3. FINANCIAL ACCOUNTS METHODOLOGY

3.1 ESA2010 methodology

The methodological basis for the compilation of the financial accounts is the ESA2010 (the European System of Accounts).

The financial accounts disclose the stocks and flows that individual institutional sectors hold in individual financial instruments as claims and as liabilities.

The financial accounts disclose how a surplus is distributed or a deficit is covered by transactions in financial assets (claims) and liabilities.

The net item of a financial account, which represents transactions in financial assets minus transactions in liabilities, should as a rule be equal to the net item of the non-financial (capital) account (net borrowing or net lending B9F).

The basic principles of the ESA2010 are:
- all assets and liabilities are valued at current market value;
- the difference between financial assets and liabilities represents the net financial assets;
- the difference between total assets (financial and non-financial) and liabilities represents net worth;
- net worth plus shares and other equity represent own funds.

The items in the financial accounts and the items in the balance sheet are not equal in value for reason of the aforementioned ESA2010 principles.

Financial accounts may be non-consolidated or consolidated. In a consolidated account claims and liabilities between institutional units within a particular sector are eliminated.

3.2 Institutional sectors

The financial accounts disclose the stock of and flows in financial assets and liabilities in terms of different sectors or subsectors under the Standard Classification of Institutional Sectors (Official Gazette of the Republic of Slovenia, No. 107/2013).

Sectors and subsectors:

Sector code	Title of sector
S.1	Slovenian economy
S.11	Non-financial corporations
S.12	Financial corporations
S.121	Central bank
S.122+S.123 S.122 S.123	Other monetary financial institutions Deposit-taking corporations except the central bank Money market funds (MMFs)
S.124	Non-MMF investment funds
S.125	Other financial intermediaries, except insurance corporations and pension funds
S.126	Financial auxiliaries
S.127	Captive financial institutions and money lenders
S.128	Insurance corporations
S.129	Pension funds
S.13	General government
S.1311	Central government
S.1313	Local government
S.1314	Social security funds

S.14	Households
S.15	Non-profit institutions serving households
S.2	Rest of the world
S.21	European Union (EU)
S.2111	Euro Area member states
S.2112	Other EU members outside the Euro Area, and EU institutions
S.22	Non-member countries and international organisations non-resident in the EU

The Slovenian economy (S.1) consists of resident institutional units.

Non-financial corporations (S.11) are market producers whose principal activity is the production of goods and non-financial services.

The central bank (S.121) is the Bank of Slovenia.

Other monetary financial institutions (S.122+S.123) comprise commercial banks, savings banks and money-market funds.

Non-MMF investment funds (S.124) comprise:
- mutual funds;
- investment companies (ICs);
- management companies.

Other financial intermediaries, except insurance corporations and pension funds (S.125) include:
- financial vehicle corporations engaged in securitisation transactions (FVC);
- security and derivative dealers;
- financial corporations engaged in lending;
- specialised financial corporations.

Financial auxiliaries (S.126) comprise:
- brokerage houses;
- exchange offices;
- institutions providing financial market infrastructure services (e.g. KDD - the Central Securities Clearing Corporation);
- stock exchanges (Ljubljana Stock Exchange).

Captive financial institutions and money lenders (S.127) include:
- units as legal entities such as trusts, estates, agencies accounts or brass plate companies;
- holding companies;
- special purpose entities (SPEs);
- units which provide financial services exclusively with own funds, or funds provided by a sponsor;
- special purpose government funds.

Insurance corporations (S.128) comprise:
- insurance corporations;
- reinsurance corporations.

Pension funds (S.129) comprise:
- mutual pension funds;
- pension companies.

Central government (S.1311) includes:
- direct state budget spending units (non-governmental, governmental and judicial spending units);
- indirect budget spending units (public institutes and agencies) at state level;
- public funds at state level;
- corporations, included in S.1311.

Local government (S.1313) comprises:
- municipalities;
- regional authorities;
- public funds at municipal level;
- indirect budget spending units at local level;
- corporations, included in S.1313.

Social security funds (S.1314) comprise:
- The Health Insurance Institute (ZZZS);
- The Pension and Disability Insurance Institute (ZPIZ);
- Kapitalska družba (Pension Fund Management; KAD).

The households sector (S.14) consists of private individuals and sole traders.

Non-profit institutions serving households (S.15) include societies, political parties, trade unions, clubs, associations, religious communities and humanitarian organisations.

The rest of the world (S.2) consists of non-resident units, and comprises S.21 (EU) and S.22 (Others outside the EU). The EU comprises EU Member States, divided into the Euro Area member states (S.2111) and other EU members (S.2112).

3.3 Financial instruments

The stock of and changes in financial assets and liabilities under the ESA2010 methodology are disclosed by individual financial instrument, and are equal on both the asset and liability sides.

Each individual financial instrument that a particular unit holds as a financial asset has a counterpart item in the liabilities of another unit, and vice-versa. The only financial asset that does not have a counterpart in liabilities is Gold Bullion (F.11).

Financial instruments comprise a title and code:

Financial instrument code	**Title of financial instrument**
F.1	Monetary gold and special drawing rights (SDRs)
F.11	Monetary gold
F.12	Special drawing rights (SDRs)
F.2	Currency and deposits
F.21	Currency
F.22	Transferable deposits
F.29	Other deposits
F.3	Debt securities
F.31	Short-term
F.32	Long-term
F.4	Loans
F.41	Short-term
F.42	Long-term
F.5	Equity and investment fund shares or units
F.51	Equity
F.511	Listed shares
F.512	Unlisted shares
F.519	Other equity
F.52	Investment fund shares or units
F.6	Insurance, pension and standardised guaranteed schemes
F.61	Non-life insurance technical reserves

F.62	Life insurance and annuity entitlements
F.63+F.64+F.65	Pension entitlements, Claims of pension funds on pension managers, Entitlements to non-pension benefits
F.66	Provisions for calls under standardised guarantees
F.7	Financial derivatives and employee stock options
F.8	Other accounts receivable/payable
F.81	Trade credits and advances
F.89	Other accounts receivable/payable, except trade credits and advances

Instrument Monetary gold and special drawing rights (SDRs) (F.1) comprises:

- *Monetary gold (F.11)* is gold to which monetary authorities have title and which is held in reserve assets. It includes gold bullion, and unallocated gold accounts with non-residents that give title to claim the delivery of gold. Monetary authorities include the central bank and central government institutions which carry out operations usually attributed to the central bank. Gold bullion is the only financial asset for which there is no counterpart liability;

- *Special drawing rights (F.12)* are international reserve assets created by the International Monetary Fund (IMF) and which are allocated to its members to supplement existing reserve assets. SDRs are held exclusively by official holders, which are central banks and certain international agencies.

Instrument Currency and deposits (F.2) consists of three sub-categories of financial instruments:

- *Currency (F.21)* is notes and coins that are issued or authorised by monetary authorities, and includes notes and coins issued by the resident monetary authorities as national currency in circulation held by residents and non-residents, and notes and coins issued by non-resident monetary authorities as foreign currencies in circulation and held by residents. All sectors may hold F.21 as a financial asset;

- *Transferable deposits (F.22)* are deposits, both in national currency and in foreign currencies. Transferable deposits are deposits exchangeable for currency on demand at par and which are directly usable for making payments by cheque, draft, giro order, direct debit/credit, or other direct payment facility, without penalty or restriction. Transferable deposits predominantly represent liabilities of resident deposit-taking corporations, in some cases of central government, and of non-resident institutional units. Transferable deposits includes:

  - inter-bank positions between monetary financial institutions;

  - deposits held with the central bank by deposit-taking corporations in excess of the amount of reserves that they are obliged to hold;

  - deposits which other monetary financial institutions incur vis-à-vis the central bank in the form of unallocated gold accounts which are not monetary gold, and also corresponding deposits in the form of precious metal accounts;

  - foreign currency deposits under swap arrangements;

  - the reserve position with the IMF forming the ‘reserve tranche’, and other claims on the IMF that are readily available to the member country.

Transferable deposits accounts may have overdraft facilities. If the account is overdrawn, the withdrawal to zero is withdrawal of a deposit, and the amount of the overdraft is the granting of a loan.

All resident sectors and the rest of the world may hold transferable deposits.

- *Other deposits (F.29)* are deposits, both in national currency and in foreign currencies and cannot be used to make payments except on maturity or after an agreed period of notice, and they are not exchangeable for currency or for transferable deposits without some significant restriction or penalty. Other deposits include:

- time deposits;
- savings deposits, savings books, non-negotiable savings certificates or non-negotiable certificates of deposit;
- deposits resulting from a savings scheme or contract;
- evidence of deposit issued by savings and loan associations, building societies, credit unions and etc.;
- repayable margin payments related to financial derivatives which are liabilities of monetary financial institutions;
- short-term repurchase agreements (repos) which are liabilities of monetary financial institutions;
- liabilities to the IMF that are components of international reserves and are not evidenced by loans.

Other deposits do not include negotiable certificates of deposit and negotiable savings certificates. They are classified under debt securities.

All sectors may hold Other deposits as a financial asset.

Transferable and Other deposits are standardised, non-negotiable contracts with the public at large, offered by deposit-taking corporations and, in some cases, by central government as debtors. If subjects other than monetary financial institutions accept deposits from individual subjects, the deposits are classified as loans.

As a rule accrued interest is included in the instrument to which the interest relates (in F.22 or F.29). However, should it be impossible to include the interest in the relevant instrument, it is disclosed in instrument Other accounts receivable/payable, except trade credits and advances (in F.89).

Instrument Debt securities (F.3) are negotiable financial instruments serving as evidence of debt. Debt securities display the following characteristics:

- an issue date on which the debt security is issued;
- an issue price;
- a redemption date or maturity date;
- a redemption price or face value;
- an original maturity;
- a remaining or residual maturity;
- a coupon rate that the issuer pays to holders of the debt securities;
- coupon dates, on which the issuer pays the coupon to the securities' holders;
- the issue price, redemption price, and coupon rate may be denominated in either national currency or foreign currencies;
- the credit rating.

Debt securities includes financial assets and liabilities which may be described according to different classifications – by maturity, holding and issuing sector and sub-sector, currency, and type of interest rate.

Debt securities are divided by original maturity into two sub-categories:

- *short-term debt securities (F.31)* are securities with an original maturity of one year or less;

- *long-term debt securities (F.32)* are securities with an original maturity of more than one year.

As a rule accrued interest is included in the instrument to which the interest relates (in F.31 or F.32). However, should it be impossible to include the interest in the relevant instrument, it is disclosed in instrument Other accounts receivable/payable, except trade credits and advances (in F.89).

All sectors may hold Debt securities as a financial asset. Debt securities are generally liabilities of non-financial corporations, financial corporations, general government and the rest of the world.

Instrument Loans (F.4) are created when creditors lend funds to debtors. Main features of loans are:

- the conditions governing a loan are either fixed by the financial corporation granting the loan or agreed by the lender and the borrower directly or through a broker;

- the initiative to take out a loan normally lies with the borrower;

- a loan is an unconditional debt to the creditor which has to be repaid at maturity and which is interest-bearing.

Loans can be categorised into two types:

- *short-term loans (F.41)* consist of loans with an original maturity of one year or less;

- *long-term loans (F.42)* consist of loans with an original maturity of more than one year.

Short-term loans granted to deposit taking corporations, are classified as transferable deposits or as other deposits, and short-term loans accepted by institutional units other than deposit taking corporations, are classified as short-term loans.

If subjects other than monetary financial institutions accept deposits from individual subjects, the deposits are classified as loans. As deposits are thought only bank deposits or deposits of different subjects accepted by banks (other monetary financial institutions).

Placements of funds between deposit taking corporations are always recorded as deposits.

Loans can be financial assets or liabilities of all resident sectors and the rest of the world.

The distinction between transactions in loans and transactions in deposits is that a debtor offers a standardised non-negotiable contract in the case of a loan, but not in the case of a deposit.

The distinction between transactions in loans and transactions in debt securities is that loans are non-negotiable financial instruments while debt securities are negotiable financial instruments.

Loans include the following:

- overdraft on transferable deposit accounts;

- overdrafts on other current accounts;

- financial claims of employees because of participation in the corporation's profit;

- repayable margin payments related to financial derivatives which are liabilities of institutional units other than monetary financial institutions;
- loans which are counterparts of bankers' acceptances;
- mortgage loans;
- consumer credit;
- revolving credits;
- instalment loans;
- loans paid as a guarantee for fulfilling certain obligations;
- repurchase agreements;
- financial leases;
- deposit guarantees as financial claims of reinsurance corporations on ceding corporations;
- financial claims on the IMF evidenced by loans in the General Resources Account;
- liabilities to the IMF evidenced by IMF credit or Poverty Reduction and Growth Facility loans.

As a rule accrued interest is included in the instrument to which the interest relates (in F.41 or F.42). However, should it be impossible to include the interest in the relevant instrument, it is disclosed in instrument Other accounts receivable/payable, except trade credits and advances (in F.89).

Instrument Equity and investment fund shares or units (F.5) are residual claims on the assets of the institutional units that issued the shares or units, and it is divided into two sub-categories:

- *equity (F.51)* is a financial asset that is a claim on the residual value of a corporation, after all other claims have been met and it is sub-categorised into the following:
  - *listed shares (F.511)*, which are equity securities listed on an exchange;
  - *unlisted shares (F.512)*, which are equity securities not listed on an exchange;
  - *other equity (F.519)*, which comprises all forms of equity other than those classified in sub-categories listed shares an unlisted shares. Other equity includes all forms of equity in corporations which are not shares (e.g. limited liability companies, limited partnerships,…), it also includes government investments in the capital of international and supranational organisations, with the exception of the IMF, even if these are legally constituted as corporations with share capital.
- *investment fund shares or units (F.52)* are shares of an investment fund if the fund has a corporate structure. They are known as units if the fund is a trust. They are subdivided into:
  - *money market fund shares or units (F.521)*;
  - *other investment fund shares or units other than MMF shares or units (F.522)*.

All sectors may hold equity as a financial asset. F.51 is generally liabilities of non-financial corporations, financial corporations, general government and the rest of the world.

All sectors may hold investment fund shares or units as a financial asset. The liabilities may hold money market funds, investment funds and the rest of the world.

Instrument Insurance, pension and standardised guarantee schemes (F.6) includes:

- *non-life insurance technical reserves (F.61)*, which are financial claims that non-life insurance policy holders have against non-life insurance corporations in respect of unearned premiums and claims incurred. Non-life insurance technical reserves may be financial assets of all sectors as policyholders (prepayments of insurance premiums) or beneficiaries (reserves for outstanding claims), and is generally a liability of insurance corporations;

- *life insurance and annuity entitlements (F.62)*, which consist of financial claims that life insurance policy holders and beneficiaries of annuities have against corporations providing life insurance. Life insurance and annuity entitlements may be financial assets of households as policyholders, and liabilities of insurance corporations;

- *pension entitlements (F.63)*, which comprises financial claims that current employees and former employees hold against either their employers, an insurer and a scheme designated by the employer to pay pensions as part of a compensation agreement between the employer and the employee. Pension entitlements may be financial assets of households as policyholders, and is generally a liability of pension funds;

- *claims of pension funds on pension managers (F.64)*;

- *entitlements to non-pension benefits (F.65)*;

- *provisions for calls under standardised guarantees (F.66)*, which are financial claims that holders of standardised guarantees have against institutional units providing them.

Instrument Financial derivatives and employee stock options (F.7) is divided into two sub-categories:

- *financial derivatives (F.71)*, which are financial instruments linked to specified financial instrument or indicator or commodity, through which specific financial risks can be traded in financial markets in their own right. Financial derivatives meet the following conditions:

    - they are linked to a financial or non-financial asset, to a group of assets, or to an index;
    - they are either negotiable or can be offset on the market;
    - no principal amount is advanced to be repaid.

  Financial derivatives can be categorised by instrument such as:

    - options;
    - warrants as a special form of options;
    - forwards;
    - futures;
    - forward rate agreements (FRAs);
    - swaps;
    - credit derivatives;
    - credit default swaps.

- *employee stock options (F.72)*, which are agreements made on a given date under which an employee has the right to purchase a given number of shares of the employer's stock at a stated price either at a stated time or within a period of time immediately following the vesting date.

All sectors may hold Financial derivatives as a financial asset, and is generally liabilities of non-financial corporations, financial corporations, general government and the rest of the world.

Instrument Other accounts receivable/payable (F.8) are financial assets and liabilities created as counterparts to transactions where there is a timing difference between these transactions and the corresponding payments, and it comprises:

- *trade credit and advances (F.81)*, which are financial claims arising from the direct extension of credit by the suppliers of goods and services to their customers, and advances for work that is in progress or is yet to be undertaken, in the form of prepayment by customers for goods and services not yet provided. Trade credit and advances may be financial assets or liabilities for all sectors. They include:

    - financial claims relating to the delivery of goods or services where payment has not taken place;

    - trade credit accepted by factoring corporations except when regarded as a loan;

    - rent of buildings accruing over time;

    - arrears concerning the payment of goods and services, when not evidenced by a loan.

  Trade credit and advances do not include loans to finance trade credit. They are classified in loans.

- *other accounts receivable/payable, excluding trade credits and advances (F.89)*, which includes financial claims created as a result of the timing difference between accrued transactions and payments made in respect of, for example wages and salaries, taxes and social contributions, dividends, rent and purchase and sale of securities. Other accounts receivable/payable may be financial assets or liabilities for all sectors. As a rule accrued interest is included in the instrument to which the interest relates, however, should it be impossible to include the interest in the relevant instrument, it is disclosed in instrument Other accounts receivable/payable, except trade credits and advances (in F.89).

3.4 Rules of recording and valuation

The general principle of valuation at the market price as at the cut-off date applies to the stock of financial assets and liabilities. Unquoted shares and other equity are valued at book value. As a rule accrued interest is included in the instrument to which it relates (deposits, loans, securities).

Transactions are disclosed as net transactions for each individual instrument, and are the difference between additions and reductions in the individual financial instrument (net turnover, which includes interest).

Revaluation changes consist of holding gains/losses from changes in market prices and exchange rates, reallocations of financial instruments/sectors, write-downs of claims/debts, status changes (acquisitions, mergers, ...), changes in methodology, changes in equity components other than nominal capital or capital reserves.

4. FINANCIAL ACCOUNTS COMPILATION

Annual financial accounts have been compiled from 2001, and quarterly financial accounts from the first quarter of 2004.

4.1 Data sources for compilation of financial accounts

Primary and secondary sources are used for the compilation of the financial accounts.

Primary sources:

- quarterly data (stocks and transactions) based on direct reporting by individual institutional units:
  - non-financial corporations (S.11): reporting threshold: balance sheet total of EUR 2 million;
  - financial corporations (S.12): reporting threshold: balance sheet total of EUR 1 million;
  - general government units (S.13): reporting threshold: balance sheet total of EUR 8 million.
- banking statistics;
- investment fund statistics;
- statistics of institutions providing leasing activity;
- IIP (International Investment Position) and BOP (Balance of Payments) statistics;
- securities statistics.

Secondary sources:
- other financial institutions' statistics;
- public finance statistics.

4.2 Compilation process

The adequacy of individual data based on direct reporting (comparisons with data from annual reports, comparisons with data from previous reports, etc.) must be reviewed before the compilation of the financial accounts can proceed. Corrections are made in the event of reporting errors being identified.

The compilation of the financial accounts is divided into three horizontal and five vertical phases.

I. Horizontal phases

Phase 1: preparation of basic data for individual sectors and subsectors on the basis of primary data sources:
- for domestic sectors: data from direct reporting;
- for foreign sectors: IIP and BOP data.

Phase 2: compilation of non-consolidated financial accounts. The process is the following:
- transfer of the basic data from phase 1 into the relevant tables of individual institutional sectors and subsectors;
- completion of the empty cells for S.14 and S.15 with data from the counterpart side.

The process of reconciling the data between the two sides (claims of one sector, liabilities of another sector) then follows, with the most appropriate data being selected. This is a step-by-step process:

A) Compilation of stocks

- Data from the two sides/sources is compared for a specific instrument, namely on one side as a claim, and on the other side as a liability (e.g. S.11 discloses claims from deposits against S.122, and S.122 discloses liabilities from deposits to S.11), where usually the figures from the two sources differ. A hierarchy of sources is used for the purpose of equalising the two figures. Secondary sources are also used as an additional/comparative source.
- Based on the findings, the claims of one sector are equalised with the liabilities of the counterpart sector in the same financial instrument.

B) Compilation of transactions

Transactions are compiled with the use of:
- data from direct reporting (e.g. reported data of S.122);
- estimates (e.g. stock exchange indexes for securities);
- supplementary information (e.g. changes in sectoral classification).

Phase 3: compilation of consolidated financial accounts. The process of consolidation comprises:
- consolidation at the subsector level: eliminating stocks and transactions between units in the same subsector (e.g. elimination of claims of S.122 against S.122);
- consolidation at the sector level: eliminating stocks and transactions between units in the same sector (e.g. elimination of claims of S.122 against S.125).

In the final table of financial accounts the sum of the consolidated data of the individual subsectors of a specific sector is larger than the consolidated data for the sector, except when there are no mutual claims/liabilities between the subsectors. For example, at the level of S.122 only the claims within S.122 are eliminated, while at the level of S.12 the claims of S.122 against the other subsectors of S.12 are also eliminated (S.12 ≤ S.121 + S.122 + S.123 + S.124 + S.125 + S.126 + S.127 + S.128 + S.129).

II. Vertical phases

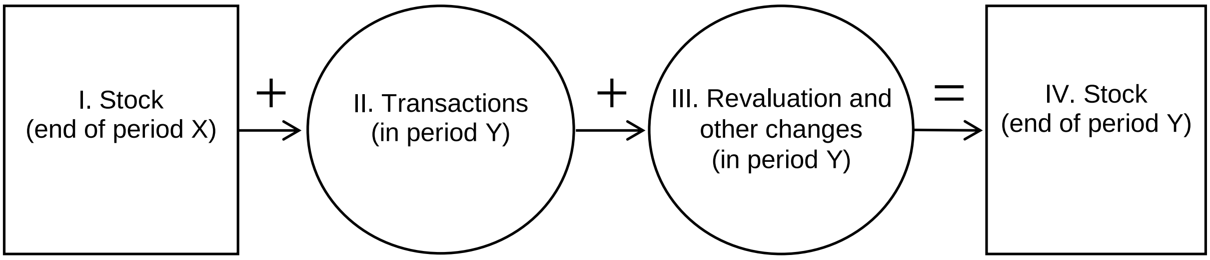
- stock ST0: represents the stock at the end of the period preceding the period for which the financial accounts are being compiled;

- stock ST1: represents the stock at the end of the period for which the financial accounts are being compiled;

- change in stocks RS (ST1 - ST0);

- transactions TR: represents the transactions in the period for which the financial accounts are being compiled;

- holding gains/losses VR: represents the holdings gains/losses in the period for which the financial accounts are being compiled.



The compilation of the financial accounts is followed by analysis of the compliance of the data with other statistics, in particular those of the general government (S.13) and the rest of the world (S.2). The net transactions of S.13 from the financial accounts are being compared with net item of S.13 in the non-financial accounts, as the two net items should in principle be equal. The data of S.2 from the financial accounts is compared with the IIP (International Investment Position) and BOP (Balance of Payments) data.