

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 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.

PAKISTANI SUBSIDIARY COINS

The decimal coins issued by the federal government in sub-denomination of a

rupee are called subsidiary coins (paisa 50 / 25).

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.

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 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).

This category includes transferable deposits with SBP, deposit money institutions, other deposit accepting institutions or with non-residents.

iii. OTHER DEPOSITS

These represent all claims 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;
- Margin payments related to options or futures contracts, as

are very short-term repurchase agreements

This category includes deposits other than transferable deposits with SBP, deposit money institutions, other deposit accepting institutions or with non-residents. National currency and foreign currency equivalent to Pak rupees should be reported separately.

iv. INVESTMENT IN SECURITIES OTHER THAN SHARES

NBFCs' 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, Federal investment bonds, commodity 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. Interest on PIBs is paid through bank accounts. Income tax on interest amount is deducted at 10%.

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 was fixed as 13%, 14% and 15% depending on the maturity of the bond. Interest payments on FIB are made through interest warrants. Income tax on interest amount is deducted at 20%.

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.

FEDERAL GOVERNMENT COMMODITY BONDS

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

OTHER FEDERAL GOVERNMENT BONDS / SECURITIES

These loan securities started from 1963 having fixed interest rate and specific maturity with the object that the proceeds of the loan will be devoted to meet the capital expenditure of the government. Subscription of the 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. This category would also include the residual bonds / securities issued by the federal government and not covered anywhere else.

PROVINCIAL GOVERNMENT SECURITIES / BONDS / PERMANENT LOANS

Provincial governments loan securities started from 1963 having fixed interest rate and specific maturity with the object that the proceeds of the loan will be

devoted to meet the capital expenditure of the government. Subscription of the 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. This category also 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; 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.

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.

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.

v. 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.

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, as well as financial leases & similar arrangements. Loans are categorized as short-term and long-term loans. This includes loans extended to financial institutions against the applicable types.

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.

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.

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.

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.

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.

IMPORT FINANCING

It is financing to importers to provide liquidity to pay for exports. 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.

ADVANCES UNDER GOVERNMENT SELF FINANCE SCHEME

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 to them under these schemes are advances under government self-employment scheme.

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.

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.

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.

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 household needs.

BILLS PURCHASES & 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.

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 and NBFIs but can be extended if mutually agreed upon between lender bank and borrower bank. However, the lenders NBFIs place their money on call and has the right to 'call' it back even before its maturity.

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”

IMPORT BILLS

Under the usual circumstances, the importer would be required to have cash on deposit with the Letters 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 L/C and collection.

FINANCIAL LEASES AND SIMILAR ARRANGEMENTS

A finance lease is a contract where by lesser purchases goods that is put at the disposal of the lessee and the lessee pays rentals that enable 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 to from the legal owner of the goods (lessor) 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.

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.

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 trading / service concern with total assets at cost excluding land and building up to Rs 50 million.
- A manufacturing concern with total assets at cost excluding land and building up to Rs 100 million.
- 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.

OTHER ADVANCES

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

vi. 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 stock 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.

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. Shares quoted on stock exchange are part of this category.

NON-QUOTED SHARES - ORDINARY

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

quoted on stock exchange are part of this category.

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.

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
- Closed-end mutual funds

OPEN-ENDED MUTUAL FUND

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.

CLOSED-END MUTUAL FUND

Closed-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. These include:

- Growth funds
- Balanced funds
- Income funds

GROWTH FUNDS

The "growth funds" offer potential for appreciation in share value, while the current income may be low. The fluctuation in share price may also be high. Such funds invest in stocks and have tendency to outperform other funds and other modes of savings over a period of time.

BALANCED FUNDS

The "growth and income funds" or "balanced funds", offer prospects of both moderate appreciation in share value as well as current income. The fluctuation in share price may be low.

Such funds invest in stocks, corporate debts and Government paper.

INCOME FUNDS

The "bond fund" or "income funds", offer good current income but very little potential for growth. Such funds invest in government paper, bonds issued by municipal or local bodies, corporate debts and in stocks of utility companies, offering regular return.

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. Preferred stock/shares that provide for participation in the residual value on dissolution of an incorporated enterprise should be reported under this category.

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.

vii. 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
- Reserves against outstanding claims with insurance companies

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.

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. Reserves against outstanding claims are therefore considered being assets of the beneficiaries and liabilities of the insurance enterprises.

viii. 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.

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 market rate 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.

UNREALIZED GAIN ON CURRENCY

SWAPS

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.

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.

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.

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 clearinghouse. 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.

ix. 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.

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.

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 occur 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 checks 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.

HEAD OFFICE / INTER-BRANCH

ADJUSTMENT

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

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.

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.

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.

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, leases, and purchased goodwill. 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. TRANSFERABLE DEPOSITS

Transferable deposits represent the funds in Pak rupees and foreign currency placed with the NBFIs by customers (all sectors of the economy) that the NBFIs 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. Presently NBFIs do not accept transferable deposits.

ii. OTHER DEPOSITS

All claims of customers on NBFIs other than transferable deposits in national currency or in foreign currency that are represented by evidence of deposit. NBFIs commonly raise funds through issuing certificate of deposits. Sector wise information of deposit holders is required to be reported under this category. Call deposits and restricted deposits are also non-transferable deposits.

i. CALL DEPOSITS

These include short notice and special notice deposits. The date of withdrawal is not appointed when deposit is conducted and the types are chosen in advance (one day call deposits, seven days call deposits etc), and the bank is informed about the date and the amount of withdrawal.

ii. OTHER DEPOSITS (RESTRICTED DEPOSITS)

Includes compulsory savings deposits like, employees provident fund accounts, staff pension funds, employees security deposit, staff guarantee fund, import deposits, and similar types of deposits related to international trade, security deposits, margin deposits and sundry deposits etc.

iii. 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.

COMMERCIAL PAPERS

These are unsecured obligations issued by an NBF to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days. Commercial papers are available in a wide range of denominations, can be either discounted or interest bearing, and usually have a limited or nonexistent secondary market. Companies with high credit ratings usually issue commercial papers, meaning that the investment is almost always relatively low risk.

BANKERS' ACCEPTANCE

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. These are treated as actual financial assets even though no funds may have been exchanged.

NEGOTIABLE CODS

A deposit instrument; a receipt issued by an NBF to an NBF 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.

NEGOTIABLE LOANS

Loans that have become negotiable de facto (securitization of mortgage loans, and other loans) are known as negotiable loans.

iv. LOANS (BORROWINGS)

Financial liabilities of NBFs are created when creditors (financial institutions) directly lend funds to NBFs. They include repurchase arrangements not included in national broad money definitions (Repo), money at call, export refinance from SBP, government lending funds, over drawn nostro accounts, borrowing under LMM/LMFR 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.

OVERDRAWN LOCAL ACCOUNT

Overdrawn funds from the accounts with other banks/ branches operating in Pakistan

Overdrawn nostro accounts

Overdrawn funds from the accounts maintained with the rest of the world

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 NBFI) 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 NBFI. At the time of ownership change the market value of the asset is recorded as liabilities of the lessee NBFI. 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 NBFIs

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 NBFIs

BORROWINGS FROM CHIEF EXECUTIVE

Borrowings from chief executives of the NBFIs

SUBORDINATED LOANS FROM SUBSIDIARY COMPANIES

Funds raised by the NBFIs 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 an NBFi to subsidiary companies managed modarabas, associated undertakings, director or chief executives according to SBPs guidelines are also to be reported under subordinated loans.

BORROWING FROM SBP

Funds raised from SBP under 1) usance bills 2) against promissory notes; 3) Borrowings from SBP against approved securities; 4) under export refinance scheme; 5) under LMM/LMFR; 6)

under export oriented projects; 7) any other borrowings from SBP.

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 LOAN LOSSES

Setting aside a part of NBFT'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.

PROVISION FOR OTHER LOSSES

Setting aside a part of NBFT's income to cover anticipated losses other than loan 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.

ADVANCE PAYMENTS

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.

DIVIDENDS

Distribution of earnings to shareholders prorated by the class of security and paid in the form of money, stock, scrip, or, 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 NBFC and fall under this category.

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.

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.

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 a bank in the form of staff pensions funds whether contributed by the employee or the NBFI.

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, which is a liability of the NBFIs

SUSPENSE ACCOUNTS

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

DEFERRED TAX LIABILITIES

Deferred tax liabilities arise from timing difference between recognized tax liabilities in an NBFI'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 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.

MARGIN DEPOSITS

These are trade related deposits placed by the importers/ exporters to meet the exchange rate fluctuations etc.

SUNDRY DEPOSITS

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

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.

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 of an NBFI. 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.

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.

PAID-UP CAPITAL CASH

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

PAID-UP CAPITAL BONUS SHARES

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

PAID-UP CAPITAL IN CONSIDERATION OTHER THAN CASH

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

PAID-UP CAPITAL UNQUOTED/NOT-LISTED

These are unquoted shares, 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 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 NBFIs less any amount allocated to general and special reserves, which is established as a capital cushion to cover operational and financial risks of the NBFIs.

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 of the NBFIs.

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 of the banks except for valuation changes recorded in the profit and loss accounts. The valuation adjustment is market valued by definition.

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.

ii. 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.

iii. 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.

iv. 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 financial instruments such as short-term certificates of deposits, which are close substitutes for deposits.

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.