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Raising Finance: funding activities carried out by businesses and banks.

Rate of Exchange: is the rate at which a country's currency is exchanged for another country's currency; the unit price at which a currency can be converted into another.

Rate of Return: is a measure of earnings on an asset, a security or an investment over a period of time, measured by the ratios of return on asset (ROA) or return on equity (ROE); on a security it is the composite of dividends and net capital gains or losses; on a loan portfolio it is the rate of interest less lending expenses and loan losses; on deposits it is the interest rate of deposits.

Rate Sensitive Assets, Liabilities: assets or liabilities which are influenced by changes in rates of interest or rates of return; for example, loans, and deposits carrying variable rates of interest; securities and bonds whose market value are sensitive to changes in the rate of interest.

Rating Agency: an institution providing ranking of financial institution, or banks, investment companies, or certain types of securities such as bonds; ranking is based on well defined and objective criteria, methods and procedures.

Rating System: a system of evaluation, ranking, grading or classification based on objective and measurable criteria concerning performance, risks and returns and other benchmarks or characteristics of businesses and financial institutions. There are several types of ratings such as:

- ***Credit Rating:*** of borrowers show their overall creditworthiness based on their borrowing record; includes credit ratings of companies and business provided by credit rating agencies.

- ***Bond Rating:*** a system of rating bonds, particularly corporate bonds such as Standard & Poors, or Moody's bond ratings in the USA, based on credit risk of the issuing companies, ranging from triple AAA rating implying least likely to default, to D rating, implying default, or the highest risk of default.
- ***Performance Rating:*** of banks or financial institutions based on a system called CAMEL, rating and 5 is the lowest; which provides a measure of financial strength and overall soundness on a scale of 1 to 5, where 1 is the highest an acronym for Capital Asset, Management, Earnings and Liquidity. *(see CAMEL)*

Ratios: are measures of financial performance of a company, a business firm, a bank or a financial institution; are the principal tools of financial statement analysis; provide benchmarks of relative performance of a firm or a bank with its competitors through cross section analysis, or performance over a time period through time series analysis; are critical to managers to routinely monitor business operations, efficiency of resource use, managing liquidity and maintaining solvency. These ratios are grouped in five categories as below. *(see entries listed)*

- ***Activity Ratios or Turnover Ratios;*** include four ratios; these are Accounts Receivable/Turnover Ratio, Inventory/Turnover Ratio, Fixed Assets/Turnover Ratio, and Total Assets/Turnover Ratio.
- ***Debt Ratios:*** include Total Debt/Total Asset Ratio, also called Debt Ratio, Debt/Equity Ratio, the ratio of EBIT to interest charge, and Debt/Asset ratio.
- ***Liquidity Ratios;*** include Current Ratio, Quick Ratio or Acid Test Ratio.
- ***Profitability Ratios;*** include Gross Profit Margin Ratio, Net Profit-Margin Ratio, Operating Profit Margin Ratio, Return on Investment Ratio (ROI), Return on Equity Ratio, (ROE) and Return on Assets Ratio(ROA).
- ***Market or Valuation Ratios;*** include Price Earning Ratio (P/E), Payout Ratio, Dividend Yield Ratio, and Market Value to Book Value Ratio.

Ratio Analysis (finance): is the core methodology or the main analytical procedure adopted in assessment and evaluation of financial performance of a business or a financial institution using different types of ratios or categories of ratios such as listed above, depending on the objectives of the assessment or performance evaluation of the enterprise concerned; it is the central tool of financial evaluation, and provides the basic indicators relevant to the financial management of businesses and financial institutions.

Ratio of Liquid Liabilities: it is the ratio of current liabilities to the total liabilities of a company.

Real: in contrast with the nominal or current, the term real may be interpreted in several ways depending on the context. In economics, the term real is also called constant, in contrast with nominal or current, means the nominal income, nominal value, nominal price or nominal return, adjusted for inflation through a suitable price index at a point of time or over a defined period; in financial transactions, real may be interpreted as the realized value of an asset or instrument as against the stated, appraised or estimated value.

Real Assets: are assets in the form of immovable property covering land and buildings, houses, apartments; or nominal assets whose value has been adjusted for inflation.

Real Capital: is the value or nominal amount of capital adjusted for rate of inflation and expressed in constant value in terms of prices prevailing in the base year of the price index used for adjustment; denotes real increase or decrease in capital over a time period if calculated as a time series.

Real Cost: are financial or nominal costs deflated by a weighted price index for the category of cost concerned such as raw materials or inputs; if the category specific index is not available then nominal cost is deflated by wholesale price index for a selected base year expressing real costs in terms of base year prices.

Real Estate: landed property, houses, flats, apartments, commercial buildings.

Real Estate Loan: is a loan granted against real estate or landed property such as a mortgage loan.

Real Exchange Rate: real exchange rate is a measure of constant value per unit of the domestic currency relative to a foreign currency; it is nominal exchange rate adjusted for domestic inflation relative to inflation in the country of foreign currency concerned; or adjusted by the ratio of domestic inflation to composite rate of inflation in major trading partner countries; for example, real exchange rate of rupee in terms of US dollar is nominal rupee exchange rate adjusted for differential between the rates of inflation in Pakistan and US over a defined period; thus real exchange rate provides a measure of real purchasing power of a unit of local currency in terms of a foreign currency. *(see Exchange Rate)*

Real Income: is the nominal income, salary or wages or compensation adjusted for inflation, usually by the consumer price index (CPI); thus providing a measure of real purchasing power of income earned.

Real Interest: is the nominal interest amount or nominal interest rate adjusted for inflation by a suitable price index.

Real Price: is the current price adjusted for inflation by a suitable price index; an economic term used to measure quantitative changes over time in major economic variables such as GNP, savings, and investment; hence, same as constant price.

Real Rate: is the nominal rate of a variable such as price, interest, return, or cost, adjusted by a weighted price index appropriate for the variable concerned, thus providing a measure of real increase or real growth as opposed to the nominal increase or nominal growth over a period of time.

Real Rate of Return: is the nominal rate of return adjusted for inflation by the wholesale price index or the consumer price index, denoting real increase in return or assets or investments and thus an increase in the networth of the asset holder or the investor.

Real Savings: in economics, real saving is the current or nominal value of saving adjusted for inflation, in time of high inflation, while the nominal saving may increase, real savings may define, thereby changing consumption and savings behavior.

Real Sector: real sectors of an economy are usually interpreted as sector producing physical output such as agriculture and industry in contrast with sectors producing services such as trade, banking, transport; or sectors whose output is described in physical terms such as tons of wheat, rice, methods of bales, million (units) of manufactured items.

Real Value: is the nominal or current value adjusted for inflation with respect to a base period; for example, real value of income, salary or wages received in the current year and expressed in constant prices, or expressed in terms of a base year prices; real value reflects the real purchasing power of income, wages or salaries; likewise, measures of real income, real investment, real savings or real expenditures reflect values of these variables in terms of constant prices or base year prices.

Real Wealth: is the real value of items comprising wealth, and is obtained by adjusting the nominal value or the current value of wealth for inflation.

Realized Income: is actual income received in contrast to accrued income; the difference being any charges or expenses associated with income and not deducted as cost items; or in contrast with expected income.

Realized Gain: is the net gain on a security or a financial asset measured by the difference between market value of asset received at the time of its sale less its original purchase price, less adjustments for realized capital gain; not the paper gain or paper loss involving no transaction.

Realized Price: is the price of an asset or an item accruing to the seller after discounts or sales commissions or other sales cost.

Realized Profit: actual profits received as against paper profits, or stated profits, or expected profits after a business activity is completed or a transaction has been carried through and all costs associated with the business or the transaction has been fully paid for.

Realized Return: is the net return received by an investor consisting of interest or dividend plus any capital gains or losses on the investment.

Realized Value: of an item or an asset is the market price obtained at the time of sale, less transaction costs, or discounts offered as in the case of promotional; or in case of a business being closed down or bankruptcy, it is the sale proceed of assets less the cost of liquidation or foreclosure; thus realized value may be lower than market value and below the book value.

Reborrow: is to borrow from a credit facility after it has been adjusted, or to borrow under fresh terms and conditions.

Recapitalisation: usually it is the increase in the paid-up capital or equity base of a business or a financial institution concerned; involves changes in equity base or providing additional equity thus increasing shareholder's funds and altering capital structure and long term debts of a company a business or a financial institution through exchange of shares, new issue or replacement of bonds or exchange of bonds with shares.

Recapitalisation of Bank: is the increase in capital base of a bank through injection of additional equity or by exchange of one type of share or bond with another thus bringing about changes in a bank's structure of long term funds and equity; a measure undertaken to expand capital of the bank; or in case of impending insolvency it is a rescue measure to prevent bankruptcy and closure.

Receipt: an acknowledgment of a transaction, a sale or purchase; a record of a payment received in cash or a cheque; written evidence that money or valuables have been received; an un-endorsed cheque duly paid by the banker on whom it is drawn as evidence of receipt by the payee of sum payable on the cheque.

Receivable: in finance; it is an amount due as payments from others; for example in business, receivables from customers are generated when goods and services are sold before full payment is made; in banking, receivables are payments owed to the bank by its clients emerging from a financial transaction, or a loan, or financial services rendered to clients.

Receivables Days on Hand: total receivables of a company divided by the number of days in a year; shows average number of days receivables outstanding and efficiency of company to collect its debts.

Receivables/Turnover Ratio: is a measure of average collection period; it provides a measure of the efficiency of collection of receivables relative to daily average turnover or sales; indicates liquidity blocked into receivable, hence a financial cost to the company; is obtained by dividing accounts receivable with daily average of sales on credit, or daily average of all sales. *(see Ratios, Turnover Ratios)*

Receiver: is an officer appointed by the court in a bankruptcy case to collect debts and payments due and take possession of, but not the title to the assets or property of a business which is in a state of bankruptcy; function of the receiver is called receivership.

Receiver of a Failed Bank: also called curator of a bank; in case of bankruptcy or liquidation of a bank, a receiver appointed by the court to manage and complete the liquidation process; mainly involves taking custody of a failed bank's assets, collectibles and overdues from others, undertaking resolution of claims and performing other custodial duties.

Receiving Bank: a bank who receives cash or money from its customers or from other banks in payment of financial instruments sent to them for collection on behalf of its customers.

Recession: is a temporary downturn in economic activity leading to a decline in the rate of growth of GNP, output, income and employment causing a setback to business and commerce leading to declining turnover and sales, revenues, income and profits, and increase in inventories; if this downturn is not countered by anti-recessionary policies, it may degenerate into deflation; for example, if in a country, the GNP, income, employment and business output and sales are normally growing at 4 to 5 percent a year, a recession would mean a drop to 1 or 2 percent; in the developed countries, if such a drop conditions for two consecutive quarters of a years, it is conventionally interpreted as recession; if it drops further below and growth becomes negative then it is a deflation.

Reciprocal Holdings: is a situation where the debt and equity instruments, such as bonds and shares of two businesses, banks, or companies are held by each other.

Reconcilement: is the process of agreeing and verifying the correctness of two accounting figures or financial statements; agreement to settle disputes.

Reconciliation of Net Worth: is the process of verifying the changes in the net worth; the excess of assets over liabilities of a company, as compared with base year figures by accounting for dividends declared, retained earnings and reserves.

Recourse: is a procedure or a provision available for making claims in case of non-payment of amounts due or nonperformance of commitments made; a due process on which the aggrieved party can fall back in case of need.

Recovery (economic): is the revival of economic activities following a recession; increase in production, employment, investment and income following a slow down or a recession.

Recovery (financial): is realization of amounts due from clients; repayments received by a bank from its delinquent borrowers; repayment of dues received by lenders on classified or nonperforming loans.

Recovery Value: is the amount obtained on any item given up for a bad loss such as any amount recovered from a defaulter on bad debts which is least expected.

Recurring Expenditures: are regular expenditures incurred at defined intervals of time by a business or an organization such as payroll and administrative expenses, in contrast with once-for-all expenditures.

Recurring Losses: are losses which are suffered repeatedly by a business.

Recurring Payments: are payments due periodically pursuant to an agreement or an obligation such as installment payment on a loan; benefit payments by an employer such as pension contributions, health insurance or other benefits paid regularly over and above salary or wages.

Redeem: is to compensate, substitute or pay an obligation or a debt in full settlement of the liability; commonly used for the cash payment of a security against its surrender.

Redemption: of assets or shares involves sale of assets such as unit shares of an investment trust, a mutual fund, or a unit trust; redemption of a bond means repayment of the principal amount on the maturity date of the bond.

Redeployment: is reallocation of resources, materials or money, from one area or from one activity to another; recycling of funds into productive uses; to transfer or divert funds from one area or activity to another.

Rediscount Rate: is the rate of interest at which central bank discounts eligible papers already discounted by a bank, or the rate of interest charged by a rediscounting bank on a bill, which is usually drawn on and already discounted by a bank; the rediscount rate of the central bank is a powerful monetary policy tool, because it is the benchmark rate for money market rates.

Refinancing: refinancing of liabilities such as raising funds by creating new liabilities in order to discharge maturing liabilities; the amount of finance obtained from or made available by an external source to replenish the outflow of finance; for example, if a bank finances exports and obtains refinance from the central bank, then the bank's own lending funds are not involved in the export financing.

Refinancing Facilities: are provided by the central bank or a specialized bank to refinance lending by other financial institutions to certain specified sectors or activities under a defined protocol of participation; under such facilities, the lending banks are provided refinance equal to the financing done by them, thus making their own resources freely available for other lending activities.

Refinancing of Interest: is to convert accrued interest into loan; if accrued interest is added to the principal amount due, lending bank effectively refinances interest on that loan, and relieves a borrower from the need to pay interest which would have caused a financial outflow of his funds.

Refinancing Schemes: various types of refinancing schemes, usually sponsored by the government or central bank to provide financial resources to desirable sectors or activities; or refinancing schemes provided by lending institutions to their regular clients to allow them to better manage their financing needs.

Refund: is to give or put back money; to repay or to return; for example, to refund a security deposit or to refund excess interest charged; it also means the act of refunding or a sum refunded.

Refund (unused balance): is to return back the amount which remains unutilized out of a loan, aid or grant either because the period of time for which it was made available has elapsed or the purpose for which it was earmarked has been accomplished or ceases to exist.

Regional Development Bank: is a specialized bank established for promoting economic and industrial growth in a particular region of the country as per its charter or memorandum of association.

Registered: recorded in a formal record or officially registered, such as a company or a business registered with authorities concerned; or a registered power of attorney; a security or a bond whose owner's name is recorded in the official books of the issuer or its transferring agent.

Regulation and Supervision: the authoritative act of controlling, regulating and supervising functions, operations and business of a company, an organization, or a bank by designated regulatory authorities as per rules and regulations stipulated for the line of activity or business concerned.

Regulation to Promote Transparency: rules and regulations designed to ensure that financial transactions and deals are made in a clear, honest and unambiguous manner, and are readily understandable to the parties concerned; regulations made to ensure disclosure of pertinent information about financial deals.

Regulators: government officials responsible for framing rules and regulations, and ascertaining their compliance.

Regulatory Authorities: government agencies or officials who are vested with the authority or prerogative of making necessary rules, monitoring the compliance of related regulations by those who come under the preview of such authorities, and supervising the overall conduct and operations of subject entities for a healthier and more disciplined environment in a given field; for example, the State Bank of Pakistan is the regulatory authority for banks and certain financial institutions.

Regulatory Environment (financial system): is the key to maintain a sound and healthy banking and financial system and to sustain public confidence; it consists of regulatory framework, that is, a body of laws, rules, and regulations governing establishment and operations of financial institutions; regulatory institutions vested with the authority, responsibility and resources to carry out regulatory functions such as a central bank; regulatory infrastructure comprises of institutions, administrative facilities, processes and mechanisms for the formulation of regulatory laws, rules, and regulations, procedures and directives; and their enforcement, monitoring and compliance.

Regulatory Intervention: are actions taken by regulatory authority in the event of non-compliance of standard rules and regulations governing banking and financial operations to enforce financial discipline, solvency, confidence and stability; in contrast with ad-hoc interventions, improvised according to circumstantial needs.

Regulatory Requirements: are specified rules, constraints or restrictions imposed by regulatory authorities; for example, maintaining capital adequacy or minimum capital requirements, maintaining reserves and liquidity requirements; lending rules and requirements; reporting and disclosure requirements; keeping provisions as specified for losses; restriction on opening new branches of a bank; and ownership of financial institutions.

Regulatory Systems: consists of rules and regulations and the apparatus available for their implementation and monitoring of observance to enforce discipline, balance and orderly conduct; for example, regulatory system for banks and financial institutions listed above.

Rehabilitation: is the process or action for restoring to a former capacity, rank or right; to put into good condition again; rehabilitation of a financial institution refers to a process of its reinstatement through various measures and financial support.

Rehabilitation (of Financial Institutions): is a set of measures or actions taken to rescue financial institution from insolvency, collapse or bankruptcy; for example, restructuring and reorganizing its management and financial operations, reorganization of its financial structure, accompanied by injections of additional equity, and access to long term funding.

Rehabilitation Plan: is a program of actions based on a careful consideration of various alternatives to rehabilitate or rescue a collapsing financial institution; these alternatives may include grant of loans on soft terms, moratorium on payments, tax concessions, additional equity, merger or sale of part of business.

Reimburse: is to pay back, to repay, to restore the equivalent of loss or damage; for example, reimbursement for payments made by a third party, or reimbursement of dues originating from a transaction and not covered otherwise, or reimbursements for delays involving penalties, or reimbursement of amounts owed to others and acknowledged.

Reinsurance: is the insurance of something already insured by another party; since insurance is a contract between the insurer and the ensured that an agreed amount of compensation will be paid by the former in specific circumstances in return for payment of premium by the latter, if the insurer covers his own risk

especially large-scale risk with another insurance company or insurer, such an agreement is called reinsurance.

Reinvestment Risk: the risk of reinvestment of funds at a desired rate at a future time; in banking, the risk that a bank may not be able to reinvest funds at a future date at the rates that are currently prevailing or which are otherwise acceptable to the investing bank.

Related Banking Activities: banking activities which are not a part of main operations of a bank but are indirectly related to primary banking activities; since, the main activity of a bank is financial intermediation involving mobilization of financial resources, and lending or investing them, other activities such as managing trusts, extending guarantees are related banking activities are related banking activities.

Related Borrower: an individual or a company who is related to a borrower through a relationship, contractual or otherwise, or due to interlocking ownership interests between a parent company and its subsidiary company.

Related-Party Transaction: are dealings by a related party which affect the rights or assets of the main party, or create obligation for the main party; for example, a loan given by a bank to a subsidiary company on the letter of comfort signed by the parent company.

Relationship Banking: is a proactive form of marketing of financial services where a bank has the understanding of the customers' financial needs and offers services to fulfill those needs; it is a superior marketing approach to banking business in contrast with routine banking services offered to clients.

Relative Prices: is the ratio of price of a product to the price of another product, provided the two products are substitutes or near substitutes; likewise, a ratio of price of input to the price of another input provided the two inputs are substitutes; expresses the unit value of an item in terms of the unit value of another item, goods, services, or inputs; a method of comparing relative values of products in case of product prices; a method of comparing relative costs and substitution possibilities of inputs in case of input prices; a method of determining comparative advantage in case of internationally traded items, expressed as a ratio of domestic price to foreign price of an item.

Relending: is to extend a loan to the same borrower on previous or revised terms and conditions, thus effectively renewing an old loan; relending the principal amount received as repayments on existing loans; or using a secured loan as a collateral for fresh loans or additional lending.

Relocation: the shifting of premises, plant or operations from one location to another or from one country to another in order to take advantage of new location or to avoid disadvantage of existing location; it involves substantial expenses in relocation costs for which provisions are made over a period of time, these incurred costs are usually capitalized by the business concerned.

Remittance: is a transfer or payment of money through various instruments.

Remittance Letter: is a letter accompanying a remittance giving details and purpose of remittance; a letter used by a bank when presenting cheques and instruments to a bank with whom it does not have an account.

Renegotiated Loan: a debt or a loan in which the original terms, especially terms of repayment and interest rate have been changed by mutual agreement of the lending bank and the borrower.

Renewal (credit): extending a loan agreement or a credit facility for a further period with or without changes in the terms and conditions originally agreed upon.

Rent: in finance, it is a fixed income per period from property, land or any real estate; it is also a contractual amount paid for the use of machinery or equipment such as transport vehicles; in economics, rent in classical sense is return on land as a factor of production; but modern interpretation of rent is scarcity premium, which means a return or a gain derived from scarcity accruing mainly by virtue of ownership or through privileged access conferred or acquired for the use of resources on exclusive basis; this system gives rise to rent seeking activities which are wealth distributing rather than wealth creating activities sought after by the 'rentier class', a group of people who enjoy a premium owing to scarcity of resources they own, or because of their privileged access to resources denied to others; for example, the system of licensing in Pakistan, the license *raj*, that created a rentier class specially during 1950s or 1960s, who became enormously wealthy owing to scarcity of licensed commodities, foodstuffs, imported manufactures, or foreign exchange; or feudal of Pakistan, the ultimate rentier class, whose basis is land ownership.

Reorganization (financial): is carried out by businesses, companies or corporations to improve their profitability and performance through changes in management, lines of activities, changes in the asset structure or equity base to enhance the financial depth, leverage, or marketing position; in case of companies under bankruptcy process, reorganization may be allowed by the court as part of bankruptcy proceedings with the specific purpose of allowing the company to restructure its assets as well as its operation to regain solvency, profitability, and creditworthiness.

Reorganization (mergers): is undertaken as part of reorganization by a parent company to consolidate its subsidiaries into a single company or merge with the parent company to strengthen management or operational control, or to streamline business activities.

Reorganization *(financial institutions*): is a process of restructuring the liabilities and assets of a financial institution in order to make it more profitable, liquid or solvent; may also involve substantial organizational changes, downsizing, and consolidation of its activities; this may become necessary owing to sustained losses because of badly impaired loan portfolio, or if the liabilities have higher cost, or if the assets are exposed to higher risks, or yielding low returns.

Repatriation: involves paying back returns and profits on foreign investment in foreign currency, similar to a debt servicing liability on a foreign loan; also means paying back in foreign currency the full amount invested by foreign investor, the repatriation of profits and capital or foreign investment.

Repayment: of a loan, a debt, or an obligation in the amount due as agreed such as the repayment of principal in installments or in full, at the time repayment is due.

Repayment Period: a period of time mutually agreed upon by the lender and borrower at the time of loan agreement concerning the repayment of loan; or a period of time extended by the lender subsequently.

Repayment Schedule: a time-based schedule mutually agreed upon by the lender and borrower for repayment of a debt in installments of fixed or varying amounts with full and final adjustment by a certain date.

Repayment Stream: is regular, periodic payments received by the bank from the borrower on a loan outstanding; a regular cash inflow on loan accounts and a major source of bank liquidity.

Replenish: to put in or deposit additional money into an account in order to maintain a required minimum balance or to cover withdrawals from that account; to make fresh contributions to a fund to maintain its desired funding level, or to cover withdrawals or uses from the funds.

Reported Book Capital: capital or owners equity in a business, or networth as disclosed or reported in the company's books of accounts; includes capital stock issued plus paid-in capital in excess of par value plus retained earnings.

Reporting Date: is the date or day of the report of an account, a transaction or a financial statement as stipulated in reporting guidelines or requirements; it is a mandatory day or a date by which a report must be submitted.

Reporting Days: the number of days in the interviewing period as specified in reporting requirement to be covered by regular periodic reports; the number of day after which a periodic report is due.

Reporting Requirements: as stipulated by authorities concerned regarding financial transactions or transfers by businesses and banks; or stipulated by the central bank and to be complied by banking and financial institutions as part of the banking supervision guidelines and regulatory framework concerning bank's financial statements, reserves, and liquidity requirements, loan portfolio status, provisioning requirements, and lending activities by economic sectors, category of borrowers, or geographic areas.

Reporting System: is a system which standardizes the periodicity, format, coverage and contents of information which are required to ensure adequate, correct and timely flow of information necessary for control and decision-making in a business organization or financial institution; or information to be submitted to a given authority or agency such as the central bank.

Repressed Financial System: is a rigidly controlled financial system, with detailed restrictions on its organization and operation; a system marked by too much of regulatory restraints and state intervention in the pricing and allocation of financial resources, segmentation of operational activities, restrictive controls on incorporation and business operations, resulting in excessive regimentation of the financial activities and interfering with market based arrangements with regard to resource mobilization and allocation, thereby adversely affecting growth of the financial system and eventually the economy over the long run.
(*see financial repression*)

Repressed Rates: are regulated or controlled interest rates, below market-based rates; for example, a maximum lending rate fixed by the authorities lower than the prevailing market rate for loans of similar maturity and risk; such repressed rates create distortions in loan pricing and fund raising activities.

Repricing of Assets: adjustment in the price or the rate of return of an asset or a security based on revaluation of assets in line with the market conditions or increased degree of risk; a revaluation or reappraisal of the asset; the price may be a rate of return on risk-free asset or a return loaded with risk premium to compensate investors for assuming a given level of risk.

Reproducible Capital Stock: a capital stock that is replaceable or renewable, mostly physical capital stock; in financial terms, it may be interpreted as the difference between authorized capital and paid-up capital of a company which can be issued as and when equity funds are desired; it refers to capital stock which is produced anew or created out of capitalization of company's retained earnings, but does not result in any cash inflow to the company.

Repurchase Agreement (Repo): is a contract of sale of securities with a simultaneous commitment to repurchase the same at a specified date and price; offer an arrangement or a technique to raise short term liquidity from the money market; also provide a means to maximize earnings on treasury bills and government securities if the banks and financial institutions enter into Repo with the central bank or other players of money market; for the counterparty, investment in a Repo transaction enables short term placement of excess liquidity for earning a return.

Rescheduling (commercial bank loans): for commercial bank loans, rescheduling is the process of lengthening maturities of principal repayment to provide the borrower additional time for loan repayments and to recover from business losses or delays; or allow the borrower to overcome other genuine economic or financial difficulties, provided the interest continues to be serviced on time because rescheduling does not generally involve changing of interest rate terms as originally agreed upon.

Rescheduling (foreign loans): in international lending, such as loans to less developed countries, rescheduling of external debt outstanding and disbursed is needed if the country is unable to meet its foreign debt obligations; such rescheduling is invariably accompanied by a financial assistance agreement contingent on stiff terms and conditions regarding economic and financial reforms and changes in the economic and financial policies deemed essential for the success of economic program which provides the underpinning for the rescheduling agreement.

Reserve: appropriation of profits or retained earnings by banks, businesses and companies for a designed purpose, such as asset replacement reserve or general reserves; it includes reserves maintained in the form of cash and risk-free securities; it also refers to setting aside of a part of profit in anticipation of likely losses such as loan loss reserve to take care of possible bad debts.

Reserve, as contingencies: appropriation or setting aside of profit or retained earnings for contingencies which may be identifiable but quantification thereof in exact amount is not possible; for example, reserve for an adverse decision in a court case under litigation.

Reserves, banking: at the aggregate level, it is the sum of both the statutory and excess reserves held by the central bank on the deposit base of the banking system; these are amounts deposited by the banks in their reserve accounts with the central bank free of interest charge; for a single bank, it is that portion of deposits which a bank sets aside and deposits it with the central bank to meet the statutory reserve ratio requirement stipulated by the central bank; in addition to these statutory reserves, banks also maintain additional reserves or excess reserves with the central bank determined by several factors such as the structure and type of deposits, the extent of use of cheques, and the amounts needed for the settlement of all types of liabilities and debts.

Reserve Money: *(see Money)*

Reserve Ratio: is the prescribed ratio of cash reserve balances to deposits and liabilities that are subject to reserve requirement of the central bank; for example, the reserve ratio in Pakistan at present is 5 percent of a bank's time and demand liabilities; where the liabilities, and their components of time and demand deposit liabilities are defined by the State Bank of Pakistan.

Reserve Requirement: is a percentage of deposits and other liabilities which banks are required to maintain as statutory reserve with the central bank; such reserves serve two purposes: one, they provide a cushion to safeguard the interest of depositors and, secondly, provide a tool of monetary policy to the central bank to control and regulate the expansion of credit and money supply, thus control liquidity, aggregate money demand, and inflation.

Residential Mortgage Loan: a loan which is collateralised by mortgage of a dwelling unit, usually owner-occupied.

Resolution for Authorized Signatures: when officers of a company are delegated powers to operate a bank account or issue instructions on behalf of the company, such delegation of powers must be approved at the company's meeting through proper resolution spelling out the extent of respective powers of the officers so authorized to sign for and on behalf of the company.

Resource Misallocation: in economic sense, misallocation occurs when the economic return of resources is below their potential or the optimum return, relative to returns from alternative uses of the resources; this may occur partly because resources are allocated by rules and regulations or directives, or in violation of market trends; in financial sense, misallocation occurs when financial resources are deployed in areas or activities with relatively lower financial returns than other uses that may yield higher returns; in social sense, resources are misallocated if the social needs are not provided for according to the social priorities or social objectives.

Respondent Bank: in correspondent banking relationship when one bank provides the service it is referred to as the correspondent bank and the one utilizing the service is known as respondent bank or downstream bank.

Responsible Accounting: is a system of collecting, classifying and reporting financial information as to costs, revenues or profits, and associating the performance with managers who are primarily liable for making decisions in these areas; the system is useful if managers have delegated authorities and they are made accountable for their performance with specific reference to the items or functions under their control.

Restore Confidence: actions taken to inspire or enhance confidence; in case of businesses and companies, restoring confidence means enhancing the quality of their products and services for their clients, and restoring the confidence of their creditors or investors; in case of borrowers, restoring confidence is mainly restoring their creditworthiness; in case of financial institutions, restoring confidence involves strengthening capital base, improving portfolio returns and profitability, and improving management.

Restrictive Endorsement: is an endorsement which either excludes the right of the endorsee to further negotiate the instrument, or constitutes the endorsee the agent of the endorser, or vests the title in the endorsee in trust for, or to the use of, some other person; by such endorsement the holder's right to endorse is terminated.

Restructuring: is a drastic action taken by owners of an ailing bank or an unprofitable enterprise to restore its viability and continuity, instead of bankruptcy and closure; restructuring typically involves enhancing the capital base through injection of fresh equity, improving management and organizational structure, downsizing closing down of loss making units, improving its operations, introducing new lines of products and services, thus enhancing its client base.

Restructuring (financial): involves injecting additional capital, reorganizing or structuring ownership of an entity or a bank, enhancing the equity base; installing financial management and control mechanism, preceded by a change in its operational structure and a resolution of existing liabilities and debts; availability of additional working capital and investment in modernization and refurbishing of facilities. *(see Loan Restructuring)*

Restructuring (organizational): involves changes in the management structure and introduction of new operational procedures and guidelines; a reduction in the work force; refocussed and re aligned business strategy; thus creating a new enterprise.

Restructuring Agreement: is a formal agreement between parties to restructuring; in case of debt restructuring, usually banks and borrowers settling details and revised terms of renegotiated and restructured debts.

Restructuring Fee: is a charge which may be recovered by the creditors in consideration of offering revised for debt restructuring or improved loan conditions, concessions, or lengthening of maturities under revised terms of restructured debt.

Restructuring of Loan/Debt: is a process whereby a creditor grants concessions to the debtor for financial or economic reasons relating to the debtor's financial difficulties; such restructuring usually involves troubled-debt which otherwise may not be recovered; under terms of restructuring, the creditor may accept a third party guarantee in settlements of a debt, or may accepts conversion of debt into equity to be held by the lender, or may accept modification of terms of the debt, such as a combination of reduction in interest rate, extension of maturity and reduction of principal or accrued interest. *(see Loan Restructuring)*

Retail Banking: routine banking services offered to all the clients in contrast with wholesale or corporate banking which concentrates on selected clients and specialized financial services; retail banking is a high volume business without any particular regard for the type or size of the clients or their transactions.

Retail Deposits: are deposits received by the banks from the general public in current and savings accounts usually with some restriction on size or the minimum balance of deposits accounts; in contrast with institutional deposits of large size maintained on negotiated terms.

Retained Earnings: are earnings of a business or a company which has not been distributed as profits or as dividends to its shareholders; these are earnings of a company, minus dividends paid, and are reported separately in the equity section forming part of company's net worth; a part of retained earnings may also be in the form of unappropriated profit.

Retained Profit: a company's profit after tax which is not paid out to the stockholders as dividend but retained as reserves in a given year.

Retire: for assets, it means removal of fixed assets from company's use due to expiry of its useful life or sale with proper entries for such removal or cancellation of acquired shares or redemption of bond or preferred stock by a company; for debts, it is the elimination of a debt obligation by repayment or settlement; for people, it means ending employment on the employee's attaining a specified age or on permanent withdrawal from job under the company's staff rules.

Return (earnings): earnings or dividends from invested capital, equity, shares or stock held; if earnings are inclusive of capital gains or losses, then it is total return on invested capital; yield on a bond; return on investment in a project; profits from a business activity, or a transaction; expressed as a rate or as a ratio.

Return (expected): is the future rate of return expected by investors; a key variable in investment decision making, approximated by internal rate of return or expected rate of interest.

Return (nominal): nominal return is the stated, contracted return, or amount received as dividends on a security or investment or interest received without any adjustment for inflation.

Return (real): nominal return adjusted for inflation; it is an important indicator in comparing effective return from various investments; for example, an investment earning 12 per cent return at a time when inflation is 10 per cent, its real return is 2 per cent.

Return on Assets Ratio (ROA): is the ratio of net profit to average financial value of total assets held during a year or over a specific period, where net profit is defined as gross profit less taxes; it is a key ratio to assess the profitability of a business or a bank and is an important test of management's ability to earn a return on total asset of the business or the bank including earning and non-earning assets, floating or fixed assets, financed from funds supplied from all sources.

Return on Bank Assets: is a ratio that measures bank's profitability by indicating degree of efficiency in employing institution's total funds; calculated by dividing the net income before tax by the average of total assets at the beginning and at the end of a year.

Return on Capital: net income before tax divided by the average capital funds including long term debts, preferred stock, common stock and retained earnings; the average of capital funds is worked out by taking the total capital funds at the beginning and end of the year, and dividing it by two; the ratio reflects the degree of company's efficiency in using long term funds.

Return on Equity Ratio (ROE): is the ratio of net profit to average owner's equity during a year or a specific period, where net profit is defined as profit after taxes; it is an indicator of return on capital, invested in a business or a bank; it provides a benchmark for comparing the profitability of investment in diverse business activities, it reflects how well equity funds have been used by the business or the bank; hence it is a key ratio effecting investment decisions.

Return on Investment Ratio (ROI): is the ratio of net income to investments, and is a measure of efficiency of resource use in generating net income, after interest and taxes; since the net income is available to shareholders, this ratio represents return on investments of shareholders in the firm; also called the Du Port Ratio.

Return to Lender: is the actual or effective return or yield to a lender calculated after taking into account the relationship between the amount of interest income and amount of funds loaned, and the period of loan; for example, if a bank lends by discounting a six-month bill of Rs 1,000 at 10 per cent, the annualized return to it would be 10.52 per cent as he gets a return of Rs 50 on Rs 950 which is the actual amount of fund deployed by it for six months.

Return to Owners: is respective share of profit or income to the owners of business to the average amount of their equity in the business during a given year.

Return to Shareholders: is the ratio of a company's earnings to the amount invested in the company by the shareholders as equity; for example, if a company has made a profit after tax of Rs 1 million, and its shareholders have invested Rs 10 million as paid-up capital and Rs 2 million as share premium, the return to shareholders would be 8.33 percent.

Revaluation (assets): is an adjustment in the recorded or book value of assets pursuant to an assessment or appraisal of the assets at current market prices and costs, based on acceptable revaluation methodologies and procedures of assessment and appraisal.

Revaluation (currency): is appreciation of the exchange rate of the domestic currency; an increase in the unit value of domestic currency in units of foreign currency.

Revaluation Reserve: is the amount of reserves owing to an increase in asset values pursuant to a revaluation; if the historic cost of an asset is appraised upward because of appreciation in its value, the resultant increase is debited to the account of the concerned asset against a credit to revaluation reserve or revaluation surplus account which is reported separately in the equity section; the balance in such reserve or surplus account is held until the asset is sold or retired.

Revaluation Reserve of Fixed Assets: is the amount of reserves owing to an increase in the appraised value of fixed assets; if a fixed asset is properly revalued, the account of revalued asset is adjusted by debiting it with the difference between historic cost and revalued amount against a corresponding credit to revaluation reserve or surplus which is reported separately in the equity section; the additional depreciation on the revalued amount is charged to revaluation reserve account; the balance in revaluation reserve or surplus account is held until the asset is sold or retired, and proper accounting entries are made.

Revenue Bond: is a bond issued by the government authorities concerned or the municipalities with payment of interest and principal from the income generated by the project that are financed by the proceeds of the bond; the income generated by the project or facility, built with the bond money, goes first towards the debt servicing on the bond; thus the bond is secured by the income of the assets financed.

Reverse Mortgage: is a mortgage where the lender makes monthly payments on borrower's behalf, or approves a credit line up to the accumulated equity in the property which the borrower has built up by making gradual repayments of original mortgage debt.

Reverse Repurchase Agreement (reverse Repo): is the opposite of repurchase (Repo) agreement; it occurs when a bank or money market player having surplus funds purchases securities from the holder with a simultaneous agreement for resale of such securities to the seller at a future date and specified price; repos are used by money market institutions for securing short term investment income; or used by the central bank as a monetary policy and control tool, where repo transactions are fully collateralised by the government securities.

Reverse Swap: a transaction in the secondary swap market entered into with the original counterparty or a new counterparty offsetting the interest rate or currency exposure on an existing swap resulting in capital gains.

Revitalized Bank: a reorganized or restructured bank with improved and strengthened management, operations, and improved financial position by induction of additional equity or raising of long term capital through a revitalization process initiated by the bank itself or by the supervisory agencies.

Revolving Credit: a renewable credit available to a borrower or account holder pre-approved and pre-arranged with the lending bank with regard to credit limit, terms and conditions; provide ready liquidity or payment cover to the borrower with uncertain cash flows for a short period and of market interest rates.

Revolving Line of Credit: a line of credit which is available up to an agreed amount for a stated period, where the borrower may draw down, under the line, at any time or repay it in full without restriction or penalty.

Risk Acceptance Criteria: the usual criteria for risk acceptance are the reward which the risk-taker expects in the form of higher than average return; market and economic conditions facing the risk-taker and alternative avenues available; and attitude of the risk-taker to accept or avoid risks.

Risk Assessment: is the process of evaluation, measurement and determination of the creditworthiness, capability and willingness of the counter-party to pay or perform under a deal; analysis of the market and economic conditions relevant to a transaction with a view to assess the degree of risk involved in it; usually this process includes credit investigation, analysis of financial statements and financial flows, ascertaining the business integrity of the counter-party, evaluation and forecast of the related aspects of business and economic trends.

Risk Assets: for a bank consist of its local portfolio and investments exposed to reduction in the value of assets because of various types of risks associated with those assets.

Risk Assets Ratio: is the ratio of risk assets to total assets, or assets with lesser risks; or the ratio of risk assets to equity, providing a measure of riskiness of the asset portfolio.

Risk Aversion: is to avoid risks in financial, business or investment activities; to pursue a prudent and time tested course of action that does not create exposure to unnecessary risks beyond those considered normal in the activity concerned.

Risk Based Capital Method: a method of determining a bank's financial strength based on its capital adequacy relative to risk-weighted assets as stipulated under the Basel Capital Accord devised by the Basel Committee on Banking Regulation and Supervision, and being adopted by many countries including Pakistan; the main objective is to ensure that banks maintain equity capital in sufficient amounts to cover the risks inherent in their asset holdings reported in the balance sheet items. This method shifts the onus of determining capital adequacy of a bank from the liability side of the balance sheet to the asset side, where assets are classified according to their risk levels.

Risk Based Capital Ratio: is the capital adequacy ratio, calculated as the ratio of capital to risk weighted assets, normally stipulated at 8 per cent under the Base Committee Guidelines adopted in Pakistan.

Risk Capital: also called venture capital; equity or long term debt financing secured to start a new business venture or new projects, or embarking on new or turnaround ventures that involve high investment risk but at the same time offer the potential for above average future returns.

Risk Diversification: is to curtail or minimize risk of loss in the value of assets or investments, loan portfolio, or deposits held through diversification; a common method is to diversify investments in an investment portfolio in such a way that a decline in the value of one or few investments remains within tolerance limits, and is compensated by gains on other investments.

Risk Free Rate: is the rate of return on an investment or a loan which has practically no interest rate or credit risk; for example, the return on government loan if the loan is extended at a fixed interest rate, since such a loan carries an implicit guarantee for credit risk.

Risk Free Security: is a security which has no risk of loss of capital and return; for example, securities issued by the government; one way of making a security less risky is to cover it through hedging or with a guarantee or insurance against any loss of the capital or earnings.

Risk Premium: is the extra return or reward that the risk-taker demands, and sometime gets, for taking a higher than normal risk for a financial or commercial undertaking or a business transaction; in banking a risk premium levied on marginal borrowers or a riskier loans.

Risk Tolerance: is acceptability of the type and level of risk associated with an asset or a business or financial activity; since risk is inherent in nearly all the business and commercial activities, there is always a level of tolerance up to which they are generally accepted; for example, if the lender knows that there could be a loan loss up to 5 per cent and he would be able to sustain the loss, then this becomes a level of risk tolerance beyond which the lender will not be prepared to take the risk.

Riskless Assets: are assets having a risk rating of zero; such assets can be converted into cash at a later date on the original value without loss; for example, treasury bills.

Risk Taking: is participation in risky activities such as business venture, investment, lending, or in a commercial or financial transaction.

Risk Weighted Assets: assets classified according to their risk through a system of assigning weights to the degree of risk inherent in the assets on the balance sheet of a bank to determine capital adequacy; the system as devised by the Basle Capital Accord Update of 1997 and adopted in several countries is as follows:

- zero weight for cash and claims on central government and denominated in national currency.
- zero to 50 per cent weight for claims in public sector entities, and mortgage loans fully secured by residential property.
- per cent weight for claims on multinational banks, or claims guaranteed by banks.
- full weight (100 per cent) for claims on the private sector, companies, foreign banks, fixed assets, financial instruments and commercial property.

Thus, assets are classified into four categories from the least risky to the most risky depending on the category of risk, denominated by weights assigned as above. *(see Loan Classification, Asset Classification)*

Risky Lending: is lending to risky borrowers, or lending for risky activities in volatile business; or lending without proper credit risk assessment for various types of risks that a loan may have exposure; or lending with insufficient security or a collateral without obtaining relevant charge documents to secure both the financial and legal position of the collateral; or lending for activities with uncertain income for higher than normal interest mark-up or front end fees.

Risky Projects: are projects which appear to offer higher than average return prospects, but at the same time carrying several risks which threaten the loss of original investment.

Risky Venture: is a business activity or investment with uncertain outcome, but offering the prospects of higher than normal returns; in certain cases risky ventures with above-average risks are intentionally taken up in anticipation of higher returns and profits.

Robust Financial System: is a sound financial system consisting of strong and healthy banks and financial institutions, capable of sustaining cyclical market swings and downturns without compromising their soundness or viability; engaged in diverse financial intermediation activities; optimizing financial resource mobilization and allocation, thus supporting investment and growth; responsive to regulatory controls and supervision mechanisms; and largely free of systemic risks.

Rogue Bank: is a bank which is involved in activities which are not conducted according to acceptable banking practices and which may be fraudulent or illegal.

Rollover: is an obligation which has matured for payment but is not paid; instead, it is converted into another or similar type of obligation, or a loan which is renewed on maturity for a similar or different period on similar or revised interest rate; or a term deposit which is rolled over into another term deposit on maturity.

Rolled over (loans): renewal of a loan which remains unpaid on the date when its payment falls due, and lender agrees to accommodate the borrower by extending payment date or renewing it for another period on same terms and conditions or on revised terms.

Round-Tripping: is multiple turnover or multiple access to a financing facility; a sales arrangement permitting repurchase and sale without-limiting number of transactions; multiple turnover in managed foreign exchange markets owing to substantial spread between managed exchanged rates and market exchange rates.

Run on the Bank: is an unexpected or excessive withdrawal of deposits from a bank by the depositors; panic withdrawals of deposits triggered by an event or a rumor threatening the bank's soundness; but a series of withdrawals from a bank by its depositors in order to earn a better return elsewhere is called a *silent run* on the bank .