STRATEGIC BANKING CORPORATION OF IRELAND

Report & Financial Statements

12 September 2014 to 31 December 2015

Small businesses. Big plans.
Strategic Banking
Corporation of Ireland

Key Facts

Partnerships formed
with 5 on-lenders

€172m
loans drawn
by Irish SMEs

4,619 SMEs
availed of SBCI funding

€751m
of funding committed
to our on-lending
partners.

26%

Biggest sector is agriculture with
26% of all loans to that sector in 2015.

SBCI funding supporting **17,000** jobs

CONTENTS

ABOUT THE SBCI

Unlike many European countries, Ireland did not have a State promotional bank or credit institution to sustain funding to businesses throughout the financial crisis. During Ireland's exit from the EU/IMF programme in late 2013, the Taoiseach and German Chancellor agreed that the German promotional bank, Kreditanstalt für Wiederaufbau (KfW), would initially help finance the Irish SME sector. This led to the creation of the Strategic Banking Corporation of Ireland (SBCI) in September 2014 to ensure that, in future, Irish businesses have access to stable, low cost, long-term funding. Building on the initial funding offer from KfW, funding was also sourced from the European Investment Bank (EIB) and the Ireland Strategic Investment Fund (ISIF).

In its initial operations the SBCI is focused on providing SMEs with access to low cost long-term finance from multilateral finance providers and State resources, and channelling this finance in a manner that supports productive investment, encourages growth and facilitates employment in the SME sector. The SBCI also seeks to drive competition in the market for SME lending. To deliver these objectives, the SBCI is acting through banks and lending institutions that, in turn, lend to SMEs and, in doing so, pass on the benefit of the lower cost of funds on offer. This operating model also promotes competition in the Irish market for SME finance by facilitating the entry and growth of new market participants.

The establishment of the SBCI ensures that Ireland has in place an institution that can serve to facilitate EU financing from multilateral bodies such as the EIB and the European Investment Fund (EIF). Equally, the SBCI is ideally placed to develop positive working relationships with other national development banks.

The SBCI's strategy is to deliver effective financial supports to Irish SMEs and, in time, other sectors where failures emerge in the Irish credit market, while driving competition and innovation. 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 long term as a conduit for State and European financing supports.

KEY BUSINESS HIGHLIGHTS

July 2014
SBCI Act passed by the Oireachtas

September 2014
SBCI incorporated

October 2014
SBCI formally launched

October 2014
Funding secured from KfW, EIB and ISIF

December 2014
First on-lending agreement signed

2014

2015

February 2015
Initial product programme to provide €400m of low cost, long-term funding to SMEs

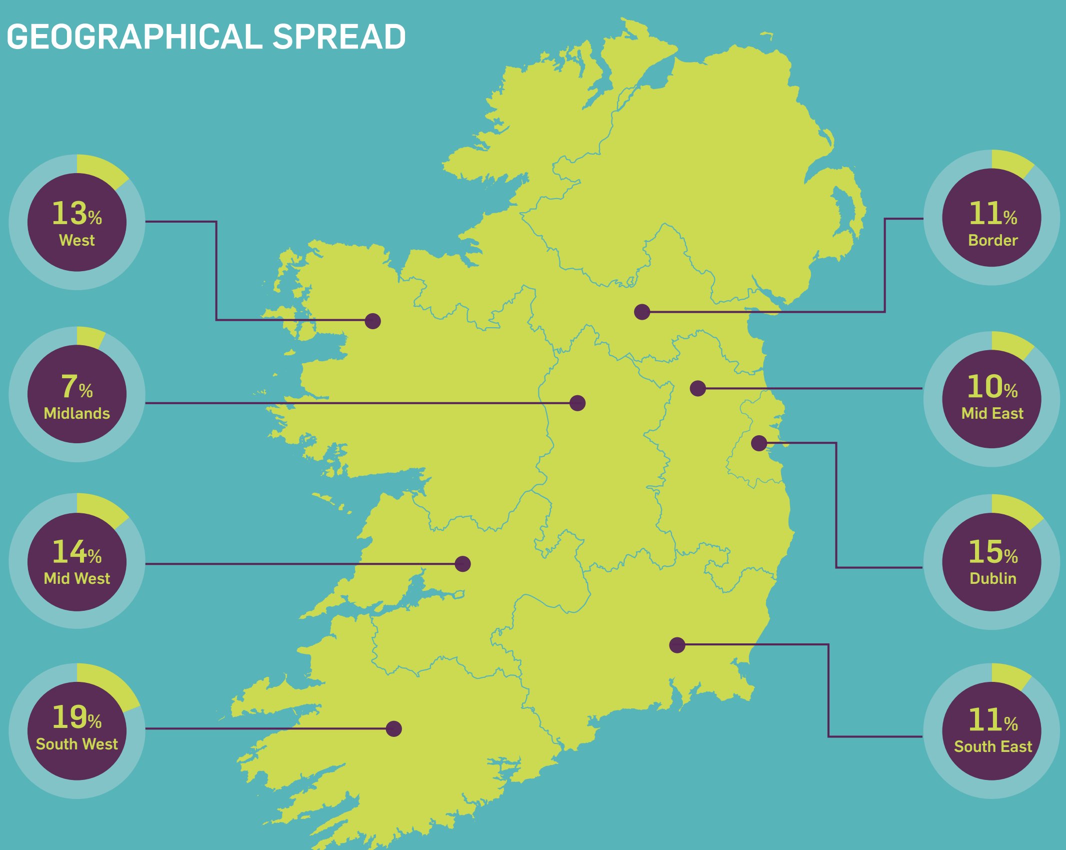
October 2015
Vehicle leasing products launched with first two non-bank on-lenders

December 2015
- 5 on-lending partnerships in place
- SBCI loans supporting over 4,600 SMEs with €172m of SBCI funding
- €751m out of €800m initial funding committed

4,619 loans drawn totalling

€171,999,729

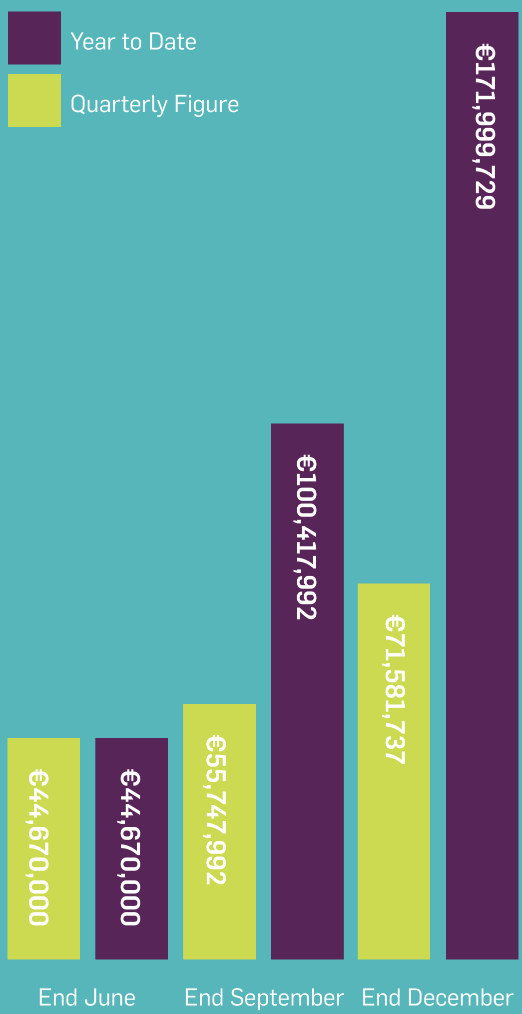
GEOGRAPHICAL SPREAD



Loan numbers: % by Region

KEY BUSINESS HIGHLIGHTS (continued)

LOAN DRAW DOWNS 2015



SECTOR SPREAD

- 26% Agriculture
- 4% Professional & Scientific
- 11% Admin & Support
- 3% Construction Services
- 7% Manufacturing Services
- 3% Transport & Storage
- 16% Wholesale & Retail
- 6% Health
- 14% Accommodation & Food Trade
- 10% Other

€144,523,094
Investment

€11,866,337
Refinance of exiting banks

€15,610,298
Working Capital

17,000 jobs
SBCI lending supported 17,000 jobs in the SME sector in 2015

4.5%
The average cost of SBCI loans in 2015

4,600 SMEs
Over 4,600 SMEs supported

CHAIRPERSON'S STATEMENT

The SBCI has made tremendous progress since the passing of its governing legislation in July 2014 and establishment that September. We put our initial funding in place by October 2014 and had our first loan product up and running by February 2015. We have continued to build on this progress through 2015 and into 2016 providing a suite of products tailored to meet the business needs of SMEs and offering these products through a diverse range of innovative and high quality on-lenders.

The SBCI was established to access low cost long-term capital from multilateral and State financing sources and to channel this capital to Irish businesses, in particular SMEs. The financial crisis revealed the extent to which SMEs form the backbone of the economy and to which the country is reliant on them as generators of employment. However, it also demonstrated their heavy dependence on bank-sourced credit. This has shown the need for a mechanism to channel finance to the Irish SME market that reacts to its needs and will be supportive, including in market downturns. We are seeking not only to ensure that credit is available on reasonable terms but also to address the persistent premium in the cost of finance available to Irish SMEs compared to other businesses of greater scale and to other European SMEs. We aim to deliver effective financial supports to Irish SMEs, while driving competition and innovation.

During our first year we have focused on securing our initial funding tranches, putting in place our first on-lending facilities and developing our suite of products. We have decided to operate through an on-lending model providing low cost wholesale finance to participants in the SME market rather than become a retail actor in the market ourselves. This will enable us to maintain flexibility, facilitate rapid deployment of funds and to keep our costs, and ultimately the costs charged to SMEs, down. We are working to build a diverse and healthy pipeline of on-lenders, both bank and non-bank, in order to increase competition and also to facilitate new entrants to the market. Our aim is to develop a functioning commercial market rather than a State supported one.

Following our initial establishment phase we have spent some time during 2015 on the development of our longer-term strategy and, in particular, on our objectives for 2016 and 2017. These objectives are centred on our vision of being a strong promotional financial institution that provides effective financial support for Irish SMEs and promotes the economic development of the State.

In delivering on our approach of providing our products through on-lending partners, putting in place a healthy mix of quality on-lenders and a pipeline of new on-lenders will be a key objective over the next two years. Other strategic objectives include growing our funding capacity, supporting a variety of finance types and sourcing and delivering the various EU supports for SMEs in a way that makes them relevant, usable and effective.

Our strategic objectives have been developed based on our experience over our first year in operation and, critically, on our discussions with SMEs on their financing challenges and requirements. We believe they are ambitious yet achievable. They will build on the significant progress we have made to date and will provide SMEs with the tools to optimise the financing of their businesses.

Upon incorporation in September 2014 the SBCI was established with a three person board. This board worked extremely hard with what was effectively a start-up operation to get our funding arrangements, initial on-lender relationships, product programme and corporate governance policies and procedures in place. The board was supplemented in March 2015 with six additional members bringing a range of valuable credit and wider business expertise to the organisation.

I would like to thank all my fellow directors and the SBCI staff for their contribution to developing the SBCI so quickly into a functioning and growing business. I would particularly like to thank my predecessor as Chairperson, John Corrigan, who chaired the SBCI from its incorporation in September 2014 to his retirement as Chief Executive of the NTMA in January 2015. We have made very rapid progress in our first full year of operation. Our objective now must be to build on this momentum to make a real and substantial contribution to the availability of affordable credit to businesses and to economic development in Ireland.

Conor O'Kelly
Chairperson

CHIEF EXECUTIVE'S REVIEW

The commencement of lending operations in March 2015 marked the end of the SBCI's rapid set-up phase and the beginning of its impact on the SME financing market in Ireland. Momentum has increased steadily from then. By the end of the year over 4,600 SBCI loans had been drawn down by Irish businesses accounting for some €172 million in lower cost funding with the vast majority of businesses borrowing for investment purposes. The response in the marketplace to our products has been very encouraging with SBCI loans rapidly gaining traction and take-up across a wide sectoral spread of businesses, increasing quarter on quarter. Most importantly, SBCI lending supported some 17,000 jobs in the SME sector in 2015.

Our first priority following our establishment in September 2014 was to put in place secure sources of long-term, lower cost funding to support our financing objective. To this end we obtained initial financing facilities totalling €790 million from the German development bank KfW, the European Investment Bank and, under a Ministerial direction, from the Ireland Strategic Investment Fund. Critically, we have ensured that the financing advantage secured in these funding arrangements is, other than the recovery of costs, passed on to the end SME. This is written into the loan agreements with our on-lender partners and closely monitored.

In 2015 we committed a total of €751 million to five on-lending partners for the benefit of the Irish SME market. Three of our on-lending partners are established banking institutions, AIB, Bank of Ireland and Ulster Bank and the remaining two are non-bank finance providers, Finance Ireland and Merrion Fleet. The introduction of two new non-bank on-lenders offering specialty finance marked the commencement of the SBCI's drive to increase competition in the market and has made a significant contribution to rebuilding the SME finance sector.

It is a feature of the Irish market that SMEs are more dependent on banks than SMEs in other countries and it is important that they be aware of the increasing number of non-bank funding options that are starting to emerge.

More generally, Irish SMEs have been paying more to borrow than similar businesses across Europe. At the SBCI we are seeking to address this and drive competition by introducing new low-cost, SME-friendly financing options to the market provided by both banks and non-bank institutions. It is important that, in seeking financing, SMEs shop around and do not inadvertently miss out on low-cost, innovative financing that can help them grow their business. Access to finance plays a key role in driving economic recovery and job creation, and we are committed to ensuring that SMEs across the country are armed with the knowledge of how to access lower cost funding.

Another area of focus in 2015 has been the development of our range of products so that they meet the business needs of SMEs. Our initial suite of products includes investment and working capital loans, re-finance of exiting bank loans, agriculture investment loans and leasing and hire purchase facilities. We are working on expanding this product range in 2016.

In the early months of 2016 we have built on the substantial progress made in 2015 with the addition of a sixth on-lender, First Citizen, bringing our total loan commitment to €791 million. We also have a healthy pipeline of potential on-lenders and are working to put in place additional funding in line with the growth of our business.

To be effective, the SBCI needs to build awareness of its brand and products among SMEs. To this end a public awareness campaign utilising a mix of radio, print and on-line media was launched in February 2015. While good progress has been made in increasing awareness of the SBCI in 2015, the campaign will continue in 2016 complementing the national thrust of the 2015 campaign with a more regional focus. A vital part of the campaign is networking at SME events and we attended over 100 events around Ireland in 2015 exhibiting, presenting and listening to thousands of SMEs.

For the period from our establishment on 12 September 2014 to 31 December 2015 the SBCI made an operating loss of €3.73 million. This is due to the lag between our becoming fully operational in the autumn of 2014 and the generation of income as our on-lending 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 has been capitalised by the Minister for Finance to the value of €10 million. If the board decides that in order to meet its financial obligations further equity is required, it may issue further shares to the Minister up to a value not exceeding the authorised share capital of the SBCI of €250 million.

In his statement, the Chairperson refers to the work we have done in developing our strategy for 2016 and 2017 and further detail on this is set out in the body of this report. We are acutely aware that we are operating in an environment where Irish SMEs continue to face challenges sourcing funding and credit, particularly for smaller borrowers. While I believe the SBCI has achieved a lot in a very short time, the provision of lower-cost, accessible credit to SMEs remains a significant issue and one that needs to be addressed if the economic and employment potential of the SME sector is to be achieved.

In conclusion, I would like to acknowledge the commitment of the Board, the SBCI team and the NTMA staff who have delivered the very significant progress we have made since formation. I would also like to express our gratitude for the strong support the SBCI has received throughout the process of its set-up and first year of operation from the Minister for Finance, the Department of Finance and numerous stakeholders both within government and across the SME community.

SMEs are indicating that 2016 will be a year of growth and expansion. We are focused on supporting this growth through building on the momentum generated to date with increased funding and a more diverse range of SBCI on-lenders and products and greater competition within the sector.

Nick Ashmore
Chief Executive

STRATEGY

STRATEGIC GOALS

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',** which in turn is informed by its functions under the Strategic Banking Corporation of Ireland Act 2014.

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'**. This reflects the belief that 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 long term as a conduit for State and European financing supports.

During the reporting period the SBCI focused on securing its initial tranche of funding from multilateral bodies and State resources as well as putting in place its first on-lending facilities, initially through tier 1 banks but also through non-bank lending institutions. It also focused on brand awareness and marketing so that SMEs were aware of, and would apply for SME loans.

Building on this initial work, the SBCI has set the following strategic objectives for 2016 and 2017:

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

Growing funding capacity	The SBCI will ensure there are sufficient funds available to match the increasing deployment of funds through the SBCI's on-lenders.
Healthy mix of quality on-lenders	Putting in place facilities with high quality and innovative on-lenders enables the SBCI to deliver a variety of types of finance to SMEs and better address areas of market failure, while serving to stimulate a more competitive market for SME finance.
Healthy pipeline of new on-lenders	The SBCI will develop and expand the number of SBCI on-lending partners operating within the Irish market to include additional non-bank on-lenders and potentially new entrant on-lenders to the Irish market.
Supporting a variety of finance types	The SBCI will continue to support the delivery of a variety of finance products in order to provide SMEs with the tools to optimise the financing of their businesses and provide alternatives to the traditional bank overdraft and term loan.
Strong public awareness	The SBCI will continue to promote awareness of the SBCI and supports amongst SMEs, SME advisors and potential lending partners.
Effective use of EU supports	The SBCI will source and deliver the various supports for SMEs from the European Commission in a way that makes them relevant, usable and effective. The SBCI will ensure that the benefit of the SBCI's sources of low cost funds or other supports are transparently passed through to the SME.
Emerging risk sharing function	The SBCI is developing a pipeline of risk sharing products incorporating funding supports available from Europe and the Credit Guarantee Scheme.

BUSINESS MODEL

In supporting the development of new areas in the market, the SBCI will seek to develop a functioning commercial market rather than a State-supported market. As the SBCI matures it will adopt a counter-cyclical approach. This will involve scaling back operations in markets which are strengthening, with the focus moving to weaker environments.

The initial 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 advance of new delivery partners coming on-stream, the SBCI conducts rigorous due diligence on these organisations and key individuals.

The SBCI employs a small, high quality and efficient team in order to transmit the maximum benefit to SMEs. To this end the SBCI leverages the resources of the National Treasury Management Agency (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

The SBCI was incorporated in September 2014 and has made very significant progress during its first full year of operation in 2015, developing a range of products and committing €751 million to five on-lending partnerships for the benefit of the Irish SME market.

In February 2015 the SBCI launched its initial product programme of €400 million low cost, long-term funding for SMEs as it announced its partnership with Ireland's two largest banking institutions, Allied Irish Banks and Bank of Ireland. Subsequently, in October 2015, it announced the addition of two non-bank on-lenders, Merrion Fleet Management and Finance Ireland, providing vehicle leasing and office equipment products.

In December 2015 the SBCI entered into an agreement with its fifth on-lending partner, Ulster Bank. With three of the big Irish banking institutions now signed up to provide SBCI funding, the SBCI is well placed to access a strong national branch network.

With a pipeline of potential new on-lenders, the SBCI will announce additional on-lender partners in 2016 as it increases the availability of funding to SMEs.

By the end of 2015 the SBCI had supported over 4,600 SMEs with €172 million of finance. It had supplied €145 million of investment loans, €15.5 million of working capital loans and €11.5 million for refinancing of loans from banks exiting the Irish market. The average interest rate on SBCI loans during 2015 was 4.5%.

There was a broad regional spread of loans ranging from 19% in the south-west to 7% in the midlands. Agriculture was the largest sector supported by the SBCI in 2015 with 26% of total funding attributed to that sector followed closely by the wholesale and retail sector with 16% of the total funds.

SBCI LOAN RECIPIENTS

Cantillon Convenience Stores

Shane Cantillon, Managing Director of a chain of Spar convenience stores, secured an SBCI loan to refinance debt through Bank of Ireland. Based in Little Island in Co. Cork, the thriving business has benefitted from the refinance by freeing up other capital to invest in other areas of the business.

Curves Gym

Liza Sagawan is the owner-manager of a Curves gym franchise based in Knocklyon, Dublin 16. She successfully applied for SBCI finance through AIB to fund the takeover of an existing gym and develop the business. The gym which would have otherwise closed now has an expanding membership and plans are in place to develop the business further.

FUNDING SOURCES

In late 2014 the SBCI put in place three initial sources of long term, lower cost funding to support its SME financing objective. Funding agreements totaling €790 million have been put in place with the European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW) and the Ireland Strategic Investment Fund (ISIF).

European Investment Bank - €400m

The European Investment Bank (EIB) is the European Union's 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.

Kreditanstalt fur Wiederaufbau - €150m

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 utilising 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 the SBCI, to support their complementary mandates.

Ireland Strategic Investment Fund - €240m

The Ireland Strategic Investment Fund (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. The ISIF funding is a ten-year revolving facility.

Equity Financing

The SBCI has issued shares to the Minister for Finance to the value of €10 million. If the SBCI decides that in order to meet its financial obligations further equity is required, it may issue further shares to the Minister up to a value not exceeding the authorised share capital of the SBCI of €250 million. Payment for such shares may come from the Central Fund or from conversion of the ISIF loan into equity or from both sources.

The SBCI is currently in negotiations with other funding institutions with a view to broadening its funder base and to access additional low cost funding.

SBCI PRODUCTS

The SBCI has developed a number of initial products 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.

BUSINESS REVIEW (continued)

(i) Investment and Working Capital Loans

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

(ii) 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.

(iii) Agriculture Investment Loans

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

(iv) Leasing and Hire Purchase Loans

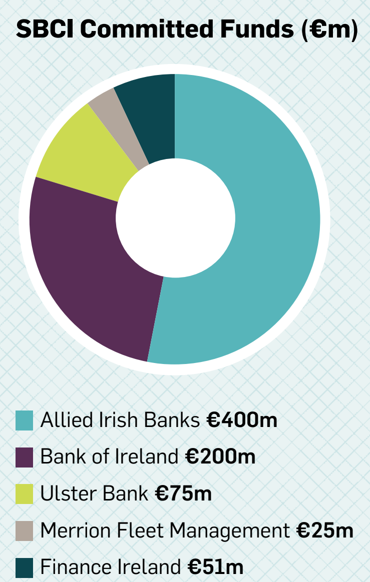
Through its current non-bank on-lender partners, the SBCI provides hire purchase, contract hire and leasing loans available to eligible SMEs to finance cars, commercial vehicles and certain plant and machinery assets. These products typically provide loan terms of between two to six years.

LENDING

By the end of 2015 the SBCI had established partnerships with five on-lenders that provide a range of products for SMEs (Allied Irish Banks, Bank of Ireland, Merrion Fleet, Finance Ireland and Ulster Bank). The SBCI continues to work on building additional partnerships in order to provide a greater variety of competitive funding options for SMEs.

- Bank of Ireland: €200 million – SME working capital and investment loans.
- Allied Irish Banks: €400 million – SME working capital and investment loans.
- Merrion Fleet: €25 million – SME vehicle contract hire and fleet management.
- Finance Ireland: €51 million – SME vehicle leasing products.
- Ulster Bank: €75 million – SME working capital and investment loans.

Date	Funds committed to On-Lender Partners
December 2014	€200m to Bank of Ireland
February 2015	€200m to Allied Irish Banks
October 2015	€51m to Finance Ireland
November 2015	€25m to Merrion Fleet
November 2015	additional €200m to Allied Irish Banks
December 2015	€75m to Ulster Bank



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. As a newly established organisation the SBCI needs to raise awareness of its brand and the role it plays in delivering lower cost longer-term funding to SMEs in Ireland. It is also necessary for the SBCI to clearly communicate its on-lenders 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. The brand development process included customer and market research which resulted in the development of the SBCI logo and tagline of "Small businesses. Big plans". In order 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 commenced in February 2015 and comprised of a mix of radio, print 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 2015) shows awareness of the SBCI as a Government support initiative at 23% of participating SMEs, demonstrating good progress in growing brand awareness in the SBCI's first six months of operation. 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 March and December 2015 the SME outreach programme saw SBCI staff in attendance at more than 100 events at which they availed of 75 speaking opportunities.

SBCI Programme Launch February 2015. L - R: Minister for Public Expenditure and Reform Mr Brendan Howlin TD; the Minister for Finance, Mr Michael Noonan TD; An Taoiseach, Mr Enda Kenny TD; Tánaiste, Ms Joan Burton TD; and SBCI CEO Nick Ashmore.

SBCI Head of Products John Madigan discussing funding and investment with the Athlone business community at an SBCI business breakfast, December 2015.

2015 National Ploughing Championships at Rathinska Co.Laois, September 2015. L-R Minister for Business and Employment Ged Nash; SBCI CEO Nick Ashmore; and SBCI Head of Products John Madigan.

BUSINESS REVIEW (continued)

STAKEHOLDER ENGAGEMENT

The SBCI recognises a wide group of stakeholders with an interest in its activities and therefore regards stakeholder engagement as critical to ensuring that its activities are aligned with Government policy and meets the financing needs of the Irish market. This is being achieved through regular and effective engagement and collaboration with all stakeholders including SMEs, representative bodies, SME advisors, Government Departments, on-lending 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 the 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- NPB/Is working group on the delivery of the European Investment Plan for Europe (otherwise known as the "Juncker Plan[1]") during the course of 2015.

MARKET OVERVIEW

Micro and small SMEs make up 97% of total enterprises in Ireland. The ownership structure of Irish SMEs tends to be uncomplicated, where the entrepreneur has vested all or the majority of their personal equity in the business. As a result, SMEs tend to have a low risk appetite for borrowing which can hamper the growth of their business and lead them to forego capital investment opportunities. Therefore there is a need for finance providers to create products which will boost capital investment and hence productivity in SMEs.

Since 2010 there has been a rebalancing in the structure of banks' loan books, as the sectoral composition of new lending is undergoing tangible change.[2] Each sector's share of new lending as compared to its share of the outstanding stock of total non-financial SME credit can be seen in Figure 1, illustrating the shift towards primary industries (e.g. agriculture) and a reduction in the proportional share of the hospitality and retail sectors.

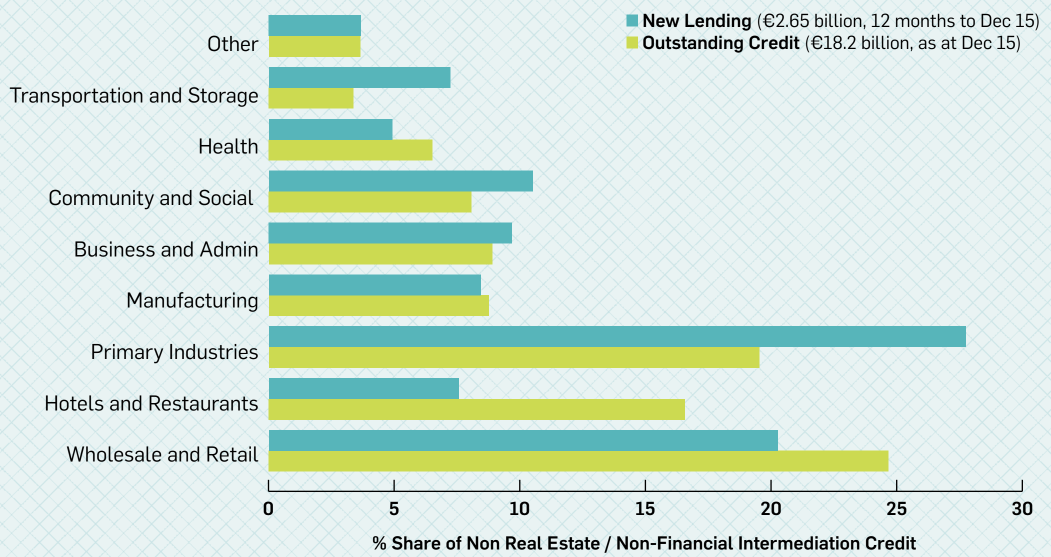
Gross new lending to SMEs (excluding financial and real-estate) has shown positive growth since the start of 2014. The year-on-year growth rate for new lending in 2015 was 11%. However, despite this growth, the overall stock of outstanding SME credit is still declining, indicating that the volume of repayments continues to outstrip new lending in each quarter. Although SME perception of banks' willingness to provide credit has improved, 39% of Irish SMEs still considered access to finance a 'high' concern.[3]

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 to unlock public and private investments in the "real economy" to the values of at least €315 billion over a three year fiscal period.

2 New lending is defined by the Central Bank of Ireland (CBoI) as any drawdown which was not already part of the closing stock of lending at the previous reference period. Renegotiations of existing loans or renewals of overdraft facilities are not included in new lending.

3 Source: CBoI Report: Credit Advanced to Irish Resident SMEs

Figure 1: Sector Share of Gross New Lending and Outstanding Non-Financial Credit



Source: CBoI Report: Credit Advanced to Irish Resident SMEs

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. The current principal bank providers of debt finance to SMEs in the Irish market are Allied Irish Banks, Bank of Ireland and Ulster Bank. Other banks remaining in the Irish banking market include Permanent TSB, which has begun to pilot small amounts of SME lending and KBC Bank Ireland. There is a clear requirement to increase the number of market participants providing credit to SMEs to enhance competition.

The non-bank financing channel also saw a significant reduction in the number of providers following the financial crisis. Historically it was not a significant source of debt finance for SMEs but, as it re-emerges, it is expected to become a larger element of the market and likely to include crowd funding, peer-to-peer lending, factoring, invoice discounting, and asset financing.

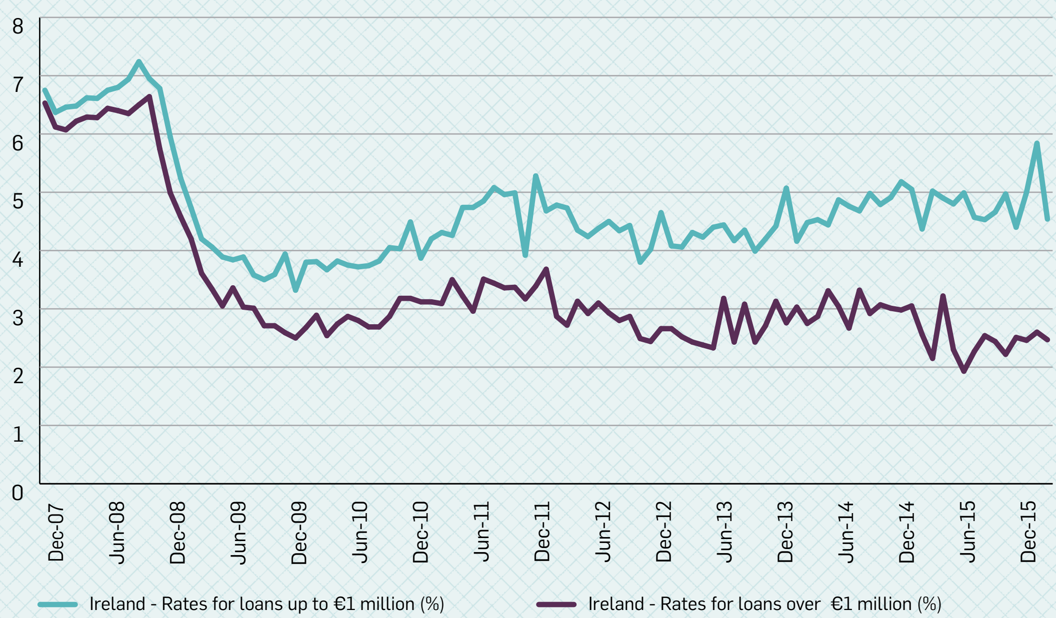
BUSINESS REVIEW (continued)

SMEs consistently face greater difficulties in obtaining funding compared to large firms. This can be attributed to greater information asymmetries between the prospective borrower and its lenders and also higher transaction costs as shown in Figure 2 which demonstrates significantly lower rates for larger SMEs requiring funding over €1 million.

For larger SME loans, Ireland has seen a drop in the level of interest rates in comparison to similar SMEs in other EU countries. However, particularly in recent years, Irish rates are more in line with southern European rather than northern European countries.

There has been an ongoing divergence between Irish SME lending rates and those of the eurozone for smaller SME loans and Ireland is the only eurozone country not to see a drop in SME interest rates for smaller loans. The average cost of a sub €250,000 loan in Ireland in 2015 was 5.5% at end 2015 compared to a northern Europe average of 3.0% and a southern Europe average of 4.0%. The average cost of SBCI loans in 2015 was 4.5%.

Figure 2: Interest Rates on Loans >€1m vs <€1m.



Source: ECB Statistical Data Warehouse

GOVERNANCE
DIRECTORS

Conor O'Kelly | Chairperson 1

Nick Ashmore | Chief Executive 2

Barbara Cotter 3

Tom McAleese 4

Rosheen McGuckian 5

Ann Nolan 6

AJ Noonan 7

Richard Pelly 8

Eilis Quinlan 9

GOVERNANCE (continued)

1. Conor O'Kelly | Chairperson

Appointed January 2015 and reappointed for a three year term from March 2015

Conor O'Kelly was appointed Chief Executive of the National Treasury Management Agency (NTMA) in January 2015. He was formerly Deputy Chairman of Investec Holdings (Ireland) Ltd. Prior to that he was Chief Executive of NCB Group and in 2003 successfully negotiated and led a management buyout of the firm, which was subsequently acquired by Investec plc. Before joining NCB as Head of Fixed Income Conor spent 11 years with Barclays Capital where he held senior management positions and worked in London, Tokyo and New York. He is a graduate of Trinity College Dublin and holds a master's degree from Senshu University in Japan.

2. Nick Ashmore | Chief Executive

***Ex-officio* member**

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

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 September 2014 and reappointed for a three year term from March 2015

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 is currently Chairperson of the Small Firms Association. He is a graduate of the Dublin Institute of Technology.

8. Richard Pelly

Appointed March 2015 for a five year term

Richard Pelly is a 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 a 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.

BOARD AND COMMITTEES OF THE BOARD

The SBCI is a private company limited by shares established under the *Strategic Banking Corporation of Ireland Act 2014* and incorporated in September 2014. The issued share capital of the SBCI is owned solely by the Minister for Finance.

The SBCI's Articles of Association provide 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. Subsequent Directors are appointed by the Board on the nomination of the Minister. The Articles provide that the Chairperson is appointed by the Minister.

Three Directors were appointed by the Minister in September 2014: John Corrigan (Chairperson), Nick Ashmore and Ann Nolan. John Corrigan resigned from the Board in January 2015 on his retirement as Chief Executive of the National Treasury Management Agency. Conor O'Kelly, the new Chief Executive of the National Treasury Management Agency, was appointed as a Director and as Chairperson in January 2015.

In March 2015 six additional Directors were appointed to the Board: Barbara Cotter, Tom McAleese, Rosheen McGuckian, AJ Noonan, Richard Pelly and Eilis Quinlan. Ann Nolan and Conor O'Kelly were reappointed. Nick Ashmore continues to be an *ex-officio* Director in his capacity as CEO.

The Board has adopted the *Code of Practice for the Governance of State Bodies (2009)* ('the Code'), adapted in a limited number of cases in accordance with the SBCI's governance structure and business circumstances. Where necessary, it is putting in place arrangements to ensure compliance with the Code, and will review its policies and procedures periodically to ensure continued compliance with the Code.

A Code of Conduct is in place for Directors. SBCI staff are employees of the National Treasury Management Agency 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 on Directors under the *Companies Act 2014*, the Company's Articles of Association and the *Code of Practice for the Governance of State Bodies*. The SBCI has put in place procedures to assist Directors in meeting their disclosure of interest obligations.

Audit and Risk Committee

The SBCI Board has established an Audit and Risk Committee to assist in the performance of its functions. The Audit and Risk Committee is comprised of three members:

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

The Audit and Risk Committee was established in mid-2015 and met on two occasions during the reporting period (it will hold at least four meetings in a full calendar year). This is the only Committee (to date) established by the SBCI Board. Its responsibilities include monitoring the integrity of the financial statements, reviewing and reporting to the Board on significant financial reporting issues, monitoring and reviewing the effectiveness of the internal control systems, the internal audit function and the risk management system, reviewing and considering the outputs from the statutory auditor (the Comptroller and Auditor General), and oversight of the implementation of the Reporting of "Relevant Wrongdoing" and Protected Disclosures Policy. The internal and external auditors and the Head of Risk have full and unrestricted access to the Committee.

GOVERNANCE (continued)

Attendance at Board and Committee Meetings

During the reporting period (12 September 2014 to 31 December 2015), the Board met on 12 occasions and the Audit and Risk Committee met on two occasions.

Board Member	Board	Audit and Risk Committee
Conor O'Kelly	9/9(p)	
John Corrigan	3/3(p)	
Nick Ashmore	12/12	
Barbara Cotter	7/8(p)	2/2
Tom McAleese	8/8(p)	2/2
Rosheen McGuckian	7/7(p)	
Ann Nolan	11/12	
AJ Noonan	8/8(p)	
Richard Pelly	8/8(p)	
Eilis Quinlan	7/8(p)	2/2

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

RISK MANAGEMENT

The SBCI aims to manage risk in an informed and proactive manner, in accordance with its Risk Management Framework and 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.

Roles and Responsibilities

The Board is responsible for setting the risk appetite and overseeing and guiding risk management activity across the SBCI. The Audit and Risk Committee is responsible for overseeing the implementation of the SBCI Risk Management 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 Framework is predicated on the three-lines-of-defence model. Within this model, staff 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, as well as monitoring and control of risk. 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 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 function is managed by the NTMA Head of Internal Audit and includes an external firm, currently KPMG, appointed to carry out internal audit work reporting to the Head of Internal Audit.

Principal Risks and Uncertainties

The principle risks and uncertainties facing the Company are detailed below. These risks reflect the current early stage of the SBCI's development.

Strategic Risk

The SBCI relies on its product and on-lender strategy to meet its objectives in providing finance to SMEs. 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 purchase 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.

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 STATEMENTS OF THE STRATEGIC BANKING CORPORATION OF IRELAND

For the financial period from 12 September 2014 (Date of Incorporation) to 31 December 2015

CONTENTS

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 period from the date of incorporation of 12 September 2014 up to and including 31 December 2015 ("the financial period").

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 funding to on-lenders who are required to pass on the advantageous rate to 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.

The Directors intend that the Company is re-registered as a designated activity company before the end of the transition period allowed by the Companies Act 2014.

Principal activities

The SBCI's principal activities during the financial period were the initial set-up and commencement of operations, the sourcing of funding from international finance providers and State resources, and the provision of long-term low-cost lending to on-lending institutions for distribution to Irish small and medium-sized enterprise ("SME") borrowers.

Business review and likely future developments

The Chairperson's Statement and Chief Executive Officer's Review report on the development and performance of the Company during the financial period, significant recent events and likely future developments. Further information on the SBCI's strategy and business model is set out in the Strategy section (pages 8 to 9) while a comprehensive review of the operations of the SBCI is set out in the Business Review section (pages 10 to 16).

During the financial period, the Company focused on securing its initial funding from international funders and State resources as well as establishing its first on-lending facilities. The initial business model of the SBCI is 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 period, the following represents the key performance outturn:

- €790 million of committed funding sourced by the SBCI from European and State funders;
- €751 million of low cost funding facilities committed by the SBCI to on-lenders;
- €235 million advanced by the SBCI to on-lenders for the purposes of onward lending to SMEs;
- €172 million 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. These risks reflect the current early stage of the SBCI's development.

Strategic Risk
The SBCI relies on its product and on-lender strategy to meet its objectives in providing finance to SMEs. 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 purchase the offered products.

Credit Risk
The SBCI is exposed to the risk that a borrowing counterparty (i.e. an on-lender) defaults on its obligations and fails to repay its debt in full, resulting in losses to the SBCI. The SBCI's direct credit risk exposure is to the on-lenders to which it lends, and does not extend to the final beneficiary SMEs.

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 how the Company manages these risks are given in Note 12 to the financial statements.

Directors

The Directors who served during the financial period are:

Conor O'Kelly *(Chairperson) (appointed 12 January 2015)*

John Corrigan *(Chairperson) (appointed 12 September 2014 and resigned 5 January 2015)*

Nicholas Ashmore *(Chief Executive Officer) (appointed 12 September 2014)*

Barbara Cotter *(appointed 18 March 2015)*

Tom McAleese *(appointed 24 March 2015)*

Rosheen McGuckian *(appointed 27 March 2015)*

Ann Nolan *(appointed 12 September 2014)*

AJ Noonan *(appointed 18 March 2015)*

Richard Pelly *(appointed 18 March 2015)*

Eilis Quinlan *(appointed 18 March 2015)*

Directors' interests

The Directors had no beneficial interest in the Company during the period or at the period end. The issued share capital of the Company is owned solely by the Minister for Finance.

Directors' Report (continued)

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 29. The accounting records are kept at the Company's registered office at Treasury Building, Grand Canal Street, Dublin 2, D02 XN96.

Results and dividends

The results for the financial period 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 33 and 34 respectively.

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

Events after the reporting period

Refer to Note 24 of the financial statements.

Auditor

The Comptroller and Auditor General ("C&AG") is the Company's auditor by virtue of section 19 of the Strategic Banking Corporation of Ireland Act 2014 ("SBCI Act 2014").

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

Nicholas Ashmore
Chief Executive Officer
Strategic Banking Corporation of Ireland

Conor O'Kelly
Chairperson
Strategic Banking Corporation of Ireland

19 May 2016

Statement of Directors' Responsibilities

Irish company law requires the Directors to prepare financial statements for each financial period. The Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, the International Financial Reporting Interpretations Committee (IFRIC) interpretations 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 financial position of the Company as at the financial period end date and of the profit or loss of the Company for the financial period, 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 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.

They 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.

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

19 May 2016

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;
- adoption of the Reporting of 'Relevant Wrongdoing' and Protected Disclosures Policy and adherence to the NTMA Anti-Fraud Policy (and subsequent adoption of the SBCI Anti-Fraud Policy in February 2016);
- regular reporting on performance of on-lenders.

The Board of Directors has adopted the Code of Practice for the Governance of State Bodies, as adapted in certain circumstances.

Audit and Risk Committee

The SBCI has an Audit and Risk Committee which operates in accordance with the principles in the Code of Practice for the Governance of State Bodies. Its 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 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 2015 was agreed with the management of the SBCI and approved by the Audit and Risk Committee at its first meeting 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 Board of Directors approved Risk Management Framework and Risk Appetite Statement. 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. 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 monitor 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 period from incorporation to 31 December 2015, 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

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

19 May 2016

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 period ended 31 December 2015 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 International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 2014 applicable to companies reporting under IFRS.

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 2015 and of its loss for the period then ended; and
- have been properly prepared in accordance with IFRS as adopted by the European Union; 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.

Seamus McCarthy
Comptroller and Auditor General

27 May 2016

Income Statement and Other Comprehensive Income

For the financial period from 12 September 2014 (Date of Incorporation) to 31 December 2015

	Note	12 September 2014 to 31 December 2015 €000
Interest income	5	1,278
Interest expense	6	(592)
Net interest income		**686**
Operating expenses	7	(4,416)
Operating loss		**(3,730)**
Loss for the period		**(3,730)**
Other comprehensive income		-
Total comprehensive loss for the period		**(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

19 May 2016

Statement of Financial Position

as at 31 December 2015

	Note	Financial period ended 31 December 2015 €000
Assets		
Cash and cash equivalents	*10*	120,642
Loans and receivables	*11*	235,603
Intangible assets	*15*	505
Other assets	*14*	96
Total assets		**356,846**
Liabilities		
Funding and borrowings	*17*	350,148
Other liabilities	*16*	428
Total liabilities		**350,576**
Shareholder's equity		
Share capital	*20*	10,000
Retained losses	*20*	(3,730)
Total equity		**6,270**
Total equity and liabilities		**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
Chief Executive Officer
Strategic Banking Corporation of Ireland

Conor O'Kelly
Chairperson
Strategic Banking Corporation of Ireland

19 May 2016

Statement of Changes in Equity

as at 31 December 2015

	Share Capital €000	Retained losses €000	Total equity €000
Opening Balance	-	-	-
Loss for the period	-	(3,730)	(3,730)
Other comprehensive income	-	-	-
Total comprehensive loss	**-**	**(3,730)**	**(3 ,730)**
Issue of share capital	10,000	-	10,000
Balance at 31 December 2015	**10,000**	**(3,730)**	**6,270**

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

19 May 2016

Statement of Cash Flows

For the financial period from 12 September 2014 (Date of Incorporation) to 31 December 2015

	Note	12 September 2014 to 31 December 2015 €000
Cashflows from operating activities		
On-lending loans issued	*18*	(235,000)
Interest receipts		569
Interest payments		(443)
Reimbursement of fees by on-lenders		49
Operating expenses paid		(4,110)
Net cash used by operating activities		**(238,935)**
Cashflows from investing activities		
Interest income	*5*	106
Purchase of intangible assets		(529)
Net cash from investing activities		**(423)**
Cashflows from financing activities		
Funding loans received	*18*	350,000
Issuance of share capital	*20*	10,000
Net cash from financing activities		**360,000**
Cash and cash equivalents at the beginning of the period		**-**
Cash and cash equivalents at the end of the period		**120,642**

Notes to the Financial Statements

31 December 2015

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 funding to on-lenders who are required to pass on the advantageous rate to SME borrowers in Ireland.

The Company is a single member private 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.

These financial statements comprise the financial results of the Company.

2. Statement of compliance

The Company's financial statements for the financial period ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, the International Financial Reporting Interpretations Committee (IFRIC) interpretations and in accordance with the Companies Act 2014. These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the reporting date.

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS 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 Loan impairment assessment

The Company reviews its portfolio of loans and receivables for 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 be likely to 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").

3.1 Loan impairment assessment (continued)

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.

3.2 Income recognition on loans and receivables

The accounting policy for the recognition of interest income on loans and receivables is set out in Note 4.7.

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 (See Note 17).

The functions of the Company are, inter alia, to provide, and promote the provision of, additional credit in a prudent manner to enterprises and 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.

The Statement of Financial Position has been presented showing assets and liabilities in their broad order of liquidity as the Company believes this presentation provides reliable and more relevant information than separate current and non-current classifications.

Notes to the Financial Statements (continued)

4. Significant accounting policies (continued)

4.2 Basis of measurement

The financial statements have been prepared under the historic cost convention, except for loans and receivables and financial liabilities which are held at amortised cost.

The Statement of Cash Flows shows the changes in cash and cash equivalents arising during the financial period from operating activities, investing activities and financing activities.

The cash flows from operating activities are determined using the direct method, whereby major classes of gross cash receipts and gross payments are disclosed.

4.3 IFRS Standards, amendments and interpretations issued but not effective

A number of new standards have been issued for annual financial periods beginning after 1 January 2015. However, the Company has not applied the following new standards in preparing these financial statements:

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers will be applicable for accounting periods beginning on or after 1 January 2018 subject to EU endorsement.

IFRS 9 applies one classification approach for all types of financial assets. Two criteria are used to determine how financial assets should be classified and measured, namely the entity's business model for measuring financial assets and the contractual cash flows characteristics of the financial assets. The standard identifies three categories of financial assets, i.e. amortised cost, fair value through other comprehensive income and fair value through profit or loss.

IFRS 9 retains almost all of the existing requirements from IAS 39 on the classification of financial liabilities.

The Company is currently assessing the potential impact on its financial statements resulting from the application of IFRS 9. As regards impairment, IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model with this model being applied to all financial instruments. IFRS 9 requires an entity to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected credit losses on a timely basis. The revised standard has not yet been EU endorsed and therefore has not been adopted by the Company.

IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue. IFRS 15 specifies how and when an entity recognises revenue from a contract with a customer through the application of a single, principles based five-step model. The standard specifies new qualitative and quantitative disclosure requirements to enable users of financial statements understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The impacts of this standard are being considered by the Company. The standard is subject to EU endorsement.

4. **Significant accounting policies** (continued)

4.4 Financial Assets

The Company classes its financial assets in accordance with IAS 39 classifications. The Company determines the classification of its financial instruments at initial recognition.

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. 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 drawn down from its funders are the Company's only financial liabilities at period end. 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. 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 interest-bearing financial instruments is recognised in interest income and interest expense 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. All other interest income is accounted for within investing activities.

Notes to the Financial Statements (continued)

4. Significant accounting policies (continued)

4.8 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 using an allowance account in the Income Statement.

The loans of each on-lender are objectively assessed for 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 by adjusting the allowance account. The amount of the reversal is recognised in the Income Statement.

When a loan has been subjected to a specific provision 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 provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the Income Statement.

4.9 Cash and cash equivalents

Cash comprises cash on hand and on demand deposits. 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.

4. **Significant accounting policies** (continued)

4.10 Intangible assets

Software acquired by the Company is 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 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 to sell off 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.

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.

4.11 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.

Notes to the Financial Statements (continued)

4. Significant accounting policies (continued)

4.12 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.

4.13 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 as expenses to the SBCI. These expenses are recovered from the SBCI by the NTMA at cost. Further information on costs reimbursable to the NTMA is included in Note 7.1.

4.14 Key management personnel

The Company is controlled by the SBCI CEO and the 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.

5. Interest income

	12 September 2014 to 31 December 2015 €000
Interest on loans receivable	1,172
Other interest income	106
	1,278

6. Interest expense

	12 September 2014 to 31 December 2015 €000
Interest on funding and borrowings	591
Bank interest	1
	592

7. Operating expenses

	Note	12 September 2014 to 31 December 2015 €000
Costs reimbursable to the NTMA	*7.1*	3,672
SBCI Board Fees	*8*	74
Other expenses		670
		4,416

7.1 Costs reimbursable to the NTMA

	12 September 2014 to 31 December 2015 €000
NTMA staff costs	1,847
Business services	1,163
Professional fees	356
Technology	254
Other operating costs	52
	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 number of employees directly engaged in the Company at the reporting date was 9. NTMA staff costs include the remuneration and other staff related costs, such as recruitment costs, staff training and temporary staff 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.

Notes to the Financial Statements (continued)

7. Operating expenses (continued)

7.1 Costs reimbursable to the NTMA (continued)

Nicholas Ashmore (CEO)	**€**
Annual salary	250,000
Annual taxable benefits	23,154
	273,154

The CEO received a total salary of €309,734 and taxable benefits of €25,077 during the financial period from 12 September 2014 to 31 December 2015. No performance related payment was paid or is payable to the CEO during the period. 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.

8. Board fees and expenses

An annual fee is paid to certain Directors at a rate of €15,750, as specified by the Minister for Finance. The fee paid to each Director from the date of their appointment to the reporting date is as below:

Board fees	**12 September 2014 to 31 December 2015 €**
Barbara Cotter	12,409
Tom McAleese	12,170
Rosheen McGuckian	11,991
AJ Noonan	12,409
Richard Pelly	12,409
Eilis Quinlan	12,409
	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.

8. Board fees and expenses (continued)

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 period, a total of €1,231 in taxable expenses was incurred in respect of certain Directors.

Board Member	Travel	Accommodation and subsistence	Total
	€	€	€
Richard Pelly	1,231	-	1,231

The expenses paid to Directors are included in the costs reimbursable to the NTMA.

9. Tax charge

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

10. Cash and cash equivalents

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

11. Loans and receivables

	2015 €000
Loans to on-lenders (See Note 12.1)	235,603

The SBCI had loans in issue to two on-lenders at the end of the period. Both of these on-lenders are Irish financial institutions. The remaining terms of these loans range from 2.5 to 9 years and interest is charged by the SBCI at Euribor plus margin. The loans in issue were provided on an unsecured senior creditor basis.

The Company assesses at the end of each financial period, whether there is objective evidence that the on-lender loans are impaired (See Note 4.8). Following the impairment assessment of the loans as at 31 December 2015, the Company concluded that no evidence of impairment existed at the reporting date.

At the end of the period, the Company had €516 million in undrawn loan commitments.

Notes to the Financial Statements (continued)

12. 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 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 Framework. The Audit and Risk Committee will seek 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 Framework is in accordance with the principles of the Code of Practice for the Governance of State Bodies.

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 SBCI 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;

12. Risk management (continued)

- 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 provide independent challenge and oversight to ensure implementation of the SBCI Risk Management 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.

12.1 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.

Credit risk is the most important risk for 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:

Underwriting approval

- 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;
- 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;

Notes to the Financial Statements (continued)

12. Risk management (continued)

12.1 Credit risk (continued)

- independent risk review and sign off by the SBCI Head of Risk of each potential on-lender;
- obtaining adequate security for each on-lender and, where applicable, additional forms of security for non-bank financial institutions;
- all credit decisions reserved to the Board.

Monitoring and control

- 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;
- 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 2015 is €356.3 million. This maximum exposure to credit risk is presented by class of financial instrument below:

	2015 €000
Loans and Receivables	235,603
Cash and Cash Equivalents	120,642
Other Assets	96
	356,341

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.

	2015 €000
AAA	114,999
A	5,643
BBB- to BB+	235,603
Non-rated	96
	356,341

12. **Risk management** (continued)

12.2 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:

- 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 so 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 dates of the contractual amounts that commit the Company to make repayments on loans it has borrowed are summarised in the below table. The amounts presented are undiscounted. Other liabilities of €428k are also included.

	No later than 1 year €000	**1-5 years €000**	**Over 5 years €000**	**Total €000**
Repayments due	937	98,497	266,174	365,608

12.3 (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 three types of risk: currency risk, interest rate risk and other price 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.

Interest Rate Risk

The Company is exposed to market 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.

Notes to the Financial Statements (continued)

12. Risk management (continued)

12.3 (a) Market risk (continued)

However, 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 2015 are detailed below:

Financial assets	2015 €000
Cash and cash equivalents	120,642
Loans and receivables	235,603
	356,245
Financial liabilities	
Funding and borrowings	**350,148**

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

12.3 (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 interest, subject to a minimum interest rate of 0 per cent. This risk is measured as the net present value (NPV) impact, on the Statement of Financial Position, of that change in interest rates. The analysis shifts all interest rates for each loan simultaneously by the same amount. The interest rates are set as at 31 December 2015. The figures take account of the effect on both loans receivable and payable.

12. Risk management (continued)

12.3 (b) Market risk measurement (continued)

Interest Rate Sensitivity Analysis - a 50bp move

	+50bp €000	-50 bp €000
Interest receivable	(370)	374

	+50bp €000	-50 bp €000
Interest payable	702	(707)

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.

12.4 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 current paid-up share capital is €10m, which was provided by the SBCI's sole shareholder, the Minister for Finance. In addition, the SBCI has available callable capital of €240 million which it may call on at its discretion from the Minister for Finance, as provided for in the SBCI Act 2014.

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 structure frequently to determine the appropriate level of capital to safeguard against these risks.

12.5 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 SBCI 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

Notes to the Financial Statements (continued)

12. Risk management (continued)

12.5 Concentration risk (continued)

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 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 key concentrations of liabilities are to Irish and European funders.

13. 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.

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

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.

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
Financial liabilities					
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.

14. Other assets

	2015 €000
Reimbursements due	96

These are reimbursements due from on-lenders in relation to expenses the Company incurred and paid in carrying out due diligence reviews on these on-lenders.

15. Intangible assets

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

Intangible assets comprises IT Software purchased by the Company during the period. Amortisation charged during the period is included in operating expenses in the Income Statement.

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

16. Other liabilities

	2015 €000
Amounts due to the NTMA	351
Other liabilities	77
	428

17. Funding and borrowings

	2015 €000
Funding loans	350,148

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

Notes to the Financial Statements (continued)

17. Funding and borrowings (continued)

The SBCI had loans outstanding with two funders at the end of the period. Both of these funders are European financial institutions. The remaining terms of these loans range from 6 to 9 years and interest is charged by the SBCI at Euribor plus margin.

At the end of the period, the company had €440 million in undrawn funding facilities.

18. 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.

	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 12.2 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.

19. Auditor's remuneration

	12 September 2014 to 31 December 2015 €000
Audit of financial statements	27

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

20. Equity

	Share capital €000	Reserves €000	Total €000
Opening Balance	-	-	-
Share capital issued during the period	10,000	-	10,000
Loss for the 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.

The Minister for Finance subscribed for, and was issued with, 10,000,000 of the Company's authorised shares on its incorporation and is the sole shareholder of the Company.

21. Contingent liabilities

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

22. Related Parties Disclosures

22.1 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 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.

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

Key management personnel
The Company is controlled by the SBCI CEO and the 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 7 and 8.

Notes to the Financial Statements (continued)

22.2 Transactions and balances with related parties

The following are the transactions that took place during the financial period with related parties:

Minister for Finance share capital
On 23 September 2014, the Minister for Finance (through the ISIF) provided €10 million to the SBCI by way of a subscription for shares in the capital of the Company. The Minister for Finance has also provided guarantees as outlined in Note 17.

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 period was €3,672k. Further details in respect of these costs are disclosed in Note 7. There is an amount of €351k payable to the NTMA at the end of the financial period.

NTMA developed software
The SBCI purchased software developed internally by the NTMA at a cost of €505k during the financial period. €47k of the €351k payable to the NTMA at the end of the financial period relates to the purchase of software.

ISIF Loan Facility
The ISIF provided a loan facility of €240 million to the SBCI, under direction from the Minister for Finance.

Central Bank of Ireland cash deposit
At the end of the financial period, the SBCI held €114.9 million of cash at the Central Bank of Ireland.

Allied Irish Banks p.l.c
The SBCI issued loans to Allied Irish Banks p.l.c. during the financial period for the purpose of on-lending to Irish SMEs. These loans were outstanding at financial period end and are included in the loans and receivables figure of €235.6 million in the Statement of Financial Position.

23. 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 Articles of Association and the Code of Practice for the Governance of State Bodies. The SBCI has put in place procedures to assist Directors in meeting their disclosure of interest obligations during the period under review.

24. Events after the end of the reporting period

No events requiring adjusting or disclosure in the financial statements occurred after the end of the reporting period.

25. Approval of the financial statements

The financial statements were approved by the Directors on 19 May 2016.

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

Registered Office

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Bankers

Citibank

1 North Wall Quay

Dublin 1

D01 T8Y1

Central Bank of Ireland

Dame Street

Dublin 2

D02 P656

Auditor

Office of the Comptroller and Auditor General

3A Mayor Street Upper

Dublin 1

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