Microfinance Ireland

(A private designated activity company limited by shares)

Financial Statements

For the year ended 31 December 2020

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
Elizabeth Jean Carberry – resigned 4 September 2020
Sarah Anne Audrey Boyd
John Irwin
Fiona Kilcullen – appointed 9 September 2020
Thomas McEvoy
Gerry O'Neill
Susan O'Neill
Mary O'Shaughnessy
Brendan Whelan

Secretary and Registered Office
Bradwell Ltd
10 Earlsfort Terrace
Dublin 2

Business Operating Address
13 Richview Office Park
Clonskeagh
Dublin 14

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

Microfinance Ireland
13 Richview Office Park
Clonskeagh
Dublin 14

Tel: +353 (0)1 260 1007

Email: info@microfinanceireland.ie
Web: www.microfinceireland.ie

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 12 months ending 31st December 2020, a year dominated by COVID-19 which presented unprecedented challenges to all.

In early March, having assessed the scale of the crisis MFI was first to market with a forbearance programme for existing customers and, in conjunction with the Department of Enterprise, Trade and Employment, (DETE) expanded its remit and approved a COVID-19 loan product (at an increased loan cap of €50,000 on very favourable terms) for adversely impacted microenterprises.

The significant demand from microenterprises put massive pressure on MFIs own capacity to deliver relief to these hard-pressed businesses. Notwithstanding these pressures, I am very pleased to report that MFI staff rose to this unprecedented challenge, approving 609 loans with a total value of €15.7m in the second quarter of 2020, a multiple of its annual activity in any other year. Demand was such that the Microenterprise Loan Fund ('Fund') was suspended temporarily in July while new funding and resources were allocated to MFI by the Irish Government. The Fund reopened in late August.

Overall, 2020 was MFI's most successful year ever approving €27.4m in loans to 1,229 small businesses supporting an additional 2,972 jobs. Having adopted a higher credit risk because of the pandemic, the average loan approval rate increased for the year to 56%. Since commencing trading in 2012, MFI has now approved €61.4m in loans, supporting 3,632 businesses and through them supporting 9,002 jobs.

Following a review of the Fund completed by EY in January 2020, it was determined that the Fund should continue with the Government further committing to scale up Microfinance Ireland so that it can support greater numbers of small businesses and start-ups in accessing finance. When originally launched in 2012, the Fund was expected to have a finite life based on the then approved funding. By the second quarter of 2020 this funding had been exhausted as a result of MFI's response to the COVID-19 crisis. The Microenterprise Loan Fund (Amendment) Act 2020 was passed by the Dail in July 2020 providing for significantly increased long term grant and debt funding.

MFI's future vision is to continue to focus on supporting start-up and expanding small businesses, unable to get loans from mainstream lenders, through loans and mentoring support to aid job creation and sustainment throughout the country. These supports will be delivered through a range of loan products structured to meet the stage of business of microenterprises or through emergency support funds such as our COVID-19 loan or our Brexit Loan, as and when circumstances demand.

I would like to express our appreciation to Leo Varadkar TD, Tánaiste and Minister for Enterprise, Trade and Employment and Damien English TD, Minister of State with responsibility for Employment Affairs, and Retail Businesses and their officials at the Department of Enterprise, Trade and Employment who provide not only funding but ongoing support and assistance to MFI. They are an integral part of the success of the Microenterprise Loan Fund.

MFI also avails of European Investment Fund support through the European Commission's EU Programme for Employment and Social Innovation (EaSI). This guarantee is fundamental to our business model and our ability to support vulnerable but essential businesses across Ireland.

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

I also acknowledge and appreciate the continued support of our other partners, Bank of Ireland, AIB, Ulster Bank and Permanent tsb and the Local Development Companies and newer partners such as Udaras na Gaeltachta and Enterprise Ireland who continue to be a welcome and increasing source of loan applications.

Since inception we have worked hand in glove with our parent, the Social Finance Foundation ("SFF"), its Board and management and appreciate their ongoing assistance support and encouragement of MFI.

As I come close to the end of my second and final term as Chairman of Microfinance Ireland, I wish to state how proud I am of having had the opportunity to lead the Board and the business through the last six years of growth and success. It is particularly gratifying to be leaving, knowing that MFI is funded into the future having met, and will continue to meet, all the challenges presented (especially by COVID-19) through its extensive support to small businesses at critical times. I would like to say how invigorating I have found my involvement, especially the close professional relationship with Garrett Stokes our CEO, the man who transformed the organisation in the last five years and especially in the last 12 months where he has overseen increased lending of over €24 million whilst at the same time dealing with and obtaining positive reviews from both EIF and the DETE. His decision not to extend his contract will be a huge loss to MFI, but I wish him continued success in his stellar career.

The recognition by Government and the confidence it has shown in assuring the long-term future of MFI and its unique role in supporting the microenterprise sector of the economy is hugely pleasing to me. This level of confidence is reflected in the much needed investment programme approved by the Board to be executed by management to transform the business' capability and capacity planned for 2021 and beyond.

I would like to thank all my fellow board members who, on a pro bono basis, gave way beyond the call of duty of their time and energies during 2020 in supporting overworked management in addressing the challenges presented by the pandemic. A special word of thanks to Gerry O'Neill, Brendan Whelan, Mary O'Shaughnessy and John Irwin who will also finish their second term on the Board and will step down during 2021. Thank you also to the Board Committees, the Audit and Risk Committee under the Chairmanship of Gerry O'Neill and the Credit Committee under the Chairmanship of John Irwin.

I would like to thank Jean Carberry for her contribution (who resigned on 4 September 2020) and I would also like to welcome Fiona Kilcullen to the Board where she has added a positive dynamic.

Finally, on behalf of the Non-Executive Board, I would like to thank and congratulate the professional dedicated team and the Loan Assessor Panel, under the sterling leadership of Garrett Stokes, without whom the continued expanding growth and success of MFI would not have been achieved.

As I walk away satisfied, I look forward with confidence to MFI building on this strong success and "putting air in tyres" enhancing and changing lives, families and communities throughout Ireland for many years to come.

Cyril Forbes

Chairman

24 June 2021

Microfinance Ireland

REPORT OF THE CHIEF EXECUTIVE

2020 was a year dominated by the outbreak of the COVID-19 pandemic, impacting the country, the economy, businesses and Microfinance Ireland("MFI").

Business Activity

In March, MFI in consultation with the Department of Enterprise, Trade and Employment (DETE) launched its COVID-19 Loan Fund to support businesses negatively impacted by the pandemic. Volumes were significant, particularly in quarter 2 when application volumes increased by 250% over historic norms, a period when there was limited funding supports available in the market. The COVID-19 loan included a number of key features; aimed at enabling businesses to borrow with some degree of certainty and continue to survive during the various phases of lockdown; including reduced lending rates, six-months interest free and a six-month repayment free period.

Overall in the year, application demand across all loan products was up 102% with the business receiving 2,202 applications, a record for the business. Approval volumes were up 172% and, driven by an increased lending limit of €50,000 for a portion of the year, the value of loans approved increased by 354% to €27.4m. This level of activity supported 2,972 jobs. This significant growth has fundamentally changed the scale of the business.

In addition to the significant support provided by the COVID-19 loan, MFI also supported its existing customer base, ultimately providing loan forbearance to c. 70% of its customers.

The rationale for the investment in MFI by the Irish Government has always been that of economic support and job creation. MFI lends to those micro enterprises which 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. This Government support was even more important in 2020.

Since launch in 2012, MFI has approved €61.4m in loans to 3,632 businesses, supporting 9,002 jobs.

Funding Model

There are three elements to MFI's funding model. As a not-for-profit organisation, these are essential to our sustainability and the support we can offer to the micro enterprise sector.

1) Government Capital Funding

To date, under the terms of the Microenterprise Loan Fund Act, the Fund has received €44.8m in capital funding (€24.8m received in 2020) through the Department of Enterprise, Trade and Employment. Of this €24.3m remains on the balance sheet.
During 2020, the Microenterprise Loan Fund was amended, granting the availability of significant additional funding and borrowing capacity to MFI, thus the business is financially strong and well positioned to enable our projected growth over the coming years.

2) European Investment Fund (EIF)

The business continues to receive significant credit risk underwriting support from the EIF which allows us to support risk profiles otherwise outside our capacity to fund. Recognising the scale of the pandemic, EIF amended our current agreement effective April 2020 under the European Commission's EU Programme for Employment and Social Innovation (EaSI), to provide increased underwriting support to microenterprises. This current guarantee was fully utilised by year end. A new guarantee, the Pan-European Guarantee Fund (EGF) was executed on 6 April 2021, retroactive to 14 December 2020 subject to eligibility terms and conditions.

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 2020, the business had €9.7m in cash on its balance sheet to support its lending activities. Negotiations are underway in relation to new loan funding through Strategic Banking Corporation of Ireland.

Credit Management

Microfinance Ireland is mandated to take risks that commercial lenders cannot. However, the balance between risk orientation and the sustainability of the business model which underpins the long-term sustainability of each individual borrower's business is critical. As the loan book has matured, we have in-depth knowledge and experience to understand better the outcomes of our underwriting practices in such a unique loan book. In 2019, the underlying credit quality of the loan book, due to our underwriting practices and enhanced arrears management, had significantly improved, resulting in a reduction in our bad debt provisions.

In contrast during 2020, to support as many businesses as possible and at the request of the Government, MFI increased its risk appetite. This coupled with the repayment free periods granted to borrowers and the continued impact of the pandemic, has led MFI to place conservative bad debt provisions against the loan book, as until repayment cycles commence the future strength of these businesses post the pandemic is unclear. The initial assumption when launching our first COVID-19 fund was for a six-month period of disruption, not the extended economic shock the country is actually experiencing.

Since a significant percentage of the new loan book has sought and has been granted forbearance, it is difficult to accurately determine the ultimate extent of credit losses. It is only as we progress further through 2021 that we will gain more visibility on the stability of this loan book. The prolonged lockdown will threaten the viability of businesses and the full extent will not become evident until the economy has fully reopened. Therefore, MFI is taking a prudent approach to its 2020 provisioning as evidenced in the Financial Statements, basing our estimation on the actual performance of the active element of the book and the underlying risk appetite utilised while underwriting each of the portfolios.

Marketing and Branding

As the Micro Enterprise Loan Fund is demand lead, optimising awareness of the business is essential to ensure we are reaching as many of our potential customers as possible. We continue to undertake 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, generating 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. While MFI undertook a reduced level of marketing activities in 2020, due to the demands on the business, brand awareness remains very strong.

Business Development

Microfinance Ireland continued to maintain strong relationships with a range of referral partners.

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. Their support in 2020 was essential to MFI reaching as many businesses as we did in the year.

Our Bank Channel continues to be a good source of referrals of potential applicants. These businesses are ones 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) and during 2020 Enterprise Ireland and Udaras na Gaeltachta joined our referral partnership model.

In addition to our referral partners, the business has developed over the last few years a very strong direct channel. In 2020, it accounted for 63% of all applications.

Pricing

Reduced interest rates were introduced in 2020 for the COVID-19 and Brexit Loans of 5.5% for loan applications received directly and 4.5% for applications received from our referral partners. Our Standard Product pricing remained unchanged at 7.8% and 6.8% respectively.

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 thereby the sustainability of their businesses. These mentoring services are paid for by MFI 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.

Strategy

The ongoing strategy of the business was reviewed in September 2020 by the Board. MFI will continue with its mandate, as outlined in the Microenterprise Loan Fund Act and Scheme, to support economic development and to increase employment and enterprise by providing loans to microenterprises with commercially viable proposals that do not meet the conventional risk criteria applied by commercial banks and the provision of emergency funding as required from time to time such as the COVID-19 and the Brexit Loan Products.

European Code of Good Conduct for Microcredit Provision

During 2020, MFI was recertified as compliant with the EU's European Code of Good Conduct for Microcredit Providers.

Compliance, Operational Risk and GDPR

A strong culture of risk management 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.
- A number of external reviews were carried out on the business, all with positive outcomes.
- MFI takes data protection very seriously. During 2020, no data breaches occurred. Annual GDPR training was completed.

Human Resources

Our employees are our most important asset and the key driver of our success. With the outbreak of the Coronavirus pandemic the business moved quickly to enable the majority of employees to work from home from the middle of March. This has worked very well for the business and has helped safeguard our employees. During the summer months works were carried out on the office to ensure a safe environment for employees and customers once business returns to normal.
Management continues to work with the team to ensure a high level of engagement and deliver various supports to improve employees' conditions and develop their careers.
Due to significant growth in the business during 2020, an additional 4 permanent and 4 contract employees were approved in the second half of the year, by the Department of Public Expenditure and Reform.

Key Objectives 2021

- To continue to support the economy and job creation through our lending activities with micro-enterprises.
- To grow the business in line with our financial projections.
- Achieve an appropriate balance between growth and risk management.
- To actively manage the credit quality of the loan portfolio.
- Successfully deliver a range of business enhancing change programmes.

Garrett Stokes

Chief Executive

28 May 2021

Microfinance Ireland

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the financial year ended 31st December 2020.

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. Further grant funding of €34.8m has been received up to 31 December 2020 of which €24.8m was received in the year to 31 December 2020.The injection in 2020 was necessary to support a major expansion of activity to alleviate struggling microenterprises as a consequence of COVID-19.

The main object of the company is to lend money to create or sustain 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, the Employment and Social Innovation Guarantee Facility (EaSI) signed on 14 October 2015 and successor guarantee signed 11 December 2017, together with the Pan-European Guarantee Fund in Response to COVID-19 (executed after 31 December 2020 year-end), 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 regarding 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 Pages 22 to 25 and is considered satisfactory. The Deficit on ordinary activities was €10,434,000 (2019 €1,210,000).

The increased Deficit is due to a five-fold increase in new lending and the higher risk appetite agreed with the Department of Enterprise, Trade and Employment (DETE) to support microenterprises impacted as a result of COVID-19 that were viable prior to the pandemic. A total of €21.1m was lent under the COVID-19 loan schemes with a related bad debt provision of €8.5m.

Business developments in 2020

2020 was a year of extraordinary developments for Microfinance Ireland. In March 2020, as a result of the COVID-19 crisis, DETE requested that MFI expand its remit to temporarily increase its loan size cap to €50,000 and to actively support viable microbusinesses struggling as a consequence of business lockdown. The applications for support from microenterprises was overwhelming, particularly in Quarter 2 2020 when application levels increased fourfold by number and seven-fold by value, resulting in:

- the business adopting a materially higher credit risk appetite
- creating significant funding requirement for MFI itself which resulted in emergency grant injections into MFI by the State and the passing of new legislation following the formation of a new Government in July 2020
- materially increasing operational risk with limited resources to manage same

As a consequence of the scale of demand and to support Management, the Board and ARC met 5 times and 9 times respectively during Quarter 2 2020. In July 2020, the Board had to take the decision to close the Microenterprise Loan Fund temporarily due to funding and resource concerns. MFI reopened in late August 2020 after new funding and approval for additional headcount was secured from DETE.

The Directors recognise and appreciate the response of MFI Management and Staff to the COVID-19 emergency and the proactive manner in which the MFI business risks were managed and controlled through this challenging period for the business.

Future developments

The scale of increased lending underwritten in 2020 and the ongoing challenges resulting from the COVID-19 emergency will have very material impacts on the activities of the business into 2021 and possibly beyond. The loan book under management has increased three-fold and the economic environment remains extremely challenging for microenterprises. This will require ongoing intensive management of the loan portfolio for a sustained period.

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 and the Microenterprise Loan Fund (Amendment) Act 2020, and the Microenterprise Loan Fund Scheme (S.I. No. 393 of 2015 and S.I. No. 78 of 2020) 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 Enterprise, Trade and Employment 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

In light of the expansion of activities in 2020, the Directors are conscious both these risks are running at very much elevated levels and are actively engaged in supporting Management to mitigate them.

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 Enterprise, Trade and Employment 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 2020:

			Board (12 Meetings)		ARC (14 Meetings)		Credit Committee (6 Meetings)	
			Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Cyril Forbes	Re-appointed	29 August 2018	12	11				
Enda Bannon #	Appointed	29 August 2018	12	12	14	14		
Sarah Anne Audrey Boyd $	Appointed	29 August 2018	12	9			6	4
Elizabeth Jean Carberry #	Resigned	4 September 2020	9	8	12	10		
John Irwin $	Re-appointed	25 November 2018	12	9			6	6
Fiona Kilcullen	Appointed	9 September 2020	3	3	2	2		
Thomas McEvoy $	Appointed	29 August 2018	12	12			6	5
Gerry O'Neill #	Re-appointed	29 August 2018	12	12	14	14		
Susan O'Neill	Re-appointed	29 November 2020	12	10				
Mary O'Shaughnessy	Re-appointed	29 August 2018	12	6				
Brendan Whelan #	Re-appointed	29 August 2018	12	12	14	14		

\# 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, Fiona Kilcullen 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 invitation 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 2020 (Nil: 31/12/2019).

Key Personnel Changes

There were no key changes in the year under review.

The outgoing CEO, Mr. Garrett Stokes elected not to seek a renewal of his five-year contract which terminated on 29 May 2021. Following a competitive selection process, Mr. Des Mc Carthy was appointed with effect from 31 May 2021. Also, Mr. Patrick Kilbane, Head of Finance and Risk, advised his intention to step down effective from 6 July 2021.

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. The financial statements have been prepared in compliance with the applicable legislation and with FRS 102 The Financial Reporting standard applicable in the UK and the Republic of Ireland issued by the Financial Reporting Council in the UK. 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.

	2020 €	2019 €
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:

		2020 €	2019 €
Domestic -	Board	0	0
	Employees	1,512	5,986
International -	Board	0	0
	Employees	0	4,588
Total		1,512	10,574

Hospitality Expenditure

The Income and Expenditure Account includes the following hospitality expenditure:

	2020 €	2019 €
Board and Staff hospitality	1,347	2,929

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 2020.

On behalf of the board

Cyril Forbes

Chairman

Gerry O'Neill

Director

24 June 2021

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 2020 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 fourteen times in 2020.

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 six times in 2020.

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.

COVID-19

COVID-19 resulted in an exponential growth in the volume of business done by MFI and change in the operating model used to service our customers in 2020. Management proactively managed this change with active support and oversight by the Board and its Committees. There was no material change in key business controls and no material issues arose.

Procurement

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

During 2020, expenditure of €94,381 was incurred in relation to services with suppliers where the procedures employed did not comply with procurement guidelines. In all cases this related to urgent procurement of services related to exponential growth in the volume of business done arising from COVID-19. Legal and accounting advice accounted for €28,647 of the expenditure and recruitment costs accounted for €40,775.

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 2020 at the 16th December 2020 Board meeting.

Internal Control Issues

No weaknesses in internal control were identified in relation to 2020 that require disclosure in the financial statements.

On behalf of the board

Cyril Forbes

Chairman

24 June 2021

Ard Reachtaire 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 2020 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 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

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 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.

Loan advances and bad debt provisions

I draw attention to note 9 to the financial statements. This discloses a provision charge for 2020 of €11.4 million in respect of bad and doubtful loan debts. The total of specific and collective provisions for loan bad debts at the end of 2020 amounted to €13.3 million, on outstanding loan advances totaling €30.2 million.

Seamus McCarthy

Seamus McCarthy
Comptroller and Auditor General

28 June 2021

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 2020

	Notes	Financial Year Ended 31 December 2020 €'000	Financial Year Ended 31 December 2019 €'000
Interest Income	3	401	642
Interest Expense	3	(184)	(240)
Net Interest Income	3	**217**	402
Administrative expenses	5	**(2,542)**	(1,747)
Bad debts			
-Specific charge	9	(4,581)	(648)
-Collective charge	9	(6,804)	27
-Cash Recoveries		174	213
-Guarantee callable under EIF	10	3,102	543
Total		**(8,109)**	135
Deficit for the financial year		**(10,434)**	(1,210)

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 24 June 2021.

Cyril Forbes
Director

Gerry O'Neill
Director

Microfinance Ireland

STATEMENT OF FINANCIAL POSITION
31st December 2020

	Notes	31 December 2020 €'000	31 December 2019 €'000
Tangible fixed assets	8	**26**	25
Current assets			
Loans and advances to customers net of provisions	9	**16,873**	6,796
Amounts recoverable from EIF	10	**4,277**	1,577
Other Debtors	11	**0**	23
Short term deposits		**9,714**	10,138
Cash at bank and in hand		**6**	68
		30,870	18,602
Creditors – (amounts falling due within one year)	12	**(2,542)**	(2,371)
Net current assets		**28,328**	16,231
Creditors – (amounts falling due after one year)	13	**(4,068)**	**(6,326)**
Net assets		**24,286**	**9,930**
Capital and reserves			
Issued share capital	15	**-**	-
Microenterprise Loan Fund	16	**24,286**	9,930
		24,286	**9,930**

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 24 June 2021.

Cyril Forbes
Director

Gerry O'Neill
Director

STATEMENT OF CHANGES IN CAPITAL AND RESERVES ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2020

	Revenue Reserves €'000	Microfinance Loan Fund Account €'000	Total €'000
At 1 January 2020	0	9,930	9,930
Grant received (see Note 16)	0	24,790	24,790
Deficit for the year	(10,434)	0	(10,434)
Transfer from Microfinance Loan Fund Account	10,434	(10,434)	0
At 31 December 2020	**0**	**24,286**	**24,286**

	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 2020

	Notes	Financial Year Ended 31 December 2020 €'000	Financial Year Ended 31 December 2019 €'000
Net cash (outflow) from operating activities	17	**(23,061)**	(1,930)
Cash flows from investing activities			
Purchase of tangible fixed assets		**(15)**	(19)
Net cash flows from investing activities		**(15)**	(19)
Cash flows from financing activities			
Grant received		**24,790**	0
Increase in Borrowings	12&13		
- Drawdown of Parent Company funding		**0**	0
- Repayment of Parent Company funding		**(2,200)**	(2,144)
Net cash flows from financing activities		**22,590**	(2,144)
Net increase/(decrease) in cash and cash equivalents		**(486)**	(4,093)
Cash and cash equivalents at the beginning of financial year	17	**10,206**	14,299
Cash and cash equivalents at the end of financial year		**9,720**	10,206
Cash and cash equivalents consist of:			
Cash at bank and in hand		**6**	68
Short term deposits		**9,714**	10,138
Cash and cash equivalents	17	**9,720**	10,206

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.

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.

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.

3. Income	Financial Year Ended 31 December 2020 €'000	Financial Year Ended 31 December 2019 €'000
Interest client loans	406	623
Interest bank deposits	(5)	19
Interest Income	401	642
Interest expense on borrowings from Parent	(184)	(240)
Net Interest Income	217	402

NOTES TO THE FINANCIAL STATEMENTS – continued

4. Operating profit	Financial Year Ended 31 December 2020 €'000	Financial Year Ended 31 December 2019 €'000
Operating profit is stated after charging:		
Wages and salaries (excluding PRSI)	805	644
Employer PRSI costs	89	70
Depreciation	14	11
Auditors' remuneration	14	14

5. Administrative Expenses	Financial Year Ended 31 December 2020 €'000	Financial Year Ended 31 December 2019 €'000
Salaries and wages (excluding PRSI)	805	644
Employer PRSI	89	70
Staff and board related expenditure	52	49
Travel and subsistence	1	11
Credit assessor fees	870	292
Marketing/advertising	177	224
Legal fees	18	23
Outsourcing/consultancy fees	204	175
Rent	82	83
Depreciation	14	11
Premises	33	25
Client mentoring	134	78
Other	63	62
	2,542	1,747

Microfinance Ireland incurred staff and board related expenditure of €52,067 in the year ended 31 December 2020 (2019: €49,243). The expenditure is comprised of employer contributions to personal retirement savings accounts €28,802 (2019: €22,923), death in service insurance for staff €5,400 (2019: €6,492), income continuance insurance €8,318 (2019: € 9,899), staff vouchers under the small benefits exemption scheme €8,200 (2019: €7,000) and staff entertainment of €1,347 (2019: €1,467).

Board entertainment was €Nil in the year ended 31 December 2020 (2019: €1,462).

NOTES TO THE FINANCIAL STATEMENTS – continued

6. **Employee information**	**12 Months December 2020**	**12 Months December 2019**
The average number of persons employed during the year	**15**	**13**

Range of employee salaries

From		To	Number of Employees 2020	Number of Employees 2019
€60,000	-	€69,999	2	2
€70,000	-	€79,999	0	0
€80,000	-	€89,999	1	1
€90,000	-	€99,999	1	1

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, Head of Operations and the Marketing and Channels Manager who have authority and responsibility for planning, directing and controlling activities.

	2020	2019
	€	€
Salaries paid to key management	364,381	353,992

Chief Executive Officer Remuneration

Remuneration for the period to 31 December 2020 is as follows:

Salary € 91,800

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 €117 were incurred by the CEO in the period to 31 December 2020 (2019: €4,041).

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 2020	20	55	75
Additions	1	14	15
Disposals	-	(0)	(0)
At 31 December 2020	21	69	90
Depreciation			
At 1 January 2020	17	33	50
Charge for the year	2	12	14
On disposals	-	(0)	(0)
At 31 December 2020	19	45	64
Net book value			
At 31 December 2019	3	22	25
At 31 December 2020	2	24	26

	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

9. (a) Loans and advances to customers	**31 December 2020**	**31 December 2019**
	€'000	**€'000**
Loans outstanding at beginning of financial year	**9,411**	9,099
New loans advanced	**24,805**	5,108
Capital repaid	**(3,343)**	(3,888)
Amounts written off	**(716)**	(908)
Loans outstanding at financial year end	**30,157**	9,411
Provision for bad and doubtful debts	**(13,284)**	(2,615)
	16,873	6,796

(b) Loans and advances by maturity	**31 December 2020**	**31 December 2019**
	€'000	**€'000**
3 months or less	**1,882**	1,045
1 year or less but over 3 months	**8,239**	2,965
Over 1 year	**20,036**	5,401
	30,157	9,411

(c) Provisions for bad and doubtful debts	**31 December 2020**	**31 December 2019**
	€'000	**€'000**
Specific Provision		
Opening Provisions	**1,091**	1,351
Allowance for losses made during the year	**4,679**	814
Allowance reversed during the year	**(98)**	(166)
Loans written off	**(716)**	(908)
At 31 December	**4,956**	**1,091**
Collective Provision		
Opening Provisions	**1,524**	1,551
Allowance made during the financial year	**6,804**	(27)
At 31 December	**8,328**	1,524

(d) Cumulative position at 31 December 2020

		€'000
Total loans advanced		53,866
Capital amounts repaid		(18,233)
Loans written off		(5,476)
Loans outstanding at 31 December 2020		30,157
Specific provision	(4,956)	
Collective provision	(8,328)	(13,284)
		16,873

10. Amounts recoverable from EIF

	31 December 2020 €'000	31 December 2019 €'000
At beginning of financial year	**1,577**	1,472
Guarantee callable against bad debts	**3,102**	543
Amounts received from EIF	**(402)**	(438)
Balance at end of the financial year	**4,277**	1,577

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. See also Note 19.

11. Other debtors

	31 December 2020 €'000	31 December 2019 €'000
Accrued income	**0**	9
Prepayments	**0**	14
	0	23

Microfinance Ireland

NOTES TO THE FINANCIAL STATEMENTS – continued

12. Creditors - amounts falling due within one year

	31 December 2020	31 December 2019
Trade creditors	€'000	€'000
-PAYE & PRSI	38	21
-Accruals	249	153
	287	174
Borrowings from parent company (see Note 13)	2,255	2,197
	2,542	2,371

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

	31 December 2020	31 December 2019
	€'000	€'000
Borrowings from parent company	4,068	6,326

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.

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 €454k 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:

	2020		2019	
	Amount €'000	**Average Interest Rate**	**Amount €'000**	**Average Interest Rate**
Financial Assets				
Loans to customers	**16,873**	**2.0%**	6,796	6.6%
Short term deposits	**9,714**	**(0.1)%**	10,138	0.2%
Financial Liabilities				
Borrowings	**6,323**	**2.3%**	8,523	2.5%

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.

	2020		2019	
	Amount €000	**Proportion %**	**Amount €000**	**Proportion %**
Performing/Current Loans	**21,097**	**70**	7,674	82
Up to 30 days past due	**218**	**1**	309	3
Between 31 and 60 days past due	**119**	**0**	248	2
Between 61 and 90 days past due	**61**	**0**	162	2
90+ days past due	**14**	**0**	645	7
Restructured loans	**8,648**	**29**	373	4
Total Loans Past Due	**9,060**	**30%**	1,737	18%
Total Loans	**30,157**	**100%**	9,411	100%
Specific Provision	**(4,956)**		(1,091)	
Collective Provision	**(8,328)**		(1,524)	
Total Carrying Value	**16,873**		6,796	

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 2020 was 43 months (31 December 2019: 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 2020 was 1 day (31 December 2019: 3 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 2020, Microfinance Ireland had loan commitments of €1,550,000 (31 December 2019 €783,000). Loan commitments refer to loans approved but not drawn down at financial year end.

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

During 2020, Microfinance Ireland received grant funding of €24.8m into the Microfinance Loan Fund Account in accordance with the Microenterprise Loan Fund Act 2012, the Industrial Development (Amendment) Act 2019 and the Microenterprise Loan Fund (Amendment) Act 2020 bringing total grant funding to €44.8m. Under section 5 (3) of the Microenterprise Loan Fund Act 2012, 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 2020 €'000	Year ended 31 December 2019 €'000
Operating deficit	(10,434)	(1,210)
Depreciation	14	11
Increase in loan advances to customers	(21,462)	(1,220)
(Reduction)/Increase in creditors	113	(8)
Reduction/(Increase) in debtors	23	(19)
Bad debt charge (Specific and Collective)	11,385	621
Guarantee called/callable from EIF	(3,102)	(543)
Amount recoverable from EIF	402	438
Net cash (outflow)	(23,061)	(1,930)

(b) Reconciliation to net cash as at

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Cash at bank and in hand	6	68
Short Term Deposits	9,714	10,138
Total Cash and Cash equivalents	9,720	10,206

18. Commitments and contingent liabilities

(a) Capital commitments

There were no capital commitments at 31 December 2020 (Nil: 31 December 2019).

(b) Contingent Liabilities

There were no contingent liabilities at 31 December 2020 (Nil: 31 December 2019).

(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 2020 €000
Payable	
Within one year	82
Within two and five years	328

19. Post Statement of Financial Position Events

On 6 April 2021, Microfinance Ireland executed a new credit risk sharing guarantee with the EIF under the Pan- European Guarantee Fund (EGF) in response to Covid-19. The effective date for eligibility for inclusion of loans is 14 December 2020.

20. Ultimate Parent Company

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

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 2020 (Nil: 31 Dec 2019).

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 €364,381.

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 nor are they privy to the identity of individual applicants or borrowers.

23. Approval

The directors approved the financial statements and authorised their issue on 24 June 2021.