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Date *(in Finance)*:

- ***of approval or authorization*** is the date of sanction, confirmation or ratification of an agreement or a financial transaction or a credit facility.
- ***of effectiveness of loan*** is the date the loan can be disbursed or drawn down by the borrower.
- ***of maturity*** is the date on which a debt must be repaid as per loan agreement, or as shown in the borrowing instrument such as a promissory note, a bill of exchange, or a bond.

Daylight Overdraft: is a credit created by the payment system when central bank credits reserve account of the receiving bank as soon as payment instruction has been received, but reserve account of the sending bank is debited only at the end of settlement day, thereby creating daylight overdraft for the sending bank. This practice varies from country to country; Bank of Japan and Swiss National Bank do not allow daylight overdraft; Federal Reserve USA and Bundes Bank of Germany allow but up to a limit; Bank of England and Bank of France allow them without any limit. This practice of extending daylight overdraft to the paying bank by central bank in case end-of-the-day balance is insufficient, smoothes the functioning of the banking system, but it means monetary expansion, and exposure of central bank to default risk. *(see Payment System)*

Debenture: is a term of British origin; its equivalent in the US is corporate bond; it is a borrowing instrument issued by a corporation or a company which creates a debt bearing liability at a specified rate of return payable by the issuing company, whether it makes a profit or not. *(see Corporate Debenture)*

Debit: an accounting term; as a noun, it signifies a decrease in an account balance, or a decrease in liabilities, or a decrease in cash balance, or a decrease in income; as a verb it means to make an entry on the debit side of an account.

Debit Advice: is the notification to the customer of an amount debited to the account for a transaction usually initiated by the bank which may not be known to the account holder.

Debit Card: is a card issued to a client for making payments for goods or services, and such payments are then debited to card holder's account with the seller; it is similar to credit card and issued in a similar way to account holders.

Debt: is an obligation; as a *loan* it is the amount of money borrowed from a lender for a period of time at a rate of interest and at terms of repayments as agreed between the borrower and lender, backed by a collateral or loan security; as a financial obligation, a liability, the term *debt* in common usage is regarded synonymous to terms like *loan, credit* and *borrowing* but is interpreted somewhat differently depending on the context; that is, *debt* is also meant as the *total amount of all loans* outstanding, itemized and listed in a borrowers' portfolio; hence, this term is similar to the term *borrowings*; debts are of several types and are classified according to the type of borrowers; or use of the borrowed funds, maturity, interest rate, method of repayment, type and quality of collateral, source, origin and currency denomination of the debt, and overall terms and conditions. *(see Loan, Credit, Borrowing)*

Debt Asset Ratio: also called loan asset ratio; it is the ratio of long-term debt to total assets of a firm, indicating the relative size of debt to be managed from total assets available; also provides a measure of financial leverage. *(see Ratios, Debt Management Ratios)*

Debt Crisis: can emerge at several levels; for a bank, it is a widespread default by its borrowers on repayments of principal and interest due, preventing a case-by-case resolution of overdue payments specially when borrowers are facing common problems. In domestic banking, debt crisis may emerge for borrowers engaged in lines of risky business, or risky sector or sub-sector of manufacturing, or because the sector is facing serious adverse economic and financial developments beyond the control of borrowers. For the entire banking system, it is the widespread default of major borrowers, owing substantial amounts to the banks; for example the defaults being faced by major banks in Pakistan; or at the international level the slump faced by real estate developers in Japan and other East Asian countries in the early 1990s, jeopardizing the solvency of concerned banks. In international finance, in the past debt crisis occurred in several countries owing to refers to systemic delinquency on repayments due on external debt triggered by persistent balance of payments deficits caused by a host of economic adversities.

Debt Equity Ratio: is the ratio of long-term debt to shareholders' equity in a firm or a bank; the lower the debt equity ratio the higher is the proportion of equity finance, indicating a more conservative long-term strategy of the company regarding business expansion; but from the perspective of creditors, the more attractive the company is for additional debt exposure. However, the decision whether to finance long-term capital needs from borrowings or from additional equity raised in capital markets is based on a number of factors specific to the business entity or the financial institution. *(see Ratios, Debt Management Ratios)*

Debt Finance: the amount of financing raised from borrowings from banks and other financial institutions; or by selling debt instruments in financial markets.

Debt-for-Equity Swaps: is to convert a debt into equity finance; sometimes banks may agree to accept shares of stocks as a substitute for loans outstanding, thus converting a debt into equity finance to assist debtors in financial difficulties, thus replacing nonperforming assets with performing assets.

Debt Instruments: a variety of instruments of borrowing various types of debts, such as bills of exchange, promissory notes, bonds and commercial papers.

Debt Limit, Ceiling: is the maximum amount a borrower can obtain as a loan; in case of privately owned business and companies, the limit may be assessed by the lending bank; in case of government, it may be a statutory limit imposed by law or the constitution. *(see Loan limit)*

Debt Management Ratios: provides a measure of debt management and financial leverage capabilities of a company or a business or a financial institution; gauge the effectiveness of the use of debt financing and financial leverage, balancing the risk and return profile of the business activity with the risk and return associated with several types of debt financing or leveraging; these ratios include: total debt to total assets ratio; debt equity ratio; and the ratio of earnings before interest charge and taxes (EBIT), to total interest; in parallel, leverage ratios also provide a measure of debt management. *(see Ratios, Leverage)*

Debt Outstanding and Disbursed (DOD): on a given date, DOD is the amount of loan disbursed to the borrower from an approved line of credit or an approved loan, and is due for repayment by the borrower net of amortization; or DOD is the total amount of debt obligations of a borrower with a number of creditors.

Debt Ratios: provide a measure of the size and coverage of debt financing by a firm mainly to finance working capital needs and also long-term investment needs for replacing plant and equipment; also called leverage ratios; these are:

- ***Structural Ratios,*** showing the proportion of debt relative to equity in the financial structure of the firm. These are debt-equity ratio and debt- asset ratio.
- ***Coverage Ratios,*** provide a measure of financial coverage of debt obligations, showing debt servicing commitments are to be met from the financial resources available to the firm. These ratios are interest coverage ratio and fixed charge coverage ratio. *(see Ratios, Debt Management Ratios)*

Debt Recovery: is to secure over-due payments of principal and interest on defaulted debt; the lender may pursue various debt recovery procedures to secure payments from a borrower in default starting with acquisition and sale of collateral, recalling third party guarantees, attaching liens on other viable assets of the borrower; but these measures seldom succeed in full debt recovery, hence, banks roll over the defaulted debt into fresh loans if the borrower is expected to ride out financial adversities and is able to return to solvency.

Debt Relief: is provided by the lender to a borrower to enable the borrower to regain its financial strength and begin servicing its debt which otherwise may have to be declared as a bad debt causing loan losses to the lender; the relief may be arranged as:

- a ***rescheduling*** of the debt payments; thus in effect amounting to extension of the maturity with an initial grace period, depending on the type of the loan and financial prospects of the borrower.
- a ***concession*** in the terms of the loan, or the rate of interest, though rarely done for private sector loans in default.
- ***extension of new loans*** to provide liquidity, to assist in the recovery of the business of the borrower; or to help the borrower to repay old loans with new loans obtained on easier terms.
  (see Debt Restructuring)

Debt Relief: if extended to the private sector borrowers it consists of the same elements as above, but depending on the bargaining strength of the borrower and the debt exposure of the lending banks which depends on loans outstanding; it is usually arranged for large and influential borrowers with the assistance from the government, to protect the insolvency or bankruptcy of a major corporation, vital to the commercial or industrial sector.

Debt Relief to Public Sector: if extended to the government or to a public organization or to state-owned enterprises, it consists of the same elements as above, typically as a part of debt rescheduling or debt restructuring agreement between the borrower and the creditors, mostly concerns external debt outstanding and due.

Debt Rescheduling: is undertaken through an agreement between the borrower and the creditor to re-arrange the schedule of principal and interest payments due on the debt outstanding and disbursed. In addition, the rescheduling agreement may include provisions for debt relief to enable the borrower to regain its financial strength to service the rescheduled debt obligations.

Debt Restructuring: is an arrangement between a borrower and a lender to reorganize debts outstanding in case of overdue payments or default by the borrower; invariably involves a rescheduling of debt outstanding together with the over due payments into new loan liabilities; a vital arrangement to restore creditworthiness of the borrower and to revert to current status on loan accounts; restructuring involves: *(see Loan Restructuring)*

- ***extending the maturity*** of the debt outstanding and disbursed into longer term obligations. This may require converting the existing debt obligations into new obligations, like a fresh loan; in effect repayment of the old loan through a new loan, to maintain borrower's creditworthiness and to prevent a formal default on the debt.

- ***deferring debt service payments***, allowing a grace period to enable the borrower to regain its financial strength and improve its cash flow to service the loan.

- ***swaps or conversion*** of long-term debt outstanding into equity shares, a swap arrangement available to major borrowers with sizable assets and potential for substantial business growth.

Thus, debt rescheduling or restructuring arrangements are not book-keeping exercises; rather these are substantial agreements usually between influential borrowers like major corporations or governments, and creditors acting as a group or a syndicate of lenders through protracted negotiations, with a number of conditions and performance clauses, and bridge financing arrangements.

Debt Security: are financial claims against assets of a borrower represented by loan contract providing a security for a loan of a fixed amount that must be repaid, a specific maturity and a predetermined rate of interest or an original purchase discount; debt created through loan type transactions such as commercial paper, bank certificates of deposit, bills, and bonds.

Debt Service: is the mount due from the borrower in periodic payments, annually, semi-annually, quarterly, or monthly, to cover amortization of the principal and interest charge, depending on the agreed terms and conditions; for a single loan, it is a stream of repayments until the debt is paid off; for multiple loans from various sources for a large borrower, debt service is the sum of all repayments due over a defined period, usually the financial year; the interest charge included in the debt service is levied only on the amount of the debt disbursed and outstanding; such as in case of a line of credit, debt service covers interest and principal amount due on the loan amount drawn by the borrower, and a commitment fee on undisbursed portion of the debt if provided for in the loan agreement.

Debt Service Obligations: are the liabilities or the commitments of a borrower with regard to payments of interest and principal amount of debt on a due date.

Debt Service Schedule: is a time-table for the periodic payment of interest and the principal amount due from the borrower on specified dates; a time table for the installment payments of a debt.

Decapitalization: is the erosion of capital due to losses charged to the shareholders' funds in a business company, a corporation, or a bank; while business losses may emerge from various sources for a company or corporation, losses to a bank emerge mainly from bad debts that have to be written off.

Decentralized Decision-Making: is a system of decision making delegated by the senior management to the responsible units of an organization or the officers concerned to speed-up business processes under standard guidelines and within a framework stipulated by senior management; a functional decentralization provides more autonomy of operation to various units of the organization; a geographic decentralization involves creation of relatively autonomous circles or regions, responsible for decision making under standard operating rules, procedures and guidelines.

Declining Balance Depreciation: is a method of accelerated depreciation which rapidly reduces the volume of an asset by allocating largest portion of the cost of an asset to the early years of its useful life, usually adopted to reduce the tax burden by lowering the taxable value of assets.

Deductions for Reserve: is the transfer of a portion of retained earnings into separate reserve accounts which are not available for declaration of dividends.

Default: in banking, it is failure of the borrower to repay principal amount and interest due on the debt outstanding; it is declared after the lender and the borrower have exhausted all possible means to clear the overdue payments and there are no further prospects of repayment, and the only resource left to the lender is to proceed for liquidation of collateral, and if the realized value of collateral is insufficient to cover the amount of overdue payments, then take a loan loss on its balance sheet against shareholders' funds. The default may be caused major losses in the business of the borrower, persistent downturn sales, revenues and income, that is, a genuine default; or the default may be willful, with the intent of defrauding the lender and may have no link with the financial position of the borrower. There are several types of default, some of these are:

- ***loan default*** is the same as above but pertaining to a specific loan; that is, the repayments on a single loan may be overdue, but the borrower may still be current on his other loan obligations and other debts outstanding.
- a ***repayment default*** is the failure of the borrower to make repayments of principal and interest due on dates specified in the loan agreement; at this point the borrower may not be declared in default, but if several repayments accumulate, and are overdue, the borrower may be declared in default.
- a ***contract default*** is the non-compliance of contractual obligations by the parties concerned; these may be obligations, or performance clauses of the contract.
- a ***systemic default*** is the wide- spread default of borrowers affecting the entire banking system.

Default Rate: is the proportion of total debt classified as defaulted debt over a specific period of time.

Default Risk: is the risk that a borrower will not repay the debt outstanding, or the interest and principal due on a loan; same as the credit risk and hence the most important risk in the banking business that needs to be covered primarily through ascertaining the quality of the collateral tendered. In the evaluation of credit-worthiness of the borrower, default risk is the over-riding concern, and is evaluated as a composite of collateral, credit performance history, potential of the line of business of the borrower, financial strength, third party recourse, and other considerations pertinent to the borrower to qualify for the loan.

Defaulter: is a borrower who has failed to repay the loan; a borrower who has not honored the obligations of repayments of principal and interest due on the debt outstanding.

Deferred Tax: arises from timing differences between recognized tax liabilities in a company's accounts and tax liabilities reported to the tax authorities; the tax amount due in one period but deferred for payment in another period.

Deferred Payment: a payment currently due but postponed for an agreed period without causing an overdue or default.

Deficit Financing: is the extra-budgetary finance secured by the government; if government's budget exceeds estimated budget deficit already included in the budget, the government will have to access items beyond the budget to cover the amount of excess deficit, mostly through domestic borrowing from the central bank or from the banking system, usually below the market costs through short-term instruments such as treasury bills and treasury certificates or long-term instruments such as governments bonds. Deficit financing is the major source of increase in money supply and thus a major source of inflation. The central bank, as banker to the government, may extend credit to the government, or to the government agencies or government owned enterprises to fill in their financing gap; since these credits are asset items on the balance sheet of the central bank, these assets provide the backing for bank notes, the currency or the legal tender, the liability of the central bank, promoting the central bank to issue new currency; hence the term deficit financing is usually interpreted as printing money with significant inflationary consequences; to the extent the government borrowing is done from the banking system, and the banks become the holders of treasury bills, certificates or bonds, or advance credit to the government, its agencies or enterprises, the deficit financing may not be entirely inflationary; since it depends how the credit system absorbs deficit financing.

Deflation: is a major downturn in economic activity; a reduction in the level of output, investment, employment, and income; a reduction in business turnover and inventory buildup, reduction in sales and profits, followed by business losses or major reduction in profitability; a stage beyond recession, and may degenerate into a widespread depression, if not countered by effective measures such as lowered Interest rates, cheaper banking credit and easy liquidity, enhanced government expenditures aimed at raising consumer income and spending, thus raising the aggregate level of demand in the economy.

Deflationary Trends: are reflected by leading economic and financial indicators concerning production, employment, income, sales and profitability.

Delegation of Credit Authority: extended by the management of a bank granting authority to approve loans and other credit facilities up to certain limits to credit committees at different levels, or to senior executives incharge of zones, regions, or areas; or to senior mangers; these are usually discretionary powers to grant temporary overdrafts.

Delinquency: on a loan is non-compliance of the borrower to the repayment obligations on a loan and delays in repayments as per agreed schedule of amortization or installment payments; a stage prior to the declaration of default if non-compliance persists.

Delinquency Report: is a periodic report prepared by a bank on the failure of borrowers to meet their commitment in payment of interest and principal amount, or installments due.

Delinquent Borrower: is a borrower with overdue payments of interest and principal amounts due on a loan; a borrower who is in non-compliance to the debt repayment obligations on schedule, thus accumulating arrears on principal amount and interest due; delinquency may be with regard to a loan extended to the borrower, or may be on all debts owed by the borrower; a stage before the borrower may be declared a defaulter by the creditors, if non-compliance persists.

Delinquent Loan: is a nonperforming loan with overdue payments from the borrower; if the delinquency sustains and arrears have accumulated beyond the repayment capacity of the borrower, the delinquent loan may be classified as a defaulted debt, or a problem loan.

Demand for Credit: is demand for loan finance by the borrowers; at the aggregate level, it reflects the total credit required by various types of borrowers at a given structure of interest rates at a specific time period; likewise, demand of loan by a single borrower at given interest rate for borrowed funds.

Demand Deposits: are credit balances in current accounts and chequing accounts of the clients with the banks; usually noninterest bearing deposits for short term, and can be withdrawn or transferred on demand by the depositor; a significant source of loanable funds to the banks at very low costs, though for short periods.

Demand for Money: is the demand for money balances by the general public, businesses and companies; at the aggregate level, it represents the total demand for money balances by households and businesses mainly for transaction purposes as well as cash holdings for anticipated liquidity needs, relative to the level of aggregate income; money balances of households held in cash or cash equivalents for transaction purposes and as store of value.

Demand Loan: is a loan which is repayable whenever required or recalled by the lender prior to maturity date.

Demand Payment: is to claim payment when due, usually by presenting a cheque, a bill or a note to the drawee or to the acceptor.

Denationalization: is to shift state-ownership to private ownership of a state-owned organization, or a company or a bank; a major step taken by the government to divest its ownership and control of various entities.

Deposits: are the amounts held in various types of deposit accounts by banks and other financial institutions such as demand deposits, time or savings deposits; represent the amount of financial savings mobilized as deposits by the banking system mainly form households, and from businesses and companies; are the major source of loanable funds for banks and other lending institutions.

Deposit Certificates: or certificates of deposit (CDs) as they are commonly known, represent specified amount of funds deposited for a predetermined period at a specific rate of interest depending on the maturity.
(see Certificate of Deposits)

Deposit Cheque: is a commercial demand deposit instrument signed by the maker and payable upon presentation to the bank on which it is drawn.

Deposit Demand Account: is the account where the credit balance is payable or transferable on demand by the account holder, such as the current account.

Deposit Expansion: is the increase in total bank deposits as a result of deposit mobilizations efforts; a critical source of expansion of banking business.

Deposit Guarantee Scheme: is an arrangement whereby refund of deposits up to a specified limit is guaranteed in case of bank failure by deposit insurance agency and backed by government; this scheme may cover deposits lodged with the banking system but not the deposits lodged with finance companies or other nonbank financial institutions; this guarantee or backing is provided to bolster confidence of depositors in the banking system, and to prevent a general run on banks in the event of a large bank failure; such guarantee schemes have turned out to be very expensive for governments concerned and are controversial since they may enhance moral hazard inherent in banking business.
(see Deposit Insurance)

Deposit Interest Rates: are interest rates offered by deposit taking institutions including banks and other financial institutions on various types of deposits, mainly based on the maturity or the size of deposits held in a deposit account as a minimum required balance.

Deposit Institutions: are financial institutions authorized to collect deposits such as a commercial bank or a savings bank; also called deposit money banks; these institutions have to comply with reporting, regulatory and supervisory requirements, since they are dealing with public funds and public trust, and are answerable to a regulatory authority or the central bank; for these reasons, finance companies or other nonbank financial institutions are not classified as deposit institution.

Deposit Insurance: usually it is a government-backed insurance scheme, such as in the US, or the UK and elsewhere which in exchange for premia paid by banks, guarantees that the banks' depositors will receive cash for their deposits, up to a specified limit in the event the bank fails.

Deposit Insurance Fund: a fund generated by premia paid by banks under the deposit insurance scheme.

Deposit Liabilities: are the largest part of a bank's liabilities which consists of deposit of bank's customers in current, savings or term deposit accounts; or deposit instruments issued by the bank, such as the CDs, and held by depositors.

Deposit like Liabilities: are temporary liabilities of a bank in the shape of demand drafts, mail transfers, pay orders, payable accounts and cash margins held on account of L/Cs and guarantees issued.

Deposit Mobilization: efforts made by banks and other deposit taking institutions to mobilize financial savings of households into deposits; to encourage savers to lodge their savings into deposits of various types; to increase the deposit base of the banks and deposit taking institutions.

Deposit Money Banks: are those banks allowed to take deposits; or deposit taking banking institutions properly authorized to accept deposit as against other nonbanking deposit institutions; the reason is that the largest part of deposits are held by deposit money banks and they are a central part of the system of monetary control of the control bank regarding ,growth of money and credit based on the credit growth, effectiveness of liquidity and reserve requirements calibrated on the deposit base, and demand management objectives; since the control of aggregate monetary magnitudes is primarily conducted through deposit money banks, their operations are critical to the success or failure of monetary policies.

Depositor: a person, a business organization or a company who places cash, cheques, or drafts for credit to a deposit account with a bank.

Depository, (securities): is an institution where securities are deposited for safekeeping and verification of ownership to assist with the settlement of transactions in securities market. It is a vital function requiring prompt and verifiable response for the payment and settlement of securities transactions.

Depreciation.: is the reduction in the current market value of machinery, equipment or a fixed asset over a defined period of time through usage or obsolescence; it is the amount allocated to cover the depreciable cost of an asset over the accounting periods during the asset's useful life; it is also a decline in the value of a currency relative to other currencies; a devaluation of a currency.*(see Devaluation)*

Deregulation: refers to the withdrawal of laws, rules, regulations, directives and orders governing the operations of financial institutions, companies, businesses, corporations, and individuals.

Desperate Management: is usually resorted to when an organization is making frantic efforts to avoid major losses or imminent bankruptcy; may lead to very risky or even reckless activities and decisions not normally taken by a prudent and responsible management in normal times.

Devaluation: is the depreciation in the value of domestic currency relative to a hard currency caused by host of adverse economic and financial trends; leading to an increase in the cost of imports and servicing of foreign debt in terms of domestic currency and a re-alignment of domestic prices relative to foreign prices; if devaluation is significant it is usually accompanied by domestic inflation.

Developing Countries: a large group of low-income countries, classified mainly on the basis of the per capita GNP of less than $1000 per year.

Development Bank: a bank whose main business is to provide development finance on long-term basis; a banking institution established under its special charter to provide long term loan finance for development purposes.
(see Development Finance Institutions)

Development Finance: are financial resources made available to promote economic development consisting mainly of medium to long-term credits on easier terms and conditions usually not available to the borrowers from the banking system, and largely provided by financial institutions specially established for this purpose; thus containing a grant or subsidy element in the cost of borrowing; lenient collateral requirements and easier access to borrowing facilities, hence cheaper to borrowers; preferential treatment accorded to the borrowers through a system of direct credit stipulating allocation of credit to designated priority sectors like agriculture, manufacturing, and exports, and targeted segments of borrowers, such as SMEs and strategic enterprises. *(see Directed Credit)*

Development Finance Institutions (DFIs).: are specialized financial institutions engaged in providing for credit needs of development finance to the borrowers of designated sectors like agriculture, manufacturing, mining, housing and construction, consisting mainly of long-term loan for investment, or initial capital needs inclusive of working capital; these DFIs may also provide equity finance thus becoming shareholders, and may offer assistance and technical advice to their borrowers not available from elsewhere since they specialize in lending to the borrowers of a particular sector; these DFIs are the main vehicle for delivering directed credit and are required to adhere to development objectives as stipulated by the government; they are established and chartered under their own laws; and they function like bank on the lending side, but are not normally allowed to collect deposits to generate loanable funds; their credit terms and conditions may or may not be market based; their loan evaluation procedures and collateral requirements may not be as strict as those of banks; DFIs are not formally supervised or regulated by the central bank, though they follow the credit guidelines, rules and regulations stipulated for these purposes.
(see Specialized Financial Institutions)

Dilution of Common Stock: occurs when proportional share of a shareholder in a company is reduced by the issue and sale of additional common stocks to other investors.

Direct Costs: represent expenses and charges that can be identified specifically with a product or service; expenses that can be directly imputed to a line of business specifically incurred to facilitate a single business operation; in contrast with indirect costs which are expenses that can only be partially imputed to a business; expenses that may not have multiple objectives and uses.

Direct Investment Risks: are investor risks of failure of the business venture caused by unanticipated market trends, business slump, adverse technical and financial development, management failure or weaknesses, adverse changes in rules and regulations affecting business operations; are associated with the type of business being invested in such as trading and distribution, manufacturing, transport and communications and real estate. *(see Investment Risk)*

Direct Loan: is a loan extended directly to a borrower without the involvement of a third party, an intermediary, or a broker, on mutually agreed terms of the loan.

Direct Placement: in securities market operations, direct placement is to sell a new issue to institutional investors on pre-agreed or negotiated prices, prior to offering the new issue for sale to the general public.

Direct Paper: is a commercial paper sold directly by the issuer to investors without the aid of brokers and dealers.

Direct Secured Installment Loans: an installment loan extended directly, without any intermediary and where the installments are secured by collateral, or by a regular income or revenue, or against a guarantee for timely payment of installments.

Directed Credit System: is a system of credit allocation by government or central bank through a set of rules, regulations, requirements and directives in several layers, governing the extension of credit by the banking system and the DFIs to designated priority borrowers as follows:

- at the ***country level,*** credit allocation is broadly specified for the private sector and the public sector, including government and public sector enterprises.
- at the ***sectoral level,*** allocation of the banking credit is specified by the central bank for a given period for major sectors like agriculture, industry, and services which the banks have to adhere to in their lending business; that is, banks can not exceed the credit limits stipulated for a sector and lend to the borrowers of that sector regardless of their performance or needs.
- at the ***sub-sectoral level,*** allocation of banking credit is specified for sub-sectors stipulating credit targets that have to be met by the banks to the borrowers of sub sectors, such as farmers and agro-industries, manufacturing, housing, trade finance and services.
- at the ***micro-level,*** credit allocation for priority groups of borrowers such as exporters and SMEs is stipulated as credit targets that banks need to fulfill in their lending activities.

The terms of directed credit to the priority sectors are generally softer than market terms containing a subsidy element to provide assistance and to foster growth. The system is implemented and monitored by the central bank and a set of penalties and restrictions are specified for no-compliance.

Directed Credit Program.: of the banks are drawn up to ensure that directed credit targets for the priority sectors or priority borrowers are achieved in accordance with the targets and ceilings specified in the annual monetary and credit program as issued by the central bank at the time of federal budget.

Directors' Report: a report required to be attached to a company's annual accounts concerning the finances and general activities of the company during the preceding financial year and stating the amount, if any, which they recommend should be paid as dividends and the amount to be placed as reserves.

Disburse, Credit Loan: payments to the borrower by the lender as per draw-down requests of the borrower from an approved loan, or from a pre-approved line of credit. The disbursed amount is added to the principal amount due on the loan, less any repayments to determine debt outstanding and disbursed (DOD).

Disbursements: are draw downs from an approved line of credit or a loan; are payment of proceeds of a loan to the borrower; also, disbursement of funds from an account in case of draw downs by the account holder; payments as per instructions of the authorized party.

Disciplinary Systems: in personnel management, the system of disciplinary actions that may be taken in cases of contravention of the service or employment rules of the organization or in case of any wrong doing by the staff members.

Disclosed: is revealed information; in banking or financial transactions, disclosure of financial status, concerning.

- ***amounts,*** are sums disclosed in money terms.
- ***arrears,*** are disclosure of sums remaining unpaid or payments due.
- ***reserves*****,** are amounts set aside as reserves and disclosed on the balance sheet, as against hidden reserves not disclosed in the financial statements. *(see Reserves)*

Disclosure: is to provide financial information not usually included in the accounts or the financial statements, as stipulated by disclosure requirements, and in accordance with disclosure procedures; to provide information about a customer's banking transactions as permitted by law and with the consent of customer, or if in national interest.

Disclosure Regulations and Requirements: a set of rules, regulations and requirements to be complied with by the banks as stipulated by regulatory and banking supervision authority or the central bank, concerning capital adequacy; liquidity; reserves; problem loans and loan losses; provisioning for loan losses; loan loss reserves; and

- information for ***financial transactions*** not included in banks' balance sheets and financial statements, such as hidden reserves, off-balance sheet activities, cross-guarantees, and subsidiary business to determine the overall financial status and health of the bank.

- information regarding the ***status and quality of loan portfolio*** that cannot be obtained from the financial statements such as over-due payments, arrears, delinquencies and default, revolving commitments to nonperforming borrowers, and detailed information regarding nonperforming loans to determine the financial health and solvency of the bank concerned. These disclosure requirements are an essential part of the banking supervision and regulation mechanism.

Discount: is a reduction in the nominal value of a financial instrument by the amount or the percentage of discount applied to a period of time; ***discount*** may be interpreted as:

- the difference between cash value and the force value of accepted usuance bill of exchange; discount lowers than the face value, the difference being the discount, or the implied market rate of interest;
- the difference between face value and par value, or redemption value at maturity of a security like a treasury bill, or a bond, and its current market value, difference being the discount, the margin paid by the seller and is equivalent to an interest rate if market value is lower than face value or par value;
- forward margin applied to currency in foreign exchange market, lowering its value in forwards market relative to its value in spot market in terms of another currency;
- a price differential or the margin offered by a trader as an incentive for cash purchase against a credit purchase, cash price being lower;
- a deep discount on price offered by seller to reduce his inventory on stocks, called clearance sale price as against regular market price.

Discounting: is to apply a discount to the stream of income or cash flow generated by an investment or a business activity; a pricing method of dated financial instruments; for example:

- a method of calculating present value (PV) of a stream of future cash flows over a defined period and for a given rate of discount; also called the discounted value of future cash flows. (see Present Value)
- a procedure of issuing treasury bills and treasury certificates at a price lower than the par value or the face value, the differential being the discount equivalent to short-term market interest rate.

Discount, credit: credit extended to the holder of government securities and promissory notes through discounting of:

- ***Government Securities:*** credit advanced by discounting approved government securities and treasury bills held by the borrower, where repayment of principal and interest is guaranteed by the government; the amount of interest chargeable for the agreed duration is deducted from the face value of government securities at the time of discounting.
- ***Promissory Notes:*** credit advanced to the holder through discounting of promissory notes issued by the government treasury, and the amount of interest from date of advance to date of repayment is deducted at the time of discounting; promissory notes of private parties are not discounted.

Discount Price: represents a reduction in the market price or sale price of an item; discount may be offered by the seller for various reasons such as to lower inventory stocks or to capture a greater market share.

Discount Rate: is the rate of discount applied to future stream of receipts or payments to calculate the present value (PV) of the cash flow; the discount rate is used as proxy to the anticipated rate of inflation to determine PV, or a proxy to market rate of interest; in Economics, discount rate represents the value of time preference between consumption and savings.

Discount Window: is the rediscount facility provided by central bank to dealer banks or agent banks for treasury bills or treasury certificates involving their repurchase at a discount; the holders of treasury bills; banks avail this facility to shore-up their liquidity levels; the rediscount rate is a cost differential for obtaining liquidity as needed.

Discounted Value: is the present value of future returns, or a stream of income or cash inflow from an investment, a project, or a business activity discounted by an appropriate discount rate. *(see Present Value)*

Dishonor: in finance, dishonor is the failure to meet a financial commitment or an obligation, such as non acceptance of a cheque, or a bill on presentation, or non-payment of an accepted bill at maturity.

Disincentives: a range of financial costs or administrative barriers discouraging financial or business activities; in business, financial costs or penalties involved in an activity or line of business to discourage companies and businesses to undertake those activities; in banking, it may be a premium added to the cost of borrowing to discourage borrowers, or may be an addition to the cost of funds thus reducing banking margin to discourage bank lending.

Disintermediation: a reduction in the turnover of the banking institutions; a reduction in deposit mobilization activities of the banks, and a concurrent reduction in their lending activities, caused by a host of factors; a shift in the flow of financial resources away from banks to nonbank financial institutions because of increased financial repression, or an increase in banking risks and losses, measured by a net reduction in banking assets, the loans outstanding, followed by a reduction in their deposit base. *(see Financial Repression, Financial Intermediation)*

Distortions *(financial)*: there are several interpretations of this term; in banking and finance at the aggregate level, distortions occur when interventions prevent market forces to prevail, thus compromising the optimal mobilization and use of financial resources; distortions may be rooted in the interest rate structure, specially in the deposit rates; or distortions may exist in the credit system as in the case of directed credit; or distortions may be embedded in the legal and regulatory framework; or distortions may exist in the system of licensing and entry, insolvency, bankruptcy and exit; or distortions may be in the functioning of financial markets, including access and degrees of openness and competition.

Distressed Bank or Financial Institution: severe financial difficulties being faced by a bank or financial institution rooted mainly in its loan portfolio with a preponderance of defaulted or unrecoverable debts; the bank or the financial institution may be showing positive net income and profits, or even may be distributing dividends to its shareholders, based on accrued income, but effectively it is facing a major build-up of arrears due from borrowers on loan repayments, and is experiencing a liquidity crunch that cannot be overcome from recourse to routine liquidity sources; in this sense, financial distress is interpreted as acute illiquidity, and if allowed to persist, it may degenerate into acute distress, synonymous to insolvency, thus endangering the survival of the bank or financial institution.

Distribution of Income: in finance it is sharing of income or profits amongst those entitled to it; payment of dividends by a company to its shareholders; in economics it refers to the structure of income distribution classified by various income groups and the level of their income in a given period.

Diversification: is spreading out over a range of business, financial, banking, or investment activities; or branching out in several lines of related activities instead of concentrating on a single line of activity; a strategic management technique to reduce risks, increase returns, and to cope with unpredictable adverse business developments; a diversified bank or business has better chances of survival, is more resilient to face financial pressure and losses.

- ***of Loan Portfolio*** is undertaken by banks to improve the overall quality of their loan portfolio; to minimize the default risk by spreading their lending activities over a range of borrowers engaged in diversified businesses; to enhance interest income through diversified loan instruments carrying a range of interest and fee charges; improve the maturity structure of loan portfolio and bring it in line with their deposit liabilities; and, to spread the burden of arrears and amounts due as repayments over the entire portfolio. Such a diversified loan portfolio enhances the financial strength of the bank.
- ***of Asset or Investment Portfolio*** is undertaken by asset holders or investors to reduce their portfolio risk and enhance returns; a strategic risk management technique adopted by portfolio managers involving investments in a range of activities through balancing the exposure to a range of risks on various types of assets and investments that may consists of stocks and shares of a range of corporations across various sectors; financial instruments of various classes of quality, maturity, interest rates; fixed assets such as real estate, plant machinery and equipment; market diversification in case of a globalised asset portfolio.
- ***of Risks*** in lending, investment and business activities, diversification is to spread the borrower exposure, sectoral coverage, or business operations over a wider range of activities to minimize the risk of loss.

Diversified Financial and Banking Systems: means the existence of a broad range of financial and banking institutions offering diversified financial resources and services to the depositors and borrowers; savers, asset holders and investors; consisting of commercial banks, investment banks, specialized banks; quasi-banking institutions such as finance companies functioning in a well-defined market niche and offering bank like services; nonbank financial institutions such as insurance companies, pension funds and social security system providing a mechanism for contractual savings while covering risks and providing compensations. *(see Banking System, Financial System)*

Divestiture, in the private sector; means separation of ownership and relinquishing of control of a line of business or a subsidiary, company by the parent corporation or the holding company; if divestiture is done voluntarily, the usual purpose is to consolidate business operations of the holding company which may have spread far beyond its mainline business, thereby tying up valuable resources, and exposing the holding company corporation to business risks that it may not be able to cope with in times of adversity; divestiture may be involuntary as a result of anti-monopoly ruling of a court, ordering the holding company to break-up its company into separate units and divest its ownership so as to allow healthy business competition to develop in the industry as a whole;

in either case, the parent company may sell-off the line of the business altogether and thus completely divest itself from it; or the parent company may spin-off the business into a new business company in partial divestiture, thereby retaining an effective presence in the ownership and management of divested unit to satisfy the anti-monopoly regulators or to improve its equity base.

Divestiture, in the public sector; involving government ownership of companies or enterprises means privatization in part or in full, depending on the objectives of privatization and the market position of the unit to be privatized; often privatization involves divestiture of loss making units, the primary objective being elimination of government support or subsidy and to stop the financial drain on the treasury.

Dividend: is the return to shareholders on their investment in shares of a company or a business; the portion of the net profits declared by the board of directors for distribution as dividend to share holders.

Dividend Payout Ratio: is the ratio of dividends per share to earnings per share in a given year; since dividends per share distributed by a company in a given year may be less than earnings per share owing to retained profits or reserve build-up, therefore the dividend payout ratio is normally a fraction, or a percentage. *(see Ratios, Market Ratios)*

Dividend Payment: the amount paid as dividends to the shareholders of a company after the dividends have been declared at the close of financial year.

Dividend Policy: a policy adopted by a company as part of its capital budgeting strategy and protection of market capitalization; companies that choose to pay dividends on a continuing basis establish a dividend policy based on various considerations, the prime consideration being protection of the market value of company stock outstanding and thus maintain the market capitalization level; blending various types of claims on profits declared by the company in a given year, such as use of retained earnings for long term financing requirements instead of borrowings or issue of additional stocks or bonds; or to improve the capital structure; maintain shareholder's dividend expectations; and conform to legal constraints and requirements.

Dividend Target: is the level of dividend to be declared by a limited company in a given reporting period; to declare a predetermined and a specific rate of dividend.

Dividend Yield Ratio: is the ratio of dividends per share to price per share; indicating the market valuation embedded in stock price, and income performance or earnings distributed as dividends. *(see Ratios, Market Ratios)*

Divisible Credit: is a transferable credit which permits partial draw drowns enabling the first beneficiary to request transfer of part of the transferable credit to two or more beneficiaries.

Documentary Credit: an undertaking by a bank to an exporter assuring him of payment provided stipulated documents are presented and the terms and conditions of the credit have been compiled with. *(see Trade Financing)*

Domestic Credit: domestic credit denominated in domestic currency and payable in domestic currency, extended by the domestic banks whether locally owned, or owned by foreign bank branches operating in the country.

Domestic Demand: demand originating within a country; at the aggregate level, it is the sum of consumption, investment, government demand and the net of foreign demand; at the micro level, and for a single item, it is the amount or the quantity of an item that would be sought at different prices within a country.

Domestic Financial Assets: are claims against income or wealth of a business firm, household or unit of government, generated within a country such as stocks, bonds, deposits held in banks.

Domestic Interest Rates: interest rates prevailing within a country on various types of deposits and loans; in contrast to foreign interest rates of similar type representing currency differentials and financial and economic trends.

Domestic Price Level: an economic term, referring to the average level of domestic prices prevailing at a point in time, a month or a year; measured in terms of a price index such as the CPI or the wholesale price index, to determine fluctuations in the price level overtime.

Domestic Saving: is the aggregate amount of savings generated within a country by the household sector, the business sector and the government sector.

Double-Entry Book-Keeping: a system of accounting and book-keeping where each business transaction is recorded and matched by equal amounts through debit and credit entries.

Doubtful Assets, Loans: are those assets that may not yield the income or the return expected by the asset holder; or their realizable market value is substantially less than the stated or face value; doubtful loans are nonperforming loans in the portfolio of a bank where repayments are overdue by more than one year on short term loans and more than two years on long term loans.
(see Classification of Loans)

Downstream Participation Loan: is funding a portion of total loan amount by a bank participating in a syndicated loan; in a large loan, if a group of banks join together to finance the loan, a portion of the overall financing package may then be bought by a smaller bank pursuant to a participation agreement, who provides loan finances from its own resources.

Draft: a bill of exchange payable on demand, usually drawn by one bank on another or by one branch on another; a popular means of transfer of funds.

Draw, draw-down: is to withdraw funds from an account or from a line of credit; to demand payment of funds from a bank account by cheque or write a bill of exchange.

Drawee: an account holder, a company, or a person who may draw down funds through written instructions for stated purposes.

Dual Convertibility: is the existence of two parallel systems of convertibility of the local currency into foreign currencies in a country; this system is slowly disappearing as has happened in Pakistan.

Due to Central Bank: amounts borrowed and due to central bank; borrowings by a bank from the central bank may be done to meet shortfall in clearing funds; also funds provided to banks by the central bank under re-financing arrangements, or under rediscounting facilities to discount customers' trade financing bills.

Due Diligence: in the business of banking, ***due diligence*** is a well defined procedure in the rule books that must be adhere to and meticulously followed by bankers to determine the bona fides of their clients, particularly their borrowers, their business, financial background, business strength and financial performance before executing any financial or contractual agreement; a similar procedure is followed by regulatory authorities concerning financial institutions before authorizing their entry and subsequently before approving their financial business.

Duration: is an alternative measure of maturity of an interest bearing security based on the periodic interest payments; or the measure of a bond's maturity based on coupon payments; or the weighted maturity based on both coupon and principal payments.