ANNUAL REPORT & FINANCIAL STATEMENTS

2020

SBCI

Here to build business.
Strategic Banking
Corporation of Ireland

ABOUT THE SBCI

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

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

Our Vision

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

Our Mission

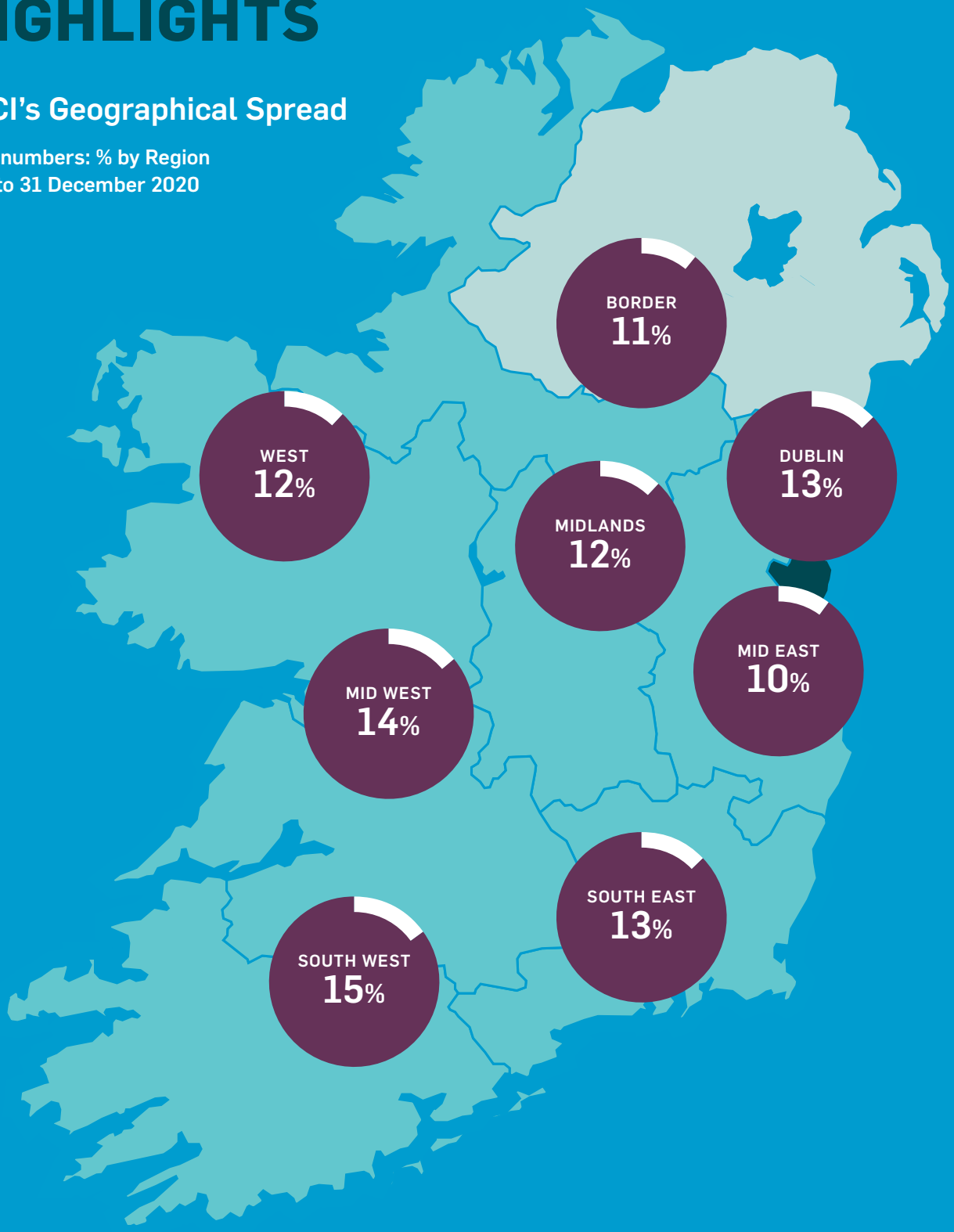
The SBCI's mission is to deliver effective financial supports to SMEs that address failures in the Irish credit market, while driving competition and innovation and ensuring the efficient use of available EU resources.

Contents

KEY BUSINESS HIGHLIGHTS

SBCI's Geographical Spread

Loan numbers: % by Region
Year to 31 December 2020



Key Business Highlights

Year to 31 December 2020

€836m

Loans supported

€109,438

Average Loan size

7,639

SMEs in Ireland supported

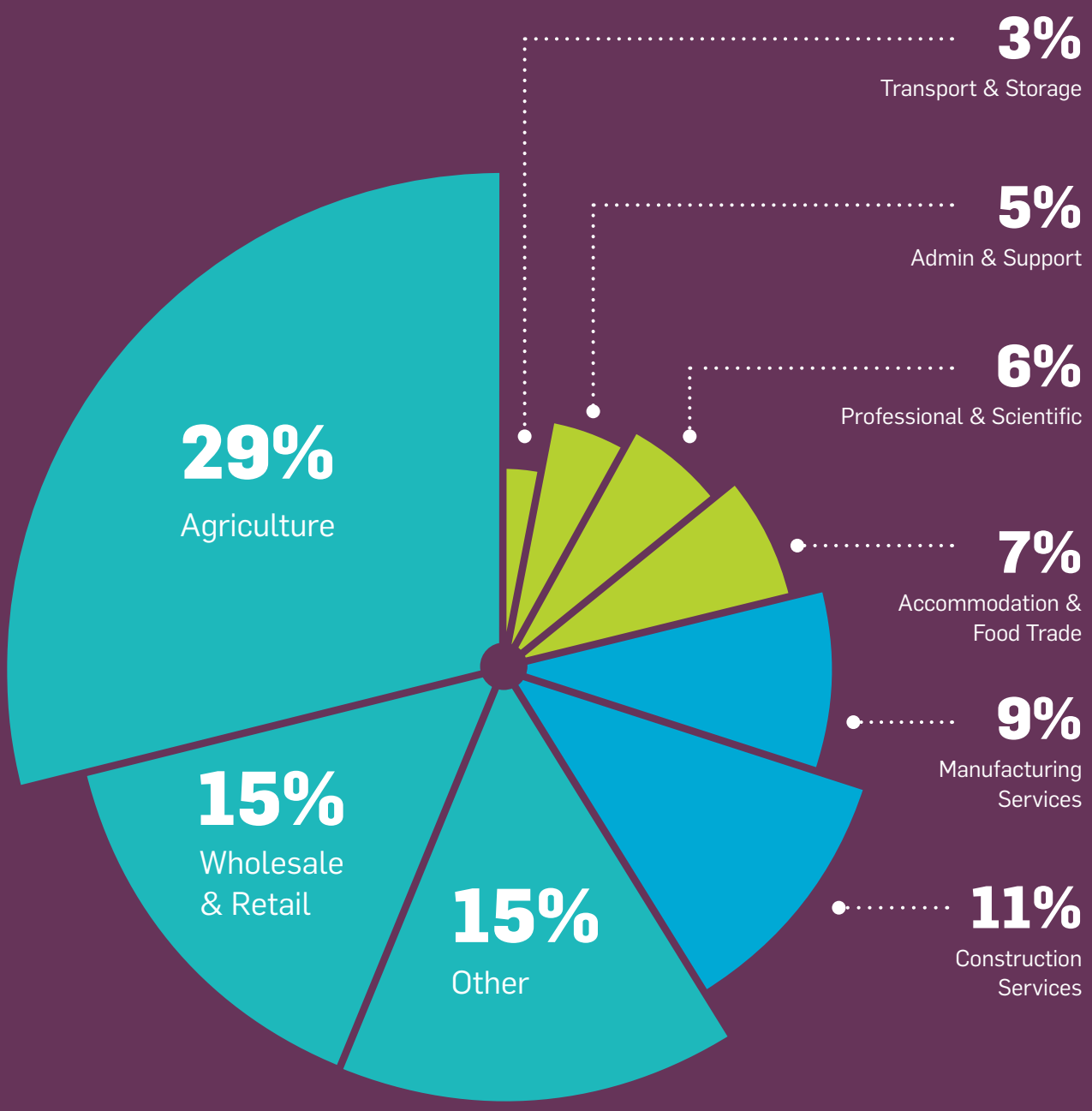
What SMEs used SBCI facilities for in 2020

72% investment in growing the business

28% working capital

SBCI funding is benefiting a wide range of sectors

Year to 31 December 2020



CHAIRPERSON'S STATEMENT

2020 was an exceptionally challenging year for the Irish economy and Irish society in general. The impacts of the Covid-19 pandemic had major implications for businesses, their employees, and the sustainability of the economy, resulting in the provision of unprecedented levels of State supports.

2020 saw an extraordinary requirement for state intervention and supports to offset the impacts on businesses across the country. The SBCI was key to the delivery of a number of these State and European supports. Working closely with representatives from the Department of Enterprise, Trade and Employment (DETE), the Department of Agriculture, Food and the Marine (DAFM) and the European Investment Bank Group (EIB Group), the SBCI was ideally placed to leverage its experience in the delivery of risk-sharing schemes to provide additional lending capacity to businesses specifically impacted by Covid-19.

In March 2020, the SBCI introduced the €200 million Covid-19 Working Capital Loan Scheme to the market which was targeted at businesses directly impacted by the pandemic, which needed low-cost, flexible working capital support to counteract and mitigate the effects of the restrictions imposed and the resultant loss of trade. While the working capital scheme provided loans with 3-year terms, it was identified that businesses also needed loans with longer repayment terms, spreading the cost of finance over a longer period. In July 2020, the SBCI launched an additional €500 million in risk-sharing capacity into the market through the Future Growth Loan Scheme, which offered loans up to 10 years. Furthermore, the SBCI worked closely with Government Departments over the latter part of 2020 to develop and launch the Covid-19 Credit Guarantee Scheme. This Scheme offers up to €2 billion of guarantee capacity to Covid-19 impacted businesses. The SBCI issued an open call for financial intermediaries to participate in the Scheme. The SBCI received a huge response and is delighted to advise that the Scheme is now available through a network of more than 20 lending partners, including pillar banks, non-bank finance providers and many Credit Unions across the country. The SBCI is the operator of the Covid-19 Credit Guarantee Scheme on behalf of the Department and is delighted to play a part in the delivery of such a significant State support in these challenging times for businesses.

During 2020, the SBCI announced three additional partners Capitalflow, SME Finance & Leasing and Permanent TSB. These new partners are key to achieving one of the SBCI core aims, which is to increase competition and provide additional choice of lender to the SME sector in Ireland. The SBCI continues to work towards the addition of further partners in 2021.

The Strategic Plan 2020-2025 has been approved by the Department of Finance and the SBCI Board. The SBCI will continue to focus on its core mandate of serving the needs of the SME sector and to develop and foster innovation for SMEs. The SBCI is also committed to supporting the Government's Climate Action Plan. Given the uncertainty created by the Covid-19 pandemic, the SBCI Board and Management Team will continue to review the Strategic Plan on an ongoing basis to ensure it is fit for purpose to meet the needs of SMEs in the future.

In February 2021 our former Chief Executive Officer, Nick Ashmore, took up the role of Director of the Ireland Strategic Investment Fund (ISIF). Nick was part of the initial team that set up the SBCI from its incorporation. He made a huge contribution to the SBCI's success and growth over the years, displaying an innovative and ambitious mindset to explore how best the SBCI could serve the SME market, drive competition and deliver low-cost funding to businesses across the country. The Board and I would like to thank most sincerely Nick for all his endeavours and dedication to the SBCI and we wish him all the best in his new role as Director of ISIF. Ian Black (NTMA Chief Financial and Operating Officer) will act as interim Chief Executive Officer until a permanent replacement is appointed. The Board and I would like to thank Ian for taking on this role and providing guidance and leadership during this interim period. It is much appreciated.

Pursuant to a recruitment process conducted through the Public Appointments Service, and following the recommendation of the Minister for Finance, Marguerite McMahon was appointed to the Board in July 2020. Marguerite previously held a senior executive role in the European Investment Bank (EIB). She is most welcome, and the Board and I look forward to working with her and benefiting from her experience gained over the years in the EIB.

As was the case with many businesses, the SBCI moved to a remote working environment during March 2020. This presented unchartered waters for the organisation, but the SBCI adapted quickly and migrated to an online world of conference and video calls. The SBCI is grateful for the support provided by the NTMA which enabled this transformation to happen in a seamless manner.

I would like to thank all of my fellow Board Members, the Committee Members, the Management Team and staff for their work and endeavours throughout the year in what has been one of the most challenging years of our lifetimes. I look forward to their continued commitment and the return to some semblance of normality during 2021.

BARBARA COTTER
Chairperson

CHIEF EXECUTIVE OFFICER'S REVIEW

The SBCI was instrumental in delivering key SME supports in 2020, in collaboration with the Department of Enterprise, Trade and Employment, the Department of Agriculture Food and the Marine and the European Investment Bank Group. These supports were developed to provide key funding to mitigate the impacts of Covid-19 and Brexit on businesses.

In March 2020, the SBCI introduced the €200 million Covid-19 Working Capital Loan Scheme to the market. The Scheme is offered through our lending partners AIB, Bank of Ireland and Ulster Bank. The Scheme offers working capital loans to businesses, ranging from one to three years, with a maximum interest rate of 4%. Loans are offered on an unsecured basis up to €500,000. The loans are targeted at business requiring short-term working capital support, or indeed businesses who want to quickly change or adapt their business to mitigate the impact of Covid-19. The Scheme capacity has been expanded by an additional €37.5m and will continue to be available until the end of December 2021. The Scheme is supported by a counter guarantee from the European Investment Fund (EIF).

Government Departments and the SBCI also identified the need for a longer-term lending solution to counteract the negative impacts of Covid-19. The SBCI had already launched the Future Growth Loan Scheme (FGLS) in June 2019. Again, with the support of the Government Departments and the European Investment Bank Group, the SBCI increased the capacity of the Scheme from €300 million to €800 million in July 2020. The FGLS provides loans with terms of up to 10 years, with very competitive interest rates of a maximum initial rate of 4.5% for loans less than €250,000 and 3.5% for loans over €250,000. In common with the Covid-19 Working Capital Loan Scheme, loans up to €500,000 are unsecured. The Scheme has been hugely successful. AIB, Bank of Ireland, Permanent TSB and Ulster Bank are fully subscribed. The SBCI was delighted to include two new Scheme partners, KBC Bank (in 2020) and Close Brothers (in 2021). The SBCI is grateful for the continued support received from the European Investment Bank Group and the European Commission in offering counter guarantees to support these Schemes.

The third key support operated by the SBCI in 2020 was the Covid-19 Credit Guarantee Scheme. The Scheme is provided by the Government of Ireland to facilitate lending to Micro, Small and Medium-sized Enterprises and Small Mid-Caps adversely impacted by Covid-19, including Primary Producers (Agriculture and Fishing). The Covid-19 Credit Guarantee Scheme facilitates the provision of liquidity and working capital to businesses. The SBCI is the operator of the Scheme on behalf of the Minister for Enterprise, Trade and Employment. Unlike the SBCI's other Schemes, the Government provides the guarantee directly to the participating finance providers. As operator, the SBCI engages with the participating finance providers in the operational and management elements of the Scheme. The Scheme offers up to €2 billion of additional credit capacity, supported by a Government guarantee distributed through a network of banks, non-bank finance providers and Credit Unions. The SBCI is delighted to see the addition of the Credit Unions to the Scheme's suite of lending partners.

The finalization of the withdrawal of the United Kingdom from the European Union occurred on 31 December 2020, following the end of the transition period. It is positive that a Trade and Co-Operation Agreement was agreed between the EU and the UK. However, the withdrawal of the UK from the common market presents challenges for Irish businesses. These businesses are now facing increased costs and supplementary paperwork which can lead to delays in trade between the two markets. The SBCI continues to provide support to businesses by way of the Brexit Loan Scheme, which is designed to fund working capital requirements or innovation, change or adaptation of the business to mitigate the impact of Brexit.

In 2020, the SBCI supported sanctioned lending for the year, across all its product lines, totalling €835.7m with 7,639 loans to SMEs and an average loan size of €109,438. New loans were deployed across a broad sectoral spread. Some of the larger sectors availing of SBCI facilities are - Agriculture 29%, Wholesale & Retail 15%, Construction Services 11%, Manufacturing Services 9%, and Accommodation and Food Trade 7%.

The financial results for 2020 show an operating loss of €1.111 million, compared to a loss of €408k in the previous year. The loss reflects a reduction in interest income, primarily due to a decrease in loan assets as a result of repayments during the year and subdued demand for new lending. Furthermore, there was an increase in expenditure in 2020, due to the cost of delivery of new and increased schemes in response to the Covid-19 crisis.

The SBCI continued to build on its brand awareness throughout 2020. There was an increase in the SBCI's marketing spend for 2020, primarily driven by the ongoing need to communicate to SMEs the availability of key State supports through the SBCI Schemes.

Media activity was more focused on the SBCI's Social Media Channels, Twitter, LinkedIn and YouTube, utilising animated explanatory videos and SME case studies to promote its range of products. The SBCI continued to engage with SMEs across the country, attending over 40 webinars during the year.

2020 saw an increase in the number of employees to support the growing number of schemes and on-lenders. There are currently 27 employees working in SBCI. 2020 was a challenging year for us all and I would like to thank the SBCI Team and the SBCI Board for their adaptability and continued dedication during this past year.

IAN BLACK
Interim Chief Executive Officer

STRATEGY

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

Our Purpose

Supporting SMEs

Delivering impact for SMEs and Society in an agile, creative and flexible way

Building capability and independence

Partnering with Stakeholders

Learning

The strategy of the SBCI is to support the development and maintenance of an effective market for the provision of credit to SMEs in Ireland, while maintaining its ability to respond to major market dislocations and the policy delivery needs of government. It does this through the delivery of financial support in the form of low-cost liquidity for finance providers, the sharing of risk on underlying loans and the development of innovative new forms of financial instrument. The SBCI is focused on three impact themes: SMEs First, in support of the development of the broader SME credit market; SME Innovation, which supports lending to higher risk but faster growing SMEs; and Climate Action, where the SBCI will develop financing solutions to address the challenges posed by climate change to SMEs and the broader economy. The SBCI's supports utilise government and European backing and are designed to address failures in the market to provide finance to SMEs including farmers, when there is a policy requirement and where this supports economic development and enhanced competition. They are designed and delivered by the SBCI's own team and in partnership with its broad set of institutional relationships in the Irish market.

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

It is important to note that unforeseen market developments may emerge (e.g. Covid-19 pandemic), which require the SBCI to reprioritize or change direction.

SMEs First

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

Climate Action

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

SME Innovation

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

Networks & Relationships

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

Skilled Team with NTMA support

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

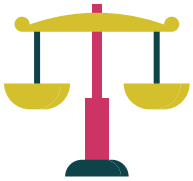
Government & Eu Backing

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

LINES OF BUSINESS

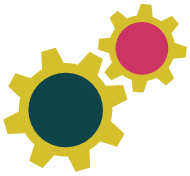
Lending

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



Risk-Sharing

The risk-sharing business model is to provide partial credit guarantees to finance providers to facilitate the advancement of credit to SMEs, including where access to credit is constrained by specific sectoral or economic cycle market failures. The SBCI avails of and leverages risk capacity from State and European supports to design financial instruments which make efficient use of capital and enhance SME access to finance. Examples of risk-sharing products include the SBCI Agriculture Cashflow Loan Scheme, the Brexit Loan Scheme, the Future Growth Loan Scheme and the Covid-19 Working Capital Loan Scheme.



Service Provision

In October 2016, the SBCI was appointed as operator and manager of the Credit Guarantee Scheme (CGS) by the Minister for Jobs, Enterprise and Innovation (now Enterprise, Trade and Employment). This established the SBCI as the primary conduit for risk sharing products (credit guarantees) in Ireland. A revised Credit Guarantee Scheme with enhanced features was launched in July 2018. The launch of the Covid-19 Credit Guarantee Scheme in July 2020 as part of the Government's stimulus package has seen the scheme capacity expanded by €2 billion.

Business Model

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

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

HOW SBCI WORKS

BUSINESS REVIEW

During 2020 the SBCI focused on expanding its risk sharing activities to quickly address the challenges presented by the Covid-19 pandemic and by further developing its non-bank partner liquidity operations. The Covid-19 Working Capital Loan Scheme was launched in March 2020 and the expansion of the long-term Future Growth Loan Scheme by an additional €500m was announced in July 2020. These schemes were followed in September 2020 with the launch of the Government's €2bn Covid-19 Credit Guarantee Scheme. The SBCI continued to develop its engagement with potential and new on-lenders, deploying an additional €68m in liquidity facilities to non-bank partners and establishing new working relationships with Capitalflow, SME Finance & Leasing and Permanent TSB. The SBCI will continue to work towards adding new on-lenders to further increase the variety and availability of funding to SMEs.

During 2020, the SBCI has provided over €836m to 7,639 SMEs through all its product lines. Across the SBCI products there was a balanced regional spread of loans ranging from 15% in the South-West to 10% in the Mid-East.

Funding Sources

During 2020, the SBCI maintained its relationships with four funders, two international and two national facilities, for a total funding line of €680m. The SBCI has credit facilities of: €100m from the Council of Europe Development Bank (CEB); €250m from the European Investment Bank (EIB); €165m in a Guarantee Notes Programme with the NTMA and €165m from the Ireland Strategic Investment Fund (ISIF). The SBCI also benefits from guarantee programmes provided by the European Investment Fund and the European Investment Bank group.

Council of Europe Development Bank — €100 MILLION

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

European Investment Bank — €250 MILLION

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

European Investment Fund — €1,512 MILLION

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

NTMA — €165 MILLION

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

Ireland Strategic Investment Fund (ISIF) — €165 MILLION

The ISIF was established in December 2014 to invest on a commercial basis in a manner designed to support economic activity and employment in Ireland. The assets of the National Pensions Reserve Fund (NPRF), the ISIF's predecessor fund, transferred to the ISIF. Funding has been provided to the SBCI on foot of a direction from the Minister for Finance to the NPRF Commission. The ISIF funding is a ten-year revolving facility with capacity for conversion to capital at the Minister's request. In October 2020, €50m of the revolving facility was converted to capital to support lending, guarantees and any unforeseen losses.

SBCI Products

In 2020, the SBCI expanded its product suite to help address the fallout of the Covid-19 pandemic, with the launch of the Covid-19 Working Capital Loan Scheme and the €500 million expansion of the Future Growth Loan Scheme (FGLS). Additionally, the SBCI is the operator of the €2bn Covid-19 Credit Guarantee Scheme (Covid-19 CGS) on behalf of the Department of Enterprise, Trade and Employment.

The Covid-19 Working Capital Loan scheme is designed to fund SMEs working capital requirements and to fund innovation, change or adaption of businesses to mitigate the impact of Covid-19. This Scheme was developed in partnership with Department of Enterprise, Trade and Employment and the Department of Agriculture, Food and the Marine. The scheme is supported by the InnovFin SME Guarantee Facility with the financial backing of the European Union under Horizon 2020 Financial Instruments.

The Future Growth Loan Scheme is designed to assist SMEs in making long-term investments in their businesses and helping them to grow into the future by providing 7 to 10-year loans. The expansion of the Future Growth Loan Scheme was supported by the Department of Enterprise, Trade and Employment, the Department of Agriculture, Food and the Marine, the European Investment Bank and the European Investment Fund. Since its launch in 2019 and its expansion in 2020, the FGLS has helped to address the long-term investment market gap. The FGLS has seen exceptionally strong application levels since its launch. The scheme benefits from a guarantee from the European Union under the European Fund for Strategic Investments (EFSI). Both the FGLS and the Covid-19 Working Capital Loan Scheme demonstrate the integral role of the SBCI in the appropriate promotion of EU financing and consequent support to Irish SMEs.

The Covid-19 Credit Guarantee Scheme is provided by the Government of Ireland to facilitate lending to Micro, Small and Medium-sized Enterprises, and Small Mid-Caps adversely impacted by Covid-19. This includes Primary Producers – Agriculture/Fishing. The Covid-19 Credit Guarantee Scheme facilitates the provision of liquidity and working capital to businesses. The Scheme, which the SBCI operates on behalf of the Government, enables a borrower impacted by Covid-19 to access credit when they need it most, providing loan repayment terms up to 5.5 years in duration.

Risk-Sharing

Over the course of 2020, the SBCI focused on expanding its risk-sharing capability to help alleviate the negative economic consequences of the Covid-19 pandemic and ensure Brexit-affected enterprises have access to funding support. This was achieved through the creation of additional lending capacity for SMEs in Ireland and by acting as a conduit for European SME financing initiatives. This capability was further developed throughout 2020 with the launch of the Covid-19 Working Capital Loan Scheme, and the €500 million expansion of the Future Growth Loan Scheme. Additionally, the SBCI acts as operator of the €2bn Covid-19 Credit Guarantee Scheme on behalf of the Department of Enterprise, Trade and Employment. Risk-sharing allows for the sharing of the credit risk on the overall loan portfolio. The provision of risk-sharing constitutes an important support to on-lenders as they continue to provide credit to the SME market during the Covid-19 pandemic.

Lending

In 2020 the SBCI continued to develop its relationships with both existing and new on-lenders adding three new on-lenders, Capitalflow, SME Finance & Leasing and Permanent TSB. The SBCI continues its work to increase the number of on-lenders to provide a greater variety of competitive funding options for SMEs. This will enhance the diversity of lenders and types of finance available in the Irish market.

With its bank on-lenders (AIB, Bank of Ireland, KBC Bank, Permanent TSB and Ulster Bank), the SBCI focused on increasing its risk-sharing portfolio, increasing the Future Growth Loan Scheme to €800m and providing loans to support businesses impacted by Brexit and the Covid-19 pandemic. Further details on the risk-sharing products are set out on page 18.

Through its current non-bank on-lenders, the SBCI provides hire purchase, contract hire and leasing to eligible SMEs to finance cars, commercial vehicles, plant and machinery assets. The SBCI also provides funding to support invoice finance products. In 2020, the SBCI also increased the wholesale funding it provides to its non-bank on-lenders, approving a total of €68m to Capitalflow and SME Finance & Leasing. As operator of the Government's €2bn Covid-19 Credit Guarantee Scheme, the SBCI set up 23 new on-lenders to participate in the Scheme. The Scheme now includes banks, non-bank finance providers and Credit Unions. This significant expansion in participants ensures businesses have access to a greater choice of on-lenders.

The SBCI will continue to strive to add diversity to the products it supports during 2021.

SBCI PROGRESS TO YEAR END 2020

2016

December 2014 €200m to Bank of Ireland

February 2015 €200m to Allied Irish Banks

October 2015 €51m to Finance Ireland

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

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

December 2015 €75m to Ulster Bank

2017

May 2016 €40m to First Citizen Agri Finance

June 2016 €45m to Bibby Financial Services Ireland

November 2016 €70m to Fexco Asset Finance

January 2017 €150m Launch of ACLS Scheme

March 2017 ACLS Scheme fully allocated

June 2017 Completion of bank on-lending

October 2017 BLS announced in budget speech

KEY

ACLS Agri Cashflow Loan Scheme
BLS Brexit Loan Scheme
Covid-19 CGS Covid-19 Credit Guarantee Scheme
Covid-19 WCLS Covid-19 Working Capital Loan Scheme
FGLS Future Growth Loan Scheme

2020

January 2020 €50m to Capitalflow

March 2020 €200m Launch of Covid-19 WCLS*

April 2020 €17.5m to SME Finance & Leasing

July 2020 Additional €500m to FGLS

September 2020 €2bn Launch of Covid-19 CGS

November 2020 €50m to Permanent TSB

2019

March 2019 €300m Launch of FGLS

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

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

September 2019 €50m facility to KBC Bank

2018

March 2018 €300m Launch of BLS

May 2018 Additional €25m to Bibby Financial Services Ireland

July 2018 Launch of 2017 CGS

October 2018 FGLS announced in budget speech

December 2018 Additional €75m to Finance Ireland

*NOTE: Due to the Covid-19 emergency, €200m was diverted from the BLS to the new Covid-19 WCLS.

Brexit Loan Scheme (BLS)/Covid-19 Working Capital Loan Scheme (Covid-19 WCLS)

The €300 million Brexit Loan Scheme/Covid-19 Working Capital Loan Scheme is offered in partnership with the Department of Enterprise, Trade and Employment, the Department of Agriculture, Food and the Marine and is supported by the InnovFin SME Guarantee Facility, with the financial backing of the European Union under Horizon 2020 Financial Instruments. The BLS/Covid-19 WCLS is designed to provide funding support to enable eligible SMEs to implement necessary changes to address the challenges posed by Brexit or Covid-19. The scheme is currently in the market and will remain open until the end of December 2021.

Who can apply?

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

- ✓ Be a viable business with up to 499 employees (SMEs and Small Midcaps);
- ✓ Be Brexit / Covid-19 impacted;
- ✓ Meet the scheme criteria (Brexit/Covid-19 related criteria and InnovFin criteria).

Key features of the scheme

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

Loans can be used for

Future working capital requirements to fund innovation, change or adaptation of the business to mitigate the impact of Brexit or Covid-19.

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

Future Growth Loan Scheme (FGLS)

The Future Growth Loan Scheme is offered in partnership with the Department of Enterprise, Trade and Employment and the Department of Agriculture, Food and the Marine, with the financial backing of the European Investment Bank Group. This scheme is available to eligible SMEs and the Primary producers (Agriculture/Fishing) to support strategic and long-term investment (7-10 years)[1].

Who can apply?

The scheme is available to:

- ✓ SMEs, Small Midcaps and the Primary producers (Agriculture/Fishing)

Key features of the scheme

- ✓ Loans from €25,000 up to €3m for eligible borrowers;
- ✓ Term ranging from 7 years to 10 years;
- ✓ Loans are unsecured up to €500,000;
- ✓ Initial maximum interest rate 4.5% for loans up to €249,999 and 3.5% for loans equal to or greater than €250,000*.

Loans can be used for

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

** Variable interest rates are subject to change.*

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

1. To end of 2020 there has been very strong demand from SMEs and Agri businesses for this longer term, lower cost finance. This demand has resulted in a rapid take-up of the scheme and consequently limited remaining capacity. AIB, Bank of Ireland, Permanent TSB and Ulster Bank were at their FGLS limits, while KBC Bank continued to have capacity available. However, KBC's product range is aimed at SME business customers and it does not offer funding in the Agriculture sector.

Covid-19 Credit Guarantee Scheme (Covid-19 CGS)

The Covid-19 Credit Guarantee Scheme was launched by the Government in 2020. The scheme is designed to assist businesses, including Primary producers, impacted by Covid-19 to access credit. The scheme operates by providing an 80% guarantee to participating finance providers on qualifying loans to SMEs.

The Scheme is available through a variety of providers, including banks, non-bank finance providers and Credit Unions.

Who can apply?

To be eligible, viable micro, SMEs, Primary producers and Small MidCap enterprises must meet the following criteria:

- ✓ Be involved in a commercial activity;
- ✓ Be Covid-19 impacted
- ✓ Be a sole trader, partnership, franchise, co-operative or limited company;
- ✓ In the lender's opinion have a viable business proposal;
- ✓ Able to repay the facility

Key features of the scheme

- Facilities of €10,000 to €1m;
- Annual premium (in addition to the interest rate/ fee charged by the finance provider);
- Term of up to 5.5 years;
- Term Loans, Demand Loans, Invoice Finance, Leasing.

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

Marketing and Promotion

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

A public awareness campaign is in place to market the SBCI and encompasses a marketing promotional campaign, including attendance at trade shows, conferences and business events, and also a media campaign. The event activity moved on-line in 2020 with the SBCI attending over 40 webinars engaging with SMEs and their advisors. The 2020 media campaign continued the focus on the development of the SBCI's social media channels and the promotion of its products through SME and scheme explainer case studies. The SBCI utilizes Twitter, LinkedIn and in 2019 opened its own YouTube channel to maximize the reach of its social media campaigns (the SBCI YouTube channel received over one million views in April 2020).

The Department of Finance Credit Demand Survey (April-September 2020) records awareness of the SBCI at 46% amongst SMEs participating in the survey, an increase in the 2019 figure of 15%[2].

2 Awareness by SME size: Micro 36%, Small 49% and Medium Enterprise 60%.

Stakeholder and Peer Engagement

Stakeholder engagement is important in ensuring that the SBCI activities are aligned with government policy and meet the financing needs of SMEs. The SBCI achieves this through regular and effective engagement and collaboration with all stakeholders, including SMEs, representative bodies', advisors to SMEs (e.g. ISME, SFA, IFA, etc.), government departments and agencies, on-lenders and funders/guarantors both at national and EU level. During 2020, the SBCI has increased its engagement with SMEs through its direct eligibility process for the Brexit Loan Scheme, Covid-19 Working Capital Loan Scheme and Future Growth Loan Scheme. National Promotional or Development Banks/Institutions (NPBs/Is) exist across Europe to address identified local or regional market failures. While their respective mandates may vary, depending on jurisdictional priority, they have a commonality of purpose which has driven the creation of strong network groups or associations with specific market focus. The SBCI is a member of NEFI (Network of European Financial Institutions for SMEs), ELTIA (European Long-Term Investors Association) and AECM (European Association of Guarantee Associations) and an active participant in a number of EEFIG (Energy Efficiency Financial Institutions Groups) working groups. These fora provide the SBCI with support and experience from other markets that is invaluable in the development of its role as the provider of key credit interventions in the Irish market. The SBCI, as a national promotional institution, provides a local conduit to the Irish market for EU financing initiatives.

Market Overview

Irish SMEs faced unprecedented challenges and uncertainty during 2020 due to the Covid-19 pandemic and the subsequent effects of lockdowns, social distancing measures and forced closures. Brexit and the absence of an EU-UK deal presented additional uncertainty for SMEs during the year. Key figures presented below, demonstrate the challenges SMEs faced throughout 2020.

The labour market illustrates the impact Covid-19 has had on the Irish economy. The Central Statistics Office's (CSO) figures reveal that the Covid-19 adjusted unemployment rate for December 2020 was 20.4% for all persons, including those on the Pandemic Unemployment Payment[3]. The Covid-19 adjusted unemployment rate fluctuated throughout 2020 peaking at 30% in Q2 2020.

Despite this, the CSO indicates that GDP is now estimated to have grown by 3.4% for the year 2020[4]. This is predominantly attributed to the performance of foreign multinationals based in Ireland. The pharmaceutical and IT sectors have been largely unaffected by Covid-19. The CSO's preliminary figures for 2020 show that goods exports were valued at €161 billion in 2020, an increase of €8 billion (+5%) compared with 2019[5].
The Irish domestic economy is in recession with estimated negative growth of -5.4% in 2020 (Modified Domestic Demand)[6].

3 Central Statistics Office (2021), Monthly Unemployment December 2020.
4 Central Statistics Office (2021), Quarterly National Accounts Quarter 4 2020.
5 Central Statistics Office (2021), Goods Exports and Imports December 2020.
6 Central Statistics Office (2021), Quarterly National Accounts Quarter 4 2020.

The Department of Finance has reported a sharp increase in public indebtedness in Ireland[7]. Debt-to-GNI* is expected to have increased to 108% in 2020 (€219 billion).
CBI data reveals that total gross new SME lending for non-financial, non-real estate sectors during the year to Q3 2020 was €4.4 billion. This represents the lowest amount of loans provided since mid-2016[8]. On an annual basis, loans outstanding declined by €1.8 billion (↓4.6%)[9]. At December 2020, deposits from NFCs stand at €73 billion (↑18.5%).

A fifth of all Irish SMEs applied for a loan within the six months up to September 2020[10]. Irish SMEs loan application success rate was 55% (EU average of 69%), while the rejection rate was 11% (EU average of 5%). Just 8% of Irish SMEs considered access to finance as their most important challenge. This is a similar figure to Euro area SMEs (10%). The European Central Bank Survey on the Access to Finance of Enterprise (SAFE) suggests that finding customers (22%) continues to be the main problem facing SMEs, followed by the availability of skilled labour (19%).

The SBCI recognizes the positive performance of SMEs and their continued use of internal financing. According to the European Investment Bank Investment Survey 2020 (EIBIS), internal funds account for 73% of Irish firms' investments, which is in line with Ireland's results in 2019 (75%) and above the EU average (62%)[11].

31% of Irish firms stated that they were content with using internal funds for investment or did not have a need for external finance. This remains higher than the EU average (17%). The survey also notes that for Irish firms, bank loans (37%) and leasing/higher purchase (37%) are the two most popular types of external finance used for investment activities. This differs from the EU average with bank loans accounting for 59% and leasing/hire purchase for 21% of external finance products.
The SBCI views that continued financing of long-term investments from internal or short-term finance may lead to the risk of a gap emerging in longer term business investment levels. The Future Growth Loan Scheme has been introduced to address this emerging risk.

Irish SME interest rates are higher than Euro area averages. The average interest rate for NFC loans <€250,000 was 4.84% in December 2020 (Euro area average 1.99%[12]. The SBCI is committed to ensuring that competitive interest rates are available to SMEs in Ireland.

The European Investment Bank (EIB) notes that prior to Covid-19 less than 20% of European SMEs were highly digitalised, compared with nearly 50% of large corporations. The adoption of digital technologies by EU firms is now growing and this will help SMEs to recover in a post Covid-19 environment[13].

7 Department of Finance (2021), Annual Report on Public Debt in Ireland 2020.

8 Central Bank of Ireland (2019), Statistical Release: Trends in SME and Large Enterprise Credit and Deposits: Q3 2020.

9 Central Bank of Ireland (2021), Money and Banking Statistics: December 2020.

10 European Central Bank (2020), Survey on the Access to Finance of Enterprises (SAFE) in the Euro Area: April to September 2020.

11 European Central Bank (2020), European Investment Bank Investment Survey 2020.

12 Central Bank of Ireland (2021), Retail Interest Rates: December 2020.

13 European Central Bank (2021), Investment Report 2020/2021.

GOVERNANCE AND CORPORATE INFORMATION

Directors

BARBARA COTTER
Chairperson

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

Barbara Cotter was a partner at A&L Goodbody, Banking and Financial Services Department for over 20 years. She is now a non-executive director of a number of companies and sits on various panels/tribunals. She is a graduate of University College Dublin.

IAN BLACK
Board member

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

Ian Black is the Interim Chief Executive Officer of the SBCI since February 2021. Ian joined the NTMA in 2013 as Director of Finance, Technology and Risk. Prior to joining the NTMA, he was an Executive Director (CFO/COO) of KBC Bank Ireland with responsibility for Finance, Operations & IT, and Treasury-ALM. He has worked in the financial services industry since 1988. He is a Chartered Accountant, member of the UK Association of Corporate Treasurers, member of the Irish Tax Institute and holds an MBA from Dublin City University.

EOIN DORGAN
Board member

(Appointed 6 September 2018 for a five-year term) Member of the Credit Committee

Eoin Dorgan leads the Eurogroup Section in the Department of Finance, which supports the Minister for Finance in his role as President of Eurogroup. He has previously served in the Banking Division of the Department, as Special Adviser to the Minister for Finance and as Press Officer to the Minister and Department of Finance. He is a graduate of University College Dublin and Trinity College Dublin.

TOM MCALEESE
Board member

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

Tom McAleese is a Managing Director of Alvarez & Marsal Europe and Head of the Bank Restructuring practice in Europe with over 25 years in financial services. Prior to joining Alvarez & Marsal he was Managing Director of Barclays Bank Ireland plc. He previously worked with ABN AMRO Bank in various positions and also at GPA Group and KPMG. Tom is a Fellow of the Institute of Chartered Accountants, a Fellow of the Institute of Bankers and a Member of the Institute of Certified Public Accountants. Tom is a former President of the Trinity Business Alumni and director and audit chair at the Dublin Chamber of Commerce.

MARGUERITE MCMAHON
Board member

(Appointed 17 July 2020 for a five-year term) Member of the Credit Committee

Marguerite Mc Mahon is non-executive director of SME wholesale finance (Funding London) London. More than half her professional career of plus 30 years at the European Investment Bank in Rome, Madrid and Luxembourg, concerned different aspects of intermediated lending to SMEs mainly in the Spanish and Italian markets and to a lesser extent Malta, Slovenia and Croatia. In addition, she has a wide expertise in public and private sector finance, structured finance including PPPs, the banking sector and financing innovation and energy efficiency. Prior to the EIB she was a credit analyst in London. Marguerite is a graduate of University College Dublin, ESADE Business School Barcelona and London School of Economics.

AJ NOONAN
Board member

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

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

CONOR O'KELLY
Board member

(Reappointed 12 March 2021 for a two-year term) Member of the Remuneration Committee

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

RICHARD PELLY
Board member

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

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

EILIS QUINLAN
Board member

(Reappointed 12 March 2020 for a five-year term) Member of the Audit and Risk Committee

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

Governance Statement and Board Members' Report

Governance

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

Board Responsibilities

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

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

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

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

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

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

The Board is responsible for approving the SBCI income and expenditure budget and corporate strategy. Forecasts against budget and goals are reviewed by the Board during the year and out-turns are reviewed at year end. The Board is also responsible for safeguarding its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board considers that the financial statements of the SBCI give a true and fair view of the financial performance and the financial position of the SBCI at 31 December 2020.

Board Structure

The SBCI's Constitution provides that there shall be a minimum of two and a maximum of nine directors, one of whom will be the Chief Executive Officer as an ex-officio member of the Board. The first directors were appointed by the Minister on the formation and registration of the SBCI. The Board may appoint subsequent directors on the nomination of the Minister and shall implement the terms of the Minster's nomination. The Chairperson is appointed by the Minister. A director's term of office shall not exceed five years. Details of the current directors and their appointment periods are set out on pages 22 to 24.

The Board conducts an annual evaluation of its own performance and that of its Committees. In 2020, 2019, 2017 and 2016 this performance evaluation process was conducted internally. In 2021, as was done in 2018, the Board's performance evaluation process will be conducted externally. This is in accordance with the requirement under Provision 4.6 of the Code of Practice for the Governance of State Bodies to have it externally facilitated every three years.

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

- Audit and Risk Committee
- Credit Committee
- Remuneration Committee

For further information on the Board's committees, see Committee Reports on page 30.

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 2020 is set out below including the fees and expenses received by each member in their capacity as a Board or Committee member.

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

	Board	Audit & Risk Committee	Credit Committee	Remuneration Committee	Fees 2020 €	Expenses 2020 €
Number of Meetings	11	5	5	2		
Nick Ashmore	11		5			
Barbara Cotter	11				€31,500	-
Eoin Dorgan	11		5		-	-
Tom McAleese	11	5			€15,750	-
Rosheen McGuckian	1/1(p)			1/1(p)	€3,162	-
AJ Noonan	11	5		2	€15,750	-
Conor O'Kelly	11			2	-	-
Richard Pelly	11		5		€15,750	€232
Eilis Quinlan	11	5			€15,750	-
Marguerite McMahon	3/3(p)		3/3(p)		€7,183	
Staff Members						
Ray Mangan			4		-	-

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

Key Personnel Changes

Eilis Quinlan and Richard Pelly were reappointed to the Board with effect from 12 March 2020. Rosheen McGuckian resigned as Director with effect from 11 March 2020 and was replaced by Marguerite McMahon with effect from 17 July 2020.

Nick Ashmore resigned as CEO with effect from 15 February 2021. Ian Black has been appointed as interim CEO, while a recruitment process is underway to find a permanent CEO.

Remuneration

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

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

Discretionary performance-related payments are intended to reward exceptional performance having regard to the employee's own performance, the performance of the employee's area of responsibility, and the overall performance of the SBCI. Performance-related payments are made in accordance with parameters approved by the Board on the recommendation of the Remuneration Committee. The overall amount of performance related payments made in respect of any year is also subject to the approval of the Board. The SBCI made no performance-related payments in 2020.

Employee Short-Term Benefits Breakdown

Employees' short-term benefits in excess of €50,000 in 2020 are categorised into the following bands.

Range	No. of Employees
€50,001 to €75,000	7
€75,001 to €100,000	5
€100,001 to €125,000	2
€125,001 to €150,000	0
€150,001 to €175,000	4
€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	**19**

Note: For the purposes of this disclosure, short-term employee benefits rendered during 2020 include salary, other taxable benefits paid to employees (including performance related payments), and other payments made on behalf of employees, but exclude employer's PRSI.

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

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

Consultancy Costs

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

	2020 €000	2019 €000
Legal advice	981	309
Financial advice	590	298
Public relations / marketing	110	107
Human Resources	0	16
Other	169	1
Total consultancy costs	1,850	731
Consultancy costs capitalised	0	0
Consultancy costs charged to the Statement of Comprehensive Income	1,850	731
Total consultancy costs	1,850	731

Legal Costs and Settlements

Expenditure incurred in 2020 in relation to legal costs and settlement amounted to 0.

Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows.

	2020 €000	2019 €000
Domestic		
-Board	0	0
-Employees	11	18
International		
-Board	0	1
-Employees	10	15
Total	21	34

Hospitality Expenditure

The Statement of Comprehensive Income includes €2.6k in respect of staff hospitality expenditure in 2020 (2019: €4.7k).

Statement of Compliance

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

Matters Reserved for Decision by the Board

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

Non-Compliance with Statutory Obligations

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

Relations with the Oireachtas, Minister and Parent Department

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

Public Spending Code

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

Remuneration and Superannuation

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

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

Committee Reports

Audit and Risk Committee Report

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

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

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

- Tom McAleese, Chairperson
- Eilis Quinlan
- AJ Noonan

The Committee met on 5 occasions in 2020.

Financial Reporting

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

Internal Controls

The Committee reviewed the effectiveness of the system of internal control. It also reviewed the Statement on Internal Control to be included in the 2020 financial statements and recommended it to the Board. The review

was informed by a report from management in relation to the assertions contained in the Statement and also the Committee's detailed Work Programme, including regular internal audit and risk reports.

Internal Audit

The Committee received regular reports from the internal auditor. It reviewed the key findings from the outcome of individual internal audit reviews completed under the 2020 risk-based internal audit plan and monitored the implementation of audit recommendations. It approved the 2021 internal audit plan. It also approved the internal audit plan and approved an Internal Audit Charter for use in SBCI. The Committee reviewed the effectiveness of the internal auditor. The Committee meets privately with the NTMA Head of Internal Audit without management present at least annually.

External Audit

The SBCI's external auditor is the Comptroller and Auditor General. The Committee reviewed the external audit plan, the key areas of focus and the audit terms of engagement. It also monitored management's responses to the external auditor's findings arising from the audit of the 2019 financial statements. The Committee meets with the external auditor without management present at least annually.

Risk

The Committee reviewed and approved updates to a number of specific risk policies, and recommended updates to the Board, as provided for under the Risk Management Policy and Framework. It also approved the Risk Management Plan for 2021 and monitored progress against the 2020 plan. It received regular reports on the SBCI's risks and the controls in place to mitigate risks. The Committee meets privately with the Head of Risk without management present at least annually.

Compliance and Protected Disclosures

The Committee reviewed the adequacy and security of SBCI's arrangements for its staff and contractors to raise concerns and approved updates to the Reporting of "Relevant Wrongdoing" and Protected Disclosures Policy. The Committee also reviewed and approved the Data Protection Policy and Privacy Statement and reviewed and recommended to the Board the Business Risk Assessment and the Anti-Money Laundering Policy. It received the annual Compliance and Data Protection Officer report and reviewed the services performed by NTMA Compliance. The Committee meets with the NTMA Head of Compliance without management present at least annually.

On-Lender Reviews

The Committee received regular reports from external service provider KPMG in respect of On-Lender Reviews. It approved the On-Lender Review Plan for 2021. It reviewed the key findings from the outcome of individual On-Lender Reviews completed under the plan and monitored the implementation of KMPG's recommendations.

Other

The Committee reviewed its terms of reference and recommended amendments to the Board. It also undertook a review of its own effectiveness and reported to the Board on its review. The Committee's priorities in respect of 2021 were approved as part of its Work Programme 2021.

Credit Committee Report

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

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

- Richard Pelly, Chairperson (Board member)
- Eoin Dorgan (Board Member)
- Marguerite McMahon (Board member)
- Ian Black (interim CEO and Board member)
- Ray Mangan (SBCI staff member)

Marguerite McMahon was appointed a member of the Credit Committee with effect from 22 October 2020. Nick Ashmore resigned from the Committee with effect from 15 February 2021, following his resignation as Chief Executive of the SBCI. Ian Black was appointed interim Chief Executive Officer of the SBCI, and in accordance with the Terms of Reference of the Committee was appointed a member of the Committee, with effect from 26 February 2021.

The Credit Committee met on five occasions in 2020. Its main activity involved the review of detailed credit proposals from management. It also reviewed the annual credit reviews of on-lenders performed by management.

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

Remuneration Committee Report

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

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

- AJ Noonan (Chairperson)
- Conor O'Kelly
- Barbara Cotter

AJ Noonan was appointed Chairperson of the Committee as of 26 February 2021 and Barbara Cotter was appointed to the Committee also with effect as of 26 February 2021.

The Committee met on two occasions in 2020. It was agreed that there would be no performance related payments (PRP) to be made in respect of 2020, due to the impacts of the Covid-19 pandemic.

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 2020, the Audit and Risk Committee and the Board reviewed the Risk Register on a regular basis, and the Board received regular updates in respect of risk management and high and emerging risks.

Roles and Responsibilities

Board

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

Audit and Risk Committee

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

Three Lines of Defence

First Line of Defence

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

Second Line of Defence

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

Third Line of Defence

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

Audit

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

Principal Risks

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

Risk	Description of the Risk	Risk Mitigation Measure
Strategic Risk	The SBCI relies on demand from on-lenders and businesses to meet its key strategic objective of providing additional credit to enterprises in Ireland. Should it fail to structure its products appropriately and deploy a suitable delivery strategy, there is a risk that on-lenders will not participate as envisaged and businesses will not have an appetite for the products offered.	This risk is mitigated by active engagement with stakeholder groups, diversity of SBCI products to ensure that the needs of on-lenders and SMEs are addressed, and proactive marketing campaigns to raise awareness of the SBCI and its products.
Credit Risk	The SBCI is exposed to the risk that a counterparty defaults on its obligations and fails to repay its debt in full, resulting in losses to the SBCI. The SBCI is exposed to credit risk (i) due to its loans to on-lenders and (ii) in respect of its risk-sharing schemes, due to loans made to final beneficiaries who have been guaranteed by the SBCI. Credit risk increased during the financial year as a result of the adverse economic environment arising from the Covid-19 pandemic and the impact of Brexit on Irish enterprises.	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 quarterly reporting which monitors the overall risk levels in the portfolio including analysis of the key risk indicators detailed in the Risk Appetite Statement and assessment of credit risk by the Credit Committee and Board.
Operational Risk	The SBCI is exposed to a range of operational risks arising from the people, systems and processes involved in meeting its objectives. Key operational risks include systems failures, process errors, over-reliance on key individuals, failure to follow procedures, reporting errors, etc. which could ultimately result in the SBCI failing to meet its objectives and significant reputational damage.	This risk is mitigated by operational support and services provided by the NTMA, as provided for under the SBCI Act, and adherence to relevant policies and procedures. New systems and processes are subject to comprehensive review and approval by the appropriate authority and robust project management methodology is used to manage new projects. The SBCI is maintaining a temporary process log for any temporary process implemented due to the Covid-19 pandemic.
Resourcing Risk	The SBCI is a small company that relies on skilled specialist professionals to meet its statutory objectives. There is a risk that the SBCI is not adequately resourced with sufficient number of persons 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 rules and other regulations and there is a risk that the SBCI fails to comply with those rules and other regulations, resulting in reputational or financial damage to the SBCI. The probability of this risk occurring is low; however, the impact could be high if it did occur.	This risk is mitigated by engaging internal and external legal and compliance advice, design of products to ensure adherence to relevant laws and regulations, and adherence to relevant policies and procedures.

Energy Efficiency Report

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

FINANCIAL STATEMENTS OF THE STRATEGIC BANKING CORPORATION OF IRELAND

For the year ended 31 December 2020

Contents

Company and Other Information

Directors

Barbara Cotter (Chairperson)

Nicholas Ashmore (Chief Executive Officer ("CEO"), resigned 15 February 2021)

Ian Black (Interim CEO, appointed 15 February 2021)

Eoin Dorgan

Tom McAleese

Rosheen McGuckian (resigned 11 March 2020)

Marguerite McMahon (appointed 17 July 2020)

AJ Noonan

Richard Pelly

Eilis Quinlan

Conor O'Kelly

Company Secretary

Macken McNicholas

Registered Office

Treasury Dock
North Wall Quay
Dublin 1
D01 A9T8

Bankers

Citibank
1 North Wall Quay
Dublin 1
D01 T8Y1

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

Auditor

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

Directors' Report

The Directors of the Strategic Banking Corporation of Ireland (the "Company" or "SBCI") present their report and audited financial statements for the financial year ended 31 December 2020 (the "financial year").

Principal activities

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

The SBCI's principal activities during the financial year were focused on the delivery of additional risk-sharing schemes to facilitate the provision of credit to small and medium sized enterprises ("SMEs") and Small MidCap borrowers in Ireland to address the challenges of the COVID-19 pandemic, Brexit, and long-term investment needs.

New product activities included the delivery of the COVID-19 Working Capital Scheme ("CWCS") to provide working capital to businesses affected by COVID-19 (in conjunction with the Brexit Loan Scheme "BLS", the amalgamated BLS and the CWCS are referred to as the "BLS/CWCS"), the €500 million increase of the Future Growth Loan Scheme ("FGLS") to provide long-term investment loans, and the implementation and operation of the new €2 billion COVID-19 Credit Guarantee Scheme ("CCGS") on behalf of the Minister for Enterprise, Trade and Employment.

Business review

The 2020 Annual Report forms part of the Directors' Report. The Chairperson's Statement and Chief Executive Officer's Review in the Annual Report outline the development and performance of the SBCI during the financial year and significant events that occurred during that period. Further information on the SBCI's strategy and business model is set out in the Strategy section of the Annual Report, while a comprehensive review of the operations of the SBCI is set out in the Business Review section.

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

- COVID-19 Working Capital Loan Scheme of €250m deployed in response to the COVID-19 pandemic;
- FGLS increased to facilitate up to €500m of additional loans to SMEs and Small MidCaps for long-term investment;
- COVID-19 Credit Guarantee Scheme made up to €2 billion of loans available to enterprises affected by COVID-19;
- €836 million of lower cost loans advanced by on-lenders to SMEs;
- €45 million advanced by the SBCI to its on-lenders for the purposes of onward lending to SMEs;
- €148 million of loan principal repayments made by on-lenders to the SBCI;
- €50 million of additional share capital paid into the Company by the Minister for Finance.

Principal risks and uncertainties

The principal risks and uncertainties facing the SBCI are:

Strategic Risk

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

Credit Risk

The SBCI is exposed to the risk that a counterparty defaults on its obligations and fails to repay its debt in full, resulting in losses to the SBCI. The SBCI is exposed to credit risk (i) due to its loans to on-lenders and (ii) in respect of its risk-sharing schemes, due to loans made to final beneficiaries which have been guaranteed by the SBCI. Credit risk increased during the financial year as a result of the adverse economic environment arising from the COVID-19 pandemic and the impact of Brexit on Irish enterprises.

Resourcing Risk

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

Compliance Risk

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

Financial risk management

The SBCI is exposed to credit risk, market risk, liquidity risk, capital risk and concentration risk in the normal course of its business. Further details on Company policy and how it manages these risks are set out in Note 15 to the financial statements.

Directors

The following are the names of the persons who, at any time during the financial year, were Directors of the Company:
Barbara Cotter (Chairperson)
Nicholas Ashmore (resigned 15 February 2021)
Ian Black (appointed 15 February 2021)
Eoin Dorgan
Tom McAleese
Rosheen McGuckian (resigned 11 March 2020)
Marguerite McMahon (appointed 17 July 2020)
AJ Noonan
Richard Pelly
Eilis Quinlan
Conor O'Kelly

Directors' interests

The Directors had no beneficial interest in the Company during the financial year or at the financial year end (see Note 28). The issued share capital of the Company is owned solely by the Minister for Finance (see Note 23).

Adequate accounting records

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

Results and dividends

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

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

Events after the reporting period

Refer to Note 29 of the financial statements.

Auditor

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

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

Ian Black

Interim Chief Executive Officer
Strategic Banking Corporation of Ireland

Barbara Cotter

Chairperson
Strategic Banking Corporation of Ireland

22 April 2021

Directors' Responsibilities Statement

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

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

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

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

The Directors are responsible for ensuring that the Company keeps, or causes to be kept, adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy,

enable them to ensure that the financial statements and Directors' report comply with the requirements of the Companies Act 2014 and enable the financial statements to be audited.

The Directors are also responsible for safeguarding the assets of the Company and therefore are obliged to take reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Ian Black

Interim Chief
Executive Officer
Strategic Banking
Corporation of Ireland

Barbara Cotter

Chairperson
Strategic Banking
Corporation of Ireland

22 April 2021

Statement on Internal Control

Scope of Responsibility

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

Purpose of the System of Internal Control

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

The system of internal control, which accords with guidance issued by the Department of Public Expenditure and Reform, has been in place in the SBCI for the year ended 31 December 2020 and up to the date of approval of the financial statements.

Capacity to Handle Risk

The SBCI has an Audit and Risk Committee ("ARC") comprising of non-executive members of the Board with financial and audit experience, one of whom acts as the Chairperson of the ARC. The ARC met 5 times in 2020.

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

The NTMA provides certain finance, human resources, legal, internal audit, risk, compliance and procurement services to the SBCI, as provided for under section 10 of the SBCI Act 2014, and as agreed in the Service Level Agreement between the NTMA and the SBCI. The SBCI therefore depends to a significant degree on the controls operated by the NTMA. The NTMA has developed a comprehensive system of internal control and any services provided to the SBCI under the Service Level Agreement are provided in accordance with the NTMA's system of internal control. The SBCI has received a letter of confirmation from the NTMA that the NTMA's system of internal control in respect of services provided to the SBCI has operated effectively in respect of the year ended 31 December 2020.

Risk and Control Framework

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

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

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

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

COVID-19

The onset of the COVID-19 pandemic in early 2020 resulted in some changes to the working and control environment with remote and virtual working becoming the normal practice in the SBCI. As a result, the SBCI introduced a number of procedural and control changes which have been documented and implemented. Certain processes which have been changed or introduced due to COVID-19 have also been subject to internal audit review. The controls, both existing and those introduced in response to the COVID-19 pandemic, continue to be effective.

Ongoing Monitoring and Review

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

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

Procurement

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

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

During the financial year 2019, the Chief Executive Officer approved a procurement exception to the value of €0.036m (i.e. below the EU threshold for service contracts) to ensure the SBCI engaged a recognised and reputable market operator to assign the SBCI with an independent credit rating. The approximate cost of this service over the period 2020-2023 is expected to be €0.116m.

Review of Effectiveness

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

We confirm that the Board conducted an annual review of the system of internal control for the year ended 31 December 2020.

Internal Control Issues

No weaknesses in the system of internal control were identified in relation to the year ended 31 December 2020 that require disclosure in the financial statements.

Barbara Cotter

Chairperson
Strategic Banking
Corporation of Ireland

Tom McAleese

Chairperson, Audit
and Risk Committee
Strategic Banking
Corporation of Ireland

22 April 2021

Report of the Comptroller and Auditor General

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

Opinion on the financial statements

I have audited the financial statements of the Strategic Banking Corporation of Ireland (the company) for the year ended 31 December 2020 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 2020 and of its income and expenditure for 2020
- have been properly prepared in accordance with Financial Reporting Standard (FRS) 102 — The Financial Reporting Standard applicable in the UK and the Republic of Ireland, and
- have been properly prepared in accordance with the Companies Act 2014.

Basis of opinion

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

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

Conclusions related to going concern
As described in the appendix to this report, I conclude on

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

I have nothing to report in that regard.

Opinion on matters prescribed by the Companies Act 2014

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

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

I have obtained all the information and explanations that I consider necessary for the purposes of my audit.
In my opinion, the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited, and the financial statements are in agreement with the accounting records.

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

Report 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 and Board members' report, the directors' report, the directors' responsibilities statement and the statement on internal control. My responsibilities to report in relation to such information, and on certain other matters upon which I report by exception, are described in the appendix to this report.

I have nothing to report in that regard.

Seamus McCarthy
Comptroller and Auditor General
5 May 2021

Appendix to the Report

Responsibilities of the directors

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

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

Responsibilities of the Comptroller and Auditor General

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

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

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

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

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

Information other than the financial statements

My opinion on the financial statements does not cover the other information presented with those statements, and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, I am required under the ISAs to read the other information presented and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with knowledge obtained during the audit, or if it otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

Reporting on other matters

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

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

Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	2020 €000	2019 €000
Interest income	5	4,160	5,273
Interest expense	6	(425)	(298)
Net interest income		**3,735**	**4,975**
Other income	7	6,440	4,020
Operating expenses	8	(11,286)	(9,403)
Operating loss		**(1,111)**	**(408)**
Loss for the year		**(1,111)**	**(408)**
Other comprehensive income		–	–
Total comprehensive loss for the financial year		**(1,111)**	**(408)**
Legal advice			

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:

Ian Black

Interim Chief Executive Officer
Strategic Banking Corporation of Ireland

Barbara Cotter

Chairperson
Strategic Banking Corporation of Ireland

22 April 2021

Statement of Financial Position

as at 31 December 2020

	Note	2020 €000	2019 €000
Non-current assets			
Intangible assets	11	258	550
Investments	12	3,538	-
Financial assets – loans and receivables	13	345,000	406,450
		348,796	407,000
Current assets			
Financial assets – loans and receivables	13	107,370	148,977
Other receivables	17	2,556	1,023
Cash and cash equivalents	14	37,451	31,902
		147,377	181,902
Creditors; amounts falling due within 1 year			
Funding and borrowings	18	33,333	54,167
Other liabilities	19	67,536	50,820
		100,869	104,987
Net current assets		**46,508**	**76,915**
Total assets less current liabilities		**395,304**	**483,915**
Creditors; amounts falling due after 1 year			
Funding and borrowings	18	316,667	454,167
Net assets		**78,637**	**29,748**
Capital and reserves			
Called up share capital presented as equity	23	85,000	35,000
Retained losses		(6,363)	(5,252)
Total equity		**78,637**	**29,748**

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:

Ian Black

Interim Chief Executive Officer
Strategic Banking Corporation of Ireland

Barbara Cotter

Chairperson
Strategic Banking Corporation of Ireland

22 April 2021

Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Share capital €000	Retained losses €000	Total equity €000
Balance as at 1 January 2019		35,000	(4,844)	30,156
Total comprehensive income for the period		-	(408)	(408)
Balance at 31 December 2019		**35,000**	**(5,252)**	**29,748**
Issuance of share capital	23	50,000	-	50,000
Total comprehensive income for the year		-	(1,111)	(1,111)
Balance at 31 December 2020		**85,000**	**(6,363)**	**78,637**

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:

Ian Black

Interim Chief Executive Officer
Strategic Banking Corporation of Ireland

Barbara Cotter

Chairperson
Strategic Banking Corporation of Ireland

22 April 2021

Statement of Cash Flows

as at 31 December 2020

	Note	2020 €000	2019 €000
Cash flows from operating activities			
Loans and receivables principal advances		(45,000)	(45,000)
Loans and receivables principal repayments received		147,900	116,650
Interest receipts		5,042	5,082
Interest payments		(670)	(246)
Administration costs recovered		186	341
Other income received		529	252
Counter guarantee claims		584	-
Agriculture Scheme guarantee recoveries		128	-
Brexit Loan Scheme guarantee payments		(764)	(245)
Agriculture Scheme guarantee payments		(95)	(366)
Agriculture Scheme subsidy payments		(614)	(1,192)
Operating expenses paid		(9,018)	(7,875)
Net cash from operating activities		**98,208**	**67,401**
Cash flows from investing activities			
Purchase of intangible assets	11	(4)	(132)
Purchase of investments	12	(3,538)	-
Net cash used in investing activities		**(3,542)**	**(132)**
Cash flows from financing activities			
Issuance of share capital	23	50,000	-
Funding loans repaid		(158,300)	(76,515)
Minister for Agriculture, Food and the Marine funding		2,705	-
Minister for Enterprise, Trade and Employment funding		16,478	1,470
Net cash used in financing activities		**(89,117)**	**(75,045)**
Net increase/(decrease) in cash and cash equivalents		**5,549**	**(7,776)**
Cash and cash equivalents at 1 January		**31,902**	**39,678**
Cash and cash equivalents at 31 December	**14**	**37,451**	**31,902**

Notes to the Financial Statements

1. Reporting entity

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

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

2. Statement of Compliance

The Company's financial statements for the financial year ended 31 December 2020 have been prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* issued by Financial Reporting Council in the UK for use in the Republic of Ireland, having elected to apply the recognition and measurement rules of IAS 39 Financial Instruments: Recognition and Measurement and in accordance with the Companies Act 2014.

3. Critical accounting estimates and judgements

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

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

3.1 Key sources of estimates and judgements

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

3.1.1 Loan impairment assessment

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

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

3.1.1 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, Finance & Operations and the CEO. See Note 13 for the carrying amount of the loans.

3.1.2 Financial guarantee assessment

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

A financial liability for any probable claims, which can be reliably measured, is recognised in the accounting records of the SBCI. If a financial liability is recognised, and the financial liability amount is greater than the existing carrying amount, an adjustment is required to reflect the financial liability and recognise the difference in the Statement of Comprehensive Income. Where a financial liability is not recognised, a contingent liability is disclosed in the financial statements for the total amount payable under SBCI's financial guarantee contracts. See also Notes 24 and 25.

3.1.3 Intangible asset useful life

The charge in respect of periodic amortisation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Changing an asset's expected life or its residual value would result in a change in the amortisation charge.
The useful lives of the Company's assets are determined by management and reviewed at least annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their lives. See Note 11 for the carrying amount of Intangible assets.

3.2 Significant accounting judgements in applying accounting policies

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

4. Significant accounting policies

4.1 Basis of preparation

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

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,

4.1 Basis of preparation (continued)

liquidity, market concentration and capital risk. The Board has reviewed these risk factors and all relevant information to assess the Company's ability to continue as a going concern. Both the Board and ARC review key aspects of the Company's activities on an on-going basis and review, whenever appropriate, the critical assumptions underpinning its long term strategies.

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

4.2 Basis of measurement

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

4.3 Interest income and expense

Interest income and expense for all financial instruments is recognised in the Statement of Comprehensive Income using the Effective Interest Rate ("EIR") method.The EIR method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant financial period. The EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial asset or liability. When calculating the EIR, the Company estimates cash flows considering all contractual terms of the financial instrument.

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

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

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

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

4.4 Other income

The SBCI recovers costs from the Minister for Enterprise, Trade and Employment ("Minister for ETE") and/or the Minister for Agriculture, Food and the Marine ("Minister for AFM"), as (i) operator of each of the CGS and the CCGS (Note 15.8), (ii) pursuant to the Brexit Loan Scheme and COVID-19 Working Capital Loan Scheme (Note 15.7), (iii) pursuant to the Agriculture Scheme (Note 15.6) and (iv) pursuant to the Future Growth Loan Scheme (Note 15.9), based solely on the reimbursement of costs incurred by the SBCI.

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

4.5 Costs reimbursable to the NTMA

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

4.6 Financial instruments

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

4.7 Financial assets

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

Investments
Investments in unquoted equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment.

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.

4.10 Impairment of financial assets (continued)

Objective evidence that a financial asset is impaired includes:

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

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

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

4.11 Financial guarantees

Financial guarantee contracts are contracts that require the Company to make specified payments to reimburse the beneficiary for a loss the beneficiary incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt obligation. The SBCI has issued guarantees to on-lenders in respect of each of (i) the Agriculture Cashflow Support Loan Scheme ("Agriculture Scheme") (Note 15.6), (ii) the Brexit Loan Scheme ("BLS") and COVID-19 Working Capital Loan Scheme ("CWCS") (Note 15.7) and (iii) the Future Growth Loan Scheme (Note 15.9).

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

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

Any increase or decrease in the financial liability relating to financial guarantees, other than the payment of guarantee calls, is recognised in the Statement of Comprehensive Income. In circumstances where a financial liability is not required to be recognised, a contingent liability is disclosed in the financial statements for the total amount payable under SBCI's financial guarantee contracts (Note 24).

4.12 Counter-guarantees

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

The Company recognises a reimbursement as a separate asset. The Company nets off the impairment loss charge for the guarantee liability with the recoverable portion in the Statement of Comprehensive Income. Should a recovery not be recognised, then the financial statements disclose a contingent asset for the total amount recoverable under SBCI's counter-guarantee contracts (Note 25). The SBCI has entered into counter-guarantees with the European Investment Fund (EIF) in respect of each of (i) the Agriculture Cashflow Support Loan Scheme (Note 15.6), (ii) the Brexit Loan Scheme and COVID-19 Working Capital Loan Scheme (Note 15.7) and (iii) the Future Growth Loan Scheme (Note 15.9).

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:

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

At each reporting date, the Company reviews the carrying amount of its software to determine whether there is any indication of impairment. If any such indication exists, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount. The recoverable amount is determined as the higher of the fair value less costs of disposal of the asset and its value in use.
Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued

4.14 Intangible assets (continued)

use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. This discount rate reflects the current market assessment of the time value of money and the risks specific to the asset for which future cash flow estimates have not been adjusted.

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

4.15 Other receivables

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

4.16 Provisions

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

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

4.17 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but disclosed in the notes to the financial statements unless the probability of the transfer of economic benefit is remote. See Note 24.

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 25.

4.19 Leasing

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

4.20 Key management personnel

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

5. Interest income

	2020 €000	2019 €000
Interest on loans and receivables	4,093	4,904
Other interest income	67	369
	4,160	**5,273**

Interest on loans and receivables relates to interest income from loans provided to on-lenders. Other interest income relates to negative interest earned on the loan notes issued by the Company to the NTMA (Note 26.2).

6. Interest expense

	2020 €000	2019 €000
Other interest expense	**425**	**298**

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

7. Other income

	Note	2020 €000	2019 €000
CGS and CCGS administration costs recovered	7.1	1,494	290
BLS/CWCS administration costs recovery	7.2	1,486	656
Future Growth Loan Scheme administration costs recovery	7.2	959	1,060
Agriculture Scheme administration costs recovery	7.2	322	373
Agriculture Scheme interest subsidy recovery	7.2	687	1,608
Financial counter-guarantee income	7.3	-	33
Guarantee fee income	7.3	1,305	-
Miscellaneous income		187	-
		6,440	**4,020**

7.1 CGS and CCGS administration costs recovered

Pursuant to an agreement dated 13 October 2016, as amended and restated on 14 May 2019, between the Minister for ETE and the SBCI (the "CGS Co-Operation Agreement"), the SBCI assumed the role of operator of the CGS on behalf of the Minister for ETE. The SBCI receives payments from the Minister for ETE based on the recovery of the costs and expenses incurred by the SBCI in providing the services as set out in the CGS Co-Operation Agreement. No financial gain or loss is made by the SBCI in providing the services (see Note 15.8).

Pursuant to an agreement dated 28 September 2020 between the Minister for ETE and the SBCI (the "CCGS Co-Operation Agreement"), the SBCI assumed the role of operator of the CCGS on behalf of the Minister for ETE. The SBCI receives payments from the Minister for ETE based on the recovery of the costs and expenses incurred by the SBCI in providing the services as set out in the CCGS Co-Operation Agreement. No financial gain or loss is made by the SBCI in providing the services (see Note 15.8).

7.2 Scheme cost recovery

Under an agreement between the Minister for AFM, the Minister for ETE and the SBCI dated 15 December 2017, as amended and restated on 27 November 2020, (the "Amended BLS/CWCS Co-Operation Agreement"), the SBCI recovers the costs for its role in operating the BLS/CWCS (see Note 15.7).

Under an agreement between the Minister for AFM, the Minister for ETE and the SBCI dated 21 December 2018, as amended and restated on 24 July 2020, (the "Future Growth Loan Scheme Co-Operation Agreement"), the SBCI recovers the costs for its role in operating the Future Growth Loan Scheme (see Note 15.9).

Under an agreement between the Minister for AFM and the SBCI dated 20 December 2016, as amended on 20 August 2020, (the "Agri Co-Operation Agreement"), the SBCI recovers the costs for its role in operating the Agriculture Scheme including the cost of interest rate subsidies (see Note 15.6).

7.3 Financial counter-guarantee income

	2020 €000	**2019 €000**
Guarantee expenses		
Agri Loan scheme	(95)	(350)
BLS/CWCS	(763)	(245)
Counter guarantee income		
Agri Loan scheme	95	383
BLS/CWCS	763	245
	-	**33**

7.3 Financial counter-guarantee income (continued)

At 31 December 2020, the SBCI has considered whether payments under its financial guarantees are probable and whether receipts under its financial counter guarantees are recognisable. The SBCI recognises €858k (2019: €595k) of guarantee expenses in the period. This is offset by €858k (2019: €628k) of counter guarantee income of which €429k (2019: €314k) derives from deferred income from the Ministers under the relevant scheme agreements.

	2020 €000	2019 €000
Guarantee fee income		
Future Growth Loan Scheme	1,160	-
BLS/CWCS	145	-
	1,305	**-**

Guarantee fee income relates to fees payable by participating on-lenders in the Future Growth Loan scheme and the recognition of deferred income from the relevant Ministers relating to BLS/ CWCS.

8. Operating expenses

	Note	2020 €000	2019 €000
Costs reimbursable to the NTMA	8.2	6,151	5,740
Board fees	9	118	95
Amortisation	11	296	473
Agriculture Scheme interest subsidy expense	8.1.1	687	1,608
Guarantee fee expense	8.1.2	1,114	-
Other expenses	8.1.3	2,920	1,487
		11,286	**9,403**

8.1.1 Agriculture Scheme interest subsidy expenses

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

8.1.2 *Guarantee fee expense*

Guarantee fee expense relates to fees incurred for counter guarantees for the Future Growth Loan scheme and BLS/ CWCS.

8.1.3 Other expenses

Other expenses comprise all other expenses paid directly by the Company. These primarily comprise marketing costs €0.69m (2019: €0.48m) and legal and professional fees €2.2m (2019: €0.76m).

8.2 Costs reimbursable to the NTMA

	Note	2020 €000	2019 €000
NTMA staff costs	8.2.1	3,168	2,700
Business services	8.2.2	2,735	2,959
Professional fees		188	35
Other operating costs		60	46
		6,151	**5,740**

8.2.1 NTMA staff costs

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

8.2.2 Business services

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

8.3 Remuneration

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

8.3.1 Aggregate employee benefits

	Note	2020 €000	2019 €000
Staff short-term benefits	8.3.2	2,503	2,081
Employer's contribution to social insurance costs		251	211
		2,754	**2,292**

8.3.1 Aggregate employee benefits (continued)

The total number of whole time equivalent staff employed at year end was 28 (2019: 23). Pension costs incurred by the Company during the financial year of €0.34m (2019: €0.27m) are included in NTMA staff costs in Note 8.2. Pension costs charged to the Statement of Comprehensive Income represent contributions made by the company to the NTMA scheme in accordance with actuarial recommendations. No amounts are included in these financial statements in relation to pension liabilities. The relevant assets and liabilities are recognised in the NTMA Administration Account.

8.3.2 Staff short-term benefits

	2020 €000	2019 €000
Basic pay	2,452	1,929
Performance related pay	-	103
Allowances	51	49
	2,503	**2,081**

8.3.3 Key management personnel

	2020 €000	2019 €000
Board fees and management short-term benefits	902	985
Performance related pay	-	76
Allowances	44	42
Health insurance	4	5
	950	**1,108**

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

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

8.3.4 Chief executive officer (CEO) salary and benefits

	2020 €000	2019 €000
Nicholas Ashmore (CEO)		
Annual salary	250	250
Performance related pay	-	25
Annual taxable benefits	24	23
Contributions to the defined benefit retirement schemes	36	36
	310	**334**

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

9. Board fees and expenses

An annual fee of €15,750 (2019: €15,750) is paid to certain Directors as specified by the Minister for Finance in accordance with the Constitution of the SBCI. An annual fee of €31,500 (2019: €31,500) is paid to the Chairperson. The Directors received no other benefits or remuneration, including retirement benefits, as a result of their services to the Company.

	2020 €	2019 €
Board member		
Barbara Cotter	44,195	15,750
Tom McAleese	15,750	15,750
Rosheen McGuckian	3,162	15,750
AJ Noonan	15,750	15,750
Richard Pelly	15,750	15,750
Marguerite McMahon	7,183	-
Eilis Quinlan	15,750	15,750
	117,540	**94,500**

Barbara Cotter was elected as chairperson of the Board on 12 March 2019. The current year includes the increase in board fees from the date of election to 31 December 2020.

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

9. Board fees and expenses (continued)

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

	2020 €	2019 €
Board member		
Richard Pelly	**232**	**833**

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

10. Tax charge

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

11. Intangible assets

2020	Cost €000	Accumulated amortisation €000	Net book value €000
Balance as at 1 January 2020	2,046	(1,496)	550
Acquisitions	4	-	4
Amortisation	-	(296)	(296)
Balance at 31 December 2020	**2,050**	**(1,792)**	**258**

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

Intangible assets relate to IT software purchased by the Company during the financial year. Amortisation charged during the financial year is included in operating expenses
in the Statement of Comprehensive Income.

No assets (2019: No assets) were under development at financial year end.There were no impairment losses incurred on the software assets during the financial year.

12. Investments

	2020 €000	2019 €000
Held to maturity investments	**3,538**	-

In November 2020 the SBCI acquired a shareholding in the European Investment Fund (EIF) from the European Investment Bank (EIB). The SBCI acquired eight shares at a cost of €442,238 per share.

13. Loans and receivables

	2020 €000	2019 €000
Loans to on-lenders due within one year	107,370	148,977
Loans to on-lenders due after more than one year	345,000	406,450
	452,370	**555,427**

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

	2020 €000	2019 €000
Secured	180,442	175,800
Unsecured	271,928	379,627
	452,370	**555,427**

At the end of the financial year, the SBCI had loans in issue to eight on-lenders (2019: six). Three of these on-lenders are banks (2019: three), and five on-lenders are non-bank finance providers (2019: three). The remaining terms of the on-lender loans in issue range from 0.5 to 5 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 2020, the Company concluded that an impairment charge of €Nil (2019: €Nil) should be incurred. At the end of the financial year, the Company had €83m (2019: €60m) in undrawn loan commitments.

14. Cash and cash equivalents

	2020 €000	2019 €000
Cash and cash equivalents	**37,451**	**31,902**

The cash held by the Company at 31 December 2020 includes cash for operating activities and funding provided to the Company to cover the costs of operating the Agriculture Cashflow Support Loan Scheme, the Brexit Loan Scheme and COVID-19 Working Capital Loan Scheme and the Future Growth Loan Scheme. See Note 15 for further information on these schemes.

15. Risk management

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

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

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

Risk Management Policy and Framework

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

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

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

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

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

15. Risk management (continued)

Second line of defence:

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

Third line of defence:

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

15.1 Credit risk

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

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

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

- Thorough assessment of each prospective on-lender, its management, operational capability, credit underwriting experience, financial performance, risk management, systems, product offering and repayment capacity;
- 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.

15.1 Credit risk (continued)

The maximum exposure to credit risk for loans, cash and guarantees at 31 December 2020 is €628.2m (2019: €683.4m). This maximum exposure to credit risk is presented below per class of financial instrument, and also includes the loan commitments of the Company at financial year end:

	2020 €000	2019 €000
Loans and receivables	452,370	555,427
Cash and cash equivalents	37,451	31,902
	489,821	**587,329**
Loan commitments	82,500	60,000
Guarantees	55,900	36,100
	628,221	**683,429**

Guarantees represent the net exposure of the relevant guarantee schemes as detailed in Notes 15.6, 15.7 and 15.9.
The below table sets out the credit quality of the SBCI's financial assets, some of which have been rated by Standard & Poor's. Non-rated relates to non-bank entities.

	2020 €000	2019 €000
AAA	18,724	16,957
A+ to A-	28,729	34,987
BBB	261,927	359,585
Non-rated	180,441	175,800
	489,821	**587,329**

15.2 Liquidity risk

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

- Adherence to the SBCI Liquidity and Market Risk Management Policy and associated limits;
- Effective management of day-to-day funding requirements, including the monitoring of future expected cash flows, e.g. future lending commitments, to ensure that requirements can be met as they fall due;
- Asset and liability management by monitoring the maturity profile outlined in the SBCI's Statement of Financial Position to ensure that sufficient cash resources are retained and/or funding established where mismatches are likely to occur, thereby minimising the impact of liquidity outflows;

15.2 Liquidity risk (continued)

- 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.
- The timing of the contractual repayments due by the SBCI are summarised in the below table. The amounts presented are undiscounted. Other liabilities of €67.5m (2019: €50.8m) (see Note 19) are also included. Amounts due "within 1 year" consist of accrued interest and other liabilities, amounts due after 1 year consist of principal loan repayments to funders.

	Within 1 year €000	**1 to 5 years €000**	**After 5 years €000**	**Total €000**
2020 repayments due	**100,869**	**295,238**	**21,429**	**417,536**
2019 repayments due	**105,016**	**404,762**	**49,405**	**559,183**

15.3 Market risk

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

15.4 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.

15.4 Interest rate risk (continued)

The amounts exposed to interest rate risk at 31 December 2020 are detailed below:

	2020 €000	2019 €000
Financial assets		
Cash and cash equivalents	37,451	31,902
Loans and receivables	452,370	555,427
	489,821	**587,329**

	2020 €000	2019 €000
Financial liabilities		
Funding and borrowings	**350,000**	**508,334**

Currency risk

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

15.4.1 Market risk measurement

Interest rate risk sensitivity

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

The following table represents the interest rate sensitivity arising from a 50 basis point increase or decrease in the interest rate (6-month EURIBOR). The risk is measured as the net present value (NPV) impact on the cash flows of the loans receivable and payable because of that change in interest rates. The interest rates are set as at 31 December 2020.

Interest Rate Sensitivity Analysis - a 50bp move

2020	+50bp €000	-50bp €000
Net cashflow impact	**(361)**	**(412)**

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

15.4.1 Market risk measurement (continued)

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

15.5 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. On 15 October 2020, the SBCI issued 50 million shares of €1.00 each in the capital of the SBCI to its sole shareholder, the Minister for Finance. The SBCI's paid-up share capital as at 31 December 2020 is €85m (2019: €35m). In addition, the SBCI has available callable capital of €165m (2019: €215m) which it may call on at its discretion from the Minister for Finance, as provided for in Section 11(6) of the SBCI Act 2014.
The SBCI's capital management process includes adhering to the capital adequacy requirements of the SBCI Risk Appetite Statement to ensure that it remains adequately capitalised to absorb any potential losses. The Board reviews the capital adequacy as part of its regular review of risk reporting at each scheduled Board meeting.

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

The SBCI entered into an agreement with the Minister for AFM in 2016 under which the SBCI received cash of €25m from the Minister for AFM to support the establishment and operation of the Agriculture Scheme. Under the Agriculture Scheme, the SBCI issued guarantees to participating institutions in respect of loans by the institutions to agricultural SMEs. The SBCI's guarantees cover 80% of credit losses on a loan-by-loan basis, subject to an overall portfolio cap of 15% and a maximum portfolio of €150m.

At financial year end, the Company has a contingent liability of €16.9m (2019: €17.4m) related to potential credit losses covered under the scheme. This contingent liability of €16.9m is fully offset by a counter-guarantee agreement from EIF to the value of €8.45m, and by cash of €8.45m held as a loss reserve (from the €25m received from the Minister for AFM). As a result, the SBCI's net exposure to credit losses under the Agriculture Scheme is €Nil (2019: €Nil). The balance of the funding received from the Minister for AFM is used for the payment of interest rate subsidies to the participating institutions, which are passed on in full to the SME borrowers, and to reimburse the SBCI for the costs of operating the scheme.

In August 2020, the SBCI repaid €4.6m of unutilised surplus funds to the Minister for AFM. The Minister for AFM applied that €4.6m in payment to the SBCI of the Minister for AFM's contribution to the cost of the €500 million increase to expansion of the FGLS.

15. 7 Brexit Loan Scheme ("BLS") and COVID-19 Working Capital Loan Scheme ("CWCS")

The SBCI entered into an agreement with the Minister for AFM and the Minister for ETE in 2017, under which the Ministers advanced €23m to the SBCI to be used in the BLS to support enterprises affected by Brexit. During the financial year, the scheme was amended in order to also provide working capital to enterprises affected by COVID-19 under the amalgamated BLS/CWCS. The SBCI also entered into an updated agreement with the Ministers to allow for the scheme limit to be increased from €300m to €337.5m.

Under the BLS/CWCS, the SBCI has issued credit guarantees to participating institutions in respect of loans to businesses affected by Brexit and/or COVID-19. The SBCI's guarantees cover 80% of credit losses on a loan-by-loan basis, subject to a maximum portfolio of €300m.

At financial year end, the Company has a contingent liability of €89.2m (2019: €27.8m) related to potential credit losses covered under the scheme. This contingent liability is partially offset by a counter-guarantee agreement from EIF to the value of €44.6m, and by cash of €17.1m held as a loss reserve (from the €23m received from the Ministers). As a result, the SBCI's net exposure to credit losses under the BLS/CWCS is €27.5m (2019: €Nil). The balance of the funding received from the Ministers is used to reimburse the SBCI for the costs of operating the scheme including the cost of the EIF counter guarantee.

15.8 Credit Guarantee Scheme ("CGS") and COVID-19 Credit Guarantee Scheme ("CCGS")

The SBCI has been appointed as the operator of all Schemes created under the Credit Guarantees Acts 2012 to 2020 on behalf of the Minister for ETE. 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).

15.9 Future Growth Loan Scheme ("FGLS")

The SBCI entered into an agreement with the Minister for AFM and the Minister for ETE in 2018, under which the Ministers advanced funding to the SBCI to establish the €300m FGLS to support long-term investment loans to enterprises in Ireland. During the financial year, the scheme was amended and the Ministers committed to provide a total of €42m to the SBCI to support an increased scheme limit of €800m.

Under the FGLS, the SBCI has issued credit guarantees to participating institutions in respect of loans to qualifying businesses. The SBCI's guarantees cover 80% of credit losses on a loan-by-loan basis, subject to a maximum portfolio of €800m. The SBCI entered into a counter-guarantee agreement with EIF to off-set 80% of its guarantee exposure.

At financial year end, the Company has a contingent liability of €288.5m (2019: €69.8m) related to potential credit losses covered under the Scheme. This contingent liability is offset by a counter-guarantee agreement from EIF to the value of €230.8m and by a loss reserve of €29.3m (as committed by the Ministers), of which €21.9m cash was received by 31 December 2020. As a result, the SBCI's net exposure to credit losses under the FGLS is €28.4m (2019: €2.9m).

15.10 Concentration risk

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

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

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

The SBCI's key geographic concentration of risk assets is in Ireland and the key sectorial concentration of risk is to financial institutions, arising from its statutory mandate to make credit available to entities and persons in the State, as set out in the SBCI Act 2014. The Company's geographic concentration risk exposure from its loans and receivables is €452.4m (2019: €555.4m).

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

16 Fair value of financial assets and liabilities

16.1 Comparison of carrying value to fair value

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

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

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

Level 3 - financial assets and liabilities measured using valuation techniques which use unobservable market data.
The fair values of these financial instruments are measured according to the following fair value hierarchy:

Financial assets 2020	**Carrying value €000**	**Level 1 €000**	**Level 2 €000**	**Level 3 €000**	**Fair value €000**
Cash and cash equivalents	37,451	37,451	-	-	37,451
Other receivables	2,556	-	-	2,556	2,556
Loans and receivables	452,370	-	-	452,370	452,370
2019					
Cash and cash equivalents	31,902	31,902	-	-	31,902
Other receivables	1,023	-	-	1,023	1,023
Loans and receivables	555,427	-	-	555,427	555,427

Financial liabilities 2020	**Carrying value €000**	**Level 1 €000**	**Level 2 €000**	**Level 3 €000**	**Fair value €000**
Other liabilities	67,536	-	-	67,536	67,536
Funding and borrowings	350,000	-	-	350,000	350,000
2019					
Other liabilities	50,820	-	-	50,820	50,820
Funding and borrowings	508,334	-	-	508,334	508,334

16.2 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.

17. Other receivables

	2020 €000	2019 €000
Scheme administration costs recovery due	1,925	666
Counter guarantee receivable	-	297
Guarantee fee income	631	-
On-lender fee recovery due	-	39
Interest receivable	-	21
	2,556	**1,023**

18. Funding and borrowings

	2020 €000	2019 €000
Funding and borrowings due within one year	33,333	54,167
Funding and borrowings due after one year	316,667	454,167
	350,000	**508,334**

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

At the end of the financial year, the SBCI had loans outstanding with two funders (2019: three). Both of these funders are European financial institutions. The remaining terms of these loans range from 1 to 8 years and interest is charged to the SBCI at 6 month Euribor plus margin. For those debts due after 5 years, the repayments are a mixture of semi-annual and bullet principal repayments depending on the terms of the applicable funding agreement.

At the end of the financial year, the company had €330m (2019: €380m) in undrawn funding facilities.

19. Other liabilities

	2020 €000	2019 €000
Minister for AFM payable		
Agriculture Scheme	13,015	18,572
BLS/CWCS	10,447	8,354
Minister for ETE payable		
BLS/CWCS	16,117	12,994
Future Growth Loan Scheme	25,348	9,292
Amounts due to the NTMA	912	826
Interest subsidy payable	333	500
Counter guarantee fee payable	850	-
Other liabilities	514	282
	67,536	**50,820**

As set out in Note 15.6, in 2016 the Minister for AFM advanced €25m to the SBCI to be used in the Agriculture Scheme to support SMEs in the agricultural sector in Ireland. An amount of €1m (2019: €2.0m) was recognised in other income in the year while a further €4.6m was released to fund the Minister for AFM's contribution to the expansion of the FGLS (see Note 7) leaving a balance of €13m (2019: €18.6m). Funds that remain unutilised during the life of the Agriculture Scheme are repayable to the Minister for AFM. Funds advanced under the Agriculture Scheme have been classified as a grant liability under FRS 102 Section 24.

Similarly, as set out in Note 15.7, the Minister for AFM and the Minister for ETE in 2017, under which the Ministers advanced €23m to the SBCI to be used in the BLS to support enterprises affected by Brexit. During the financial year, the scheme was amended in order to also provide working capital to enterprises affected by COVID-19 under the amalgamated BLS/CWCS. A further €6.8m was provided for fund expansion of the BLS/CWCS from €300m to €337.5m in 2020. An amount of €1.5m (2019: €0.7m) was recognised in other income in the year leaving a balance of €26.6m (2019: €21.3m). Funds that remain unutilised during the life of the BLS/CWCS are repayable to the Minister for AFM and the Minister for ETE.

Furthermore, as set out in Note 15.9, the Minister for AFM and the Minister for ETE advanced €22.9m to the SBCI to be used in the FGLS to support long-term investment loans to enterprises. €12.4m of this was received from the Minister for ETE in 2020. A further amount of €4.6m was transferred to the FGLS from the Agriculture Scheme in 2020. €0.9m (2019: €1.1m) was recognised in other income in the year leaving a balance of €25.4m (2019: €9.3m). Funds that remain unutilised during the life of the FGLS are repayable to the Minister for AFM and the Minister for ETE.

20. Provisions for liabilities

	2020 €000	2019 €000
Balance at 1 January	-	33
Charges to comprehensive income	-	(33)
Balance at 31 December	**-**	**-**

As at 31 December 2020, the SBCI considered whether payments under its financial guarantees are probable. In accordance with FRS 102.21, the SBCI has recognised €Nil (2019: €Nil) in respect of probable claims. The claims paid in 2019 were offset by a 50% reimbursement of the value of the claims from the EIF under the counter guarantee. The timing and final amount of the claims are dependent on actual receipt of the claims from the relevant on-lender.

21. 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.

2020	Current €000	Non-current €000	Total €000
Financial assets			
Loans and receivables	**107,370**	**345,000**	**452,370**
Financial liabilities			
Funding and borrowings	**33,333**	**316,667**	**350,000**

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

Note 15.2 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.

22. Auditor's remuneration

	2020 €000	2019 €000
Audit of financial statements	36	34

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

23. 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.

On 15 October 2020, at the request of the Board, the Company issued 50 million shares of €1.00 each to the Minister for Finance. That subscription was paid for by the Minsiter for Finance by the immediate conversion to equity of a €50m loan advanced by the Ireland Strategic Investment Fund (the "ISIF") to SBCI on 15 October 2020, in accordance with Section 11(7)(a) of the SBCI Act 2014.

As at 31 December 2020, the Minister for Finance had subscribed for, and was issued with 85,000,000 (2019: 35,000,000) of the Company's authorised shares.

24. 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 €16.9m (2019: €17.4m) related to financial guarantee credit losses covered under the Agriculture Scheme.

Under the terms of the BLS/CWCS, the Company has issued partial guarantees to the participating on-lenders to cover 80% of credit losses on a loan-by-loan basis, subject to a maximum portfolio of €300m. As a result, at financial year end, the Company has a contingent liability of €89.2m (2019: €27.8m) related to financial guarantee credit losses covered under the BLS/CWCS.

Under the terms of the FGLS, the Company has issued partial guarantees to the participating on-lenders to cover 80% of credit losses on a loan-by-loan basis, subject to a maximum portfolio of €800m. As a result, at financial year end, the Company has a contingent liability of €288.5m (2019: €69.8m) related to financial guarantee credit losses covered under the FGLS.

25. Contingent assets

The SBCI has entered into a counter-guarantee agreement with EIF to partially offset the SBCI's guarantees under the Agriculture Scheme. The value of the counter-guarantee is €8.5m and the terms and conditions of this counter-guarantee are consistent with SBCI's guarantees to the on-lenders. As such, the SBCI has a contingent asset of up to €8.5m (2019: €8.5m) related to the Agriculture Scheme at the end of 2020.

The SBCI has also entered into a counter-guarantee agreement with EIF to partially offset the SBCI's guarantees under the BLS/CWCS. The value of the counter-guarantee is €44.6m 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 €44.6m (2019: €13.9m) related to the BLS/CWCS at the end of 2020.

The SBCI has also entered into a counter-guarantee agreement with EIF to partially offset the SBCI's guarantees under the FGLS. The value of the counter-guarantee is €230.8m 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 €230.8m (2019: €55.9m) related to the FGLS at the end of 2020.

26. Related parties disclosures

26.1 Related parties

Minister for Finance

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

NTMA

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

Other Government controlled entities

The ISIF and Allied Irish Banks plc are related parties of the SBCI as each is under the control of the Minister for Finance.

Government Ministers and Departments

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

Key management personnel

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

26.2 Transactions and balances with related parties

Minister for Finance and ISIF Loan Facility

The Minister for Finance was issued with the following additional ordinary shares of €1.00 each in the capital of the Company:

- in February 2017 – 25 million; and
- in October 2020 – 50 million.

Both of the above share issuances were funded through the conversion to equity of €75m of loans advanced by the ISIF to SBCI. There is currently a nil balance on the ISIF loan facility (2019: €Nil), and the committed funding available under that facility is €165m.

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 €6.2m (2019: €5.8m). Further details in respect of these costs are disclosed in Note 8. Operating lease commitments are disclosed in Note 27. There is an amount of €0.9m payable (2019: €0.9m) 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 €4k (2019: €132k) during the financial year. €Nil (2019: €Nil) of the €0.9m payable to the NTMA at the end of the financial year relates to the purchase of software.

SBCI Debt Instrument

There were no outstanding loan notes issued by the Company to the NTMA at financial year end (2019: €25m). The Company received negative interest of €67k (2019: €369k) from the NTMA in relation to the issuance of the loan notes.

Future Growth Loan Scheme

The Company received a total of €12.4m (2019: €1.5m) during the financial year from the Minister for ETE to be used in the FGLS. See Note 19 for further details on the FGLS and the funding received during the financial year.

Credit Guarantee Schemes

During the financial year, the Company recognised €1.5m (2019: €0.29m) of income for the recovery of its administration costs in its role as operator of Schemes created under the Credit Guarantee Acts 2012 to 2020 on behalf of the Minister for ETE. €0.81m (2019: €0.13m) of this income was receivable by the Company at financial year end. See Note 7 for further information on the SBCI's role in these Schemes.

Allied Irish Banks p.l.c

The Company has issued loans of €130m (2019: €215m) to Allied Irish Banks p.l.c. for the purpose of on-lending to Irish SMEs. These loans were outstanding at financial year end and are included in the loans and receivables figures in the Statement of Financial Position.

Key management personnel

Transactions with key management personnel are disclosed in Note 8.

27. Commitments

In February 2019, SBCI entered into a lease for office accommodation located at 1 Treasury Dock, North Wall Quay, Dublin 1 until May 2033. Rental charges incurred in the period were €291k (2019: €178k). The nominal future minimum rentals payable under non-cancellable operating lease are as follow:

	2020 €000	2019 €000
Within one year	291	292
In two to five years	1,168	1,168
Over five years	2,160	2,452
	3,619	**3,912**

28. Disclosures of interest

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

29. 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.

30. Approval of the financial statements

The financial statements were approved by the Directors on 22 April 2021.

Strategic Banking Corporation of Ireland
Treasury Dock Building, North Wall Quay,
Dublin 1, D01A9T8, Ireland.

T 01 238 4000 | www.sbci.gov.ie

SBCI

Here to build business.
Strategic Banking
Corporation of Ireland