

### III. FLOWS

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#### A. ECONOMIC TRANSACTIONS

A *transaction* itself is defined as an economic flow that reflects the creation, transformation, exchange, transfer, or extinction of economic value and involves changes in ownership of goods and/ or financial assets, the provision of services, or the provision of labor and capital.

#### B. TRANSACTION CHANGES

These are the changes occurred in the position of the financial/ non-financial assets / liabilities and net acquisition/ disposal during the accounting period. For example;

1. Net currency received during the reporting period. (Assets)
2. Net of bank deposits placed with financial institutions and withdrawn from them during the reporting period (Assets)
3. Net of loans disbursed and repaid by the insurance company during the reporting period (Assets)
4. Net of acquisition and disposal of liability in the shape of borrowings during the reporting period (Liabilities)
5. Net investment in securities other than shares i.e., securities purchased minus securities

matured/ claimed during the reporting period (Assets).

6. Net of securities issued and redeemed during the reporting period (Liabilities).
7. Net investment in shares and other equity of corporations i.e., total shares acquired *minus* shares disposed off during the period (Assets).
8. All subsequent changes in the paid-up capital through issuance of shares (Liabilities)
9. Receivable/payable items generated during the reporting period
10. Total premium paid for the subsequent period *minus* premium consumed during the reporting period and outstanding claims that have to be settled with the insurance corporations—Insurance Technical Reserves (Assets).
11. Non-financial asset acquired during the reporting period after adding the cost of ownership transfer if born by the insurance company *minus* transferring of non-financial asset to another entity by sale or gift after deduction of cost of ownership

transfer if born by the insurance company.

### **C. VALUATION CHANGES**

Holding gains or losses resulting from changes in market prices, exchange rate changes and fair value where market is not available that accrue during the accounting period to owners of non-financial/ financial assets and liabilities e.g., in case of securities in foreign currency, the difference due to prevailing exchange rate and exchange rate at the time of opening balance.

### **D. OTHER CHANGES IN VOLUME**

Changes in non-financial and financial assets and liabilities during an accounting period those are not due to transactions or revaluations. These include changes arising from reclassification of sectors / instruments, exceptional and catastrophic events, including destruction from

disasters or illegal seizure of assets without compensation etc. Examples: -

1. Uncompensated seizures due to non-payment of taxes, fines or similar levies.
2. Reclassification of securities that have been converted into shares.
3. Loan changed as grant etc.,
4. Writing off of loan by the banks due to bankruptcy or other factors etc;
5. Reclassification of loans as securities other than shares, in accordance with the rule that loans that become negotiable (i.e., marketable).
6. Reclassification of sectors by privatization etc.
7. Reclassification of securities that have been converted to shares and other equity, under the conversion options in securities contract.

## **IV. DEFINITIONS/ TERMINOLOGIES**

### **A. DESCRIPTION OF MAJOR COMPONENTS OF ASSETS & LIABILITIES**

#### **I. ASSETS**

##### **i. CURRENCY (CASH IN HAND)**

Notes and coins that are of fixed nominal values and accepted as legal tender in an economy that are issued by the central bank and/or government. This category should also include currency that is no longer legal tender, but that can be exchanged immediately for current legal tender.

##### **NATIONAL CURRENCY (PAKISTANI CURRENCY NOTES AND COINS)**

##### **PAKISTANI BANK NOTES**

These are promissory notes (or bank notes) issued by the State Bank of Pakistan in various denominations, with the promise to pay the said denomination (face value) in Rupee when called for payment. These are issued with the guarantee of the Government of Pakistan.

##### **PAKISTANI RUPEE COINS**

These are the currency coins issued by the government of Pakistan with various denominations of currency units (Rupee). All Pakistani currency

coins (including subsidiary coins) issued by the federal government are to be reported here.

##### **FOREIGN CURRENCY (FOREIGN CURRENCY NOTES AND COINS)**

All foreign currency notes and coins are liability of the foreign governments or non-resident issuing authorities / central banks. These are claims of the economy upon non-residents.

##### **ii. TRANSFERABLE DEPOSITS**

All demand deposits of insurance companies with deposit money institutions (banks) in national or in foreign currency i.e., exchangeable on demand at par without penalty or restriction, freely transferable by cheque or otherwise, commonly used to make payments, are known as transferable deposits. These deposits include special savings accounts with a possibility of direct payments to third parties, savings accounts balances subject to automatic transfer to regular transferable deposits, and money-market fund that have unrestricted third-party transferability privileges.

Deposits denominated in national currency should be recorded at book

value (outstanding amount plus accrued interest).

### **iii. OTHER DEPOSITS**

These represent all claims of insurance companies with deposit money institutions (banks) other than transferable deposits in national currency or in foreign currency that are represented by evidence of deposits.

Other deposits include:

- Sight deposits (which permit immediate cash withdrawals but not direct third-party transfers);
- Non-transferable savings deposits and term deposits;
- Financial corporations' liabilities in the form of shares or similar evidence of deposits that are legally or in practice, redeemable immediately or at relatively short notice;
- Shares of money-market funds that have restrictions on third-party transferability;
- Call money deposits;

### **iv. RESTRICTED DEPOSITS**

Restricted deposits are those for which withdrawals are restricted on the basis of legal, regulatory, policy, or commercial requirements. Such deposit withdrawal restrictions do not include limitations on the early withdrawal of deposits that have agreed maturities. A

fixed-term deposit withdrawal prior to maturity may not be allowed or, if allowed, typically carries a penalty for early withdrawal. Such withdrawal conditions are treated as standard maturity provisions of fixed-term deposits, rather than as restrictions.

Examples of restricted deposits are import deposits, Compulsory savings deposits that can be accessed only after a specified period or from which withdrawals may be made only for specified purposes (e.g., home purchase or retirement), Escrow deposits, judicial deposits paid to a court, fiduciary deposits, blocked FC deposits, etc.

### **v. DEBT SECURITIES**

Securities are financial claims that have the characteristics feature of negotiability. Insurance companies' investments in financial assets that are normally traded in the financial markets and that give the holders the unconditional right to receive stated fixed sums on a specified dates or the unconditional right to fixed money incomes or contractually determined variable money incomes. These securities are classified as short-term and long-term securities other than shares. Examples are; Government treasury bills, Federal government bonds, Pakistan investment bonds,

corporate bonds and debentures, negotiable certificates of deposits (not negotiable would be categorized under deposits), commercial paper, TFCs, PTCs, Modaraba certificates, and negotiable securities backed by loans or other assets. Preferred stock or shares that pay a fixed income but do not provide for participation in the distribution of residual value of an incorporated enterprise on dissolution are also included in this category.

#### **GOVERNMENT TREASURY BILLS**

These are short-term debt instrument issued by the government treasury to raise funds for the government or to regulate money supply through open market operations of the central bank. Their market transactions are managed by the State Bank of Pakistan on behalf of the treasury.

#### **PAKISTAN INVESTMENT BONDS**

These are long term (3, 5, 10, 15 & 20 years' maturity) debt obligation issued by the government, offering a risk free investment to the bond holders at premium interest rates depending on the maturity of the bond.

#### **OTHER FEDERAL GOVERNMENT BONDS / SECURITIES**

This category would include the bonds / securities issued by the federal government not covered anywhere else.

#### **PROVINCIAL GOVERNMENT SECURITIES / BONDS / PERMANENT LOANS**

This category includes any type of provincial governments' debt obligations/ bonds and negotiable certificates etc.

#### **LOCAL GOVERNMENT SECURITIES / BONDS**

All type of certificates issued by the local/ city governments, which are evidence of debt on which the issuer promises to pay the holder a specified amount of interest for a specified length of time, and to repay the loan on its maturity.

#### **COMMERCIAL PAPERS**

Unsecured promissory notes of relatively low risk and short maturity of 3 to 6 months, issued by highly rated large corporations who usually maintain backup credit lines with their banks to ensure payment at maturity; like notes, bills, and acceptances

#### **NEGOTIABLE CODS**

A deposit instrument; a receipt issued by a bank as an evidence of a deposit specifying the amount, the period of the deposit, and the rate of the interest. There are several types of deposit

certificates issued in domestic or foreign currency; since certificate of deposits are negotiable instruments, these are freely traded in secondary money market. The CODs that are not negotiable would be treated as other deposits.

### **NEGOTIABLE LOANS**

Loans that have become negotiable de facto (securitization of mortgage loans, claims on credit card holders and other loans) are known as negotiable loans

### **DEBENTURES**

Long-term securities that give the holders the unconditional right to one or both of: (a) a fixed or contractually determined variable money income in the form of coupon payments, i.e. payment of interest is not dependent on earnings of the debtors, (b) a stated fixed sum as a repayment of principal on a specified date or dates when the security is redeemed.

### **WAPDA BONDS**

Certificates issued by WAPDA promising to pay the holder a specified amount of interest for a specified length of time, and to repay the loan on its maturity.

### **PARTICIPATION TERM CERTIFICATES**

A certificate or note evidencing ownership by the holder, but without

voting rights of a stated percentage of a "package" or "pool" of mortgages which pays interest at a stated rate. The term finance certificates are redeemable in quarterly / half yearly instalments.

### **INVESTMENT IN FOREIGN SECURITIES**

Investments in bonds/ financial assets issued by the non-residents that are normally traded in the financial markets and that give the holders the unconditional right to receive stated fixed sums on a specified dates or the unconditional right to fixed money incomes or contractually determined variable money incomes.

### **vi. LOANS EXTENDED**

Financial asset resulting from the delivery of cash or other assets by an insurance company to its employees, policy holders or insurance agents in return for an obligation to repay on a specified date or dates, or on demand, usually with mark-up or interest.

The value of a domestic currency loan should be the amount of the creditor's outstanding claim (equal to the debtor's obligation), which comprises the outstanding principal amount plus any accrued interest (i.e., interest earned but not yet due for payment). Such valuation is herein referred to as the book value of a loan.

The loan valuation is not adjusted for expected losses. The value of a loan portfolio should be adjusted downward only when (1) loans are actually written off as un-collectible or (2) when the outstanding amount of the loan has been reduced through formal debt reorganization.

Loans are categorized as short-term and long-term loans.

## **vii. EQUITY AND INVESTMENT FUND SHARES (ASSETS)**

All instruments and records acknowledging claims to the residual value of companies / corporations, after the claims of all creditors have been met are categorized as equity. Stock or share most commonly refers to a share of ownership in a company that entitles the owner of that share to literally a share in the ownership of the company, including the right to a fraction of the assets of the company, a fraction of the decision-making power, and potentially a fraction of the profits, which the company may issue as dividends. Preferred stocks or shares are included in this category. Mutual funds and NIT units are also to be included under this category, for the reason that they give rise to the equity of issuing institution.

### **QUOTED SHARES - ORDINARY**

Shares are usually traded on a stock exchange, where people and organisations may buy and sell shares in a wide range of companies. A given company will usually only trade its shares in one market, and it is said to be quoted, or listed, on that stock exchange. However, some large, multinational corporations are listed on more than one exchange. They are referred to as inter-listed shares.

### **NON-QUOTED SHARES - ORDINARY**

The shares those are not traded on a stock exchange are defined as non-quoted shares.

### **PREFERRED STOCKS / SHARES**

Preferred stocks are shares of a corporation, which represent ownership in a corporation with the distinction that if company earnings are sufficient, and dividends are to be paid, dividends must be first paid to these holders of stock. Preferred shares have priority over common shares in the distribution of dividends and assets..

### **INVESTMENT FUND SHARES OR UNITS**

This category includes shares or units issued by all kinds of investment funds, including MMFs and non-MMF investment funds. Those units acquiring shares in the funds thus spread their risk across all the instruments in the fund.

Investment in these funds shares or units should be separately identified on the asset and liability side of the sectoral balance sheets, with a further disaggregation on the liability side between MMF shares and non-MMF based on the creditor sector, and sectorized by counterpart holding sector.

#### **INVESTMENT IN SHARES OUTSIDE PAKISTAN**

An investment of insurance companies in the companies outside Pakistan, which makes the investor a part-owner of that company whose shares it has bought. Insurance companies are rewarded with annual dividends if the non-resident company makes sufficient profits; and capital growth in the value of their shares if the company attracts other interested investors. These assets of insurance companies should be reported under non-residents category.

#### **viii. INSURANCE, PENSION AND STANDARDIZED GUARANTEE SCHEMES (ASSETS) NONLIFE INSURANCE TECHNICAL RESERVES**

Nonlife insurance technical reserves includes:-

- Prepayments of premiums, and
- Reserves against outstanding claims with insurance companies

#### **PREPAYMENT OF PREMIUMS**

These are prepayments of premium by insurance corporations to other insurance or reinsurance corporations (including automobile, health, term life, accident/injury, income maintenance, and other forms of non-life insurance). These prepayments of premiums are assets of the policyholders and form part of the insurance technical reserves. Total premium paid for the subsequent period less premium consumed during the reporting period would be reported.

#### **RESERVES AGAINST OUTSTANDING CLAIMS WITH INSURANCE COMPANIES**

These are the amounts that insurance companies expect to receive in respect of claims that are not yet settled or claims that may be disputed with other insurance companies.

#### **ix. OTHERS ACCOUNTS RECEIVABLE**

Financial assets consisting of dividends receivable, settlement accounts, items in the process of collection, accrued income, head office / inter-branch adjustment, expenditure account, suspense items and miscellaneous asset items.

#### **DIVIDENDS RECEIVABLE**

Dividends receivable on corporate shares arise from the recording of dividends when the dividends are declared, rather than when the dividends are paid.

### **SETTLEMENT ACCOUNTS**

Settlement accounts should be used to account for differences in the time of recording of (1) purchases or sale of financial assets, on the trade dates when change of ownership occurs and (2) the subsequent payments for the financial assets on the settlement dates.

### **ITEMS IN THE PROCESS OF COLLECTION**

Items in process of collection include cheques or other types of transferable items.

### **MISCELLANEOUS ASSET ITEMS**

These include claims, damages, accruals for miscellaneous fees, fines, forfeitures, penalties, other prepaid expenses, receivable from brokers, receivable from government under VHS (voluntary golden hand shake) scheme, stationary and stamps on hand etc, etc.

### **SUSPENSE ACCOUNT**

It is a temporary holding account for errors and omissions i.e., claims for which proper classification has not yet been determined, claims for which verifications, notifications, instructions, or other documentations are required for completing the transactions, and

claims that are under litigation or otherwise in dispute..

### **PREPAYMENT OF TAXES**

Prepaid taxes for the subsequent periods are classified under this category.

### **PREPAYMENT OF RENT**

Rent prepaid for the subsequent periods is classified under this category.

### **DEFERRED COST/PRELIMINARY OPERATING EXPENSES**

This relates to the cost incurred for subsequent periods, which are reflected as ASSETS.

## **x. NON-FINANCIAL ASSETS**

Entities from which their owners may derive economic benefits by holding them or using them over a period of time are called non-financial assets. Non-financial assets consist of tangible assets, both produced and non-produced, and intangible assets for which no corresponding liabilities are recorded. Produced assets comprise non-financial assets that have come into existence as outputs from production processes.

Produced assets consist of:

- i. Fixed assets—assets that are used repeatedly, or continuously, in production processes for more than one year and that may be tangible (dwellings, other buildings and structures,

machinery and equipment, and cultivated assets, such as livestock for breeding and plantations) or intangible (mineral exploration, computer software, and entertainment, literary, or artistic originals),

- ii. Inventories (materials and supplies, work-in-progress, finished goods, and goods for resale), and
- iii. Valuables (assets that are acquired and held primarily as stores of value).

Non-produced non-financial assets are both tangible and intangible assets that come into existence other than through processes of production.

Tangible non-produced assets include land, subsoil assets, water resources, etc

Intangible non-produced assets include patents, and purchased goodwill etc.

For balance sheet purposes these assets shall be reported net of accumulated depreciation.

#### **RESIDENTIAL BUILDING / DWELLINGS ON FREE HOLD LAND**

Dwellings on freehold land are buildings on freehold land that are used entirely or primarily as residences, including any associated structures, such as garages, and all permanent fixtures customarily installed in

residences; movable structures, such as caravans, used as principal residences of households are included.

#### **OTHER BUILDINGS AND STRUCTURES ON FREEHOLD LAND (CAPITAL WORK IN PROGRESS - CIVIL WORKS)**

The other buildings and structures on freehold land category of non-financial, produced, tangible fixed assets consists of non-residential buildings and other structures, such as civil engineering works on freehold land.

#### **RESIDENTIAL BUILDING / DWELLINGS ON LEASE HOLD LAND**

Dwellings on leasehold land are buildings on leasehold land that are used entirely or primarily as residences, including any associated structures, such as garages, and all permanent fixtures customarily installed in residences; movable structures, such as caravans, used as principal residences of households are included.

#### **OTHER BUILDING AND STRUCTURES ON LEASEHOLD LAND (CAPITAL WORK IN PROGRESS - CIVIL WORKS)**

The other buildings and structures on leasehold land category consist of non-residential buildings and other structures, such as civil engineering works on freehold land.

#### **FURNITURE AND FIXTURE**

All type of furniture and fixtures other than those acquired under financial leases for the purpose of business

**ELECTRICAL, OFFICE AND COMPUTER EQUIPMENTS**

All office equipments other than those acquired through financial leases use for the business including counting and computing equipments, printers, scanners, photocopiers, fax machines etc.

**OTHER MACHINERY AND EQUIPMENT**

The other machinery and equipment category of non-financial, produced, tangible fixed assets other than those acquired through financial lease consists of machinery and equipment assets not classified as “transport equipment” and “office equipment”.

**VEHICLES**

Vehicles (as assets) other than those acquired through financial leases consist of equipment for moving people and objects, other than any such equipment acquired by households for final consumption. Transport equipments such as motor vehicles, trailers, ships, aircrafts, motorcycles, bicycles etc.

**GOLD (VALUED AT PRICE NOT EXCEEDING CURRENT MARKET PRICE)**

Gold, held primarily as stores of value.

**OTHER VALUABLES**

Valuables are produced assets that are not used primarily for production or consumption, that are expected to appreciate or at least not to decline in real value, that do not deteriorate over time under normal conditions and that are acquired and held primarily as stores of value

**FURNITURE AND FIXTURES UNDER FINANCE LEASE**

All type of furniture and fixtures those acquired through financial leases for the purpose of business

**ELECTRICAL, OFFICE AND COMPUTER EQUIPMENTS UNDER FINANCE LEASE**

All office equipments acquired through financial leases use for the business including counting and computing equipments, printers, scanners, photocopiers, fax machines etc

**OTHER MACHINERY AND EQUIPMENT UNDER FINANCE LEASE**

The other machinery and equipment category of non-financial, produced, tangible fixed assets acquired through financial lease consists of machinery and equipment assets not classified as “transport equipment” and “office equipment”.

**VEHICLES UNDER FINANCE LEASE**

Vehicles (as assets) acquired through financial leases consists of equipment for moving people and objects, other than any such equipment acquired by

households for final consumption. Transport equipments such as motor vehicles, trailers, ships, aircrafts, motorcycles, bicycles etc.

**OTHER TANGIBLE FIXED ASSETS (PRODUCED)**

Consists other tangible produced assets not specified elsewhere. Produced assets are non-financial assets that have come into existence as outputs from production processes.

**OTHER TANGIBLE NON-PRODUCED ASSETS**

Any other tangible non-produced assets not specified elsewhere. Non-produced assets are those that occur in nature and over which ownership may be enforced and transferred. Environmental assets over which ownership rights have not, or cannot, be enforced such as open seas or air are excluded.

**COMPUTER SOFTWARE**

Computer software is an asset consisting of computer programs, program descriptions and supporting materials for both systems and applications software; included are purchased software and software developed on own account, if the expenditure is large.

**FREE HOLD LAND (AT COST) UNDERLYING BUILDING AND STRUCTURE**

Value of freehold land on which dwellings, non-resident buildings and

structures are constructed or into which their foundation are dug, including yards and gardens deemed an integral part of dwellings.

**RECREATIONAL FREEHOLD LAND**

Recreational freehold land that is used as privately owned amenity land, parklands and pleasure grounds and publicly owned parks and recreational areas.

**FREE HOLD LAND- OTHER THAN UNDERLYING BUILDING AND STRUCTURE**

Freehold land other than freehold land underlying buildings and structures consist of land not elsewhere classified, including private gardens and plots not cultivated for subsistence or commercial purposes, communal grazing land, land surrounding dwellings in excess of those yards and gardens deemed an integral part of farm and non-farm dwellings.

**LEASEHOLD LAND UNDERLYING BUILDING AND STRUCTURE**

Value of leasehold land on which dwellings, non-resident buildings and structures are constructed or into which their foundation are dug, including yards and gardens deemed an integral part of dwellings.

**LEASEHOLD LAND - RECREATIONAL**

Recreational leasehold land that is used as privately owned amenity land, parklands and pleasure grounds and

publicly owned parks and recreational areas.

**LEASEHOLD LAND- OTHER THAN UNDERLYING BUILDING AND STRUCTURE**

Leasehold land other than leasehold land underlying buildings and structures consist of land not elsewhere classified, including private gardens and plots not cultivated for subsistence or commercial purposes, communal grazing land, land surrounding dwellings in excess of those yards and gardens deemed an integral part of farm and non-farm dwellings.

**PURCHASED GOODWILL**

Purchased goodwill is the difference between the value paid for an enterprise as a going concern and the sum of its assets less the sum of its liabilities, each item of which has been separately identified and valued; the value of goodwill includes anything of long-term benefit to the business that has not been separately identified as an asset

**ENTERTAINMENT, LITERARY OR ARTISTIC ORIGINALS (INTANGIBLE FIXED ASSETS)**

Entertainment, literary or artistic originals are the original films, sound recordings, manuscripts, tapes, models, etc, on which drama performances, radio and television programming, musical performances,

sporting events, literary and artistic output, etc, are recorded or embodied.

**OTHER INTANGIBLE FIXED ASSETS (PRODUCED)**

Other intangible fixed assets are new information, specialized knowledge, etc, not elsewhere classified, whose use in production is restricted to the units that have established ownership rights over them or to other units licensed by the latter.

**OTHER INTANGIBLE NON-PRODUCED ASSETS**

Other intangible non-produced assets not elsewhere classified that are constructs of society. They are evidenced by legal or accounting actions, such as the granting of patent or the conveyance of some economic benefit to a third party.

**ACCUMULATED DEPRECIATION ON NON-FINANCIAL ASSETS**

Accumulated depreciation on non-financial assets means total reduction in value of non-financial assets at the end of the accounting period resulting from physical deterioration, normal obsolescence or normal accidental damage etc.

**ACCUMULATED AMORTIZATION ON OTHER INTANGIBLE FIXED ASSETS**

Accumulated reduction/ normal obsolescence in the value of other intangible fixed assets

## **II. LIABILITIES AND OWNERS**

### **EQUITY**

#### **i. DEPOSITS**

All claims on the insurance companies other than transferable deposits in national currencies that are represented by evidence of deposits and restricted in nature like, employees provident fund accounts, staff pension funds, employees' security deposit, staff guarantees fund and similar types of deposits related to, security deposits, margin deposits and sundry deposits etc.

##### **EMPLOYEES PROVIDENT FUND ACCOUNT**

These are compulsory savings deposits of employees arising from an official requirement that a share of a worker's earnings be placed in a deposit account that can be accessed only after a specified period or from which withdrawals may be made only for specified purposes.

##### **STAFF PENSIONS FUNDS**

Liability of the insurance companies in the form of staff pensions funds whether contributed by the employee or the company itself.

##### **EMPLOYEE'S SECURITY DEPOSITS/ STAFF GUARANTEE FUND**

Securities / guarantees if held from the employees or on behalf of employees

against employment, or for any other benefit, are liability of the insurance company.

#### **ii. DEBT SECURITIES (LIABILITIES)**

Securities other than shares are negotiable instruments serving as evidence that units have obligations to settle by means of providing cash, a financial instrument, or some other item of economic value. These may be commercial papers, TFCs, debentures; participation terms certificates, modaraba certificates, negotiable CODs, negotiable loans and other securities. Preferred stock or shares that pay a fixed income but do not provide for participation in the distribution of residual value of an incorporated enterprise on dissolution are included in this category.

#### **iii. LOANS (BORROWINGS)**

Financial liabilities of insurance companies are created when creditors (financial institutions) directly lend funds to them. This includes financial leases, subordinated loans, and other loans from financial and non-financial corporations etc. Borrowings are further classified by short-term and long-term. The creditor's outstanding claims at any time should equal to the debtor's obligation, which comprises

the outstanding principal amount plus any accrued interest.

#### **FINANCIAL LEASES AND SIMILAR ARRANGEMENTS**

Goods acquired for disposal from a bank/NBFI that purchases these goods and receives rentals to cover all or virtually all costs including interests over the period of contract.

The entire risks and rewards of ownership are de facto transferred to from the legal owner of the goods (lesser bank/NBFI) to the user of the goods (lessee insurance company) of an asset. Title may or may not eventually be transferred. This de facto change in ownership is financed by a financial claim, which is the asset of the lesser bank/NBFI and liability of the lessee Insurance Company. At the time of ownership change the market value of the asset is recorded as liabilities of the lessee. For subsequent periods principal payments will be subtracted for determining the outstanding liability.

#### **BORROWINGS FROM SUBSIDIARY COMPANIES**

Borrowings other than subordinated loans from companies that are owned/controlled by the insurance companies

#### **BORROWINGS FROM MANAGED MODARABAS**

Any type of borrowing from managed modarabas i.e., the companies solely engaged in the floatation and management of Modaraba, having paid-up capital of not less two and half million rupees.

#### **BORROWINGS FROM ASSOCIATED UNDERTAKINGS**

All types of borrowings from associated undertakings are to be covered here.

#### **BORROWINGS FROM DIRECTORS**

Loans and borrowings from the directors of the insurance company

#### **BORROWINGS FROM CHIEF EXECUTIVE**

Borrowings from chief executives of the insurance company

#### **SUBORDINATED LOANS FROM SUBSIDIARY COMPANIES**

Funds raised by the insurance company from subsidiary companies, managed modarabas, associated undertakings, director or chief executives with the provision that all other liability holders have priority in the event of failure of the institution. Such debts are created by a subordination agreement under which a creditor acknowledges that his claim is secondary to the claim of other creditors, such as depositors.

#### **BORROWING FROM SBP**

Funds raised under any arrangement from SBP will be reported by the insurance company under this head.

#### **iv. INSURANCE, PENSION & STANDARDIZED GUARANTEE SCHEMES**

This section deals mainly with the classification of respective asset and liability accounts of insurance corporations, pension funds, and standardized guarantee schemes included in the OFCs subsector, as reflected in the sectoral balance sheets in the monetary statistics. The accounts within this category receive separate treatment, owing to the specialized treatment of these accounts in national financial reporting standards and macroeconomic statistics.

There are five categories of reserves applicable to IPSGS:

- a. Life insurance and annuities entitlements
- b. Nonlife insurance technical reserves
- c. Pension entitlements and nonpension entitlements
- d. Claims of pension funds on pension managers
- e. Provisions for calls under standardized guarantees.

These reserves, entitlements, and provisions, except for claims of pension funds on the pension fund manager, represent liabilities of the insurer, pension fund, or issuer of standardized guarantees and a

corresponding asset of the policyholders or beneficiaries. Only claims related to nonlife insurance technical reserves, claims of pension funds on the pension manager, and claims related to provisions for calls under standardized guarantees may appear as assets in the balance sheets of FCs. Further, only life insurance, and annuity and pension entitlements may appear as liabilities in the balance sheets of FCs, the beneficiaries and policyholders for which are **households**.

#### **Life insurance and annuity entitlements**

Life insurance and annuities entitlements are financial claims policyholders have against an institutional unit offering life insurance or providing annuities. This category consists of reserves of life insurance corporations and annuity providers for prepaid premiums and accrued liabilities to life insurance policyholders and beneficiaries of annuities. Annuity entitlements are the actuarial calculation of the present value of the obligations to pay future income until the death of the beneficiaries. These entitlements show the extent of financial claims that policyholders have against an institution offering life insurance or

providing annuities and are therefore regarded as liabilities of the life insurance corporations and annuity providers, and assets of the policyholders and beneficiaries.

### **Nonlife insurance technical reserves**

Nonlife insurance provides cover to the policyholders against loss or damage suffered as a result of accident, fire, property loss, health-related expenses, etc. *Nonlife insurance technical reserves consist of prepayments of net nonlife insurance premiums and reserves to meet outstanding nonlife insurance claims.* This definition applies to both nonlife direct insurance and reinsurance.

### **Prepayments of net nonlife insurance premiums**

A buyer of an insurance coverage (the “insurance policy”) pays for this service an amount—called a premium—to the insurance provider. Typically, the client prepays the premium (the cost of the insurance policy) at the beginning of the period of insurance coverage. The category includes the following prepayments for nonlife insurance policies:

1. Accidents, sickness, fire etc.
2. Reinsurance
3. Deposit insurance

4. Life insurance corporations payments for nonlife insurance to other insurance companies
5. Reserves for unexpired risks

### **Reserves to meet outstanding nonlife insurance claims**

Funds set aside by insurance corporations, from overall nonlife insurance technical reserves, to cover the amounts that they expect to pay out with respect to valid claims (in near future) that are not yet settled or claims that may be disputed. Reserves against such outstanding claims are considered to be assets of the beneficiaries and liabilities of the insurance corporations. Policy benefits due to claimants are considered assets of the claimants. Until paid, these assets are held by insurance corporations as reserve liabilities.

### **Reinsurance.**

Reinsurance is insurance where both parties to the policy are providers of insurance services. That is, reinsurance allows insurance risk to be transferred from one insurer to another.

### **Pension entitlements.**

Pension entitlements are used to provide retirement benefits for specific groups of employees. *Pension entitlements show the extent of financial claims that both existing and*

*future pensioners hold against either their employer or a fund designated by the employer to pay pensions earned as part of a compensation agreement between the employer and employee.*

In addition to funded liabilities of pension funds, this category includes liabilities of unfunded employment-related pension schemes. As well as pensions, some schemes may have other related liabilities, such as for health benefits, which are included under entitlements to nonpension benefits. For practical reasons, liabilities for nonpension entitlements may be included with those for pension entitlements.

#### **Claims of pension funds on the pension manager**

An employer may contract with a third party to administer the pension funds for its employees. If the employer continues to determine the terms of the pension schemes and to retain the responsibility for funding any deficit, as well as the right to retain any excess funding, the employer is described as the pension manager and the unit working under the direction of the pension manager is described as the pension administrator. If the agreement between the employer and the third party is such that the employer passes the risks and responsibilities for any

deficit in funding to the third party in return for the right of the third party to retain any excess, the third party becomes the pension manager as well as the administrator. When the pension manager is a unit different from the administrator, with the consequences that responsibility for any deficit or claims on any excess rests with the pension manager, the claim of the defined benefit pension fund on the pension manager is shown under this category.

#### **Provisions for calls under standardized guarantees**

Provisions for calls under standardized guarantees consist of prepayments of net fees and provisions to meet outstanding calls under standardized guarantees.

### **v. OTHER ACCOUNTS PAYABLE**

These accounts consist of provision for loan losses, provision for other losses, adjustment for head office / branch, dividends payable, settlement accounts, suspense accounts, deferred tax liabilities, accrued wages, rent, social contributions, accrued taxes, mark-up/ return/ interest payable, mark-up on NPL & investment, income account, miscellaneous liability items.

#### **PROVISION FOR LOSSES**

Setting aside a part of insurance companies' income to cover anticipated losses.

**BRANCH ADJUSTMENT ACCOUNT**

All adjustments made with head offices or branches and are payable.

**UN-REMITTED HEAD OFFICE EXPENSES**

Expenses made by head office on your behalf, which have not yet been remitted.

**SETTLEMENT ACCOUNTS**

A settlement account is any account you wish to have funds settled into at the end of the transaction. Settlement accounts within other accounts payable should show insurance companies' obligations for payments on future settlement dates for assets that were purchased on trade dates.

**MISCELLANEOUS LIABILITY ITEMS**

Includes suspense accounts, provision for expected costs, deferred tax liabilities, accrued wages, accrued rent, and accrued taxes, credit balances in the cash credit, certificates, margin on guarantees, and other liabilities items not specified elsewhere.

**SUSPENSE ACCOUNTS**

An account that is used to store short-term funds or securities until a permanent decision is made about their allocation.

**PROVISION FOR EXPECTED COSTS**

Various types or expected costs such as those arising from the expectation of an unfavourable judgement in a lawsuit or plans for restructuring an enterprise's operations or managements etc.

**DEFERRED TAX LIABILITIES**

Deferred tax liabilities arise from timing difference between recognized tax liabilities in an insurance company's account and tax liabilities reported to the tax authorities; the tax amount due in one period but deferred for payment in another period.

**ACCRUED WAGES**

Wages and salaries, which have not been paid and are outstanding at the end of the accounting period

**ACCRUED RENT**

In finance, rent is a fixed income / expenditure per period from property, land or any real estate. It is also a contractual amount paid for the use of machinery or equipment such as transport vehicles.

**SUNDRY DEPOSITS**

Various type of deposits for which claimant is not available, e.g., dormant accounts of non-operative accounts etc.

**ADVANCE RECEIPTS**

Amounts received in advance for any contract but the contract has not yet fully materialized.

**CURRENT TAXATION (PROVISIONS LESS PAYMENTS) ACCRUED TAX**

Taxes chargeable to an accounting period but not yet paid.

#### **SOCIAL CONTRIBUTIONS**

These are the actual or imputed payments to social insurance schemes to make provisions for social insurance benefits to be paid or to the employees' benevolent funds.

### **vi. SHARES & OTHER EQUITY**

Shares and other equity comprise all instruments and records acknowledging, after the claims of all creditors have been met, claims on the residual value.

#### **PAID-UP CAPITAL**

The term, Paid-up capital (share capital) or Shares would be used synonymously for the money raised through sale of stocks. It includes insurance company's shares fully paid in cash, issued as bonus shares and shares issued for consideration other than cash. Preferred stocks or shares, which also provide for participation in the distribution of the residual value on dissolution of an incorporated enterprise (preferred in distribution over ordinary shareholders), are included.

#### **PAID-UP CAPITAL UNQUOTED/NOT-LISTED**

These are unquoted shares of the insurance company, which are not

traded on stock exchanges or other organized financial markets.

#### **OTHER EQUITY**

The portion or part of equity that is not paid-up capital (shares) will be treated as other equity. This item would include insurance company's retained earnings, current year result, general & special reserves and revaluation adjustments.

#### **RETAINED EARNINGS**

The category of retained earnings shows all earnings (after-tax profit) from the overall operations of the insurance companies less any amount allocated to general and special reserves, which is established as a capital cushion to cover operational and financial risks.

#### **CURRENT YEAR RESULT (UNAPPROPRIATED PROFIT/LOSS)**

Accumulated revenues during the year minus expenditures minus taxes minus retained earnings minus general and special reserves minus dividend payable are the current year result.

#### **GENERAL AND SPECIAL RESERVES**

General and special reserves are capital redemption reserve, profit prior to incorporation, share premium, statutory reserves and appropriations of retained earnings. General and Special reserves should be valued as the nominal amount of earnings that have been retained.

**VALUATION ADJUSTMENT**

Valuation adjustment represents the net counterpart of all changes (Surplus / deficit on revaluation) in the values

of assets and liabilities on the balance sheets except for valuation changes recorded in the profit and loss accounts.

## **B. SECTORAL DEFINITIONS**

**i. DEPOSIT MONEY INSTITUTIONS**

These consist of resident depository corporations and quasi corporations, which have any liabilities in the form of deposits payable on demand, transferable by cheques or otherwise useable for making payments. Scheduled banks, specialized banks and Punjab provincial cooperative banks in Pakistan fall under this category. The list of deposit money institutions is annexed.

**ii. OTHER DEPOSIT ACCEPTING INSTITUTIONS**

Many other types of financial intermediaries also accept deposits and/or issue other types of liabilities that are close substitutes for deposits and therefore are included in broad money. These other deposit-taking corporations have various names, depending on their principal activities and national naming conventions. The list of other deposit accepting institutions is annexed.

**iii. FOREIGN CONTROLLED CORPORATIONS**

Foreign controlled non-financial corporations are resident non-financial corporations controlled by non-residents. It is difficult to determine the degree of effective control in a corporation that has majority ownership shares; the general rule is that owners should exercise majority control in the form of greater than 50% the voting shares.

**iv. PUBLIC ENTERPRISES**

Resident corporations controlled by the government. Control may be exercised through ownership of more than half the voting shares, legislation, decree, or regulations that establish specific corporate policy or allow the government to appoint the directors. The list of public sector enterprises is annexed.

**v. OTHER FINANCIAL INTERMEDIARIES**

Corporations engaged in financial intermediation, which raise funds on financial markets, but not in the form of deposits, and use them to acquire other kind of financial assets. These include discount houses, venture capital companies, mutual funds, housing finance companies and cooperative banks except Punjab provincial cooperative bank etc.

**vi. FINANCIAL AUXILIARIES**

Corporations such as securities brokers, loan brokers, floatation corporations, insurance brokers etc. they also include corporations whose principal function is to guarantee, by endorsement, bills or similar instruments intended for discounting or refinancing by financial corporations, and also corporations which arrange hedging instruments such as swaps, options, and futures or other instruments which are continually being developed as a result of wide-ranging financial innovation.

**vii. NPIs (MARKET)**

NPIs engaged in market production are classified as entities, which charge fees determined by their costs of production and which are sufficiently high to have a significant influence on the demand of their services, but any surpluses must be retained within these entities as their status as “NPI”.

**viii. NPIs (NON-MARKET)**

Non-market producers that provide most of their output free or at prices that are not economically significant (i.e., at prices that do not significantly influence amounts supplied or amounts purchased). NPIs engaged mainly in non-market production fall into two main groups:

- i. The NPIs that are mainly controlled and financed by the government
- ii. Those NPIs providing non-market goods and services to households and financed mainly by transfers from non-government sources – households, corporations, or non-residents etc. These are commonly termed as NPISHs, a separate sector of the economy.

**ix. EMPLOYERS**

The employers' are self-employed persons with paid employees.

**x. OWN ACCOUNT WORKERS**

The employers' are self-employed persons without paid employees.

**xi. EMPLOYEES**

These are persons, which receive income from their employers.

**xii. RECIPIENT OF PROPERTY AND TRANSFER INCOMES**

These are persons, which receive income from property or transfers as the largest source.

**xiii. ACCUMULATED DEPRECIATION:**

Accumulated depreciation is that has taken place on a particular asset up to the present time.