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GIRAFE Assessment | NADSME, Slovakia | June 2012

Global assessment

Average

Assessment summary

NADSME is adequately managed by an experienced and skilled team. The institution has developed a new credit methodology which addresses the main weaknesses of the previous one. However, due to delays in the decision-making process, its implementation is still pending. NADSME should develop a clear strategy for the years to come including financial projections, growth objectives and funding needs in order to have more visibility on the future financial performance and sustainability of the institution. Specific objectives and indicators could also be further developed in order to monitor the social performance of the institution.

Assessment per domain	Areas for improvement
G	▪ Write-down the strategy of the agency for the coming year and translate it into a detailed Business Plan, including financial projection and operational targets. ▪ State clear goals to achieve for the whole staff.
I	▪ Improve the timely availability of the information. ▪ Detail the social mission objectives into measurable indicators and targets.
R	▪ Develop manuals for each department and make sure that the procedures are well disseminated to the partners. ▪ Make sure that sufficient controls mechanisms are in place to mitigate the risk linked to the concentration of tasks and responsibilities at the partners' level. ▪ Involve the Internal Audit Department in the reporting to the Board.
A	▪ Enforce the provisioning policy and monitor it carefully. ▪ Put in place a write-off policy. ▪ Put in place some limits in terms of concentration of the portfolio.
F	▪ Increase the level of outreach of the agency. ▪ Broaden the range of credit products in order to adapt to specific needs of clients. ▪ Monitor the retention rate of the clients and carry out exit surveys. ▪ Shorten the delays between the loan application and the loan disbursement. ▪ Communicate more on the client protection principles at the partners' level, specifically regarding complaint resolution mechanisms.
F	▪ Diversify the sources of funding in order to ensure the growth of the activity. ▪ Develop a liquidity management system.
E	▪ Diversify the sources of revenues in order to reduce the dependency on subsidies. ▪ Strengthen the relationship with the implementing partners of the microloan scheme.
S	▪ Put in place some indicators to monitor more precisely the performance of SMEs which received a loan from NADSME (SME survival rate, number of jobs created and sustained, etc.)

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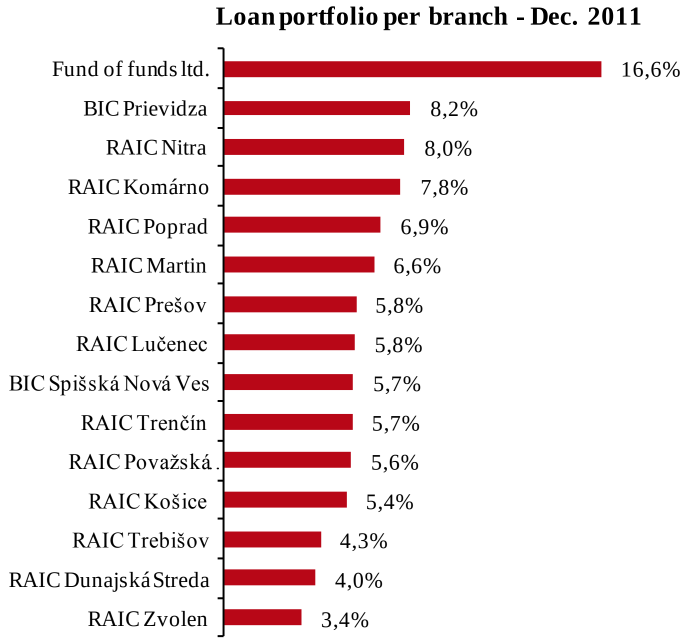
Institutional presentation

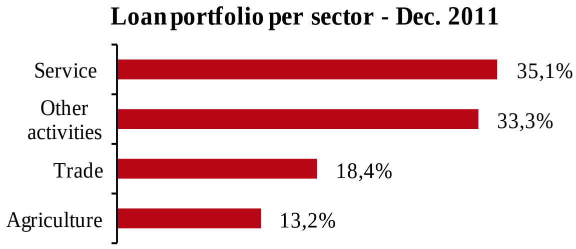
The National Agency for Development of Small and Medium Enterprises (NADSME) was created in 1993 by a mutual initiative of the European Union and the Slovakian government with the mission *to support the development and growth of the SME sector by means of increase of their competitiveness, facilitation of the access to capital and penetration into new markets.* Launched in 1997 with resources from EU PHARE Programme and the State Budget, the Micro-Loan Program has been suspended in 2010 to be redesigned under a new scheme to be implemented. As of March 2012, 356 loans were still outstanding, representing a total amount of 4.1 M EUR.

Legal form	Originally established as a Foundation on January 28th, 1993, NADSME turned into an association of legal entities[1] on July 30th, 1997.
Supervision	As a governmental agency, NADSME is operating under the supervision of the Slovak Ministry of Economy. Acting as a non-profit organization, NADSME is not regulated by the Central Bank.
Audit	NADSME's financial statements have been audited for the past five years without qualifications by Mr. Peter Kralik, member of the Slovak Chamber of Tax Advisors. The financial year starts on January 1st and ends on December 31st.
Ownership	As an association of legal entities of a non-profit character, NADSME does not have owners.
Board of Directors	The Executive Council is the main governance body of the agency. Their five members are appointed by the Assembly of Representatives, supreme body of the institution: three of them are appointed by the Ministry of Economy of the Slovak Republic and the two others by the Slovak Craft Industry Federation and the Entrepreneurs Association of Slovakia, as co-founders. The President of the Executive Council is Dr. Miroslav Poláček. Advisor of the Minister of economy, Dr. Poláček has been elected at the Executive Council on July 1st, 2011.
Donations	Donations have been provided by the Ministry of Economy of the Slovak Republic for a total amount of 12 M EUR. In 2008, the Ministry of Labour, Social Affairs and Family granted 57 K EUR to NADSME for the implementation of sector's social projects financed via structural funds.
Funding composition	The funding is mostly composed of equity (98%), which represents the accumulated retained earnings from the State Budget and the European Commission. The Micro-Loan Program funds were originally co-financed by the by European Union within the PHARE Pre-accession Program and the State budget through revolving funds. There were seven replenishments from the EU funds (38.4 M EUR) and six replenishments from the State budget (29.8 M EUR) for the Micro-Loan Program for a total amount of 68.2 M EUR. After an amendment to the EC MoU in 2009, the ownership of the funds from the PHARE Program was transferred to the Slovak Republic under the responsibility of the Minister of Economy.
Management team	The management team is composed of 3 members including the General Director, the Finance Director, and the Director of National and International Programmes Section. A new General Director, Mr. Arpád Gonda, was appointed in June 2012. Mr. Gonda holds an Engineer's degree from the Faculty of Electrical Engineering and Information Technology of the Slovak University of Technology. Mr. Gonda previously worked during two years as Director of the Control of Structural funds in NADSME. He is the former General Director of the Slovak Standards Institute.

[1] An association of legal entities is combining partners from various sectors (state, public, private, non-profit) in one subject.

Organization	NADSME's headquarters are based in Bratislava. The Micro-Loan Program's implementation is done through a network of 3 types of cooperating institutions (mentioned below as partners): Regional Advisory and Information Centers (RAIC), Business Innovation Centers (BIC), and First Contact Centers (FCC), which provide business development services and microloans. Part of the loans are also disbursed through Fund of Funds, a daughter company, owned at 100% by NADSME, and specialized in venture capital. Till mid 2010, before the disbursements were stopped, the partners were in charge of managing all the aspects of the loan (application, credit decision, follow-up, and recovery). With the upcoming methodology, NADSME will be in charge of the credit decision and the recovery process. The partners will remain the key contact with the client but their main responsibility will be the pre-selection of the applications.
MIS	The Management Information System, named Manažérsky Informačný System (MIS), was designed by Topsoft and tailored to NADSME's needs. It is web-based. Microsoft Dynamics NAV is used for the accounting. MIS and Microsoft Dynamics NAV are not integrated.
Market penetration	NADSME operates in the eight provinces of the country thanks to its network of partners that are present nationwide.
Products and services	NADSME is offering only one microloan product. It has been tailored for SMEs up to 50 employees and turnover up to 10 M EUR. The loan size ranges from 2,500 to 50,000 EUR for a period between 6 and 48 months. Interests are calculated on a declining basis. The nominal interest rates range from 2.27% to 10.17%, and the APR from 2.9% to 15.2%.
Non financial services	NADSME is managing several programs that offer non-financial services for SMEs such as training, counseling, (see "Business development services").
Networks	NADSME is cofounder of the Slovak business Angels network, member of the Enterprise Europe Network, and is supporting the EU Network Of Female Entrepreneurship Ambassadors.





▪ Governance

Governance is assessed as **need for improvement**

Social mission

- ▪ Although social goals are not clearly defined in the mission, NADSME has the intent to have a social impact by supporting the development and growth of the SME sector.
- \+ The social mission clearly states the means by which NADSME wants to achieve its goals: “increase of their competitiveness, facilitation of the access to capital and penetration into new markets”.
- \+ In-depth studies on the Slovakian SME market are carried out annually by NADSME’s Business environment and analysis department.
- \+ The composition of the Executive Council (Ministry of Economy, Slovak Craft Industry Federation and the Entrepreneurs Association of Slovakia) ensures a good knowledge of the main challenges of the sector.
- – The mission does not cover any kind of social responsibility practice, like client protection, client relationship management, staff management or environmental impact. However, a project focused on the mainstreaming of Corporate Social Responsibility (CSR) norms in the SME sector is being been implemented.
- \+ The mission is well disseminated through various communications channels (website, leaflets).
- ▪ NADSME did not update its mission since inception as the target and the challenges of the sector remain the same.

Decision making

- \+ NADSME is adequately governed by the Executive Council whose members share its mission and vision.
- \+ Board members have sufficient technical and managerial skills, and diversified experiences, specifically in the field of SMEs, as two of them represent the Slovak Craft Industry Federation and the Entrepreneurs Association of Slovakia.
- \+ Detailed monitoring information is sent to the Executive Council before the meetings that are hold on a quarterly basis.
- \+ All decisions taken are stated in detail within the Executive Council minutes and are well monitored and complemented by the verifications of the Supervisory board.
- ▪ The statutes have been recently modified so that decisions have to be approved by at least two members from the Ministry of Economy to be validated, which reinforces its power within the Executive Council.
- – Consequently, all decisions have to be approved by the Ministry and 3 out of 5 members’ nominations can be impacted by political changes. This situation might create instability and delay the decision-making process. Due to anticipated elections in March 2012, the approval of the new microloan scheme has been delayed and its implementation is still pending.

Planning

- ▪ Since the Micro-Loan Program has been put on ice in July 2010, NADSME has faced in-depth changes (renewal of the management team and the Board members, institutional changes). Due to this situation it has been difficult to build a long term strategy.
- – NADSME does not have a detailed Business Plan. There is only a one-page document that summarizes the strategy of the agency regarding the microloan scheme.
- – There are no precise financial projections for the Microfinance program, nor operational targets available for the next three years. Despite the fluctuant economic situation related to the crisis in the EU, there is no scenario analysis.
- ▪ Each of the 9 programs of NADSME has its own budget. Budget follow-up for the microloan program used to be monitored by the partners, who were in charge of managing the funds transferred from NADSME in the old scheme. In the new scheme, the elaboration and follow-up of the budget will be managed at the head office as the funds will be managed directly by NADSME.

Management team

- \+ The managers have a strong knowledge and relevant experience, and are adequately assisted by skilled middle managers.
- \+ Regular meetings are held monthly within department directors to discuss key issues. Additional meeting are organized when needed.
- \+ Brainstorming sessions are performed regularly within each department and discussed during the monthly management meetings. This contributes to improve the communication within the teams.
- \+ Division of tasks is appropriate within the agency. There is as well a good teamwork within the microloan program department.

- Key-person risk is mitigated by skilled managers but the appointment of the General Director by the Executive Council is linked to political changes and this situation can create instability.
- – Execution track record is difficult to assess given the absence of strategy. The goals could be stated more clearly in order to increase the motivation of the staff.

Human resource management

- Despite the lack of written rules for each procedure, the HR department is managed in a professional way.
- + The recruitment process is well designed. Detailed job descriptions are available for each position. Interviews are held by the HR and department director and the General Director takes the final decision.
- There is a detailed training plan with a dedicated budget that benefits mostly to middle and top managers.
- + A monthly evaluation is made by department directors and an annual face-to-face dialogue is organized with the General Director. Moreover, there is a self-evaluation at the beginning of the year and an annual assessment at the end.
- There are no formal staff satisfaction surveys but suggestion boxes are available periodically.
- The salaries include all social benefits as per the law and annual increases are done every year based mainly based on individual performance, inflation, seniority and labor market development, and NADSME financial capabilities.
- + Team building events are organized regularly during the year in order to motivate the staff. The microloan program department is well staffed for the time being but new staff will have to be recruited as soon as the program starts.

Areas for improvement

- Write-down the strategy of the agency for the coming year and translate it into a detailed Business Plan, including financial projection and operational targets.
- State clear goals to achieve for the whole staff.

Information

Information is assessed as **average**

- + The information system for loan tracking is well-designed, available on-line, and is used by the whole network of branches.
- The MIS provides an acceptable level of data for the microloan program (disbursements, outstanding portfolio, principal, interests, commissions, NPL, etc.) per region and per branch, per LO.
- Delays can happen in the production of the portfolio information due to the lack of harmonization in the data entry from one center to another. But overall the information is consolidated on a monthly basis which allows a good monitoring of the performance. Those delays in the production of the information should be minimized in the new scheme thanks to the centralization of the data entry at NADSME level.
- There is no consolidation of the financial statements of the partner’s as they act as separate entities. At HQ level, financial statements for all programs are consolidated on an annual basis.
- The MIS is easy to upgrade for minor changes (interest rates, payment frequency, etc.), which can be done internally. More complex modifications like the introduction of a new product are done in cooperation with the software company.
- + The security of the information is ensured through restricted access to the MIS, personal passwords for each staff, and antivirus for each computer.
- + Backups are done four times a day on the server located at NADSME’s headquarters. This mitigates the risk of information loss.

Social Performance Monitoring

- – The social objectives of the agency are not translated into specific indicators and targets.
- + NADSME is monitoring basic social indicators regarding the clients (gender, age, urban / rural), which are integrated in the MIS.
- The number of planned and effective jobs creations will be monitored under the new scheme through annual survey.
- – The reliability of the social indicators produced is not verified by the internal audit team.

Areas for improvement

- Improve the timely availability of the information.
- Detail the social mission objectives into measurable indicators and targets.

▪ Risk management

Risk management is assessed as **satisfactory**

Procedures and internal controls

+ The main risks faced by NADSME are well identified in a comprehensive matrix of risks, which is updated every year by the Monitoring and Auditing Support Program department.
+ The matrix takes into account general risks related to the implementation of all programs (type of organization, documented procedures, organization of work, qualification of personnel, institutional audit findings) and specific risks for each program individually. Each criterion is then classified according to its level of risk (from low to high) and each program receives a global assessment of its risk.
▪ For the microloan program, the main risks identified in 2011 were the predominance of the state budget in the program funding and the complexity of the project. Overall, the level of risk for the microloan scheme is qualified as medium.
– Procedures are not always formalized in a manual (human resources policies, liquidity management) and are not always applied in a standardized way at the partners' level.
▪ The quality of the information can vary from a partner to another. It is not always fully reliable due to a lack of supervision. The data entered in the MIS is only partially checked by the Monitoring and Auditing Support Program department during the partners' visits
▪ In the old scheme the partners were in charge of the reconciliation within their own accounting and the MIS, which created some minor errors. Under the new scheme, NADSME portfolio will be part of NADSME receivables so the reconciliation will be done at NADSME level, which will minimize the risk of mistakes.
– Separation of tasks is not fully ensured as some partners have only one staff in charge of the loan management. This situation has led to cases of fraud by the past, which have been correctly addressed in the new microloan scheme by double-checking the applications received by the partners.
▪ Although it was not the case in the past, hierarchical controls and limitation of powers will be ensured under the new scheme through a bigger involvement of NADSME in the different steps of the loan management from approval till repayment process (see "Activities").

Internal audit

+ Audit procedures are described in details in the manual of controls, and an audit plan is elaborated on a yearly basis.
+ The Monitoring and Auditing Support Program department (hereafter referred to as "Internal Audit" or IA) is composed of four auditors who have sufficient skills to perform their duty.
▪ The size of the team is sufficient regarding the current level of activities but could need to be strengthened with the restart of the microloan scheme.
+ Each partner of the microloan scheme is visited once a year on average with a focus on the partners where the highest risks or problems have been identified. Comprehensive reports are produced after each visit and follow-up on the recommendations is performed with the branch manager during face to face meetings.
+ In case of non application of the recommendations, NADSME can contractually impose penalties or take sanctions against the partners.
▪ In the old microfinance scheme, the internal auditor did not have the possibility to visit clients as the loan contract was done with the partner. In the new scheme the contract will link directly NADSME and the clients, which will allow the auditors to do clients visits.
– The IA department reports directly to the General Director, which does not fully guarantee its independence.
+ IA reports are complemented by inspections from the Ministry of Economy.
– The external auditor limits its control to NADSME headquarters and does not visit the partners as they are different legal entities. According to Slovakian regulation there is no need for them to be audited.

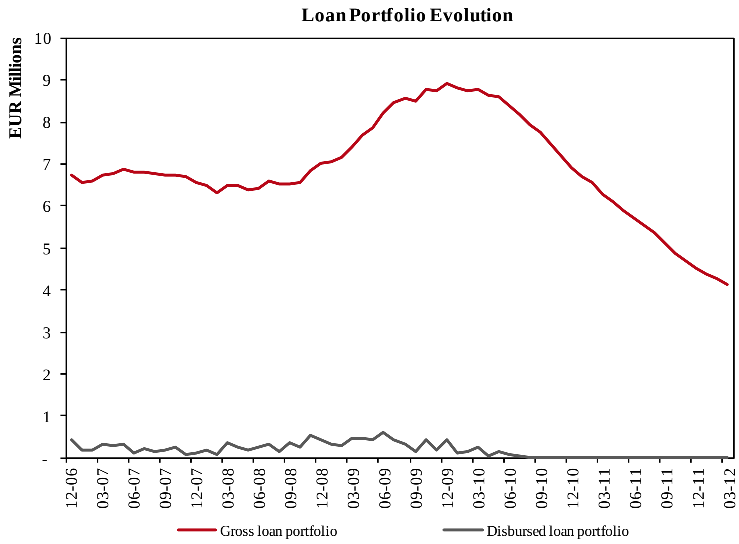
Areas for improvement

- Develop manuals for each department and make sure that the procedures are well disseminated to the partners.
- Make sure that sufficient controls mechanisms are in place to mitigate the risk linked to the concentration of tasks and responsibilities at the partners' level.
- Guarantee IA independence by having it the reporting to the Board.

▪ Activities

Activities is assessed as **need for improvement**

Loan portfolio evolution



After a stable period in 2007 and 2008, NADSME's portfolio experienced an important growth in 2009 (+26.9%). This growth can be explained by the reduction of the loans granted by the banking sector to SMEs following the financial crisis, which benefited to NADSME. In 2010, the disbursements started to decrease significantly till July 2010, when the last loans were disbursed. The portfolio consecutively decreased from 8.9 M EUR as of December 2009 to 4.1 MEUR as of March 2012, representing 356 loans. 73% of the portfolio (3 M EUR) is composed of late loans. 82.6% of the portfolio is on the balance sheet of external partners (RAICs and BICs). The remaining 17.4% is the portfolio of Fund of Funds, NADSME's daughter company, and sits on NADSME's balance sheet. When the lending activities will restart, the rest of the porftolio will be progressively transferred to NADSME, according to the new agreements.

Loan portfolio management

- ▪ In 2010, in the framework of the implementation of the new microloan scheme, NADSME redesigned completely its credit methodology in order to improve the control mechanisms. A first version of the new methodology has been approved by the Executive Board in April 2010 but the final version still needs to be validated.
- \+ The new credit methodology is well designed and addresses the main weaknesses of the old methodology (basic evaluation of the repayment capacity, lack of centralization of the procedures at the partner's level, basic approval process).
- \+ The evaluation of the repayment capacity includes a strong qualitative and quantitative analysis of the client business plan (potential market, financial projections, etc.). The balance sheet and profit and loss statement of the last two accounting periods are analyzed for legal entities. For sole entrepreneur clients the analysis includes also personal income and expenditures.
- \+ A detailed scoring system has been developed with an external consultant. It defines automatically the eligible interest rate, and loan amount of the client, based on the analysis of the financial information mentioned above and on the analysis of the collateral provided.
- \+ The business analysis is complemented by field visits at the client's workplace to check the veracity of the information.
- \+ The approval process includes several steps that allow an appropriate credit decision. NADSME's partners are first in charge of checking the documentation provided by the client and making a first analysis of the application. An internal credit committee is held and recommendations are sent to NADSME. A second credit committee is held at NADSME's headquarters. It involves most of the heads of departments (finance, legal, microloan, regional cooperation), all with voting rights, and two additional employees without vote depending on the nature of the application. The final decision has to be approved by the General Director.
- ▪ Checks on clients' history are not implemented yet but are planned to be done in the future through the Universal Register of Slovak Republic.
- \+ The monitoring of the loan is done partly by the partners who are in charge of checking the appropriate use of the loans and to send follow-up reports to NADSME on a quarterly basis.
- \+ Unlike the old methodology, in which the recovery process was done by the partners, the repayment of the loans will be now centralized at NADSME level. The methodology details clearly all the steps the partners have to follow to recover the late payments (phone calls, notice letters, reminders). After 90 days of lateness, the management of delinquent loans will be done by an external specialized company.

- Loans officers who are often branch managers have generally a long experience within the centers and sufficient skills. NADSME is planning to do a 4-5 days workshop at the partners' level in order to disseminate the new procedures.
- As part of the responsibilities of the partners has been transferred to NADSME in the new methodology, the microloan department needs to be reinforced to ensure a good follow-up of the loans.
- NADSME does not offer any other financial services to its clients like savings, transfers, or insurance.

Credit risk

– Till the end of 2009 (NADSME stopped to disburse in July 2010), NPL 90 stood at a high level, varying from 24% to 28.2%, including reschedules loans and write-off.
– As of December 2012, 70% of NPL 365 is composed of loans with more than three years overdue. This can be explained by the absence of write-off policy. Those loans which are very unlikely to be recovered represent 1.3 M EUR.
– In addition, the NPL 90 for the long-term investments of Fund of Funds reaches 5.2 M EUR as of December 2011. Overall, NPL 90 represents 10% of NADSME equity.
- Rescheduling mechanisms exist but there is no monitoring of the amount and exact number of rescheduled loans. The decision to reschedule has to be approved by the credit committee on a case by case basis.
- NADSME did not put in place any specific limits in terms of portfolio concentration (by activity or by geographical area) but the credit committee monitors closely the main economic changes that can have a negative impact on their clients.
- In order to mitigate the conflicts of interest, the members of the Credit Council cannot receive a loan from NADSME or act as an intermediary for loans to third parties as stated in the manual of procedures.
- Two members of the same household can receive a loan at the same time but they have to use different collaterals.

Credit risk coverage

- There is no loan loss reserve in NADSME's balance sheet because in the old scheme the credit risk was borne by the partners. However, in the new microloan scheme, the receivables will be transferred from the partners to NADSME.

– A provisioning policy has been defined in the old methodology but it is has never been applied in a standardized way because it was NADSME partners' responsibility to chose to apply it or not.
– It was not possible to calculate the level of provisions at the partners as this information is not entered in the MIS but only in the accounting of each partner which are not consolidated.
- In addition to the provisioning policy, additional legal reserves can be made, depending on the risk level of each client (from 25% to 100% of the loan amount), and regardless of the status of the loan (regular or late).
- All loans are secured with collateral (from 100% to 140% of the loan amount depending on the scoring of the client). The process to recover the assets of the clients can be long due to the slowness of the juridical procedures.
- There is no additional insurance provided to the client.

Areas for improvement

- Enforce the provisioning policy and monitor it carefully.
- Put in place a write-off policy.
- Put in place some limits in terms of concentration of the portfolio.

Financial inclusion & client protection

Financial inclusion & client protection is assessed as **average**

Outreach to the underserved

- Although studies have been carried out at the European Union level and by the agency in the past, updated statistics on the difficulty to access credit for SMEs are not available. In order to fill this gap, in the new microloan scheme put in place by NADSME, the clients will have to provide detailed information on this topic.

– With 356 active loans as of December 2011, NADSME's outreach is low in comparison to the potential of the market. In 2010, there were 384,202 small trade licensees, and 142,417 SMEs in Slovakia,[2] but due to the lack of statistics it was not

[2] Source: NADSME, Report on the State of Small and Medium Enterprises in the Slovak Republic in 2010.

possible to calculate the number of SMEs that have difficulties to access financial services through the regular banking system.

+ Thanks to its network of partners (BIC and RAIC), NADSME covers all the regions of the Slovak Republic.
▪ As of March 2012, 60.4% of the clients are located in urban areas. NADSME did not fix any specific target regarding its outreach to the rural areas.
▪ NADSME is targeting SMEs with less than 50 employees and a turnover below 10 M EUR. Although it does not focus on a specific segment of the population, the agency promotes the women entrepreneurs by supporting the network of female entrepreneurship ambassadors. A product dedicated to young graduates that are specifically hit by unemployment in Slovakia[3] is also under development.
▪ By providing loans to unemployed people who received dedicated training courses for start-up entrepreneurs through the RAICs, NADSME is indirectly targeting unemployed people. However, NADSME does not track the status or number of previously unemployed people to whom it granted a loan.

Adaptation of services

+ NADSME has a good knowledge of the SME sector thanks to a dedicated business analysis department that publishes every year a report on the state of SMEs in the Slovak Republic.
+ Founders and Executive Council members from entrepreneurs associations have been involved in the design of the loan product.
– Only one product is offered at present:
    + The conditions of the microloan are quite flexible: amount from 2,500 EUR up to 50,000EUR, duration from 6 months to 4 years, grace period up to 6 months, and repayment schedule adapted to the activity of the client.
    + Loans can be used for various purposes such as equipment purchase, maintenance of operating premises, reserves of material, movable and real estate investment property and other investment projects approved by NADSME.
    – Collateral requirements are quite demanding as the value of the guarantee should be between 100% and 140% of the loan, depending on the scoring of the client.
▪ A specific loan product is currently being designed to address young entrepreneurs' needs in terms of frequency of payment and collateral conditions.
+ Satisfaction surveys will be conducted on an annual basis under the new microloan scheme.
▪ There is no specific department in charge of product development, but a new product towards young graduate is currently being designed by the microloan department and is supposed to be tested in the coming months.
– NADSME does not monitor of the retention rate of its clients.

Cost of services

+ NADSME is charging competitive interest rates compared to commercial banks, although the comparison is difficult due to the lack of detailed statistics. Nominal annualized rates range from 2.3% up to 10.2 % for NADSME, and from 4.7% up to 15.3% for commercial banks.[4] NADSME interest rate is calculated as the sum of the base rate of the European Commission published monthly (1.67% as of May 2012), and a margin based on the scoring of the applicant and the level of collateral offered.
▪ The average APR ranges from 2.9% to 15.2%, depending on the margin applied to the client.
+ Commissions are not excessive. The application fee ranges from 35 to 70 EUR, depending on the partners, and the disbursement fee represents 1% of the loan amount.
▪ Transaction costs are low due to the disbursement and repayment method that are done mainly through bank transfers. Although the number of partners is limited, NADSME is covering all the regions of Slovakia and has also opened first contact partners in the places where there are no BIC or RAIC.
– In the old microfinance scheme, most of the loans were disbursed between three weeks and eight weeks, with an average of five weeks. Sometimes clients had to wait several months before to get a loan as some partners kept collecting applications while no funds were available.

[3] The youth unemployment rate (under 25) in Slovakia is 36.4% in Q1 2012 against 22.4% in the European Union (Source: Eurostat).
[4] Source : Central Bank of Slovakia; from 4.7% for loans to non-financial corporations (up to 1 M EUR from 1 to 5 years), to 15.3% for consumer loans to households (from 1 to 5 years);

Client protection

Overall, NADSME has put in place some internal policies towards client protection but it is difficult to enforce them in a standardized way at partners' level.

- *Prevention of over-indebtedness:* NADSME has put several measures in place to prevent the risk of over-indebtedness: careful analysis of the client repayment capacity, prohibition of multiple loans, rescheduling mechanisms. The Slovak Banking Credit Bureau (SRBI) is available only for banks but NADSME is planning to subscribe to the business information portal Universal Register Plus, which also provides information on the credit history of several commercial companies and individuals. NADSME does not offer specific insurance to the client to cover the loan reimbursement in case of unexpected event (death, accident, natural disaster, etc.).
- *Transparency of services:* The loan contract mentions the nominal interest rate, the 1% disbursement fee commission, and the penalties for late loan (0.05% of the outstanding loan amount per day). The repayment schedule is basic as it only provides the amount to be paid and the balance due for capital and interest. According to the law, APR has to be communicated to the clients only for consumer loans, thus it is not disseminated to the client.
- *Responsible pricing:* As a non-profit organization, NADSME's objective is not to make profit. Revenues are partly used to cover the administrative costs and partly reinvested in the program. The interest rate is not excessive and is not higher than the market.
- *Fair and respectful treatment of clients:* Risks of inappropriate collection practices might exist due to the externalization of the recovery of delinquent loans. But the strict legislation in the European Union clearly mitigates this risk. There is no code of ethics but the agency promotes an ethical staff behavior. Nevertheless, the application of these principles is difficult to enforce at the partners' level.
- *Privacy of client data:* NADSME does not share any data of its clients outside the agency. Client files are kept in locked cupboards in the branches and will be transferred progressively to NADSME headquarters in the framework of the new microloan scheme.
- *Mechanisms for complaint resolution:* Some mechanisms have been put in place to submit a complaint (hotline, email) but they could be better communicated at the partners' level.
- *Ethical finance:* Loan applicants have to provide background information such as criminal record, income tax return, and social insurance declaration. Additional authentication checks are planned through the "Universal Register Plus" subscription service. The reputation risk linked to funding sources is limited as the sole funders are the Ministry of Economy and the European Commission. There is no written rule regarding the funding of prohibited or unethical activities.

Areas for improvement

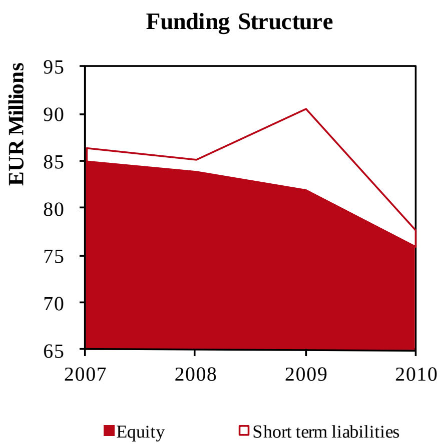
- Increase the level of outreach of the agency.
- Broaden the range of credit products in order to adapt to specific needs of clients.
- Monitor the retention rate of the clients and carry out exit surveys.
- Shorten the delays between the loan application and the loan disbursement.
- Communicate more on the client protection principles at the partners' level, specifically regarding complaint resolution mechanisms.

Funding and liquidity

Funding and liquidity is assessed as **satisfactory**

Capitalization and funding strategy

+ Since inception, NADSME has received the support of the government and has never faced any issue regarding its level of capitalization. Funds allocated by the State budget and renewed every year in the framework of the annual budgetary exercise
- NADSME was able to secure its funding needs in the past thanks to the proper management of the state budget and the revolving funds received in the framework of the European Union PHARE.



- As a governmental institution, NADSME resources can fluctuate depending on political decisions. For instance, the structural funds managed by NADSME for the implementation of the Operational Programme Competitiveness and Economic Growth (OP CaEG) and the Sectoral Operational Programme Industry and Services (SOP IS) have been transferred to the Slovak Innovation and Energy Agency (SIEA) in 2010.
– NADMSE has no precise identification of its needs as it relies mostly on the allocation of the state budget that is renewed every year.
- In order to reduce its dependence on the State budget, NADSME is planning to diversify its funding sources in the future. Applications to national and international programs are under process (JEREMIE, program of young people employment in Slovakia, etc.).

Liquidity risk

- Liquidity risk is very low due to the significant amount of liquid assets available.
- The liquidity and maturity risk are also limited by the funding structure of the agency, with very few liabilities and no reimbursable loans.
– Due to this specific structure and ensuing limited risks, NADSME did not put any complex procedure in place for liquidity management. Cash flow projections are not available and the maturity risk is not monitored.
- In the old microloan scheme the funds received by NADSME were transferred directly to the partners who were in charge of disbursing the loans and collecting the payments. NADSME was just in charge to ensure that all partners have sufficient liquidities to face their needs and to transfer some funds from one partner to another in case of shortage. In the new scheme, the entire loan process will be managed at NADSME level. Consequently, the agency will need to develop a more sophisticated system to manage its liquidity in the future, especially if it is going to look for commercial funds.

Market risks

- NADSME is not exposed to FX risk as all the funds are received in EUR and all the loans are disbursed in EUR
- NADSME is not exposed to interest risk neither as NADSME does not have any commercial fund.

Areas for improvement

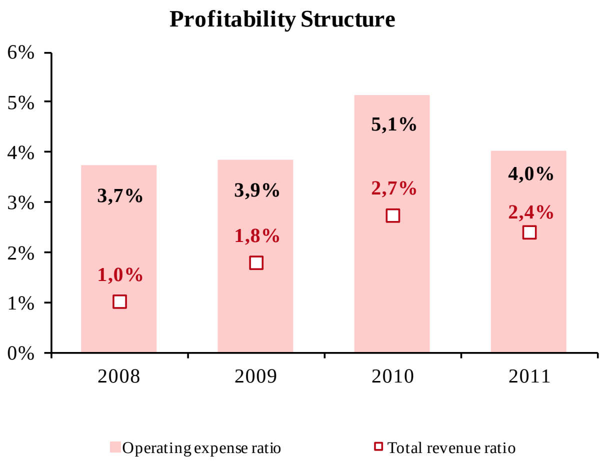
- Diversify the sources of funding.
- Develop a liquidity management system.

Efficiency and profitability

Efficiency and profitability is assessed as **need for improvement**

Profitability analysis[5]

- As a non-profit organization, NADSME's sustainability is ensured thanks to the public funds it receives. The ROA before donations is negative (2.1%) as of dec.11, and it stands at 0.1% after donations.
- Within the old microloan scheme 30% of the interests paid by the client were reinvested directly in the program and the remaining 70% used to be retained by the partners in order to cover their costs, so NADSME did not receive interests on the loans. Within the new microloan scheme, as most procedures will be centralized at NADSME level, the agency will receive 20% of the interest rate, and the remuneration of the partners will decrease to 50%. All commissions and fees are received by the partners.
- The total revenue ratio shows an increasing trend from between 2008 and 2010, but not sufficient to cover the operating expenses.



[5] All ratios have been calculated based on the average assets and not the average portfolio due to the fact that NADSME stopped disbursing in August 2010.

- NADSME does not have any reimbursable loans to repay, thus its financial cost is null.
- NADSME has a moderate revenue quality. The potential market is still high and the competition very low. Products range is still limited but conditions are quite flexible and new products are under development.
- NADSME is expecting to receive more income from the venture capital activities from Funds of Funds in the future. The agency also plans to develop commercial activities such as on-line counseling for micro-entrepreneurs.
- The profitability outlook is uncertain. The revenues of the agency should increase thanks to the new microloan scheme, but the date of resumption is still uncertain. In the same time the profitability will also depends on the capacity of NADSME to recover the late loans which will be transferred to its assets under the new scheme, according to the agreement between NADSME and its partners. The success of the new microloan scheme will also depend on the partner's will to collaborate and on its implementation in the field.

Areas for improvement

- Diversify the sources of revenues in order to reduce the dependency on subsidies.
- Strengthen the relationship with the implementing partners of the microloan scheme.

Social Change

Social change is assessed as **average**

Business development services

+ NADSME provides several business development services (BDS) to SMEs and start-up companies (client and non client from the microloan program) through its network of partners (RAIC, BIC, Enterprise Europe Network, and incubators). Those services include:
    - Trainings with focus on marketing, financial management, taxes, accounting, public procurement, protection of know-how, e-commerce, law, etc. The costs of the services is partly borne by the entrepreneur (contribution varies from 40% to 100%).
    - Counseling and information services: preparation of business plan (1,057 business plan elaborated in 2009), acquisition of funds, professional advisory services, national, website for SMEs, organization of seminars, etc.
    - NADSME partners also provide trainings for specific groups interested in business creation such as unemployed and young graduates.
- For existing SMEs, the type of BDS are updated every year and chosen in compliance with the current demand. In the case of start-ups the topics are the same from one year to another and are related to the administration and accounting procedures.
+ A follow up on the trainee's satisfaction is done by selecting randomly over 50% of the beneficiaries who are interviewed during short phone calls. The results of these surveys were used to update the trainings for 2012.

BDS Beneficiaries	2009	2010	2011
Number of dedicated staff at NADSME	2	2	3
Number of beneficiaries	**3,558**	**3,881**	**1,486**
SMEs	*0*	*29*	*299*
Start-up Companies	*3,558*	*3,852*	*1,187*
Number of trainings	**161**	**128**	**92**
Specify training n°1: marketing and management for SMEs	*0*	*0*	*51*
Specify training n°2 : Business Basics for start-ups – how to set up and manage a small company, how to write a start-up business plan	*161*	*128*	*41*
Business plans	**1,057**	**952**	**324**
SMEs	*0*	*1*	*33*
Start-ups	*1,057*	*958*	*291*
Hours of counseling	**9,427**	**6,502.5**	**5,300**
Information advice for both	*1,071*	*1,117*	*1,166*
Expert, specific advice for both	*8,356*	*5,385.5*	*4,134*

Source: Data provided by NADSME.

Business creation and survival

- Due to its specific targets towards existing SMEs, NADSME does not intervene in the phase of business creation.
- \+ Nevertheless, by providing business development services like counseling, business plan creation, and incubators to start-ups, NADSME is supporting SME development.
- – NADSME does not track the survival rate of SMEs which received business development or financial services.

Fight against unemployment

- Specific trainings provided by NADSME partners are dedicated to unemployed people.
- – NADSME does not track yet the number of jobs created, although it will be monitored under the new microloan scheme as a request from the Ministry of Economy.

Areas for improvement

- – Put in place some indicators to monitor more precisely the performance of SMEs which received a loan from NADSME (SME survival rate, number of jobs created and sustained, etc.).

The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the agency's performance, that change due to the agency itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

Performance indicators

Data in EUR, unless otherwise stated

Loan Portfolio	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Mar. 2012
Loan portfolio evolution						
Loan portfolio	10,295,588	10,486,679	9,985,865	7,438,576	4,545,678	-
Growth	n/a	1.9%	(4.8%)	(25.5%)	(38.9%)	n/a
Active borrowers	541	515	549	466	366	356
Growth	1.7%	(4.8%)	6.6%	(15.1%)	(21.5%)	(2.7%)
Average outstanding loan amount per borrower	19,031	20,362	18,189	15,963	12,420	-
% of GDP per capita	*167.0%*	*164.5%*	*156.5%*	*131.5%*	*98.1%*	*0.0%*
Average amount disbursed per loan	22,478	25,053	28,576	34,788	-	-
% of GDP per capita	*197.2%*	*202.4%*	*245.9%*	*286.6%*	*0.0%*	*0.0%*
Portfolio quality						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NPL 91 - 365	10.2%	7.2%	13.5%	11.1%	14.8%	17.9%
NPL 365	17.4%	16.8%	14.7%	25.4%	43.2%	48.3%
Write-off ratio	0.0%	0.0%	0.0%	0.0%	0.0%	n/a
NPL 90 + r + write-offs ratio	n/a	14.2%	18.5%	22.8%	39.2%	n/a
Credit risk coverage						
Risk coverage ratio (NPL 90)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Uncovered capital ratio (NPL 90)	1.8%	1.8%	2.3%	2.6%	3.8%	n/a

Staff	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Mar. 2012
Total number of staff	85	99	100	99	52	52
% Credit officers	1.2%	1.0%	1.0%	1.0%	5.8%	5.8%
Turnover	39.3%	23.9%	12.1%	10.1%	68.9%	0.0%

Financial inclusion	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Mar. 2012
Active borrowers	541	515	549	466	366	356
Per 1,000 unemployed	1.9	2.1	1.4	1.3	1.0	0.9

Profitability analysis	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Mar. 2012
ROE (after donations)	n/a	(0.1%)	0.0%	0.1%	0.2%	n/a
ROE (before donations)	n/a	(3.1%)	(2.7%)	(3.0%)	(2.1%)	n/a
Liabilities / Equity	0.02x	0.02x	0.10x	0.02x	0.03x	n/a
Core capital adequacy ratio	142.0%	127.4%	104.6%	100.5%	100.9%	0.0%
Total capital adequacy ratio	142.0%	127.5%	104.6%	100.6%	100.9%	0.0%
ROA (after donations)	n/a	(0.1%)	0.0%	0.1%	0.1%	n/a
ROA (before donations)	n/a	(3.0%)	(2.6%)	(2.8%)	(2.1%)	n/a
Autonomy ratio (Income before donations / Income after donations)	n/a	n/a	n/a	n/a	n/a	n/a
Direct cost of donations (as of % of donations received)	n/a	0.0%	0.0%	0.0%	0.0%	n/a
Evolution of the volume of donations (%)	n/a	n/a	n/a	n/a	n/a	n/a
ROA (after donations)	n/a	0.2%	0.6%	0.6%	0.6%	n/a
ROA (before donations)	n/a	(2.7%)	(2.1%)	(2.4%)	(1.6%)	n/a
Operational self-sufficiency (after donations)	n/a	105.0%	114.4%	111.5%	115.4%	n/a
Operational self-sufficiency (before donations)	n/a	27.5%	46.7%	53.4%	59.8%	n/a
Total revenue ratio	n/a	1.0%	1.8%	2.7%	2.4%	n/a
Portfolio yield	n/a	0.0%	0.0%	0.0%	0.0%	n/a
Break-even interest rate	*n/a*	*30.8%*	*33.1%*	*49.7%*	*47.4%*	*n/a*
Operating expense ratio	n/a	3.7%	3.9%	5.1%	4.0%	n/a
Average outstanding loan amount per borrower	19,031	20,362	18,189	15,963	12,420	-
In months of national minimum wage:						
Operating cost per loan disbursed	-	87.4	71.2	562.5	n/a	n/a
Donations per loan disbursed	-	67.9	48.3	326.5	n/a	n/a
Financial expense ratio	n/a	0.1%	0.1%	0.0%	0.0%	n/a
Cost of savings	n/a	n/a	n/a	n/a	n/a	n/a
Cost of borrowings	n/a	n/a	n/a	n/a	n/a	n/a
Impairment expense ratio	n/a	0.0%	0.0%	0.0%	0.0%	n/a
Liquidity						
Cash to demand deposits	n/a	n/a	n/a	n/a	n/a	n/a
Liquidity / Total assets (LAR)	41.5%	33.6%	23.7%	14.7%	18.3%	n/a
Current ratio (1 year)	n/a	n/a	251.8%	662.4%	610.9%	n/a

Financial statements – EUR

Income Statement (EUR)	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Financial Services					
Interest and fee income on loan portfolio	-	-	-	-	-
Interest and fee income on investments	-	6,061	332	287	3,133
Interest and other financial expenses	-	186	1,092	-	-
Net inflation adjustment expense	-	-	-	-	-
Net foreign exchange income (expense)	-	(7,754)	(6,021)	(0)	(11)
Net financial income	**-**	**(1,879)**	**(6,781)**	**287**	**3,122**
Fees and commissions on other financial services	-	-	-	-	-
Other operating income	-	873,496	1,583,622	2,311,317	1,694,357
Operating expenses on financial services	-	3,194,101	3,385,308	4,326,196	2,838,234
Gross operating income on financial services	**-**	**(2,322,484)**	**(1,808,467)**	**(2,014,592)**	**(1,140,754)**
Net impairment expense	-	-	-	-	-
Net operating income on financial services	**-**	**(2,322,484)**	**(1,808,467)**	**(2,014,592)**	**(1,140,754)**
Donations for financial services (operating expenses)	-	2,481,820	2,297,524	2,511,042	1,577,127
Net operating income on financial services after donations	**-**	**159,336**	**489,057**	**496,450**	**436,373**
Business Development Services (BDS)					
Operating Revenues from BDS	-	40,633	11,681	14,584	13,459
Grants given to clients	-	316,438	479,840	398,962	343,070
Operating expenses on BDS	-	-	-	-	-
Net Income from BDS	**-**	**(275,805)**	**(468,159)**	**(384,378)**	**(329,611)**
Donations for BDS	-	-	-	-	-
Net Income from BDS after donations	**-**	**(275,805)**	**(468,159)**	**(384,378)**	**(329,611)**
Extraordinary income (net)	-	-	-	-	-
Net income before tax	**-**	**(116,469)**	**20,898**	**112,072**	**106,762**
Income Tax	-	1,330	1,942	559	2,790
Net Income	**-**	**(117,800)**	**18,956**	**111,513**	**103,972**

Balance Sheet (EUR)	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
ASSETS	**86,465,949**	**85,240,357**	**90,612,705**	**77,782,245**	**63,108,467**
Liquid assets	35,876,611	28,670,716	21,485,440	11,445,911	11,548,791
Net loan portfolio	10,295,588	10,486,679	9,985,865	7,438,576	4,545,678
Gross loan portfolio	*10,295,588*	*10,486,679*	*9,985,865*	*7,438,576*	*4,545,678*
(Impairment loss allowance)	-	-	-	-	-
Interest receivable	-	-	-	-	-
Financial investments	39,860,446	45,244,453	58,523,474	57,726,495	45,372,257
Net fixed assets	336,079	374,415	307,439	214,408	159,859
Intangible assets	45,727	132,825	151,661	106,898	49,068
Other assets	51,499	331,269	158,826	849,956	1,432,815
LIABILITIES AND EQUITY	**86,465,949**	**85,240,357**	**90,612,705**	**77,782,245**	**63,108,467**
Liabilities	**1,409,445**	**1,281,588**	**8,595,625**	**1,753,425**	**1,902,268**
Demand deposits	-	-	-	-	-
Time deposits	-	-	-	-	-
Cash collateral	-	-	-	-	-
Borrowings	-	-	-	-	-
Subordinated debt	-	-	-	-	-
Other liabilities	1,409,445	1,281,588	8,595,625	1,753,425	1,902,268
Equity	**85,056,505**	**83,958,769**	**82,017,080**	**76,028,820**	**61,206,199**
Core capital	85,056,505	83,880,707	81,949,254	75,964,431	61,156,104
Paid-in capital	*143,958*	*382,783*	*264,984*	*283,939*	*395,452*
Earnings - current period	*238,825*	*(117,800)*	*18,958*	*111,513*	*103,972*
Retained earnings	*84,673,721*	*83,615,723*	*81,665,313*	*75,568,979*	*60,656,680*
Other equity accounts	-	78,062	67,826	64,389	50,095

Off Balance Sheet Accounts	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Portfolio under management	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-
Outstanding guarantees	-	-	-	-	-

Balance Sheet Averages	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Gross loan portfolio	?	10,391,133	10,236,272	8,712,221	5,992,127
Assets	?	85,853,153	87,926,531	84,197,475	70,445,356
Deposits	?	-	-	-	-
Borrowings and subordinated debt	?	-	-	-	-
Equity	?	84,507,637	82,987,924	79,022,950	68,617,510

Formulas

Return on assets (ROA):	Net operating income / Average assets
ROA (without donations):	Net operating income before donations / Average assets
Return on equity (ROE):	Net operating income before donations / Average equity
Leverage:	Liabilities / Equity (end of period)
Capital adequacy ratio:	Capital / Risk weighted assets (end of period)
Total revenue ratio:	Total revenue / Average assets
Portfolio yield:	Portfolio revenue / Average gross outstanding portfolio
Operating expense ratio:	Operating expense / Average assets
Cost per borrower:	Operating expense / Average active borrowers
Staff productivity:	Active borrowers / Total personnel (end of period)
Funding expense ratio:	Interest and fees paid on funding liabilities / Average assets
Cost of savings:	Interest and fees paid on deposits / Average deposits
Cost of borrowings:	Interest and fees paid on borrowings / Average borrowings
Loan loss provision expense ratio:	Net loan loss provision expense / Average assets
Write-off ratio:	Loans written off / Average gross outstanding portfolio
Risk coverage ratio:	Loan loss reserve / Portfolio at risk > 30 days
Cash to demand deposits:	Instantly available liquid assets / Demand deposits (end of period)
Current ratio (1 year):	Short term assets / Short term liabilities (end of period)

Assessment scale

Assessment	Assessment summary
Very good	Very strong operational and financial performance resulting in a very high likelihood of institutional sustainability. Strong execution capacity is present within the agency to address existing weaknesses.
Good	Good operational and financial performance resulting in a high likelihood of institutional sustainability. Good execution capacity is present within the agency to address existing weaknesses.
Satisfactory	Satisfactory operational and financial performance resulting in a good likelihood of institutional sustainability. Adequate execution capacity is present within the agency to address existing weaknesses.
Average	Sufficient operational and financial performance with remaining weaknesses in some areas of operations, which could affect institutional sustainability. Execution capacity is present within the agency to address existing weaknesses.
Need for improvement	Moderate operational and financial performance with important weaknesses in several areas of operations, which undermines potential institutional sustainability. Basic execution capacity is present within the agency to address existing weaknesses.
Urgent need for improvement	Poor operational and financial performance with important weaknesses in most areas of operations which highly limits institutional sustainability. Limited execution capacity is present within the agency to address existing weaknesses.
Immediate need for improvement	Very poor operational and financial performance with important weaknesses in most areas of operations. Long term institutional sustainability is doubtful. Execution capacity present within the agency is insufficient to address existing weaknesses