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Package Loan: various types of credits and related financial services offered to the borrower under a single loan agreement by a bank for various purposes or for different periods and approved against one credit limit; packaging a loan lowers the cost of loan and facilitates credit processing and monitoring as well as assessment, evaluation and tracking of collateral, and simplifies administrative procedures; in a package loan various aspects of credit and lending procedures are dealt with enbloc rather than treating various parts of the loan separately.

Paid-in Capital: is the equity amount of equity actually paid by the shareholders to a company for acquiring its shares, as against subscribed capital which represents a subscription commitment prior to payment of equity for shares, or authorized capital which is the maximum capital envisaged by the organizers of the business; the amount of paid-in capital may be the nominal or face value of the shares or their issue price having an element of premium or discount which is shown separately in the balance sheet.

Paper Claims: are documents and instruments that contain an obligation to pay a certain sum of money on demand or at some future date. Such papers, in the hands of the creditor, the holder of the claims, or the person who is to receive the money, are claims against the debtor; it also includes documentary evidence of claims to perform a task, render services or meet an obligation, for example claims against a guarantee.

Paper Profit or Loss: is unrealized profit or loss on a business activity; unrealized capital gain or loss to an investor or an asset holder that may have occurred on investment but not transferred to income statement of the investor because no redemption of or sale shares or assets may have taken place during the accounting period; it is the difference between the initial book value of investment or assets and their current market value.

Paperless Entry: is an entry for a transaction without use of paper such as vouchers or other instruments for example, transactions on the automated teller machines (ATMs), where transactions are directly recorded in computers without use of a cheque or a withdrawl slip.

Par Value: for securities and financial assets such as a share or a stock or a bond, par value is the nominal value, or the face value stated on the asset; it may be different from the current market value or market price depending on interest rate, yield and other market parameters in banking, par value of instruments such as a cheque, a draft or a note is the same as the nominal value or the face value stated on the instrument and its current market value is also the same.

Parallel Market: also called black market; an unauthorized and illegal market where regulatory authorities do not have any control; for example, curb market dealing in foreign currency; in lending, credit extended by moneylenders; in trading, sale of unauthorized goods and services, or speculative and illegal transactions conducted at prices with large premia.

Parity: is equivalence in value, amount or quantity; equivalence of price of goods and services at a given date. (*see Purchasing Power Parity, PPP)*

Participating Bank: is a bank participating in a syndicated loan to a large borrower; or participating in a large line of credit under a common loan participation protocol; a bank pooling funds with other banks to raise funding for a large loan under common terms and conditions.

Participation: is the act of participation in a commercial or financial transaction; participation in a business, company or venture through investment in equity, shares, or provision of funds other than loan or credit.

Participation Loan: if the magnitude of loan and the attendant risks are large and one single bank is unable or unwilling to extend it either because of regulatory limit or financial resource constraints, two or more banks may share funding the loan amount as well as share the risks involved.

Participation Mortgage: is a type of mortgage loan where lenders participate in a pool of conventional mortgages; where principal and interest payments pass through the participating lenders.

Partner: is a co-owner or co-investor in a joint venture or a business on profit and loss sharing basis depending on the proportionate size of partnership based on the share in total investment.

Partner, Dormant: a partner who contributes capital in the partnership firm and shares in profit or loss but does not take active part in managing business of the firm.

Partner, Limited: is a partner who is not liable for the debts of the partnership beyond his capital contribution or share in total investment; such a partner is, however , allowed in a firm if there is at least one general partner in that firm.

Partner, Nominal: is a partner whose name appears in the partnership business but has no investment of his own or real interest in partnership.

Partner, Surviving: is the partner who in case of death of his co-partner occupies position of trustee to settle affairs of the firm.

Partner, Working: is a partner who does not contribute equity of partnership and is admitted into the firm because of his skill, experience or influence; takes active part in the running of the business but does not share profit or losses.

Partnership: is a contractual relationship between two or more parties who have agreed to contribute equity and to share profits of a business managed by all or by some of them on behalf of all.

Passbook: is a documented record of transactions issued by a bank to its customers especially savings account holders; it records all deposits, withdrawals, interest credited, charges recovered and the amount of balance at a given date.

Passbook Savings: is amount deposited in the saving account of a customer with a savings bank as shown in the pass book issued to him where all deposits and withdrawals are recorded and available balance is shown.

Past Due: is the amount of money not paid on due date as per schedule of payment or as per agreement.

Past Due Lease: is a lease agreement where the period of lease has expired, requiring renewal of lease on fresh terms and conditions or return of the asset to the lessor.

Past Due Loan: is a repayment on a loan not made on the scheduled date; a loan default by the borrower on amounts due for loan repayment; or amounts outstanding for repayment on a loan beyond due date of repayment.

Pawn: is a pledge of an item of value to a pawnbroker placed as security for a loan; a deposit of personal property made to a pawnbroker as a security for loan; a type of bailment where goods or chattels are delivered to the pawnbroker as a security for money borrowed from the pawn broker by the bailer.

Pawn broker: is a person who deals in lending money upon pawn or pledge of goods or items of value; petty money lenders who advance money against pledge of household items and personal assets such as jewelry; if on expiry of the period of loan, the due amount is not repaid, the pawn broker can sell the goods thus pledged.

Pay Back Method: is a method of appraising a proposed investment or a project for the period of time over which the initial capital investment will be recovered; it is a rather crude but simple method of project selection which takes no account of profitability or return on investment.

Payable on Demand: is a payment due on the presentation of the financial instrument such as a bill of exchange, or a draft, or a cheque to a payer.

Payable on Sight: is a financial instrument payable on presentation of a financial instrument or payment instrument; similar to the payable on demand.

Payable to Bearer: is a payment due and payable to the bearer of the instrument; or payable to the order of the bearer if properly endorsed.

Payable to Order: is an instrument is payable to order when by its terms or endorsement it is payable to the payee or to the order of another party specified in the payment order.

Payee: is a receiver; or a person in whose favor a bill of exchange, promissory note, or a cheque is made or drawn; to whom or to whose order a bill, note, or cheque is made payable; one to whom money is to be paid or one who is entitled to receive a payment.

Payer: is a payment maker; or a person who pays a bill of exchange, a promissory note or a claim; payment could be for goods and services acquired or to satisfy a liability or an obligation or to satisfy a commitment.

Paying Bank: is the bank responsible to make payment of an instrument drawn on itself; for example, a cheque, a bill of exchange, a demand draft or a pay order; a payment against a commitment or a liability created by issuance of a letter of credit or a letter of guarantee.

Payment Book: is a register in the form of a journal where all the payments of a business are recorded date-wise. In a bank, it is a set of books including the Paying Cashier's Book, Inward Clearing Register and debit side of the Transfer Book.

Payment Cap: is the upper limit of the payment amount due as per financial agreement or a loan agreement to enable a payer or a borrower to fulfill an obligation or a commitment on specified dates of payment.

Payment Date: is specified in the payment order when the payment is due from the payer; designated date of payment such as payroll, a loan amount, an installment, a bill, any liability or obligation of the payer.

Payment Delay: is the time lapsed from the payment date as specified in an agreement, such as an installment payment or delay in payment of a periodic obligation due on a specific date.

Payment Document: is a document against which payment is made by a bank. For example, a guarantee issued by a bank against which a claim has been made. In another sense, a document which contains instructions for payment.

Payment Instrument: are various types of financial instruments used to discharge a payment obligation, negotiable or otherwise, such as, cheques, demand drafts, matured term deposit receipts and internal vouchers of the bank which are used to effect payment.

Payment Mechanism: for a bank, specific methods and instruments used for making payments on account of trade or other financial obligations; payment mechanism for business transactions could be advance payment for the goods and services to be acquired; periodic payments of amounts due on open account arrangement; payment of bill of exchange drawn on the purchaser; and payment against letters of credit opened by banks on behalf of its customers; payments by a bank could be on behalf of its customers, for its own expenses or for withdrawals of money by customers from their accounts, which could be either in the form of cash payment on the bank's counter, or through clearing cheques, or from one account to another in the same bank. *(see Payment System)*

Payment Order: is a cheque like instruments issued by bank on the request of its customers or in payment of its own expenses or dues, drawn on itself, to pay a specified sum of money to the order of specified person. Payment orders are usually issued by the banks on receipt of full amounts involved, which means that it would not be returned unpaid due to lack of funds; it is also called banker's cheques or cashier's cheques.

Payment Services: are services performed by an agent, department of a company, or a bank responsible to make payments on behalf of the company or the bank. An agent who handles payments on behalf of others, usually charging a fee for the services rendered.

Payment System, Banking: consists of institution and facilities concerning clearing and settlement of receipts and payments arising from banking transactions on intra-bank accounts; or intra-corporate accounts handled by the banking system, or other financial institutions; or securities transaction in the financial markets; operating under a set of rules, regulations, procedures and safeguards regarding transfer and their strict time-bound settlement; the participants are the end-users, that is, the payers and payees are financial institutions, government, corporations, business, enterprise and individuals; the instruments consist of debit instruments, credit instruments, electronic or computerized media such as credit cards, debit cards, EFTOPS and ATMs. *(see ATMs, EFTOPS)*

Payment System, Structure: consist of the following components or in some combination thereof as needed in a country.

- a cheque clearing system, operated mostly by the central bank, often with daylight overdraft facility. *(see Daylight Overdraft)*
- an automated clearing house for bulk electronic fund transfer (EFT) payments.
- an interbank large volume transfer system (LVTS) for wholesale transfer between banks on their own account such as Fedwire of the US. *(see Fedwire, LVTS)*
- a mechanism for international transfers such as SWIFT. *(see SWIFT)*
- a retail transfer system like the European GIRO System. *(see GIRO)*
- a securities market clearing and settlement system and securities depositories.

Payment System, types of: there are essentially two types of payments systems; a gross settlement system, such as the Swiss Inter-Bank Clearing (SIC) operated by Swiss National Bank; or a net settlement system, such as the BOJ-Net operated by Bank of Japan, the Clearing House Interbank Payment System (CHIPS) based in New York; the Clearing House Automated Payment System of the UK (CHAPS); relying on a domestic electronic network linked with the banks, money bank centers, or payment centers. *(see BOJ-Net, CHIPS, CHAPS)*

Payment System Risks: four types of risks,

- ***Liquidity risk;*** payment may not be made promptly because of inadequate liquidity, but may be at a later date.
- ***Credit risk;*** is the risk that a party concerned may not settle its obligation in full.
- ***Cross-currency settlement risk;*** arises from the time of difference when one party to a financial payment settles while settlement is yet to occur to the recipient due to time zone difference.
- ***Systemic risk;*** when the failure of one party may trigger failure of the other parties in the payment system causing a grid-lock in payments.

Payout Ratio (dividends): is the proportion of company's earning paid out to the shareholders as dividends, depending on the profitability and financial performance. It is not a statutory or pre-agreed ratio, but in normal times, companies strive to maintain dividends payments in line with market returns, or may offer higher dividends to attract new investors and shareholders. *(see Ratios, Market Ratios)*

Payroll: the list of the staff members of company, prepared on a periodic basis, usually every month, showing details of wages and salaries paid to each employee of the company; also provides details of deductions, for example, taxes paid, provident fund contributions and loan installments, if any.

Peg Rate: a benchmark rate or a reference rate used as an anchor for stipulating effective rates; for example in case of foreign exchange rates, a major currency like US dollar, may be used as a peg to define Rupee exchange rate on a daily basis; the peg rate may be fixed for a defined period; or it may be a floating rate thus dragging the pegged rate in line with its own fluctuations.

Penalty (financial): an overcharge levied on the original amount due because of delay in payment on due date, or because of contravention of an agreement, or due to nonperformance of a contractual obligation, intentional or otherwise; a charge against a bank account arising from transactions conducted in violation of account agreement; or a penalty imposed by a bank or a court.

Penalty Clause: a clause specified in a financial contract or a loan agreement, empowering the bank or the lending institution to lay financial penalties in case of violation of the clause, or nonperformance, such as delay in loan payments early withdrawal of deposits, cashing of CDs before maturity, redemption of share of an investment trust, a unit trust, or a mutual fund.

Pension: is a stream of annuities paid by an employer whether a business, a company, or government, upon retirement of an employee at a designated age or earlier, depending on the tenure of service and eligibility as specified in pension plan; the amount of pension or annuity paid is based on salary level, numbers of years in active employment and age of pensioner at retirement.

Pension Authorities: are officials responsible for making pension rules, supervising the schemes, approving payments and administering pension funds.

Pension Funding: making funds available or providing resources for the pension scheme; pension may be funded by the employers who may claim such contributions as a tax deductible expense; or may be funded only by the employees in their individual pension accounts.

Pension Funds: are established by businesses, companies, corporations or governments as employers to provide pension benefits to eligible employees upon their termination of service or upon their retirement under rules and regulations of pension eligibility; pension funds are jointly financed by regular periodic contributions though employers may make proportionately higher contributions; since these are contractual payments received by pension funds, who have their own legal and financial entity separate from the employer; pension funds are also called contractual saving institutions; accumulated amounts are conservatively invested by pension funds in low risk or zero risk government securities; therefore pension funds are also major investors or buyers of these securities.

Pension Plan: provides details of the pension scheme of an employer, specifying rules and conditions of eligibility and participation; contribution of both employers and employees in accordance with salary levels; withdrawals upon termination of service or retirement, amounts and method of withdrawals; determination of annuity paid to the employees depending on the tenure of service; survivor's benefits, their eligibility and amounts payable; pension plans may be fully vested after a designated tenure, a required length of service; or partially vested if the employee's service period is less than required tenure period.

Pension Returns: are statements and lists of employees of a company or an institution, giving details of pension amounts accrued in their favor on a given date.

Pension Trust: is a trust formed to manage pension fund; in a funded pension plan the employer transfers to the trustees an amount sufficient to cover cost of pensions to employees who are the beneficiaries of the trust.

Per-cheque Charge: is a service charge recovered by banks in some countries on processing payment by cheques on a per cheque basis; in Pakistan, an excise duty is levied on cheques but banks do not take service charges on processing of cheques as such.

Perfect a lien: is to complete the formalities of a lien so that the charge of the creditor over the goods or assets of the debtor is confirmed; it usually entails obtaining correct legal documents and, whenever necessary, registering the charge with the concerned authorities; for example, in case of an advance to a limited company against lien on goods or other assets, the charge is to be registered with the Registrar, within 21 days of the creation of charge.

Perfect Competition: a theoretical concept in economics stipulating a hypothetical market structure consisting of a very large number of buyers and sellers of a commodity such that no single buyer or seller is able to influence the price of the commodity in the market; that is, both the buyers and sellers are price takers, not price setters; further each unit of a commodity is perfect substitute of the other, regardless of the supplier, or the origin of supply; that is, no supplier is able to charge a price different than market price based on product differentiation; each market player is perfectly knowledgeable of market conditions at all times; that is, inside information does not confers any market edge; in a hypothetical market like this, adjustments to market conditions are instantaneous and costless; that is there are no rigidities in supply response; such a perfectly competitive market does not exist in reality, but this theoretical construct provides an analytical method to determine the degrees of imperfections prevailing in a market and helps to analyze price determination and supply response to given levels of demand and market conditions; at the opposite spectrum of perfect competition is monopoly, a single supplier, or monopsony, a single buyer; and in-between are various types of imperfectly competitive market.

Performance Analysis, Financial: is a systematic assessment of the financial performance using objective criteria, established analytical methods of financial management such as ratio analysis, and comparative evaluation of:

- ***a bank:*** concerning profitability, return on assets, net income, liquidity, risk management, loan portfolio quality, deposit base, and bank management; expressed as bank performance rating conducted by independent rating agencies, and ranking of a bank among its peer group to determine its standard.

- ***a business:*** concerning similar items as above, together with additional items of evaluation specific to the line of business, such as market sphere, turnover, inventory management, cost performance, product diversification, research and development, and new ventures.
- ***an investment trust or fund:*** focusing on total returns for specific periods, net asset value per share of the trust, management costs, risk management and performance rating assigned by independent agencies. *(see Financial Performance Indicators)*

Performance Bond: is a bond which contains an undertaking of the issuer or maker to pay a stated sum to the beneficiary if the issuer or a third party fails to perform according to a contractual agreement and furnish deliverables on dates as provided in performance schedule.

Performance-Based Fee: is a fee for services rendered; chargeable only on completion of a task; the amount of such fees is calculated according to the rates already agreed upon by the parties and are related to the quantum of work done or number of jobs handled or completed.

Periodic Interest Rate: is the interest rate for a given period applicable to an account depending on the specified time interval; for example, if on a deposit account annual interest rate is 8 percent and interest is paid on quarterly basis, then the periodic interest rate would be 2 percent; if on a bond, the coupon rate is 11 percent and interest is payable semi-annually, the periodic interest rate would be 5.5 percent; if on an installment loan, revolving loan, or credit card balance if the annual interest rate is 18 percent and the installment is payable monthly, the periodic interest rate will be 1.5 per cent per period; further, since the annual interest rates on various types of loans or deposits are adjusted in line with movements in leading market rates or anchor rates such as treasury bill rate, prime rate, or some composite interest rate index, the periodic interest rate applicable to outstanding balances varies according to the billing cycle or payment intervals such as a month, a quarter, or a half year.

Periodic Rate: is variable interest rate on various types of loans such as revolving credit, variable rate mortgages; adjusted periodically in line with movements in lending market rates or anchor rates such as treasury bill rate, prime rate or certain composite interest rate indices; applicable to outstanding loan balances to specified period such as a quarter or half year, or the monthly billing cycle in case of consumer loans, and credit card balances.

Periodic Statement (account, financial): are financial statements issued by companies or businesses regarding earnings, sales and profitability; regular statement of accounts prepared by banks for its account holders, monthly or quarterly; bills or payments outstanding prepared by credit issuing companies, or businesses.

Permanent Loan: is a long term debt financing of a permanent nature such as revolving loans or debts incurred by issuance of bonds and long term debt instruments; such bonds are considered investments by bond purchasers rather than debts extended if the issuing authority are governments or powerful financial institutions; long term loans to companies by their directors can also be regarded as permanent loans.

Permanent Working Capital: is the amount of liquid resources of a business or company such as cash, near cash items and current assets that must be available to finance routine operational requirements on day to day basis; a threshold of liquidity that must be maintained relative to turnover, inventory and daily business operations.

Permissible Nonbank Activities: provision of certain financial services allowed to a bank which are not otherwise regarded as normal banking activities; for example, the business of equipment leasing.

Perpetual Debenture: is a debenture that can not be redeemed; debentures may be irredeemable or perpetual but they are redeemable when the company goes into liquidation; the effect of a debenture of this nature is to grant a perpetual annuity to the holder for the life of the company.

Perpetual Debt Instrument: a debt instrument with an indefinite maturity period; for example, a perpetual bond which has no maturity date and is not redeemable; may also include certain types of loans that are effectively perpetual through roll-over or automatic renewal as per loan agreement.

Perpetual Preferred Stock: is nonredeemable preferred stock of a limited company having a preferential right to dividends, that is, they are entitled to a fixed sum before any dividend is paid to ordinary shareholders; such shares are considered perpetual as against redeemable preferred shares which can be redeemed.

Perpetuities: are annuities issued with an indefinite time period. *(see Annuities)*

Perquisites: are emoluments, fringe benefits, or other incidental profits or benefits attached to an office, employment or position known as "perks" offered to business executives such as club membership, medical facilities, free transport and housing.

Personal Banker: a banker who manages a customer's accounts much as a broker manages a client's securities portfolio; each personal banker provides services to specific customers, opens new accounts, takes loan application, answers questions about other banking services, and in general acts as a personal financial advisor; the personal banking idea is based on relationship banking to improve the competitive position of a bank vis-à-vis other banks by channeling retail sales through trained representatives, knowledgeable about their institution's products and services.

Personal Finance: are financial arrangements of individuals or households concerning savings, deposits, installment loans or credit card facilities, lines of credit or overdrafts allowed on bank accounts; management of personal finance based on income profile, earning capacity, age, current expenses and obligations and other relevant factors; retail financial facilities provided to individuals and household by financial institutions.

Personal Financial Planning: involves preparation of the financial profile of an individual or a household over a defined time period or planning horizon to determine future financial needs based on income profile and earnings, expenditures, savings; outlines a plan of actions needed to ensure a healthy financial position to afford major expenses in future and meet contingencies from regular savings or new sources of income through investments or replacement of current income sources.

Personal Financial Statement: is a statement prepared by an individual showing his or her financial position or net worth, on a given date; information contained and details shown in the statement depend upon the purpose for which the statement is being prepared, which could be reconciliation of income tax returns, applying for a credit facility or providing information to authorities as needed.

Personal Guarantee: an undertaking by an individual, usually in writing, to assume responsibility for payment of a debt or performance of an obligation if the person primarily liable fails to perform or pay off the debt; a personal guarantee or third party guarantee is an acceptable security for advances by banks, provided that guarantor is financially strong, has adequate financial resources and has a good performance rating.

Personal Income: consists of wages and salaries in case of employed individuals; also includes rent on property and real estate after expenses; interest earnings on deposits and savings instruments; net business income and net profits of those engaged in businesses or self-employed; dividends or returns on assets of investors.

Personal Liability: is a financial responsibility resting on an individual for the payment of debt, a guarantee, or performance of an obligation which exposes his personal assets to meet the liability or discharge the obligation incurred.

Personal Loan: is a loan to an individual for his personal use and not for business purpose, such as consumer loans for installment purchases of consumer goods and household effects.

Perverse Allocation of Credit: is a macro financial concept indicating uses of credit against those intended, or against a desired allocation of credit warranted by development objectives or social priorities enunciated by the authorities, and based on the inappropriate distribution of banking credit at the macro-financial level among various categories of borrowers; the lending practices and procedures of the banks underlying credit decisions at the macro-level may be quite legitimate, but their lending orientation may be such that at the aggregate level, the flow of credit to various categories of users may not be in line with the intended priorities or objectives such as promotion of SMEs, exporting, regional development, or development of priority sectors.

Placement, financial: use of finances in various activities; investment of funds in various types of assets; holding of balances or funds in various types of accounts.

Placement Fee: a fee charged by a broker to arrange placement of funds at competitive and attractive rates of return.

Planning and Marketing Group: is the department of a company or a bank or group of persons responsible for planning and marketing functions of an organization; these functions are inter-related because marketing strategies are formulated in accordance with overall company plans and policies.

Pledge: a bailment or delivery of goods to a creditor as a security for some debt or as a security for the performance of an act.

Pledged Assets: are securities or assets pledged by the borrower with a lending bank to secure a loan; such assets pledged with the bank are under the control of the bank and stored in bank's godowns, or in customer's own godown or in third party's warehouses but they are under possession of the bank; the borrower, however, retains ownership of the assets despite a pledgee's charge.

Pledger: a person or a company who in consideration of a debt or an obligation creates a pledge and accordingly delivers pledged goods to creditor.

Pledging Requirement: legal, administrative and precautionary requirements observed while accepting goods or assets under pledge which include verification of pledger's ownership; verifying value of pledged assets which should be sufficient to cover amount of advance; completion of documents creating bank's charge on pledged goods, and keeping goods insured.

Point: in bank lending, a point equals one percent of the principal amount of the loan, usually charged as a front-end fee from the borrower and is part of the initial cost of borrowing. In securities market transactions, for example in bond trading, one point equals one percent of bond value.
(see Basis Points).

Point of Sale (POS): is the place of sale where the sale and payment information, such as amount of sale, date and place of sale and buyer's account number, are collected electronically; the payment information is passed on by the POS to the bank or payment processor and the sales data to the retailer.

Pool Loans: is a group of loans with similar features such as maturity period or interest rate; a group of borrowers who enter into an agreement to avail a loan from a financial institution in their joint names; a loan obtained by members of a cooperative society.

Pool Rate: is a collective or composite rate of interest or return on a group of deposits, loans or investments; for example, different rates of interest on deposits of varying maturities, lumped together to have a pool rate; a composite rate representing cost of funds including deposits and borrowings.

Poor Risk: is a risk that cannot be easily managed or covered associated with new ventures where the source of risk cannot be easily ascertained and cannot be hedged, or associated with a group of marginal borrowers.

Poor Risk Selection: in bank lending extension of loans to borrowers with poor risk characteristics; in portfolio investment, selection of assets with higher risks or risks that cannot be easily diversified and covered through various risk management techniques; an aspect of poor risk management owing to inadequate information, improper selection of activities, or inadequate safeguards.

Portfolio Financial: a collection of financial assets and securities owned by an institution or an individual; may include a variety of stocks, shares, bonds and money market instruments. *(see Loan Portfolio, Investment Portfolio)*

Portfolio Advisor: a company, an institution, a brokerage house, or a specialist engaged by an investor to provide investment advisory services including market analysis of stocks and shares, price trends, market valuation and risks, relevant market information, performance of the companies or corporations whose securities are being held in the portfolio.

Portfolio Allocation: in case of loan portfolio of a bank, allocation of loan funds for major types of loans or major types of borrowers to maintain a diversified distribution of lending risks; in case of investment portfolio, allocation of investment funds in various types of financial assets to enhance overall returns of the portfolio investment and diversify risks associated with various types of securities and financial securities.

Portfolio Concentration: is measured by the relative size of different types of securities or assets held in an investment portfolio, expressed as percentage of total value of assets held portfolio concentration increases exposure and hence investor's risks in the line of business activity of companies or corporations whose securities or stocks are being held in investor's portfolio; concentration of investment portfolio may be along sectoral lines of business activities, such as manufacturing, transport, telecoms, electronics and the like; or concentration may be based on underlying characteristics of companies such as scale of operations, capitalization levels, market shares, technological edge, prudent management, and profitability; this transference of business risks to portfolio investor is proportional to the degree of concentration in the investment portfolio.

Portfolio Deterioration: is reduction in market value, increase in risks, or decrease in return are indicators and measures of portfolio deterioration; similarly, loan losses, provision for loan losses, past due loans, nonperforming loans and non-recoverable loans are measures of bank loan portfolio deterioration.

Portfolio Diversification: is the opposite of portfolio concentration; involves investing and holding a variety of assets to achieve an optimal risk and return threshold in line with the overall investment strategy of the portfolio investor, investment objectives, time horizon, exposure limits and preferences; overriding objective of diversification, however is to minimize overall portfolio risk of loss to portfolio's networth.

Portfolio Investment: is investment in financial assets in contrast with direct investment in real assets such as plant, machinery, equipment or real estate; portfolio consisting of financial assets may be diversified and may consist of various types of stocks, bonds and money market instrument; or may be concentrated in anyone of these categories of financial assets depending on

investment objectives, the time horizon of investors, the size of investments, and investor preferences regarding risk-return profile of the assets; portfolio may be domestic, consisting of only domestic securities; or may be foreign, consisting of securities of foreign countries, with focus on potentially high growth areas of the emerging markets or developed markets; the composition of investment portfolio depends on the type of investor, desired risk return profile, orientation of investor, and market preferences; portfolio investment in financial assets confers mobility, flexibility of exposure, and potential liquidity unmatched by direct investment in fixed assets such as plant, equipment or real estate, and offer generally better returns to investors though with attached risks, as compared to savings instruments with minimal or zero risks.

Portfolio Investment - Average Returns: is the average annualized returns for a defined period such as three years or five years; reflect the steady annual rate of return on the entire portfolio; a better measure of a portfolio's performance over extended periods of time.

Portfolio Investment - Cost Averaging: is a method of reducing portfolio investment risk for investors with sufficiently long term horizon; involves systematic purchase of target securities over defined intervals for an extended period, regardless of price fluctuations, instead of a single purchase at one time; investing in target securities under an established schedule in this fashion over extended period is likely to average out the market swings of security prices, and provide better overall return because the underlying long term trend of the securities market is upwards, not downwards.

Portfolio Investment - Objectives: may include the following objectives in any combination, depending on the risk-return tolerance of the investor, the time horizon of investment, income and capital gain preferences, and maintaining or maximizing the networth of the portfolio, drastically impact on the investment strategy pursued. These objectives could be:

- ***Aggressive Growth:*** securities purchased primarily to obtain maximum possible capital gain over a defined period; a very risky approach to portfolio investment, adopted usually in bull markets for short-time horizons, but may also be the underpinning for longer term investment strategy.
- ***Average Returns:*** for a defined period such as three years or five years, average annualized returns reflect the steady annual rate of return on the entire portfolio; a better measure of a portfolio's performance over extended periods of time.

- ***Balanced Growth:*** a diversified portfolio investment strategy, also called asset allocation approach, when a portfolio investment approach includes stocks, shares, bonds and money market instruments in clearly defined proportions, and are held without any significant turnover of these assets or changes in their proportions, in the portfolio in response to the short term market movements.
- ***Disciplined Growth:*** when the emphasis of the portfolio investment is on maintaining reasonable capital appreciation and avoiding excessive exposure to risky stocks or shares, specially stocks of the companies engaged in risky line of activities. The objective remains capital gains but at moderate levels.
- ***Equity Income Growth:*** securities purchased to obtain increase in dividend income as well as capital gains, representing a compromise on aggressive growth, to achieve a dependable stream of dividend income; may include both stocks and bonds in the portfolio.
- ***Value Growth:*** is pursued through investment in stocks and shares of companies, believed to be undervalued by the market as shown by the multiple of current stock or share price to earnings, the P/E ratio; or the expected P/E ratio.
- ***Total Returns:*** for a defined period such as a year, total returns on a portfolio include net capital gain on all the securities and assets in the portfolio, plus any dividends received on stocks and shares held in the portfolio.
- ***Risk and Volatility:*** safeguarding portfolio against risk and volatility is a major concern for a portfolio investor given the underlying risk of loss of portfolio's networth because of the decline in the market value of assets held in the portfolio; the risk perception is rooted in the time horizon while prospects of volatility are hemmed within the time horizon; historically, price volatility is a short term phenomenon, but has the potential of eroding the networth that may take years to recapture; thus, both risk and volatility are perceived in terms of adverse fluctuations in the market value of assets held in the investment portfolio over a specified time-period. *(see Investment Risk, Portfolio Investment Risk)*

Portfolio Investment Manager: a professional in securities markets entrusted with the responsibility of managing an investment portfolio on behalf of the investors such as an investment trust; an employee of an institution responsible for managing portfolio.

Portfolio Losses: portfolio losses result forms the reduction in market value of securities held in portfolio which may occur due to a variety of reasons.

Portfolio Quality: quality of an investment portfolio is measured in terms of its overall performance depending on the time horizon and risk/return characteristics as captured in risk-adjusted rate of return over a defined period; in particular how resilient the portfolio is to risk of loss in adverse market conditions relative to the desired or expected rate of return, built into investment strategy, exposure and concentration at the time portfolio investments were committed.

Portfolio Restrictions: any condition or restriction, under an external regulation or investor's own policy placed on the holding of securities or restriction on investments in the securities of a portfolio.

Portfolio Investment Risks: there are several types of portfolio investment risks; primarily the risk of capital loss in case the securities or stocks held in the portfolio lose their market value below their acquisition cost; the risk that changes in interest rate would adversely affect the market value of stocks and bonds in the portfolio; the risk of lower return on the portfolio of stocks and shares relative to returns available elsewhere based on performance and profitability of the companies; portfolio concentration risk which depends on the exposure of the investor; sectoral and industry risks underlying the portfolio of stocks and shares; risks associated with foreign portfolio investment, such as exchange rate risks, and transfer risks.

Positive Confirmation: any act or omission construed as a positive confirmation; for example, silence of an account holder to notify discrepancy in the advised account within a stated period would mean that the entries in the account are correct and are acceptable to the account holder.

Positive Gap: in a bank's assets and liabilities if more assets are maturing than liabilities, it may cause a mismatch in maturity structure causing a positive gap; or the gap may also occur done to reprising of bank's assets and liabilities, if those are re-priced upwards in a given period; a bank with a positive gap is asset sensitive; the opposite is negative gap.

Positive Real Interest Rate: is the stated or nominal interest rate adjusted for the inflation rate; if the stated interest rate, say 15 per cent, happens to be higher than the inflation rate, say 9 per cent, then the real interest rate of 6 per cent is the positive real interest rate.

Positive Real Rate: the stated rate of return minus the inflation rate; real rate is the inflation-adjusted yield or return which is different from the stated or nominal rate or return.

Post-Dated Cheque: is a cheque delivered prior to its date, but payable at sight or on presentation on or after date shown on the cheque.

Post-Loan Review: is periodic review after the disbursement of loan in order to assess the current risk, adequacy of security and performance of project or business for which the loan was given; purpose of this review is to ensure repayment of loan alongwith the interest or mark-up.

Postal Savings Bank: are savings banks operating in or under post offices offering various savings schemes to small savers; these saving banks provide deposit facilities to a large number of small income savers, thus helping savings mobilization.

Potential Obligations: is the likelihood that a financial event or action may lead to the emergence of an obligation; for example, a contract may lead to a related activity and incur a cost not specifically covered in the contract, but makes the contractor responsible for it; or a suit filed against a company may lead to financial obligation for the company if the court decision goes against it.

Power to Create Money: is the power of the sovereign, or the government, or the central bank to create money by issuing currency or allowing credit expansion on the basis of increase in the base money; or the process of multiple credit creation by the banking system based on deposit expansion and reserve and liquidity requirements stipulated by the central bank. *(see Seignorage)*

Preacquisition Value: is the market value of the assets of a company or bank before takeover, acquisition, or privatization.

Precious Metals Market: is a market for precious metals; a global market for gold and silver.

Preferential Credit: is a credit or a loan advanced on below market cost, or on easier terms and conditions, or with less stringent requirements of eligibility and collateral to specific type of borrowers, or for specific type of activities under two sets of considerations.

- Preferential credit advanced to prime borrowers, to enhance market share and client base partly under strategic lending policy of a bank.
- Preferential credit advanced under a system of directed credit or priority credit to qualified borrowers to promote various social and economic objectives not served by market-based credit system such as credit for development specific sectors, or for the promotion of SMEs. (*see Directed Credit*)

Preferential Debt: is a loan or a credit which has a priority in debt servicing and repayment over other loans and obligations of a borrower; a debt obligation which has the first claim and is payable first in the case of bankruptcy.
(see Senior Debt)

Preferential Interest Rates: are interest rates on loans and credits below prevailing market rates of interests, charged to some borrowers for various considerations such as those under a system of preferential credits, or to preserve or extend client base, specifically creditworthy prime borrowers; also higher than market rates of interest paid to certain types of deposits to enhance or strengthen deposit base of a bank.

Preferential Lending Rates: is the arrangement of charging concessional interest rates on certain types of loans because of socio-economic reasons, or promotional considerations, or to attract cretin types of customers.

Preferential Terms of Credit: are favorable or less restricted credit, terms associated with preferential credit offered by banks to various type of borrowers and for various considerations.

Preferred Borrowers: are creditworthy borrowers with good track record on loan performance and with good credit rating, given priority or preference over other borrowers.

Preferred Creditor: is a creditor with preferential right to payment by a debtor over junior creditors; for example, creditor with a charge on some asset who has priority over unsecured creditors in case of liquidation or bankruptcy.

Preferred Stock: is capital stock of a company enjoying preference over common stockholders in payment of dividend and sharing of assets on liquidation; such stocks are generally expressed as a percentage of par values, for example; 7 per cent preferred.

Pre-loan Review: is undertaken by the management of the bank prior to the approval of the loan to ascertain various aspect of the loan, such as purposes and uses, repayment capacity and performance of the borrower; risk coverage and collateral; guarantees, if any; terms and conditions of the loan; in case of prime borrowers, it may be only a formality within their previously approved credit limit; for a new or nonprime borrower it may involve a through review and scrutiny as per lending procedures of the bank.

Premium: is an excess charge or a higher rate paid above the market levels, as opposed to a discount available on a price, or a rate thereby reducing the price or rate below market levels; interpreted in various ways depending on the item or the activity, for example:

- ***in banking,*** it is a premium paid above market interest rates by a borrower for certain type of loan depending on the risk levels; a premium paid by the bank on certain type of deposits, of funding operations.
- ***in securities market,*** it is a premium on a security is the positive differential between the face value of the security and its market price; for example, if the market price of a bond is above its face value or par value, it is selling at a premium; whereas if the market price of the bond is below the face value the bond is selling at a discount.
- ***in currencies market;*** it is a premium paid over spot rate for foreign currency if the exchange rate is expected to appreciate as opposed to a discount if the exchange rate is expected to depreciate; also based on future interest rate differential between two currencies.
- ***in commodities market;*** it is a premium paid for spot delivery, in case of unanticipated supply shortages.
- ***in insurance;*** it is a regular periodic charge paid by the policy holder for an insurance policy obtained; or a single charge paid for a insurance coverage.

Prepaid Expenses: is advance payment of expenses such as rent and insurance; if the portion of such payment has not been used by the end of the accounting period it is shown in the balance sheet generally as a current asset unless the prepayment covers a period of more than a year.

Prepayment: is payment made in advance for goods or services, such as prepayment of rent; repayment of loan or credit earlier than the maturity date agreed at the time of loan approval.

Prepayment Clause: is a clause under a note, an agreement, a mortgage or a deed of trust, imposing penalty if the loan is paid before its due date.

Prepayment Fee: is an agreed fee charged to pay off the loan before its due date.

Prepayment Penalty: is a penalty imposed if the loan is paid before its due date, covered by a loan agreement, or a note, or a mortgage, or a deed of trust; a monetary consideration to terminate a loan at borrower's option before maturity.

Present Value (PV): is a central concept in finance concerning time value of money, shows the present discounted value of future stream of payments received as periodic interest payments on a deposit, an annuity or a fixed amount of return or income stream per period over a designated time horizon. PV is obtained as follows.

- PV of a constant (equal) amount of payments or cash inflows received (C) per period (t) over the time horizon (n), discounted at a rate of interest (i) and calculated as a sum:

  PV = sum C x [1 / (1 + i)to power t] over 1.....t periods

- variable payments or cash inflow received (Ct) per period (t) over a designated time horizon (n) discounted by interest rate (i) and calculated as a sum:

  PV = sum [Ct / (1 + i) to power t] over 1....t periods

In both the cases, the PV of a future stream of inflows whether constant or variable per period, is the sum of discounted values per period over the time horizon, and is critically sensitive to the rate of discount (i) which may be a long term interest rate or a proxy to a desired rate of return or an inter-temporal time preference factor. (see Current Value, Future Value)

Presenting Bank: is a bank who presents a cheque, an instrument or a document to the drawee or to those liable in order to obtain payment.

Preservation of Capital: is the capacity of a company or an investor to manage its financial resources in such a way as to preserve the original value of capital invested; or to maintain a positive net worth at least equal to original investment.

Preshipment Export Credit: is to provide loan finance to the exporter to purchase, manufacture, packing and transport exportable items and making them ready for shipment; such loan finance is usually extended to exporters in possession of a firm contract or confirmed letter of credits.

Preshipment Refinance: is a loan financing scheme whereby the central bank reimburses the commercial banks the amounts advanced to exporters as preshipment export credit.

Pre-Tax Income: is the income before taxes accruing from business operations, return or gain from investment, income from subsidiaries and from property.

Pre-Tax Profits: is the profit of a business before accounting for taxes.

Price: *(see Constant Price, Current Price, Discount Price, Domestic Price, Fixed Price, Fair Price, Foreign Price, Marginal Price, Market Price, Market Clearing Price, Nominal Price, Real Price, Spot Price, Sale Price)*

Price Competition: is a market situation where sellers compete on the basis of price differentials and try to increase their sales by reducing the prices of their products relative to those charged by competitors.

Price Risk: is a major risk associated with future prices faced by firms, businesses and investors; may cause substantial losses if future prices are below anticipated levels; or worse, future price movements occur in a direction opposite to those anticipated.

Price/Earning Ratio: is the ratio of market price per share to earnings per share; a measure of market valuation of a company, the higher the ratio, the higher the valuation; it is the indicator of price multiple investors are willing to pay for each rupee of earnings per share; if the price multiple is too high, the company stock may be overvalued, and inversely. *(see Ratios, Market Ratios)*

Primary Market: is the wholesale market for the producers or manufacturers for a manufactured item or a commodity; in case of financial assets or securities, primary market is where the asset or the security is traded at the time of issue, usually by the underwriters and pre-qualified institutional investors, before it is resold in the secondary market to the general public or to the investors.

Primary Rate (interest): is original or base rate of interest without any adjustments or variances for factors such as risk, period or counter party.

Prime Borrowers: are large corporate, business or institutional clients of a bank with strong commercial and financial base, well established business profiles, performance record, and financial strength and integrity, borrowing large amounts with minimal costs of loan processing or account managing; strong collateral base needing minimal scrutiny or follow-up hence low-risk clients; maintaining large balances, involving sizable transactions on cash management accounts; they are durable and well sought after clients by every bank, commanding a premium and needing diversified banking services.

Prime Customers of Bank: consist of prime borrowers and first class customers, having well established large businesses or high networth, a good track record with the bank, a large deposit base, and who are helpful to the bank in bringing quality business to the bank.

Prime Plus: is the rate of interest which is over and above the prime rate.

Prime Rate: is the rate of interest charged by a bank to its prime borrowers; the base lending rate of major banks charged to large creditworthy borrowers; a reference rate or peg rate for other lending rates in a banking system, thus providing an anchor to the structure of interest rates on the lending side; a closely watched major indicator for the market for borrowed funds.

Principal: is the capital amount of a loan or an investment on which the rate of interest or the rate of return is applicable; the amount of obligation due under a debt; or the deposit instrument exclusive of interest; the face value or the coupon value of a bond or a certificate.

Principal Defaulters: of a lending institution are its major borrowers with repayments overdue on substantial amounts of loans which may constitute a large portion of total loans and advances outstanding of the lending institution.

Principal Payments: are payments made towards adjustment of a loan or towards settlement of amount due on an expense or any other obligation.

Priority Borrowers: are borrowers given priority access to credit over other borrower at a lending institution; this priority access may be bundled together with preferential credit terms, for example, if the priority is rendered through directed credit system to promote social and economic objectives, it may also extend preferential credit terms; but if the priority is rendered on market basis to prime borrower and top-rated creditworthy clients, it does not entail preferential credit terms over those available to marginal borrowers; therefore, priority is based on social and economic considerations usually for borrowers who otherwise may not be able to gain access to credit on market terms.

Priority Sectors: are sectors such as agriculture, exports, and medium and small scale industries, accorded priority in terms of access to finance or promotional incentives.

Private Corporate Instruments: are commercial papers and other debt securities issued by privately owned companies.

Private Placement: issuance of a new security by a company to borrow long term funds, privately sold to institutional investors such as insurance companies or pension funds which may later on be resold in a secondary market to the general public if a secondary market in private placement exists; private placements are preferred by companies who do not wish to offer a public issue of their debt instruments such as debenture to avoid disclosure requirements, arrangements and cost of underwriting, registration and listing requirements; private placement is similar to a long term loan, are illiquid if resale is not possible, and are held to maturity. *(see Public Issue)*

Privileged Access: usually refers to access to confidential information enjoyed by certain persons as a matter of right by virtue of their official position; availability of computer codes and passwords, to certain authorized person, to obtain information from computer data base.

Privileged Borrowers: are borrowers of a bank who command priority access to credit facilities and competitive interest rates, and are offered a range of banking services owing to their status, creditworthiness, or privileges bestowed by authorities.

Privileged Information: is confidential information about a company, project, plan or a contract, not available to the general public.

Problem Assets: in finance, inefficient or impaired assets which do not produce expected returns; in banking, problem loans that are not being serviced and have overdue payments or default; or securities against an advance which are losing value, and can not be easily disposed off to satisfy loan liability of defaulted borrowers; or assets that can not be sold at the time of need for reasons other than pricing problems.

Problem Bank: is a bank in serious financial difficulties and major losses that cannot be covered from its own internal sources owing mainly to eroded financial base or impaired loan portfolio; or can not raise sufficient capital owing to its low or inadequate performance rating; or is unable to meet its obligations for a number of reasons, aside from a short-term liquidity crunch, such as a basic mismatch in the maturity structure of its assets and liabilities.

Problem Loans: are loans which are not being repaid in accordance with the terms and conditions originally agreed upon between the lender and the borrower; loans with defaults on repayments; doubtful loans in a banks' portfolio.

Proceeds: are the amounts realized by sale; sum received against a claim; amount given to a borrower after deducting charges and fees; amounts realized by surrendered of security.

Proceeds from Sales: is actual amount of cash received by a seller after discounts, commissions and sale expenses.

Product Innovation: introducing new product with the help of new ideas, latest technology or improved features or bringing changes in old products to attract customers.

Productivity: in economics this term means a real increase in production of factors like land, labour and capital, which constitutes the basis of increase in real income over time and hence economic growth; productivity is defined as an average ratio of real output with the input used for production; an increase in productivity of land, labour, and capital on per unit basis means that the economy can obtain more real output from its resources which is the basis of increase in real income over time; thus productivity is a measure of efficiency of resource use, or a measure of performance; that is, how well factors like land, labour and capital perform, and how effectively they are utilized in production; for, if productivity is stagnant, so will be real income; if productivity increases, real income of factors of production on per unit basis will also increase, not otherwise; for example, in agriculture, crop production can be increased by enhancing the amounts of inputs used like fertilizer, water or cultivable land area; but if this increase in output is proportional to inputs used, and there is no productivity gain, average real factor income will remain unchanged on per unit basis; in advance countries, productivity growth of around 3 or 4 per cent per year is regarded a very good performance, especially if it is sustained over a longer period, whereas a growth of 6 or 7 per cent is episodic and is considered exceptional; a major factor underlying productivity increase is technological growth, both labour-embodied and capital-embodied technologies, followed by effective management of resource use and production processes.

Profit and Loss Sharing (PLS) Account: these are customer accounts with financial institutions providing PLS account services, based on the principle of sharing profit or losses of the deposit taking institution; customer accounts in banks without a pre-determined interest payable on the account balance; instead a rate of profit as declared by the bank; a major deposit instrument of banks in Pakistan.

Profit after Taxes: is the net profit of a company; excess of income over all cost and expenses and after accounting for taxes; the amount of profit available for dividends or other appropriations; it is the principal indicator of profitability of any business activity.

Profit (loss) before Taxes: is net profit or loss before accounting for taxes as shown in the income statement of a company or bank.

Profit Incentive: is the offer of sharing in the profits extended by a company or business to its employees of high performance; or a general offer through profit sharing schemes such as preferential sale and ownership of stocks and shares in addition to routine employment benefits.

Profitability: is the capability and potential of a company, a business, or a firm to earn profits.

Profitability Ratios: provide measures of profitability of a firm from its business operations; hence these ratios occupy a central place in financial analysis. There are two types of profitability ratios. One, concerning profit margins showing the relationship between profits and sales; and the other showing the relationship between profits and investment. *(see entries listed)*

- Gross Profit Margin Ratio.
- Net Profit-Margin Ratio
- Operating Profit Margin Ratio
- Return on Investment Ratio (ROI)
- Return on Equity (ROE) Ratio
- Return on Total Assets

Proforma Financial Statement: projected income statement, balance sheet and cash flow statements of a company prepared mainly on the basis of sales or turnover forecasts estimated costs and expenses for a future period.

Project Financing: is to provide finance for a project either as loan finance or equity finance; usually bulk of project financing is obtained as a loan finance from institutions engaged in long term lending; if the size of loan finance is large, then a group if lending institution may jointly provide loan finance; banks may also participate in project financing but with limited exposure and preferably as a group under a syndication arrangement.

Project Funding: is to raise or arrange funds for a project from one or several sources either before or during its implementation.

Project Loan: is a loan prepared and obtained as a line of credit, for a specific project, prohibiting use of loan proceeds for items other than those specified in the project; usually a large loan obtained for a long period from institutions specializing in project based term lending; may have special draw down loan procedures and restrictions tied to project implementation performance; may have special clauses and restrictions on cash draw downs to cover routine expenses of project.

Project Risk: the risk of non-completion or delays, or cost over-runs, or non performance by the project contractor during the implementation phase of the project; the risk of subsequent loss or lower than anticipated return after project completion thus jeopardizing projected cash flow and income; specific technical and management risks associated with a complex project.

Promissory Note: a financial instrument containing an unconditional undertaking signed by the maker to pay on demand, or at a fixed or determinable time in future, a certain sum of money to the holder or to the bearer of the instrument, or to the order of a designated party.

Property: usually refers to real estate or landed property; in finance, it also includes items of value that can be sold to satisfy a financial obligation or a liability, such as automobiles, equipment and machinery, personal items like jewelry, art work and precious metals; rights and privileges of some financial value that may provide income or cash flow.

Property Rights: legal ownership of an asset or a property, and claims of interested parties in property, evidenced by legal documents.

Protected Investment: is an investment covered for foreseeable or anticipated risks; an investment granted custodial protection against appropriations seizures or disputes of ownership; an investment accorded protection against foreign completion through a system of tariffs, barriers on imports, and barriers against foreign investors, or barriers against new investors. *(see Protection)*

Protected Investor: is an investor whose risks are covered by an agency or a third party; or who has covered the risk of loss in portfolio investments by making investments in alternative securities.

Protection: in economics and international trade refers to a system of tariffs and trade barriers of various types on imports granted to a newly established domestic company, business or manufacturing, or to already established industries, against foreign competition to ensure survival of domestic industries and businesses; this system of protection is also extended to domestic banking sector, restricting entry and operation of foreign banks through licensing, ownership or through partnership, and other requirements of entry to enable domestic banks to flourish.

Protected State Banking: is a system of banking where state owned banks are organized under their own charter and are governed by preferential rules and regulations with regard to their operations that provide protection against competition from privately owned banks; the protection may involve cheaper sources of funds, areas of activity or business operation earmarked exclusively for state owned banks, preferential treatment with regard to facilities and infrastructure, and other privileges not available to other banking institutions; above all, such banks provide an implicit state guarantee to their clients in their operation.

Protection of Depositors: measures to safeguard the interest of depositors against bank failures through banking regulations, or an insurance cover provided by deposit insurance schemes.

Protective Covenants: terms and conditions of agreement between parties to a contract to protect the interest of parties concerned.

Provident Fund Savings: amounts available in the provident fund accounts of the employees, which represent forced savings by the employees through deductions at source and similar amounts contributed by the employer.

Provision for Bad Loans: to set aside funds out of profits or accumulated reserves to cover the full amount of those nonperforming loans in the portfolio of a bank classified as bad loans or loan loss, as stipulated under the provisioning guidelines by the central bank as part of the banking supervision and regulation framework and in line with the internationally accepted standards.

Provisions for Doubtful Loans: charges against profits or accumulated reserves to cover a specific percent of the nonperforming loans, classified as doubtful loans in the portfolio of a bank, stipulated under the provisioning guidelines of central bank; these provisions are credited to loan loss reserves.

Provisioning: in general, provisioning is an amount retained out of profits to provide for known payments such as asset replacement, depreciation and pension; in the context of impaired loan portfolio of a bank, provisioning for loan losses is required under the rules and regulations of banking supervision and is based on provisioning guidelines which specify the amount to be charged against a bank's net income and maintained as loan loss reserves pursuant to the classification of problem loans and the degree of impairment of loan portfolio, until a resolution of the default status of the nonperforming loans occurs.

Provisioning, the system of: the system of provisioning requires mandatory charges against the bank's net income to cover loan losses as per provisioning guidelines specified in the rules and regulations concerning banking regulation and supervision; the amount of charge is based on classification of nonperforming loans depending on the severity of default; the provisioned amounts are maintained as loan loss reserves until the resolution of default and loan recovery proceedings against the borrower; the implication of the system of provisioning is that if the size of loan losses in any given year is large, the required provisioned amounts may exceed a bank's net income, and in extreme cases, the total provisioning required under the rules may even exceed shareholder's funds signaling technical insolvency of a bank owing to a badly impaired loan portfolio.

Provisioning Guidelines: stipulate the amounts to be provisioned for nonperforming loans through charges against bank's net income as follows:

- for loans classified as bad debts, 100 per cent provisioning is required; that is, the full amount of loan loss is to be charged against net income.
- for loans classified as doubtful, 50 per cent provisioning,
- for loans classified as substandard, 25 per cent provisioning,
- additionally, banks are required to maintain prudential reserves by charging 1 per cent against net income for the remaining portfolio. *(see Classification of Problem Loans)*

Proxy Voting Right: is written authority given by a shareholder to another person to attend a specified meeting, called by a company in which he is a shareholder and exercises voting right on any matter of the company on behalf of the shareholder.

Prudential Banking Supervision: is a system of banking supervision maintained and operated by the central bank to ensure sound banking practices and prevent emergence of banking crises.

Prudential Guidelines: are enacted as part of banking regulation and supervision system stipulating systematic evaluation of a bank's financial performance and strength through a set of methods and procedures against performance benchmarks specified as part of the guidelines.

Prudential Measures: actions taken by a regulatory authority or a central bank to help maintain financial strength and solvency of the banking system and prevent emergence of banking crises owing to systematic default and loan losses.

Prudential Ratios: are financial ratios that provide a benchmark to evaluate a bank's financial performance, portfolio quality, overall financial strength, liquidity and solvency, these ratios concern bank liquidity, capital adequacy, reserve requirements, credit risk and exposure, and nonperforming or classified loans.

Prudential Regulations: a set of rules and regulations stipulated by the central bank as part of banking supervision framework concerning banking operations, adherence to various requirements regarding liquidity, reserves, and sound banking practices.

Prudential Requirements: statutory obligations and other requirements to ensure compliance with prudential guidelines by the banks.

Public Confidence: trust of the general public in the financial strength, soundness and solvency of the banking system, reposed in a central bank that it will maintain soundness of banking system, specially the deposit taking institutions, and will prevent banking crises; trust of the general public in currency, the legal tender reposed in the monetary authority that it will maintain its value within tolerable limits; and trust and confidence of the public in the overall monetary system to maintain effectiveness of policies and actions of the monetary authority.

Public Debt: is the public and publicly guaranteed debt; the debt liability of the government for servicing and repayment of the public debt, disbursed and outstanding; consists of domestic and foreign debt secured by the government and government agencies and organizations, state owned banks and enterprises with the guarantee of the government; obtained for various purposes, but mainly to finance public sector deficits through domestic debt, and to finance balance of payments deficits from external debt. In Pakistan, the total federal government debt outstanding increased substantially over the past decades, causing a phenomenal and unprecedented increase in the debt repayment and servicing liabilities of the federal government with severe adverse economic and financial consequences over these years.

- ***public domestic debt*** consists of the public sector borrowings in local currency against government guarantee and lodged in the government accounts. These borrowings may be from the central bank, or from the banking system and other financial institutions mainly through the issue of treasury bills and certificates, and government bonds; or, borrowings from the households and general public, mainly through government bonds, prize bonds and other such instruments.
- ***public external debt*** are the borrowings of foreign loans by the government and government organizations; the public and publicly guaranteed external debt, disbursed and outstanding, with the liability of repayment in foreign currencies. These external debt repayment liabilities need to be funded from medium to long term capital inflows on the balance of payments accounts, including fresh foreign borrowings, if the current account of the balance of payments is negative, or does not have sufficient positive balance to offset the repayment liabilities.

Public Enterprise: is an enterprise established by government or public agencies with full or partial ownership, effectively controlled and operated by government or by a designated authority established for this purpose; such enterprises may or may not be funded and operated on commercial basis since the over-riding objective of establishing such enterprises is to provide goods and services for the public or strategic sectors vital to the economy; in Pakistan a

large number of such enterprises exist mostly established from the start and a number of nationalized units in nearly all major sectors of the economy such as industry, agriculture, transport and services sectors.

Public Enterprise Bonds: bonds issued by a public enterprise which is the liability of enterprise in accounting terms but carries an implicit guarantee of the government since in case of financial failure of the enterprise, government is liable to bondholders as the sole owner or major owner of enterprise.

Public Funds: funds raised by government or government organizations and institutions through taxes, levies, duties, charges and contributions by the public.

Public Issue: issuance of a new security for eventual sale to the general public through the underwriters or the investment bank who buy the new issue as part of underwriting agreement, and manage the public issue on behalf of the company; a long term financing instrument similar to commercial papers since unsecured, but of a maturity longer than one year; issued only by large and creditworthy companies.

Public Sector: consists of public organizations and institutions, or public enterprises, companies, and corporations under the ownership and operation of the government at all levels, whether federal, provincial, or local; together with ownership and operations of public autonomous bodies established under their own charter but under the control of the government.

Public Sector Borrowing Requirement: are loan financing requirements of the public sector in excess of internally generated funds or revenues to finance public sector deficits; the loan financing required by the government, and government owned or government controlled organizations.

Public Sector Deficit: is the excess of expenditures over revenues emerging from the fiscal and financial operations of the public sector; includes the budget deficits of the government, federal, provincial and local; and budget deficits of government organizations and institutions whose annual budgets are funded by the government. It also includes the deficits or liabilities emerging from financial operations of the public sector enterprises to the extent recourse is made to the government for direct funding of these deficits or borrowings from the central bank and state owned banks; thus, the total size of public sector deficit in a given budgetary period may be larger than the budget deficit of the federal or provincial governments.

Public Sector Operations, financial: are financial operations of the public sector; collecting of revenues and disbursements expenditures and their financial management through government owned financial institutions or through the banking system in general; these operations mainly consist of funding or borrowing activities of public sector entities with the explicit or implicit guarantee of the government.

Public Sector Operations (Fiscal): budgetary operations of the government including public revenues and public expenditures at all levels together with the budgetary operations of the government organizations, institutions and autonomous bodies.

Public Utilities: public owned companies or organizations and institutions providing facilities and services like electricity, telephone, and water.

Publicly Listed Firms: public limited companies which are listed with the stock exchange and whose shares are quoted and traded at the stock exchange.

Purchase Guarantee: is an undertaking given by an issuer of a security to buy back a certain amount of the issue within a given period; such provisions in the bond indentures and contracts are beneficial for the investors, if the market price of the bonds or other securities falls below the issue price; it may also mean borrowing funds at a given cost.

Purchasing Power Parity (PPP): is a method of determining the real purchasing power of income, for example, the GNP per capita for a country, and allowing comparisons with other countries on a similar basis; it provides meaningful relative values of income and living standards across countries at a point in time.

Pyramid (Financial): is a fraudulent financial scheme, a swindle, where clients are lured into investing with the promise of large returns over short periods in multiples of market based returns; returns are typically paid from new inflows to the old investors who may have reached the payout threshold in the pyramid structure; as the pyramid scheme grows, the number of "investors increases", but the amount of payout needed grows exponentially and the pyramid collapses under its own weight, leaving a large number of late entrants unpaid. Since the swindler is perched on top of the pyramid, and collects a fee for each transaction, may even be a participant in earlier rounds, he collects an immense pay-off; financial swindles like these have occurred in several countries including Pakistan such as the periodic episodes of finance companies, operations of sisterhood committees and the like. *(also called Ponzi Scheme)*