STRATEGIC BANKING
CORPORATION OF IRELAND

Annual Report & Financial Statements 2017

Here to build business.
Strategic Banking
Corporation of Ireland

About the SBCI

The Strategic Banking Corporation of Ireland (SBCI) was set up in September 2014 to ensure that, through economic cycles, Irish SMEs have access to stable, lower-cost, long-term funding options. As a state-owned promotional financial institution and in common with its more established peers in other European countries, the SBCI is becoming an integral part of the business finance ecosystem. By supporting and helping to develop an effective market for SME finance, it will ensure that businesses have the access they need to finance in both good and bad market conditions.

To deliver on its mandate the SBCI, having secured multilateral funding sources at competitive rates and counter-guarantees for risk support, provides wholesale finance through its on-lending partners to SMEs that need support in prudently accessing appropriate forms of finance. Central to the activities of the SBCI, is ensuring that the benefit of its support is delivered to the ultimate SME borrower and not its on-lending partners.

Our Vision

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

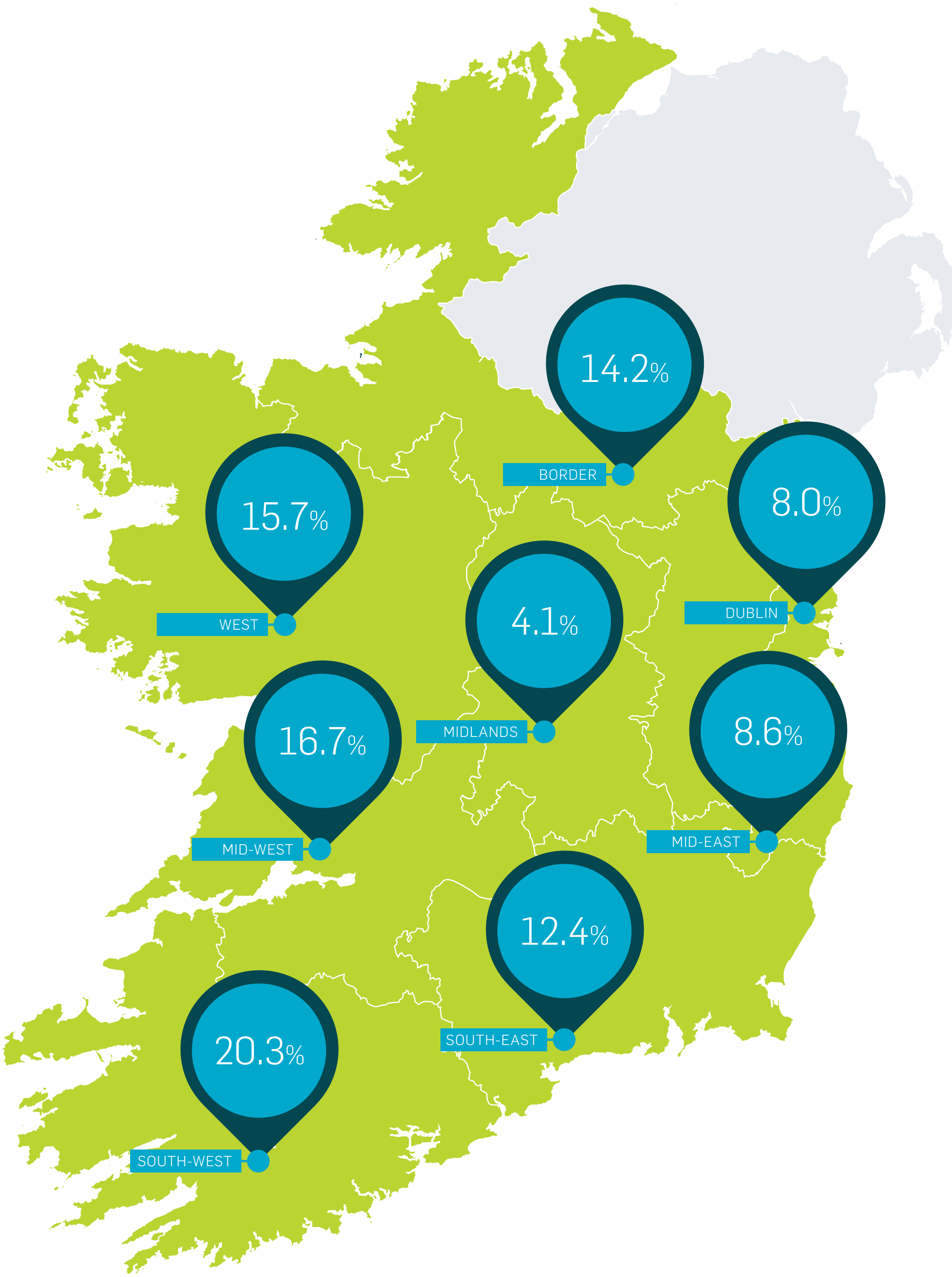
Our Mission

To deliver effective financial supports to Irish SMEs and, in time, other sectors that address failures in the Irish credit market, while driving competition and innovation and ensuring the efficient use of available EU resources.

Key Business Highlights

SBCI's Geographical Spread

Loan numbers: % by Region
Year to 31 December 2017



Year to 31 December 2017

€391m
loans drawn by Irish SMEs

Average loan size
€37,300

Jobs
53,389
In Irish SMEs supported by SBCI loans

SMEs
10,468
Across Ireland have drawn down SBCI loans

Average interest rate
4.4%

What **SMEs** use SBCI loans for (excluding the Agriculture Cashflow Support Loan Scheme)

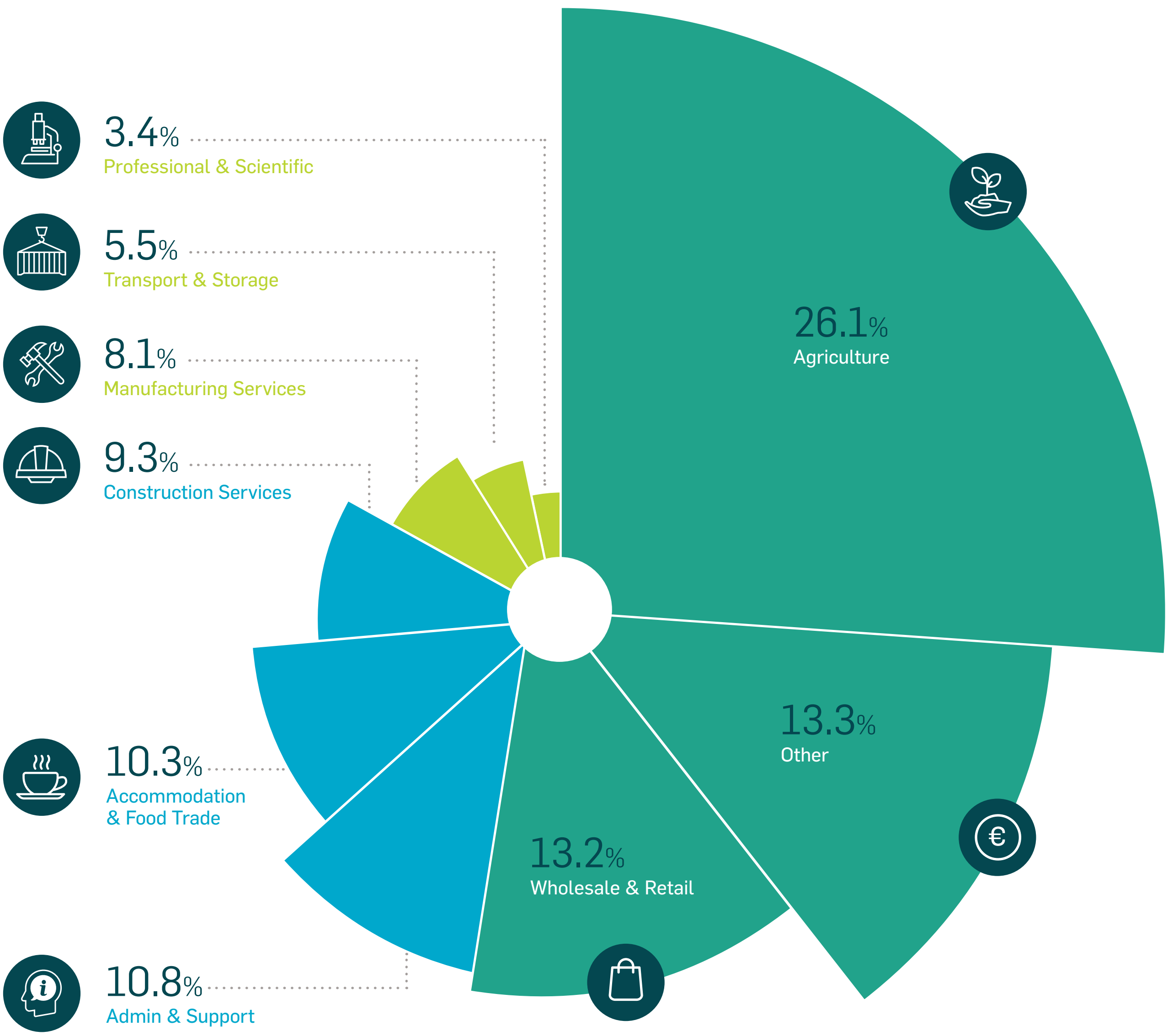
86%
of loans used for investment in growing the business

2%
used to refinance loans owed to banks exiting the Irish market

12%
used for working capital

SBCI liquidity funding is benefiting a wide range of sectors

(% of loans by value, excludes the Agriculture Cashflow Support Loan Scheme)
Year to 31 December 2017



Chairperson's Statement

In 2017, the SBCI delivered its first risk sharing product, the Agriculture Cashflow Support Loan Scheme, and also announced a further risk sharing scheme to support businesses impacted upon by Brexit.

The SBCI's strategy is to deliver credit-related financial instruments to businesses in Ireland, in particular SMEs, either directly or as a service provider, to address market failures in the provision of credit. Our role is to provide better access to appropriately-priced finance that supports productive investment, encourages growth, and facilitates employment, including where the market appetite remains constrained. The presence of the SBCI ensures that Ireland has in place an institution that actively facilitates the delivery of EU support in the form of financing from multilateral bodies and this is a key driver in the successful deployment of SBCI liquidity and risk sharing products. The SBCI will continue to be a conduit for State and European financing supports and delivery of additional long-term, low-cost lending and risk sharing products to businesses in Ireland.

During 2017, SBCI supported loans drawn by SMEs increased by €391m, meaning that in just over three years over €900m of SBCI supported loans have been drawn by SMEs. Our banking on-lenders completed the delivery of the initial tranche of SBCI funded loans totalling €675m to SMEs. The deployment of these facilities has coincided with increased availability of market liquidity with banks now able to access funds from wholesale markets at more favourable rates.

We are, therefore, now engaging with these partners on the delivery of new products, including our risk sharing initiatives. The SBCI also continues to support facilities totalling over €206m with its non-banking on lenders. Our non-banking on lenders Finance Ireland, First Citizen, Bibby Financial Services and Fexco Asset Finance provide SBCI funded products in leasing, hire purchase and invoice financing.

The SBCI operates in an evolving market and needs to update its products and offerings as the economic environment changes. This has led to the SBCI successfully broadening supports to include risk sharing and the provision of portfolio guarantees to financial institutions to enable the delivery of new targeted financial instruments. Risk sharing enables lenders to increase their credit risk appetite for SMEs requiring less collateral as security.

The SBCI successfully deployed its first risk sharing product in 2017, the Agriculture Cashflow Support Loan Scheme, in conjunction with the Department of Agriculture, Food and the Marine. Under the scheme, €150m was made available to support eligible farmers experiencing short-term financial pressure due to price and income volatility.

2017 was also notable for the announcement in the Budget of the €300m Brexit Loan Scheme, which will be the SBCI's second major risk sharing programme and will provide working capital facilities for businesses impacted upon by Brexit. Together, the Agriculture and Brexit guarantee backed schemes will provide €450m of new risk sharing measures into the SME market. In addition, the SBCI also continued the role it commenced in late 2016, as operator and manager of the Government's Credit Guarantee Scheme, bringing all of the Government's risk sharing SME credit activities under one roof.

In addition to the €1.2bn already secured by the SBCI in low-cost funding, we sourced counter-guarantees from the European Investment Fund to support over €400m in risk sharing schemes including the Agriculture and Brexit schemes, and for future development of other such risk sharing schemes. We also received additional capital of €25m from the Minister for Finance to support our current activities and the development and delivery of new products to address market failures.

Looking ahead to 2018, the SBCI's strategy is to continue to add new non-bank on-lenders to deploy lower-cost funding sourced from its funding partners, while also developing and delivering new risk sharing supports, in particular, for businesses impacted upon by Brexit and more broadly addressing specific market failures in the agri and agri-food sectors.

I would like to thank all of my fellow directors for their contribution and support, and in particular, Ann Nolan who retired from the Board in 2017; Ann had served as director of the SBCI since its incorporation in September 2014. I would also like to thank the SBCI staff for their achievements over the past year. We look forward to 2018 being another positive year for the SBCI in the delivery of its valuable supports for Irish businesses.

CONOR O'KELLY
Chairperson

Chief Executive Officer's Review

Building on the very strong progress made in prior years, when we were primarily a conduit for channelling low-cost funding to SMEs through our on lenders, 2017 was a transformative year for the SBCI as it initiated its first full scale risk sharing activities.

Overall SBCI supported lending to end-2017 stood at €931m, supporting an additional 10,468 SMEs and 53,389 jobs in 2017.

At end 2017, SMEs had drawn €787m of SBCI long-term liquidity supported lending (excluding the Agriculture Cashflow Support Loan Scheme), an increase of 45% on prior year. This represents another year of strong growth with new loans deployed across a broad regional spread, with an average loan size of €37,300. This also marked the completion of the delivery of the original €675m of long-term liquidity through the banks. 86% of SBCI supported loans were used for investment in business, with 12% used for working capital and 2% used to refinance facilities from banks exiting the Irish market. SBCI on lenders continue to pass on the financial advantage to SMEs providing lower-cost finance, and generating increased competition in the SME lending market by facilitating the entry of new non-bank lenders to the market – both domestic and international.

We were delighted also to conclude the delivery of the Agriculture Cashflow Support Loan Scheme in 2017. The €150m scheme was fully subscribed in weeks by three of our lending partners. At end-2017, €144m had been drawn by 4,203 SMEs with an average loan size of €33,912 and an interest rate of 2.95%.

The success of the scheme represents a major achievement for the SBCI and the first time that the European Commission's COSME counter guarantee programme had been used in Ireland and the first time in Europe that it has been used for primary agriculture. Our aim is to repeat the success of the scheme in other areas, wherever possible.

Following a significant piece of collaboration with the Department of Finance, the Department of Business Enterprise and Innovation, the Department of Agriculture, Food and the Marine and the European Investment Fund, the Brexit Loan Scheme was announced in Budget 2018. The scheme which is aimed at providing much needed support for businesses impacted upon by Brexit, launched at the end of March 2018, making €300m available to eligible businesses with up to 499 employees to borrow up to €1.5m at a rate up to 4% for three years or less. Businesses will be able to use the loans for future working capital requirements, and to fund innovation, change or adaptation of the business to mitigate the impact of Brexit. To deliver the scheme, the SBCI will engage directly with Brexit-impacted businesses to assist them with the eligibility process and applying for these loans. This direct engagement will be hugely beneficial as it will allow the SBCI to identify businesses' needs and design the right kind of products to meet these needs.

The SBCI continued its brand awareness campaign in 2017 across radio and on-line media. SBCI staff also attended SME events nationwide, from local networking to brand-building events. We are encouraged by survey results showing growth in awareness of the SBCI brand and will continue to refine our campaign and increase awareness of the SBCI's role and what it can offer to businesses.

The results for 2017 show a profit of €495k, compared to an operating loss for the prior year. This improved financial performance is due to increased interest income on funds drawn down by our on-lender partners, and the cost recovery from the SBCI's role as operator and manager of the Agriculture Cashflow Support Loan Scheme. Longer-term, our financial goal is to sustainably cover our costs, with any surplus generated to be re-cycled into further supports for SMEs.

Looking ahead to 2018, we will continue to develop risk sharing into a strong answer to credit market failures facing businesses in Ireland. As we expand this line of business we will also look to develop online solutions to streamline the process for SMEs applying for SBCI supported facilities. The SBCI also looks forward to adding new on-lenders and will continue to research markets for distinct market failures and develop appropriate product solutions.

To ensure that we continue to deliver on our mandate, the SBCI has built a small, skilled and motivated team, which is supported in turn by the central functions of the NTMA. Delivering the progress and positive impact to SMEs this year would not have been possible without the experience and hard work of all staff directly or indirectly assigned to the SBCI, and I would like to thank them for their commitment. The SBCI's culture is focused on its core values of integrity, teamwork, common purpose, taking an entrepreneurial approach and transparency. I would also like to thank our Chairperson and the Board for their commitment, support and direction during this past year.

NICK ASHMORE
Chief Executive Officer

Strategy

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

The primary goal of the SBCI's strategy is to deliver SME focussed interventions in Ireland, either directly or as a service provider, to address market failures in the provision of credit to SMEs.

The SBCI has a vital role to play in restoring an effective and sustainable market for SME financing in Ireland and a wider role in the longer-term development of the financial infrastructure as a conduit for State and European financing supports.

2017 saw the SBCI transition as its delivery of €675m of low-cost long-term liquidity to Irish SMEs, through our banking on-lenders, concluded and the full roll out of its Agriculture risk sharing product was successfully completed. The SBCI also continued its provision of additional credit to SMEs through a range of non-bank finance providers.

Underpinning the SBCI vision and its effectiveness as a promotional institution is an agility and adaptability to address emerging market requirements. In conjunction with the Department of Agriculture, Food and the Marine and with support from the European Commission in the form of exceptional aid and the COSME programme, the SBCI delivered its first risk sharing product, the Agriculture Cashflow Support Loan Scheme (ACSL Scheme) in January 2017. Further detail relating to the ACSL Scheme is available on page 17.

It is also envisaged that, within its legislative functions, the activities of the SBCI will expand over time to serve as a broad based national financing platform supporting a variety of types of policy driven credit provision across the economy.

Following the Brexit vote in June 2016, there has been considerable uncertainty for Irish businesses, particularly those directly trading with the UK. Ireland, given its proximity to the UK and historic trading links, will be particularly vulnerable to the final outcome of negotiations in relation to the UK's exit from the EU. The SBCI has been working closely with the relevant government departments to develop the most appropriate credit supports that may be needed for Irish businesses facing this challenge. In November 2017, the Minister for Finance announced, as part of Budget 2018, the €300m Brexit Loan Scheme which is due to be launched by the SBCI in the market at end Q1 2018.

Looking further forward into 2018, the SBCI will continue to expand its product offering and has an active pipeline of on-lenders and new product schemes under various stages of development.

Strategy continued

Lines of Business

The SBCI operates three lines of business:

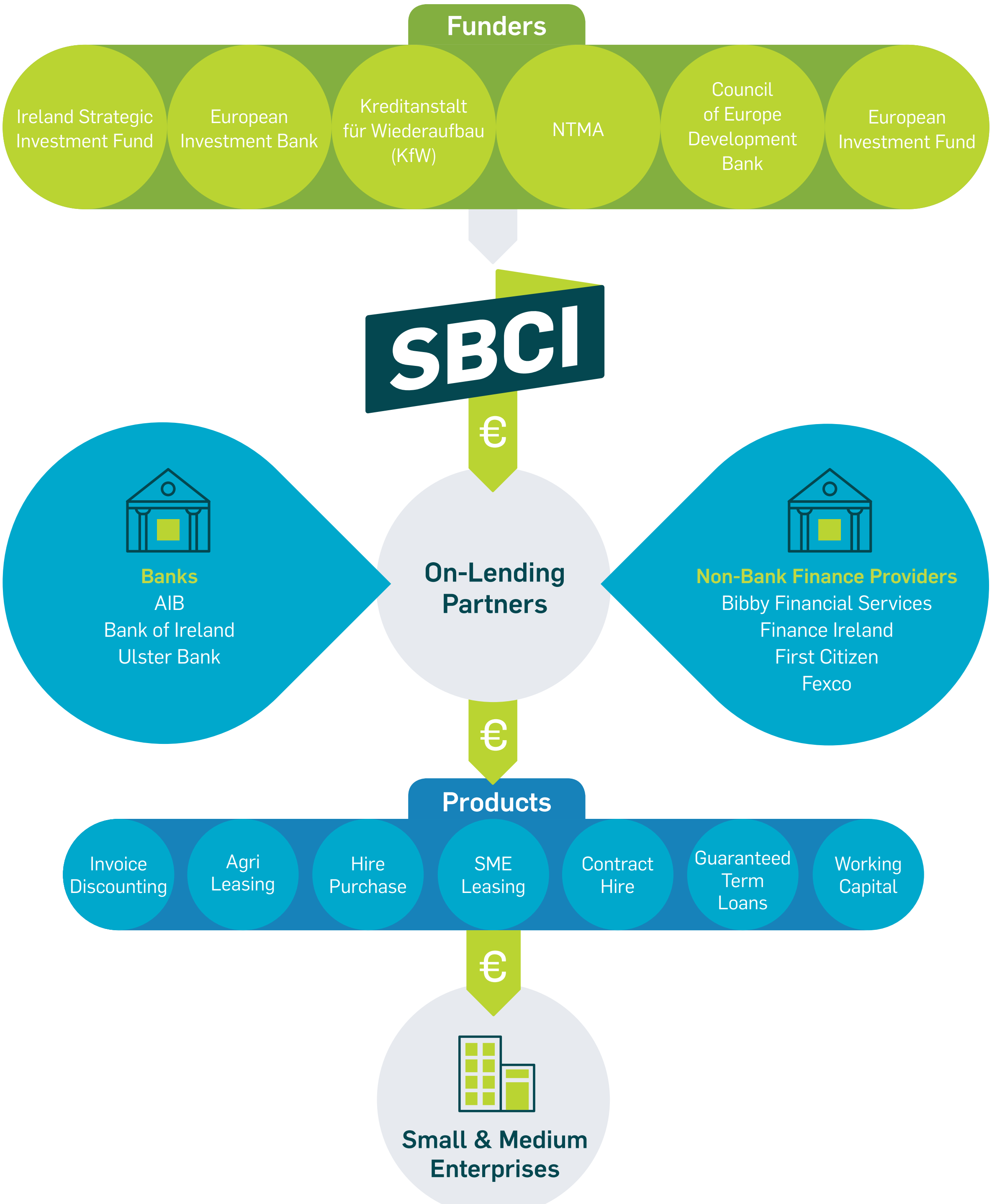
Lending	The current lending business model of the SBCI is to serve as a wholesale on-lending financial institution. It provides low-cost, long-term wholesale finance to suitable on-lenders with the benefit of the lower interest cost being passed to SME borrowers. The SBCI's strategy is based on developing a strong pipeline of potential on-lenders to achieve diversity in the market and drive competition while being cognisant of not distorting the market in any lending sector.
Risk Sharing	The risk sharing business model is to provide partial credit guarantees to finance providers to facilitate the advancement of credit to SMEs, including where access to credit is constrained by specific sectorial or economic cycle market failures. The SBCI avails of and leverages risk capacity from State and European supports to design financial instruments which make efficient use of its capital and enhance SME access to finance. The SBCI Agriculture Cashflow Support Loan Scheme, which was launched in Q1 2017, exemplifies this approach.
Service Provision	Service Provision acts as a supplementary line of business to the two primary lines of business, lending and risk sharing. In October 2016, the SBCI was appointed as operator and manager of the Credit Guarantee Scheme (CGS) by the Minister for Jobs (now Business), Enterprise and Innovation. A new scheme (CGS 2017) was established in late 2017 under the CGS Act 2016, with enhanced features, and is currently being operationalised. This is important in establishing the SBCI as the primary conduit for risk sharing products (credit guarantees) in Ireland. The SBCI will provide such services where they strategically enhance or complement the primary lines of business.

Business Model

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

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

How the SBCI Works



Business Review

During 2017, the SBCI focused on progressing its risk sharing activities, successfully deploying the €150m SBCI Agriculture Cashflow Support Loan Scheme (ACSL Scheme) through AIB, BOI and Ulster Bank and developing the €300m Brexit Loan Scheme which is due to launch to the market in Q1 2018. The SBCI continued to develop its engagement with potential and new on-lenders with the total figure of committed funds since inception at €931m. The acquisition of Merrion Fleet by another financial institution resulted in the return of funding to the SBCI, however, they have continued to serve the SME market. The SBCI will continue to work towards adding new on-lenders as it strives to further increase the availability of funding to SMEs. Due to the high level of low-cost liquidity available to the banks in the market, the SBCI's funding is being targeted towards non-bank on-lenders.

In 2017, the SBCI had supported 10,468 SMEs and 53,389 jobs with €391m of loans drawn by SMEs, including the ACSL Scheme. Through the liquidity product, the SBCI had supplied over €245m to SMEs with over €210m of investment loans, over €29m of working capital loans and over €6m for refinancing of loans from banks exiting the Irish market. The average interest rate on all SBCI loans in the year to December 2017 was 4.4%. Across all SBCI products there was a broad regional spread of loans ranging from 20.3 % in the South-West to 4.1 % in the Midlands. Agriculture continues to be the largest sector supported by the SBCI with 26.1 % of total liquidity loans attributed to that sector at end December 2017 and supported further with the ACSL Scheme, which recognises the market failures and need for support in this sector.

Funding Sources

During 2017, the SBCI maintained its key sources of funding at €1,215m from a mix of five funders, three international facilities and two national programmes. The SBCI has credit facilities of: €400m from the European Investment Bank (EIB); €150m from KFW; €200m from the Council of Europe Development Bank (CEB); €250m in a Guarantee Notes Programme with the NTMA; and €215m from the Ireland Strategic Investment Fund (ISIF) reduced from €240m in February 2017 after conversion of €25m from debt to capital to support risk sharing activities.

Council of Europe Development Bank €200 MILLION

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

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

Kreditanstalt für Wiederaufbau (KfW) €150 MILLION

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

Ireland Strategic Investment Fund (ISIF) €215 MILLION

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

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

NTMA €250 MILLION

Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

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

European Investment Bank €400 MILLION

European Investment Bank
The EU bank

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

European Investment Fund

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

Capital Funding

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

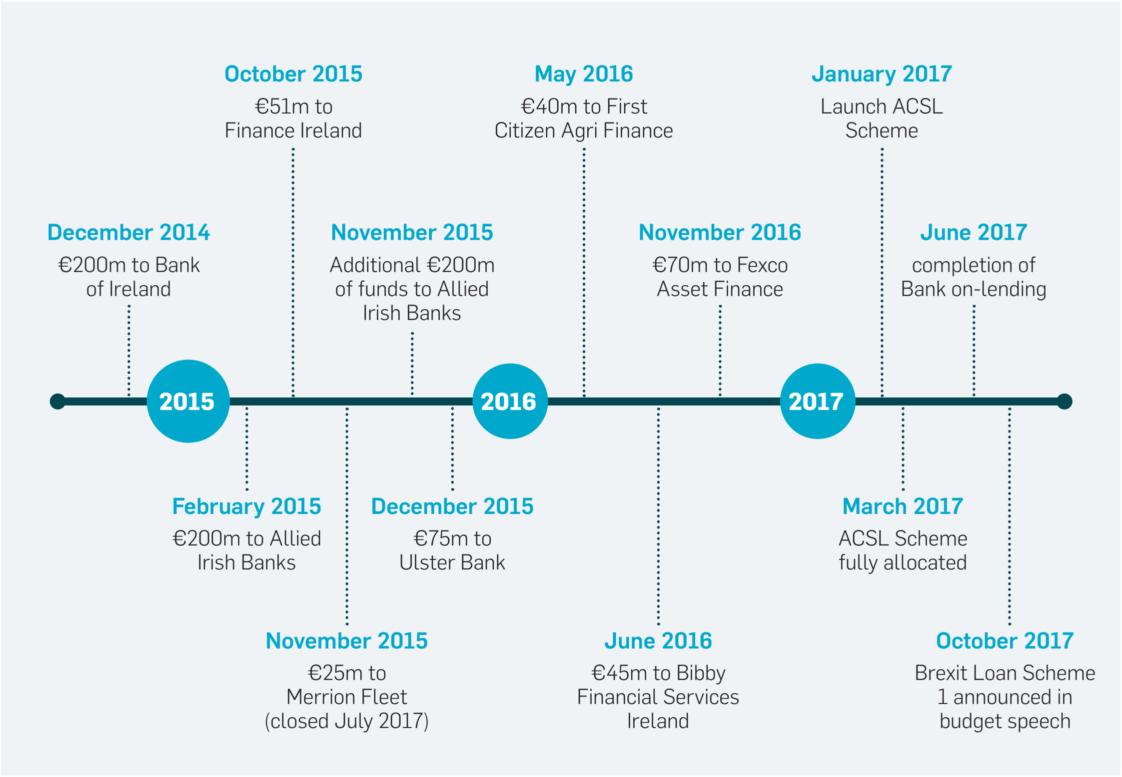
SBCI Products

In 2017, the SBCI maintained its existing product suite, with the exception of the conclusion of its successful delivery of €675m of long-term liquidity through the three banks (AIB, Bank of Ireland and Ulster Bank), and developed new product offerings to address the financing needs of SMEs by introducing risk sharing through the ACSL Scheme provided alongside on-lenders. Risk sharing offers an alternative proposition to financial institutions, where the credit risk is shared between the financial institution and in the case of this scheme, the SBCI, supported by the Department of Agriculture and the COSME partial counter-guarantee. The development of the ACSL Scheme, the SBCI's first risk sharing product, recognises the integral role of the SBCI in the appropriate promotion of EU financing and consequent support to SMEs. The ACSL Scheme, as a risk sharing product, provided proof of concept and the SBCI is utilising this knowledge to develop a guarantee product range to address specific areas of identified European market failures.

The SBCI also worked with the Department of Business, Enterprise and Innovation on the delivery of the new Credit Guarantee Scheme 2017 scheme with a number of banks set to deliver this in Q2 2018.

Lending

In 2017, the SBCI continued to develop its relationship with existing and new on-lenders. The SBCI continues to work towards increasing the number of on-lending partnerships to provide a greater variety of competitive funding options for SMEs and to enhance the diversity of lenders and types of finance available in the Irish market. Through its current non-bank on-lenders, the SBCI provides hire purchase, contract hire and leasing loans available to eligible SMEs to finance cars, commercial vehicles and plant and machinery assets. In addition, the SBCI provides its invoice finance product to eligible SMEs through its on-lenders. Invoice finance is a working capital facility which releases cash tied up in outstanding customer invoices which improves the cash flow availability for SMEs.



Risk Sharing

Over the course of 2017, the SBCI successfully established its risk sharing capability and products to support additional lending to SMEs in Ireland and to act as a conduit for European SME financing initiatives. Risk sharing allows for the sharing of the credit risk on the overall loan portfolio to the benefit of the partnering financial institution. Despite the current availability of liquidity in the market there have been persistent gaps in the provision of credit, particularly for more risky projects in the Irish market, as similarly experienced across EU post crisis. The SBCI supports the provision of additional lending to SMEs through its role as operator and manager of the Credit Guarantee Scheme, and through its own guaranteed loan product, the ACSL Scheme.

The development of the ACSL Scheme, as a risk sharing product, provided proof of concept and the SBCI is utilising this knowledge to develop a guarantee product range to address specific areas of identified European market failures. The SBCI now has the unique knowledge base to build products across the State given engagement with State stakeholders, financial institutions and the wider SME market. Further details of the ACSL Scheme are outlined below.

Credit Guarantee Scheme (CGS)

The CGS Scheme is a government initiative that was developed and launched by the Department of Jobs (now Business) Enterprise and Innovation (DJEI/DBEI) in 2012 to encourage additional lending to commercially viable SMEs which, under normal lending criteria, are unable to obtain new or additional facilities from their bank.

The scheme facilitates increased credit risk appetite by providing on-lenders with a government-backed guarantee for 75% of the facility value. The scheme is intended to address three distinct barriers to lending:

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

Under the CGS Act 2016 and the subsequent Statutory Instruments in 2017, additional capacity has been developed to enable DBEI to provide a partial credit counter-guarantee to the SBCI for guarantee facilities that are complementary to DBEI's policy agenda.

In October 2016, the SBCI was appointed as operator and manager of the CGS by the Minister for Jobs Enterprise and Innovation. A new scheme (CGS 2017) was established in late 2017 under the CGS Act 2016 and is currently being operationalised. This new scheme has enhanced features as outlined below:

- The 2017 Credit Guarantee Scheme has increased the government-backed guarantee to 80% whilst also increasing the portfolio cap to 13%.
- The new scheme features a simplified claims process, a reduced premium rate of 1% for 2018 and the collection of premia by direct debit.
- The new scheme will also utilise the SBCI loan portal to collect loan details and enhance the production of meaningful MIS.
- The scheme also allows for the refinancing of SME debt in circumstances where their existing finance provider is:
  - (i) Unwilling (unwilling where the loans have expired or have been 'called in' or demanded) to extend or
  - (ii) Unable (as it's exiting the Irish market) to provide the credit sought or
  - (iii) Has sold SMEs debt to a third party.

Transfers of qualifying agreements between finance providers are also permitted in certain circumstances.

The new scheme allows for a more efficient operational structure and has resulted in greater interest from on-lenders and the new scheme has the potential to be used in new forms of lending and with new on-lenders - as determined by DBEI.

Agriculture Cashflow Support Loan Scheme (ACSL Scheme)

In January 2017, the SBCI launched its first SBCI guarantee backed loan product – the ACSL Scheme – in co-operation with the Department of Agriculture, Food and the Marine. Risk support for this product was sourced from the European Investment Fund in the form of a counter-guarantee under the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises[1] (COSME). The COSME counter guarantee provided to the SBCI to support loans to SMEs has been the first use of COSME in Ireland. The SBCI used this counter guarantee in 2017 to support farmers experiencing short-term financial pressure due to price and income volatility through the ACSL Scheme. Supplementary capacity under this COSME facility has been sought and approved by EIF in October 2017 and this will be used to support additional risk sharing facilities to support SME finance market failures being developed by the SBCI.

1 COSME is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs) running from 2014 to 2020 with a total budget of €2.3bn provided by the EU Commission. In December 2016, the SBCI signed the COSME Loan Guarantee Facility which supports guarantees and counter-guarantees to financial institutions and national promotional institutions to assist their provision of additional loans and lease finance to SMEs.

The ACSL Scheme supported farmers who were experiencing short-term financial pressure due to price and income volatility by providing a cash flow support loan product as an alternative to more expensive forms of credit such as merchant credit and bank overdraft facilities. The specific details of the scheme are outlined below.

Agriculture Cashflow Support Loan Scheme

The scheme is now closed for new applications.

Size

Total scheme size €150m (utilising the partial Counter-Guarantee provided by COSME)

Loan features

- Up to a maximum loan amount of €150k per farm enterprise (subject to State Aid requirements)
- Loan term of minimum one-year up to a maximum of six years
- Loans are unsecured
- Optional interest only repayments provided at the start of the loans
- Interest rate of 2.95% fixed for the term of the loan

Loans were eligible for

- Future working capital requirements (e.g. feed, fertiliser, trading stock, tax, other costs, etc.)
- As an alternative to merchant credit
- To replenish working capital already used (prior to 31 December 2016)

Loans were not eligible for

- Refinance of undertakings in financial difficulties
- Refinance of existing debt (e.g. Terms Loans/ Leases/Hire Purchase, etc.)
- New investment

Who could apply

- Micro, small and medium-sized enterprises (SMEs) that are active in the primary agricultural sector in ROI and meet the eligibility criteria. SMEs are defined by the Standard EU definition [Commission Regulation 2003/361/EC] as those who:
  - Have fewer than 250 employees
  - Have a turnover €50m or less (or €43m or less on their balance sheet)
  - Are independent and autonomous, i.e. not part of a wider group of enterprises
  - Have less than 25% of their capital held by public bodies

Support for financing

This financing is provided by the SBCI with the support by the COSME Counter-Guarantee to the SBCI provided through the European Investment Fund (EIF) using support from the European Fund for Strategic Investment ("EFSI") set up under the Investment Plan for Europe. The purpose of EFSI is to help support financing and implementing productive investments in the European Union and to ensure increased access to financing. This scheme was supported by €25m provided by the Department of Agriculture, Food and the Marine (DAFM), including €11m in EU 'exceptional adjustment aid'[2].

Period of the Scheme

The Scheme operated from January 2017 to end-September 2017.

2 The European Commission, under Delegated Regulation (EU) 2016/1613, provided for exceptional adjustment aid in recognition of the difficult market conditions for European farmers.

Marketing and Promotion

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

To ensure that SMEs avail of SBCI products, a public awareness campaign was developed to market the SBCI's brand, products and programmes. This comprised of a marketing and promotional campaign including a programme of attendance at trade shows, conferences and business events throughout the country. The 2017 media campaign comprised of a mix of radio and on line media coverage.

The Department of Finance Credit Demand Survey (April-September 2017) records awareness of the SBCI at 29% amongst SMEs participating in the survey - an increase from 21% in the previous survey demonstrating steady progress in growing brand awareness of the SBCI.

Stakeholder and Peer Engagement

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

National Promotional or Development Banks/ Institutions (NPB/Is) exist across Europe to address identified local or regional market failures. While their respective mandates may vary depending on jurisdictional priority, they have a commonality of purpose which has driven creation of strong network groups or associations with specific market focus. The SBCI is a member of NEFI (Network of European Financial Institutions for SMEs) and ELTIA (European Long-Term Investors Association) and since June 2017 the SBCI is a member of the European Association of Guarantee Associations (AECM). These forums provide the SBCI with support and experience from other markets that is invaluable in the development of its role as the provider of key credit interventions in the Irish market. The SBCI, as a national promotional institution, provides a local conduit to the Irish market for EU financing initiatives and has been a member of the EIB and NPB/Is Taskforce and working groups on the delivery of the European Investment Plan for Europe (otherwise known as the "Juncker Plan[3]") during 2017.

Market Overview

Irish SMEs continued to face challenges and uncertainty during 2017 with increasing awareness of the need to address the potential negative implications of Brexit. However, the market also showed some positive signs and evidence of growth.

The Central Bank of Ireland (CBI) SME Market Report[4] shows that gross new lending to Irish SMEs (excluding financial and real-estate) continued to grow in 2017 with lending 24% higher in Q3 2017 than the previous year. Overall credit demand remains low with the share of Irish SMEs applying for bank loans at 21% in September 2017, according to the ECB Survey on the Access to Finance of Enterprises (SAFE) April 2017 - September 2017[5].

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

4 https://www.centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2017h2.pdf?sfvrsn=5

5 https://www.ecb.europa.eu/pub/pdf/other/ecb.accesstofinancesmallmediumsizedenterprises201711.en.pdf?beb1832df4af9efa945a5a1f7b99eeb7

However, the survey shows that businesses cited sufficient financial internal funds as the primary reason for lack of credit demand. Working capital is cited as the primary purpose of internal and external financing. The SBCI recognises the positive performance of Irish SMEs, and consequent use of internal financing, however, the SBCI would caution against the focus on satisfying short-term financing requirements and the risk of a gap emerging in longer-term business investment.

According to the CBI SME Market Report (2017 H2) loan rejection rates in Ireland have increased to 13.9% in September 2017 from 8.2% in March 2017 – having declined significantly in previous reports. This statistic is a concern, however, the trend has been downwards up to this point and would require further review in later reports to better understand the trend emerging. The CBI Macro Financial Review (2017 H2)[6] reported that, although credit to SMEs continued to decrease, new lending to such enterprises actually increased in 2017.

On a wider European level the ECB SAFE Survey, which provides evidence on changes in the financial situation of enterprises, states that SMEs across Europe continued to report an increase in the 'availability of bank loans and bank overdrafts'. Positively, from an Irish perspective, the survey states that Ireland was amongst the countries which perceived the availability of bank loans to improve the most.

Interest rates in Ireland for non-financial corporation (NFC) loans under €0.25m were at 5% in July 2017 – higher than comparator countries – while the interest rate gap between loans under €0.25m and loans over €1m were at 2.9% in Ireland, which is also above comparator countries. In part, this may be a reflection of historical credit experiences, however, the SBCI is committed to ensure that competitive interest rates are available to Irish SMEs.

The CBI has provided an analysis of Irish SME financial vulnerability between 2013 and 2017[7]. It is noteworthy that while the default rates for non-performing loans have improved since 2013, financial vulnerability remains a relevant concern in the Irish SME sector.

Looking ahead, the OECD Observer 2017-2018[8] snapshot for Ireland projects economic growth to experience a moderation. Exports and investment have shown some signs of a slowdown due to the prospect of Brexit. While overall there is a positive outlook for Ireland and evidence of improvements in the credit market, vulnerabilities and uncertainty remain.

6 https://www.centralbank.ie/docs/default-source/publications/macro-financial-review/macro-financial-review-2017-ii.pdf?sfvrsn=7

7 https://www.centralbank.ie/docs/default-source/publications/economic-letters/vol-2017-no-14--the-financial-vulnerability-of-irish-small-and-medium-enterprises-2013-to-2017-(mcquinn-and-mccann).pdf?sfvrsn=4

8 http://oecdobserver.org/news/fullstory.php/aid/5749/Country_snapshots_2017-18:_Ireland.html

Governance and Corporate Information

Directors

Conor O'Kelly | Chairperson

(reappointed for a one-year term from 12 March 2018) | Member of the Remuneration Committee

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

Nick Ashmore | Board member

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

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

Barbara Cotter | Board member

(appointed 18 March 2017 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.

Carmel Foley | Board member

(appointed 4 October 2017 for a five-year term)

Carmel Foley is a Principal Officer in the Banking Division in the Department of Finance, with responsibility for SME Credit and Lending Policy, and Consumer Policy. She was previously a Commissioner in the Garda Síochána Ombudsman Commission and was Director of Consumer Affairs.

Tom McAleese | Board member

(appointed 24 March 2015 for a four-year term) | Chairperson of the Audit and Risk Committee

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

Rosheen McGuckian | Board member

(appointed 27 March 2015 for a five-year term) | Member of the Credit Committee | Chairperson of the Remuneration Committee

Rosheen McGuckian is Group Chief Executive Officer of NTR plc. She has extensive senior executive experience in both 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.

AJ Noonan | Board member

(appointed 18 March 2015 for a four-year term)

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

Richard Pelly | Board member

(appointed 18 March 2015 for a five-year term) | Chairperson of the Credit Committee

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

Eilis Quinlan | Board member

(appointed 18 March 2015 for a five-year term) | Member of the Audit and Risk Committee

Eilis Quinlan has run her own accountancy and audit practice for the last 20 years. She currently serves as Director of the Irish Small and Medium Enterprise Association and previously served as Chairperson. Since 2011, Eilis has been the Irish representative to the Association of Chartered Certified Accountants Global Forum for SMEs. She also represents the ACCA on FEE, the Federation of European Accountants in Brussels. Eilis is a graduate of Griffith College Dublin, a Fellow of the ACCA and a Chartered Director.

Governance Statement and Board Members' Report

Governance

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

Board Responsibilities

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

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

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

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

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

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

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

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

The Board considers that the financial statements of the SBCI give a true and fair view of the financial performance and the financial position of the SBCI at 31 December 2017.

Board Structure

The SBCI's Constitution provides that there shall be a minimum of two and a maximum of nine directors, one of whom will be the CEO as an ex-officio member of the Board. The first directors were appointed by the Minister on the formation and registration of the SBCI. The Board may appoint subsequent directors on the nomination of the Minister and shall implement the terms of the Minster's nomination. The Chairperson is appointed by the Minister. A director's term of office shall not exceed five years. Details of the current directors and their appointment periods are set out on pages 20 to 21.

The Board commenced the second annual review of its effectiveness in 2017 which was concluded in March 2018. This review is in the form of a structured, self-assessment evaluation by the Board.

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

- Audit and Risk Committee
- Credit Committee
- Remuneration Committee

For further information on the Board's committees, see Committee Reports pages 26 to 28.

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

Schedule of Attendance, Fees and Expenses

A schedule of attendance at the Board and Committee meetings for 2017 is set out below including the fees and expenses received by each member in their capacity as a Board or Committee member:

	Board	Audit and Risk Committee	Credit Committee	Remuneration Committee	Fees 2017 €	Expenses 2017 €
Number of Meetings	**6**	**5**	**3**	**2**		
Board Members						
Conor O'Kelly	5			2		
Nick Ashmore	6		3/3(p)			
Barbara Cotter	6	5			15,750	
Carmel Foley	2/2(p)					
Tom McAleese	5	5			15,750	
Rosheen McGuckian	6		3/3(p)	2	15,750	
Ann Nolan	2/2(p)			2		
AJ Noonan	5				15,750	
Richard Pelly	6		3/3(p)		15,750	1,925
Eilis Quinlan	6	5			15,750	
Staff Members						
John Coleman			1/1 (p)			
Ray Mangan			3/3(p)			

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

The Chairperson, Conor O'Kelly (NTMA Chief Executive), the CEO, Nick Ashmore, and officials of the Department of Finance (Ann Nolan and Carmel Foley) do not receive any remuneration in respect of their membership of the Board. Members of staff do not receive any additional remuneration in respect of membership of committees.

Key Personnel Changes

Carmel Foley was appointed to the Board on 4 October 2017 to fill the vacancy arising from the resignation of Ann Nolan with effect from 24 July 2017.

Remuneration

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

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

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

No performance related payments were made in 2017 in respect of 2016. The SBCI made performance-related payments totalling, in aggregate €53,000 in 2018 in respect of 2017.

Employee Short-Term Benefits Breakdown

Employees' short-term benefits in excess of €50,000 in 2017 are categorised into the following bands:

Range	No. of Employees
€50,001 to €75,000	2
€75,001 to €100,000	6
€100,001 to €125,000	1
€125,001 to €150,000	1
€150,001 to €175,000	3
€175,001 to €200,000	0
€200,001 to €225,000	0
€225,001 to €250,000	0
€250,001 to €275,000	1
Total	**14**

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

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

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

Consultancy Costs

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

	2017 €'000
Legal advice	211
Financial advice	102
Public relations / marketing	64
Other	2
Total consultancy costs	**379**
Consultancy costs capitalised	0
Consultancy costs charged to the Statement of Comprehensive Income	379
Total consultancy costs	**379**

Legal Costs and Settlements

No expenditure was incurred in 2017 in relation to legal costs and settlement.

Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2017 €'000
Domestic	
– Board	1
– Employees	10
International	
– Board	1
– Employees	13
Total	**25**

Hospitality Expenditure

The Statement of Comprehensive Income includes €3.1k in respect of staff hospitality expenditure in 2017.

Statement of Compliance

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

Matters Reserved for Decision by the Board

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

Strategy

The SBCI has in place a Strategic Plan 2017-2018. It is proposed that from 2019, the strategic plan will take into account the provisions of the Code as they apply to commercial State bodies.

Non-Compliance with Statutory Obligations

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

Relations with the Oireachtas, Minister and Parent Department

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

Public Spending Code

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

Remuneration and Superannuation

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

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

Quality Customer Service

The Code provides that State bodies should have a customer charter setting out the level of service that a customer can expect. A suitable customer charter will be put in place in 2018.

Committee Reports

Audit and Risk Committee Report

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

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

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

- Tom McAleese, Chairperson
- Barbara Cotter
- Eilis Quinlan

There were no changes to the membership of the Committee during 2017.

The Committee met on five occasions in 2017. It also held a number of briefing sessions on business issues relevant to the Committee.

Financial Reporting

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

Internal Controls

The Committee reviewed the adequacy and effectiveness of the system of internal control and concluded it was satisfied as to the effectiveness of the system. It also reviewed the Statement on Internal Control to be included in the 2017 financial statements and recommended it to the Board. The review was informed by a report from management in relation to the assertions contained in the Statements and also the Committee's detailed work programme, including regular internal audit and risk reports.

Internal Audit

The Committee received regular reports from the internal auditor. It reviewed the key findings from the outcome of individual internal audit reviews completed under the 2017 risk-based internal audit plan and monitored the implementation of audit recommendations. It approved the 2018 internal audit plan. The Committee reviewed the effectiveness of the internal auditor. The Committee met privately with the NTMA Head of Internal Audit without management present.

Statutory Audit

The SBCI's external auditor is the Comptroller and Auditor General. The Committee reviewed the external audit findings report from the audit of the 2017 financial statements. The Committee had previously reviewed the external audit plan in advance of the audit. It also monitored management's responses to the external auditor's findings arising from the audit of the 2016 financial statements. The Committee met with the external auditor without management present.

Risk

The Committee recommended updates to the Risk Appetite Statement to the Board, and approved updates to a number of specific risk policies as provided for under the Risk Management Policy and Framework. It also approved the Risk Management Plan for 2018 and monitored progress against the 2017 plan. It received regular reports from the Head of Risk on the SBCI's risks and the controls in place to mitigate risks and reviewed the risk register. It monitored the progress of the Risk Function in developing risk management, including the reporting of emerging risks. The Committee reviewed the effectiveness of the Risk Function. The Committee met privately with the Head of Risk without management present.

Compliance and Protected Disclosures

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

On-lender Reviews

The Committee reviewed the proposed approach to on-lender reviews and schedule to end-2019.

Other

In addition, the committee received updates on the implementation of the General Data Protection Regulation (to come into effect in May 2018), and on procurement policies and procedures.

The Committee reviewed its terms of reference and also undertook a review of its own performance. The Committee's priorities in respect of 2018 were approved as part of its Work Programme 2018.

Credit Committee Report

The Board established a Credit Committee in February 2017 to assist the Board in its review and approval of credit decisions, and the oversight and monitoring of credit risk.

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

The members of the Committee are:

- Richard Pelly, Chairperson, (Board member)
- Rosheen McGuckian (Board member)
- Nick Ashmore (CEO and Board member)
- John Coleman (NTMA staff member)
- Ray Mangan (SBCI staff member)

John Coleman was appointed to the Committee with effect from 26 June 2017.

The Credit Committee met on three occasions in 2017. Its main activity was review of detailed credit proposals from management. It also reviewed the annual credit reviews of on-lenders performed by management.

Remuneration Committee Report

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

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

- Rosheen McGuckian, Chairperson
- Conor O'Kelly

Ann Nolan served as a member of the Committee until she resigned as a member of the Board with effect from 24 July 2017. There is currently one vacancy on the Committee.

The Committee met on two occasions in 2017. It reviewed its draft Terms of Reference and draft SBCI Remuneration Policy, and recommended both to the Board. It also reviewed the oversight arrangements relating to remuneration matters for SBCI staff which are agreed from time to time between the between the SBCI and NTMA Chief Executive.

Risk Management

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

In 2017, the Audit and Risk Committee and the Board reviewed the Risk Register on a regular basis, and the Board receives a risk management update of high and emerging risks as part of each CEO Report.

Roles and Responsibilities

Board

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

Audit and Risk Committee

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

Three Lines of Defence

First Line of Defence

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

Second Line of Defence

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

Third Line of Defence

The Internal Audit function (third line of defence) 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 process is managed by the NTMA Internal Audit function and includes an external firm, currently KPMG, appointed to carry out internal audit work reporting to the NTMA Head of Internal Audit.

Principal Risks

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

Risk	Description of the Risk	Risk Mitigation Measure
Strategic Risk	The SBCI relies on demand from on-lenders and SMEs to meet its key strategic objective of providing credit to enterprises in Ireland to address failures in the market for the provision of credit to small businesses. Should it fail to structure its products appropriately and deploy a suitable delivery strategy, there is a risk that on-lenders will not participate as envisaged and SMEs will not have an appetite for the product offering.	This risk is mitigated by active engagement with stakeholder groups, diversity of SBCI products to ensure that the needs of on-lenders and SMEs are addressed, and proactive marketing campaigns to raise awareness of the SBCI and its products.

Risk	Description of the Risk	Risk Mitigation Measure
Credit Risk	The SBCI is exposed to the risk that a borrowing counterparty defaults on its obligations and fails to repay its debt in full, resulting in losses to the SBCI. The SBCI is exposed to credit risk in respect of its loans to on-lenders, and in respect of guaranteed loans to final beneficiary SMEs.	Mitigation measures in place in respect of this risk include thorough due diligence in advance of any lending decisions, ongoing monitoring and review of on-lending facilities, as well as regular review of compliance with the respective covenants and undertakings. Other measures include monitoring of the SBCI risk indicator database, testing and regular Board reporting on all key indicators detailed in the Risk Appetite Statement and assessment of credit risk by the Credit Committee and Board.
Operational Risk	The SBCI is exposed to a range of operational risks arising from the people, systems and processes involved in meeting its objectives. Key operational risks include systems failures, process errors, over reliance on key individuals, failure to follow procedures, reporting errors, etc. which could ultimately result in the SBCI failing to meet its objectives and significant reputational damage.	This risk is mitigated by operational support and services provided by the NTMA, as provided for under the SBCI Act, and adherence to relevant policies and procedures. New systems and processes are subject to comprehensive review and approval by the appropriate authority and robust project management methodology is used to manage new projects.
Resourcing Risk	The SBCI is a small 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.	Risk mitigation measures in place for this risk include the approval of an annual staffing plan by the SBCI Board, and assignment of suitably qualified staff from the NTMA. The SBCI also engages temporary contract staff, or outsourced service providers, as the need arises. Staff training and development are incorporated into the SBCI's continuous performance management programme.
Compliance Risk	The SBCI's activities are subject to EU State Aid regulations and there is a risk that the SBCI fails to comply with those regulations, resulting in reputational or financial damage to the SBCI. The probability of this risk occurring is low, however the impact could be severe if it did occur.	This risk is mitigated by engaging internal and external legal and compliance advice, design of products to ensure adherence to relevant laws and regulations, and adherence to relevant policies and procedures.

Energy Efficiency Report

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

FINANCIAL STATEMENTS

Company and Other Information

Directors

Conor O'Kelly *(Chairperson)*

Nicholas Ashmore *(Chief Executive Officer)*

Barbara Cotter

Carmel Foley *(appointed on 4 October 2017)*

Tom McAleese

Rosheen McGuckian

Ann Nolan *(resigned on 24 July 2017)*

AJ Noonan

Richard Pelly

Eilis Quinlan

Company Secretary

Damien Mulholland

Registered Office

Treasury Building

Grand Canal Street

Dublin 2

D02 XN96

Bankers

Citibank

1 North Wall Quay

Dublin 1

D01 T8Y1

Central Bank of Ireland

New Wapping Street

North Wall Quay

Dublin 1

D01 F7X3

Auditor

Office of the Comptroller and Auditor General

3A Mayor Street Upper

Dublin 1

D01 WP44

Directors' Report

The 2017 Annual Report forms part of the Directors' Report.

The Directors of the Strategic Banking Corporation of Ireland (the "Company" or "SBCI") present their report and audited financial statements for the financial year ended 31 December 2017 (the "financial year").

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

Principal activities

The SBCI's principal activities during the financial year were focused on core business growth and new product development. The SBCI continued its core activity of providing long-term low-cost finance to on-lending institutions for the provision of credit to small and medium-sized enterprise (SME) borrowers in Ireland. New product activities included the delivery of a risk sharing scheme to support SMEs operating in the agriculture sector and the development of additional risk sharing products.

Business review and likely future developments

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

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

- €145m advanced by the SBCI to its on-lenders for the purposes of onward lending to SMEs;
- €246m of lower-cost loans advanced by on-lenders to SMEs;
- €150m of guaranteed loans made available to SMEs under the Agriculture Cashflow Support Loan Scheme ("Agriculture Scheme") with €144m drawn down;
- €34m of State funding obtained to underpin risk sharing schemes with a total potential loan value of €450m;
- Counter-guarantees sourced from EU institutions for the purpose of developing risk sharing schemes with a total portfolio value of €412.5m;
- €115m of loan principal repayments made by on-lenders to the SBCI.

Principal risks and uncertainties

The principal risks and uncertainties facing the SBCI are:

Strategic Risk

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

Credit Risk

- The SBCI is exposed to the risk that a borrowing counterparty defaults on its obligations and fails to repay its debt in full, resulting in losses to the SBCI. The SBCI is exposed to credit risk in respect of its loans to on-lenders, and in respect of guaranteed loans to final beneficiary SMEs.

Operational Risk

- The SBCI is exposed to a range of operational risks arising from the people, systems and processes involved in meeting its objectives. Key operational risks include systems failures, process errors, over reliance on key individuals, failure to follow procedures, reporting errors etc. which could ultimately result in the SBCI failing to meet its objectives and significant reputational damage.

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.

Compliance Risk

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

Financial risk management

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

Directors

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

Conor O'Kelly
Nicholas Ashmore
Barbara Cotter
Carmel Foley *(appointed on 4 October 2017)*
Tom McAleese
Rosheen McGuckian
Ann Nolan *(resigned on 24 July 2017)*
AJ Noonan
Richard Pelly
Eilis Quinlan

Directors' Report (continued)

Directors' interests

The Directors had no beneficial interest in the Company during the financial year or at the financial year end (see Note 25). The issued share capital of the Company is owned solely by the Minister for Finance (see Note 21).

Adequate accounting records

The Directors ensure compliance with the Company's obligations with regards to keeping accounting records required under sections 281 to 285 of the Companies Act 2014, through the use of qualified accounting personnel and appropriate systems and procedures, as set out in the Statement on Internal Control. The accounting records are kept at the Company's registered office at Treasury Building, Grand Canal Street, Dublin 2, D02 XN96.

Results and dividends

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

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

Events after the reporting period

Refer to Note 26 of the financial statements.

Auditor

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

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

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

Nicholas Ashmore,
Chief Executive Officer
Strategic Banking Corporation of Ireland

Conor O'Kelly,
Chairperson
Strategic Banking Corporation of Ireland

11 April 2018

Statement on Internal Control

Scope of Responsibility

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

Purpose of the System of Internal Control

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

The system of internal control, which accords with guidance issued by the Department of Public Expenditure and Reform, has been in place in the SBCI for the year ended 31 December 2017 and up to the date of approval of the financial statements.

Capacity to Handle Risk

The SBCI has an Audit and Risk Committee ("ARC") comprising three non-executive members of the Board, one of whom is the Chairperson. The ARC is responsible for overseeing the implementation of the Risk Appetite Statement and the Risk Management Policy and Framework as approved by the Board of Directors. The ARC's responsibilities include overseeing the financial reporting process, reviewing the system of internal control and reviewing the internal and external audit processes. The ARC met five times in 2017.

Internal Audit

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

The internal audit plan for the financial year was agreed with the management of the SBCI and approved by the ARC in December 2016. The internal audit function provides the management of the SBCI and the ARC with reports of internal audit activity on a regular basis. 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 ARC.

NTMA

The NTMA 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 SBCI therefore depends to a significant degree on the controls operated by the NTMA. 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 system of internal control in relation to services provided to the SBCI.

Risk and Control Framework

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

The SBCI maintains a Risk Register, 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 ARC on a quarterly basis and by the Board of Directors annually at a minimum. The management team is required to attest on a quarterly basis that the controls noted in the Risk Register are in place and effective, to the best of their knowledge.

Statement on Internal Control (continued)

Risk and Control Framework (continued)

The system of internal control is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability. I confirm that the control environment contains the following elements:

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

Ongoing Monitoring and Review

The monitoring and review of the effectiveness of the system of internal 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 in the C&AG's management letter or other reports.

The Board of Directors monitors the system of internal control through the ARC. The ARC carries out its functions in accordance with the ARC's Terms of Reference.

The SBCI's risk management framework includes three lines of defence as follows:

First line of defence:

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

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

Second line of defence:

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

Third line of defence:

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.

Procurement

I confirm that the SBCI has procedures in place to ensure compliance with relevant current procurement rules and guidelines and that during 2017 the SBCI complied with those procedures.

Review of Effectiveness

I confirm that the SBCI has procedures to monitor the effectiveness of its risk management and control procedures. The SBCI's monitoring and review of the effectiveness of the system of internal control is informed by the work of the internal and external auditors, the ARC which oversees their work, and the senior management within the SBCI responsible for the development and maintenance of the internal control framework.

I confirm that the Board conducted an annual review of the internal controls for 2017.

Internal Control Issues

No weaknesses in internal control were identified in relation to 2017 that require disclosure in the financial statements.

Conor O'Kelly,
Chairperson
Strategic Banking Corporation of Ireland

11 April 2018

Report of the Comptroller and Auditor General

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

Opinion on financial statements

I have audited the financial statements of the Strategic Banking Corporation of Ireland (the company) for the year ending 31 December 2017 as required under the provisions of the Strategic Banking Corporation of Ireland Act 2014. The financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes, including a summary of significant accounting policies.

In my opinion, the financial statements

- give a true and fair view of the assets, liabilities and financial position of the company at 31 December 2017 and of its income and expenditure for 2017;
- have been properly prepared in accordance with Financial Reporting Standard (FRS) 102 – *The Financial Reporting Standard applicable in the UK and the Republic of Ireland*; and
- have been properly prepared in accordance with the Companies Act 2014.

Basis of opinion

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

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

Conclusions related to going concern

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

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

I have nothing to report in that regard.

Opinion on matters prescribed by the Companies Act 2014

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

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

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

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

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

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

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

I have nothing to report in that regard.

Seamus McCarthy.

Seamus McCarthy
Comptroller and Auditor General

30 April 2018

Appendix to the report

Responsibilities of the Directors

The governance statement and directors ‘ report sets out the directors’ responsibilities. The directors are responsible for

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

Responsibilities of the Comptroller and Auditor General

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

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

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

- I identify and assess the risks of material misstatement of the financial statements whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

  I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.

  I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.

  I conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the company to cease being a going concern.

- I evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Information other than the financial statements

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

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

Reporting on other matters

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

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

Statement of Comprehensive Income

For the financial year ended 31 December 2017

	Note	2017 €000	2016 €000
Interest income	*5*	5,928	3,498
Interest expense	*6*	(523)	(612)
Net interest income		**5,405**	**2,886**
Other income	*7*	2,092	286
Operating expenses	*8*	(7,002)	(4,819)
Operating profit/(loss)		**495**	**(1,647)**
Profit/(loss) for the financial year		**495**	**(1,647)**
Other comprehensive income		-	-
Total comprehensive profit/(loss) for the financial year		**495**	**(1,647)**

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

11 April 2018

Statement of Financial Position as at 31 December 2017

	Note	2017 €000	2016 €000
Fixed assets			
Intangible assets	*11*	902	785
Loans and receivables	*12*	605,000	600,000
Current assets			
Cash and cash equivalents	*13*	74,736	21,544
Loans and receivables	*12*	81,438	56,444
Other receivables	*16*	121	311
Total assets		**762,197**	**679,084**
Non-current liabilities			
Funding and borrowings	*17*	673,461	660,000
Current liabilities			
Funding and borrowings	*17*	11,637	122
Tax due		-	8
Other liabilities	*18*	46,981	14,331
Total liabilities		**732,079**	**674,461**
Shareholder's equity			
Share capital	*21*	35,000	10,000
Retained losses		(4,882)	(5,377)
Total equity		**30,118**	**4,623**
Total equity and liabilities		**762,197**	**679,084**

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

11 April 2018

Statement of Changes in Equity as at 31 December 2017

	Share capital €000	Retained losses €000	Total equity €000
Balance as at 1 January 2016	10,000	(3,730)	6,270
Loss for the financial year	-	(1,647)	(1,647)
Balance at 31 December 2016	**10,000**	**(5,377)**	**4,623**
Issue of share capital	25,000	-	25,000
Profit for the financial year	-	495	495
Balance at 31 December 2017	**35,000**	**(4,882)**	**30,118**

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

11 April 2018

Statement of Cash Flows

For the financial year ended 31 December 2017

	Note	2017 €000	2016 €000
Cashflows from operating activities			
On-lending loans issued		(145,000)	(420,000)
On-lending loans principal repayments received		115,000	-
Interest receipts		5,532	2,657
Interest payments		(481)	(630)
Reimbursement of fees by on-lenders		47	204
Administration costs recovered		565	-
Other income received		382	-
Agriculture Scheme subsidy payments	*8*	(970)	-
Operating expenses paid		(5,636)	(4,922)
Net cash used in operating activities		**(30,561)**	**(422,691)**
Cashflows from investing activities			
Purchase of intangible assets	*11, 24.2*	(333)	(321)
Net cash used in investing activities		**(333)**	**(321)**
Cashflows from financing activities			
Funding loans received		50,000	310,000
Minister for Business, Enterprise and Innovation funding	*18*	14,000	-
Minister for Agriculture, Food and the Marine funding		20,086	13,914
Net cash from financing activities		**84,086**	**323,914**
Net increase/ (decrease) in cash and cash equivalents		**53,192**	**(99,098)**
Cash and cash equivalents at 1 January		**21,544**	**120,642**
Cash and cash equivalents at 31 December		**74,736**	**21,544**

Notes to the Financial Statements

31 December 2017

1. Reporting entity

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

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

2. Statement of compliance

The Company's financial statements for the financial year ended 31 December 2017 have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and in accordance with the Companies Act 2014.

3. Critical accounting estimates and judgements

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

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

3.1 Key sources of estimation uncertainty

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

3.1.1 Loan impairment assessment

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

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

3.1.1 Loan impairment assessment (continued)

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

3.1.2 Financial guarantee provision assessment

At each reporting date, for the financial guarantees it has issued, the SBCI considers whether payments under the guarantee are probable for a provision to be recognised in line with IAS 37. In order to assess the probability of a payment under the guarantee contract, the Company reviews any relevant data to assess the amount of the loans which are at risk of defaulting and being subject to a claim by an on-lender. A provision for any probable claims, which can be reliably measured, is recognised in the accounting records of the SBCI. If a provision is recognised, and the provision amount is greater than the existing carrying amount, an adjustment is required to reflect the provision and recognise the difference in the Statement of Comprehensive Income.

Where a provision is not required, a contingent liability is disclosed in the financial statements for the total amount payable under SBCI's financial guarantee contracts.

3.1.3 Intangible asset useful life

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

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

3.2 Critical accounting judgements in applying accounting policies

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

4. Significant accounting policies

4.1 Basis of preparation

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

In its consideration of whether accounting on a going concern basis is appropriate, the Board has had regard to the functions of the SBCI as set out in the SBCI Act 2014 and in the Constitution of the SBCI, and believes it is reasonable to assume that, given the purpose of the legislation, the State will take appropriate steps to ensure that the Company is put in a position to discharge its mandate. In February 2017 the Minister for Finance subscribed for additional shares issued by SBCI with a value of €25m.

4. Significant accounting policies (continued)

4.1 Basis of preparation (continued)

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

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

4.2 Basis of measurement

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

4.3 Interest income and expense

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

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

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

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

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

4.4 Other income

The SBCI recovers costs from the Minister for Business, Enterprise and Innovation ("Minister for BEI") and the Minister for Agriculture, Food and the Marine ("Minister for AFM"), as operator and manager of the CGS (Note 14.7) and the Agriculture Scheme (Note 14.5) respectively, based solely on the reimbursement of costs incurred by the SBCI.

Funding provided up-front by the Minister for AFM to the SBCI in conjunction with the Agriculture Scheme is released to the Statement of Comprehensive Income as costs relating to the scheme are incurred. The amount is recognised in line with FRS 102 Section 24 Government Grants.

4. Significant accounting policies (continued)

4.5 Costs reimbursable to the NTMA

In accordance with section 10 of the SBCI Act 2014, the NTMA provides business and support services and systems in addition to assigning staff to the SBCI. Costs reimbursable to the NTMA are recognised on an accruals basis. These expenses are recovered from the SBCI by the NTMA at cost. Further information on costs reimbursable to the NTMA is included in Note 8.1.

4.6 Financial instruments

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

4.7 Financial assets

Loans and receivables

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

4.8 Financial liabilities

Funding and borrowings

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

4.9 De-recognition of financial assets and liabilities

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

4.10 Impairment of financial assets

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

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

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

4. Significant accounting policies (continued)

4.10 Impairment of financial assets (continued)

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.

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

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

4.11 Financial guarantees

Financial guarantee contracts are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. The SBCI has issued guarantees to on-lenders in respect of the Agriculture Scheme (Note 14.5).

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

The best estimate of expenditure is determined in accordance with IAS 37. Financial guarantee provisions correspond to the cost of settling the obligation, which is the expected loss, estimated on the basis of all relevant factors and information available to the Company at financial year end.

Any increase or decrease in the liability relating to financial guarantees, other than the payment of guarantee calls, is recognised in the Statement of Comprehensive Income. In instances whereby a provision is not required, a contingent liability is disclosed in the financial statements for the total amount payable under SBCI's financial guarantee contracts (Note 22).

4. Significant accounting policies (continued)

4.12 Counter-guarantees

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

The Company recognises a reimbursement as a separate asset. The Company nets off the impairment loss charge for the guarantee provision with the recoverable portion in the Statement of Comprehensive Income. Should a recovery not be recognised, then the financial statements disclose a contingent asset for the total amount recoverable under SBCI's counter-guarantee contracts (Note 23). The SBCI has entered into a counter-guarantee with the European Investment Fund (EIF) in respect of the Agriculture Scheme (Note 14.5).

4.13 Cash and cash equivalents

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

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

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

4.14 Intangible assets

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

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

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

(a) There is a commitment by a third party to purchase the asset at the end of it useful life; or

(b) There is an active market for the asset and:

- Residual value can be determined by reference to that market; and
- It is probable that such a market will exist at the end of the asset's useful life.

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

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

4. Significant accounting policies (continued)

4.14 Intangible assets (continued)

The carrying value of the software is written down by the amount of any impairment and this loss is recognised in the Statement of Comprehensive Income in the financial period in which it occurs. A previously recognised impairment loss may be reversed in part or in full 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.

4.15 Other receivables

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

4.16 Provisions

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

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

4.17 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but disclosed in the notes to the financial statements unless the probability of the transfer of economic benefit is remote. See Note 22.

4.18 Contingent assets

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. If the realisation of income becomes virtually certain then the related asset is recognised. See Note 23.

4.19 Key management personnel

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

5. Interest income

	2017 €000	2016 €000
Interest on loans and receivables	5,527	3,498
Other interest income	401	-
	5,928	3,498

Interest on loan and receivables relates to interest income from loans provided to on-lenders.

Other interest income in 2017 relates to negative interest earned on the €85m loans notes issued by the Company to the NTMA (Note 24.2).

6. Interest expense

	2017 €000	2016 €000
Interest on funding and borrowings	343	490
Other interest expense	180	122
	523	612

7. Other income

	2017 €000	2016 €000
CGS administration costs recovered	366	286
Agriculture Scheme administration costs recovered	741	-
Agriculture Scheme interest subsidy recovery	970	-
Miscellaneous income	15	-
	2,092	286

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

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

8. Operating expenses

	2017 €000	2016 €000
Costs reimbursable to the NTMA (see Note 8.1)	4,847	3,847
Board fees (see Note 9)	95	95
Amortisation (see Note 11)	231	88
Agriculture scheme interest subsidy expense	970	-
Other expenses	859	789
	7,002	4,819

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

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

8.1 Costs reimbursable to NTMA

	2017 €000	2016 €000
NTMA staff costs	2,271	1,917
Business services	2,478	1,607
Professional fees	68	290
Other operating costs	30	33
	4,847	3,847

NTMA staff costs

NTMA staff costs include the remuneration (inclusive of pension costs) and other staff related costs, such as temporary staff costs, recruitment costs and staff training costs, of the NTMA staff directly engaged in the SBCI.

Business services

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

8. Operating expenses (continued)

8.2 Remuneration

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

8.2.1 Aggregate employee benefits

	2017 €000
Staff short-term benefits	1,776
Termination benefits	-
Employer's contribution to social welfare	177
	1,953

The total number of whole time equivalent staff employed at year end was 18 (2016:16). Pension costs incurred by the Company during the financial year of €0.24m are included in NTMA staff costs in Note 8.1. Pension costs charged to the Statement of Comprehensive Income represent contributions made by the Company to the NTMA scheme in accordance with actuarial recommendations. No amounts are included in these financial statements in relation to pension liabilities. The relevant assets and liabilities are recognised in the NTMA Administration Account.

8.2.2 Staff short-term benefits

	2017 €000
Basic pay	1,685
Performance related pay	53
Allowances	38
	1,776

8.2.3 Termination benefits

	2017 €000
Termination benefits	-

8.2.4 Key management personnel

	2017 €000
Board fees and management short-term benefits	1,094
Allowances	34
Termination benefits	-
Health insurance	5
	1,133

8. Operating expenses (continued)

8.2.4 Key management personnel (continued)

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

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

8.2.5 Chief Executive Officer (CEO) salary and benefits

The remuneration of the CEO is determined in accordance with sections 7(2) and 8 of the National Treasury Management Agency Act 1990.

Nicholas Ashmore (CEO)	**2017 €000**	**2016 €000**
Annual salary	250	250
Annual taxable benefits	22	24
Contributions to defined benefit retirement schemes	36	36
	308	310

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

The CEO is a member of the NTMA's pension scheme and his entitlements in that regard do not extend beyond the standard terms of the model public sector superannuation scheme.

9. Board fees and expenses

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

	2017 €	**2016 €**
Barbara Cotter	15,750	15,750
Tom McAleese	15,750	15,750
Rosheen McGuckian	15,750	15,750
AJ Noonan	15,750	15,750
Richard Pelly	15,750	15,750
Eilis Quinlan	15,750	15,750
	94,500	94,500

9. Board fees and expenses (continued)

The Chairperson and Chief Executive Officer did not receive any remuneration in respect of their membership of the Board. Ann Nolan and Carmel Foley, appointed as representatives of the Department of Finance, did not receive any remuneration in respect of their membership of the Board.

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

Board Member	Travel €	Accommodation €	2017 Total €	2016 Total €
Richard Pelly	1,620	305	1,925	1,332

The expenses paid to Directors are included in other expenses in Note 8. The remuneration paid to the Chief Executive Officer is included in Note 8.2.5.

10. Tax charge

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

11. Intangible assets

2017	Cost €000	Accumulated amortisation €000	Net book value €000
Opening balance at 1 January 2017	944	(159)	785
Acquisitions during the financial year	348	-	348
Amortisation for the financial year	-	(231)	(231)
Balance at 31 December 2017	**1,292**	**(390)**	**902**

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

Intangible assets relate to IT software purchased by the Company during the financial year. Amortisation charged during the financial year is included in operating expenses in the Statement of Comprehensive Income. Assets to the value of €32k (2016: €506k) were under development at financial year end and, therefore, amortisation had not commenced on these assets.

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

12. Loans and receivables

	2017 €000	2016 €000
Loans to on-lenders due within one year	81,438	56,444
Loans to on-lenders due greater than one year	605,000	600,000
	686,438	656,444

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

	2017 €000	2016 €000
Secured	115,236	55,116
Unsecured	571,202	601,328
	686,438	656,444

At the end of the financial year, the SBCI had loans in issue to seven on-lenders (2016: seven). Three of these on-lenders are banks (2016: three), and four on-lenders are non-bank finance providers (2016: four). The remaining terms of the on-lender loans in issue range from 0.5 to 7.25 years and interest is charged by the SBCI at 6 month Euribor plus a margin. The Company assesses at the end of each financial year whether there is objective evidence that the on-lender loans are impaired (see Note 4.10). Following the impairment assessment of the loans as at 31 December 2017, the Company concluded that no evidence of impairment existed at the reporting date. At the end of the financial year, the Company had €91m (2016: €251m) in undrawn loan commitments.

13. Cash and cash equivalents

	2017 €000	2016 €000
Balance at Citibank	16,736	21,544
Balance at Central Bank of Ireland	58,000	-
	74,736	21,544

Of the cash held by the Company at 31 December 2017, a total of €46.3m is funding provided to the Company to cover the costs of operating the Agriculture Scheme and the Brexit Loan Scheme. See Note 18 for further information on these schemes.

14. Risk management

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

The SBCI aims to manage risks in an informed and proactive manner, in accordance with its risk appetite, such that the level of risk is consistent with the underlying business activity. In the event that a risk materialises the SBCI understands and is prepared to manage or absorb its impact.

14. Risk management (continued)

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

Risk Management Policy and Framework

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

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

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

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

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

First line of defence:

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

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

Second line of defence:

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

Third line of defence:

Internal Audit acts as the third line of defence by providing independent, reasonable, risk-based assurance on the robustness of the SBCI's risk management system, its governance and the design and operating effectiveness of its internal control environment.

14. Risk management (continued)

14.1 Credit risk

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

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

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

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

The maximum exposure to credit risk for loans, cash and guarantees at 31 December 2017 is €869.5m (2016: €928.9m). This maximum exposure to credit risk is presented by class of financial instrument below and also includes the loan commitments of the Company at financial year end:

14. Risk management (continued)

14.1 Credit risk (continued)

	2017 €000	2016 €000
Loans and receivables	686,438	656,444
Cash and cash equivalents	74,736	21,544
	761,174	677,988
Loan commitments	91,000	251,000
Guarantees (see Note 22)	17,280	-
	869,454	928,988

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

	2017 €000	2016 €000
AAA	58,000	-
A+	16,736	21,544
BBB to BB+	571,202	601,328
Non-rated	115,236	55,116
	761,174	677,988

14.2 Liquidity risk

Liquidity risk is the risk that the SBCI will be 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 SBCI's liquidity risk management process includes:

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

14. Risk management (continued)

14.2 Liquidity risk (continued)

The timing of the contractual repayments due by the SBCI are summarised in the below table. The amounts presented are undiscounted. Other liabilities of €47m (2016: €14.3m) (see Note 18) are also included. Amounts payable "no later than 1 year" consist of accrued interest and other liabilities, amounts payable "greater than 1 year" consist of principal loan repayments to funders.

2017	No later than 1 year €000	1-5 years €000	Over 5 years €000	Total €000
Repayments due	58,618	443,972	229,489	732,079

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

14.3 Market risk

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

Interest rate risk

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

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

The amounts exposed to interest rate risk at 31 December 2017 are detailed below:

	2017 €000	2016 €000
Financial assets		
Cash and cash equivalents	74,736	21,544
Loans and receivables	686,438	656,444
	761,174	677,988

14. Risk management (continued)

14.3 Market risk (continued)

Financial liabilities	2017 €000	2016 €000
Funding and borrowings	685,098	660,122

Currency risk

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

14.3.1 Market risk measurement

Interest rate risk sensitivity

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

The following table represents the interest rate sensitivity arising from a 50 basis point increase or decrease in the interest rate (6 month EURIBOR). The risk is measured as the net present value (NPV) impact on the cash flows of the loans receivable and payable as a result of that change in interest rates. The interest rates are set as at 31 December 2017.

Interest Rate Sensitivity Analysis - a 50bp move

2017	+50bp €000	-50bp €000
Net cashflow impact	(340)	546

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

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.

14.4 Capital management

The SBCI is not subject to externally imposed capital requirements. The Company is committed to ensuring it is adequately capitalised as there is a risk that inappropriate management of its capital could result in the inability to absorb any potential credit losses. The SBCI's paid-up share capital as at 31 December 2017 is €35m, which was provided by the SBCI's sole shareholder, the Minister for Finance. In addition, the SBCI has available callable capital of €215m which it may call on at its discretion from the Minister for Finance, as provided for in the SBCI Act 2014.

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

14. Risk management (continued)

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

The SBCI entered into an agreement with the Minister for AFM dated 20 December 2016 (the "Agri Co-Operation Agreement") under which the SBCI received cash of €25m from the Minister for AFM to support the creation and operation of the Agriculture Scheme.

Under the Agriculture Scheme, the SBCI has issued credit guarantees to participating institutions in respect of loans by the institutions to agricultural SMEs. The SBCI's guarantees cover 80% of credit losses on a loan-by-loan basis, subject to an overall portfolio cap of 15% and a maximum portfolio of €150m. As a result at financial year end, the Company has a contingent liability of €17.3m related to potential credit losses covered under the scheme. This contingent liability of €17.3m is partially offset by a counter-guarantee agreement from EIF to the value of €6m, and by cash of €10.5m held as a loss reserve (from the €25m received from the Minister for AFM). The balance of the funding received from the Minister for AFM (€14.5m) is used for the payment of interest rate subsidies to the participating institutions, which are passed on in full to the SME borrowers, and to reimburse the SBCI for the costs of administering and operating the scheme.

SBCI's net exposure to credit losses under the Agriculture Scheme is €1.5m taking into account the €6m counter-guarantee and the €10.5m loss reserve funding from Minister of AFM.

14.6 Brexit Loan Scheme

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

Under the Brexit Loan Scheme, the SBCI expects to issue credit guarantees to participating institutions in respect of loans to businesses affected by Brexit. The SBCI's guarantees will cover 80% of credit losses on a loan-by-loan basis, subject to a maximum portfolio of €300m. The scheme had not commenced operation at financial year end, and no guarantees had been issued. The SBCI has entered into a counter-guarantee agreement with EIF to off-set 50% of its guarantee exposure. The funding of €23m received from the Ministers is to be used to cover expected credit losses and to reimburse the SBCI for the costs of administering and operating the scheme.

14.7 Credit Guarantee Scheme ("CGS")

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

14.8 Concentration risk

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

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

14. Risk management (continued)

14.8 Concentration risk (continued)

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

The SBCI's key geographic concentration of risk assets is in Ireland and the key 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 geographic concentration risk exposure from its loans and receivables is €686.4m (2016: €656.4m).

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

15. Fair value of financial assets and liabilities

15.1 Comparison of carrying value to fair value

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

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

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

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

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

2017 Financial assets	Carrying Value €000	Level 1 €000	Level 2 €000	Level 3 €000	Fair value €000
Cash and cash equivalents	74,736	74,736	-	-	74,736
Loans and receivables	686,438	-	686,438	-	686,438

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

2017 Financial liabilities	Carrying Value €000	Level 1 €000	Level 2 €000	Level 3 €000	Fair value €000
Funding and borrowings	685,098	-	685,098	-	685,098

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

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

15.2 Fair value measurement principles

Loans and receivables and funding and borrowings

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

16. Other receivables

	2017 €000	2016 €000
Reimbursements due	-	25
CGS administration costs recovery due	87	286
Interest receivable	34	-
	121	311

Reimbursements due relate to expenses the Company incurred and paid in carrying out due diligence reviews on its on-lenders for which the on-lender must reimburse the Company. Interest receivable relates to negative interest earned on the €85m loans notes issued by the Company to the NTMA (Note 24.2) and is receivable at year end.

17. Funding and borrowings

	2017 €000	2016 €000
Funding and borrowings payable within one year	11,637	122
Funding and borrowings payable greater than one year	673,461	660,000
	685,098	660,122

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

At the end of the financial year, the SBCI had loans outstanding with four funders (2016: five). Three of these funders are European financial institutions and one is the NTMA. The remaining terms of these loans range from 0.75 to 8 years and interest is charged to the SBCI at 6 month Euribor plus margin. For those debts greater than 5 years, the repayments are a mixture of semi-annual and bullet principal repayments depending on the terms of the applicable funding agreement.

At the end of the financial year, the company had €530m (2016: €580m) in undrawn funding facilities.

18. Other liabilities

		2017 €000	2016 €000
Minister for AFM payable	– Agriculture Scheme	23,289	13,914
	– Brexit Scheme	9,000	-
Minister for BEI payable	– Brexit Scheme	14,000	-
Amounts due to the NTMA		523	214
Other liabilities		169	203
		46,981	14,331

As set out in Note 14.5, the Minister for AFM advanced €25m to the SBCI to be used in the Agriculture Scheme to support SMEs in the agricultural sector in Ireland. An amount of €1.7m was recognised in other income in the year (see Note 7) leaving a balance of €23.3m. Funds that remain unutilised during the life of the Scheme are repayable to the Minister for AFM. Funds advanced under the Agriculture Scheme have been classified as a grant liability under FRS 102 Section 24.

Similarly, under an agreement between the Minister for AFM, the Minister for BEI and the SBCI dated 15 December 2017 (the "Brexit Loan Scheme Co-Operation Agreement"), the Minister for AFM and the Minister for BEI advanced €23mto the SBCI to be used in the Brexit Loan Scheme to support enterprises affected by Brexit. No funds had been utilised as at the 31 December 2017 as the Scheme had not launched. Funds that remain unutilised during the life of the Scheme are repayable to the Minister for AFM and the Minister for BEI.

19. Maturity analysis of assets and liabilities

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

2017	Current €000	Non-Current €000	Total €000
Financial assets			
Loans and receivables	81,438	605,000	686,438
Financial liabilities			
Funding and borrowings	11,637	673,461	685,098

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

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

20. Auditor's remuneration

	2017 €000	2016 €000
Audit of financial statements	29	27

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

21. Equity

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

In February 2017, at the request of the Board, the Company issued 25 million ordinary shares of €1 each to the Minister. The payment for the shares was effected through the conversion of a €25m loan from ISIF to equity.

As at 31 December 2017, the Minister for Finance had subscribed for, and was issued with, 35,000,000 (2016:10,000,000) of the Company's authorised shares.

22. Contingent liabilities

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

23. Contingent assets

The SBCI has entered into a counter-guarantee agreement with EIF to partially offset the SBCI's guarantees under the Agriculture Scheme. The value of the counter-guarantee is €6m and the terms and conditions of this counter-guarantee are consistent with SBCI's guarantee to the on-lenders. As such, the SBCI has a contingent asset of up to €6m based on full issuance of €150m related to the scheme at the end of 2017.

24. Related parties disclosures

24.1 Related parties

Minister for Finance

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

NTMA

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

24. Related parties disclosures (continued)

24.1 Related parties (continued)

Other Government controlled entities

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

Government Ministers and Departments

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

Key management personnel

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

24.2 Transactions and balances with related parties

Minister for Finance and ISIF Loan Facility

In February 2017, the Minister for Finance was issued an additional 25 million ordinary shares in the Company through the conversion of a €25m loan from ISIF to equity. There is currently a nil balance on the ISIF loan facility (2016: €25m), and the committed funding available under the facility is €215m.

NTMA recharge

The NTMA incurs costs for the running of the SBCI, which it recharges to the Company. The total of these costs for the financial year was €4.8m (2016: €3.8m). Further details in respect of these costs are disclosed in Note 8. There is an amount of €0.5m payable (2016: €0.2m) to the NTMA at the end of the financial year.

NTMA developed software

The SBCI purchased software developed internally by the NTMA at a cost of €0.3m (2016: €0.4m) during the financial year. €15k (2016: €47k) of the €0.5m payable to the NTMA at the end of the financial year relates to the purchase of software.

NTMA Loan Facility

€85m of loan notes issued by the Company to the NTMA in 2016 were outstanding at financial year end (2016: €85m) and are included in the funding and borrowings figures in the Statement of Financial Position.

Agriculture Scheme

The Company received €11.1m of funding from the Minister for AFM during the financial year (2016: €13.9m) in connection with the Agriculture Scheme which the Company launched with the Minister for AFM on 31 January 2017. See Note 18 for further details on the scheme and the funding received during the financial year.

Brexit Loan Scheme

The Company received a total of €23m during the financial year from the Minister for AFM and the Minister for BEI to be used in the Brexit Loan Scheme. See Note 18 for further details on the scheme and the funding received during the financial year.

24. Related parties disclosures (continued)

24.2 Transactions and balances with related parties (continued)

Credit Guarantee Schemes

During the financial year, the Company accrued €0.37m (2016: €0.29m) of income for the recovery of its administration costs in its role as operator and manager of Schemes created under the Credit Guarantee Acts 2012 and 2016 on behalf of the Minister for BEI. €0.09m (2016: Nil) of this income was receivable by the Company at financial year end. See the Directors' Report and Note 7 for further information on the SBCI's role in these schemes.

Central Bank of Ireland account

At the end of the financial year, the Company held €58m (2016: Nil) at the Central Bank of Ireland. There was €8k (2016: €8k) of interest payable to the Central Bank of Ireland by the Company.

Allied Irish Banks p.l.c

The Company issued loans to Allied Irish Banks p.l.c. during the financial year for the purpose of on-lending to Irish SMEs. These loans were outstanding at financial year end and are included in the loans and receivables figures in the Statement of Financial Position.

NAMA rent

During the financial year, the Company incurred costs of €2k (2016: €43k) which are payable to NAMA for the use of office space. This amount was included in operating expenses.

Key management personnel

Transactions with key management personnel are disclosed in Note 8.

25. Disclosures of interest

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

26. 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.

27. Approval of the financial statements

The financial statements were approved by the Directors on 11 April 2018.

Strategic Banking Corporation of Ireland
Treasury Building, Grand Canal Street, Dublin 2, D02XN96, Ireland

T 01 238 4000
www.sbci.gov.ie