
Microfinance Ireland

(A private designated activity company limited by shares)

Financial Statements

For the year ended 31 December 2019

Microfinance Ireland

Directors' Report and Financial Statements

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Microfinance Ireland

DIRECTORS AND OTHER INFORMATION

Board of Directors

Cyril Forbes (Chairperson)
Enda Bannon
Sarah Anne Audrey Boyd
Elizabeth Jean Carberry
John Irwin
Thomas McEvoy
Gerry O'Neill
Susan O'Neill
Mary O'Shaughnessy
Brendan Whelan

Secretary and Registered Office

Bradwell Ltd
10 Earlsfort Terrace
Dublin 2

Registered Number: 516555

Registered Charity Number: CHY 20447

Charities Regulator Registered Number: 20081102

Date of Incorporation: 17th August 2012

Auditors

Comptroller and Auditor General
3A Mayor St. Upper
Dublin 1

Principal Bankers

Bank of Ireland
2 College Green
Dublin 2

Solicitors

Mason Hayes and Curran
South Bank House
Barrow Street
Dublin 4

Contact Information

Garrett Stokes, Chief Executive Officer
Patrick Kilbane, Head of Finance and Risk

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Clonskeagh,
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Microfinance Ireland

CHAIRMAN'S STATEMENT

On behalf of the Directors of Microfinance Ireland ("MFI"), I am pleased to present the audited Financial Statements for the year ended 31st December 2019, yet another year of success and growth.

MFI continues to support economic and job growth throughout Ireland by providing loans for up to 5 years to micro-enterprises that have difficulty in accessing bank credit.

In 2019 MFI approved €6.0 million in loans to 452 small businesses supporting an additional 1,222 jobs at a cost of under €2,000 each – the lowest cost of any principle Government job initiative – many in vulnerable sectors such as youth, unemployed, females, migrants and seniors. The majority of our customers continue to be start-ups.

MFI has now approved €34.0m in loans, supporting 2,403 businesses and through them supporting 6,030 jobs, since commencing trading in 2012.

MFI borrowers through their vision, hard work, commitment and belief, deliver their goods and services in every city, town and village throughout the country thereby supporting communities and creating and retaining jobs and in so doing are changing and enhancing the fabric of Irish society.

MFI by its nature and mandate underwrites credit risk beyond that of commercial lenders. To ensure that all projects or individuals are given a prompt, full and fair credit assessment and where appropriate offered affordable loans through MFI we continued to develop our credit management and credit processes whilst striving to ensure that no applicant takes on unsustainable levels of borrowing. The average loan approval rate for the year was 42%.

In order to reach and support as many of our potential customers as possible MFI continued to undertake a wide range of marketing, promotional and business development activities to increase the awareness of the Microenterprise Loan Fund Scheme and Microfinance Ireland ensuring record demand for MFI's services in the year.

Recognising the potential impact on the business of Brexit, MFI early in the year conducted an extensive review of measures required to respond to the likely exposure of our customers and the microenterprise sector in the event of such an outcome. With the issues around Brexit still unresolved MFI will continue to monitor events and will, in conjunction with Government agencies institute whatever measures are required to mitigate the impact on our customers and the microenterprise sector in general.

With the outbreak of COVID-19, Ireland along with the rest of the world is facing one of its most challenging periods. The impact of the virus has been far reaching and the response by everyone in society is unparalleled. Microfinance Ireland is working with its customers, new and old to help support them through this crisis. While the longer term consequences of the pandemic are uncertain, I am confident that Microfinance Ireland, with additional funding from the Government will be positioned to continue to support micro enterprises across Ireland and to assist the reopening and rebuilding of these businesses following COVID-19. I am very proud of our entire team who have embraced the challenges we are all now facing and have continued to go above and beyond to support our customers.

MFI's future vision is to continue to focus on supporting establishing or expanding small business through loans and mentoring support and aiding job creation in all areas of the country. The Department of Business, Enterprise and Innovation ("DBEI") commissioned and has recently received an independent report, on the Microenterprise Loan Fund Scheme and its recommendations will help shape the future direction of the business.

As at 31 December 2019, MFI received €20m of State funding without which the Microenterprise Loan Fund Scheme would not exist. Heather Humphreys T.D., the Minister for Business, Enterprise and Innovation and Pat Breen T.D., the Minister of State for Trade, Employment, Business, EU Digital Single Market and Data Protection and their officials at the Department of Business, Enterprise and Innovation provide not only funding but ongoing support and assistance to MFI. They are an integral part of the success of the Microenterprise Loan Fund Scheme. I would like to extend our appreciation to the Ministers and their Department for their ongoing support throughout 2019.

I would like to thank the European Investment Fund for their continued support through the European Programme for Employment and Social Innovation (EaSI) Guarantee facility which is an integral part of our scheme as it is a significant aid in enabling MFI to lend money to microenterprises that do not meet conventional lending criteria.

MFI thanks our primary partner, The Local Enterprise Office (LEO) Network, for their ongoing support in assisting microenterprises with their loan applications, business training and mentoring support. This mentoring support is vital to the viability and sustainability of our customers. We wish the LEOs continued success and look forward to working closer on further joint initiatives.

MFI acknowledges and appreciates the continued support of our other partners, Bank of Ireland, AIB, Ulster Bank and permanent tsb and the Local Development Companies who continue to be a welcome and increasing source of loan applications.

I also express our appreciation of our parent, the Social Finance Foundation, its Board and management for the ongoing assistance and support of MFI.

I would like to thank all my fellow board members and Board sub-committees, the Audit & Risk Committee and the Credit Committee who give generously of their time and extensive range of business experience and expertise to ensure the success of MFI.

A special word of thanks to Ken Slattery on his departure as an Independent Observer on our Credit Committee. His professionalism, guidance, and commitment were a huge contribution to the development of MFI.

Finally, on behalf of the Non-Executive Board, I would like to thank and congratulate the professional and dedicated team including our external Loan Assessor Panel under the sterling leadership of Garrett Stokes, without whom the growth and success of MFI would not have been achieved. I look forward with confidence to continued success in enhancing and changing lives, families and communities in 2020.



Cyril Forbes

Chair

30 July 2020

Microfinance Ireland

REPORT OF THE CHIEF EXECUTIVE

2019 was another year of growth across all key metrics for Microfinance Ireland ("MFI").

Business Activity

Demand for MFI's services continued to grow in the year with the business receiving 1,092 applications in the year, a record for the business. Application volumes were up 7% in the year with an 18% growth in the number of loans approved. In 2019, €6.0m in loans was approved to 452 businesses, supporting 1,222 jobs.

This level of continued strong performance highlights our established market presence and the ongoing need for micro finance initiatives in support of this important but vulnerable sector.

The rationale for the investment made by the Irish Government has always been that of economic support and job creation. Microfinance Ireland lends to those who cannot raise finance from conventional sources, and we measure our success not only on our lending volumes, but primarily by measuring the employment we have supported in the businesses we have invested in.

To date, MFI has approved €34.0m in loans to 2,403 businesses, supporting 6,030 jobs.

Marketing and Branding

As the Micro Enterprise Loan Scheme is demand lead, optimising awareness of the business is essential to ensure we are reaching as many of our potential customers as possible. During 2019, MFI undertook a wide range of marketing activities, across traditional and digital media, promotional and engagements events. These activities continue to grow brand awareness and draw a growing amount of traffic to our website and social media pages, with increased level of enquiries to the business. We continue to enhance our marketing activities to create better clarity of our offering, online supports and a greater focus on our customers' needs.

Business Development

Microfinance Ireland continued to maintain strong relationships with a range of referral partners, while also exploring other potential partner relationships.

The Local Enterprise Office (LEO) Network is our primary partner and a major source of applications. The LEO Network offers significant help to our potential clients through guidance, mentoring and support in submitting their loan application.

Our Bank Channel continues to be a good source of referrals of potential applicants. These are businesses which the banks are unable to support but which often fit within the risk appetite of MFI. Our Bank Channel consists of Bank of Ireland, AIB, Ulster Bank and permanent tsb.

MFI also continued to work with the Irish Local Development Network (ILDN), who deals with clients who are moving to self-employment and are on the Back to Work Enterprise Allowance (BTWEA).

In addition to our referral partners, the business has developed a very strong direct channel. In 2019, it accounted for 59% of all applications.

Mentoring

MFI provides post approval mentoring services to our borrowers, which we believe is a very important element of our service offering, This critical support to our customers helps them develop various management skills which they may not have, through which they increase their business acumen and the sustainability of their businesses. These mentoring services are paid for by MFI on our customers behalf and delivered through the Local Enterprise Office Network. While a variety of areas of business can be covered through mentoring, Financial Management is the single biggest skill gap identified in these businesses.

Credit Management

Microfinance Ireland is mandated to take a level of credit risk that commercial lenders cannot, however the balance between risk orientation and the sustainability of the business model which underpins the long-term sustainability of the borrower's business is critical. As the loan book has matured, we now have in-depth knowledge and experience to understand better the outcomes of our underwriting practices in what is a unique loan book. We have continued to enhance our credit management processes to ensure we maintain equilibrium between risk and sustainability.

These underwriting practices coupled with enhanced arrears management activities have resulted in lower defaults and provisioning particularly in relation to loans underwritten in 2018. The effect has been an approximate halving of the reported bad debt charge and a net write back to the Income and Expenditure Statement.

Importantly, the Loan Approval Rate, which had reduced in the previous year, increased to 42% in 2019.

Funding Model

There are three elements to our funding model. As a not for profit organisation, these are essential to our ongoing existence and the support we can offer to the micro enterprise sector.

1) Government Capital Funding

As at end December 2019, under the terms of the Microenterprise Loan Fund Act, the fund received €20m in capital funding through the Department of Jobs, Enterprise and Innovation. Of this €9.9m remains on the balance sheet, thus the business is financially strong and well positioned to enable our projected growth over the coming years of the Micro Enterprise Loan Fund.

2) European Investment Fund (EIF)

The business continues to receive significant support from the EIF which allows us to consider risk profiles otherwise outside our capacity to fund. Our current five year agreement under the European Commission's EU Programme for Employment and Social Innovation (EaSI) runs until late 2022 and enables MFI to support an additional €30 million in loans to micro-borrowers over this five year period. The programme requires the provision of mentoring along with the loan support and provides an integrated approach to microenterprises.

3) Syndicated Bank Loans

In 2015, a syndicated loan of €15m was provided by Bank of Ireland, AIB and Ulster Bank through our parent company the Social Finance Foundation. This funding provides the working capital which is used to fund our lending activities. This loan is fully drawn. As at the end of December 2019, the business had €10.2m in cash on its balance sheet to support its lending activities into the future.

Pricing

Pricing has been maintained at historically low levels. Loan applications and referrals from our partners attract a fixed rate of 6.8% APR, while applications received directly are charged a fixed 7.8% APR. Both these rates are competitive for the market we serve.

COVID 19

The outbreak of COVID 19 has had a fundamental impact on the business. Operationally MFI responded quickly to introduce remote working and other new working practices to safeguard our employees. Work practices have been modified to enable us to handle a large increase in business volumes both to support our existing customers and to meet the need of the new COVID19 Business Loan up to €50,000 introduced by the Government in March 2020.

To date, over 70% by value of existing borrowers have sought and have been granted a repayment moratorium. While undoubtedly some organisations will struggle to reopen after COVID-19, and some may never resume operations, the impact on the Microfinance Ireland loan book will remain unclear pending resumption of repayments later in 2020 and the length of time it takes the country to revert to some form of normality. Significant volumes of new lending are being done through the new COVID19 Business Loan initiative. To be prudent, pending commencement of loan repayments and trading resuming, MFI is placing a much higher high level of collective provision against this new portfolio.

Our Credit Team has experience through economic cycles and have worked with the business sector through a number of previous crises and are well equipped to manage the future challenges facing our customers. It is our desire, with continued funding from the Government supported by our loan guarantee from the European Investment Fund, to continue to support the reopening and rebuilding of micro businesses following COVID-19.

Strategy

The 5 Year Strategic Plan updated in September 2018, continues to be the strategic focus of the business. Looking to the future, following the receipt, after year end, of the DBEI independently commissioned Review of the Microenterprise Loan Fund Scheme, the Board and Management, working in conjunction with DBEI, will devise its future strategy for the next phase of MFI's evolution.

Compliance, Operational Risk and GDPR

A strong culture of risk and compliance prevails within the business:

- There were no significant operational incidents in the business during the year.
- A range of Audits were completed with no significant findings.
- The business commissioned a detailed compliance review during the year, with excellent results.
- Board training was completed.
- AML policies were updated, and employee/ Board training completed.

MFI takes data protection very seriously. During 2019, no data breaches occurred, and one data request was received.

Human Resources

Our employees are our most important asset and the key driver of our success. Management continue to work with the team to ensure a high level of engagement and deliver various supports to improve employees' conditions and develop their careers.

Key Objectives 2020

- To deliver a strategic roadmap for the future of the business, with supporting equity and loan funding.
- To continue to support the economy and job creation through our lending activities with micro-enterprises.
- To develop and deliver, working with DBEI, tailored solutions to support microenterprises negatively impacted by COVID 19 and Brexit.
- To grow the business in line with our financial projections.
- To optimise existing referral partners and explore potential additional partnerships.
- Achieve an appropriate balance between growth and risk management.
- Successfully deliver a range of business enhancing change programmes.



Garrett Stokes

Chief Executive

30 July 2020

Microfinance Ireland

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the financial year ended 31st December 2019.

Principal Activities

Microfinance Ireland was incorporated by The Social Finance Foundation (SFF) on 17 August 2012 pursuant to the Microenterprise Loan Fund Act 2012 on the initiative of the then Minister for Jobs, Enterprise and Innovation. This dedicated subsidiary of SFF was established to manage the Microenterprise Loan Fund. Following incorporation, the Minister made an initial grant of €10m into the Fund. A further grant of €10m was approved in December 2016 and received on 3 January 2017.

The main object of the company is to lend money to create the optimum number of jobs in the microenterprise sector. Applicants will be supported from all industry sectors with commercially viable proposals that do not meet the conventional risk criteria applied by commercial banks.

In recognition of the higher risk profile of the activities of Microfinance Ireland, the company secured support for its activities from the European Investment Fund (EIF). Under the European Progress Microfinance Facility (EPMF) for employment and social inclusion signed on 7 December 2012 and the Employment and Social Innovation Guarantee Facility (EaSI) signed on 14 October 2015 and successor guarantee signed 11 December 2017, EIF as Guarantor will partially cover the risk of the Microfinance Ireland loan portfolio subject to specific ceiling levels at both portfolio and individual client loan level and subject to specific terms and conditions.

Legal Status

Microfinance Ireland is a single member private designated activity company. In accordance with the Microenterprise Loan Fund Act 2012, Part 3, sections 11 and 12 Microfinance Ireland is a subsidiary of SFF. The authorised share capital of Microfinance Ireland is €1. Microfinance Ireland has issued the one share of €1 to SFF which holds this share in accordance with sub sections 3 and 4 of Section 12 of the Act.

Microfinance Ireland has been granted charitable status (Registered Charity No. CHY 20447) and is registered with the Charities Regulatory Authority (Registration Number 20081102).

Accounting Records

The measures taken by the directors to secure compliance with the requirements of section 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the use of appropriate systems and procedures and employment of competent persons. The accounting records are kept at 13 Richview Office Park, Clonskeagh, Dublin 14.

Results for the period

The Company's outturn for the financial year is set out on Page 19 to 22 and is considered satisfactory. The Deficit on ordinary activities was €1,210,000 (2018 €1,528,000).

Future developments

Post year end, the COVID 19 pandemic erupted with serious impacts for the economy and business. Management reacted quickly, introduced remote working and new work practices to safeguard employees, and to enable the Company to manage the challenges placed on it and its customer segment.

COVID 19 has led to the temporary closure of many of our customers as they adopted the Government guidelines with knock-on impacts on their income. Our customers are the most vulnerable businesses in the economy and some will be challenged when reopening in compliance with new social distancing guidelines and may have to find new ways to operate.

Microfinance Ireland has supported and will continue to support our existing borrowers and new borrowers through a range of initiatives. To date, over 70% by value of existing borrowers have sought and have been granted a repayment moratorium and loan restructure. New products have been launched specifically targeted at adversely impacted microenterprises.

Risk management will be critical to ensuring that the company's response is commensurate with available resources. This will be actively measured and monitored.

Governance

Microfinance Ireland was incorporated pursuant to the Microenterprise Loan Fund Act 2012 ('Act 2012'). The company operates on an ongoing basis within the Act 2012, the Microenterprise Loan Fund Scheme (S.I. No. 343 of 2012 and S.I. No. 393 2015) and the Arrangement (pursuant to Section 19 of the Act 2012). These legal requirements, together with the Combined Code, published in June 1998 and updated by the Committee on Corporate Governance and all subsequent guidance on its application and the Code of Practice for the Governance of State Bodies are the foundations on which corporate governance is based. Maintaining high standards of corporate governance is a priority of the directors.

The functions of the Board are set out in the Microenterprise Loan Fund Scheme S.I. No. 393 2015. The Board is accountable, through its parent company The Social Finance Foundation, to the Minister for Business, Enterprise and Innovation and 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 Microfinance Ireland 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 Microfinance Ireland.

The work and responsibilities of the Board are set out in Matters Reserved for the Board. Standing items considered by the Board include:

- Declaration of interests,
- Key performance indicator reports and management accounts including Budget variance analysis,
- Reports from Audit and Risk Committee and Credit Committee,
- Risk reports,
- Financial reports,
- Reserved matters.

Business Risks and Management

It is the company's policy to develop and implement a risk management process which:

- Enables identification and assessment of risks that could impact the achievement of the business remit and objectives
- Establishes risk appetite by key risk category
- Ensures that appropriate mitigating measures and controls are adopted and implemented
- Ensures ownership, reporting and review of risk at Management, Board subcommittee and Board level on a regular and ongoing basis
- Ensures periodic review and approval of policies for managing risk

This Risk Management Process has identified the most significant current risks as being:

- Managing credit risk within the agreed appetite
- Employee Retention and Succession Planning Risk

Board Structure

The Board consists of a Chairperson and nine ordinary members, all of whom are appointed by MFI's parent The Social Finance Foundation (SFF) following consultation with the Minister for Business, Enterprise and Innovation and the Minister for Public Expenditure and Reform. The members of the Board are appointed for a period of three years and meet not less than four times per year.

The table below details the appointment date for members and a schedule of attendance at Board and Committee meetings for 2019:

		Board (6 Meetings)		ARC (5 Meetings)		Credit Committee (4 Meetings)	
		Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Cyril Forbes	Re-appointed 29 August 2018	6	6				
Enda Bannon #	Appointed 29 August 2018	6	6	5	4		
Sarah Anne Audrey Boyd \$	Appointed 29 August 2018	6	5			4	4
Elizabeth Jean Carberry #	Appointed 18 May 2017	6	5	5	3		
John Irwin \$	Re-appointed 25 November 2018	6	5			4	3
Thomas McEvoy \$	Appointed 29 August 2018	6	4			4	4
Gerry O'Neill #	Re-appointed 29 August 2018	6	5	5	5		
Susan O'Neill	Appointed 29 November 2017	6	5				
Mary O'Shaughnessy	Re-appointed 29 August 2018	6	3				
Brendan Whelan #	Re-appointed 29 August 2018	6	6	5	4		

Audit and Risk committee member

\$ Credit committee member

Details of Board Committees' are as follows:

Audit and Risk Committee (ARC) comprises four Board members. The role of ARC is to support the Board in relation to its responsibilities for financial oversight and risk management (other than credit risk) and associated assurance. The ARC is independent from the financial management of the organisation. In particular the Committee ensures that the internal control systems including audit activities are monitored actively and independently. The ARC reports to the Board after each meeting.

The members of the Audit and Risk Committee are Gerry O'Neill (Chairperson), Enda Bannon, Jean Carberry and Brendan Whelan.

Credit Committee comprises three Board members. The role of the Credit Committee is to support the Board in relation to its responsibilities for issues of credit risk, control and governance and associated assurance. The Credit Committee is independent from the credit risk management of the organisation. In particular the Committee ensures that credit underwriting activities are monitored actively and independently. The Credit Committee reports to the Board after each meeting.

The members of the Credit Committee are: John Irwin (Chairperson), Audrey Boyd and Thomas McEvoy. During the year, some Independent Observers attended Credit Committee meetings, at the invite of the Committee.

Fees and Expenses

The directors serve on the Board in a voluntary capacity and receive no fees or remuneration for time spent in carrying out these duties.

Travel and subsistence costs of nil were reimbursed or reimbursable to directors in relation to expenses incurred in the financial year ending 31st December 2019 (€290: 31/12/2018).

Key Personnel Changes

There were no key changes in the year under review.

Health and Safety

The wellbeing of the company's employees is safeguarded through the strict adherence to health and safety standards. The Safety, Health and Welfare at Work Act 2005 imposes certain requirements on employers and Microfinance Ireland takes the necessary actions to ensure compliance with that Act.

Confidential Disclosures

The Board has approved the Company's policy to ensure that employees can raise concerns about possible irregularities in financial reporting or other matters.

Disclosure of Interests

As set down in Section 16 of the Microenterprise Loan Fund Act 2012, Microfinance Ireland has adopted procedures in relation to the disclosure of interests of directors and those procedures have been adhered to.

Directors' Responsibilities Statement

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable Irish law and regulations. Irish company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare the financial statements in accordance with the Financial Reporting Standard 102 ('FRS102') with the Accounting Standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland for periods beginning before 1 January 2015. 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 financial year end date and of the income and expenditure of the company for the financial year end and otherwise comply with the Companies Act 2014.

In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether the financial statements have been prepared in accordance with the relevant financial reporting framework, identify those standards and note the effect and the reasons for any material departure from those standards;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 income and expenditure of the company to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors report comply with the Companies Acts 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Relevant Audit Information

In the case of each of the persons who are directors at the time this report is approved in accordance with section 332 of Companies Act 2014 the directors believe that they have taken all steps necessary to make themselves aware of any relevant audit information and have established that the statutory auditors are aware of that information. In as far as they are aware there is no relevant information of which the auditors are unaware.

Auditors

In accordance with Section 20 of the Microenterprise Loan Fund Act 2012, the Comptroller and Auditor General is the auditor of the company.

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

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

The following disclosures are required by the Code:

Consultancy Costs

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

	2019 €	2018 €
Human Resources	0	0
Market Analysis	0	0
Total consultancy costs	0	0

Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

		2019 €	2018 €
Domestic -	Board	0	290
	Employees	5,986	5,562
International -	Board	0	0
	Employees	4,588	4,114
Total		10,574	9,966

Hospitality Expenditure

The Income and Expenditure Account includes the following hospitality expenditure:

	2019 €	2018 €
Board and Staff hospitality	2,929	1,625

No costs were incurred in relation to legal costs, settlements and conciliation / arbitration proceedings relating to contracts with third parties. It should be noted that the cost of general legal advice in the normal course of business is disclosed in Legal costs under Administrative Expenses (see Note 5 to the Financial Statements).

Statement of Compliance

The Board has adopted the Code of Practice for the Governance of State Bodies (2016) and has put procedures in place to ensure compliance with the Code. Microfinance Ireland was in compliance with the Code of Practice for the Governance of State Bodies for 2019.

On behalf of the board



Cyril Forbes



Gerry O'Neill

30 July 2020

Microfinance Ireland

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

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

Purpose of the System of Internal Control

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

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

Capacity to Handle Risk

Microfinance Ireland has two Board Committees overseeing risk management, an Audit and Risk Committee (ARC) and the Credit Committee.

The ARC comprises four Board members, with financial and audit expertise, one of whom is the Chair. The ARC met five times in 2019.

The Credit Committee comprises three Board members, with credit expertise, one of whom is the Chair. External independent observers attended Credit Committee on a regular basis. Credit Committee met four times in 2019.

The Board has developed a risk management policy which sets out its risk appetite, the risk management processes in place and details the roles and responsibilities of the Board Committees and staff in relation to risk. The policy has been issued to all staff who are expected to work within Microfinance Ireland's risk management policies, to alert management on emerging risks and control weaknesses and assume responsibility for risks and controls within their own area of work.

The Board reviews the organisational structures, resources and skill sets to ensure adequacy and appropriateness relative to the risks undertaken.

Risk and Control Framework

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

A risk register is in place which identifies the key risks facing Microfinance Ireland and these have been identified, evaluated and graded according to their significance. The register is reviewed and updated by the ARC not less than annually. The outcome of assessments is used to plan and allocate resources to ensure risks are managed to an acceptable level.

The risk register details the controls and actions needed to mitigate risks and responsibility for operation of controls assigned to specific staff. I confirm that a control environment containing the following elements is in place:

- procedures for all key business processes have been documented,
- financial responsibilities have been assigned at management level with corresponding accountability,
- there is an appropriate budgeting system with an annual budget which is kept under review by senior management,
- there are systems aimed at ensuring the security of the information and communication technology systems,
- there are systems in place to safeguard the assets.

Ongoing Monitoring and Review

Formal procedures have been established for monitoring control processes and control deficiencies are communicated to those responsible for taking corrective action and to management and the Board, where relevant, in a timely way. I 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 key controls and report any identified deficiencies,
- reporting arrangements have been established at all levels where responsibility for financial management has been assigned
- there are regular reviews by senior management of periodic and annual performance and financial reports which indicate performance against budgets.

Microfinance Ireland has also established an internal audit function which is outsourced to a professional accountancy firm and conducts a programme of work agreed with the ARC.

Procurement

I confirm that Microfinance Ireland has procedures in place to ensure compliance with current procurement rules and guidelines.

Review of Effectiveness

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

I confirm that the Board conducted an annual review of the effectiveness of the internal controls for 2019.

Internal Control Issues

No weaknesses in internal control were identified in relation to 2019 that require disclosure in the financial statements.

On behalf of the board



Cyril Forbes

Chair

30 July 2020



Ard Reachtair Cuntas agus Ciste Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

Microfinance Ireland

Opinion on the financial statements

I have audited the financial statements of Microfinance Ireland for the year ended 31 December 2019 as required under the provisions of section 20 of the Microenterprise Loan Fund Act 2012. The financial statements comprise the statement of income and expenditure, the statement of financial position, the statement of changes in reserves and capital account, the statement of cash flows and the related notes, including a summary of significant accounting policies.

In my opinion, the financial statements

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

Basis of opinion

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

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

Conclusions related to going concern

The directors have prepared the financial statements on a going concern basis. As described in the appendix to this report, I conclude on

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

I have nothing to report in that regard.

Opinion on matters prescribed by the Companies Act 2014

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

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

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

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

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

Report of the C&AG (continued)

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 chairman's statement, the report of the chief executive, the directors' report and the statement on internal control. My responsibilities to report in relation to such information, and on certain other matters upon which I report by exception, are described in the appendix to this report.

I have nothing to report in that regard.

A handwritten signature in cursive script that reads "John Crean".

John Crean
For and on behalf of the
Comptroller and Auditor General

6 August 2020

Appendix to the report

Responsibilities of the Directors

As detailed in the directors' report, the directors are responsible for

- the preparation of financial statements in the form prescribed under the Companies Act 2014
- ensuring that the financial statements give a true and fair view in accordance with FRS 102
- 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 20 of the Microenterprise Loan Fund Act 2012 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.

Microfinance Ireland

STATEMENT OF INCOME AND EXPENDITURE


For the year ended 31 December 2019

		Financial Year Ended 31 December 2019 €'000	Financial Year Ended 31 December 2018 €'000
Interest Income	3	642	595
Interest Expense	3	(240)	(168)
		<hr/>	<hr/>
Net Interest Income	3	402	427
Administrative expenses	5	(1,747)	(1,695)
Bad debts			
-Specific charge	9	(648)	(1,164)
-Collective charge	9	27	(56)
-Cash Recoveries		213	229
-Guarantee callable under EIF	10	543	731
		<hr/>	<hr/>
Total		135	(260)
		<hr/>	<hr/>
Deficit for the financial year		(1,210)	(1,528)

The Statement of Income and Expenditure includes all gains and losses recognised in the year. The Statement of Changes in Reserves and Capital Account, the Statement of Cash Flows and Notes 1 to 23 form part of these Financial Statements.

Approved by the board and authorised for issue on 30 July 2020.


Cyril Forbes
Director


Gerry O'Neill
Director

Microfinance Ireland

STATEMENT OF FINANCIAL POSITION

31st December 2019

		31 December 2019 €'000	31 December 2018 €'000
Tangible fixed assets	Notes 8	<u>25</u>	<u>17</u>
Current assets			
Loans and advances to customers net of provisions	9	6,796	6,197
Amounts recoverable from EIF	10	1,577	1,472
Other Debtors	11	23	4
Short term deposits		10,138	14,228
Cash at bank and in hand		<u>68</u>	<u>71</u>
		18,602	21,972
Creditors – (amounts falling due within one year)	12	<u>(2,371)</u>	<u>(2,315)</u>
Net current assets		<u>16,231</u>	<u>19,657</u>
Creditors – (amounts falling due after one year)	13	(6,326)	(8,534)
Net assets		<u>9,930</u>	<u>11,140</u>
Capital and reserves			
Issued share capital	15	-	-
Microenterprise Loan Fund	16	<u>9,930</u>	<u>11,140</u>
		9,930	11,140

The Statement of Changes in Reserves and Capital Account, the Statement of Cash Flows and Notes 1 to 23 form part of these Financial Statements.

On behalf of the board on 30 July 2020.



Cyril Forbes
Director



Gerry O'Neill
Director

Microfinance Ireland

STATEMENT OF CHANGES IN RESERVES AND CAPITAL ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2019

	Revenue Reserves €'000	Microfinance Loan Fund Account €'000	Total €'000
At 1 January 2018	0	12,668	12,668
Grant received (see Note 16)	0	0	0
Deficit for the year	(1,528)	0	(1,528)
Transfer from Microfinance Loan Fund Account	1,528	(1,528)	0
At 31 December 2018	0	11,140	11,140

	Revenue Reserves €'000	Microfinance Loan Fund Account €'000	Total €'000
At 1 January 2019	0	11,140	11,140
Deficit for the year	(1,210)	0	(1,210)
Transfer from Microfinance Loan Fund Account	1,210	(1,210)	0
At 31 December 2019	0	9,930	9,930

Microfinance Ireland

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

		Financial Year Ended 31 December 2019 €'000	Financial Year Ended 31 December 2018 €'000
Net cash (outflow) from operating activities	17	(1,930)	(2,040)
Cash flows from investing activities			
Purchase of tangible fixed assets		(19)	(13)
Net cash flows from investing activities		(19)	(13)
Cash flows from financing activities			
Grant received		0	0
Increase in Borrowings	12&13		
- Drawdown of Parent Company funding		0	5,000
- Repayment of Parent Company funding		(2,144)	(1,422)
Net cash flows from financing activities		(2,144)	3,578
Net increase/(decrease) in cash and cash equivalents		(4,093)	1,525
Cash and cash equivalents at the beginning of financial year	17	14,299	12,774
Cash and cash equivalents at the end of financial year		10,206	14,299
Cash and cash equivalents consists of:			
Cash at bank and in hand		68	71
Short term deposits		10,138	14,228
Cash and cash equivalents	17	10,206	14,299

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

1.1. General Information Ownership and operations

Microfinance Ireland was incorporated by The Social Finance Foundation on 17 August 2012 pursuant to the Microenterprise Loan Fund Act 2012 on the initiative of the then Minister for Jobs, Enterprise and Innovation. The Social Finance Foundation (SFF) is a company, limited by guarantee, without a share capital whose members and directors are nominated by the Minister for Finance. The authorised and issued share capital of Microfinance Ireland is €1 which is held by SFF. SFF may not transfer that share without Ministerial consent.

1.2. Format of Accounting Statements

The company has not traded for the acquisition of gain by the members. In accordance with Section 291 of the Companies Act 2014, the company is required to prepare in respect of each financial year, entity financial statements which comply with the formats as set out in Schedule 3 of the Companies Act 2014. The company has availed of Section 291(5) of the Companies Act 2014 and prepared an income and expenditure account in place of a profit or loss account. The directors of the company believe that the information provided in the income and expenditure account reflect the nature of the operating activities of the company and provide a true and fair view of its income and expenditure for the financial year. This departure has no effect on the company's results for the financial year.

1.3. Basis of preparation

These financial statements have been prepared in accordance with FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. The financial statements are prepared on the historical cost basis. Microfinance Ireland is a Public Benefit Entity as defined by Section 34 of FRS102.

1.4. Functional Currency

The financial statements are presented in Euro (€).

1.5. Income and expenses

Interest on loans granted is recognised on a receipts basis which is collected monthly from customers. Bank interest income and interest expense is recognised on an accrual basis. All operating expenses are recognised on an accruals basis and are inclusive of irrecoverable VAT.

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS

1.6. Loans and advances to customers

Concessionary loans are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. They are made at a rate of interest below the risk adjusted market rate. They arise when Microfinance Ireland provides loan to customers which in all instances are financed with a view to holding to maturity.

In accordance with Section 34 of FRS102, Microfinance Ireland operates public benefit entity concessions loans. These concessionary loans are initially recorded at fair value and in subsequent years the concessionary loan is adjusted to reflect any accrued interest payable or receivable. Loans are assessed as to whether there is an indication of impairment and an impairment loss is recorded in the income and expenditure account (see Note 1.7 below).

1.7. Impairment of concessionary loans

MFI assesses, at each Statement of Financial Position Reporting date, if there is objective evidence that any of its loans to customers are impaired. The loans are assessed collectively in groups that share similar credit risk characteristics. Individually significant loans are assessed on a loan by loan basis. In addition, if, during the course of the year, there is objective evidence that any individual loan is impaired, a specific provision will be recognised.

Any bad debts/impairment losses are recognised in the Income and Expenditure account, as the difference between the carrying value of the loan and the net present value of the expected cash flows.

The company's policy is to provide for bad and doubtful debts to reflect the impairments inherent in the loan portfolio at the Statement of Financial Position Reporting date.

There are two types of bad debt provisions, specific and collective. Specific provisions are made for loans when the company considers that the credit-worthiness of a borrower has deteriorated such that the recovery of the whole or part of an outstanding loan is in serious doubt. The credit assessment is based on objective evidence that the loan is impaired. Objective evidence includes observable data that comes to the attention of Microfinance Ireland including:

- Delinquency in contractual payments
- Cash flow difficulties
- Granting a concession to a borrower
- Initiation of bankruptcy proceedings

The amount of the specific provision is equivalent to the amount to reduce the carrying value of the loan to its expected ultimate net realisable value.

For the purposes of the collective provision, evaluation is undertaken for loans not specifically impaired by combining with assets with similar characteristics. The impairment is then estimated based on the historical loss experience for assets with those similar characteristics.

The aggregate specific and collective provisions made during the period, less amounts released and net of recoveries of loans previously written off are charged against income for the period. Amounts recoverable from the EIF in respect of the period are recognised in the period, and any balance due at the reporting date is included as a debtor in the Statement of Financial Position.

Loans in the Statement of Financial Position are stated net of the aggregate of specific and collective provisions.

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS

1.8. Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and in hand, and bank deposits with maturity of less than or equal to 12 months. Bank term deposits are available on demand subject to terms and conditions.

1.9. Tangible fixed assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis to write off the cost of the assets over their estimated useful lives at the following annual rates:

Computer equipment and software	3 years
Office Furniture & Equipment	5 years

1.10 Microenterprise Loan Fund

Section 4 (1) of the Microenterprise Loan Fund Act 2012 (the 'Act') prescribes that all grants made to the subsidiary and all gifts and other income shall be known collectively as the Microenterprise Loan Fund (the 'Fund'). The Fund is disclosed separately in the Statement of Financial Position under Capital and Reserves. Subsequent sections of the Act prescribe how moneys standing to the credit of the Fund can be utilised. The value of the Fund is adjusted in line with the reported Income and Expenditure Account of Microfinance Ireland and this is disclosed in the Microenterprise Loan Fund Account.

1.11 Financial Instruments

Financial assets and liabilities are recognised when the company becomes party to a contractual provision of the instrument.

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like loans receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including concessionary are initially measured at the amount received or paid and recognised in the Statement of Financial Position, and subsequently the loans are then adjusted to reflect any accrued interest payable and receivable.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Expenditure.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the Statement of Financial Position Reporting date.

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires the use of estimates and judgements. As Management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates which could affect future reported amounts. The areas involving a higher degree of judgement in relation to these financial statements which are significant to the financial statements are described below.

Impairment of Loans and advances to customers

Microfinance Ireland's policy is to review its portfolio of loans for impairment monthly. In determining whether a provision for impairment is required, MFI makes judgements as to whether any observable data exists indicating that the loan may not be recoverable. MFI's accounting policy in relation to impairment of concessionary loans is set out in Accounting Policy 1.7.

Where there is objective evidence that an individual loan is impaired, a specific provision for that loan is recognised. The remaining loans are assessed collectively in groups that share similar risk characteristics. A collective provision which takes account of historical repayment performance is recognised in relation to these loans.

Management believe that the underlying assumptions used are appropriate and that MFI's financial statements therefore present the financial position fairly.

	Financial Year Ended 31 December 2019 €'000	Financial Year Ended 31 December 2018 €'000
3. Income		
Interest client loans	623	574
Interest bank deposits	19	21
Interest Income	642	595
Interest expense on borrowings from Parent	(240)	(168)
Net Interest Income	402	427

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

	Financial Year Ended 31 December 2019 €'000	Financial Year Ended 31 December 2018 €'000
4. Operating profit		
Operating profit is stated after charging:		
Wages and salaries (excluding PRSI)	644	627
Employer PRSI costs	70	68
Depreciation	11	6
Auditors' remuneration	14	13
	<hr/>	<hr/>
	Financial Year Ended 31 December 2019 €'000	Financial Year Ended 31 December 2018 €'000
5. Administrative Expenses		
Salaries and wages (excluding PRSI)	644	627
Employer PRSI	70	68
Staff and board related expenditure	49	47
Travel and subsistence	11	10
Credit assessor fees	292	277
Marketing/advertising	224	231
Legal fees	23	18
Outsourcing/consultancy fees	175	176
Rent	83	71
Depreciation	11	6
Premises	25	30
Client mentoring	78	72
Other	62	62
	<hr/>	<hr/>
	1,747	1,695

Microfinance Ireland incurred staff non-salary related expenditure of €49,243 in the year ended 31 December 2019 (2018: €46,760). The expenditure is comprised of employer contributions to personal retirement savings accounts €22,923 (2018: €23,710) death in service insurance for staff €6,492 (2018: €6,024), income continuance insurance €9,899 (2018: € 9,631), staff vouchers under the small benefits exemption scheme € 7,000 (2018: €5,750) and staff entertainment of €1,467 (2018: €755).

Board entertainment was €1,462 in the year ended 31 December 2019 (2018: €870).

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

		12 Months	12 Months
		December 2019	December 2018
6. Employee information			
The average number of persons employed during the year		13	12
Range of employee salaries			
From	To	Number of Employees	Number of Employees
		2019	2018
€60,000	- €69,999	2	2
€70,000	- €79,999	0	1
€80,000	- €89,999	1	1
€90,000	- €99,999	1	0

Retirement Benefit Obligations

Microfinance Ireland does not operate an occupational scheme and has no retirement benefit obligations to employees.

Key management remuneration

The directors of Microfinance Ireland are all unpaid volunteers. The key management team was increased in 2016 from three to five posts and now includes the CEO, Head of Credit, Head of Finance and Risk, the Operations Manager and the Marketing and Channels Manager who have authority and responsibility for planning, directing and controlling activities.

	2019	2018
	€	€
Salaries paid to key management	353,992	352,000

Chief Executive Officer Remuneration

Remuneration for the period to 31 December 2019 is as follows:

Salary € 90,294

The CEO received a voucher for €500 under the small benefit exemption scheme.

The CEO is not entitled to any retirement benefits.

Travel and subsistence costs of €4,041 were incurred by the CEO in the period to 31 December 2019 (2018: €3,485).

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

7. Taxation

The charitable status of the company has been approved by the Revenue Commissioners – CHY 20447.

8. Tangible Assets

	Office Furniture & Equipment €'000	Computer Equipment & Software €'000	Total €'000
Cost			
At 1 January 2019	20	44	64
Additions	-	19	19
Disposals	-	(8)	(8)
At 31 December 2019	20	55	75
Depreciation			
At 1 January 2019	15	32	47
Charge for the year	2	9	11
On disposals	-	(8)	(8)
At 31 December 2019	17	33	50
Net book value			
At 31 December 2018	5	12	17
At 31 December 2019	3	22	25

	Office Furniture & Equipment €'000	Computer Equipment & Software €'000	Total €'000
Cost			
At 1 January 2018	20	35	55
Additions	-	13	13
Disposals	-	(4)	(4)
At 31 December 2018	20	44	64
Depreciation			
At 1 January 2018	12	33	45
Charge for the year	3	3	6
On disposals	-	(4)	(4)
At 31 December 2018	15	32	47
Net book value			
At 31 December 2017	8	2	10
At 31 December 2018	5	12	17

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

9. (a) Loans and advances to customers	31 December	31 December
	2019	2018
	€'000	€'000
Loans outstanding at beginning of financial year	9,099	8,211
New loans advanced	5,108	4,885
Capital repaid	(3,888)	(3,230)
Amounts written off	(908)	(767)
	<hr/>	<hr/>
Loans outstanding at financial year end	9,411	9,099
Provision for bad and doubtful debts	(2,615)	(2,902)
	<hr/>	<hr/>
	6,796	6,197
	<hr/>	<hr/>
	31 December	31 December
	2019	2018
	€'000	€'000
(b) Loans and advances by maturity		
3 months or less	1,045	959
1 year or less but over 3 months	2,965	2,794
Over 1 year	5,401	5,346
	<hr/>	<hr/>
	9,411	9,099
	<hr/>	<hr/>
	31 December	31 December
	2019	2018
	€'000	€'000
(c) Provisions for bad and doubtful debts		
Specific Provision		
Opening Provisions	1,351	954
Allowance for losses made during the year	814	1,236
Allowance reversed during the year	(166)	(72)
Loans written off	(908)	(767)
At 31 December	<hr/>	<hr/>
	1,091	1,351
	<hr/>	<hr/>
Collective Provision		
Opening Provisions	1,551	1,495
Allowance made during the financial year	(27)	56
At 31 December	<hr/>	<hr/>
	1,524	1,551
	<hr/>	<hr/>

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

(d) Cumulative position at 31 December 2019

		€'000
Total loans advanced		29,061
Capital amounts repaid		(14,890)
Loans written off		(4,760)
Loans outstanding at 31 December 2019		<u>9,411</u>
Specific provision	(1,091)	
Collective provision	(1,524)	(2,615)
		<u><u>6,796</u></u>

10. Amounts recoverable from EIF

	31 December 2019	31 December 2018
	€'000	€'000
At beginning of financial year	1,472	1,363
Guarantee callable against bad debts	543	731
Amounts received from EIF	(438)	(622)
Balance at end of the financial year	<u>1,577</u>	<u>1,472</u>

In recognition of the higher risk profile of the activities of Microfinance Ireland, the company secured support for its activities from the European Investment Fund (EIF). Under the European Progress Microfinance Facility (EPMF) for employment and social inclusion signed on 7 December 2012, the Employment and Social Innovation Guarantee Facilities (EaSI) signed on 14 October 2015 and successor Agreement signed 11 December 2017, EIF as Guarantor partially covers the credit risk of the Microfinance Ireland loan portfolio subject to specific ceiling levels at both portfolio and individual client loan level and also subject to specific terms and conditions.

11. Other debtors

	31 December 2019	31 December 2018
	€'000	€'000
Accrued income	9	4
Prepayments	14	
	<u>23</u>	<u>4</u>

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

12. Creditors - amounts falling due within one year

	31 December 2019	31 December 2018
	€'000	€'000
Trade creditors	21	19
-PAYE & PRSI	153	163
-Accruals	<u>174</u>	<u>182</u>
Borrowings from parent company (see Note 13)	2,197	2,133
	<u>2,371</u>	<u>2,315</u>

13. Creditors - amounts falling due after more than one year

	31 December 2019	31 December 2018
	€'000	€'000
Borrowings from parent company	<u>6,326</u>	<u>8,534</u>

On 23rd February 2015, Microfinance Ireland executed a Loan Facility Agreement for a borrowing facility of up to €15m from its Parent company The Social Finance Foundation. On 6th May 2015, Microfinance Ireland drew down the first tranche of €5 million. On 29th June 2016, Microfinance Ireland drew down the second tranche of €5 million. On 10th December 2018, Microfinance Ireland drew down the final tranche of €5m. The term of each tranche is 7 years but subject to a final maturity date of 30th June 2024. The current interest rate is 3 month Euribor plus a margin of 2.75%. The margin is subject to annual review.

As part of the facility terms, Microfinance Ireland has executed a Debenture in favour of The Social Finance Foundation creating a floating charge over the property and assets of the company in favour of the lender in the event of default by the borrower.

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

14. (a) Financial risk management

Microfinance Ireland manages the Microenterprise Loan Fund so that it earns interest income from loans to customers and surplus cash on deposits with banks. The main financial risks arising from MFI's activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below.

Credit risk: Credit risk is the risk that a borrower will default on their contractual obligations relating to repayments to Microfinance Ireland, resulting in financial loss to Microfinance Ireland. In order to manage this risk, the Board approves Microfinance Ireland's credit policy, and all changes to it. All loan applications are assessed with reference to the credit policy in force at the time. Subsequently loans are regularly reviewed for any factors that may indicate that the likelihood of repayment has changed.

MFI also monitors its banking arrangements closely and approves not less than annually the panel of banks with which it conducts banking business.

Liquidity risk: Microfinance Ireland policy is to ensure it has adequate committed lines of credit in place and also invest its surplus funds in liquid form, sufficient to meet its liabilities as they fall due. The profile of Microfinance Ireland's customer loan book is approximately half the duration of its Borrowing facilities, thus ensuring a positive cashflow. Microfinance Ireland reviews its cashflows at regular intervals to ensure that it is fully funded into the future for a period of not less than 12 months.

Market risk: Market risk is generally comprised of interest rate risk, currency risk and other price risk. Microfinance Ireland conducts all its transactions in Euro and does not deal in derivatives or commodity markets. Therefore, Microfinance Ireland is not exposed to any form of currency risk or other price risk.

Microfinance Ireland's main interest rate risk arises from differences between the interest rate charged on loans to customers which is fixed and the interest rate payable to the Parent relating to Borrowings which is currently variable and reprices quarterly. Based on the current loan portfolio, and assuming all loans to customers are backed by borrowings, a 1% increase in interest rates would cost the company €91k over the remaining life of the current loan portfolio. This risk is reviewed not less than annually. In the event, the company elects to close this risk, the Borrowing facility agreement permits the fixing of funding.

14. (b) Interest rate risk disclosures

The following table shows the average interest rates applicable to relevant financial assets and financial liabilities

	2019		2018	
	Amount €'000	Average Interest Rate	Amount €'000	Average Interest Rate
Financial Assets				
Loans to customers	6,796	6.6%	6,197	6.6%
Short term deposits	10,138	0.2%	14,228	0.2%
Financial Liabilities				
Borrowings	8,523	2.5%	10,667	2.5%

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

14. (c) Credit Risk Disclosures

The carrying amount of the loans to customers represents Microfinance Ireland's maximum exposure to credit risk. The following table provides information on the credit quality of loan repayments.

	2019		2018	
	Amount €000	Proportion %	Amount €000	Proportion %
Performing/Current Loans	7,674	82	7,243	80
Up to 30 days past due	309	3	221	2
Between 31 and 60 days past due	248	2	304	3
Between 61 and 90 days past due	162	2	229	3
90+ days past due	645	7	931	10
Restructured loans	373	4	171	2
Total Loans Past Due	1,737	18%	1,856	20%
Total Loans	9,411	100%	9,099	100%
Specific Provision	(1,091)		(1,351)	
Collective Provision	(1,524)		(1,551)	
Total Carrying Value	6,796		6,197	

14. (d) Liquidity risk disclosures

Loans are normally granted for terms from 3 months to 60 months and are repayable monthly. Typically, loans are granted for 3 years. The average original life of the loan book as at end Dec 2019 was 44 months (31 December 2018: 44 months).

Short term deposits have a maximum life of 24 months and are frequently on demand. The average life of the deposit book at 31 Dec 2019 was 3 months (31 December 2018: 4 months).

Borrowings are normally repayable over 7 years in quarterly instalments from the date of drawdown but subject to a final maturity of 30th June 2024.

As at 31 December 2019, Microfinance Ireland had loan commitments of €783,000 (31 December 2018 €605,000). Loan commitments refer to loans approved but not drawn down at financial year end.

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

15. Share Capital

The authorised share capital of Microfinance Ireland is €1.

In accordance with the Microenterprise Loan Fund Act 2012, Part 3, sections 11 and 12 Microfinance Ireland is a subsidiary of The Social Finance Foundation.

Microfinance Ireland has issued the one share of €1 to The Social Finance Foundation who holds this share in accordance with sub sections 3 and 4 of section 12 of the Act.

16. Micro Finance Loan Fund Account

On the 3rd January 2017, Microfinance Ireland received a grant of €10m into the Microfinance Loan Fund Account in accordance with section 5 (1) of The Microenterprise Loan Fund Act 2012 bringing total grant funding to €20m. Under section 5 (3), Microfinance Ireland is not liable to repay the Minister any moneys paid to it.

17. (a) Reconciliation of operating deficit to net cash (outflow) from operating activities

	Year ended 31 December 2019 €'000	Year ended 31 December 2018 €'000
Operating deficit	(1,210)	(1,528)
Depreciation	11	6
Increase in loan advances to customers	(1,220)	(1,655)
(Reduction)/Increase in creditors	(8)	22
Reduction/(Increase) in debtors	(19)	4
Bad debt charge (Specific and Collective)	621	1,220
Guarantee called/callable from EIF	(543)	(731)
Amount recoverable from EIF	438	622
Net cash (outflow)	(1,930)	(2,040)

(b) Reconciliation to net cash as at

	Year ended 31 December 2019 €'000	Year ended 31 December 2018 €'000
Cash at bank and in hand	68	71
Short Term Deposits	10,138	14,228
Total Cash and Cash equivalents	10,206	14,299

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

18. Commitments and contingent liabilities

(a) Capital commitments

There were no capital commitments at 31 December 2019 (Nil: 31 December 2018).

(b) Contingent Liabilities

There were no contingent liabilities at 31 December 2019 (Nil: 31 December 2018).

(c) Premises

The company has commitments payable up to 2026 in respect of a 10 year lease (with a 5 year break clause) entered into on 17th October 2016 for office accommodation at 13 Richview Office Park, Clonskeagh, Dublin 14.

Rent reviews are carried out every five years and the current rent is €82,272 per annum including VAT.

	Year ended 31 December 2019 €000
Payable	
Within one year	82
Within two and five years	328

19. Post Statement of Financial Position Events

Since the year end, the Company has been impacted by the COVID 19 pandemic. The Company has supported all existing borrowers by offering an interest free six-month repayment break and extending the repayment schedule accordingly, and take up has been high at over 70%.

In addition, in consultation with DBEI, the Company has launched a loan product up to €50,000 focused on microenterprises adversely impacted by COVID 19 subject to sufficient grant funding being available to Microfinance Ireland on an ongoing basis.

Depending on the duration of the COVID-19 event and the continued negative impact on economic activity, the Company may continue to experience negative financial impacts in 2020 and beyond. The exact impact on our operations in the remainder of 2020 and thereafter cannot be accurately predicted. Notwithstanding the impact of Covid-19 on its operations, the Company believes that this will not have a material impact on its ability to operate as a going concern.

20. Ultimate Parent Company

The ultimate parent company is The Social Finance Foundation, a company limited by guarantee.

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

21. Directors' remuneration

The directors serve on the Board in a voluntary capacity and receive no fees or remuneration for time spent in carrying out these duties.

Travel and subsistence costs of nil were reimbursed or reimbursable to directors in relation to expenses incurred in the financial year ending 31st December 2019 (€290: 31 Dec 2018).

There were no loans to or from directors or other transactions involving directors.

22. Related party disclosures

Total compensation to key management personnel referred to at Note 6 amounted to €353,992.

The Board adopted procedures in accordance with guidelines issued by the Department of Finance in relation to interests by Board Members and these procedures have been adhered to in the year. There were no transactions in the financial year in relation to Board activities in which Board members knowingly had a material interest.

It should be noted that in the normal course of business the Board has delegated decision making authority for individual loan applications to Management and therefore the directors cannot directly influence application outcomes or are they privy to the identity of individual applicants or borrowers.

23. Approval

The directors approved the financial statements and authorised their issue on 30 July 2020.