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Directorate D: Government Finance Statistics (GFS) and quality

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Subject: Sector classification of the Slovenian Export Bank according to ESA 2010

**Ref.: Eurostat letter of 24 October 2014
Your letter of 29 October 2014**

Dear Ms Škrlec,

Thank you for your letter dated 29 October 2014 and for the answers to our questions. After a careful examination of the issue by Eurostat, I am now in a position to provide an opinion on the appropriate sector classification of SID Bank in the light of ESA 2010.

The accounting issue

The issue for which an opinion is being sought is the statistical classification of the SID Bank and the statistical treatment of its operations in national accounts and in EDP reporting under the current applicable rules of the ESA 2010 methodology.

Documentation provided

- The view of the Slovenian statistical authorities on the sector classification of SID Bank and the treatment of its activities in the light of ESA2010;
- A split of the yearly amounts of the operations managed by SID Bank on behalf of government and on its own behalf for the years 2010 – 2013 operations;
- The share of the loans granted by SID Bank, for which an ex-ante authorisation of the Supervisory Board is needed and some examples of such pre-authorisations.

Description of the case

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The SID Bank is a national export and development bank which was established on the basis of the Slovene export-credit agency in 1992. In 2008, in accordance with the Slovene Export and Development Bank Act (ZSIRB), the SID Bank was granted an authorisation to perform the transactions according to the Law on insurance and financing of international business transactions (ZZFMGP). The main objective is to promote export and to carry out long term financial services to complement the financial market in areas which are relevant for the sustainable development of Slovenia.

The SID Bank is a government owned bank with two activities. On one hand it acts on behalf of government as defined in the ZSIRB and ZZFMGP and on the other hand it acts on its own behalf as a financial intermediary.

For its own account SID Bank carries out the following activities:

- provides financing of business transactions in compliance with the Slovene Export and Development Bank Act (ZSIRB),
- issues guarantees,
- enters into transactions with the instruments of monetary, currency, capital and derivative markets,
- issues credit reports and other credit information.

Since 2008, the Republic of Slovenia is the only shareholder of the SID Bank. The Bank is managed by the Management Board and the Supervisory Board. The members of the Supervisory Board are appointed by government and consist of 7 members, 2 are proposed by Ministries (Finance, Economy) and 5 are chosen from a pool of experts.

The main source of financing is borrowing and issuance of debt securities on the financial markets. The debts and obligations of SID Bank benefit from an explicit government guarantee.

Currently, the SID Bank is classified in the Public deposit taking corporation except the central bank sector (S.12201).

Methodological analysis and clarification by Eurostat

Applicable accounting rules

- ESA 2010, Chapter 2, Units and groupings of units;
- The Eurostat Manual on government deficit and debt (MGDD), Implementation of ESA 2010.

Availability of national accounting analysis

The Statistical Office of the Republic of Slovenia (SORS) has analysed the sector classification of the SID Bank in the context of the ESA 2010 and decided to classify SID in the Public deposit taking financial corporation except the central bank sector (S.12201), while the activities performed on behalf of government are included in the general government accounts, impacting general government deficit and debt.

The SORS considers that for the activities on its own account, the SID Bank is not limited in conducting its activities, it acts independently on the market and it is exposed to risk. The government controls the Bank, but the control does not go beyond the control of a normal shareholder. The Government can influence the general policy and strategy of the unit but it is not involved in day-to-day decisions. The SORS's view is that the SID Bank is a specialised bank, seeking opportunities in market gaps and is not restricted by law or by government. Additionally, the bank was profitable in all years.

Analysis

As stated above, the SID Bank is governed by the Supervisory Board which consists of seven members, two of which are proposed by Ministries (Finance, Economy) and five of which are chosen from a pool of experts. The Management Board requires the consent of the Supervisory Board for the main decisions to be taken, but its appointment is through public tender. Also in accordance with Bank of Slovenia's decision, the assessment of the suitability of the members of the Management and Supervisory Board as well as of holders of key functions of the bank is done by the Committee for the Assessment of Suitability of Members of the Management and Supervisory Board. The Committee has 3 members, one employee of the SID bank and two external members.

The Slovenian statistical authorities explained that according to the Slovenian Banking Law (ZBAN-1, Article 167), the Supervisory Board in the SID Bank, as in any other bank in Slovenia, has to approve the conclusion of some legal transactions over a certain threshold: *“The approval from the supervisory board shall be required for “(1) the conclusion of legal transactions on account of which the bank's large exposure to a single individual or a group of connected clients might increase so that it exceeds 15% or 20% of the bank's own funds, and every subsequent 5% of its own funds. (2) Conclusion of legal transactions which are the fundamental reason for the bank's incurrence of exposure to a single individual or a group of connected clients holding the position of an entity in a special relationship with the bank the approval from the supervisory board shall be required when the bank's exposure to this individual or the group of connected clients exceeds or will exceed 100,000 Euros based on this transaction.”*

The Slovenian statistical authorities confirmed that about 30 % of the loans are pre-authorized by the Supervisory Board and further explained that the Supervisory Board acts independently of government and follows the interest of the bank and not of the government. Eurostat takes note, in this context, that the majority members of the Supervisory Board are chosen from a pool of experts which are not government officials.

The Slovenian statistical authorities explained that the main activities of the SID Bank are:

- 1) services of export credits and investment insurance and interest rate equalization programme (IREP) performed on behalf and for the account of government, and
- 2) financing of business transactions in the area of market gaps (SMEs, research, environment, internationalization etc.) carried out for its own account.

The first activity is performed in the name of the Republic of Slovenia (RS) as defined in the Slovene Export and Development Bank Act (ZSIRB) and the Act Governing Insurance and Financing of International Commercial Transactions (ZZFMGP). The operations, performed on behalf of the RS, are disclosed in separate accounts. According to data provided by SORS, the activities performed on behalf of government represents only a small part of SID Bank's activities, i.e. around 10%. Furthermore, the SORS clarified that the assets and liabilities relating to these transactions are not included in the Bank's accounts and are already included in the accounts of the government for the whole period.

The second and major activity of the SID Bank is carried out on its own account. The SORS explained that the SID Bank has a possibility to use a wide range of banking services, which are assigned to it by the Bank of Slovenia. When performing banking activities on its own account, SID Bank is not limited by the ZSIRB or by government and the bank acts independently on the market. The Article 11 of ZSIRB states that *“SID Bank performs financial services mainly in segments where market gaps occur/have been observed, particularly in areas, such as international cooperation, SMEs, research and development, education, ...”* The SORS further

clarified that the SID Bank can enter also in any other segments of the market without any approval from government.

Additionally Article 9 of ZSIRB stipulates that "*The SID Bank shall render all its services with the aim to create direct or indirect added value for the users of such services keeping in mind the purpose and goal of individual transactions, projects, investments and other forms, and, in particular, with the aim to maintain or increase the capital without pursuing the goal of achieving maximum profit.*"

The above mentioned Article indicates that although the Bank's goal is not the maximization of the profit, it still has to maintain or increase the value of capital.

Furthermore the Management Board of the SID Bank has appointed the Credit Committee to take independent decision on any credit line of SID Bank and the members in this Committee are only the employees of SID Bank (no external members). Although government can influence the general policy and strategy of the unit, as its owner and as a normal shareholder would do, it is not involved in day-to-day decisions of the SID Bank. The SID Bank seeks opportunities in market gaps where other banks are reluctant to enter. The bank showed profit in all years.

The SID Bank is mainly financed through the borrowing from banks and issuance of debt securities on the financial markets guaranteed of the government. Nevertheless SID Bank can borrow without any authorisation of government.

The above mentioned features indicate indeed the control of government over the liabilities of the SID Bank but not on its assets. In addition, the part of the SID activities, performed on behalf of government is already re-routed via government account, with the impact on the government deficit and debt. It is to be also underlined that the part performed on behalf of government represents a tiny fraction of SID's activities.

Conclusion

In view of the analysis above, Eurostat agrees with the SORS`'s analysis that the SID Bank is classified in the financial corporations sector while the part of SID Bank activities which are performed on behalf of government are included in the government accounts, impacting government deficit and debt.

Procedure

Eurostat is prepared to give a preliminary view on the statistical classification of such operations provided that it is in possession of all of the necessary background information. The preliminary view is given in accordance with the guidelines for ex-ante advice published on the Eurostat web-site.

This preliminary view of Eurostat is based on the information provided by the country authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009, as amended, and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat intends, therefore, to publish all future official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat web site. In case you have objections concerning this specific case, we would

appreciate if you let us know. In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than 27 March 2015.

Yours sincerely,

(eSigned)

Eduardo Barredo Capelot
Director