timing of the contractual repayments due by the Company are summarised in the below table. The amounts presented are undiscounted. Other liabilities of €14.3m (2015: €428k) (See Note 17) are also included. Amounts payable "no later than 1 year" consist of accrued interest and other liabilities, amounts payable "greater than 1 year" consist of principal loan repayments to funders.

13. **Risk management** continued

13.2 Liquidity risk continued

2016	No later than 1 year €000	1-5 years €000	Over 5 years €000	Total €000
Repayments due	14,461	349,103	310,897	674,461

2015	No later than 1 year €000	1-5 years €000	Over 5 years €000	Total €000
Repayments due	576	91,026	258,974	350,576

13.3 (a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk. Market risks arise from open positions in interest rate products which are exposed to general and specific market movements, and changes in the level of 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 Company 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 basis of the fixings are not matched, the SBCI will seek to hedge these positions.

The amounts exposed to interest rate risk at 31 December 2016 are detailed below:

	2016 €000	2015 €000
Financial assets		
Cash and cash equivalents	21,544	120,642
Loans and receivables	656,444	235,603
	677,988	356,245

	2016 €000	2015 €000
Financial liabilities		
Funding and borrowings	660,122	350,148

Notes to the Financial Statements continued

13. Risk management continued

13.3 (a) Market risk continued

Currency risk

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

13.3 (b) 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 Company would incur under normal market conditions because, due to practical limitations, 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. The risk is measured as the net present value (NPV) impact on the cash flows of the loans receivable and payable as a result of that change in interest rates. The interest rates are set as at 31 December 2016.

Interest Rate Sensitivity Analysis - a 50bp move

2016	+50bp €000	-50bp €000
Net cashflow impact	(520)	779

2015	+50bp €000	-50bp €000
Net cashflow impact	225	(659)

The interest rate sensitivities are not symmetric due to a number of 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.

13.4 Capital management

The Company 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 the Company's capital will result in it being unable to absorb any potential credit losses. The SBCI's paid-up share capital as at 31st December 2016 is €10m, which was provided by the SBCI's sole shareholder, the Minister for Finance. In addition, the SBCI had available callable capital of €240m which it may call on at its discretion from the Minister for Finance, as provided for in the SBCI Act 2014. During December 2016, the Company informed the Minister for Finance that it required the Minister for Finance to subscribe for an additional €25m equity capital. The Minister for Finance subscribed for additional shares with a value of €25m in February 2017 (see Note 25).

The Company's capital risk management process includes adhering to the capital adequacy requirements of the SBCI Risk Appetite Statement to ensure 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.

13. **Risk management** continued

13.5 Credit Guarantee Scheme

On 13th October 2016, the SBCI assumed the role of operator and manager of all schemes created under the Credit Guarantees Acts 2012 and 2016 on behalf of the Minister for JEI. 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.

13.6 Concentration risk

Concentration risk is the risk that the Company 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 Company to continue operating as a going concern.

The Company manages this risk by adhering to the limits set out in the Risk Appetite Statement which has been approved by the Board and which is subject to regular review 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 Company's key geographic concentration of risk assets is in Ireland, and the key sectoral concentration of risk is to financial and non-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 €656.4 million (2015: €235.6m).

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

14. Fair value of financial assets and liabilities

(a) 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. None of the assets and liabilities in the Statement of Financial Position of the Company are measured at 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.

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

Notes to the Financial Statements continued

14. Fair value of financial assets and liabilities continued

(a) Comparison of carrying value to fair value continued

2016 Financial assets	Carrying Value €000	Level 1 €000	Level 2 €000	Level 3 €000	Fair value €000
Cash and cash equivalents	21,544	21,544	-	-	21,544
Loans and receivables	656,444	-	656,444	-	656,444

2015 Financial assets	Carrying Value €000	Level 1 €000	Level 2 €000	Level 3 €000	Fair value €000
Cash and cash equivalents	120,642	120,642	-	-	120,642
Loans and receivables	235,603	-	235,603	-	235,603

2016 Financial liabilities	Carrying Value €000	Level 1 €000	Level 2 €000	Level 3 €000	Fair value €000
Funding and borrowings	660,122	-	660,122	-	660,122

2015 Financial liabilities	Carrying Value €000	Level 1 €000	Level 2 €000	Level 3 €000	Fair value €000
Funding and borrowings	350,148	-	350,148	-	350,148

(b) Fair value measurement principles

(i) Cash and cash equivalents

The fair value of these financial instruments is equal to their carrying value due to these instruments being repayable on demand and short-term in nature.

(ii) 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.

15. Other receivables

	2016 €000	2015 €000
Reimbursements due	25	96
Credit Guarantee Scheme management fee due (See Note 7)	286	-
	311	96

Reimbursements due relate to expenses the Company incurred and paid in carrying out due diligence reviews on its on-lenders for which the on-lender must reimburse the Company.

16. Intangible assets

2016	Cost €000	Accumulated amortisation €000	Net book value €000
Opening balance at 1 January 2016	576	(71)	505
Acquisitions during the financial year	368	-	368
Amortisation for the financial year	-	(88)	(88)
Balance at 31 December 2016	944	(159)	785

2015	Cost €000	Accumulated amortisation €000	Net book value €000
At the beginning of the period	-	-	-
Acquisitions during the financial period	576	-	576
Amortisation for the financial period	-	(71)	(71)
Balance at 31 December 2015	576	(71)	505

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 Income Statement. Assets to the value of €506k were under development at financial year end and, therefore, amortisation had not commenced on these assets.

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

17. Other liabilities

	2016 €000	2015 €000
Minister for Agriculture, Food and Marine payable	13,914	-
Amounts due to the NTMA	214	351
Other liabilities	203	61
Tax due	8	16
	14,339	428

Under an agreement between the Minister for Agriculture, Food and the Marine (the “Minister for AFM”) and the SBCI dated 20th December 2016 (the “Agri Co-Operation Agreement”) the Minister for AFM advanced funds to the SBCI to be used in the Agriculture Cashflow Support Loan Scheme (the “Scheme”) to support SMEs in the agricultural sector in Ireland. Funds that remain unutilised during the life of the Scheme are repayable to the Minister for AFM. No funds had been utilised as at the 31 December 2016 as the Scheme was not launched until 31 January 2017.

The tax due amount represents PAYE payable to the Revenue Commissioners at the end of the financial year.

Notes to the Financial Statements continued

18. Funding and borrowings

	2016 €000	2015 €000
Funding and borrowings payable within one year	122	148
Funding and borrowings payable greater than one year	660,000	350,000
	660,122	350,148

In the Company's Statement of Financial Position, funding and borrowings have been presented as either current or non-current, according to their maturity. In the prior period they had been presented as one total figure.

These funding loans, with the exception of funding provided by the Ireland Strategic Investment Fund ("ISIF"), have been guaranteed by the Minister for Finance, as provided under section 18 of the SBCI Act 2014.

At the end of the financial year, the SBCI had loans outstanding with five funders (2015: two). Three of these funders are European financial institutions while the remaining two funders are Irish Government entities. The remaining terms of these loans range from 3 to 9 years and interest is charged to the SBCI at 6 month Euribor plus margin. For those debts greater than 5 years, the repayments are a mixture of semi-annual and bullet principal repayments depending on the terms of the applicable funding agreement.

The Company's Funding and Borrowings include a €25m loan which the Company drew down during the year from its €240 million loan facility with ISIF. This loan, and the remainder of the facility, can be converted into share capital in the Company by the Minister for Finance. The Company would be required to issue shares to the Minister for Finance in an amount equal to the loan being converted.

At the end of the financial year, the company had €580m (2015: €440m) in undrawn funding facilities.

19. 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.

2016	Current €000	Non-Current €000	Total €000
Financial assets			
Loans and receivables	56,444	600,000	656,444
Financial liabilities			
Funding and borrowings	122	660,000	660,122

2015	Current €000	Non-Current €000	Total €000
Financial assets			
Loans and receivables	603	235,000	235,603
Financial liabilities			
Funding and borrowings	148	350,000	350,148

Note 13.2 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.

20. Auditor's remuneration

	1 Jan 2016 to 31 Dec 2016 €000	12 Sept 2014 to 31 Dec 2015 €000
Audit of financial statements	27	27

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

21. Equity

2016	Share Capital €000	Reserves €000	Total €000
Opening balance at 1 January 2016	10,000	(3,730)	6,270
Loss for the financial year	-	(1,647)	(1,647)
Balance at 31 December 2016	10,000	(5,377)	4,623

2015	Share Capital €000	Reserves €000	Total €000
At the beginning of the period	-	-	-
Share capital issued during the financial period	10,000	-	10,000
Loss for the financial period	-	(3,730)	(3,730)
Balance at 31 December 2015	10,000	(3,730)	6,270

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 2016, the Minister for Finance had subscribed for, and was issued with, 10,000,000 of the Company's authorised shares.

22. Contingent liabilities

The Company had no contingent liabilities at the reporting date which would require disclosure in the financial statements.

Notes to the Financial Statements continued

23. Related Parties Disclosures

23.1 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 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 by virtue of section 11 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 a source of funding to the SBCI.

Other Government controlled entities

The ISIF, the Central Bank of Ireland, Allied Irish Banks plc. and the National Asset Management Agency ("NAMA") are related parties of the SBCI as each are under the control of the Minister for Finance.

Government Ministers and Departments

The Department of Agriculture, Food and Marine and the Department of Jobs, Enterprise and Innovation, 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

The Company is controlled by the Company's CEO and its Board. The Chief Executive of the NTMA is an ex-officio member of the Board. The SBCI CEO and the Board have the authority and responsibility for planning, directing and controlling the activities of the SBCI and, therefore, are key management personnel of the SBCI. Amounts paid to key management personnel are disclosed in Notes 8 and 9.

23.2 Transactions and balances with related parties

ISIF Loan Facility

The Company drew down €25 million (2015: Nil) from its €240 million loan facility (2015: €240 million) with ISIF during the financial year. The full amount of this loan is outstanding at the financial year end and is included in the funding and borrowings figures in the Statement of Financial Position.

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 €3.8 million (2015: €3.7 million). Further details in respect of these costs are disclosed in Note 8. There is an amount of €0.2 million payable (2015: €0.4 million) 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 €0.4 million (2015: €0.5 million) during the financial year. €47k (2015: €47k) of the €0.2 million payable to the NTMA at the end of the financial year relates to the purchase of software.

23. Related Parties Disclosures continued

23.2 Transactions and balances with related parties continued

NTMA Loan Facility

During the financial year, the Company entered into a €250 million loan notes programme with the NTMA. €85 million of loan notes were issued by the Company to the NTMA during the financial year. The repayment of these loan notes to the NTMA is outstanding at financial year end and is included in the funding and borrowings figures in the Statement of Financial Position.

Agriculture Cashflow Support Loan Scheme

The Company received €13.9 million of funding from the Minister for AFM during the financial year in connection with the Agriculture Cashflow Support Loan Scheme which the Company launched with the Minister for AFM on 31 January 2017. See Note 17 for further details on the scheme and the funding received at financial year end.

Credit Guarantee Schemes

During the financial year, the Company accrued €0.29 million (2015: Nil) of fee income for its role in administering the Schemes created under the Credit Guarantee Acts 2012 and 2016 on behalf of the Minister for JEI. The full amount 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 no cash (2015: €114.9 million) at the Central Bank of Ireland. However, there was €8k (2015: €1k) of interest payable to the Central Bank of Ireland by the Company.

Allied Irish Banks p.l.c

The Company issued loans to Allied Irish Banks p.l.c. during the financial year 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.

NAMA rent

During the financial year, the Company incurred costs of €43k (2015: Nil) which are payable to NAMA for the use of office space. This amount was included in operating expenses and is payable at the end of the financial year.

24. 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. 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.

25. Events after the end of the reporting period

In February 2017, the Minister for Finance, through the conversion of the €25 million loan from ISIF, subscribed to additional share capital in the Company of €25 million.

Notes to the Financial Statements continued

26. Transition to FRS 102

These are the SBCI's first set of financial statements prepared in accordance with FRS 102. Other than the presentation of fixed and current assets on the Statement of Financial Position, no material adjustment was required to adopt FRS 102.

27. Approval of the financial statements

The financial statements were approved by the Directors on 12 April 2017.

Company and Other Information

Directors
Conor O'Kelly *(Chairperson)*
Nicholas Ashmore *(Chief Executive Officer)*
Barbara Cotter
Tom McAleese
Rosheen McGuckian
Ann Nolan
AJ Noonan
Richard Pelly
Eilis Quinlan

Company Secretary
Damien Mulholland

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