



Annual Report 2009





Supporting communities and microenterprise through affordable social lending

Millennium Family Resource Centre Ltd. (MFRC) is located in Glengoole, near Thurles, Co. Tipperary. This project is situated in a disadvantaged rural community which includes eleven villages and one small town. Services provided by the Centre include counselling, advocacy, pre-school and after-school services, skill training programmes, family education programmes and eldercare services. Due to the expansion of services, the property required refurbishment and the building of a new wing. Finance has been secured for 75% of the capital cost from a number of different sources, and the loan finance from Clann Credo/Social Finance Foundation is being used to complete the remaining 25% of the funding.

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About the Social Finance Foundation

In July 2006, the Government approved the implementation of the Social Finance Initiative. Announced by the then Minister for Finance in Budget 2006, it established a not-for-profit company (limited by guarantee and having no share capital) to act as a wholesale supplier of funding for social finance. Social finance is about the availability of loan finance at appropriate interest rates to community-based projects and microenterprises. These projects, which generate a social benefit, experience difficulties in accessing loans from mainstream lending institutions. In January 2007, the Social Finance Foundation was incorporated and the Board appointed. Seed capital of €25m was provided by the Banking Industry through the Irish Banking Federation.

As a wholesale supplier of social finance, the Foundation works through Social Lending Organisations (SLOs), which interface directly with the borrowers. Some SLOs have been operating for many years and were pioneers of social finance in Ireland. The primary aims of the Foundation are to support communities and microenterprises in Ireland, where social finance is needed to make the project a reality and to promote a vibrant social finance sector.

Brian Cowen, then Minister for Finance at the launch of the Foundation.





APR 2009

Foundation Directors and Management with An Taoiseach after signing of the Loan Agreement with the Banking Industry

Left to Right: Ken Slattery, Kathleen Prendergast, Peter Quinn, An Taoiseach Brian Cowen, Felix O'Regan, Brendan Whelan, Sheila Nordon, Gerry McGinn, Diarmuid Bradley (absent Cyril Forbes).

Chronology and Highlights

DEC 2005

Minister announces Social Finance Initiative in Budget 2006 speech

JUL 2006

Government approves the Social Finance Initiative

JAN 2007

Company incorporated and Board appointed

FEB 2007

Minister publicly launches Social Finance Foundation

MAR 2007

Banking industry provides €25m to Foundation

AUG 2007

Loan drawings commence with First Step Microfinance

OCT 2007

Loan drawings commence with Clann Credo

APR 2008

Loans approved reaches €5m

MAY 2008

UCIT Ireland and Limerick Enterprise Development Partnership commence operations with Foundation

FEB 2009

Cavan County Enterprise Fund commence operations with Foundation

APR 2009

Foundation signs a twelve year Loan Agreement with the Banking Industry for additional funding of €72m

JUN 2009

Loans approved reaches €13m, with gross loan drawdowns reaching €7.6m



Chairman's Report

BOARD OF DIRECTORS

PETER QUINN (CHAIR)

Business Consultant and
ex-President GAA

DIARMUID BRADLEY

Director of Education - Institute of
Bankers in Ireland

CYRIL FORBES

Deputy Chairman of JLT Insurance
Brokers Ireland Ltd.

GERRY MCGEE

Chairman of Mohill Community
Development Association

SHEILA NORDON

Exec Director of Irish Charities Tax
Research Ltd

FELIX O'REGAN

Head of PR and Public Affairs, Irish
Banking Federation

KATHLEEN PRENDERGAST

Community and Enterprise
Development Officer, South Tipperary
County Council

In this, its second report, the Directors are pleased to indicate the continuing progress made by the Social Finance Foundation, over the thirteen month period ended 30th June 2009.

Like all other organisations with a social and economic remit, the Foundation is impacted by, and must respond to, the environment in which it operates. In economic terms, that environment has proved to be one of the most difficult in the history of the State, and that is giving rise to major social issues too. Given current conditions, the Government's Social Finance Initiative, which resulted in the creation of the Foundation in early 2007, has proved to be timely and prescient; I commend the then Minister for Finance on his foresight. We, as Directors, are strongly committed to ensuring that the Foundation plays a full part in addressing the challenges raised by the current economic difficulties.

Vibrant communities (rural and urban) are a critical part of any nation's social fabric; so too are successful microenterprises. In the latter case, in particular, the combination of social and the economic benefits, which result from replacing dependence on state support with productive employment, have hugely significant implications for both individual and communal confidence and pride, and contribute to a more entrepreneurial and more stable society. It is in that light that we have recently articulated our mission as:

Working with our partners to deliver a strong positive social impact by funding communities and microenterprises with loan finance, otherwise unavailable and to promote the development of a vibrant and broad social finance sector in Ireland.

We feel that we have made good progress in delivering on this mission over the past year. As a wholesale provider of funds, we rely on established Social Lending Organisations (SLOs) to interface with the communities and individuals requiring social finance. The Foundation already funds five SLOs and a small number of others are likely to come on board next

year. Maintaining good working relationships with all our SLOs is crucial to the proper functioning of social finance activity in Ireland and to our contribution to the achievement of the mission indicated above.

We are pleased to report that, between September 2007 and June 2009, loan facilities totalling €12.99m have been approved for the current SLOs of which €7.57m has already been drawn down. The current loans outstanding are €5.86m, the difference being the repayments received to date. The type of projects supported by the Foundation is shown in the chart on Page 7. It illustrates the beneficial nature of social finance provision. In addition, we have supported Clann Credo and First Step Microfinance in promoting and marketing the benefits and availability of social finance. The scope and extent of our support for First Step was broadened to allow it to play a greater role in facilitating the creation of employment opportunities which otherwise would not be realised.

In last year's Annual Report, the issues of future funding and financial sustainability were identified as major strategic issues facing the Foundation; we committed ourselves to addressing them in 2009. We are now pleased to report that, with the crucial support of the Banking Industry, both issues have been addressed satisfactorily. Through the good offices of the Irish Banking Federation, a loan agreement was signed in April 2009; it involves twelve banks providing a total of €72m of funding to the Foundation in equal instalments over the next twelve years, at a rate of interest appropriate to social finance. This is in addition to the initial €25m gifted to the Foundation by the Banking Industry in 2007.

Such new funding will allow the Foundation to promote the development of the social finance sector, in the knowledge that the funding will be there to meet what is likely to be a growing demand in these challenging times. We are extremely grateful to the banks in Ireland for their support for the Social Finance initiative, and we remain entirely confident about the future of social finance in this country and are committed to playing a key role in supporting its growth and development.

The Board has met on sixteen occasions since its inception, eight in the period to which this report relates. The Audit and Credit Committees continue to discharge their duties effectively and I thank the members of both committees for their contribution.

Finally, I wish to thank both my fellow Board members and our excellent staff for the progress achieved to date. I am only too conscious that without their input, support and energetic enthusiasm, the Foundation would not have achieved what we have managed to do, so far.

Peter Quinn
Chairman

Chief Executive's Report

Background

The second year of the Foundation's existence took place in a period of unprecedented economic turmoil, both globally and in Ireland. The impact on the Foundation was reflected in an increase in demand, particularly for Micro Finance, from what is termed the "newly unemployed". It also resulted in increased strain and problem loans appearing in the existing Micro Finance loan book, primarily in respect of businesses, successful in buoyant times, coming under pressure in recessionary times. Longer term community-type lending is proving more resilient, though with some signs of stress in isolated cases. With continued restricted credit in the economy, the role of the Foundation has never been more relevant.

Financial Results

The long term financial plan for the Foundation aspires to have expenditure levels covered by income earned, with bad debts being catered for from capital resources. The only income source for the Foundation currently is interest earned on un-lent funds. The amount earned is primarily determined by the prevailing rates of interest, currently historically low. As a result, income levels will decrease significantly in 2009/10.

The financial budget set by the Board for the 13 months to June 2009 was achieved. For the period, income amounted to €978k; administrative expenses totalled €457k; the charge for bad debt provisions was €528k and a surplus for the year of €10k was generated. This is a very satisfactory outcome in the current environment.

Lending

The lending activities of the Foundation typically, but not exclusively, take two forms. Firstly, finance for microenterprises, where the individual is moving from state dependency to self-employment. Secondly, community finance where there is a shortfall of funds to make a community initiative a reality and Foundation funds bridge the gap.

Since commencement of lending in September 2007, loans totalling €12.99m have been approved by the Foundation for the current SLOs - Clann Credo, First Step Microfinance, UCIT Ireland, Cavan County Enterprise Fund and Limerick Enterprise Development Partnership. Loans drawn down in that period amounted to €7.57m, reflecting delays and cancellations of projects. The current outstanding loans amount to €5.86m reflecting repayments in the period.



A Credit Committee comprising management and three non executive directors oversee all aspects of the lending portfolio including credit policy, individual SLO lending discretions, loan facility approval and the appropriateness of provisioning for bad and doubtful debts based on the information provided by the SLOs. The Credit Committee reports to the Board of Directors.

Independent credit reviews are undertaken with each SLO on a regular basis. Their purpose is to establish the performance and quality of the loans outstanding in order to identify those facilities requiring close monitoring and/or a financial provision in the accounts. Given the nature of the projects financed, default rates are expected to be higher than those experienced in commercial banking. This has historically been the case with social finance in Ireland and other countries. A bad debt provision of €528k for the year ended 30th June 2009 has been charged to the profit and loss account, giving a total provision on the balance sheet of €695k, inclusive of a contribution from one of the SLOs under the risk sharing agreement. This overall provision takes account of the various risk sharing arrangements agreed with the SLOs.

We are not expecting any improvement in the coming year, with impairments and bad debt provisions continuing to remain above the historical average. Given the state of the Irish economy, there will be a strong emphasis on ensuring credit quality in new loans advanced and on monitoring the existing loan book closely.

Strategic Review

The long term funding and financial sustainability of the Foundation were identified by the Board in 2008 as the key strategic issues facing the Foundation. The growing demand for social finance, combined with the trend in community

Pictured (L to R): Pat Farrell, Chief Executive Officer - Irish Banking Federation, Ken Slattery, Credit and Operations Director, Social Finance Foundation and Brendan Whelan, Chief Executive Officer - Social Finance Foundation, at the signing of the Loan Agreement with the Banking Industry.

lending for much longer loan terms, often up to fifteen years, meant that the original seed capital of €25m was projected to be fully lent by 2011/12.

A range of options was evaluated for increasing the funds available to the Foundation. In the end, the Banking Industry offered to provide loan funding totalling €72m over 12 years at €6m per annum. These loans from twelve banks are repayable in 144 equal monthly instalments over a 12 year period and carry a discounted interest rate, reflecting the nature of social finance. This has proved to be a very satisfactory arrangement, as it provides certainty of funding to meet a growing demand.

In 2009, the Foundation became a member of Philanthropy Ireland (PI). Work will now take place with PI to determine whether opportunities exist for philanthropists to lend money to good causes, rather than grant money. The Foundation is exploring opportunities to act as a vehicle for such monies to be directed at projects, with possible guarantees available around capital preservation and return.

Social Impact

The Foundation ensures that all the loans it funds through SLOs have a clear social impact. Criteria have been established for evaluating the social impact of any loan proposal. They are:

- > Assisting disadvantaged and vulnerable segments of our population
- > Building strong local communities (rural and urban) and providing opportunities for individuals, especially those with low to moderate incomes

- > Enterprise development, for communities and appropriate individuals, where there is an employment element, particularly for lower income individuals in economically challenged areas, where normal job prospects are difficult
- > Enterprise development, where there is an employment element, to deal with the severe difficulties of unemployment arising from the economic downturn
- > Funding cannot be obtained from mainstream institutions or comes with onerous conditions

The nature of the projects supported by the Foundation through the SLOs is shown in the chart on Page 7. While no hard data is currently available to quantify the social impact, it is clear from the chart that the funds are being directed to the appropriate areas in Ireland's social economy.

Operations

Modern IT systems are in place for loan processing and financial accounting. All banking transactions are executed electronically. Operational risk assessments are conducted annually to ensure that risks are identified and mitigated to the greatest extent possible. The goal is to run a cost efficient and well managed organisation.

The Foundation moved its offices in April 2009 to its new address at 6-9 Trinity Street Dublin 2. The web site was completely revamped from its initial basic configuration and now is a contemporary web site, with relevant information available. Azli Long left the employment of the Foundation in April 2009, replaced by Celia McCarthy. I thank Azli for the formative role he played in the inception of the Foundation and wish him well for the future. I likewise welcome Celia on board.

Finally, I would like to express my appreciation to the Irish Banking Federation and its member banks, Departments of Finance and An Taoiseach, each SLO and Arthur Cox for their support for the Foundation.

Brendan Whelan
Chief Executive Officer

APR 2009

With An Taoiseach after signing of new Loan Agreement with Banking Industry

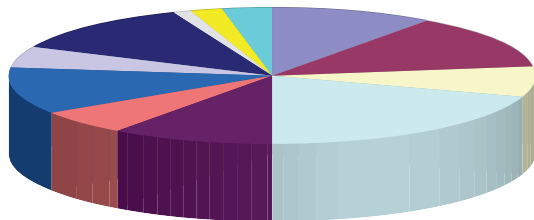
Left to Right (Foundation Members unless stated otherwise): **Helen Matthews, UCIT, Ken Slattery, Kathleen Prendergast, Peter Quinn, Jerry Butler, Clann Credo, An Taoiseach, Brian Cowen, TD, Sheila Norden, Paul O'Sullivan, Clann Credo, Brendan Whelan, Jennifer Hennessy, Clann Credo, Felix O'Regan, Irish Banking Federation, Diarmuid Bradley, Gerry McGee.**



Lending Information

PURPOSE OF LENDING

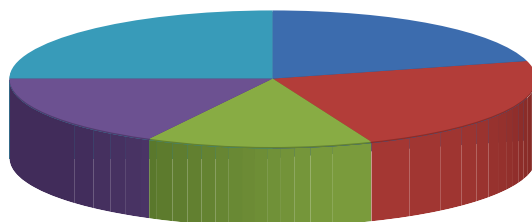
The nature of the Foundation's lending is shown in the table below. The Foundation is very conscious of its obligation to ensure that monies are utilised in areas where they will have a high social impact. The table illustrates that this is being achieved.



Micro Finance	10%
Childcare	13%
Elderly Care	7%
Community Centre	20%
Community Sports	10%
Community Arts & Tourism	6%
Community Enterprise	11%
Addiction Treatment	5%
Special Needs	12%
Voluntary Assoc	1%
Housing for Homeless	2%
Other	3%

LENDING DISTRIBUTION

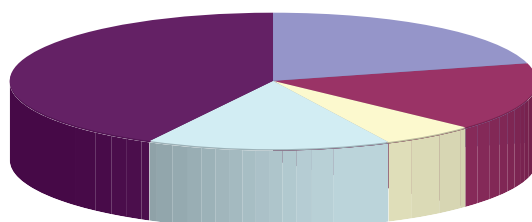
The Foundation strives to achieve a balanced distribution of funds throughout the State and the chart below illustrates that this is being broadly achieved.



Connaught	21%
Dublin	23%
Leinster	14%
Munster	17%
Ulster	25%

MATURITY ANALYSIS

The terms of the loans by the Foundation have turned out to be longer than originally anticipated. This has resulted in the monies being "tied up" for long periods and thus unavailable for re-issuance to others. Hence the twelve year loan agreement with the Banking Industry for the long term funding of the Foundation. 57% of Foundation loans are for periods of six years or greater, with 42% for periods in excess of ten years.



<1 Year	21%
1-3 Years	16%
4-5 Years	6%
6-10 Years	15%
11-15 Years	42%

Financial Information

The financial information shown does not constitute full accounts within the meaning of the Companies Acts. This information has been extracted from the audited financial statements of the Social Finance Foundation for the periods ended 31 May 2008 and 30 June 2009.

Financial statements for the period ended 31 May 2008 and 30 June 2009 have been delivered to the Registrar of Companies in Dublin.

The auditors, PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, One Spencer Dock, North Wall Quay, Dublin 1 have given unqualified audit reports in respect of each of the said years.

Copies of the full audited financial statements can either be obtained by writing to the Credit & Operations Director of Social Finance Foundation at 6-9 Trinity Street, Dublin 2, www.sff.ie or from the Companies Registration Office at their web site, www.cro.ie

PROFIT AND LOSS ACCOUNT

PERIOD FROM 1ST JUNE 2008 TO 30TH JUNE 2009

	2009 13 Months €000	2008 17 Months €000
Interest Receivable	978	1,256
Interest Payable	-	-
Net Interest Income	<u>978</u>	<u>1,256</u>
Administrative Expenses (incl. once-off set up costs in 2008)	(457)	(944)
Other operating income	-	25,000
Loan Loss Provisions	(528)	(167)
SLO contribution to loan losses	<u>17</u>	<u>-</u>
Profit on ordinary activities before tax	10	25,145
Tax on profit on ordinary activities	-	-
Profit for the Period	<u><u>10</u></u>	<u><u>25,145</u></u>

BALANCE SHEET AS AT 30TH JUNE 2009

	30th June 2009 €000	31st May 2008 €000
FIXED ASSETS		
Tangible assets	<u>12</u>	<u>8</u>
CURRENT ASSETS		
Loans and advances to customers net of provisions	5,160	2,852
Other debtors	324	246
Short Term Deposits	19,736	22,222
Cash at bank and in hand	<u>28</u>	<u>25</u>
	<u>25,248</u>	<u>25,345</u>
Creditors - amounts falling due within one year	<u>(105)</u>	<u>(208)</u>
Net Current Assets	<u>25,143</u>	<u>25,137</u>
Total Assets less Current Liabilities	<u>25,155</u>	<u>25,145</u>
Creditors - amounts falling due after more than one year	-	-
NET ASSETS	<u><u>25,155</u></u>	<u><u>25,145</u></u>
CAPITAL AND RESERVES		
Profit and Loss Account	<u>25,155</u>	<u>25,145</u>
	<u><u>25,155</u></u>	<u><u>25,145</u></u>



Offaly Westmeath Craft & Design Ltd

Offaly Westmeath Craft & Design Ltd. (OWCD) is a collective of craft makers, with dedicated marketing and developmental support expertise. The project comprises the establishment of a regional outlet to help build the confidence and economic stability of craftspeople in the Offaly and Westmeath region. It aims to have a positive influence on enabling craft businesses be proactive in growing their individual enterprises. The company also plans to lease a café-type facility within the building to a private provider at an appropriate annual rent. The Foundation funding was channelled through UCIT Ireland which identified and supported the project.



**Social
Finance
Foundation**

6-9 Trinity Street, Dublin 2

Tel: +353 (0)1 617 7983

Fax: +353 (0)1 617 7984

Email: info@sff.ie

Web: www.sff.ie

Social Finance Foundation is a company
(No. 433581) limited by guarantee and
registered as a charity - No. CHY 17272

Brendan Whelan
Chief Executive Officer

Ken Slattery
Credit and Operations Director

Celia McCarthy
Accountant

