Microfinance Ireland

(A private designated activity company limited by shares)

Financial Statements

For the year ended 31 December 2021

Microfinance Ireland

Directors' Report and Financial Statements

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Microfinance Ireland

DIRECTORS AND OTHER INFORMATION
Board of Directors

Sarah Anne Audrey Boyd (Chair) – appointed 29 August 2021
Cyril Forbes (Chair) – retired 29 August 2021
Enda Bannon
Margaret Brennan - appointed 29 August 2021
Lorraine Corcoran - appointed 29 August 2021
Ronan Headon – appointed 25 March 2021
Pat Horgan - appointed 29 August 2021
John Irwin – retired 25 November 2021
Fiona Kilcullen
Thomas McEvoy
Gerry O'Neill – retired 29 August 2021
Susan O'Neill
Mary O'Shaughnessy – retired 29 August 2021
Roisin Scallan – appointed 25 November 2021
Brendan Whelan – resigned 17 February 2021

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: 17 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
Des McCarthy, Chief Executive Officer
Seamus Cope, Head of Finance and Risk
Microfinance Ireland
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Microfinance Ireland

CHAIR'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 31 December 2021, a year of significant success and growth, supporting ever increasing numbers of businesses and jobs across Ireland.

MFI continues to support economic and job growth throughout Ireland by providing loans up to €25,000 for up to 5 years to microenterprises who experience challenges in accessing bank credit. This mandate was expanded in 2020 through the provision of the Covid-19 Loan, supporting microenterprises impacted negatively due to the pandemic. We continued to support businesses affected by Covid-19 throughout 2021. We experienced a reduction in the demand for such loans in the 2nd half of the year as would be expected as the economy returned to more normal conditions.

In 2021 MFI approved €8.54m in loans to 545 small businesses supporting an additional 865 jobs. While the level of activity reduced from the extraordinary levels of 2020 that were driven by our Covid-19 response, the 2021 figures represent a 40% increase in loan amounts approved compared to 2019. The average loan approval rate for the year was 47%.

Since commencing trading in 2012, MFI has now approved almost €70m in loans, supporting 4,177 businesses and through them supporting 9,684 jobs. We are proud to say that at the date of this report we have crossed the milestone of having supported over 10,000 jobs since commencing operations in 2012.

Many of our businesses are very small microenterprises owned by individuals from vulnerable sectors such as youth, unemployed, females, migrants and seniors and historically many of our customers are start-ups.

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 their local communities. They provide important everyday services in their locality creating and retaining jobs thus generating activity and enhancing the vibrancy in those communities.

MFI by its nature and mandate underwrites credit risk beyond that of commercial lenders. While we have a higher risk appetite than commercial lenders, we have clear underwriting criteria which seek to ensure that our borrowers have sufficient repayment capacity and that we are responsible in our lending.

As part of our Covid-19 response in 2020 we increased our risk appetite. As a result MFI provided prudently for bad debts in our 2020 accounts, reflecting the increased and continued uncertainty in the marketplace at the time and the possibility that many businesses might struggle to survive or need a prolonged period of support as they return to normal trading. Our experience to date is that our customers are generally performing better than our expectations and this is reflected in our bad debt provision for 2021.

MFI is a registered charity and is fully compliant with the Charities Governance Code. MFI's future vision is to continue to focus on supporting established or expanding small business with loans and mentoring support and aiding job creation in all areas of the country. These supports will be delivered through a range of loan products structured to meet the stage of business of our customers or through emergency support funds such as our Covid-19 Loan or our Brexit Loan. In 2021 MFI launched its first dedicated Green product which funds the transition from fossil fuel to electric vehicle for owner drivers of public service vehicles. Sustainability is core to MFI and we look forward to supporting the transition to a more sustainable environment.

None of this would be possible and MFI, as a not-for-profit lender would not exist, without the support MFI receives through the Department of Enterprise, Trade and Employment and the European Investment Fund. Leo Varadkar, Tánaiste and the Minister for Enterprise, Trade and Employment and Damien English, the Minister of State with responsibility for Employment Affairs and Retail Businesses and their officials at the Department of Enterprise, Trade and Employment provide funding, advice and assistance which are all critical to ensuring the long term success of 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 2021.

MFI avails of European Investment Fund support through a number of guarantee products including the European Commission's EU Programme for Employment and Social Innovation (EaSI) and the Pan European Guarantee Fund in response to Covid-19. These guarantees are integral to our business model and our ability to support vulnerable but essential businesses across Ireland.

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 and newer partners such as Udaras Na Gaeltacht and Enterprise Ireland who continue to be a welcome and increasing source of loan applications.

I would also like to express our appreciation and gratitude to our parent, Social Finance Foundation ("SFF"), its Board and management for the ongoing assistance and support of MFI.

2021 was a year of significant change for MFI with a number of Board members retiring having reached the end of their terms. There were also a number of departures from within the executive team.

I would like to thank my predecessor as Chair, Cyril Forbes for his stewardship of MFI. Cyril's passion for MFI and the impact it could have on small business was instrumental in driving the success of MFI.

I would also like to express my appreciation to John Irwin, Gerry O'Neill, Mary O'Shaughnessy and Brendan Whelan for their insights, support and dedication to MFI over their 2 terms of office. I would particularly like to acknowledge the efforts of Gerry O'Neill and John Irwin as Chairs of the Audit and Risk and Credit Committees, respectively. Many thanks to you all for your valuable service to MFI.

I would like to thank all my fellow board members who, on a pro bono basis, give generously of their time and extensive range of business experience and expertise to ensure the success of MFI. In 2021 we welcomed Mags Brennan, Lorraine Corcoran, Ronan Headon, Pat Horgan and Roisin Scallan to the Board of MFI. I wish you well with your appointment and look forward to working with you as we seek to develop MFI over the next few years.

I would also like to extend my gratitude to Mags Brennan and Lorraine Corcoran who chair the Credit Committee and the Audit and Risk Committee respectively and to Sue O'Neil who led out on our strategic review on behalf of the Board in conjunction with Des McCarthy our CEO during 2022.

On behalf of the Non-Executive Board, I would like to thank Garrett Stokes who retired from the CEO position in May 2021. Garrett's exceptional leadership of the business and the team ensured that MFI thrived under his stewardship during his five-year tenor. I would also like to thank Pat Kilbane who retired as Head of Finance and Risk having joined MFI at its inception over 9 years ago. We are extremely grateful to both Garrett and Pat for their dedication and commitment to MFI and we wish them both every success in the future.

I would like to thank Des McCarthy who was appointed as CEO in May 2021 and whose leadership and vision for the future of MFI is having such a positive impact in ensuring the continued success of MFI. Finally, I would like to extend our gratitude and congratulate the professional dedicated team and the Loan Assessor Panel for their commitment, hard work, customer centric approach and resilience, without whom the continued expanding growth and success of MFI would not have been achieved. I look forward with confidence to MFI continuing this strong success in enhancing and changing lives, families and communities in 2022 and beyond.

Audrey Boyd

Audrey Boyd
Chair
25 November 2022

Microfinance Ireland

REPORT OF THE CHIEF EXECUTIVE

In 2021 our focus was on continuing to support our customers as they emerged from the impacts of Covid-19. While we saw good demand for Covid-19 loans particularly in the first 6 months, the demand was at a lower level than in 2020. We also looked to support existing borrowers who needed repayment forbearance due to temporary business closures.

Business Activity

We received 1,153 applications in 2021 (2020: 2,202) of which 387 applications were under our Covid-19 loan scheme (2020: 1,476).

MFI approved 545 loans with a value of €8.54m in 2021 which compared to 1,229 loans with a value of €27.4m in 2020. The reduction in activity compared to 2020 was expected given the extraordinary demand for our products in 2020 as MFI were the first lender to provide a dedicated Covid-19 loan product when other avenues for borrowing were constrained. While demand for Covid-19 related loans continued into 2021, we experienced a significant fall in demand for Covid-19 loans in the second half of the year as the economy fully reopened.

The reduction in the average loan amount reflects the discontinuance of the temporary increase in the maximum loan amount to €50,000 that was permitted for our Covid-19 1 loan fund. The Covid-19 2 fund which was opened in August 2020 was subject to our normal maximum loan amount of €25,000.

Loans approved in 2021 supported 865 jobs compared to 2,972 in 2020.

In addition to the significant support provided by disbursing new loans, MFI also continued to support its existing customer base via forbearance measures as needed.

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 microenterprises who cannot raise finance from conventional sources, and we measure our success primarily by measuring the employment we have supported in the businesses we have invested in. This Government support was even more important during the pandemic in 2020 and 2021.

To the end of 2021, MFI has approved almost €70m in loans to 4,177 businesses, supporting 9,684 jobs.

Funding Model

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

1) Government Capital Funding

To date, under the terms of the Microenterprise Loan Fund Act, the fund has received €49.8m in capital funding through the Department of Enterprise, Trade and Employment. Of this €28.4m remains on the balance sheet.

During 2020, the Microenterprise Loan Fund was amended, granting the availability of significant additional funding and borrowing rights 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 support from the EIF which allows us to consider risk profiles otherwise outside our capacity to fund. In April 2021 we signed an agreement under the European Guarantee

Fund (EGF) which was an instrument put in place in response to Covid-19. The guarantee had retrospective cover and provided risk coverage for loans entered into from 14 December 2020. The guarantee had an initial expiry date of 31 December 2021 but has been extended for a further year. We have been approved an allocation under the Invest EU guarantee instrument which we expect will be used to cover risk on loans drawn from 1 January 2023.

3) Bank Loans

In 2021 we signed a €30m 5-year loan agreement with Strategic Banking Corporation of Ireland (SBCI). We utilised the proceeds of the first drawdown on this new facility to repay the loan outstanding to our parent Social Finance Foundation. This funding provides the working capital which is used to fund our lending activities and the €30m provides MFI with significant capacity to increase our support of small businesses that need funding.

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 the 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, necessitating a reduction in our bad debt provisions.

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 led MFI to place conservative bad debt provisions against the loan book. It was hoped that all borrowers would recommence payments at the end of the initial repayment free period. However, this did not happen for many borrowers because ongoing pandemic lockdowns in 2021 meant that businesses were closed with no cashflow to commence repayments. MFI was proactive in contacting borrowers at the end of their repayment free periods to determine their ability to commence payments and provided additional forbearance to those who needed it.

With many borrowers still on forbearance during 2021 our 2021 loss experience is unlikely to represent the true level of potential portfolio losses. As the Covid-19 threat lessened and the economy reopened we ceased extending the payment breaks we permitted during the Covid-19 business closures. As a result, we have seen an increase in businesses in distress throughout 2022 with a consequent impact on loan losses.

For the 2021 accounts, we have amended our provisioning policy, changes are detailed in the notes to the accounts

Marketing and Branding

As the Microenterprise 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. We continue to undertake a wide range of marketing activities, across traditional and digital media, promotional and networking 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. Brand awareness remains strong.

During 2021 we launched our first green product which provided funding to taxi drivers who wanted to transition from a fossil fuel vehicle to an Electric Vehicle. Our loan sought to fill some or all of the funding gap between the government grants for this transition to electric vehicles and the cost of those vehicles. The product has been relaunched for 2022 on the back of the renewal of the government grant package.

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 2021 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), Enterprise Ireland and Udaras Na Gaeltacht during 2021.

In addition to our referral partners, the business has developed a very strong direct channel. In 2021, it accounted for 63% of all applications.

Pricing

Our costs of funding reduced following the signing of the SBCI loan agreement. As a result, we reduced the pricing on our loans to new customers from 7.8% to 5.5% for direct channelled loans and 6.8% to 4.5% for partner introduced loans. Both of these rates are competitive for the market we serve.

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 are covered through mentoring, Financial Management is the single biggest skill gap identified in these businesses.

Strategy

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.

A renewed strategy was approved by the Board in Q4 2022. The new strategy does not fundamentally change our mandate to provide loans to microenterprises that have difficultly sourcing loans from the conventional bank market.

European Code of Good Conduct for Microcredit Provision

In 2020 MFI was recertified as compliant with the EC's European Code of Good Conduct for Microcredit Provision. Certification with the code is a requirement for approval of the EIF guarantees.

Compliance, Operational Risk and GDPR

A European Investment Fund (EIF) audit of compliance with the requirements of the European Guarantee Fund (EGF) guarantee identified that the state aid declarations provided by our borrowers were not as comprehensive as required under the terms of the EGF guarantee. Remediation of this issue is progressing.

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

- Apart from the EIF matter referred to in the previous paragraph, there were no significant operation incidents in the business during the year.
- A range of Audits were completed with no significant findings.

- MFI takes data protection very seriously. During 2021, no significant 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 Covid-19 pandemic the business moved quickly to enable most employees to work from home from the middle of March 2020. Remote and Hybrid work continues and is working well. Having said that some functions need to have an office presence for the efficient running of the business. The availability of Remote and Hybrid working is therefore at the discretion of the relevant department head. 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.

Key Objectives 2022

- To continue to support the economy and job creation through our lending activities with microenterprises.
- Completion of the Strategy Review.
- Achieve an appropriate balance between growth and risk management.
- To actively manage the credit quality of the loan portfolio.
- Commence the project to digitally transform our application and back-office processes.

Des McCarthy
Chief Executive
25 November 2022

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the financial year ended 31 December 2021.

Principal Activities

Microfinance Ireland was incorporated by 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 €39.8m has been received up to 31 December 2021 of which €5m was received in 2021.

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 signed 6 April 2021 as amended and restated 6 December 2021, 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 €921,000 (2020: €10,434,000).

The variation between 2021 and 2020 is due to our bad debt provisions returning to more normal levels following the more elevated levels required to cover potential losses in our Covid-19 lending book, together with an increase in interest income as many customers returned to servicing their loans during 2021 having availed of payment breaks granted during Covid-19.

Business developments in 2021

While the level of business activity in 2021 was below the extraordinary levels seen in 2020 our performance in 2021 was strong with our Covid-19 response still to the fore particularly in H1 2021. The emphasis in 2021 transitioned somewhat from assisting micro businesses by providing loans to supporting and providing forbearance to our Borrowers who were experiencing distress due to business closures or the lingering impact of the pandemic.

Future developments

Given the ongoing economic uncertainty and the direct and indirect impacts of the inflationary and cost of living challenges on business and consumers, we anticipate an increased need to support business throughout 2023 and beyond.

Governance

Microfinance Ireland was incorporated pursuant to the Microenterprise Loan Fund Act 2012 ('Act 2012'). The company operates on an ongoing basis within the 2012 Act 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 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 ongoing economic uncertainty and the buoyant labour market, 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 Chair and nine ordinary members, all of whom are appointed by MFI's parent 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 an initial period of three years which can be extended for a further three-year period 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 2021:

			Board (7 Meetings)		ARC (6 Meetings)		Credit Committee (4 Meetings)	
			Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Cyril Forbes	Retired	29 August 2021	4	4				
Sarah Anne Audrey Boyd $	Re-Appointed	29 August 2021	7	7			3	2
Enda Bannon #	Re-Appointed	29 August 2021	7	7	6	6		
Margaret Brennan $	Appointed	29 August 2021	3	3			1	1
Lorraine Corcoran #	Appointed	29 August 2021	3	3	1	1		
Ronan Headon #	Appointed	25 March 2021	6	5	4	4		
Pat Horgan $	Appointed	29 August 2021	3	3			1	1
John Irwin $	Retired	25 November 2021	6	5			4	4
Fiona Kilcullen	Appointed	9 September 2020	7	7	6	6		
Thomas McEvoy $	Re-Appointed	29 August 2021	7	7			4	3
Gerry O'Neill #	Retired	29 August 2021	4	4	4	4		
Susan O'Neill	Re-appointed	29 November 2020	7	5				
Mary O'Shaughnessy	Retired	29 August 2021	4	1				
Roisin Scallan	Appointed	25 November 2021	1	1				
Brendan Whelan #	Resigned	17 February 2021	1	1	1	1		

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 during 2021 were Gerry O'Neill (Chair – Retired 29 August 2021), Enda Bannon (Chair from 15 September 2021 to 16 February 2022), Lorraine Corcoran (Appointed

3 November 2011, Chair from 16 February 2022), Ronan Headon (Appointed 25 March 2021), Brendan Whelan (Resigned 17 February 2021) and Fiona Kilcullen.

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 (Chair – Retired 25 November 2021), Audrey Boyd (Stepped down on appointment as Board Chair on 29 August 2021), Mags Brennan (Appointed 15 September 2021, Chair from 25 November 2021), Pat Horgan (Appointed 15 September 2021), 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 31 December 2021 (31 December 2020: €Nil).

Key Personnel Changes

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 McCarthy was appointed with effect from 31 May 2021. Mr. Patrick Kilbane, Head of Finance and Risk, stepped down effective from 6 July 2021 and following a competitive process was replaced by Mr. Seamus Cope.

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.

	2021 €	2020 €
Human Resources	5,948	-
Market Analysis	-	-
Total consultancy costs	5,948	-

Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2021 €	2020 €

Domestic -	Board	-	-
	Employees	705	1,512
International -	Board	-	-
	Employees	1,642	-
Total		2,347	1,512

Hospitality Expenditure

The Income and Expenditure Account includes the following hospitality expenditure:

	2021 €	2020 €
Board and Staff hospitality	1,546	1,347

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 2021.

On behalf of the board

Audrey Boyd
Chair

Enda Bannon
Director

25 November 2022

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 2021 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 six times in 2021.

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. The Credit Committee met four times in 2021.

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 a change in the operating model used to service our customers as staff operated remotely for prolonged periods of time. 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.

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 the 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 the year ended 31 December 2021. The annual review of the effectiveness of the internal controls ordinarily performed by Internal Audit was not undertaken in 2021 as the Internal Audit contract tendering process had not concluded in time to complete a review by 31 December 2021. The next review of the effectiveness of the internal controls is scheduled for November 2022.

Internal Control Issues

In Q2 2022, a European Investment Fund (EIF) audit of compliance with the requirements of the European Guarantee Fund (EGF) guarantee identified that the state aid declarations provided by our borrowers were not as comprehensive as required under the terms of the EGF guarantee. The non-compliance

covered loans included in the EGF guarantee from 14 December 2020. Once notified we immediately updated our state aid declarations to cover the EGF requirements for all loans from 1 June 2022.

In total 653 loans are impacted of which 498 were drawn in 2021 and are relevant for the 2021 Financial Statements. The remaining 155 loans were drawn in 2022 and relevant for the 2022 Financial Statements.

EGF have confirmed that MFI can remedy this legacy breach by getting the impacted borrowers to retrospectively sign a revised state aid declaration. As of 20 October 2022, 270 borrowers have returned the revised state aid declaration and we have recognised a receivable against the EGF guarantee of €876k in respect of these loans in the 2021 Financial Statements. We have yet to receive the revised state aid declaration letter from the remaining 228 borrowers and have not accrued a EGF guarantee receivable for these loans in the 2021 Financial Statements. If all the outstanding 228 borrowers return revised state aid declarations, we will accrue an EGF guarantee receivable for these loans of €813k in the 2022 Financial Statements.

There are 32 loans that EIF indicate cannot be included in the EGF guarantee because the loan offer letters were signed before the commencement date of the EGF guarantee. We have not accrued a guarantee receivable for these loans in the 2021 Financial Statements. These 32 loans would have had a maximum potential EGF guarantee of €124k.

The financial impact of the non-compliance is set out in note 10 to the Financial Statements for 2021. We have reviewed our processes to prevent a reoccurrence of this issue.

No other weaknesses in internal control were identified in relation to 2021 that require disclosure in the Financial Statements.

On behalf of the board

Audrey Boyd

Audrey Boyd
Chair

25 November 2022

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 2021 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 2021 and of its income and expenditure for 2021
- 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.

Non-compliance with European Guarantee Fund conditions

The statement on internal control discloses that, following a compliance audit undertaken by the European Investment Fund, it was found that the state aid declarations some of Microfinance Ireland's borrowers had been required to provide were not sufficient for the purposes of the European Guarantee Fund. A small number of loans were also ineligible for the guarantee. As a result, the amount that Microfinance Ireland could potentially draw under the funding guarantee was reduced. As set out in note 10 to the financial statements, the non-compliance reduced the callable guarantee funding amount at 31 December 2021 by €968,000. The statement on internal control discloses the progress made by the Board in obtaining revised state aid declarations from the borrowers in question. This programme is ongoing.

Seamus McCarthy
Comptroller and Auditor General

29 November 2022

Appendix to the report

Responsibilities of the Directors

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

- the preparation of annual 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 2021

	Notes	Financial Year Ended 31 December 2021 €'000	Financial Year Ended 31 December 2020 €'000
Interest Income	3	1,226	401
Interest Expense	3	(108)	(184)
Net Interest Income	3	**1,118**	217
Administrative expenses	5	**(2,545)**	(2,542)
Bad debts			
-Specific charge	9	(1,339)	(4,581)
-Collective credit (charge)	9	699	(6,804)
-Cash Recoveries		270	174
-Guarantee callable under EIF	10	876	3,102
Total		**506**	(8,109)
Deficit for the financial year		**(921)**	(10,434)

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 22 form part of these Financial Statements.

Approved by the board and authorised for issue on 25 November 2022.

Audrey Boyd
Director

Enda Bannon
Director

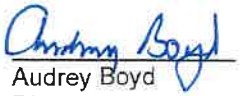
Microfinance Ireland

STATEMENT OF FINANCIAL POSITION
31 December 2021

	Notes	31 December 2021 €'000	31 December 2020 €'000
Tangible fixed assets	8	**25**	26
Current assets			
Loans and advances to customers net of provisions	9	**15,056**	16,873
Amounts recoverable from EIF	10	**4,799**	4,277
Short term deposits		**14,150**	9,714
Cash at bank and in hand		**130**	6
		34,135	30,870
Creditors – (amounts falling due within one year)	11	**(295)**	(2,542)
Net current assets		**33,840**	28,328
Creditors – (amounts falling due after one year)	12	**(5,500)**	**(4,068)**
Net assets		**28,365**	**24,286**
Capital and reserves			
Issued share capital	14	-	-
Microenterprise Loan Fund	15	**28,365**	24,286
		28,365	**24,286**

The Statement of Changes in Reserves and Capital Account, the Statement of Cash Flows and Notes 1 to 22 form part of these Financial Statements.

On behalf of the board on 25 November 2022.



Audrey Boyd
Director

Enda Bannon
Director

STATEMENT OF CHANGES IN RESERVES AND CAPITAL ACCOUNT

	Revenue Reserves €'000	Microfinance Loan Fund Account €'000	Total €'000
At 1 January 2021	-	24,286	24,286
Grant received (see Note 15)	-	5,000	5,000
Deficit for the year	(921)	-	(921)
Transfer to Microfinance Loan Fund Account	921	(921)	-
At 31 December 2021	**-**	**28,365**	**28,365**

	Revenue Reserves €'000	Microfinance Loan Fund Account €'000	Total €'000
At 1 January 2020	-	9,930	9,930
Grant received (see Note 15)	-	24,790	24,790
Deficit for the year	(10,434)	-	(10,434)
Transfer from Microfinance Loan Fund Account	10,434	(10,434)	-
At 31 December 2020	**-**	**24,286**	**24,286**

Microfinance Ireland

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021	**Notes**	**Financial Year Ended 31 December 2021 €'000**	**Financial Year Ended 31 December 2020 €'000**
Net cash flow/(outflow) from operating activities	16	**398**	(23,061)
Cash flows from investing activities			
Purchase of tangible fixed assets		**(15)**	(15)
Net cash flows from investing activities		**(15)**	(15)
Cash flows from financing activities			
Grant received		**5,000**	24,790
Change in Borrowings	11 & 12		
- Drawdown of new funding		**5,500**	-
- Repayment of Parent Company funding		**(6,323)**	(2,200)
Net cash flows from financing activities		**4,177**	22,590
Net increase/(decrease) in cash and cash equivalents		**4,560**	(486)
Cash and cash equivalents at the beginning of financial year	16	**9,720**	10,206
Cash and cash equivalents at the end of financial year		**14,280**	9,720
Cash and cash equivalents consist of:			
Cash at bank and in hand		**130**	6
Short term deposits		**14,150**	9,714
Cash and cash equivalents	16	**14,280**	9,720

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 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. Social Finance Foundation (SFF) is a company, limited by guarantee, without a share capital. 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 loans 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.

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 2021 €'000	Financial Year Ended 31 December 2020 €'000
Interest client loans	**1,270**	406
Interest bank deposits	**(44)**	(5)
Interest Income	**1,226**	401
Interest expense on borrowings from Parent	**(97)**	(184)
Interest expense on other borrowings	**(11)**	-
Interest expense	**(108)**	(184)
Net interest income	**1,118**	217

NOTES TO THE FINANCIAL STATEMENTS – continued

4. Operating profit	Financial Year Ended 31 December 2021 €'000	Financial Year Ended 31 December 2020 €'000
Operating profit is stated after charging:		
Wages and salaries (excluding PRSI)	**965**	805
Employer PRSI costs	**107**	89
Depreciation	**16**	14
Auditors' remuneration	**14**	14

5. Administrative expenses	Financial Year Ended 31 December 2021 €'000	Financial Year Ended 31 December 2020 €'000
Salaries and wages (excluding PRSI)	**965**	805
Employer PRSI	**107**	89
Staff and board related expenditure	**57**	52
Travel and subsistence	**2**	1
Credit assessor fees	**455**	870
Marketing/advertising	**280**	177
Legal fees	**158**	18
Outsourcing/consultancy fees	**226**	204
Rent	**82**	82
Depreciation	**16**	14
Premises	**27**	33
Client mentoring	**104**	134
Other	**66**	63
	2,545	2,542

Microfinance Ireland incurred staff and board related expenditure of €56,521 in the year ended 31 December 2021 (31 December 2020: €52,067). The expenditure includes employer contributions to personal retirement savings accounts €29,053 (31 December 2020: €28,802), death in service insurance for staff €6,504 (31 December 2020: €5,400), income continuance insurance €9,918 (31 December 2020: €8,318), staff vouchers under the small benefits exemption scheme €9,500 (31 December 2020: €8,200) and staff entertainment of €143 (31 December 2020: €1,347).

Board expenditure was €1,403 in the year ended 31 December 2021 (31 December 2020: €Nil).

NOTES TO THE FINANCIAL STATEMENTS – continued

6. Employee information	12 Months December 2021	12 Months December 2020
The average number of persons employed during the year	**18**	**15**

Range of employee salaries

From	To	Number of Employees 2021	Number of Employees 2020
€60,000 -	€69,999	**2**	2
€70,000 -	€79,999	**-**	-
€80,000 -	€89,999	**1**	1
€90,000 -	€99,999	**-**	1
€100,000 -	€109,999	**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.

	2021 €	2020 €
Salaries paid to key management	**396,870**	364,381

Chief executive officer remuneration

	2021 €	2020 €
Salary paid to Des McCarthy	**60,573**	0
Voucher under small benefit exemption scheme to Des McCarthy	**500**	0
Salary paid to Garrett Stokes	**54,408**	91,800
Voucher under small benefit exemption scheme to Garrett Stokes	**0**	500
	115,481	92,300

The CEO is not entitled to any retirement benefits.

Travel and subsistence costs of €672 were incurred by the CEO in the year ended 31 December 2021 (31 December 2020: €117).

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 2021	21	69	90
Additions	-	15	15
Disposals	-	-	-
At 31 December 2021	21	84	105
Depreciation			
At 1 January 2021	19	45	64
Charge for the year	1	15	16
On disposals	-	-	-
At 31 December 2021	20	60	80
Net book value			
At 31 December 2020	2	24	26
At 31 December 2021	1	24	25

	Office Furniture & Equipment €'000	Computer Equipment & Software €'000	Total €'000
Cost			
At 1 January 2020	20	55	75
Additions	1	14	15
Disposals	-	-	-
At 31 December 2020	21	69	90
Depreciation			
At 1 January 2020	17	33	50
Charge for the year	2	12	14
On disposals	-	-	-
At 31 December 2020	19	45	64
Net book value			
At 31 December 2019	3	22	25
At 31 December 2020	2	24	26

NOTES TO THE FINANCIAL STATEMENTS – continued

9. (a) Loans and advances to customers	31 December 2021 €'000	31 December 2020 €'000
Loans outstanding at beginning of financial year	**30,157**	9,411
New loans advanced	**8,785**	24,805
Capital repaid	**(9,962)**	(3,343)
Amounts written off	**(630)**	(716)
Loans outstanding at financial year end	**28,350**	30,157
Provision for bad and doubtful debts	**(13,294)**	(13,284)
	15,056	16,873

(b) Loans and advances by maturity	31 December 2021 €'000	31 December 2020 €'000
3 months or less	**3,046**	1,882
1 year or less but over 3 months	**9,619**	8,239
Over 1 year	**15,685**	20,036
	28,350	30,157

(c) Provisions for bad and doubtful debts

Specific provision	31 December 2021 €'000	31 December 2020 €'000
Opening provisions	**4,956**	1,091
Allowance for losses made during the year	**1,672**	4,679
Allowance reversed during the year	**(333)**	(98)
Loans written off	**(630)**	(716)
Closing provisions	**5,665**	**4,956**
Collective provision		
Opening provisions	**8,328**	1,524
Allowance made during the financial year	**(699)**	6,804
Closing provisions	**7,629**	8,328

(d) Cumulative position at 31 December 2021

		€'000
Total loans advanced		62,650
Capital amounts repaid		(28,196)
Loans written off		(6,104)
Loans outstanding at 31 December 2021		28,350
Specific provision	(5,665)	
Collective provision	(7,629)	(13,294)
		15,056

10. **Amounts recoverable from EIF**

	31 December 2021 €'000	31 December 2020 €'000
At beginning of financial year	**4,277**	1,577
Guarantee callable against bad debts	**876**	3,102
Amounts received from EIF	**(354)**	(402)
Balance at end of the financial year	**4,799**	4,277

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, the Pan-European Guarantee Fund (EGF) signed on 6 April 2021 and amended and restated 6 December 2021, 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.

Following a review of the EGF by EIF in Q2 2022, a potential issue was highlighted with respect to compliance with conditions of the EGF Guarantee which may impact the cover provided by EIF for some loans under the EGF guarantee. The impact of this non-compliance, reflected in the Financial Statements is to increase the deficit for 2021 and to reduce the guarantee callable at 31 December 2021 by €0.968m.

11. Creditors - amounts falling due within one year

	31 December 2021	31 December 2020
	€'000	€'000
-PAYE & PRSI	58	38
-Interest on Other Borrowings	11	-
-Accruals	226	249
	295	287
Borrowings from parent company (see Note 12)	-	2,255
	295	2,542

12. Creditors – amounts falling due after more than one year

	31 December 2021	31 December 2020
	€'000	€'000
Borrowings from parent company	-	4,068
Other Borrowings	5,500	-
Borrowings	5,500	4,068

On 30 September 2021, Microfinance Ireland repaid the balance on a €15m loan facility with its Parent company, Social Finance Foundation and executed a new Loan Facility Agreement for a borrowing facility of up to €30m from the Strategic Banking Corporation of Ireland (SBCI). On 30 September 2021, Microfinance Ireland drew down the first tranche of €5.5m. The facility has a six-year term with a final maturity date of 31 March 2027. The current interest rate is 6-month Euribor plus a margin of 0.80%. The Euribor cost basis is subject to review.

As part of the facility terms, Microfinance Ireland has executed a Debenture in favour of SBCI 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

13. (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 on Borrowings which is currently variable and reprices half-yearly. 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 €375k over the remaining life of the current loan portfolio. This risk is reviewed not less than annually.

13. (b) Interest rate risk disclosures

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

	2021		**2020**	
	Amount €'000	**Average Interest Rate**	**Amount €'000**	**Average Interest Rate**
Financial Assets				
Loans to customers	**15,056**	**4.2%**	16,873	2.0%
Short term deposits	**14,150**	**(0.4)%**	9,714	(0.1)%
Financial Liabilities				
Borrowings	**5,500**	**0.8%**	6,323	2.3%

13. (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.

	2021		2020	
	Amount €'000	**Proportion %**	**Amount €'000**	**Proportion %**
Performing/Current Loans	**20,520**	**72**	21,097	70
Up to 30 days past due	**601**	**3**	218	1
Between 31 and 60 days past due	**373**	**1**	119	0
Between 61 and 90 days past due	**167**	**1**	61	0
90+ days past due	**101**	**0**	14	0
Restructured loans	**6,588**	**23**	8,648	29
Total Loans Past Due	**7,830**	**28%**	9,060	30%
Total Loans	**28,350**	**100%**	30,157	100%
Specific Provision	**(5,665)**		(4,956)	
Collective Provision	**(7,629)**		(8,328)	
Total Carrying Value	**15,056**		16,873	

13. (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 at 31 December 2021 was 42 months (31 December 2020: 43 months).

Short term deposits are all on demand. The average life of the deposit book at 31 December 2021 was 1 day (31 December 2020: 1 day).

Borrowings are repayable over 4 years in half-yearly instalments from the end of two-year drawdown availability date and subject to a final maturity of 31 March 2027.

As at 31 December 2021, Microfinance Ireland had loan commitments of €476,000 (31 December 2020: €1,550,000). Loan commitments refer to loans approved but not drawn down at financial year end.

NOTES TO THE FINANCIAL STATEMENTS – continued

14. 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 Social Finance Foundation.

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

15. Micro Finance Loan Fund Account

During 2021, Microfinance Ireland received grant funding of €5m (2020: €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 €49.8m. 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.

16. (a) Reconciliation of operating deficit to net cash flow/(outflow) from operating activities

	Year ended 31 December 2021 €'000	Year ended 31 December 2020 €'000
Operating deficit	**(921)**	(10,434)
Depreciation	**16**	14
Decrease/(Increase) in loan advances to customers	**1,177**	(21,462)
Increase in creditors	**8**	113
Reduction in debtors	**-**	23
Bad debt charge (Specific and Collective)	**640**	11,385
Guarantee called/callable from EIF	**(876)**	(3,102)
Amount recoverable from EIF	**354**	402
Net cash flow/(outflow)	**398**	(23,061)

(b) Reconciliation to net cash as at

	Year ended 31 December 2021 €'000	Year ended 31 December 2020 €'000
Cash at bank and in hand	**130**	6
Short Term Deposits	**14,150**	9,714
Total Cash and Cash equivalents	**14,280**	9,720

17. Commitments and contingent liabilities

(a) Capital commitments

There were no capital commitments at 31 December 2021 (31 December 2020: €Nil).

(b) Contingent Liabilities

There were no contingent liabilities at 31 December 2021 (31 December 2020: €Nil).

(c) Premises

The company has commitments payable up to 2026 in respect of a 10-year lease entered into on 17 October 2016 for office accommodation at 13 Richview Office Park, Clonskeagh, Dublin 14. The 5-year break option was not exercised.

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

	Year ended 31 December 2021 €'000
Payable	
Within one year	82
Within two and five years	328

18. Post Statement of Financial Position Events

There are no post reporting date events to report.

19. Ultimate parent company

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

20. 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 2021 (31 December 2020: €Nil).

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

21. Related party disclosures

Total compensation to key management personnel referred to in Note 6 amounted to €396,870.

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.

22. Approval

The directors approved the financial statements and authorised their issue on 25 November 2022.