Microfinance Ireland

(A private company limited by shares)

Directors' Report and Financial Statements

For the financial year ended 31st December 2014

Directors' Report and Financial Statements

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Directors and Other Information

Board of Directors
Geraldine Kelly (Chairperson)
Yvonne Barry
Mary Brennan
Evanne Kilmurray
John Kelly
Bobby Kerr
Edmund Jennings*
Felix O'Regan
Norma Smurfit
Michael Tunney

*Resigned 24th March 2014

Secretary and Registered Office
Bradwell Ltd
Earlsfort Centre
Earlsfort Terrace
Dublin 2.

Registered Number: 516555

Registered Charity Number: CHY 20447

Date of Incorporation:
17 August 2012

Auditors
Comptroller & Auditor General
Treasury Block
Dublin Castle
Dublin 2

Principal Bankers
Bank of Ireland
2 College Green
Dublin 2

Solicitors
Mason Hayes and Curran
South Bank House
Barrow Street
Dublin 4

Contact Information

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Chief Executive Officer

Patrick Kilbane,
Head of Finance and Risk

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Chairperson's Statement

On behalf of the Directors of Microfinance Ireland (MFI), I am pleased to present the report for the twelve months of 2014. By the end of 2014 the fund has supported 1,000 Jobs (as confirmed in the first annual job survey) through the 413 Microenterprises with loans of €6.3m since launch in September 2012. The Microenterprises supported by MFI are providing products and services to local communities and creating and retaining jobs in those communities throughout the country.

MFI's objective is to support microenterprises that have difficulty in accessing bank credit for their business by providing them with small loans up to maximum of €25,000. MFI is just one of the initiatives in the Action Plan for Jobs to support Microenterprises in setting up new enterprises and in developing existing viable businesses by giving these enterprises access to credit.

Our clients have seen an increase in demand for local products and services in 2014 and the microenterprises are responding to this demand with increased services and products and are investing in their businesses. As a result MFI has received an increased number of applications and has responded to this increased demand for credit in 2014.

Significant marketing, promotion and business development activities were continued throughout 2014 to promote awareness of the Microfinance Loan Fund Scheme amongst potential applicants in conjunction with a range of business support agencies and representative groups. While the MFI Loan Scheme is ultimately demand led, MFI continues to work hard to explore relevant avenues to ensure that all viable microbusinesses that have difficulty in accessing credit are aware of the Scheme, and that each application is given a full and fair credit assessment.

Throughout the year, significant progress was made by the Board of Directors, together with the support of the Audit and Risk Committee and Credit Committee in further developing and refining the business strategy, business procedures, effective risk management and credit policy. The Board works to ensure robust governance structures and continuous assessment of the strategic objectives of MFI and its relevance for its potential applicants and customers. I would like to thank all of my fellow Board Members who give generously and enthusiastically of their time and range of extensive business experience and expertise to ensure the success of MFI.

I would like to express our gratitude to each of the Local Enterprises Offices (LEOs) throughout the country who act as the main referral partner to MFI. The LEO support to MFI in terms of assisting microbusinesses with their application preparation, business training, and pre and post loan business mentoring support is vital to the sustainment and viability of our customers. I would like to take this opportunity to wish the LEOs continued success and we look forward to continuing our joint initiatives in support of job creation and sustainment.

The support of our parent body Social Finance Foundation (SFF) is very important and encouraging to MFI in the context of our strategic ambitions, financial and operational assistance. I would like to extend our appreciation and gratitude to the Board Members and Team of SFF for their ongoing assistance and commitment to MFI.

The financial support in relation to MFI's initial grant funding and the encouragement of the Minister and his officials at the Department of Jobs Enterprise and Innovation with whom MFI has a close working relationship, is integral to the success of the Microfinance Loan Fund Scheme. During 2014, the Department commenced a Review of the Microfinance Loan Fund, implementation of the recommendations will provide a solid platform for the continued strong growth and success of the Fund and ultimately realisation of the long term objective of supporting 7,700 jobs over 10 years. I would like to extend our appreciation to the Department for their support throughout 2014 and also the Department of Finance and Department of Public Expenditure and Reform.

The European Investment Fund (EIF) is also a vital partner to MFI. The assistance of EIF through the European Progress Microfinance Facility is important and appreciated by MFI in enabling us to lend monies to microenterprises that do not meet with the conventional lending risk criteria of the SME banks.

Also, a note of thanks to the Banking & Payments Federation Ireland, AIB Bank, Bank of Ireland and Ulster Bank for their ongoing support by helping MFI to promote awareness of the scheme to SME businesses amongst their lending teams and through their own customer communications and networks.

Finally, I wish to thank each of the staff in the Microfinance Ireland Team and our external Loan Assessor Team for their efforts throughout 2014. I would like to express the boards thanks to Michael Johnson for all his contribution to MFI since he joined the organisation in May 2014. The Team's professionalism and hard work in striving to help deliver the ambitions of the Microfinance Loan Fund scheme in support of sustainable jobs is greatly appreciated.

Geraldine Kelly

Geraldine Kelly,

Chair

12 June 2015

Report of the Chief Executive

2014 has seen considerable progress by MFI in consolidating its position as a lender to the Microenterprise community that cannot access credit through the banks. The latter part of the year in particular saw strong growth in applications and the re-emergence of an appetite for credit within the microenterprise sector. MFI continues to support the mandate driven by the government action plan for jobs and provides much needed support to those microenterprises that are unable to secure loans from mainstream credit sources.

Highlights of 2014 were

- Increased lending activity leading to approvals of €4.2M in 2014, over double the prior year
- Increased applications in 2014 of almost 60% against the prior year
- Approval Rate of 59% for all applications on a fund basis
- Support for over 600 additional jobs in 2014 confirmed though the first annual jobs survey of MFI clients
- The introduction of a MFI LEO Loan Programme that includes additional support from the LEOs and a discounted rate of interest to those applicants applying through their LEO
- Local marketing activities focused at a County level working with the LEOs
- Introduction of a small loans scheme of up to €5,000, partnering with the Local Development Companies, focused on those transitioning from Unemployment to a business start-up.
- Introduction of a pilot Youth loan scheme in partnership with the IBYE programme

Financial Resource and Support

MFI continues to enjoy significant support from its parent company, Social Finance Foundation who continues to support us by way of its expertise, systems and capacity to borrow funds on behalf of MFI. A €15M loan facility negotiated with the 3 main Banking Groups was concluded in early 2015 thus giving MFI a capital base to enable lending activity security.

The European Investment Fund has a commitment to provide risk cover against bad debts on a portfolio basis. These financial supports are the lifeblood which enables MFI fulfil its mandate of supporting job creation in the microenterprise sector with a sustainable business model that can achieve long term objectives set by Government of 7,700 jobs and €90M in lending over a 10 year period.

MFI works closely with DJEI, on whose behalf MFI delivers the Governments Microfinance loan fund and the 2 year review provided for in the legislation is completed. We look forward to working with the DJEI on implementing the recommendations of the review for the scheme going forward.

Activity Levels since the Launch of MFI

With over 2 full years of operation and since the launch of the Loan Fund Scheme in October 2012 up to the end of December 2014, MFI has –

Approved over €6.3m in loans to 413 microenterprises with fewer than 10 employees and less than €2m turnover per annum

Supported over 1,000 net jobs (as confirmed in the first annual job survey) with 83% representing businesses employing 3 employees or fewer

Has a national loan spread with over 75% of approvals being to microenterprises outside Dublin

An average approval rate of 59% across all business sectors with an average loan size of just over €15,000 euros

Has a split of 60/40 between Start-ups and Existing business

Lending and Credit Management

Loans outstanding increased from €1.6m at end December 2013 to €4.0m by end December 2014 representing 346 loans. While the credit performance of the Microfinance Ireland loan book remains generally satisfactory and broadly in line with expectations, Microfinance Ireland has engaged with a significant number of customers in relation to issues ranging from late loan repayments to full repayment default in a number of cases. Gross bad debts provisions were 34% of outstanding loans at the year end which reduces to 18% when account is taken of the EPMF guarantee. While this is not unexpected given the nature of the Microfinance Ireland business, its credit risk appetite and the general trading environment, measures are being taken to reduce the level of bad debts.

Microfinance Ireland has made a number of successful claims under the European Progress Microfinance Guarantee Facility, which underwrites part of Microfinance Ireland credit losses, subject to certain ceilings at portfolio level and at individual loan level.

Financial Outcome

MFI, as a not for profit lender and whose reliance on the government's initial grant funding to establish the Loan Fund Scheme and to assist with ongoing operational costs and bad debts, generates limited income from its business operations. Therefore, the business as reflected in its business plan operates on a financial deficit basis.

The Deficit for the period was € 1,284,000, an increase of 64% year on year. The increase is dominated by higher bad debts provisions of €586,000 net of EPMF guarantee linked to the 77% increase in loan drawdowns – up from €1.8m to €3.3m in line with the doubling of loan approvals. The bad debt provision increase is not unexpected, reflecting the higher risk nature of the market segment that Microfinance Ireland was set up to serve. In addition, operating costs increased by 20% relating to marketing and credit application assessment costs. Salary and related costs were marginally down year over year.

The 2015 Business Priorities for Microfinance Ireland include –

With improved economic market conditions, increased brand awareness and the LEO structures, the platform now exists for further progress towards meeting our business objectives and needs of the microenterprise community we seek to serve. The implementation of the DJEI review recommendations will also introduce changes to further improve the effectiveness of the scheme.

The main objectives for our business in 2015 will be

Increased lending activity with €6M new approvals to c 450 microenterprises

Increased levels of applications through LEO network

Support for a further 1,000 jobs through the 900+ microenterprises expected to have received MFI loan support by year end 2015

Introduction of an automatic referral system of clients declined by mainstream Banks

Revised Marketing and Communications Strategy and increased levels of Marketing

Monitoring credit risk appetite vis a vis policy and managing credit control and collections

Finalisation of the €15M syndicated Bank Loan through SFF

Development of new loan products with partners

Microfinance Ireland is now clearly delivering effective results in supporting the challenge of job creation. The future is positive in that the improved economic conditions have resulted in increased demand for credit and Microfinance Ireland has achieved improved visibility as a lender who supports jobs, takes risks and is driven to support the community of entrepreneurs. The model can be sustainable with the support of Government and the European Community and will deliver an economic return on investment which supports the creation of successful enterprises which in turn create the jobs of the future.

Michael Johnson

Chief Executive

Directors' Report

The directors present their report and the audited financial statements of the company for the financial year ended 31st December 2014.

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 Minister for Jobs, Enterprise and Innovation. This dedicated subsidiary of SFF was established to manage the Microenterprise Loan Fund. Following incorporation, the Minister for Jobs, Enterprise and Innovation made a grant of €10m into the Fund.

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

In recognition of the higher risk profile of the activities of Microfinance Ireland, the company secured support for its activities from the European Investment Fund (EIF). Under the European Progress Microfinance Facility for employment and social inclusion signed on 7 December 2012, 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 limited company. 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. The authorised share capital of Microfinance Ireland is €1. 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.

Microfinance Ireland has been granted charitable status (Registered Charity No. CHY 20447).

Accounting Records

The measures taken by the directors to secure compliance with the requirements of section 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the use of appropriate systems and procedures and employment of competent persons. The accounting records are kept at Jefferson House, Eglinton Road, Dublin 4.

Results for the period

The Company's outturn for the financial year is set out on Page 17 to 19 and is considered satisfactory. The Deficit on ordinary activities was €1,284,000.

Post balance sheet events

On 23 February 2015, Microfinance Ireland executed a Loan Facility Agreement for a borrowing facility of up to €15m (to be drawn in tranches of up to €5m with the final tranche drawdown no later than 30 June 2017) from its parent company Social Finance Foundation. As part of the facility terms, Microfinance Ireland has executed a Debenture in favour of 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.

On 6 May 2015, Microfinance Ireland drew down the first tranche totalling €5m.

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 Sub Committee and Board level on a regular and ongoing basis
- Ensures periodic review and approval of policies for managing risk

Overall, the Company has classified business risks over seven key headings, the most significant being:

- Managing credit risk within the agreed appetite under Credit Risks
- Liquidity and funding risks under Financial Risks
- Awareness, distribution and client mentoring support under Strategic Risks
- Loan administration under Operational Risks

Directors

The names of the persons who were directors during the year to 31st December 2014 are set out below. Eight Board Meetings were held in the period under review.

		Number of Meetings attended
Geraldine Kelly	(appointed 29th August 2012)	7
Yvonne Barry	(appointed 29th August 2012)	7
Mary Brennan	(appointed 17th August 2012)	6
Edmund Jennings	(resigned 24th March 2014)	1
Bobby Kerr	(appointed 29th August 2012)	8
John Kelly	(appointed 29th August 2012)	8
Evanne Kilmurray	(appointed 29th August 2012)	7
Felix O'Regan	(appointed 17th August 2012)	8
Norma Smurfit	(appointed 29th August 2012)	7
Michael Tunney	(appointed 29th August 2012)	7

The Audit and Risk Committee met five times in the period under review. The Committee is chaired by Mary Brennan and membership is also made up of Yvonne Barry and Michael Tunney.

The Credit Committee met eight times in the period under review. The Committee is chaired by Felix O'Regan and membership is also made up of Bobby Kerr and John Kelly.

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 have the opportunity to raise concerns about possible irregularities in financial reporting or other matters.

Corporate Governance

Microfinance Ireland was incorporated pursuant to the Microenterprise Loan Fund Act 2012 ('Act 2012'). The company operates on an ongoing basis within the Act 2012, the Microenterprise Loan Fund Scheme (SI No 343 of 2012) 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.

Disclosure of Interests

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

Directors' Responsibilities Statement

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable Irish law and regulations. Irish company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare the financial statements in accordance with the Irish Generally Accepted Accounting Practise ('Irish GAAP'), with the Accounting Standards issued by the Financial Reporting Council, and promulgated by the Institute of Chartered Accountants in Ireland for periods beginning before 1 January 2015. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities, and financial position of the company as at the financial year end date and of the income and expenditure of the company for the financial year end and otherwise comply with the Companies Act 2014.

In preparing the financial statements, the directors are required to

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

The directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and income and expenditure of the company to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors report comply with the Companies Acts 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

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

On behalf of the Board

Geraldine Kelly
Director

Yvonne Barry
Director

12 June 2015

Chair's Statement on the System of Internal Financial Control

On behalf of the Board of Microfinance Ireland, I acknowledge the Board's responsibility for ensuring that an effective system of internal financial control is maintained and operated for the organisation.

The system can provide only reasonable assurance and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or would be detected in a timely manner. In considering the effectiveness of internal financial controls the Board has regard, among other things, to the requirements of the Code of Practice for the Governance of State Bodies bearing in mind the size and scale of the organisation.

Key control procedures

The Board has taken steps to ensure an appropriate control environment by:

- Clearly defining managements responsibilities
- Establishing reporting procedures to control significant failures and ensuring appropriate corrective action is taken
- Establishing a dedicated Audit and Risk Committee and Credit Committee
- Clear separation of Board and Management functions
- Keeping under review the need for independent reassurance through an appropriate internal audit service

The Board has established processes to identify and evaluate business risks by:

- Identifying the nature, extent and possible implications of risks facing the Board including the extent and categories which it regards as acceptable
- Assessing the likelihood of identified risks occurring
- Assessing the Board's ability to manage and mitigate the risks that do occur
- Having regard to the costs of operating controls relative to the benefits obtained

The framework of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties and a system of delegation and accountability as evidenced by:

- Setting targets to measure financial and other performance
- Regular review by Credit Committee and Board of credit risk and credit management information
- Review by Audit and Risk Committee (ARC) and Board of all non credit related risks
- Regular review by Board of financial performance versus Budget

Correspondence with the Comptroller and Auditor General and any issues raised therein were addressed by Management and Audit and Risk Committee and subsequently brought to the Board.

Annual review of controls

I confirm that in respect of the financial year ended 31 December 2014 the Board conducted a review of the effectiveness of the system of internal financial control.

Geraldine Kelly

Chair

12 June 2015

Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

Microfinance Ireland

I have audited the financial statements of Microfinance Ireland for the year ended 31 December 2014 under the Microenterprise Loan Fund Act 2012. The financial statements, which have been prepared under the accounting policies set out therein, comprise the income and expenditure account, the microenterprise loan fund account, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is the Companies Act 2014 and generally accepted accounting practice in Ireland.

Responsibilities of the directors

The directors are responsible for the preparation of the financial statements, for ensuring that they give a true and fair view and otherwise comply with the Companies Act 2014 and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and to report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to bodies in receipt of substantial funding from the State in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the company's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the company's annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the financial statements

In my opinion, the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2014 and of its income and expenditure for 2014;
- have been properly prepared in accordance with generally accepted accounting practice in Ireland; and
- have been properly prepared in accordance with the Companies Acts 2014.

Matters on which I am required to report by the Companies Act 2014

I have obtained all the information and explanations that I consider necessary for the purpose 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. The financial statements are in agreement with the accounting records.

In my opinion, the information given in the directors' report is consistent with the financial statements.

Matters on which I report by exception

I report by exception if

- my audit noted any material instance where money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the company's annual report is not consistent with the related financial statements, or
- the statement on the system of internal financial control does not reflect the company's compliance with the Code of Practice for the Governance of State Bodies, or
- the disclosures of directors' remuneration and transactions as specified by the Companies Act 2014 are not made, or
- I find there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.

Patricia Sheehan

Patricia Sheehan
For and on behalf of the
Comptroller and Auditor General
26 **June 2015**

Microfinance Ireland Income and Expenditure Account

For the Financial Year ended 31 December 2014

	Notes	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Income	4	282	216
		282	216
Administrative expenses	5	(980)	(820)
Bad debt charge			
- Specific	10(b)	(631)	(96)
- General	10(b)	(446)	(366)
- Guarantee callable under EPMF	11	491	285
Total		(586)	(177)
Deficit for the financial year	6	(1,284)	(781)

Microenterprise Loan Fund Account

	Notes	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Grant	14	8,758	9,539
Deficit for the financial year		(1,284)	(781)
Closing Balance for the financial year		7,474	8,758

There were no recognised gains or losses other than those dealt with in the income and expenditure account above, and therefore no statement of total recognised gains and losses has been presented. Deficit on ordinary activities arose solely from continuing activities.

There is no difference between the results for the period and its historical cost equivalent.

The Cash Flow Statement and Notes 1 to 21 form part of these Financial Statements.

On behalf of the board

Geraldine Kelly
Director

Yvonne Barry
Director

12 June 2015

Microfinance Ireland Balance Sheet

	Notes	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Fixed assets			
Tangible assets	9	23	15
Current assets			
Loans and advances to customers net of provisions	10	2,594	1,166
Amounts recoverable from EPMF	11	630	264
Accrued Income		134	114
Short term deposits		4,151	7,241
Cash at bank and in hand		27	17
		7,536	8,802
Creditors amounts falling due within one year	12	(85)	(59)
Net current assets		7,451	8,743
Net Assets		**7,474**	**8,758**
Capital and Reserves			
Issued Share Capital	13	0	0
Microenterprise Loan Fund		7,474	8,758
		7,474	**8,758**

The Cash Flow Statement and Notes 1 to 21 form part of these Financial Statements.

Geraldine Kelly
Director

Yvonne Barry
Director

Microfinance Ireland Cash Flow Statement

For the Financial Year ended 31 December 2014

	Notes	Year ended 31 Dec 2014 €'000	Year ended 31 Dec 2013 €'000
Net cash (outflow) from operating activities	15(a)	(3,062)	(2,220)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	9	(18)	(1)
Net cash (outflow) for capital expenditure and financial investment		(18)	(1)
Management of liquid resources			
Decrease in short term deposits with banks		3,090	2,205
Financing			
Microenterprise Loan Fund Grant Received		0	0
Net cash flow from financing		0	0
Increase /(decrease) in net cash		10	(16)
Reconciliation to net cash and liquid resources			
Net cash and liquid resources at beginning of the financial year		**7,258**	**9,479**
Increase / (decrease) in net cash		10	(16)
Movement in liquid resources		(3,090)	(2,205)
Net cash and liquid resources at financial year end	15(b)	**4,178**	**7,258**

The Cash Flow Statement and Notes 1 to 21 form part of these Financial Statements.

Notes to the Financial Statements

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with Irish Generally Accepted Accounting Practice ('Irish GAAP'), the Accounting Standards issued by the Financial Reporting Council, and promulgated by the Institute of Chartered Accountants in Ireland for periods beginning before 1 January 2015 and Irish statute comprising the Companies Act 2014.

Accounting convention

The financial statements are presented in Euro (€) and prepared under the historical cost convention.

Income and expenses

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

Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market .They arise when Microfinance Ireland provides money to a debtor with no intention of trading the receivable.

Loans are recorded at fair value when cash is advanced to the borrower. They are subsequently accounted for based on the actual client capital repayment flows.

Provision for bad and doubtful debts

The company's policy is to provide for bad and doubtful debts to reflect the losses inherent in the loan portfolio at the balance sheet date. 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, EIF as Guarantor partially covers 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.

There are two types of bad debt provisions, specific and general. 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 general provision, collective 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 general 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 EPMF are recognised as an asset in the balance sheet and amounts actually recovered are recognised as income in the period received.

Loans in the balance sheet are stated net of the aggregate of specific and general provisions.

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

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 on the Balance Sheet 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.

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 and 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.

3. 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 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.

4. Income

	Financial Year ended 31 Dec 2014 €'000	Financial Year ended 31 Dec 2013 €'000
Interest client loans	191	57
Interest bank deposits	91	159
Total Income	282	216

5. Administrative Expenses

	Financial Year ended 31 Dec 2014 €'000	Financial Year ended 31 Dec 2013 €'000
Salaries and Wages (excl PRSI)	439	456
Employer PRSI	47	49
Travel and subsistence	25	15
Credit Assessor fees	77	34
Marketing/Advertising	230	118
Legal fees	20	43
Outsourcing/Consultancy fees	58	33
Rent	13	13
Depreciation	10	7
Other	61	52
	980	820

6. Operating deficit

	Financial Year ended 31 Dec 2014 €'000	Financial Year ended 31 Dec 2013 €'000
Operating deficit is stated after charging:		
Salaries and Wages (excluding PRSI)	439	456
Employer PRSI costs	47	49
Depreciation	10	7
Auditors' remuneration (inclusive of VAT)	8	7

7. Employee Information

Staff numbers

The average number of persons employed by the company during the financial year to 31 December 2014 was 8 (2013 : 7). The number of employees as at 31 Dec 2014 was 8 (2013 : 8).

Retirement Benefit Obligations

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

CEO Remuneration

The new CEO was appointed with effect from 26th May 2014. Remuneration for the period to 31 Dec 2014 is as follows:

Salary € 53,026

The Chief Executive is not entitled to any retirement benefits.

Travel and subsistence costs of € 4,457 were reimbursed or reimbursable to the new Chief Executive in relation to expenses incurred in the period to 31 December 2014.

The former CEO tendered her resignation on 12 December 2013 which was accepted, effective 14 March 2014.

Remuneration for the former CEO for the period is as follows:

Salary € 23,467

Travel and subsistence costs of € 284 were reimbursed or reimbursable to the former CEO in relation to expenses incurred in the period to 14 March 2014.

8. Taxation

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

9. Tangible Assets

	Office Furniture & Equipment €'000	Computer Equipment & Software €'000	Total €'000
Cost			
Balance at 31 December 2013	6	17	23
Additions	5	13	18
Cost at 31 December 2014	11	30	41
Depreciation			
Balance at 31 December 2013	1	7	8
Depreciation Charge for the year	2	8	10
Accumulative Depreciation At 31 December 2014	3	15	18
Net Book Value			
At 31 December 2014	8	15	23

In respect of prior year	Office Furniture & Equipment €'000	Computer Equipment & Software €'000	Total €'000
Cost			
Balance at 31 December 2012	5	17	22
Additions	1	0	1
Cost at 31 December 2013	6	17	23
Depreciation			
Balance at 31 December 2012	0	1	1
Depreciation Charge for the year	1	6	7
Accumulative Depreciation At 31 December 2013	1	7	8
Net Book Value			
At 31 December 2013	5	10	15

10. (a) Loans and advances to customers

	Financial Year ended 31 Dec 2014 €'000	Financial Year ended 31 Dec 2013 €'000
Loans outstanding at beginning of financial year	1,612	52
New loans advanced	3,275	1,847
Capital repaid	(770)	(258)
Amounts written off	(166)	(29)
Loans outstanding at financial year end	3,951	1,612
Provisions for bad and doubtful debts (Note 10b.)	(1,357)	(446)
Net loans at financial year end	2,594	1,166

	€'000	€'000
Loans and advances by maturity		
- 3 months or less	389	128
- 1 year or less but over 3 months	1,267	430
- Over 1 year	2,295	1,054
	3,951	1,612

(b) Provision for bad and doubtful debts

Opening provisions	446	13
Charge against income	1,077	462
Amounts written off	(166)	(29)
At financial year end	1,357	446
Provision at financial year end		
- specific	532	67
- general	825	379
	1,357	446

(c) Loan Commitments

As at 31 December 2014, Microfinance Ireland had loan commitments of €700,386 (31 December 2013 €260,185).

Loan commitments refer to loans approved but not drawn down at financial year end.

11. Amounts recoverable from EPMF

	Financial year ended 31 Dec 2014 €'000	Financial Year ended 31 Dec 2013 €'000
At beginning of financial year	264	0
Guarantee callable against Bad Debts	491	285
Amounts recovered from EPMF	(125)	(21)
Closing balance at financial year end	630	264

Microfinance Ireland called and received two payments under the European Progress Microfinance Facility during 2014. Under the Facility, EPMF 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.

12. Creditors - amounts falling due within one year

	Financial Year ended 31 Dec 2014 €'000	Financial Year ended 31 Dec 2013 €'000
PAYE & PRSI	17	17
Other creditors	3	-
Accruals	65	42
Total creditors and accruals	85	59

13. 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.

14. Microenterprise Loan Fund Account

In accordance with section 5(1) of The Microenterprise Loan Fund Act 2012, the Minister for Jobs, Enterprise and Innovation made a grant of €10 million (Subhead A.12) to Microfinance Ireland. Under section 5(3), Microfinance Ireland is not liable to repay the Minister any moneys paid to it.

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

	Financial Year ended 31 Dec 2014	Financial Year ended 31 Dec 2013
	€'000	€'000
Operating deficit	(1,284)	(781)
Depreciation	10	7
Increase in Loans and Advances to Customers	(2,505)	(1,589)
Increase in Creditors	26	22
Increase in Debtors	(20)	(77)
Bad debt charge	1,077	462
Guarantee called/callable from EPMF	(491)	(285)
Amount recovered from EPMF	125	21
Total net (outflow) from activities	(3,062)	(2,220)

(b) Reconciliation to net cash as at

	31 December 2014 €'000	31 December 2013 €'000
Cash in hand at the bank	27	17
Liquid resources	4,151	7,241
	4,178	7,258

16. Capital Commitments and contingent liabilities

(a) Capital commitments
There were no capital commitments at 31 December 2014 (Nil : 31 December 2013).

(b) Contingent Liabilities
There were no contingent liabilities at 31 December 2014 (Nil : 31 December 2013).

17. 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 € 3,984 were reimbursed or reimbursable to Directors in relation to expenses incurred in the financial year ending 31st December 2014.

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

18. Board members interest

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 Company Management and therefore the Directors cannot directly influence application outcomes or are they privy to the identity of individual applicants or borrowers.

19. Post Balance Sheet Events

On 23 February 2015, Microfinance Ireland executed a Loan Facility Agreement for a borrowing facility of up to €15m (to be drawn in tranches of up to €5m with the final tranche drawdown no later than 30 June 2017) from its parent company Social Finance Foundation. As part of the facility terms, Microfinance Ireland has executed a Debenture in favour of 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.

On 6 May 2015, Microfinance Ireland drew down the first tranche totalling €5m.

20. Reclassification of comparatives

Comparative figures have been reclassified, where necessary, to conform to current year's presentation.

21. Approval

The directors approved the financial statements and authorised their issue on 12 June 2015.