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Objective Rating System: a system of evaluation, ranking, and classification based on objective, transparent and measurable criteria of performance, profitability, risks and returns concerning securities and assets, finance, and banking operations. (*see Rating System*)

Obligation - Financial: an undertaking or a commitment entered into as a contractual agreement requiring payment of a sum of money; or arising out of a transaction, a business deal, or a performance promise, such as repayment on a loan; payments arising from sale or purchase transactions; contractual payments; interest and dividends payments and repayments of principal; contingent obligations implicit in certain activities or events.

Obligation - Statutory: an obligation to pay money, or perform certain acts, or discharge certain duties which is created by or arises out of a statute; as distinguished from those arising from transactions between parties or based on contractual relationships.

Occupancy Expenses: expenses incurred by a business for accommodation used for its offices, shops, factories or warehouses, inclusive of rent if accommodation is rented; and depreciation if it is self-owned plus local taxes, insurance and municipal charges.

Off-Balance Sheet Activities.: for a banking institution, financial counterparts of these activities are not included in the balance sheet of the bank, because they may not involve bank's asset; but they may incur major contingent financial obligations and may also carry substantial risk; these activities include items such as general guarantees of indebtedness including standby letters of credit

tendered as financial guarantee, and acceptances; transaction related contingent items like performance bonds, bid bonds; self liquidating trade-related contingencies like documentary L/C; sale and repurchase agreements and asset sales with recourse; forward asset purchases and deposits; note issuance and revolving underwriting facilities.

Off-Balance Sheet:

- **Liabilities:** for banks, these are financial commitments extended or accepted arising out of their business activities but not reported in the balance sheet because these are not acceptable routine banking operations, but may be needed to facilitate or finalize banking transactions; these include items like third party general guarantees of indebtedness extended to their established clients; or hedging activities for portfolio risk management such as swaps and options for various types of interest rate exposures, or currency market exposures.
- **Conversion Factors:** are ratios applied to determine the credit equivalents based on the credit risk or exposure to determine capital adequacy of a bank; most of these items such as standby letter of credit, sale and repurchase agreement, underwriting agreements, interest rate swaps or Repo agreements, have 100 per cent or full credit equivalence, whereas transaction related contingent items have 50 per cent and self-liquidating trade-related contingencies have 20 per cent credit equivalence.
- **Finance:** for a banking institution those items of finance that are not recorded on the balance sheet of the bank even though they may be sizable and involve major implications for overall financing, balance and liquidity.
- **Guarantee:** the liability of a company incurred by issuing a guarantee which is not reported in the balance sheet but may involve future payment for a claim against the guarantee.
- **Income:** commission, fee or charges derived from off-balance sheet items.
- **Operations:** transactions or activities of a company in relation to off-balance sheet items which are not reflected in the balance sheet; for example, underwriting arrangement, issuance of standby credit and counter trade.
- **Risks:** risks in banking or business which are not reflected in the balance sheet because these risks are associated with off-balance sheet activities such as currency transactions; their exclusion however, is in contravention of sound banking practices because it does not mitigate the overall risks faced by a financial institution.

Off-Premises Banking: these are retail banking services provided by a bank away from its main office or its branches, ordinarily through automated teller machines (ATMs) at stores, shopping centers, corporate offices; off-premises banking is often delivered through self-service automated branches or shared ATM network.

Off-Site Bank Examination: (*see Bank Examination*)

Off-Site Supervisor: an official of the central bank who supervises the activities of a bank from a place other than its place of business; an official who is given an authority to supervise the work done by others from his own place; an authority, office or a group of persons responsible for supervising the operations of a business or bank from places other than the premises of the business or bank itself.

Off-Site Surveillance: of a banking institution is maintained or conducted by bank examiners and supervisors at their offices rather than at the bank's premises, based on regular financial reports submitted by the bank as required covering its financial position; for example, the status of nonperforming loans, default and treatment of bad loans, loan loss provisioning levels, reserves and liquidity, management actions and compliance with banking rules and regulations, interest rate risks inherent in asset-liability structure, and off-balance sheet activities; this off-site surveillance may be done routinely, or it may be a part of an early warning mechanism of the central bank to maintain a constant watch over the health of the banking system especially in the case of ailing banks facing massive loan losses and imminent insolvency.

Offer Price: in securities market transactions, offer price is the sale price of a security or an asset being asked by the seller or the owner; in contrast, the purchase price of a security or asset that a buyer is willing to pay is called bid price; the difference between offer price and bid price is dealers' commission in the transaction and is called dealers' spread; in over-the-counter market these prices are called dealers' quote, or quoted prices.

Offshore: banks, businesses or individuals whose operations or branches are located outside the home country at an offshore site, which may offer substantial tax holidays, or easier rules and regulations on international transactions; minimal scrutiny and reporting requirements; minimal requirements for incorporation, capitalization and origin verifications; modern facilities for business operations; security and safeguards to protect confidentiality of transactions; originally off-shore activities began with individual businesses moving their operations to "tax heavens" at offshore site, and were subsequently joined by major financial institutions who established their branches or subsidiaries thereby boosting the size of offshore business in currencies and financial assets.

Offshore Banking Activities: are activities of overseas banking units of non-resident foreign banks in currencies other than the local currency; some countries allow such units to operate in foreign currencies only to encourage the inflow of foreign funds in the country, or to avoid competition with the local banks for local currency operations; regular branches of foreign banks are, however, usually allowed to offer all banking services to their customers in foreign as well as local currency, including deposit taking, lending and other routine banking services.

Offshore Financial Markets: are banking and financial centers outside the home country, located in a few European enclaves, the Caribbean islands, or the Asian centers like Singapore and Hong Kong, where international banking and financial transactions are conducted in Eurocurrencies or financial assets, to take advantage of favorable tax treatment; such markets may also be in an on-shore independent state, allowing international transactions in an enclave, free from local rules and regulations for international financial transactions or trading in off-shore currencies.

Offshore Funds: as financial institutions, these include investment banks and companies, mutual funds or unit trusts, subsidiaries of major international financial institutions and brokerage houses engaged in investment financing, and global transactions in securities markets; as a type or source of international finance, it means raising finance or funding at offshore sites; also means origination of finance at major offshore financial centers.

On-Site Examination, Businesses: inspection of stocks, merchandise, landed property or financial record at the location or premises of the company in order to ascertain the quality, quantity and valuation of the assets of the company; it also includes scrutiny of records, documents, vouchers at the place of business or the company.

On-Site Bank Examination: (*see Bank Examination*)

Open Line of Credit: a credit facility available to qualified borrowers to obtain loan funds in amount as and when needed and on pre-agreed terms and conditions; similar to overdraft facility except that a limit on total amount of credit or a ceiling on the facility is specified for each borrower to be availed within a certain time period. (*see Line of Credit*)

Open Capital Account: in the context of balance of payments, it means inflows and outflows of foreign capital without undue restrictions on the mechanisms and magnitudes though with some restrictions to prevent speculative, illegal or destabilizing transfers; these flows mainly originate in the private sector and are conducted through financial markets and banks such as multinational banks; these flows are properly recorded and reported to the authorities concerned, such as the central bank, securities and exchange commission, or other regulatory agencies overseeing foreign investment activities; fully open capital accounts typically countries with strong balance of payments position, which in turn depends on the strength of the domestic economy internally as well as its strength in international markets with stable export performance, thereby providing the structural economic and financial base to sustain and absorb the impact of capital inflows and outflows.

Open Market Operations: are conducted by the central bank involving purchase or sale of government securities, mainly treasury bills or treasury certificates primarily to regulate and control banking liquidity, reserves and interest rates, affecting cost of banking credit in line with monetary policy objectives; in this sense, open market operations, are used as powerful monetary control instruments involving purchase of government securities and rediscounting of treasury bills, which increases banking system liquidity, reserves of banking system, and thus banking credit; while the sale of these securities, often accompanied by an increase in discount rate, reduces banking system liquidity and reserves and thus reduces supply of banking credit and increases cost of borrowing to the public by the increase in discount rate and the interest rate structure; or to fund government's borrowing needs or to finance budget deficits.

Open Market Rates: are short term money market rates, such as the discount rate of a central bank for treasury bills or treasury certificates; rates for bankers' acceptances; short term deposit rates; inter-bank or call money rates; rates on negotiable certificates of deposits; and rates on short term financial instruments that have secondary markets.

Open-End Investment Fund: is an investment company, an investment trust in Britain also in Pakistan, or a mutual fund in USA, also in Pakistan where new investment is restricted and terms of participation are the same for all investors alike, old or new; that is, number of shares of the fund is not fixed; instead fund is open to new investors who can buy new shares at market price; the fund can sell new or additional shares and is ready to buy back shares outstanding. This continuous purchase or repurchase of funds' share is done at market price called net asset value per share, calculated daily at the close of trading day on the stock market where these shares are listed and traded.

(see *Closed-End Investment Funds*)

Operating Costs: are costs incurred by a company in its routine or regular business operations; include production, manufacturing and sales costs, together with administrative costs.

Operating Efficiency: in banking it implies expediency in rendering quality service to customers and clients, and performing routine banking activities at par or better than industry standards and at costs that are relatively in line with industry costs as measured by costs of deposit mobilization, cost of funds, costs of lending activities; also as indicated by profitability and return on equity.

Operating Expenses: routine expenses of running a business such as cost of production, sales, and overhead costs.

Operating Income: is revenue from normal business activities of a company less cost of sales and related operating expenses; however, income derived from investments and other financial activities is not included in operating income.

Operating Lease: lease written for a period shorter than the economic life of leased assets generally by equipment manufacturers who are expected to take back the equipment and re-lease it to other users; both commercial banks and leasing companies may write operating leases and such leases are generally cancelable at the option of lessee.

Operating Liquidity: availability of cash amount or near cash assets readily convertible into cash to finance normal business activities; a company is liquid if it has sufficient cash or other liquid resources to meet its short term liabilities when they are due.

Operating Procedures: are standard procedures or established routines and practices in a business operations as specified by the management and to be followed and adhered to by the staff of the company or the business and recorded in Operations Manual or Directives; in banking, operating procedures concern routine banking transactions, receipt and payments; account management and records of customers deposit amounts; loan origination, evaluation approval, disbursement and loan monitoring; safeguard and cross checks.

Operating Profit (Loss): amount by which the revenue from operations of a business exceed the cost of sales or services performed plus operating expenses for a given period; in case the cost of sales plus operating expenses are more than the operating income then it would be an operating loss.

Operating Profit Margin Ratio: is the ratio of earnings before taxes and interest (EBIT) to sales; it is a measure of operating profit per rupee of sales and is an indicator of operating leverage available to the firm in its business. (see *Ratios, Profitability Ratios*)

Operating Risk:

- **for a business** it is the risk of a breakdown of machinery, plant or equipment, interruption of supply of raw materials, energy and power facilities; labor disputes, strikes or walkouts; interruption or breakdown of transport and communication facilities.
- **for a bank:** operating risks are short term illiquidity; unexpected and sudden adverse movement of market interest rates; financial or economic downturn; adverse movements in the foreign exchange markets, if the bank is exposed to foreign currency positions; adverse sectoral trends if the bank is concentrated in a few sectors.

Operational Controls: the systematic and built-in checks and controls in the operations of a business for the purpose of ensuring correct and acceptable course of actions taken in accordance with the procedural guidelines, official instructions and local laws; also, to avoid mistakes and ensure safeguard against frauds and forgeries.

Option: is a contract giving the asset holder the right but not the obligation to sell or buy an asset at an agreed price called strike price or exercise price over a short period in future which is of critical importance in the contract; if the contract stipulates a fixed date for transaction in future, it is a European Style option; if the transaction can be done a number of times in future over the contract period it is Bermuda Style option; if the time of transaction is chosen by the holder up to maturity date of the contract, it is an American Style option. In securities market, this contract could be a call option or a put option as below.

- in a **call option**, buyer of option acquires the right to buy shares from a seller for a premium over the contract period at an agreed price, the strike price, usually in anticipation that market price of the stock will increase and will be higher than the strike price. If indeed it does, buyers' gain is the excess of market price over strike price less premium paid to the seller, thus generating a substantial gain since the buyer's exposure is limited to the premium paid. That is, if market price does not exceed strike price, loss to the buyer is the amount of premium paid, and even that may not be the full amount if position is closed before expiration of the contract. This transaction represents an open position for both; in this case buyer is going long, while seller is going short, and these positions remain open until the time contract

is exercised or expires, thus closing open position for both the parties. For the seller, by going short through call option, the gain is the premium received, and this open position is acquired in the anticipation that market price of the stock will not increase and reach strike price or exceed the strike price, or the option may not be exercised by the buyer in time; that is, it may expires before any price movement occurs. Even if it does, seller's gain is the premium plus increase in the market price up to the strike price, over and above the original cost of the stock in seller's portfolio, if and only if it is a covered call option that is seller already owns the stocks. If seller does not hold the stocks and has issued an uncovered call option, then seller is exposed to tremendous risks, because seller will have to buy and deliver the stock at market price in excess of strike price in case option is exercised by the buyer during the contract period and *before* the expiry date.

- **a put option**, is opposite of call option; it is a contract for a specific period of few months granting the buyer, for a premium paid, the right to sell a stock at an agreed price, usually in the anticipation that market price of the stock will decline and may be lower than the strike price before option contract expires. If it does, buyer's gain is the excess of strike price over market price of the stock, fewer premiums paid to acquire the option. This option is attractive to the buyers who acquired the stocks beforehand, but now anticipate a decline in its price, and want to limit their loss exposure, especially if the strike price is equal to or lower than their original cost of acquisition. But for the seller, the risk is significant, because if indeed market price does decline below strike price, seller may have to buy the stock at strike price higher than market price, less premium received for selling the option contract provided buyer exercises the option within contract period.

Organizational Structure: in a business organization, it is the defined formal hierarchy for management, decision-making, reporting and control, and establishing accountability and responsibility; the structure defines the line of authority and specifies who is answerable for what and to whom for business operations and performance of the organisation; the structure is based on the functions of the organization and its business, segmented into departments but interlinked in the chain of production processes before it becomes final product for the end users; thus output of a firm is the amount of goods produced or manufactured by the firm, or services rendered if it is a service company; hence, from the point of view of a producer or a manufacturer, output is the item produced for sale to others regardless whether its output is used as input by others or is treated as final product by end-users or consumers.

Outputs: for a producer or a firm, its output is the final product for sale and delivery to end users for consumption, or for sale to other companies who may use it as their input depending on their positioning the chain of production processes before it becomes final product for the end users; thus output of a firm is the amount of goods produced or manufactured by the firm, or services rendered if it is a service company; hence, from the point of view of a producer or a manufacturer, output is the item produced for sale to others regardless whether its output is used as input by others or is treated as final product by end-users or consumers.

Outstanding Balance: on an account, it is the amount available to the account; on a loan, it is the amount of principal to be repaid; on an obligation, it is the liability to be cleared, or the payment to be made; on dues, it is the amount to be collected for those responsible for payments on dues.

Outstanding Cheque: a cheque issued by the account holder but not yet presented to the drawee bank for payment.

Over the Counter Market (OTC): a large network of market makers, dealers and brokers engaged in trading securities in the secondary market such as government and corporate bonds and stocks on behalf of their customers or for themselves through electronic media computers and telephone, instead of trading on the floor of a stock exchange; the OTC market is thus dispersed all over instead of being concentrated at a single location. In developed countries the OTC market is fairly large and growing and its trading volume is larger than many stock exchanges, thus offering a stiff competition to organized exchanges in major cities.

Over-The-Counter (OTC) Trade of Treasury Bills: direct sale or purchase of treasury bills among the holders, or at the central bank, or at the Treasury.

Over borrowing: borrowing in excess of requirements or exceeding debt servicing capacity; for example, businesses over borrow if they anticipate cost of loan to increase in future, or if they anticipate shortage of liquidity over their business cycle; governments over borrow to meet their unanticipated budget deficits or expenditure over-runs; individuals may over borrow to meet unanticipated expenses or excess consumer spending.

Overdrafts (OD): a line of credit pre-approved by a bank to an account holder up to a designated limit on short term interest rates, allowing cash draw downs or cheques in excess of credit balance on the account to provide a cover to cheques issued, and to provide ready liquidity as and when needed; it is the most common type of short term commercial bank credit for 90 days to a

maximum of 180 days; it is an overdraft facility extended to the business and cooperate clients of a bank at variable market rates of interest; overdraft credit account for bulk of the credit outstanding in a bank's loan portfolio, and is preferred to other types of business loans, mainly because in an overdraft facility the cost of lending is minimal, and no separate credit assessment is needed; the clients prefer it since it is similar to a standby line of credit, and it is simply rolled-over with lender's concurrence if repayment is delayed beyond the due date; types of overdrafts are:

- **Temporary Overdraft:** is an accommodation allowed to good customers at their specific request to meet unexpected and urgent credit requirements for a short period of one week.
- **Clean Overdraft:** if the duration of the financial requirements of the customers exceeds a period of seven days, a regular OD facility is extended and draw downs are permitted against a demand promissory note signed by the borrower secured against bonds, shares, mortgages, or other securities and tangible assets, and extended for longer periods.

Overdraft Facility: a pre-approved line of credit to regular clients of a bank; provides a mechanism of short term lending by banks to pre-qualified business and corporate clients, or to individual account holders, as mentioned above, to cover short term financing needs, usually based on the size of cash inflows or business turnover; in some cases, overdraft loans may be perpetually extended, thus creating a mechanism of quasi-term lending at variable rates, replacing contractual term loans; in British style banking and also in Pakistan overdraft is the preponderant lending mechanism.

Overdraft Protection: provided by the bank to cover cheques issued beyond the credit balance in the account of its customers to safeguard credit standing of the account holder.

Overfunding: lending, borrowing or raising of finance in excess of the requirements for a project, business or a given purpose; an overfunded company or project incurs undue financial cost and bears the burden of heavier debt servicing.

Overhead Costs: in manufacturing, these are costs over and above the cost of material and labor; these costs are also called manufacturing overheads and include plant depreciation, fuel, and power. In trading or distribution businesses, overhead costs include all indirect expenses not related to cost of sales, such as rent, salaries and establishment expenses.

Overindebted Borrower: if the total outstanding liabilities of the borrower are in excess of its repayment capacity and disproportionate to its equity, the borrower is overindebted.

Overnight Loan: a short term loan made available in the interbank market by banks with excess liquidity to those banks in need of a temporary loan for liquidity purposes; overnight loans are adjusted next day.

Overnight Money: money sold in the interbank market by banks with idle funds to those needing temporary funds; the funds market where financial institutions sell excess liquidity to other banks, is the largest source of overnight funds; overnight borrowings are due for adjustment the following day.

Overnight Rate: also called interbank rate, charged by a bank on an overnight loan or short term loan of a few working days to another bank; these inter-bank borrowings are mainly to cover spot liquidity needs and are most expensive type of borrowings carrying substantial premium over market rate or prime rate.
(see *Interbank Rate*)

Overstatement of Profit: the practice of inflating the book profits of a company by lowering the cost of goods sold by manipulating inventory valuation, making lesser provisions, or other such practices; this misrepresentation of profit is sometimes used to influence lenders, shareholders and other parties dealing with the company, and is a type of fraud.

Oversubscribed: if there are more applications to purchase the newly floated shares of a company than the number of shares issued; or if more subscriptions are received for corporate stocks or bonds than the amount of stocks and bonds issued.

Ownership Limits: regulations imposed on maximum ownership of shares of a company, by single individuals or group, usually stated as percentage of equity in the business, or registered capital.

