

## **IV. Definitions / Terminologies**

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### **A. Description of major components of assets & liabilities**

#### **I. Assets**

##### **1. 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.

##### **a). National currency (Pakistani currency notes and coins)**

###### **i. 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.

###### **ii. Pakistani rupee coins**

These are the currency coins issued by the Islamic Republic of Pakistan with various denominations of currency units (Rupee). All Pakistani currency coins (excluding subsidiary coins) issued by the federal government are to be reported here.

###### **iii. Pakistani subsidiary coins**

The decimal coins issued by the federal government in sub-denomination of a rupee are called subsidiary coins (paisa 50 / 25).

###### **iv. Encashment of government bonds and certificates**

These are bonds / certificates like prize bonds purchased over the counter for value to surrender to State Bank of Pakistan / Savings centres. The value of the instruments on the reporting date is reported under cash against this head.

###### **v. 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.

## **2. Transferable deposits**

All demand deposits 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. Transferable deposits that are held in banks, in the process of liquidation should continue to be classified as transferable deposits even though they cannot immediately be used for direct third-party payments. Deposits denominated in national currency should be recorded at book value (outstanding amount plus accrued interest).

## **3. Restricted / compulsory deposits**

These are the deposits for which withdrawals are restricted on the basis, regulatory or commercial requirements. Examples are; import deposits, deposits in financial corporations in liquidation or reorganization etc.

## **4. Other deposits**

These represent all claims other than transferable and restricted deposits in national currency or in foreign currency that are represented by evidence of deposits. Other deposits include:

- payment instruments like checks, payorders, etc. posted in the transferable deposits with other corporation and not available for withdrawals,
- 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

## **5. Securities other than shares**

Banks/DFIs invest in financial assets that are normally traded in the financial markets and that give holders the unconditional rights to receive stated fixed sums on specified dates or the unconditional rights to fixed money incomes or contractually determined variable money incomes. These securities

are classified as short-term and long-term securities other than shares such as government treasury bills, federal government bonds, federal investment bonds, commodity bonds, Pakistan investment bonds, corporate bonds and Federal debentures, negotiable certificates of deposits (not negotiable would be categorized under deposits), commercial papers, 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.

**a). 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. The market transactions are managed by the State Bank of Pakistan on behalf of the treasury.

**b). Pakistan investment bonds**

These are long term (3, 5, 10, 15 & 20 year's maturity) debt obligations issued by the government, offering a risk free investment to the bond holders at premium interest rates depending on the maturity of the bond. Interest on PIBs is paid through bank accounts.

**c). Federal investment bonds**

This is a long term (3, 5 & 10 years maturity) debt obligation issued by the government from June 1991, offering a risk free investment to the bond holders at premium interest rates fixed as 13%, 14% and 15% depending on the maturity of the bond. Interest payments on FIBs are made through interest warrants. The federal government has discontinued the issuance of FIBs, however, the head has not been removed since some of FIBs may still be maturing in upcoming years.

**d). Federal government bonds**

This is a long-term debt obligation issued by the government started during nationalization. These were issued for various purposes such as for banks nationalization, petroleum, shipping, vegetable oil, Shahnawaz Bhutto Sugar Mills, Heavy Mechanical Complex, and land reforms etc.

**e). Federal government commodity bonds**

These bonds are issued by the government when repayment of commodity financing by the government institutions is not materialized at the maturity date. In other words it is negotiation / conversion of commodity operation loans in to bonds.

**f). Other federal government bonds / securities**

This category would also include the residual bonds / securities issued by the federal government and not covered anywhere else. These loan securities have a fixed interest rate. Subscription to this loan was received for one day only. The interest was paid on half yearly basis. These loans were issued in the forms of certificates and promissory notes.

**g). Provincial government securities / bonds / permanent loans**

This category includes any type of provincial governments' debt obligations/ bonds and negotiable certificates etc. Provincial government's loan securities have a fixed interest rate. Subscription to these loan securities was received for one day only. The interest was paid on half yearly basis. These loans were issued in the forms of stock certificates and promissory notes.

**h). 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.

**i). Commercial papers**

Commercial papers are 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 i.e notes, bills, and acceptances arising out of commercial, industrial or agricultural transactions of short - term maturity, self liquidating and used as trade financing instruments for non-speculative purposes.

**j). Bankers' acceptances**

A bankers' acceptance involves the acceptance by a financial corporation of a draft or bill of exchange and the unconditional promise to pay a specific amount at a specified date i.e., held for maturity. These are treated as actual financial assets even though no funds may have been exchanged.

**k). 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 is known as negotiable COD. 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.

**l). 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.

**m). 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.

**n). 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.

**o). Participation term certificates**

Participation Term Certificates are transferable corporate instruments based on the principles of profit and loss sharing and are intended to replace debentures for medium and long-term local currency loans for industrial and other financing. Instead of receiving interests, as in the case of debentures, the PTC shareholders share the profit or loss of companies involved.

**p). 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.

**6. Loans extended**

Financial asset resulting from the delivery of cash or other assets by a lender to a borrower 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. They include:-

- commodity operations
- trade financing
- government self employment schemes
- working capital loans
- fixed investment loans
- bills purchased & discounted
- reverse repo
- money at call
- consumer financing
- financial leases & similar arrangements

**i). Commodity operations**

Advances provided either to public sector corporations (including government) or private sector for the procurement of commodities that is, cotton, rice, wheat, sugar etc. Advances to government provided other than the commodity operations should not be reported here.

**ii). Export financing - export finance scheme pre-shipment part-I**

This is pre-shipment concessionary finance to the exporters for financing the exports of eligible commodities on case-by-case basis against individual Firm Export Order or Irrevocable Letter of Credit.

**iii). Export financing - export finance scheme post-shipment part-I**

This credit facility exclusively at post-shipment stage is admissible for maximum 180 days from the date of shipment or up to the date of realization of export proceeds, whichever is earlier.

**iv). Export financing - export finance scheme part - II**

Under this Scheme, an exporter may avail of a concessionary export finance limit in a financial year equal to half of the export performance, through export of eligible commodities, in the preceding financial year (July – June). The limit is available to the exporter on a revolving basis like a cash credit account.

**v). Export financing - others**

Any other financing extended to the exporters by the financial institutions out of their own resources other than under any type of export finance scheme.

**vi). Import financing**

It is financing to importers to provide liquidity to pay for imports. Each loan is related to one specific import transaction and the term of the financing can vary depending on the type of products imported and the requirements of the importer.

**vii). Advances under government self finance scheme**

In order to create self-employment opportunities for young people i.e., to start their own business, government of Pakistan introduces self-employment schemes for them. Advances made by banks/ financial institutions under these schemes are advances under government self-employment schemes.

**viii). Working capital**

Short-term financing other than trade finance made to support the current operations of a business enterprise mainly for the procurement of raw material and stock in trade etc. The working capital facility is provided for short periods, generally from six months to one year, depending upon the cash flow projections of the borrower.

**ix). Fixed investment - LMM**

Advances provided for the purchase of locally manufactured machinery for the projects on concessionary rates. Such facility is extended usually for long periods of time. The repayment is staggered over a number of years depending upon the cash generation and repayment capacity of the project.

**x). Fixed investment**

Advances (small & heavy loans) provided for the purchase of land, building, and foreign manufactured machinery etc. for the projects. Such facility is extended usually for long periods of time. The repayment is staggered over a number of years depending upon the cash generation and repayment capacity of the project.

**xi). Consumer financing**

Consumer loans are mostly extended to households to finance consumer durables, or retail purchases as a line of credit pre-approved by a financial institution or customized loan for a single purchase. These include house building loans, auto loans, credit cards, consumer durables, and other personal loans to meet personal, family or house hold needs.

**xii). Bills purchased & discounted**

Advances extended through discounting or purchasing of a bill of exchange including export bills that is both drawn and made payable in Pakistan or abroad.

**xiii). Call money lending**

Money at call in fact is unsecured lending transactions with no underlying collateral. Transactions are based entirely on trust and goodwill of the players. These are usually overnight transactions to banks/DFIs but can be extended if mutually agreed upon between lender bank/DFI and borrower bank/DFI. However, the lenders banks/DFIs place its money on call and have the right to 'call' it back even before its maturity.

**xiv). Repurchase agreement lending (Reverse repo)**

This is a mode of financing in which the seller (financial institution) of the securities agrees to repurchase them subsequently from the purchaser (financial institution) at a fixed rate and on a specified date. This is different from trading in securities in the stock exchanges where transactions are not based on repurchase agreement and the prices are determined as per market conditions. The agreement is called a reverse repo when viewed from the perspective of securities buyer - i.e., the "cash provider"

**xv). Import bills**

Under the usual circumstances, the importer would be required to have cash on deposit with the Letter of Credit (LC) issuing bank in an amount equal to the LC value (plus bank fees). When



cash flow position does not permit the importer to make such a deposit, the banker provides the solution. Import bills advance is a kind of short-term finance offered by the bank to the importer according to its demand upon receiving the bills under LC and collection.

#### **xvi). Financial leases and similar arrangements**

A finance lease is a contract where by lesser purchases goods put at the disposal of the lessee and the lessee pays rentals that enables the lesser over the period of contract to cover all or virtually all costs including interests. The entire risks and rewards of ownership of an asset are de facto transferred from the legal owner of the goods (lesser) to the user of the goods (lessee). 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 and liability of the lessee. At the time of ownership change the market value of the asset is recorded as assets / liabilities of the units. For subsequent periods principal payments will be subtracted for determining the outstanding claim / liability. Therefore, these are calculated as lease rentals receivable plus residual value of leased assets minus financial charges for future periods on leased assets.

#### **xvii). Corporate sector advances**

Include advances provided to public limited companies, government corporations formed under special charters/statutes and such entities, which do not come under the definition of SMEs.

#### **xviii). Advances to SMEs**

Advances provided to an entity, ideally not a public limited company, which does not employ more than 250 persons (if it is manufacturing concern) and 50 persons (if it is trading / service concern) and also fulfils the following criteria of either 'a' and 'c' or 'b' and 'c' as relevant:

- a. A trading / service concern with total assets at cost excluding land and building up to Rs 50 million.
- b. A manufacturing concern with total assets at cost excluding land and building up to Rs 100 million.
- c. Any concern (trading, service or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements.

The advances provided to individuals for business purposes will also be reported under SMEs.

### **xix). Other advances**

Any other advances provided to any entity, which do not fall under the above mentioned categories.

## **7. Shares and other equity (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 shares and other 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. There are several types of shares, including common stock, preferred stock, treasury stock, and dual class shares. Preferred shares have priority over common shares in the distribution of dividends and assets. A dual class equity structure has several classes of shares (for example class A, class B and class C) each with its own advantages and disadvantages. Treasury stocks are shares that have been bought back from the public. Preferred stocks or shares are also included in this category. Shares and other equity as assets are to be reported separately as quoted and non-quoted. Mutual funds and NIT units are to be included under this category, for the reason that they give rise to the equity of issuing institution. Banks/DFIs' investment in shares and other equity as assets are to be reported separately as quoted and non-quoted.

### **i). 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.

### **ii). Non-quoted shares - ordinary**

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

### **iii). Preferred stocks / shares with claims on residual value**

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.

#### **iv). NIT units**

These are open-end mutual funds that are issued by National Investment Trust. NIT units' unique attraction is that it provides investors with a one-window entry to Pakistan's equity markets, which at times can be illiquid and volatile. Capitalization is not fixed and normally shares are issued, as people want them.

#### **v). Mutual funds**

These are pooling together the savings of large number of investors for attractive yield and appreciation in value. A mutual fund is a diversified portfolio of investment, managed by fund manager, who has necessary expertise of investment. Investment is made in types of securities (equity or debt) according to the investment policies laid down in the prospectus/offering document.

There are two types of mutual funds, which are:

- Open-end mutual funds
- Close-end mutual funds

#### **Open-end mutual funds**

Open-end mutual funds are those where subscription and redemption of shares are allowed on continues basis. The price at which the shares of open-end funds offered for subscription and redemption is determined by the NAV after adjusting for any sales load or redemption fee. In Pakistan there exists only four open ended mutual funds; National Investment (Unit) Trust (NIT) in the public sector and Pakistan Stock Market Fund (PSM), Pakistan Income Fund (PIF) and Unit Trust of Pakistan (UTP) in private sector.

#### **Close-end mutual funds**

Close-end mutual funds are those where the shares are initially offered to the public and are then traded in the secondary market. The trading usually occurs at a slight discount to the NAV.

Over a period of time, the mutual fund managers have developed a variety of investment products to cater for the requirement of investors, having different needs. SECP, the Regulator has categorized the Schemes of mutual funds as under:

- Money Market Fund
- Income Fund
- Equity Fund
- Balanced Fund
- Asset Allocation Fund
- Capital Protected Fund
- Index Tracker Fund
- Fund of Fund
- Aggressive Fixed Income Fund
- Commodity Fund
- Shariah Compliant Fund

#### **vi). Investment in shares outside Pakistan**

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

### **8. Insurance technical reserves**

These are current claims of policyholders and beneficiaries rather than net equity of insurance corporations. Generally these are classified as under:-

- Prepayments of premiums, and
- Outstanding claims with insurance companies

#### **i). Pre paid insurance premium**

These are prepayments of premium held by insurance corporations (including automobile, health, term life, accident/injury, income maintenance, and other forms of non-life insurance). At the end of the accounting period when the balance sheet is drawn up, parts of the insurance premium payable during the accounting period are intended to cover risks in the subsequent period. 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.

**ii). Outstanding insurance claims**

These are reserves that insurance enterprises hold in order to cover the amounts they expect to pay out in respect of claims that are not yet settled or claims that may be disputed. Outstanding claims are therefore considered assets of the beneficiaries and liabilities of the insurance enterprises.

## **9. Financial derivatives**

Financial derivatives are financial instruments that have no intrinsic value, and are linked to another specific financial instrument, indicator (foreign currencies, government bonds, share price indices, interest rates, etc.), or commodity (gold, coffee, sugar, etc.) through which specific financial risks can be traded in financial markets in their own right.

**i). Unrealized gain on forward foreign exchange contracts**

In a forward contract, the counter parties agree to exchange, on a specified date, a specified quantity of an underlying item (real or financial) at an agreed-upon contract price. Either party to a forward contract is a potential debtor. The unrealized gain to be received due to difference between the rates agreed upon and the rate prevailing in the market should be reported under this item. You lock in today's exchange rate instead of a volatile currency exchange rate in the future that could significantly devalue your purchasing power.

**ii). Unrealized gain on currency swaps**

The best way to outline how Currency Swaps can save you money is by using an example.

Let's say the deal you just signed has to be paid in Euros today. However, you don't have Euros but you will be getting a payment in Euros in a few weeks. Instead of buying Euros today and then selling them back when you receive your payment, you can arrange a Swap. It allows you to borrow the Euros you need to pay for the purchase you just made, and then pay them later. The one fee that you pay for the Swap, will be less than the two fees you'd pay if you bought today, and sold tomorrow.

### **iii). Unrealized gain on interest rate swaps**

It is the exchange of one set of cash flows for another. A pre-set index, notional amount and set of dates of exchange determine each set of cash flows. The most common type of interest rate swap is the exchange of fixed rate flows for floating rate flows.

### **iv). Unrealized gain on option contracts**

The purchaser of an option contract pays premium to the writer of the option. In return, the buyer acquires the right but not the obligation to buy (call option) or sell (put option) a specified underlying item (real or financial) at an agreed-upon contract price (the strike price) on or before a specified date. The buyer of an option acquires an asset, and the option writer incurs a liability. However, an option may expire without worth; it is exercised only if settling the contract is advantageous to the buyer. Therefore, unrealized gains through these contracts would be reported here.

### **v). Unrealized gain on futures contracts**

Futures are standardized forms of forward contracts mostly traded on organized exchanges. An exchange-traded obligation to buy or sell a financial instrument or to make a payment at one of the exchange's fixed delivery dates, the details of which are transparent publicly on the trading floor and for which contract settlement takes place through the exchange's clearing house. The counter party in a futures transaction is the exchange. On the other hand, a forward is mostly an over-the-counter (OTC) transaction and the counter party is the contracting party. Therefore, unrealized gains through these contracts would be reported here.

## **10. Others accounts receivable**

Financial assets consisting of trade credit and advances, 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.

### **i). Trade credit & advances**

Unlike loans, trade credit is non-interest bearing credit facility. It is extended directly for sales of goods, supplies and materials on deferred payments to a buyer. Interest is charged if the debtor defers payments from the schedule.

Advances are extended for work in progress (if classified or to be classified as such under inventories by the debtor) and prepayments for goods and services. These do not include loans to finance trade credit, which are classified under loans.

**ii). 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.

**iii). 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 occur and (2) the subsequent payments for the financial assets on the settlement dates.

**iv). Items in the process of collection**

Items in process of collection include cheques or other types of transferable items that are posted directly to depositors' accounts, but these are unavailable for use until after the transferable items have cleared through the central bank or clearing organization. If neither posted to depositors' accounts nor cleared, these are contra assets/ liabilities.

**v). Head office / inter-branch adjustment**

All adjustments made with head offices or branches and are receivable would be reported under this head.

**vi). Deferred cost/preliminary expenses**

This relates to the cost incurred for subsequent periods, which are reflected as assets. This includes preliminary, formation and pre-operating expenses, discount allowed on the issue of shares if any and expenses incurred on the issue of shares including any sums paid by way of commission or brokerage on the issue of shares, to the extent not written off or adjusted.

**vii). Suspense account**

It is a temporary holding account for errors and omissions, items that having no proper classification pending until the determination of the proper account about their allocation.

### **viii).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, stationery and stamps on hand etc, etc.

### **ix). Prepayment of taxes**

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

### **x). Prepayment of rent**

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

## **11. 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.

### **i). Produced assets**

These include:

- Fixed assets—assets that are used repeatedly, or continuously, in production processes for more than one year. These assets 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),
- Inventories (materials and supplies, work-in-progress, finished goods, and goods for resale), and
- Valuables (assets that are acquired and held primarily as stores of value).

#### **a. 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.



**b. 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.

**c. 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.

**d. 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.

**e. Furniture and fixture**

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

**f. 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.

**g. 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”.

**h. 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.

**i. Furniture and fixtures under finance lease**

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

**j. 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, are included.

**k. 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”.

**l. 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.

**m. 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.

**n. Computer software (Intangible fixed assets)**

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.

**o. 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.

**p. 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.

**q. Gold (Valued at price not exceeding current market price) - Valuables**

Gold held primarily as stores of value. Gold coins not in active circulations will be reported in this category.

**r. Other valuables**

Other valuables that is 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. These also include commemorative coins, paintings and sceneries etc.

**ii). Non-produced non-financial assets**

This item includes 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, leases, and purchased goodwill, etc.

**a). 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.

**b). 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.

**c). Recreational freehold land**

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

**d). 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.

**e). 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.

**f). Leasehold land - recreational**

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

**g). Other tangible non-produced assets**

Any other tangible non-produced assets not specified elsewhere are covered in this category.

**h). Leases and other transferable contracts**

Leases or contracts where the lessee has the rights to convey the rights to a third party independently of the lessor. Examples include leases of land and buildings and other structures, concessions or exclusive rights to exploit mineral deposits or fishing grounds, transferable contracts with athletes and authors and options to buy tangible assets not yet produced. Leases on the rental of machinery are excluded from non-financial intangible assets.

**i). Purchased goodwill – Intangible non-produced assets**

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

**j). 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.

## **II. Liabilities and owners equity**

### **1. Transferable deposits**

Transferable deposits represent the funds in Pak rupees and foreign currency placed with the banks/DFIs by customers that the banks/DFIs are obligated to repay on demand or after a specific period of time i.e., exchangeable on demand at par without penalty or restriction, freely transferable by cheque and otherwise commonly used to make payments. The reporting of foreign currency accounts would be made in equivalent Pak rupees.

#### **Special Cases**

##### **Cashier’s checks.**

A cashier’s check is a check purchased by a depository corporation’s (DC) customer and drawn on the own account of a DC. It is signed by the DC’s cashier and is made payable to the party specified by the purchaser of the check. Whether purchased with currency or through deposit withdrawal, a cashier’s check should be included within transferable deposit liabilities of the DC on which it is written. For deposit classification by sector, the bank check should be attributed to the economic sector of the purchaser of the check, rather than to the economic sector of the recipient of the check.

##### **Deposit overdrafts**

Depositors in some countries are authorized to obtain funding in the form of an overdraft—a check or other item in an amount that overdraws a transferable deposit account. All outstanding claims arising from overdrawn deposit accounts should be classified as loans rather than as negative balances in

depositors' accounts, regardless of whether the depositor intentionally created the overdraft or inadvertently had insufficient funds in the account.

## **2. Restricted / compulsory deposits**

Withdrawals from these deposits are restricted because of regulatory or commercial requirements. Examples are; import deposits, escrow deposits, fiduciary deposits, judicial deposits, employees compulsory deposits/ contribution to their funds etc, blocked FC accounts, sundry deposits for which claimant is not available, e.g., dormant accounts of non-operative accounts etc, deposits in financial corporations in liquidation or reorganization etc.

## **3. Other deposits**

All claims of customers on banks/DFIs other than transferable or restricted deposits in national currency or in foreign currency that are represented by evidence of deposits. Other deposits includes payment instruments like checks, payorders, etc. posted in the transferable deposits and not available for withdrawals, nonnegotiable certificate of deposits, call deposits, sight deposits, fixed term deposits, savings deposits with DCs that cannot be used for direct third party payments, etc.

## **4. Securities other than shares (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, bankers' acceptances, 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.

## **5. Loans (Borrowings)**

Financial liabilities of banks/DFIs are created when creditors (financial institutions) directly lend funds to banks/DFIs. They include repurchase arrangements not included in national broad money definitions (Repo), money at call, government lending funds, overdrawn local account, overdrawn nostro accounts, borrowings from subsidiary companies, borrowings from managed modarabas, borrowings from associated undertakings, borrowings from directors, borrowings from chief executive, borrowing from SBP, borrowings from financial institutions abroad, financial leases, subordinated loans 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.

### **Repurchase agreement borrowings (Repo)**

Sale of securities to financial institutions against cash with an arrangement to repurchase the same at a fixed price either on a specified future date (often one or a few days hence, but increasingly further in the future) or with an "open" maturity fall under this category. The agreement is called a repo when viewed from the perspective of securities seller—i.e., the "cash taker".

### **Money at call and short notice in Pakistan**

These are unsecured borrowing transactions from financial institutions without underlying collateral. These transactions are based entirely on trust and goodwill of the players. These are usually overnight transactions but can extend for a week or even months, if mutually agreed upon between lender and borrower. However, a lender places its money on call and has the right to 'call' it back even before its maturity.

### **Government lending funds**

This is actually line of credit for financial institutions provided by the Government of Pakistan (GOP) through international donor agencies like World Bank, ADB etc. who provide funds for industrial credit (for purchase of machinery, equipment etc.) only. The GOP guarantees these funds. International agencies provide these funds to GOP and GOP lend these funds for industrial credit to financial institutions only.

### **Financial leases and similar arrangements**

Goods acquired for disposal from a financial institution 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 (lessor) to the user of the goods (lessee bank/DFI) 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 and liability of the lessee. 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.

### **Subordinated loans from subsidiary companies**

Funds rose by the banks/DFIs 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. Subordinated TFCs issued by a bank/DFI to subsidiary companies managed modarabas, associated undertakings, director or chief executives according to SBPs guidelines are also to be reported under subordinated loans.

## **6. Other accounts payable**

These accounts consist of provision for loan losses, provision for other losses, accumulated depreciation, 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.

### **i). Provision for loan losses**

Setting aside a part of banks/DFI's income to cover anticipated loan losses; such provisioning may be made as a percentage of various classes of non-performing loans or may be for specific loan identified as irrecoverable, and is part of banking supervision guidelines and requirements.

### **ii). Provision for other losses**

Setting aside a part of bank/DFI's income to cover anticipated losses other than loan losses are reported here.

### **iii). 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.

### **iv). 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 a financial



corporation's obligations for payments on future settlement dates for assets that were purchased on trade dates.

**v). Dividends**

Distribution of earnings to shareholders prorated by the class of security and paid in the form of money, stock, scrip, rarely, company products or property. The amount is decided by the Board of Directors and is usually paid quarterly. Mutual fund dividends are paid out of income, usually on a quarterly basis from the fund's investments. Dividend payable is the liability of banks/DFIs and fall under this category.

**vi). Head office/Branch adjustment account**

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

**vii). Advance payments**

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

**viii). Current taxation (provisions less payments) accrued tax**

Taxes chargeable to an accounting period but not yet paid.

**ix). Social contributions**

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

**x). Staff pensions funds**

Liability of a bank/DFI in the form of staff pensions funds contributed by the bank/DFI.

**xi). Suspense accounts**

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

**xii). Deferred tax liabilities**

Deferred tax liabilities arise from timing difference between recognized tax liabilities in a banks/DFIs' account and tax liabilities reported to the tax authorities; the tax amount due in one period but deferred for payment in another period.

**xiii). Accrued wages**

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

**xiv). Accrued rent**

In finance, rent is a fixed income 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.

**xv). Miscellaneous liability items**

Includes credit balances in the cash credit, certificates, margin on L/Cs and on guarantees, and other liabilities items not specified elsewhere. This includes provision against off-balance sheet obligations.

## **7. 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 of banks/DFIs. Financial transactions by non-residents related to immovable assets and unincorporated enterprises are included under shares and other equity. Reinvested / retained earnings of non-resident corporations are also recorded in this category.

**i). 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 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. Corporations sometimes purchase their own shares in the market. These reacquired shares (called treasury shares) are not included in holdings of shares. Branches of foreign banks would report “Head office capital account / assigned capital” under this head as non-quoted shares.

**ii). Paid-up capital cash**

Total amount fully paid in cash by shareholders for their shares of capital stock.

**iii). Paid-up capital bonus shares**

Bonus shares are issued free of cost to shareholders to convert reserves of the banks/DFIs into capital stock. The banks/DFIs equity remains unchanged, so that the shareholder's participation, while remaining constant, is distributed over a larger number of shares.

**iv). Paid-up capital in consideration other than cash**

Shares of banks/DFIs issued in consideration other than cash means the shares issued against services or any other obligations provided by the shareholders.

**v). Paid-up capital unquoted/not-listed**

These are unquoted shares, which are not traded on stock exchanges or other organized financial markets.

**vi). 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 retained earnings, current year result, general & special reserves and revaluation adjustments.

**vii). Retained earnings**

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

**viii). Current year result**

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 of the banks/DFIs.

**ix). 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.

### **x). 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 of the banks/DFIs except for valuation changes recorded in the profit and loss accounts. The valuation adjustment is market valued by definition.

## **B. Sectoral definitions**

### **1. 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.

### **2. Foreign controlled**

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.

### **3. 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.

### **4. Other deposit accepting institutions**

These consist of resident depository corporations and quasi corporations, which have any liabilities in the form of deposits that may not be readily transferable or in the form of financial instruments such as short-term certificates of deposits, which are close substitutes for deposits. SECP authorize NBFCs to generate liabilities in the form of CODs that include investment banks, leasing companies and modaraba companies and that are considered part of other deposit accepting institution. In addition to this, money market mutual funds are also institutes that strongly qualify for inclusion in other deposit accepting institutions due to their nature of operations. Following a recent study on the functionality

of these funds, SBP has decided to classify the same under the category of Other Deposit Accepting Institutions.

### **Money market funds**

These funds invest in short-term fixed income securities for instance, government bonds and certificates of deposits, commercial paper and reverse repos. The aim of a money market fund is to maintain high liquidity by investing in low risk short term instrument and is generally a safer investment. Returns generated by a money market fund are likely to fluctuate much less versus other types of mutual funds.

For an investment fund to be recognized as an MMF, there needs to be: (1) a certain degree of capital certainty (store of nominal value); and (2) the possibility to withdraw funds immediately or on short notice. If the preceding conditions are not met, the institution is not classified as an MMF but as a non- MMF investment fund.

Some MMFs offer the facility to withdraw funds from shareholder accounts through checks payable to third parties or other means of direct payments to third parties. These payments to third parties may be limited with respect to minimum amount or maximum number of checks that can be written in a specified period. MMF shares and units—with or without thirdparty payment features—are highly liquid and very close substitutes for transferable and other deposits. MMF shares and units are thus included in broad money and all MMFs as defined are now classified as ODCs.

## **5. 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, non money market mutual funds, housing finance companies and cooperative banks except Punjab provincial cooperative bank etc.

## **6. Financial auxiliaries**

Corporations such as securities brokers, loan brokers, floatation corporations, insurance brokers, exchange companies etc are financial auxiliaries. 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 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.

## **7. 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”.

## **8. 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:

- The NPIs that are mainly controlled and financed by the government
- The 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.

## **9. Employers**

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

## **10. Own account workers**

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

## **11. Employees**

These are persons, which receive income from their employers.

## **12. Recipient of property and transfer incomes**

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