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Backer: is a third party endorsing an obligation, thus effectively undertaking responsibility for the inherent liability; for example, endorsing a loan application of a borrower; or endorsing a financial instrument, thus being liable for that instrument.

Back-Up Line of Credit: a line of credit extended to borrowers and businesses with no immediate need to borrow, but to supplement existing lines of credit in anticipation of their future credit needs.

Bad Debt: a debt for which repayments of principal or interest are long overdue and is unrecoverable because of worthless collateral, or insolvency or effective bankruptcy of the borrower; the loan may have to be removed from the bank portfolio and charged to loan loss reserves if any, or written-off by the lender and charged to profits, retained earnings, or bank's capital.

Bad and Doubtful Loans: are nonperforming loans in the portfolio of a bank, classified as bad or doubtful; these loans have to be removed from the loan portfolio and their book value is to be charged to a loan loss reserve account. In Pakistan the classification of bad and doubtful loans is as follows. *(see Classification of Problem Loans)*

- **Bad Loans:** if principal and interest is overdue for more than two years on short term loans, and three years on long term loans, then these are classified as bad loans.
- **Doubtful Loans:** if the principal and interest is overdue for more than one year on short term loans and two years on long term loans then these are classified as doubtful loans.

Bad Money: in finance, bad money refers to amounts advanced but not recoverable; money lost in a venture and cannot be recovered; “good money thrown after the bad money” is an expression when additional funds are put forth in the hope of recovering the initial amount, if it is uncollectable; in economics, bad money is currency issued without proper backing or required reserves to maintain the value or the purchasing power of the currency.

Bailee: a person to whom goods or personal property is delivered under a contract of bailment; a kind of agent to whom a movable asset is committed in trust; a person who by warehouse receipt or other document of title acknowledges possession of goods and contracts to deliver them.

Bailment: delivery in trust of goods or personal property by the bailor to the bailee for purposes as specified in a contract; upon completion of the contract or after the purpose is fulfilled, the goods or personal property will be delivered back to the bailor or dealt with according to bailor’s directions.

Bailor: the party who delivers goods to another under a contract of bailment.

Bail-out, bank: if a bank is in serious trouble and its survival is endangered due to adverse financial conditions, or a bank run, or persistent major losses, the monetary authority or the government may provide financial assistance to such a bank or may arrange its merger with a healthy bank to bail-out the bank; or the deposit insurance agency may provide relief to bank depositors, thus bailing-out the bank from its deposit liabilities.

Balance: this term has various interpretation; in banking, it means the net or final position of an account; the net amount in an account available to or due from the account holder; for checking accounts, it is the net amount available to or due from the customer; in accounting, it means the net difference between the amounts on debit and credit side of an account; balance could be a beginning or opening balance as a starting point as opposed to ending or last balance in a statement; or a forward balance which is the carried forward position in a statement; or available balance, the credit balance available in an account.

Balance of Payments (BOP): is a record of a country’s financial transactions with foreign countries for a defined period of time, usually a year; a balance of payments surplus occurs when a country’s receipts on the current and capital accounts together exceed its payments; a deficit in the balance of payments, on the other hand, means a country’s receipts on current capital accounts together fall short of its payments; balance of payments account consists of:

- **current account:** the balance of merchandise foreign trade recording imports and exports together with the balance on services account, including receipts and payments for services such as workers remittances, tourism, interests on foreign borrowings both by the public sector and the private sector, and repatriation of profits on foreign investments. (*see Current Account Deficit*)
- **capital account:** records the net inflows of capital, the long term funds, both on government and private accounts; consists of direct foreign investment, medium and long term external debt of the government and the private sector from bilateral, multilateral and commercial sources, grants and assistance items. (*see External Debt, Foreign Private Investment*)

Balance Sheet: is a financial statement of a company or business showing assets on one side against liabilities and equity on the other; it reflects the financial position of a business or a company at the end of its financial year; indicates the size of assets and liabilities and sources of their financing; also shows the amount of shareholder's funds including equity, reserves and retained profits.

Balance Sheet, Banks: balance sheet of a bank consists of:

- on the **asset** side, the balance sheet items are cash and cash items; dues from banks and other receivables; loan portfolio, including loans advanced, interbank loans, bills purchased, client drafts, and trading account loans; investment portfolio consisting of portfolio investments in securities, bonds and other debt instruments, equity holdings and trading account securities; other assets such as bank buildings, real estate purchased or acquired, equipment and fixtures, acceptances outstanding, and other customer liabilities.
- on the **liability and capital accounts** side, the liabilities are mainly deposits held as demand deposits, time and savings deposits, and special foreign currency deposits; bills payable to central bank, inter-bank and nonbank payments; and a host of other liabilities such as dues to central bank, to other banks domestic or foreign, treasurer's liabilities, accrued taxes and expenses, payment orders, and cash items due. The capital accounts include shareholder's equity, retained earnings and profits, reserves, trust accounts, and revaluation reserves.

Balance Sheet Items: items or accounts which appear in a balance sheet such as cash, and other current assets; plant and machinery and other fixed assets recorded on the asset side; and on the liability side, short term loans such as overdrafts, a current liability; long term debt, and paid up capital, the owners' equity.

Balance Sheet Risks: are risks to which balance sheet items of a bank like loans and deposits are exposed to because of changes in interest rates, or exchange rates, or due to a mismatch of their maturities, or loan defaults that need to be mitigated.

Balancing: is to make the two sides of an account equal by putting in the difference of the debit and credit on the lesser side; such a difference is called balance; also, arriving at a quantitative balance between the two sides of an account or a statement; or checking or verifying correctness of an account or balance with a base figure or a document.

Balloon Mortgage: a mortgage providing for specific payments at stated regular intervals, with the final payment of remaining balance of the being considerably more than any of the periodic payments; a final lump sum amount required to pay-off the mortgage loan.

Balloon Repayment: a large payment due at the maturity of a loan; the principal amount and interest on a loan repaid in one lump sum; interest payments may be withheld until the end of the loan period, when both interest and principal are repaid together.

Bank Acquisition: a bank is taken over or acquired when another bank or company buys controlling interest in its equity capital, either by buying the shares from the stock market, or through an agreement with the board of the bank and acquiring majority voting power, or by making an acquisition offer to the bank's shareholders.

Bank Assets: consists mainly of financial assets such as loans to individuals, business firms and governments, which is the largest proportion of total assets; also shareholders' funds and reserves.

Bank Automation: use of technology and electronic support systems that perform services previously done manually by the bank staff, such as electronic fund transfer, automated teller machines, automated clearing, and computerized data base systems keeping track of banking transactions, accounting, recording and reporting.

Bank Balances: balances of account holders appearing in bank record. These balance can either be debit or credit; debit balance of a client in the bank's books of account means overdraft or loan, while credit balance means the client has cash available in the account; also, balances on an account maintained by a bank with another bank.

Bank Branching: bank branching increases the geographic coverage of a bank, if the bank decides to have places of business at more than one location; such a bank then is not a unit or one branch bank, rather it has a network of its branches spread over in and outside the country; different countries have different rules and restrictions about opening of bank branches.

Bank Capital: is the amount of share capital in a banking company; it consists of owners' equity, paid-up capital, shareholder's funds, or the difference between its assets and liabilities.

Bank Card Association: an association of banks who are in the business of issuing credit cards to their customers; the association may help to sort out inter bank business problems and promote closer links among members.

Bank Deposit Liabilities: are the liabilities of a bank to its depositors in various types of deposit accounts such as chequing, time deposits, and saving deposits of various maturities; these are the largest proportion of total liabilities of a bank and core of the banking business and are a pivotal source of loanable funds.

Bank Deposits: are amounts deposited by customers of a bank in their accounts; the amount of total deposits of a bank held in various types of deposit accounts which the bank is liable to repay; the size of deposit balances determines lending capacity of a bank, its turnover, over a given period, and is an important indicator of a bank's success and public confidence.

Bank Draft: is an instrument, similar to a cheque issued by a bank on behalf of its customers or on account of its own payments, drawn on one of its own branches in another location, or on a bank with which it has correspondent relationship; it is a negotiable instrument and governed by the Negotiable Instruments Act; the bank draft has an important advantage over a cheque as it would not be dishonored for lack of funds since it is a funded instrument.

Bank Examination: is carried out by bank examiners or bank supervisors of the central bank under a prescribed schedule, as part of the system of banking supervision and regulation, maintained and operated by the central bank; it involves a thorough scrutiny of a bank's activities and operations, its financial position, strength or weaknesses; evaluation of the quality of bank's loan portfolio, nonperforming loans, defaults and bad debts; compliance with rules, regulations, and directives of the central bank concerning banking operations, specially lending, reserves, liquidity and capital adequacy, disclosure and reporting requirements; loan loss provisions and charges against shareholder's funds; management policies, practices and conduct; bank examinations may be:

- **On-Site Examination:** is conducted at the bank premises; it involves visit by the bank examiners to a bank's offices, and a detailed on-site inspection of bank's activities and scrutiny of financial records concerning items as listed above; interviews of bank management and officials, and preparation of the examiner's report.
- **Off-Site Examination:** is conducted by bank examiners at their own offices based on regular financial reports submitted by a bank as required under banking supervision rules and regulation, concerning its banking operations and activities, and covering items listed above.

Thus, bank examination is a critical mechanism of the central bank to ensure financial strength of the banking system, to maintain public's confidence in the banking system and its stability, to deal with banking crises as they emerge, and undertake damage control through preventive measures based on the early warning system.

Bank Failure: occurs when a bank is forced to close its operations, either because the bank is insolvent and its capital or shareholder's funds is wiped-out, and the bank is unable to raise sufficient capital; the bank has suffered a massive run of its depositors, is illiquid, and is unable to raise funds to meet its payments due; in all these cases, the bank itself or the regulatory authorities may start the proceedings of declaring the bank as bankrupt, and if bankruptcy is declared, a liquidator is appointed by the court, who then becomes responsible to liquidate the assets of the bank and proportionally pay off the liabilities in accordance with the applicable rules and regulations.

(see Bank Run, Bank Insolvency)

Bank Fraud: a deliberate action by an outsider, or a customer, or an insider, or an employee of the bank, to cheat or damage the bank; fraud may happen because of a poor system of authorization and verifications, ineffective control mechanisms, or inefficiencies in its operational procedures.

Bank Holding Company: is a company that owns enough number of shares in a bank to influence its board of directors and therefore to control its policies and management. A bank holding company may own more than one bank or a group of banks, known as its subsidiaries or affiliates.

Bank for International Settlement (BIS): is a bank for central banks, mostly of European countries; it was chartered in 1930 and is based in Basle, Switzerland; it maintains accounts of the member central banks and undertakes or manages clearing and settlements among the central banks on their behalf; the influence of BIS has grown substantially since the 1980s specially after the amendment of

Basle Concordat (Agreement) in 1983, specifying regulations, standards and procedures for banking supervision; this Concordat was followed-up by **Basle Capital Accord I** in 1988, specifying capital adequacy standards. These standards were adopted by many countries during the decade of 1990s including Pakistan, with major implications for central banks as the custodian of the soundness and financial strength of the banking system, which were translated into capital adequacy stipulations and standards together with rules, regulations and procedures of banking supervision conducted by central banks. These revisions in turn harbored major implications for routine business operations of banks as financial intermediaries, in particular as lending institutions. In 2005, **Basel Accord II** was arrived at, further enhancing capital adequacy requirements, together with implications for ownership and operations of banks. Pakistan is a signatory of this accord. (*see Basle Concordat, Capital Accord*).

Bank Liabilities: are amounts owed and payable by a bank; bulk of the bank liabilities consist of amounts deposited by the customers of a bank in various types of deposit accounts; other liabilities are borrowings by the bank, statutory payments and taxes due, or liabilities on account of business transactions conducted by the bank.

Bank Management: consists of executives of a bank responsible for its management, administration, policies and decisions; managing affairs of the bank in line with the owners objectives and interests.

Bank Management Evaluation: involves assessment and evaluation of management performances and soundness of management processes such as planning, policy making, monitoring and control system, and management information system. The evaluation is conducted within a framework focusing on ownership, decision making authority and autonomy and the organisational structure.

Bank Marketing: is to introduce bank's services to its existing and prospective customers through advertisements, publicity, promotions and personal contacts, to maintain and expand the business of the bank; bank staff involved in marketing are also responsible for market analysis, product development and marketing strategies in line with the overall objectives of bank.

Bank Merger: is to combine two or more banks into a single bank; merger can occur through purchase of one bank by another, pooling of resources and combining liabilities and assets of the two banks; or a new bank formed to acquire assets of the combined banks; mergers usually take place when a bank in trouble is acquired by a financially strong bank to gain benefits of comparative strengths and advantages available to the two banks, or to gain tax benefits or to avoid competition.

Bank Operational Environment: is based on the manner in which the bank operates and carries out its business; its operational policies and procedures; its staff conduct, such as professionalism, integrity, service orientation, work attitude and behavior towards clients, and their inter-relationships, supported by facilities and general ambiance.

Bank Organisational Structure: a hierarchical description of the functions and responsibilities of major units or departments in a bank, typically catalogued in an organisational chart elucidating the inter-relationship and relative position of the unit, and the executives responsible for managing them; usually a bank's organizational structure is composed of a Chief Executive Officer under the board of directors, divisional or departmental heads with specific responsibilities and authorities; further bifurcation of divisions into sections and units are also shown in the organisational chart.

Bank Performance Indicators: are based on financial statements, accounts, and data of bank and consists of ratios and growth rates measuring the time series or comparative performance of the bank and its operations; these indicators are ratios of financial structure such as ratios of debt and liabilities to equity; ratios of financial performance such as income, expenses, taxes and profits as ratio of total assets; risk and return indicators relative to assets and equity; indicators of loan portfolio quality; liquidity, reserves, and capital adequacy indicators.

Bank Portfolio: consists of bank's loan portfolio and portfolio of investments and other income producing assets; the main factors determining the quality of a bank's portfolio are its soundness, risk and return profile, and its profitability.

Bank Rate: is the rate of discount of the central bank; it is the rate used by the central bank for the rediscounting of treasury bills and other approved financial papers; it is the interest rate charged by the central bank on advances to banks against specified collateral; it is a benchmark rate affecting the entire structure of interest rates, and thus it is a very important tool of monetary control, affecting banking credit, money supply, prices and inflation.

Bank Restructuring: is reorganization of a bank's capital base and management; reissuing or revamping its business and employees; consolidation of bank's activities and portfolio, specially the loan portfolio; involves major changes in its operating procedures and practices; in effect, creating a new bank on the shell of the older bank; restructuring is undertaken to avoid bank failure and to prevent bankruptcy; or it may be undertaken upon take-over or merger of the bank with another bank.

Bank Run: is unusually heavy withdrawal of deposits and cash by the customers from their accounts in a bank owing to a major loss of confidence in the bank's ability to survive and the general perception of an imminent failure; bank run causes acute liquidity shortage and may lead to insolvency, unless the bank is bailed-out by its shareholders or the central bank, and may eventually cause bank failure; a run on a bank can occur even if it is well managed, has a sound capital base and a viable portfolio; but a bank run is typically caused by financial difficulties and illiquidity of a bank. (*see Bank Failure*)

Bank Spread: is the difference between the cost of funds and the income derived from these funds, used for lending or other income generating investments; the spread increases if the cost of funds is reduced or rate of interest or markup on loans or return on investment increases; spread would narrow down in the reverse situation.

Bank Spread Sheet: a statement prepared from the data available in the annual reports and financial statements of a bank in columnar form analyzing various types of assets and liabilities, operating results, liquidity position and financial health, for a period of two, three or more years; it also shows important financial ratios and comparisons over a number of years; usually a note or comments from the analyst is also prepared indicating strengths and weaknesses of the bank; bank spread sheets provide useful information to investors, important customers of the bank and bank regulators.

Bank Supervisor: is an officer of central bank, monetary agency or any other institution empowered by the government to supervise banking system in a country; bank's own staff may perform function of supervision and inspection, commonly known as audit and inspection officers of the bank.

Bank Treasury Department: a department of a bank which manages and controls bank's cash and liquid resources; its functions are to manage cash, short term investments, inter-bank placements, borrowings, and maintain liquidity requirements of the central bank.

Bank's Books: are the books of accounts and records of transactions maintained by a bank; the ledgers where records of customers and bank's own accounts are maintained on a permanent basis; the ledgers may be in the form of bound books or may be an electronic data base stored on computers.

Bank's Creditor: are lenders from whom a bank has borrowed; or account holders who have a credit balance in their accounts with a bank; or those to whom a definite amount is due for payment by the bank for the goods supplied, or services rendered, or for any other liability incurred.

Bank's Debtor: is the borrower of a bank; one who has borrowed money from bank and has a legal obligation to pay it back; or is indebted to a bank for any other reason.

Bank's Owner: are shareholders of a bank who collectively own it; in some cases a holding company may own a group of banks and in turn the shareholders of that holding company own the banks in the group; although shareholders are owners of a bank, all of them are not involved in managing a bank, instead they can use their voting rights to elect the directors who are responsible to manage and run the business of the bank.

Bank's Portfolio Risk: are risks inherent in the loan portfolio and investments of a bank; the risk that the rate of return on investments may fall in comparison with those of other securities or investments; also the risk of default, or the risk of recovery of principal and interest amounts on loans advanced to customer.

Banker's Acceptance: a usance bill of exchange drawn on a bank and duly accepted by it, indicating its acceptance that the bill will be paid by the bank on maturity; a bill of exchange accepted by a bank is considered as a guaranteed instrument and is readily accepted by the exporters or sellers of goods and services for.

- **Own Acceptance Purchase:** is a credit extended against purchase of a bill originally accepted by the bank for the remaining period of its tenure.
- **Others Acceptance Purchase:** is a credit extended against a bill accepted by other bank for the remaining period of its tenure.

Banker's General Lien: a right of the banker to retain against debt due any goods or securities of the debtor which come to his lawful possession in the ordinary course of business, in the absence of an agreement to the contrary; such a right is also called implied pledge, and gives the banker the power to sell the goods or securities with reasonable notice to the debtor.

Banking Costs: include cost of loanable funds raised mainly from deposits and in part from borrowings, cost of lending, costs of management of loan portfolio, including routine provisioning for bad and doubtful loans; but exclude loan losses because these are not routine costs of banking, rather an unusual cost item, representing a one time charge to profit or equity; therefore banking costs are managed on two levels; one level relates to the costs incurred on maintenance of adequate deposit base against income generation from loans and advances since

these are predominant banking activities on the asset side and liability side of the balance sheet and are interest rate based; the second level relates to the operational costs versus operational income inclusive of costs of provisions for loan losses, interest costs consisting of interest paid on all types of funds, and administrative costs consists of salaries, wages and benefits of bank employees, occupancy and equipment and overheads.

Banking Expansion: is growth in the number of banks and business of banking; expansion may be geographic when branches and offices are opened in additional locations; or expansion may be in the volume of banking business.

Banking Facilities: credit lines approved by a bank in favor of its customers, including fund-based advances such as overdrafts, loans and bills purchase limits, or non-fund-based facilities, such as opening of letters of credits and issuance of guarantees; also mean the entire range of products and services that are offered by modern commercial banks.

Banking Group: a number of banks with many affiliate organizations owned by a single owner, a family or a holding company; banks in the group may be partly or fully owned but may have similar objectives and policies, though they may be managed separately.

Banking Laws and Regulations: consist of the following.

- banking laws, acts, ordinances governing the incorporation, ownership, size, scope, and status, location; management; disclosure and reporting; business procedures, lines of activities and operations.
- banking rules and regulations as stipulated by authorities concerned specially the central bank, concerning the above, but focusing more on operational procedures and guidelines, concerning lending, foreign exchange, resources and liquidity management; non-compliance or breach of rules and regulations may entail severe financial penalties or disciplinary actions, hence the rules and regulations are as powerful as are the laws, acts and ordinances. (*see Banking Regulation*)
- banking directives and orders, though they are not strictly a part of legal framework, but contravention of directives and orders may have similar consequences as contravention of the above; for example State Bank of Pakistan's restrictions on banking credit, or foreign exchange restrictions. (*see Legal Framework*)

Banking Margin: is the excess of earnings over expenses in banking business that may be expressed as a rate or as an amount; such as income from loans over cost of loanable funds, or the portion of added interest or the markup in case of re-financing facilities, which is retained by the intermediary bank as its own income; or, margin required and retained by the bank issuing a letter of credit or a guarantee on behalf of its customers; such margins are retained by banks to cover the risk on issuance of commitments which may become liabilities of the bank.

Banking Profitability: depends on a host of factors and is typically measured by return on asset ratio (ROA), or return on equity (ROE) ratio, and is monitored by banking margin, or banking spread between cost of loanable funds and lending rates; the prime factor that affects profitability is the structure of deposit rates and lending rates where changes in the interest rates on either side could cause major shifts in profitability; another factor concerns banking risks and how well these risks are managed by the bank; equally important is the factor how efficient the bank is at financial intermediation and how effective it has been to keep low the cost of its operations; that depends on how good is the bank's management; also how good the bank has been at preventing loan losses, and after the loan losses emerged, how well they have been managed to prevent impairment of bank's capital.

Banking Panic: is an alarming condition prompting a large number of customers to withdraw money from their banks, creating a critical liquidity problem for the banks. In such a situation some banks may borrow money at a very high cost, creating difficulties for themselves which may ultimately lead to their insolvency; for an individual bank this may be due to breach of client confidence in the bank, as a result of frequent frauds or large loan losses; a system wide panic may be caused by economic or financial disaster.

Banking Regulations: govern banking business and operations in a country; consists of rules, procedures, orders, directives, circulars and instructions, mostly as interpretation or extension of laws, acts and ordinances concerning various aspect of banking operations, such as deposits, lending, foreign exchange, issued by the central bank and authorities concerned. (*see Legal Framework, Regulatory.*)

Banking Risks: various types of banking risks broadly classified in three categories:

- **first, risks associated with lending activities** of a bank such as credit risks or borrower risks, interest rate risks, loan portfolio risks concerning loan losses, credit concentration and overexposure risks, foreign exchange risks in case of loans advanced in foreign currencies.

- **second, risks inherent in funding** activities concerning deposits, borrowings, mismatch of maturity structure between loan portfolio and deposit or borrowing portfolio, and cost of borrowings.
- **third, operational risks** such as liquidity risks, risks in payments and settlements, risks of fraud, and risk associated with off-balance sheet activities; management of these risks depend on operational policies, procedures and practices, balancing of risks and returns, control system, reporting and information system.

Banking Supervision: is a systematic assessment and evaluation of banks conducted by the central bank or the supervisory authority under a framework of banking regulation and supervision through regular on site bank examinations, or routine monitoring through off-site surveillance; this supervision concerns quality of bank's loan portfolio, lending practices, policies and procedures, and compliance with lending limits, concentration, and permissible activities; liquidity level and compliance with capital adequacy requirement; asset classification and loan portfolio performance; adequate provisioning for nonperforming loans; and compliance with disclosure and reporting requirements; central objective of banking supervision is to maintain soundness and financial strength of banks, ensure their solvency and prevent bank failures.

Banking Supervision, Enforcement: requires formal enforcement powers vested in the central bank as supervisory authority to take prompt and effective action against banks in case of non-compliance to major rules and regulations, or in case of imminent bank crisis, or against ailing banks to preserve public's confidence in banking system and to prevent mounting bank losses; these enforcement powers are authority to issue cease and desist order against a bank; or to remove and suspend bank management; or to assess penalties for non-compliance.

Banking Supervision, Principles and Methods: concern evaluation of various aspects of banking business, such as capital adequacy; management of core banking risks concerning liquidity, interest rate, and foreign exchange rate movements; management of credit risk, management of off-balance-sheet items, payments and electronic transfer procedures, netting and consolidation, and evaluation of cross-border operations; there is a growing convergence on banking supervision principles, approaches and methods as stipulated in the Basle Agreement and its various amendments, though these may not be ideally suited to the needs of a country. In Pakistan, these principles and methods generally underlie the system of banking supervision operated by the State Bank of Pakistan through regular audits and spot checks.

Banking Supervisory Authority: an organization or an agency authorized by the government to supervise banking activities in the country; in Pakistan, banking supervisory authority is the State Bank of Pakistan, responsible for banking supervision, taking appropriate actions in cases of regulatory violations, frauds and inappropriate lending practices.

Banking System: consists of commercial banks, investment banks, and other banking institutions such as trade financing banks, or savings banks, organized, established, *licensed and chartered under the banking law*, rendering a range of banking services under the direct supervision, regulation and statutory control of the central bank, ensuring compliance with rules and regulations governing banking operations and activities; in this sense, the banking system may not include financial institutions organized and established outside the banking law; are not licensed as a bank, and thus are outside the statutory or regulatory control and supervision of the central bank, even though these institutions may be operating like a bank, and engaged in financial intermediation activities similar to those of regular banks. (*see Financial System*)

Banking Technology: the techniques, methods, procedures and practices of conducting banking business inclusive of new products, better and improved banking services, quick and efficient handling of banking transactions

Banknote: is a currency note issued by the central bank, which is like a legal tender, though it is a promissory note.

Bankrupt: a bank or a company which has been declared bankrupt by the court, after due process; a liquidator is then appointed by the court, who is responsible to liquidate the assets of the company and pay off its creditors proportionally; or on the basis of seniority of credits.

Bankruptcy: occurs when a bank or a company has sustained major business losses well beyond its capacity to absorb the losses and is forced to close its operations owing to insolvency, refusal of its creditors to provide any further financial assistance or hold on to their claims, together with the inability or unwillingness of its shareholders to raise substantial amounts of additional equity finance; in such a dire situation, bankruptcy proceedings may be initiated by the creditors or by the company itself. (*see Insolvency*)

Bankruptcy Law: laws governing bankruptcy; or the rules, regulations and procedures stipulated by the law for declaration of bankruptcy.

Bankruptcy Proceedings: formal actions taken by the creditors, or the concerned parties, or the regulating agencies and institutions, or the bankrupt organisation itself in the case of a bankruptcy.

Basle Concordat, Capital Accords I and II: also known as Basle Agreement, originated by a committee of central bank members of the Bank for International Settlement (BIS) in 1975 and since then amended, the major amendments were done in 1983; this agreement stipulated standards and guidelines for international banking supervision and the amendments provided guidelines for supervision of both domestic and cross-border banking, a system of loan classification and a system of provisioning for bad loans. Afterwards, **Basle Capital Accord I** of 1988 was arrived at. This agreement and its amendments, of which Pakistan is a signatory, provided internationally acceptable standards for capital adequacy of banking institutions and stipulates constituent elements of a bank's core and supplementary capital, providing a uniform standard for banks concerning their financial evaluation, performance and reporting; these capital adequacy standards were widely adopted by many countries, including Pakistan. Subsequently, in 2005, **Basle Capital Accord II** was arrived, further enhancing capital adequacy requirements, tightening rules and regulations of banking business in general and banking credit, and treatment of non-performing loans, together with enhanced responsibilities of central bank as the regulatory authority. Implementation of these Accords has been staggered to allow enough leeway for the banking system to meet new capital adequacy requirements which have increased from Rs half a billion in late 1990s to nearly Rs 9 billion by 2010 in Pakistan. In spite of this gargantuan increase, all banks including privatized banks have found a way to meet these requirements, together with new rules and regulations concerning non-performing loans, thereby significantly enhancing financial strength and depth of Pakistani banking system and bolstering its capacity to meet financial shocks to maintain their solvency in adverse times. (see *Bank for International Settlements, BIS; Capital Adequacy; Capital, Core, Supplementary*)

Base Rate: is an interest rate used as the starting base or point of pricing of bank credit; for example, prime rate or LIBOR is taken as the base rate and a margin is added to price a bank loan or a credit facility.

Basis Points: are percentage points times 100; for example, 3.5 percentage points equal 350 basis points.

Beginning Balance: is the initial deposit or the amount to open an account in a bank; in accounting, it is the opening balance in an account, either emerging on the first day of the accounting period or brought forward from previous period; if the account was opened during the year, the opening balance is the beginning balance.

Below the Line: placing of an item of loss or gain on the income statement after the operating income; gains or losses on portfolio transactions are shown "below the line", not as operating earnings but as income from unusual transactions.

Beneficiary: in banking business, the payee is the beneficiary, authorized to receive the payment of a cheque, bill of exchange, draft, letter of credit, or documents of similar nature; in insurance, the beneficiary designated by the insurance policy holder; the beneficiary in whose name the instrument or document is made as such, or may be the only or the last endorsee of such instrument or document.

Beneficiary's Bank: is the bank which receives payment of an instrument or document on behalf of its customer and beneficiary; a duty of the collecting banker to credit the proceeds of an instrument to the account of the correct beneficiary.

Best Efforts Basis: an underwriting situation in which the underwriter does not guarantee any specified amount of sale of the new issue or offer to sell; therefore, issuing firm takes all the risks of issuance of a new security; and the underwriter joins on best effort basis to assist with sales.

Beta Risk: measures the risk associated with market valuation of an investment portfolio, such as an investment trust, or a mutual fund relative to movements in the composite index of stock prices.

Bid-and-Asked Quotations: are price quotations in currency markets, or securities markets; bid price is the highest price a dealer or a purchaser is willing to pay for a security or a currency, whereas asked price is the lowest price a dealer is willing to accept for a security or a currency; the differential is the trading margin of the broker or the dealer; trading in these markets take place on the basis of these quotations, made by sellers or buyers.

Bilateral Loans: are government to government loans on bilateral basis, and with the government guarantee of repayments, extended as credits on near commercial terms, or concessional credits, or grants for imports and procurements tied to the country of origin; a financing arrangement often supplemental to the suppliers' credits for purchase of machinery for large projects and military equipment.

Bill of Exchange: is a financial instrument in business transactions; an unconditional order in writing, addressed by the drawer to the drawee requiring the drawee to pay on demand or at a fixed or determinable future time, a sum to a specified party, or to the bearer, the payee; in trade transactions, when a seller dispatches the items sold, he draws a bill of exchange for the costs of goods, which is payable by the purchaser as per mutually agreed terms to the seller or to a party specified by the seller; to be legally enforceable, a bill of exchange requires acceptance of the drawee.

Bill of Lading: is a document issued by the shipping company if the goods are transported by a ship, and signed by the master of the ship or his agent, acknowledging that the goods have been received on board, and they will be delivered to the consignee, or at his order at the named destination, in the same condition as received, provided freight and other charges have been duly paid; it is a document of title to the goods, is quasi-negotiable but not convertible into cash, in the sense that it is endorsable and goods are then delivered to the endorsee.

Blank Transfer: is a deed or instrument of transfer of shares in which some material information is lacking, such as the date of the transfer; but the fact that the date is lacking on the instrument does not make it a blank transfer; however, a blank transfer is taken so that blanks can be filled in as and when the need arises and the shares are sold.

Blanket Bond: a bond issued to cover various commitments or risks; for example, blanket insurance bond to cover the risk of fire, theft and employee dishonesty.

Blocked Funds: funds that can not be withdrawn or transferred from an account due to a prior claim, a lien or a liability, a dispute or a court injunction, or a directive of authorities concerned; for example, conversion and repatriation of local currency funds into foreign currency forbidden by central bank.

Blue Sky Laws: laws that prevent the sale of financial instruments which have little or no asset backing; laws against deposit schemes promising multiple returns and other fraudulent practices.

BOJ-NET: is the settlement system of the Bank of Japan for domestic wholesale inter-bank transactions; a large value transfer system for real time transfers and also designated time transfer; a bond transfer system for the Japanese Government. (*see Payment System*)

Bond: is an interest bearing government or corporate security, obligating the bond issuer under an agreement called bond indenture to pay the bond holder a principal amount on the date of maturity and periodic payment of interest over the life of the bond; bonds are long term debt instrument and are a preferred mode of raising long term funds without selling shares; bond enables the bond issuer to convert non-liquid or less liquid assets into marketable instruments; the market value, or the price of the bond in the market differs from the face value or the par value of the bond at the maturity by a discount factor based primarily on the current interest rate and the bond rating; generally, if interest rate rises, bond prices fall, and vice-versa.

There are several types of bonds as categorized below:

- by **type of issuer**; such as government bond, federal, provincial or municipal bonds; or corporate bond, which are also called debentures.
- by **origin** of the bond; such as local or foreign bonds, Eurobonds.
- by **type of use**; such as infrastructure bonds issued to finance infrastructure facilities such as electric power, transport; or industrial bonds issued for investment financing; or real estate and property-based bonds.
- by **type of risk**; bonds classified and stated by the potential risk of default, or based on risk ratings; for example, in the US, Standard and Poors' bond ratings ranging from AAA (triple A), the highest quality bonds commanding a price premium, down to single D bonds of doubtful value; bonds with the rating of triple BBB and above are regarded investment grade bonds for conservative investors like insurance companies and trusts, mutual savings institutions, commercial banks, and mutual funds with conservative portfolios.

Bearer Bond: for transaction purposes, bonds classified as bearer bonds are traded like any other bearer security, that is there are no formalities attached to transaction; but transaction of registered bonds requires completion of formalities such as authorization of the bondholder selling the bond, and verification from the issuing authority before the sale is finalized.

Benchmark Bond: in developed bond markets, the long-term government bond is typically regarded as benchmark as it provides a guide to the market for pricing new issues of corporate bonds; this is because the benchmark bond sets a stable tone for the bond market and is relatively free from the type of volatility observed in case of short-term bonds or zero coupon bonds; but in countries where bond market are not developed or the bond markets are limited in their

size or depth, the need for a benchmark bond becomes more acute to provide some kind of a lynchpin for corporations or financial institutions who would like to raise long term funds through a bond issue; if long term government bonds of maturities of more than eight to ten years do not exist, or they are fairly limited and are not commonly available, then the benchmark may be provided by treasury notes of two to ten years, but this is not the same as bonds.

Convertible Bond: a bond that can be converted into a common stock at a conversion ratio specified at the time of bond issue; it has all the features of a regular bond, namely the par value, the coupon rate, maturity period, the interest payment per period, but additionally, the bond issuer pays dividend and offers the option to the investor to convert the bond into a number of common stocks as per conversion ratio or the conversion price of the stock; as a result the market price of the bond is affected both by the interest rate movements as well stock market movements; the cost of conversion option is usually gauged by the premium paid for the bond in the secondary market trading; convertible bonds provide a potential gain to the investor if the bond price goes up, while at the same time offer an attractive bond yield, specially for corporate bond whose price is likely to materially increase over the maturity period; the market value of the option attached to convertible bond is zero or insignificant at the time bond starts selling initially in the secondary market, but the value of the option increases as the bond price climbs up; it is also possible that bond price may fall instead of rising with disastrous consequences for the option holder; therefore convertible bond can also be risky in addition to being potentially rewarding.

Consol Bond: a perpetual bond issued to consolidate previous debts.

Corporate Bond: is the debt obligation of a corporation or a company; it is long-term debt instrument issued by a company or a corporation; their quality and marketability depends upon many factors including the credit worthiness and financial strength of the issuer, the industry or sector of activity and its future prospects, and the rate of profits or earnings growth.

Government Bond: is a short, medium or long term 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; a major component of the bond market.

Junk Bond: a comparatively recent bond instrument developed in the US in early 1980s for corporate financing, specially used in leveraged buy-outs, mergers, and acquisitions, involving considerably high risk and also offering high yields to the bond holders, with a bond rating lower than investment grade, and an extremely high debt ratio such that the risks of bond holders are similar to those of stock holders; issued by prospective buyers of conservatively financed companies, targeted for their acquisition, often in a bid for hostile take-over; or these bonds are by companies in financial troubles, but with good future business prospects.

Municipal Bond: is a bond issued by municipal authorities to finance municipal projects or facilities; these bonds are debt obligation of municipalities.

Perpetual Bond: a bond issued without a maturity date and is therefore irredeemable and interest thereon is paid for the holding period; such bonds are uncommon, since bonds issued these days have a defined maturity.

Revenue Bond: bond issued specifically to finance a large investment such as a highway or a bridge with a very long pay off period where repayments of interest and the principal are made from the cash inflow generated in fees or toll paid by users.

Saving bond: a long term bond or savings certificate, issued by the government, or government agencies, a bank or any other saving institution authorized to issue such a bond to attract depositors by offering better rates of interest and higher return; these bonds are sold at a discount directly to investors; there is no coupon payment during the holding period and there is a penalty for early redemption before maturity; since savings bonds are not traded in the secondary market, there are no bond market risks to the bondholders, specially there is no reinvestment risk and the interest earned is continuously reinvested; on the redemption date, the investor receives the par value of the bond; saving bonds are similar to zero coupon bonds in that the investor's return on the maturity date is the difference between the redemption value and the discount price originally paid by the investor. (see *Zero-Coupon Bonds*).

Serial bond: is a bond issue consisting of a series of bonds with different maturities assigned to each series but issued under a single bond indenture, where each series matures in a dated sequence; for the issuer the redemption of serial bond is staggered, thereby spreading out the burden of repayment of the principal amount borrowed, and diversifying the maturity structure of the borrower's portfolio; for the investor, serial bond is practically a bunch of several bonds with different maturities at the same coupon rate but with different yields to maturity, that diversifying the maturity structure of investor's portfolio.

Sinking Fund Bond: is a bond issue of a single maturity date like a term bond where random portion of the issue may be retired on different but listed dates and in specific amounts as per sinking fund payout; the bond holder, however, is not aware which portion of the bond issue will be retired early and which portion will be retired on maturity; this feature of the sinking fund bond provides some flexibility to the issuer to better manage his liabilities outstanding, specially sinking fund obligations.

Strip Bond: is a bond whose coupon value is separated from the redemption value thus creating two strips of the same bond for sale to different investors; for example, the coupon strip may be sold to investors who is looking for a stream of fixed income cash flow over a specified period, usually less than the maturity period of the bond; whereas the redemption strip may be sold to long term investors who need the cash at maturity to meet certain payments due.

Term Bond: is a bond where the entire issue has a single maturity date unlike a serial bond.

Zero-Coupon Bond: are debt securities that do not pay regular interest at regular intervals, but are issued at a deep discount from the face value; the discount approximates the total amount of interest that will accrue on the bond from the date of issuance to maturity; hence, the market price of these bonds is highly interest sensitive and fluctuates more with interest rate changes than interest paying bonds; therefore, interest rate changes are major risk for zero-coupon bond holders.

Bond - Book Value Entry: at the time of purchase, the bond is entered into accounts at its book value which is the same as the purchase value of the bond; but the book value changes over the holding period through redemption date according to the discount or premium paid by the bond holder; on the redemption date, the book value of the bond is equal to the redemption value; if a bond is purchased at a discount, the book value of the bond is increased on each interest date until the book value equals the redemption value; this writing up of the book value is called accumulation of discount; conversely if a bond is purchased at a premium, the book value is reduced on each interest date until the book value is equal to redemption value, and this is called amortization of premium, or writing down the book value.

Bond Covenants: are the terms and condition of a bond issue as incorporated in the bond indenture.

Bond Finance: is finance secured by issuing bonds, which are long term debt instruments, payable on maturity these instruments extensively used by government and large corporations to raise long term funds.

Bond Holder: is the investor who holds a bond; to whom the bond money is payable on maturity.

Bond Indenture Agreement: is an agreement tendered by a bond issuer specifying its contractual obligations concerning a bond issue such as interest rate and date of maturity, repayment schedule, collateral, protective covenants, and call provisions of the bond, and stating type of the bond being issued; a contract of a bond issue outlining the covenants.

Bond Interest Coupons: also called coupon; it is periodic interest payable on a bond through coupons attached with the bond; coupons are for definite amounts and represent the rate and the period, say six or twelve months, for which the interest has accrued and is payable; such coupons are detached from the bond and presented to the issuing authority or its agent to claim the payment when due. (*see coupon rate*)

Bond Market: is the secondary market where bonds are traded among the final investors, who may be large institutional investors or individual investors, through bond dealers or distributors who specialize in trading a variety of fixed income securities; the secondary market is further segmented into markets for government bonds, corporate bonds, or zeros market, each with its own coupon rate, yields and risk characteristics; however, the primary market for bonds precedes secondary market and consist of all the institutional players involved in the processes of bond inception and issue all the way through when the bond is finally traded in the secondary market. These are institutional players; bond issuer may be government or a corporation; issuers' bank, who carries out the market survey for the size of the issue and the interest rate; syndicate of underwriters, usually investment banks or underwriting companies who buy the bond issue at face value, and thus become owners of the bond assuming market risks until bond is floated and sold in the secondary market to final investors through firms and dealers engaged in the business of fixed income securities; these distributors assign portions of the bond issue to final buyers either directly or through brokerage firms who collect the intent to purchase from potential investors as to the amount and the price of the bond which provides a test to underwriters whether the bond issue is priced correctly; therefore, in primary bond market, there is no bond trading of the type that occurs in secondary market. Bond markets are less volatile for top grade bonds such as treasury bonds, and top rated corporate bonds, but is highly volatile for other types of

bonds such as junk bonds; thus investments in top rated bonds may be less risky than stocks, but at times bonds could be as risky as stocks, specially long-term bonds which are relatively more interest sensitive; in general, when interest rates rise, bond prices fall; and conversely, if interest rates decline, bond prices increase; stock and bond market may fluctuate independently of each other thus offsetting investor's risks, provided investor's portfolio is diversified into bonds and stocks in adequate proportions, and his exposure is such that losses in one market are offset by gains in another.

Bond Market Risk: is the risk of decline in bond prices since the market value of bond is inversely related to interest rate; therefore, if interest rates are likely to raise, then bond holder faces the risk of reduction in the market value of bond; typically, bond market is less volatile for top grade bonds are such as treasury bonds, and top rated corporate bonds, but highly volatile for other types of bonds, specially the co-called junk bonds; therefore investment in top rated bonds may be less risky than stocks, but at times, bonds could be as risky as stocks, specially long-term bonds which are relatively more interest sensitive. The stock and bond market may fluctuate independently of each other, thus offsetting investor's risks, provided investor's portfolio is diversified into bonds and stocks and his exposure is such that losses in one market are offset by gains in another.

Bond Maturity: is the date on which a bond is finally due for payment or redemption; expiry date of the period for which a bond is issued.

Bond Plan: salient features of a scheme for a bond issue; it contains the maturity period, rate of interest and the security or guarantee against which it has been issued, the method of interest or dividend payment, and final payment or redemption on maturity date.

Bond Portfolio: may consist of a variety of bonds depending on investors' preferences and investment strategy, risk and return profiles, investors' time horizon and size of portfolio; the portfolio may be diversified and may include government bonds, corporate bonds, municipal bonds, foreign bonds; or it may be concentrated into a single category of bonds, or it may be a hybrid of domestic and foreign bonds, where the foreign bonds are denominated in foreign currencies and thus additional risk of adverse exchange rate movements depending on the size of exposure in various currencies.

Bond Rate: is the annual rate of interest specified for a bond at the time of issue; the coupon rate of the bond.

Bond Refunding: is the recall or the redemption of an existing bond issue, and its replacement with another bond issue.

Bond Risks: various types of risks associated with investments in bonds;

- **Call risk:** the risk applicable to callable bond holders, that the bond issuer may retire the bond before its maturity date; specially if interest rates fall, and the bond issuer as a borrower restructure his debt portfolio to take advantage of the falling interest rates in an attempt to reduce the overall costs of debt outstanding; but the bondholder, who has invested in fixed income securities to earn a decent stream of fixed income; in such a situation the investor is faced with the option of reinvestment in bonds with lower coupon rates because newly issued bonds carry lower interest rate and hence a reduction in fixed income from the bond portfolio.
- **Credit Risk:** it is the risk of non-performance of the bond issuer as the borrower; or the risk of default, that is the bond issuer may be unable to make timely repayments of interest, the periodic coupon payments, or may be unable to pay the principal amount on the date of redemption; in this sense credit risk on a bond is similar to the credit risk on a loan; for example, government bonds are considered least risky, whereas corporate bonds carry different level of risk depending on the financial strength and business performance of the corporation issuing the bond.
- **Inflation Risk:** is the risk that the real value of the total returns of a bond will be eroded by rising prices; it is a generic risk common to portfolio investment and is not limited to bonds, it is a powerful risk, equally applicable to returns from all kinds of financial assets.
- **Interest Rate Risk:** also known as the market risk of the bond; it is the risk that an increase in the interest rate will cause a decline in the market price of the bond and thus will cause a capital loss on bond holdings; in general, changes in interest rates are inversely related to the market value of bonds, the bond price; a rise in interest rates is usually accompanied by a fall in bond price; conversely, if interest rate declines, bond prices increase; capital gains associated with falling interest rates are fine, but the potential of capital loss owing to a rise in the interest rate is a major risk for the bondholder.
- **Liquidity Risk:** is the risk that the bond holder may not be able to unload the bonds and raise cash in time to meet liquidity requirements or to meet other contingencies, specially in case of thinly traded bonds, or bonds with limited markets.

- **Sector Risk:** the risk applicable to bonds of a particular sector of the economy owing to overall poor performance of the sector, regardless of the financial strength of the issuer; this is also a generic risk that affects all investors alike, whether they are bond investors, or investors in a plant or factory, or any other type of investors; if they are significantly exposed to a particular sector and that sector were to experience a downward trend, there are losses all around.

Bond Risk, Foreign: in addition to the risks associated with investments in bonds mentioned above, there are other risks as below associated with investments in foreign bonds such as;

- **Currency Risk:** is the risk of change in the exchange rate between the currency in which the bond is issued and the currency of the bond investor between the time period of bond purchase and bond sale or redemption at maturity; a shift in the exchange rate could cause considerable change in value of bond portfolio during the holding period.
- **Repayment Risk:** also called sovereign risk associated with foreign bond; the risk that interest income of a foreign bond, or its sales proceeds, or its redemption proceeds may not be repatriated to the bond investor owing to actions taken by the government such as moratorium on external debt payments, or freeze imposed on repatriation owing to worsening financial and economic conditions or due to political upheavals.

Bond Trading: is conducted in secondary market by bond traders or securities dealers on quoted price of the bond; the *bid* and *ask* quotations are given in percent of the value of the bond; that is, if a bond of Rs 1000 is quoted as 97.25, it means a price of Rs 97.25 for each Rs 100, and thus the actual price payable is Rs 972.50 for the bond; since this is below the redemption value of the bond, it is selling at a discount of Rs 27.50, based on Rs 1000 par value, less Rs 972.50 the price payable or at a discount of 2.75 points, where one point is equal to 1% of the par value of the bond; conversely if the same bond is quoted at 103.50, the price payable would be Rs 1035 and bond is selling at premium of 3.5 points; the date transaction is carried out is called trade date which may not be the same as settlement date when payment for purchase is due; trader's commission is included in the bond price; for purchasing it is marked up, and for selling it is marked down.

Bond Swap: is the sale and purchase of a bond before its maturity; these are techniques of bond portfolio management to improve the earnings and overall quality of an investment portfolio; the swap may be done to reduce the default risk by purchasing bonds of higher rating from sale of low-grade bonds, called grade swap; or to improve the maturity structure, called maturity swap; or to maximize return on bond investment, called yield swap; or to lower the tax liability on capital but protecting the original investment, called tax swap.

Bond Yield: in its simplest form, bond yield is the ratio of investment income to the amount invested in a bond; it is a rate of return on the invested amount in a bond through maturity period, or the holding period; it is based on the coupon rate, the interest income, reinvestment income, any capital gain or loss, and the redemption value; the purchase price of the bond may be at a discount or at a premium, which may be different from its issue price, the par value; the interest income is based on coupon rate or the nominal interest rate stated on the bond; and it consists of the cash flow from periodic payments through the maturity period, or the coupon interest income over the holding period and interest on reinvested amount; the redemption value of the bond is inclusive of capital gains or losses on redemption; it is the deciding factor for investment in bonds, though other factor such as bond risk, bond prices, discount and premium, also plays a part. (see *Yield*).

Book-Entry System (securities): is an accounting system facilitating the transfer and recording of securities or claims on the accounting books of the securities depository or the issuing house to eliminate the physical transfer or movement of security paper.

Book-Keeping Entry: is the record of a monetary transaction in the books of accounts of a company, usually based on vouchers, showing all the relevant details of the transaction.

Book Value: is the stated or recorded value of an asset in the books of accounts of a company; the book value of depreciable assets is reduced every year by the amount of depreciation applied; but book value may increase in case of plant and machinery if spent amounts are enhancing and adding to the value of the assets and increasing their production capacity; thus the book value of an asset may increase or decrease with the passage of time and it may be different from their resale or market value; on sale or disposal of an asset, if the amount realized is less than its book value, the loss is to be absorbed by the company; and if the value realized is higher than the book value, then the realized difference is profit.

Book Value Per Share: is the value of each share as per company's books of accounts, as against its face or market value; the method of calculating book value per share is to divide the net worth or owner's equity by the number of shares owned by the shareholders of the company; however, book value per share is an accounting concept and the real or actual value per share may be entirely different, which is dependent upon the actual proceeds realized on the sale of assets and final payment or satisfaction of liabilities to outsiders.

Borrower: a government, a corporation, a company, a business, or an individual who borrow funds as a loan or credit as per agreed terms and conditions.

Borrower's Integrity: is reflected in a borrower's business and financial performance with regard to commitments and transactions; means honesty, truthful in claims, prompt fulfillment of commitments and obligations.

Borrower's Own Fund: is the amount of savings or own funds invested by a borrower in a business venture, a company, or a project as equity contribution or shareholdings; a borrower is expected to invest a certain proportion of total investment from his own funds, in addition to the borrowed funds to qualify for loan financing from a bank.

Borrower's Reputation: general reputation of a borrower in fulfilling financial and business obligations and integrity of commitments, contractual or otherwise; adherence of the borrower good business practices and procedures; and compliance with rules, regulations, and established norms of business operations.

Borrower's Viability: depends on soundness of business plans of the borrower as gauged by assessment and feasibility of the line of business and evaluation of financing proposal; viability needs to be determined to ensure that borrowed funds will be used effectively to enable the borrower to service the loan, earn a profit, and be successful.

Borrowing: the term *borrowing* in daily usage is regarded synonymous to terms like *credit*, *debt*, and *loan*, but is interpreted somewhat differently depending on the context; it is commonly meant to obtain a *loan* or a *credit*, or to enter into a debt liability in the amount of money obtained as a *loan* or a *credit* from a lender for a period of time at a rate of interest and at terms of repayments as agreed between the borrower and the lender, backed by a collateral or loan security; while the term *borrowings* is interpreted as the total amount of *debt* outstanding with a single borrower, the total value of the loan portfolio of the borrower; hence these two terms are not the same as *credit* or *loan*. (*see Loan, Debt, Credit*)

Borrowing Cost: is mainly interest cost, finance charges and fees incurred and payable by the borrower to obtain borrowed funds; may also include ancillary charges, premium or discount to cover specific risks; may involve a fee for covering foreign exchange risk in part or in full, if the lender provides foreign exchange as part of the loan denominated in domestic currency.

Borrowing Limit: is the loan limit on advances specified by banks for their clients, up to which they may borrow or draw funds from their accounts with the bank within a specified period; thus limits are approved for definite amount and the borrowers are not supposed to exceed them; however, the customers may borrow as per their requirements up to the limit approved by the bank.
(*see Limit*)

Borrowing Short: is to borrow for short term; if a bank is borrowing short term to extend loans for long term from these short term loanable funds, it would face a mis-match between the maturity structure of its loan portfolio and the maturity structure of its borrowings, which may require the bank to raise fresh funds, perhaps on unfavorable terms to settle its short term borrowing liabilities.

Bracket Creep: to shift from one bracket to another; for example, tax payers may move into higher tax brackets as their incomes rise.

Branch Network: a number of branches or offices of a bank in many places, scattered over a large geographic area, connected to each other and administered and controlled through the Central, Zonal, Regional or Area Offices.

Branching Restriction: rules and regulations of the central bank or the government concerning opening of new branches; for example, requirements and restrictions specified by State Bank of Pakistan concerning opening of new branches by banks.

Breach of Contract: a breach of contract occurs if one of the parties to the contract either refuses to perform the contract or otherwise fails to perform; or when by the action or conduct of one contracting party, it becomes impossible for other parties to perform on a contract; as a result of the breach by one party, other parties to the contract are discharged from their obligations under the contract and may become entitled to claim damages for the breach.

Breadth of Stock Market: the spread between the advances and declines in stock prices over a number of days of stock trading; the number or the proportion of shares traded with advance or decline based on stock exchange records.

Break-Even: for a business it is that level of sales or volume of sales where the costs of the business are equal to the sale proceeds with neither profit nor loss; or a point of sales where per unit cost of an item sold equal to the price of the item sold with no profit and no loss; in manufacturing, a level of production where the manufacturer recovers just the costs of production, or a point on production level where the per unit cost of item manufactured equals the price; in financial markets break-even point for an investment is where the holder of the investment just recovers the initial purchase price inclusive of premium and transaction costs; for a call option, the break-even point is the exercise price plus the premium.

Bridge Loan: is a short term loan granted to meet a customer's immediate need pending arrangement of permanent funds with a bank or a financial institution; it may also be a loan approved to finance purchase of one asset on the evidence that a contract for the sale of another asset has been concluded, and sale proceeds are assured to be remitted to the lending agency; a bridge loan is risky and therefore undesirable if it is open ended, that is when purchase of a property has been initiated without simultaneously concluding an agreement to sell some other property which the intending borrower already owns.

Broad-Based Financial System: a financial system consisting of a variety of financial markets and a fairly diversified group of financial institutions who are engaged in a broad range of financial intermediation activities, with multiple sources of funding and diversified risks associated with their portfolios, thus enhancing the strength and stability of the financial system.

Broad-Based Market, Securities: is a securities market where a large proportion of the listed stocks are being actively traded as opposed to a narrow market where the trading activity is confined to a relatively small band of listed stocks; also applies to a particular stock, indicating brisk and active trading in that stock a extensive investor interest and investor demand for the stock.

Broken Lot: is also called odd lot; a number of stocks greater or smaller than the standard marketable lot or a round lot consisting of a minimum number of shares acceptable in a single trading transaction, usually 100 shares; the odd units need to be converted into marketable lots of 100 shares by split or merger as the case may be to make them acceptable for trading transaction.

Brokerage Firm: is a company licensed and registered to conduct trading transactions in securities on behalf of their clients, also called a brokerage house, providing a range of services to investors in securities; an important market player and a market maker; large securities brokerage houses have an important and visible role in the securities market operations given the sheer size of the investment funds they handle, their global reach through the network of their branches or affiliated companies; have a highly skilled corps of market specialists, market analysts, and superb trading facilities; are specialised in several market areas and exert considerable influence on the market activities; likewise, there are brokerage firms engaged in the business of buying or selling of commodities, precious metals, trading or futures contracts in major markets.

Brokerage Services: are services rendered by a broker as an agent, or a middle man, such as buying or selling of goods, bills, stocks, shares on behalf of the clients; providing limited financial services pertaining to business or securities transactions, and furnishing market data and information to the clients.

Brokered Deposits: packaged deposits of a reasonable large size collected from many clients of brokerage firms; these deposits are often used by fast-growing or high-risk commercial banks as a source of funds.

Bucket Shops: are unregistered, informal, or even illegal brokerages dealing in stocks, grain, or cotton outside of authorized markets through dummy accounts; accepting wagers on price quotations.

Budget: is a statement of income or revenues by sources and expenditures by major categories of expense for a specific period, usually a fiscal or financial year; a budget shows availability and uses of financial resources based on best estimates or projections for the budget year, representing financial commitments on the expenditure side, and expected income based on best efforts to raise revenues; for the government, federal, provincial or local, budget is a fiscal statement showing, on the income side, tax or non-tax resources by types and incidence, and on the expenditure side, showing allocation for current expenditures and capital outlays; for corporations, companies, banks, and business, budget is a financial statement showing income from the line of business like sale proceeds, costs of production, and administrative expenses.

Budget, Current: is the current budget; includes current revenues, and on expenditure side it includes recurrent expenditures, like salaries and wages, administrative expenses, and other expenses associated with annual budget cycle excluding capital expenditures; for the federal government, current expenditures are ministerial or departmental expenses, entitlements, and debt servicing.

Budget, Capital: is the capital budget; includes investment expenditures and capital outlays, expenses for improvements and modernization of production facilities, and sources of financing the capital budget, such as own funds, borrowings or surplus from current budget, if any.

Budget Constraint: for the overall budget level, it refers to the restrictions or implementation of the availability of financial resources and thus determine the limit; or the income or the revenue expected over the budget period which determines expenditure ceilings, that cannot be exceeded without recourse to extra-budgetary financing; for a single category of expenses, budget constraint refers to the expenditure limits as specified in the budget that cannot be exceeded without compensating reduction elsewhere in the face of competing demands, the approval procedures and their inherent ramifications.

Budget Deficit: is the excess of expenditures over income or revenues for the budget period; if anticipated and programmed, it is included in the budget presentation at the beginning of the budget period together with a financing plan for the deficit amount; if unanticipated, because projected levels of income or revenues did not materialize or expenditure commitments were entered beyond budget ceiling, then the deficit is financed typically from borrowings.

Budget Period: budget period usually covers a period of 12 months of a fiscal or financial year which may or may not coincide with the calendar year; for example government budgets rarely coincide with the calendar year, but for banks, the budget year is the same as the calendar year. Business organizations have their budgets linked with their financial years which may vary from case to case; for example companies dealing in agricultural produce, such as sugar mills, have their own financial years and their budget period may be tied to the crop season.

Budgetary Transfers: are transfers of budgeted funds of the government to various recipients such as government departments, organizations or those entitled to receive government budgetary transfers; also shifting of funds from one sector, or one category of the budget to the other sectors or categories of the budget without affecting the existing surplus or deficit; also, changes in budgetary amounts to supplement original allocations.

Bull and Bear Markets: are characterized by price trends in securities markets based on investor expectation, rational or irrational, and may or may not be entirely based on financial or economic fundamentals; bull markets signify a period of rising stock prices where investor expectations are high or favorable concerning future prices and capital gains, usually based on corporate profitability and investor perceptions of future economic and financial trends, encouraging new investment in securities and brisk activity in stock trading; in contrast, bear markets signify a period of flat or even falling security prices, capital loss on shareholdings, causing a sell-off in the invested positions, and driving away new investors in anticipation of adverse future trends.

Bullet Loan: is a debt issue without creating a sinking fund to amortize it; repayment of such loan is made at maturity in lump sum.

Bullion: are precious metals, specially gold or silver, in the shape of bars, lumps, ingots, or nuggets; also it describes metal coins in terms of their weight.

Bunched Trading: consecutive sale or purchase of the same security at the same or different prices; when orders from different customers are combined for execution into a single transaction by a broker, such orders are said to be bunched.

Buoyancy: in a business operation, the tendency of the business to maintain a desired level of returns and profitability; in stock market, the ability of a stock to sustain its market value.

Business Barometers: are indicators of business outlook and trends based on market surveys and analysis contained in daily or weekly reports, or the financial columns of dailies and weeklies, and providing information on prices, turnover, orders for delivery, stock and inventory positions; or reporting on financial trends like interest rates and currency rates; or general outlook of business and market leaders and business activities of major market participants and investors.

Business Cycle: is a series of alternate phases of business trends; or periods of business boom and recession, following each other in a cyclical fashion over a period of time; prosperity or depression occurring in a cyclical fashion over a period of time.

Business Day: a routine business day is typically 9 am to 5 pm, but the working hours for banking transactions may be different; it depends on the type of transaction; a business day is critical in large business and financial transactions, or in payments and settlements, and is carefully specified in terms of the working hours of the day; also business day specifies the working hours of a bank for retail customer transactions.

Business Location: is a business place or site where a business is located and where its regular business transactions are carried out. The success of the business depends in large measure on the business site and commands a considerable premium, the goodwill, which may be the most valuable asset for a company, specially in the retail business; also in banking, the approval for license for a new branch depends on the proposed location of the branch.

Business Risks: are various types of risks associated with a particular line of business and are unique only to that business activity; however, risks common to most business activities are market risks, financial risks, production and technology risks, economic risks, sector, country or third party risks; regulatory and intervention risks; the success of a business venture critically depends on how well these risk are understood and anticipated and what measures are in place to cover these risk; yet a number of risks remain outside the control or capacity of a business, thus causing uncertainty with regard to business outcome, return and profitability.

