MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
SUMY STATE UNIVERSITY

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UPGRADE YOUR FINANCIAL ENGLISH

Handbook

Recommended by Academic Council of Sumy State University

Sumy
Sumy State University
2018

УДК 811.111.336(075.8)
A11

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Recommended for publishing by the Academic Council
of Sumy State University as a handbook
(minutes № 9 of 09.03.2017)

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A11 Upgrade Your Financial English : handbook / L. V. Andreyko, A. O. Khodtseva. – Sumy : Sumy State University, 2018. – 90 p.

Upgrade Your Financial English is a course for Master students majoring in finance. The book covers a wide range of topics and practices the skills essential to operating successfully in the financial industry. The course helps students to prepare for a career in finance and enables those already working in the industry to improve their financial English. The 8 units build vocabulary and develop key language functions while also providing extensive practice in business communication skills. It is suitable for self-study and class work and can serve as a supplement for basic textbooks used in the ESP course.

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PREFACE

Upgrade Your Financial English is designed to help intermediate and upper-intermediate learners of business English improve their knowledge of finance.

The book is aimed to:

- explain the basic concepts of most areas of finance
- build students' financial vocabulary through reading and discussion
- develop students' comprehension of financial texts
- improve students' speaking skills through discussion
- develop students' business communication proficiency by increasing students' confidence and fluency in a range of skills.

The course consists of 8 units, which cover such areas of banking and finance as money and income, business finance, financial institutions, commercial and retail banking, personal banking, investment banking, central banking and interest rates.

Each unit is divided into four parts: Vocabulary, Consolidation, Reading and Over to you. *Vocabulary* section provides explanations of new words as well as information about typical word combinations and the grammar associated with particular vocabulary, for example the verbs that are typically used with certain nouns. There are also notes on language points, including differences between British and American English. *Consolidation* section contains exercises for practicing new vocabulary and tests students' understanding of the concepts, presented in the *Vocabulary*. Some units have diagrams or tables to complete, or crosswords. *Reading* section includes authentic business texts and comprehension exercises. *Over to you* section gives students the chance to put into practice the words and expressions in the unit in relation to their own personal and professional background. It can be used as the basis for discussion with the whole class, or in small groups with a spokesperson for each group summarizing the discussion and its outcome for the class. Each four units are followed up by a *Revision* section, where learners can check their knowledge of new words and expressions in a structured and systematic way.

The materials can be used for self-study or as a part of a language course for Master students majoring in finance. The book will also be a useful source of information for teachers who need to run courses in Business English.

UNIT 1: MONEY AND INCOME

VOCABULARY

A – Currency

The money used in a country – euros, dollars, yen, etc. – is its **currency**. Money in notes (banknotes) and coins is called **cash**.

Most money, however, consists of **bank deposits**: money that people and organizations have in bank accounts. Most of this is **on paper** – existing in theory only – and only about ten per cent of it exists in the form of cash in the bank.

BrE: note or banknote;
AmE: bill

Collocations:

- **money laundering** *n* [U] when money that has been obtained illegally is put into legal businesses or bank accounts in different countries, so that it is difficult for people to discover where it came from: *They will now face trial on money laundering charges*;
- **to make money**/to gain money: As *an estate agent, he made a lot of money buying houses cheaply and reselling them.*
- **to save money:** *People are eating out less to save money*;
- **to spend money:** *Americans spent more money even though they earned less;*
- **to borrow money:** *You should borrow money from the bank to pay for your course*;
- **to pay money (for smth);**
- **to raise money** to obtain it for a particular purpose: *He has picked a difficult time to raise money from outside investors;*
- **to earn money:** *He doesn't earn very much money*;
- **to have money:** *He didn't have any money on him*;

- **to bring in money:** *They hoped the scheme would bring in quite a bit of money*;
- **to get money/receive money:** *She'll have to get some more money from somewhere*;
- **to owe money** to have not yet paid money you borrowed;
- **to charge money:** *ABC bank charges huge amounts of money for its services*;
- **to bank money/deposit money/pay in:** *Small shopkeepers bank their money at the end of the day*;
- **to draw out money/get out money/withdraw money/take it out;**
- **to invest money:** *I sensibly invested my prize money rather than spending it;*
- **to lose money** not to make a profit, so that a business owes more than it earns: *The company is losing money and may have to close down;*
- **to lend money:** *Could you lend me some money?*;
- **to provide sb. with money;**
- **big money:** *There is big money in tennis for the top players*;
- **easy money:** money that you earn very easily, without having to work hard: *People were tempted into the trade by the thought of easy money.*

B – Personal finance

All the money a person receives or **earns** as payment is his or her **income**. This can include:

- a **salary**: money paid monthly by an employer, or **wages**: money paid by the day or the hour, usually received weekly
- **overtime**: money received for working extra hours
- **commission**: money paid to salespeople and agents – a certain percentage of the income the employee generates
- a **bonus**: extra money given for meeting a target or for good financial results

- **fees**: money paid to professional people such as lawyers and architects
- **social security**: money paid by the government to unemployed and sick people
- **a pension**: money paid by a company or the government to a retired person.

Salaries and wages are often paid after deductions such as social security charges and pension contributions.

Amounts of money that people have to **spend** regularly are **outgoings**. These often include:

- **living expenses**: money spent on everyday needs such as food, clothes and public transport
- **bills**: requests for the payment of money owed for services such as electricity, gas and telephone connections
- **rent**: the money paid for the use of a house or flat
- **a mortgage**: repayments of money borrowed to buy a house or flat
- **health insurance**: financial protection against medical expenses for sickness or accidental injuries
- **tax**: money paid to finance government spending.

BrE: social security; AmE: welfare
BrE: flat; AmE: apartment

A financial plan, showing how much money a person or organization expects to earn and spend is called a **budget**.

Planned monthly budget for next year (€)			
Income		Outgoings	
Salary (after deductions)	3,250	Rent	900
Commission (average)		Bills	250
		Living expenses	1,200
		Health insurance	130
		Tax	800
Total	**3,850**	Total	**3,280**

Collocations:

- **state budget**
- **federal budget**
- **city budget**
- **project/departmental/corporate budget**
- **annual/monthly/quarterly budget**
- **to work on/draw up/establish a budget**
- **to cut/reduce/increase/raise a budget**

CONSOLIDATION

1. Complete the sentences with the words from the box.

commission	bonus	currency	earn	mortgage	Social security
overtime	pension	rent	salary	tax	

1. After I lost my job, I was living on ……. for three months. This was difficult, because the amount was much lower than the …….. I had before.

2. I used to work as a salesperson, but I wasn't very successful, so I didn't ……..... much ……. .

3. If the company makes 10 % more than last year, we'll all get a .... at the end of the year.

4. It'll take me at least 25 years to repay the .... on my house.

5. Many European countries now have the same .... the euro.

6. My wages aren't very good, so I do a lot of ....

7. Nearly 40 % of everything I earn goes to the government as ....

8. The owner has just increased the .... on our flat by 15 %.

9. When I retire, my .... will be 60 % of my final salary.

2. Are the following statements true or false? Find reasons for your answers.

1. Bank deposits are not classified as money.
2. People earning wages get paid more often than people earning a salary.
3. People working on commission always get paid the same amount.
4. When you stop working at the end of your career, you receive a pension.
5. Most people pay a rent and a mortgage.

READING

According to a recent report in the New York Times three out of five US undergraduates carry at least one credit card. But along with widespread card use there are some horror stories of students crushing themselves with debt...

By using a credit card, you can postpone paying a bill until the end of the month. In other words, you get credit for one month, without having to pay interest. However, if you do not pay at the end of the month, you will have to pay high interest rates.

Read the text below about MasterCard, a credit card company. It gives tips on how to control your debt. By encouraging budgeting, MasterCard tries to discount allegations that credit card companies are driving people into debt so that credit card companies could make more money from higher interest rates.

Fill the gaps using the following words: *expenses, purchasing, income, savings, spending*.

Credit cards anyone?

Did you know that a written budget is a great way to help you control your hold on to more of your money, and help you plan for the future?

A budget is a complete list of ……. and ……. that you can post on your fridge or store on your hard drive. It doesn't matter where it goes, just as long as it helps you make even smarter ……. and ……. decisions.

A budget takes a little time to establish. To get started, keep track of all the money coming in (…….) and all the money going out (…….) for a few months. Certain ….. are for the basic necessities of life − like rent, food, telephone, electricity and transportation. These usually occur every month, although the amount may vary. Other (……) are "optional", yet important to you − like entertainment and vacations.

Set up your monthly budget, and then enter the actual as they are incurred. Track whether you're ……. more or less than you budgeted, and take this into account when you set up your next month's budget. If your ……. are higher than your income, look for ways to reduce ……. .

Once you figure out how you're ……. money, you can start to factor ……. into your budget. Make ……. a part of every month's …….., and it will become a helpful habit.

Motivate yourself by creating a ……. goal − for college, a new car, a vacation or maybe an apartment.

OVER TO YOU

- Students need money. A lot of money. But where do they get it and what do they spend it on? Let's find out by examining how you spend your money and comparing with the rest of the class.

- Individually, draw up a list with your monthly expenses and a list with your monthly income. Check whether you are in the black or in the red.

Income categories	**In UAH/ month**	**Expenses categories**	**In UAH/ month**
Allowance from parents Student job Other		Accommodation Food Transport Study materials Clothing & Accessories Books, CDs DVDs Cigarettes Sports Hobbies Going to the movies Concerts &Festivals Clubbing & Pubs Rentals: video, games Other	
Total		**Total**	

- Compare your expenses with your colleagues'. Get ready to present the most interesting results to the class. Include a list of 10 original tips for saving money (eat at university restaurants, etc).
- Do you know what the average income is in your country, and in your job, or the one you are studying for? How important is salary in your choice of career?

UNIT 2: BUSINESS FINANCE

VOCABULARY

A – Capital

When people want to **set up** or start a company, they need money, called **capital**. Companies can **borrow** this money, called a **loan**, from banks. The loan must be paid back with **interest**: the amount paid to borrow the money. Capital can also come from issuing **shares** or **equities** – certificates representing units of ownership of a company. The people who invest money in shares are called **shareholders** and they own part of the company. The money they provide is known as **share capital**. Individuals and financial institutions, called **investors**, can also **lend** money to companies by buying **bonds** – loans that pay interest and are repaid at a fixed future date.

Money that is **owed** – that will have to be paid – to other people or businesses is a **debt**. In accounting, companies' debts are usually called **liabilities**. Long-term liabilities include bonds; short-term liabilities include debts to suppliers who provide goods or services **on credit** – that will be paid for later.

The money that a business uses for everyday expenses or has available for spending is called **working capital** or **funds**.

BrE: shares; AmE: stocks
BrE: shareholder; AmE: stockholder

B – Revenue

All the money coming into a company during a given period is **revenue**. Revenue minus the cost of sales and operating expenses, such as rent and salaries, is known as **profit, earnings** or **net income**. The part of its profit that a company pays to its shareholders is a **dividend**. A part of the profit that a company has made but has not paid to shareholders is **accumulated profit**.

Collocations:

- **after-tax/pre-tax profit:** *Pre-tax profits rose 22.3 % to £ 13.7 m;*
- **an increase/jump/rise in profit;**
- **a drop/fall in profit;**
- **big/record/strong profits;**
- **future/short-term/small profits;**
- **annual/corporate/taxable profits;**
- **pure profit;**
- **to make/realize/turn a profit:** *The company said it had made a profit of about £ 1.4 bn on the deal;*
- **to sell smth at a profit:** *A realized gain occurs when we sell an investment at a profit;*
- **to report profits**: *In the year to March the company reported profits after tax of € 900,000;*
- **to boost/increase profits;**
- **profits fall/increase/rise:** *Sales and profits rose last year.*

Companies pay a proportion of their profits to the government as tax, to finance government spending. Types of tax, which companies or people pay:

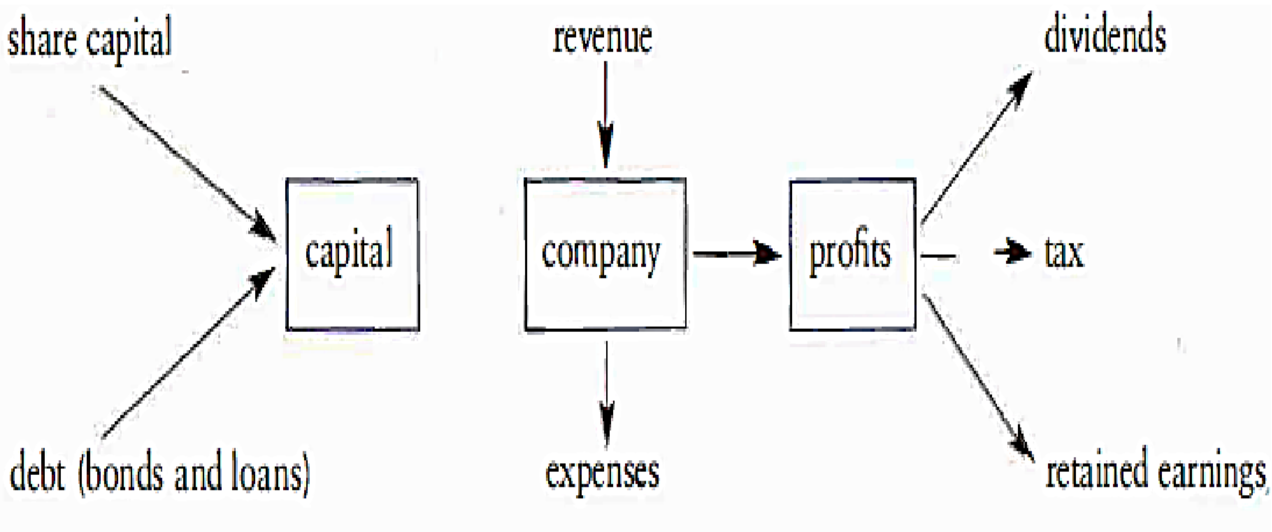
- **capital gains tax** – tax on the profits made from selling something you own;
- **corporation tax** – tax paid by businesses on their profits;
- **excise duty** – a tax on some types of goods such as alcohol, cigarettes, or petrol paid to a national or state government;
- **luxury tax** – a tax on expensive goods that are not necessary but are bought for pleasure;
- **progressive tax** – tax in which the rate of tax is higher on larger amounts of money;

- **VAT (Value Added Tax)** – a tax that is paid at each stage in the production of goods or services, and by the final customer. Businesses in the production process take away the cost of inputs (labour, materials) from the cost of outputs (products and services sold) to calculate the amount that they must pay.

Collocations:

- **tax avoidance** – a legal way of reducing the amount of tax a person or company would normally pay;
- **tax evasion** – illegal methods used by people or companies to reduce the tax they pay, or a particular situation where this happens;
- **tax haven –** a place where people live or invest money so as to pay less tax than they would in other countries;
- **tax holiday** – a period when people or companies do not have to pay any tax or not as much tax as usual on goods, services, or profits;
- **tax relief –** a reduction in the amount of tax that has to be paid.

Companies also **retain**, or keep, some of their earnings for future use.



C – Financial statements

Companies give information about their financial situation in **financial statements**. **Financial statement** is a report provided by a company for its shareholders and investors that shows details of its financial situation, and includes documents such as the profit and loss account and balance sheet.

Collocations:

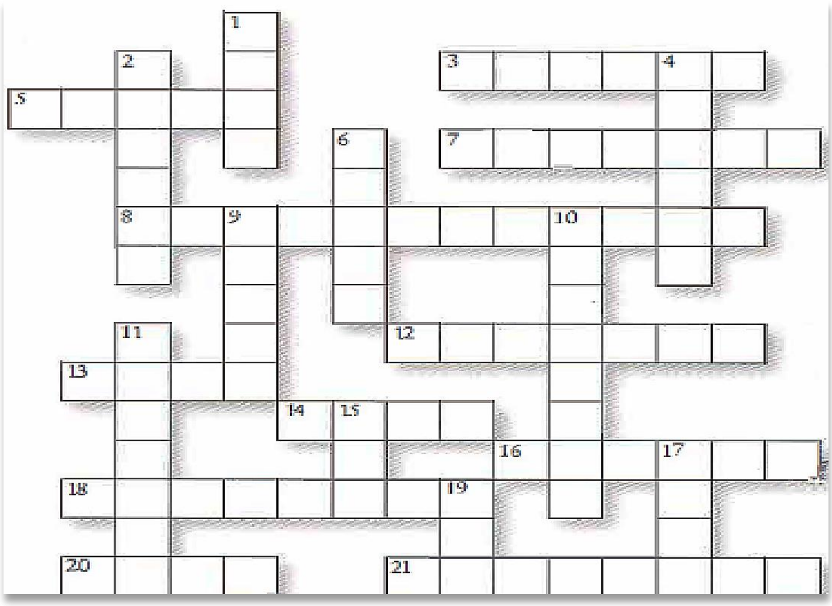
- **annual/quarterly/year-end financial statement:** *The company's annual financial statement reported plans to spend up to $ 120 million on improvements;*
- **to prepare/publish a financial statement:** *There are various procedures that must be followed when preparing financial statements;*
- **to audit/approve a financial statement:** *The interim financial statement was approved by the board of directors at their meeting last week.*

The **balance sheet** shows the company's **assets** – the things it owns; its liabilities – the money it owes; and its capital. The **profit and loss account** shows the company's revenues and expenses during a particular period, such as three months or a year.

BrE: profit and loss account;
AmE: income statement

CONSOLIDATION

1. Complete the crossword.



Across

3. Small companies often try to get bank loans when they need to .... money. (6)

5. We don't have sufficient .... to build a completely new factory. (5)

7. (and 6 down) Details of a company's liabilities are shown on the .... (7,5)

8. We're going to raise more money by selling new shares to our existing .... (12)

12. We had to raise € 50,000 .... in order to start the business. (7)

13. We're going to pay back some of the people, who lent us money, and reduce our .... (4)

14. I decided to buy a $ 10,000 .... instead of shares, as it's probably safer. (4)

16. Another term for profit is net .... (6)

18. I think this is a good investment: it pays 8 % .... (8)

20. When they saw our financial statements, the bank refused to .... us any more money. (4)

21. Profit is the difference between revenue and .... (8)

Down

1. The profit and .... account shows if a company is receiving more money than it is spending. (4)

2. If you don't like taking risks, you should only .... in very successful companies. (6)

4. A company's retained earnings belong to its .... (6)

6. See 7 across.

9. Anything a company uses to produce goods or services is an .... (5)

10. The company made such a big profit, I expected a higher .... (8)

11. We sold a lot more last year, so our .... went up. (7)

15. We .... our suppliers $ 100,000 for goods bought on credit. (3)

17. Everyone who buys a share .... part of the company. (4)

19. Thirty per cent of our profits goes straight to the government in .... (3)

READING

Part I: Types of Accounting

1. You are going to read the text about accounting. Before you read, check your understanding of the words and phrases in the box by matching them with their definitions (1–10).

assets	cost accounting	income	tax accounting	auditing
expenditure	liabilities	bookkeeping	management accounting	financial accounting

1 anything owned by a company – cars, buildings, machines, etc.

2 calculating how much tax an individual or a company should pay – or trying to reduce this figure

3 checking and evaluating financial records

4 determining the unit cost of a manufactured product, including interest costs

5 keeping financial records and preparing financial statements

6 money that a company will have to pay to someone else – bills, debts, interest, taxes, etc.

7 recording transactions (purchase and sales) in ledgers

8 the money that a company receives from supplying goods or services

9 the money that a company spends

10 the use of a company's accounting data by its managers for planning and control

2. Read an extract from the interview with Eric Sharp, a financial director, about different branches of the accounting profession. What three areas of work does he mention?

Eric Sharp: In general, the most of the boring work is done by purchase ledger clerks and sales ledger clerks. These are usually bookkeepers who are not qualified to a high level. The information they produce – which is basically a summary of transactions – can then be interpreted by management accountants. It can then be used by senior accountants at financial controller and director level, both for making decisions on the future of the business, and for advising other parts of the business on how to proceed.

The company's accountants also do an internal audit. The aim of this tends to be to ensure that management have sufficient internal control over what is going on. The aim of the external audit is to ensure that published financial statements give a true and fair view of the company's profit, and of its assets and liabilities.

3. Match the two parts of the sentences below.

1 Bookkeepers
2 Management accountants
3 Senior accountants at financial controller and director level
4 Internal auditing
5 External auditors

a) is about making sure that the management has sufficient control over what is going on in the company.

b) do the boring work – recording transactions in purchase ledgers and sales ledgers.

c) have to verify that a company's published financial statements give a true and fair view of its profit, its assets and its liabilities.

d) interpret the transactions recorded by the bookkeepers.

e) use accounting data to make decisions about how the business should proceed.

4. Which branches of accounting defined in Exercise 1 are not mentioned by Eric Sharp?
Would you be interested in working in these areas of accounting?

Part II: Financial Statements

1. Read an extract from the interview with Eric Sharp about financial statements and complete the text with the words and phrases from the box.

generating or consuming
shareholders
what it owes
income less expenditure

Eric Sharp: There are three or four different statements that companies include in their Annual Reports, which 1) …… can legally expect to see. The key documents are the profit and loss account, the balance sheet, and a funds flow statement of some kind. In the USA, and under International Financial Reporting Standards, the profit and loss account is called an income statement. This document is fairly self-explanatory: it’s 2) …… ……. …….. . The balance sheet is a statement showing what the company has, and 3) …… ……. ……. at the end of the year, while the funds flow statement attempts to show whether the company is 4) ……. ……. ……. cash. The tax authorities require more detail than is given in these documents; taxable profit is not the same as accounting profit, so they will expect to see reconciliations between the two.

2. Investors and many people working in finance need to understand the basic terms in financial statements. Decode which of the alternatives (a–c) each definition describes.

1. A charge for arranging a transaction (e.g. buying or selling securities)

    a) commission b) fee c) tax

2. A charge for service performed by a bank

    a) commission b) fee c) tax

3. Payments for an insurance policy

a) commissions b) premiums c) tariffs

4. A reduction in the value of an asset, charged against profits

a) amortization b) loss c) waste

5. Adjective meaning after all deductions have been made.

a) gross b) net c) zero

6. Adjective meaning for a whole group of companies

a) consolidated b) corporate c) mutual

7. Adjective meaning one year or less in financial statements

a) annual b) long-term c) short-term

8. Part-ownership (less than 50 %) of other companies

a) conglomeration b) liabilities c) minority interests

9. Things of value that cannot be physically touched, such as reputation (goodwill), brand names and trademarks

a) intangible assets b) liabilities c) tangible assets

10. The net worth of a company – the amount by which assets exceed liabilities

a) dividends b) profit c) shareholders' equity

OVER TO YOU

Think of the company you work for, or the one that you are interested in. How was it financed when it was set up, and how is it financed now?

UNIT 3: FINANCIAL INSTITUTIONS

VOCABULARY

A – Types of financial institutions

These are a student's notes from a lecture about banking.

For most of the 20th century, most banks operated in one country only (in the US, in one state only). Different kinds of banks did specialized kinds of financial business:

Retail banks or **commercial banks** worked with individuals and small companies:

- received deposits
- made loans.

Investment banks worked with big companies:

- gave financial advice
- raised capital – increased the amount of money companies had by issuing stocks or shares and bonds, organized mergers and takeover bids.

Insurance companies

- provided life insurance and pensions.

Building societies

- specialized in mortgages. Many have now become normal commercial banks.

BrE: merchant bank; AmE: investment bank

BrE: retail bank, commercial bank, High Street bank; AmE: retail bank, commercial bank

BrE: building societies; AmE: savings and loans associations

B – Jobs in Banks

Corporate banker one who provides advice to commercial and private clients about a variety of financial matters and promote financial services/products. Corporate bankers are employed by clearing/commercial banks, the Bank of England, the Financial Services Authority (FSA) and other banking sector firms. Their responsibilities include:

- meeting with and interviewing corporate and personal customers, discussing their financial requirements, and providing appropriate financial advice
- monitoring accounts
- assessing and reviewing financial circumstances
- authorising and evaluating overdrafts and loans including mortgages
- preparing lending agreements
- promoting the bank's services
- problem solving
- planning
- writing reports
- managing projects
- maintaining records
- recruiting, training and supervising junior banking staff.

Credit analyst one who assesses and makes decisions about customer credit applications using a range of criteria including purpose of application, credit viability, customer payment history, customer credit-worthiness: *Credit analysts must be able to handle very high levels of responsibility in their jobs – some lending proposals may be for amounts as great as £ 50,000,000.*

Employers of credit analysts include commercial, investment and foreign banks, building societies, investment/asset management companies, insurance companies and specialist credit rating agencies (for example, Standard and Poors, Dunn and Bradstreet). Typical tasks include:

- gathering information
- reading financial briefings

- assessing, analysing and interpreting complicated financial information
- undertaking risk assessment analysis
- visiting clients
- keeping company credit exposures within set risk bearing limits
- using credit-scoring systems for small credit amounts (such as small unsecured personal loans)
- keeping knowledge of key issues up-to-date (for example legal, market risk and compliance issues)
- helping to enhance the quality of credit applications
- making recommendations about procedural/policy changes.

Investment banker one who is responsible for the efficient, accurate, profitable and risk-free clearing and settlement of bank transactions for corporate and government clients. Typical responsibilities of the job include:

- supervising a team of clerks
- liaising with clients and other bank divisions
- collating and analysing systems information
- troubleshooting problems
- pinpointing ways of improving and developing systems
- ratifying data flows and ensuring accuracy (operations control)
- helping to maximise efficiency and bank profitability
- ensuring that transactions are cleared and settled correctly
- managing day-to-day banking processes
- managing projects
- checking daily transaction reports
- co-ordinating systems testing.

Investment fund manager one who provides financial advice and services to private and corporate clients about a range of investment matters including buying and selling unit/investment trusts and shares/bonds. Investment fund managers work very closely with investment analysts. Fund managers take decisions about investments, while analysts provide them with financial information and recommendations that enable such decisions to be made. Typical tasks include:

- regularly meeting with investment analysts and company managers to discuss financial matters
- researching companies
- gathering information
- reading financial briefings (often written by investment analysts)
- making informed financial recommendations and decisions
- keeping knowledge up-to-date about the UK economy, current financial news, financial markets and more
- assessing and interpreting complicated financial information
- liaising with clients.

Retail banker one employed by major clearing banks to undertake the strategic and day-to-day management of their branches. Typical responsibilities of the job include:

- recruiting, training, supervising and appraising banking staff
- discussing the financial requirements, and providing financial advice to personal and business clients
- assessing and reviewing financial circumstances
- forging and maintaining good links with the local community
- authorising and evaluating overdrafts and loans
- developing a network of local business contacts

- promoting the bank’s services
- problem solving
- planning
- writing reports
- managing budgets
- maintaining statistical and financial records
- dealing with complaints.

C – Deregulation

The financial industry changed radically in 1980s and 90s when it was **deregulated**.

Before **deregulation**: rules and regulations in the US, Britain and Japan prevented commercial banks doing investment banking business. Some other countries (Germany, Switzerland) already had universal banks doing all kinds of financial business.

Today: many large international **conglomerates** offer a complete range of financial services. Individuals and companies can use a single financial institution for all their financial needs.

D – Specialized banks

Other types of banks still have specialized functions:

- **central banks** issue currency and carry out the government’s financial policy
- **private banks** manage the assets of rich people or **high net worth individuals**
- **clearing banks** pass cheques and other payments through the banking system
- **non-bank financial intermediaries** such as car manufacturers, food retailers and department stores now offer products like personal loans, credit cards and insurance.

CONSOLIDATION

1. Find words with the following meanings:

1 a company offering financial services

2 the money a company uses, raised by way of shares and bonds

3 when two formerly separate companies agree to join together

4 a company formed by the merger or takeover of several other companies

5 the ending of some rules and restrictions

6 when a company offers to buy the shares of another company to gain control of it

2. Before financial deregulation, which types of financial institutions did these types of business?

1 arranging mergers

2 offering life insurance

3 issuing shares and bonds

4 providing mortgages

5 receiving deposits and making loans to individuals and small companies

6 giving financial advice to companies

7 organizing (or defending against) takeover bids

8 providing pensions

3. The extracts below are from websites. Which types of banks do the websites belong to?

1. The Federal Reserve was founded by Congress in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system.

2. We provide a full range of products and services, including advising on corporate strategy and structure, and raising capital in equity and debt markets.

3. How can we help you? We can:

- build a long-term, one-to-one relationship with your banker
- manage your family's diverse business and personal assets
- build a portfolio tailored to your family's unique needs
- play an active role in managing your assets.

4. Nearly twelve million cheques and credits pass through the system each working day. Cheque volumes reached a peak in 1990 but usage has fallen since then, mainly owing to increased use of plastic cards and direct debits by personal customers.

5. Why bank with us? Because we offer:

- a comprehensive range of accounts and services
- over 1,600 branches, many with Saturday opening
- free withdrawals from over 31,000 cash machines
- online and telephone banking for round-the-clock access to your accounts.

READING

Part I: The development of the financial industry

1. You are going to read the text about the financial industry. Before you read, check your understanding of banking vocabulary by completing each sentence with a word from the box.

bonds	deposit	mortgage
shares	takeover	capital
merger	pension	stocks

1. A …… is a loan to buy property.
2. Money you put in the bank is called a …….. .
3. Money paid to a retired person is called a …… .
4. Securities representing part-ownership of a company are called …… or …… .
5. The money invested in a business is its …… .

6. ……… are interest-paying securities issued by companies that need to borrow money.

7. A ……. is when a company gains control of another one by buying its stocks.

8. A …… is when two formerly separate companies join together.

2. Read the first part of the interview with Peter Sinclair, the former director of the Central Banking Studies at the Bank of England, about the organization of the financial industry 25 years ago. And answer the questions below.

1. Were most financial institutions national, or international?

2. Were most financial institutions specialized, or did they offer lots of services?

Peter Sinclair: Well, twenty-five years ago the financial industry in most countries had two key characteristics. One was that pretty well all the banks and financial institutions in that country were owned in that country, and there were few international links – in many cases none. So they were national banks belonging to that country. The other key feature was that financial institutions were specialized, so in Britain we had institutions that lent to people who wanted to borrow to buy houses – that means arranging mortgages – so we had specialized things called building societies doing that. We had retail banks where individuals and companies kept bank deposits and which made loans to cover short-term outlays and in some cases longer-term investment. Then we had another range of institutions like insurance companies to provide life insurance or pensions, and we had investment banks – sometimes called merchant banks. There weren't retail banks; they didn't deal with individuals, they dealt with big companies. They gave the companies financial advice, maybe arranging mergers, or fighting off a takeover bid, and helped to raise capital, for example by using shares or bonds.

3. Read the second part of the interview with Peter Sinclair about recent changes in the financial industry, and answer the questions below.

1. What has recently happened to banks in Britain and many other countries?

2. In what way does Peter Sinclair compare the City of London to the Wimbledon tennis tournament?

3. Which two words does Peter Sinclair use to summarise the two big recent trends in banking?

Peter Sinclair: In the old days in Britain, the merchant or investment banks were pretty well all British and there were big boundaries between building societies and insurance companies and all these other types of companies. Well, now if you look at the picture, many banks have become universal banks; perhaps "banks" is the wrong word. Lots of institutions do all the things that I have just described – insurance, mortgages, advice, raising capital for companies, and retail banking besides, and the other great change is that so many of the financial institutions – and it is not just true of Britain, true of pretty much everywhere else – are now international. So, for example, in Britain two of the big four retail banks have changed ownership: one was taken over by Hong Kong and Shanghai Bank, that was the Midland Bank previously, and it's now changed its name to Hong Kong and Shanghai Bank and it really isn't a British bank anymore; and another, National Westminster, was taken over by the Royal Bank of Scotland. But if you look at, say, countries like the Czech Republic or Hungary or Poland or New Zealand too, and plenty of other small countries around the world, all their financial institutions pretty well are now owned by foreigners, by German companies, or French companies or Australian companies – whatever it might be – and the huge international financial institutions are typically, though not all of them, American; and you can now think of the City of London, the world's leading centre for foreign exchange dealings and a great deal of finance, as rather like Wimbledon. In other words it's a great big international stage, happens to be in London, but most of the players are foreign; they are nearly all foreign companies that do, for example, the investment banking and so many other things.

So internationalization and, if you like, homogenization of these hitherto specialized financial institutions. Those are the two beg recent trends.

Part II: Regulation and deregulation

1. You are going to read about the changes in the banking industry. Before you read, check your understanding of the words (1–8) below by matching them with their definitions (a–h).

1 conglomerates	a) abolished or ended rules and restrictions
2 depositors	b) sums of money paid as penalties for breaking the law
3 deregulated	c) groups of companies that have joined together
4 fines	d) control of something by rules or laws
5 prohibited	e) guaranteeing to buy a company's newly issued stocks if no one else does
6 regulation	f) made it illegal to do something
7 repealed	g) people who place money in bank accounts
8 underwriting	h) cancelled or ended (a law)

2. Read the article, and complete it using the words (1–8) from the Vocabulary exercise above.

In the late 1920s, several American commercial banks that were 1) …… security issues for companies weren't able to sell the stocks to the public, because there wasn't enough demand. So they used money belonging to their 2) ….. to buy these securities. If the stock price later fell, their customers lost a lot of money. This led the government to step up the 3) …… of banks, to protect depositors' funds, and to maintain investors' confidence in the banking system. In 1933 the Glass-Steagall Act was passed, which 4) ….. American commercial banks from underwriting securities. Only investment banks could issue stocks for corporations. In Britain too, retail or commercial banks remained separate from investment or merchant banks. A similar law was passed in Japan after World War II.

Half a century later, in the 1980s and 90s, many banks were looking for new markets and higher profits in a period of increasing globalization. So most industrialized countries 5) ….. their financial systems. The Glass-Steagall Act was 6) …. . A lot of commercial banks merged with or acquired investment banks and insurance companies, which created large financial 7) …… . The larger American and British banks now offer customers a complete range of financial services, as the universal banks in Germany and Switzerland have done for a long time. The law forbidding US commercial banks from operating in more than one state was also abolished. In Britain, many building societies, which specialized in mortgages, started to offer the same services as commercial banks.

Yet in all countries, financial institutions are still quite strictly controlled, either by the central bank or another financial authority. In 2002, ten of Wall Street's biggest banks paid 8) …… of $ 1.4 billion for having advised investors, in the 1990s, to buy stocks in companies that they knew had financial difficulties. They had done this in order to get investment banking business from these companies – exactly the kind of practice that led the US government to separate commercial and investment banking in 1930s.

3. Put the sentences (a–d) below in the right order on the timeline, write the time period that each sentence refers to.

a) Major US banks were fined for giving bad advice to investors.

b) Commercial banks used their investors' money to buy securities and many depositors lost money.

c) Many banking regulations were ended and big financial conglomerates were formed.

d) New laws in the US and Britain separated commercial and investment banks.

4. Look at the following statements. Are they true or false, according to the article?

1. The Glass-Steagall Act was the result of the behaviour of investment banks.
2. The British and American financial markets are now completely unregulated.
3. German and Swiss banks did all types of banking business at a time when American and British ones were not allowed to.
4. During the 20th century, many financial markets first became more regulated, and then less regulated.
5. Large American banks no longer do the kind of things that led to the separation of investment and commercial banking in the 1930s.

OVER TO YOU

- Which area would you prefer to work in – commercial banking or investment banking? Why?
- Which are the largest banks (or financial conglomerates) in your country?
- To what extent is banking regulated in your country? What are the advantages and the disadvantages of this?

UNIT 4: COMMERCIAL AND RETAIL BANKING

VOCABULARY

A – Commercial and retail banks

When people have more money than they need to spend, they may choose to **save** it. They **deposit** it in a bank account, at a **commercial** or **retail** bank, and the bank generally **pays interest** to the **depositors**. The bank then uses the money that has been deposited to **grant loans** – lend money to **borrowers** who need more money than they have available. Banks make a profit by charging a higher rate of interest to borrowers than they pay to depositors. Commercial banks can also move or **transfer** money from one customer's bank account to another one, at the same or another bank, when the customer asks them to.

Things you do at the bank

- **pay money into** your **bank account** put money in your bank account;
- **withdraw money from** your **bank account** take money out of your bank account;
- **cash** a **cheque** *BrE*/ **check** *AmE* exchange it for cash;
- **pay in** a **cheque** *BrE*/ **check** *AmE* give your bank a cheque that is payable to you, so that money goes into your bank account;
- **check** your **balance** find out how much money is in your bank account;
- **transfer money to** someone else's/ your **account** move money from your account to another account, either another one of yours or someone else's;
- **use** an **ATM**/ **cash machine** *BrE/* **cash dispenser** *AmE* put a card into a machine to obtain cash from your bank account;
- **arrange a loan** ask a bank to lend you some money;

- **arrange an overdraft** *BrE* make an arrangement with your bank to spend more money than you have in your account;
- **order foreign currency** ask your bank to get you some foreign money.

B – Credit

Banks also **create credit** – make money available for someone to borrow – because the money they lend, from their deposits, is usually spent and so transferred to another bank account.

The capital a bank has and the loans it has made are its **assets**. The customers' deposits are **liabilities** because the money is owed to someone else. Banks have to keep a certain percentage of their assets as **reserves** for borrowers who want to withdraw their money.

This is known as the **reserve requirement**. For example, if the reserve requirement is 10 %, a bank that receives a € 100 deposit can lend € 90 of it. If the borrower spends the money and writes a cheque to someone who deposits the € 90, the bank receiving that deposit can lend € 81. As the process continues, the banking system can expand the first deposit of € 100 into nearly € 1,000. In this way, it creates credit of almost € 900.

C – Loans and risk

Loan – money borrowed from a bank, financial institution, person on which interest is usually paid to the lender until the loan is repaid. A loan is a form of debt. A borrower receives money from a lender which they pay back in **installments** (a series of regular payments that are made until all of the loan has been paid back). Loans are provided by financial institutions, such as banks, who charge interest. The interest rate usually depends on the type of loan. You usually pay a lower rate of interest on a secured loan than on an unsecured loan. An example of a secured is a **mortgage** (a loan to buy a property). If you do not make your regular payments on a mortgage, the lender normally has the right to take the property and sell it in order to get back their money. Examples of an unsecured loan include an **overdraft** (an arrangement between a bank and a customer allowing them to take out more money from their current account than they have in it), a personal loan, and money owed on a credit card.

BrE: instalments; AmE: installments

Before lending money, a bank has to **assess** or calculate the risk involved. Generally, the greater the risk for the bank of not being repaid, the higher the interest rate they charge. Most retail banks have **standardized** products for **personal customers**, such as **personal loans**. This means that all customers who have been granted a loan have the same **terms** and **conditions** – they have the same rules for paying back the money.

Banks have more complicated **risk assessment** methods for **corporate customers** – business clients – but large companies these days prefer to raise their own finance rather than borrow from banks.

Banks have to find a balance between **liquidity** – having cash available when depositors want it – and different **maturities** – dates when loans will be repaid. They also have to balance **yield** – how much money a loan pays – and risk.

CONSOLIDATION

1. Complete the sentences from banks' websites. Look at A and C to help you.

1. If you need instant access to all your money, this is the ……. for you.

2. Our products for ……. include business overdrafts, loan repayments that reflect your cash flow, and commercial mortgages.

3. Our local branch managers are encouraged to help local businesses and are authorized to ……. and overdrafts.

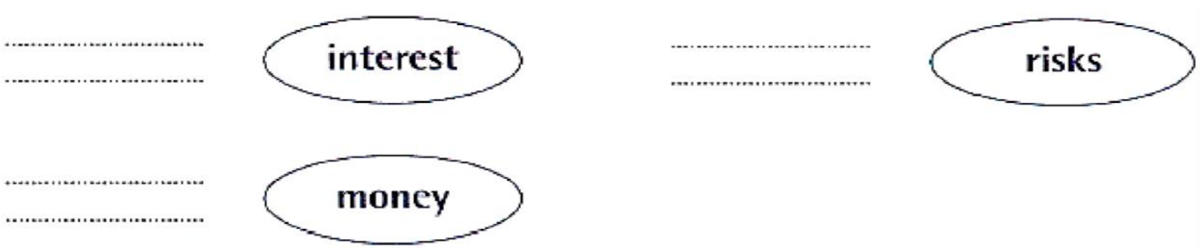
4. We offer standardized loans: you can be sure you won't get less favourable terms and ……. than our other ……. .

2. Match the two parts of the sentences. Look at A, B and C to help you.

1. Banks lend savers' deposits
2. They also create credit by
3. How much credit banks can create
4. Before lending money,
5. The interest rate on a loan
6. Banks always need liquidity,

A banks have to assess the risk involved.
B depends on the reserve requirements.
C depends on how risky it is for the bank to lend the money.
D so they can't lend all their money in loans with long maturities.
E lending the same original deposit several times
F to people who need to borrow money.

3. Find verbs in A, B and C that can be used to make word combinations with the nouns below. Then use some of the verbs to complete the sentences.



1. With standardized products, all customers are ……. the same interest rate.

2. Banks generally know from experience how much cash to keep in their reserves for customers who want to ……. it.

3. Banks carefully study the financial situation of a company to ……. the risk involved in lending it money.

READING

Part I: Retail Banking

1. You are going to read the text about retail banking. Before you read, check your understanding of the words and phrases in the box by matching them with their definitions (1–7).

national income		assets	income
trend	currency	lucrative	liabilities

1 a general development or change in a situation or in people's behavior

2 all the money received by a person during a particular period

3 anything of value owned by a business; for a bank, the loans it has made

4 money that a company will have to pay to someone else one day; for a bank, its deposits

5 profitable (describes an activity that makes a profit)

6 the money earned by a country's people in a particular period

7 the money used in a particular country

2. Read an extract from the interview with Peter Sinclair about retail banking. Read the following statements. Are they true or false, according to Peter Sinclair?

Peter Sinclair: Well, I'm not sure that retail banking is declining. I think in many countries the size of bank deposits, that's the liabilities that the retail banks have, has been growing

faster than national income − it's been rising. People are increasingly moving away from currency towards things like bank deposits, that's a slow gradual trend and it's a trend evident in most places. Especially the more developing poorer countries, emerging economies and so on.
So I think retail banking has always been regarded as important, but perhaps a little boring for some people. So the real action seems to be more in the big-scale operations with large companies, in huge deals and other kinds of activity which are thought to be more sophisticated and perhaps more rewarding than retail banking. More sophisticated yes, more specialized yes, but not more lucrative, and often more dangerous. Retail banking I think is not in decline; although people have been predicting that it might be at some point, there's no evidence that it is.

1. In the past, people used to keep more money in cash.
2. Because of retail banks, national income is increasing in developing countries.
3. Some people think that investment banking is more exciting than retail banking.
4. Investment banking is more profitable than retail banking.
5. There is more risk involved in investment banking than retail banking.

Part II: Bank Branches

1. Read the article about the future of bank branches from the *Financial Times* and answer the following questions.

1) What have the banks not done during the past ten years?
2) What are banks expected to do in the future?
3) What has helped one bank to increase product sales in some branches?

Banks to rely on branches to give growth

by Jane Croft

Banks will rely on branches to *drive future growth* rather than the internet, according to new research.

A study of 2,709 customers by Deloitte & Touche, the professional services firm, showed that the bank branch is the preferred channel for 52 per cent of customers interviewed.

Only 16 per cent preferred to bank using the telephone and 8 per cent used the internet.

The study also showed that the bank branch is preferred by 45 per cent of customers in the *affluent* AB social group – contradicting the notion that sophisticated customers avoid branches.

Nick Sandall, retail financial services at Delloitte & Touche, said he believed that the main banks in the UK were planning to reverse *a decade of under-investment* in branches by putting the network at the heart of their strategy.

"Although some banks, such as Abbey National, are *ahead of the game* in their efforts to revolutionize the way in which they use branches to reach the consumer, we expect all banks to invest substantially in reshaping their branch networks and the activities within", he said.

Deloitte & Touche believed that the successful retail bank of the future needed to give careful consideration to areas such as branch design, *staffing* and location.

Abbey National, which has introduced Costa coffee shops into some of its branches, reports that banking product sales have increased in these locations.

2. Which of the highlighted words and phrases in the article could be replaced with the following?

1 decisions on types and numbers of employees
2 in advance of competitors
3 make business increase in the years to come
4 redesigning
5 spend a lot of money on
6 ten years of insufficient spending

7 wealthy

OVER TO YOU

- How has commercial or retail banking changed since the 1980s?
- How do you think it will develop in the next few years?
- Look at some commercial bank websites from your country. Which bank offers the best rates to borrowers and lenders?
- Think about a bank's different delivery channels, or the different ways of banking. What are the relative advantages and disadvantages of these for the customer?
- Which types of customers are likely to prefer which delivery channels?
- What are the relative benefits and disadvantages of the different channels for the bank?
- Which way of banking do you prefer, and why? What services do you expect from a bank?

REVISION A

1. Match each term on the left (1–8) with the correct definition on the right (a–h).

1	share certificate	a	A formal description of a company's financial position at a specified moment
2	balance sheet	b	A description of the ways a new business hopes to make money, showing possible income and expenditure
3	market report	c	An official notification from a bank that it will lend money to a customer
4	business plan	d	A formal agreement to provide goods or services
5	letter of credit	e	A plan of cash income and cash spending for a specific period of time
6	financial reporting	f	An account describing in detail the market data as the result of observation, inquiry, etc.
7	cash budget	g	A document which presents the facts and figures about the company activity for or during a prescribed period of time
8	contract	h	A document which represents a part of the total stock value of a company and which shows who owns it

2. Choose the best answer (a, b or c) using the information from the Units 1–4 .

1 ……… is responsible for the financial side of running a business.
a) Finance director b) Financial adviser c) Financial analyst

2 If the person manages a particular type of investment for a bank or its clients he works as the ……… .
a) fund manager b) portfolio manager c) trading manager

3 ……… is responsible for people buying and selling investments at a financial institution.
a) Trader b) Transfer agent c) Trading manager

4 An arrangement to borrow money for a short time until you can make more long-term financial arrangements is called ……… .
a) capital finance b) bridging finance c) independent finance

5 Rising prices, rising costs and rising wages in an economy lead to ……… .
a) bankruptcies b) inflation c) liquidation

6 When your finances are not definite or firm they are called ……… finances.
a) shaky b) sound c) personal

7 Someone who works in a financial institution and arranges investments in companies is called a ……… .
a) successful financier b) investment financier c) corporate financier

8 The name for all the property, equipment, investments and money owned by a company or individual is ……… .
a) mortgages b) shares c) assets

9 When you want to …….. finance you increase or collect money that is needed to do something.
a) raise b) provide c) require

10 The name for everything that a company owes is ……… .
a) dividends b) liabilities c) shares

3. Fill in the missing words in the sentences below. Choose from the box. You will need to use each word more than once.

account accounts accountant

accounting accountancy

1. Can you check that the figures have been entered correctly in the bank <u>account</u>?
2. He’s studying ________________ at university.
3. The management of the company have not yet decided on their ___________ policies.
4. A bookkeeper writes details of financial transactions in the ____________ .
5. Most people in the profession read ______________ magazines and journals in order to stay informed.
6. She’s been working as an _____________ with this firm for several years now.
7. The directors of the company approve the ____________ at the end of the ___________ year.
8. The chief ___________ has completed the draft ____________ for this year.
9. Each branch maintains its own full ___________ system.
10. They have opened an _______________ for the consignment to Bombay.
11. _____________ is really not an exact science.
12. A business manager needs some _____________ knowledge in order to understand what he reads in the company _______________ .

4. Complete the following words.

1. This company has supplied goods but has not received any money for them yet	<u>C</u> <u>R</u> <u>E</u> <u>D</u> <u>I</u> <u>T</u> <u>O</u> <u>R</u>

2. Companies make this when they sell their goods for more than it costs them to make them	P _ _ _ _ T
3. Companies make this when they sell their goods for less than it costs them to make them	L _ _ S
4. Goods which are bought by the company	P _ _ _ _ _ _ E S
5. Goods which the company has available to sell	S _ _ _ K
6. An amount of money which is taken out of an account	W _ _ _ D _ _ _ _ L
7. Customers who have received goods but not paid for them yet	D _ _ _ _ R S
8. A reduction in the price which is offered to customers	D _ _ C _ _ _ T
9. This is the name of the difference between the credit and debit sides of an account	B _ _ _ _ _ E
10. This is drawn up to check that the two sides of the accounts are the same	T _ _ _ L B _ _ _ _ _ E
11. The cost of transporting goods is called this	C _ _ _ _ _ G E
12. The official books for keeping accounts	L _ D _ _ _ S

5. Choose the best answer: a, b, c or d.

1 If you pay by credit card, you have to authorise the transaction by signing a ………… .

a) payslip b) pass book c) deposit d) transfer

2 One of the functions of a central bank is to ……….. the activities of banks operating in the country and to make sure that their customers are protected.

a) supervise b) control
c) review d) check

3 When a ………….. tries to prevent inflation, it is said to be maintaining price stability.

a) central bank b) confirming bank
c) agent bank d) credit bank

4 Banks which provide basic services to individuals and businesses through their branch network are called ……………….. .

a) investment banks b) high street banks
c) merchant banks d) commercial banks

5 He was sentenced to five years in prison for money……………. .

a) borrowing b) raising
c) conducting d) laundering

6 …………… is similar to the electronic fund transfers done between banks.

a) easy money b) legal tender
c) e-cash d) bank bill

7 The bank should hold enough ………….. to satisfy customer demand.

a) Money b) reserves
c) cash d) gold

8 ……. is operated by cash cards or multifunctional cards in conjunction with a PIN.

a) ATM b) ATP c) ATX d) AST

9 Dealing with bank card business is called ……………. .

a) investing b) acquiring

c) borrowing d) banking

10 If the investment…………………… picks the right mix of bonds, his total return should rise quickly.

a) fund manager b) line manager

c) money manager d) portfolio manager

11 The clearing bank has a vacancy for a ………… to undertake the strategic day-to-day management of one of its branches.

a) retail banker b) investment banker

c) corporate banker d) fund manager

12 We can buy it for 50 euros and sell it for 100 euros – …………. money.

a) big b) easy

c) prize d) pocket

6. Match each definition on the right with a term from the box. Write the term beside each definition.

capital gains tax	corporation tax	creative accounting
excise duty	~~income tax~~	loophole money
laundering	progressive tax	tax shelter
value added tax	tax deductible	tax evasion
tax haven		tax loss

1. income tax	People pay this tax on the money they earn
2. __________	Companies pay this tax on their profits
3. __________	Profits from the sale of assets may be subject to this tax

4. __________	Government tax on things such as cigarettes, alcohol and petrol
5. __________	This kind of tax means that the more money you earn, the higher the rate of tax you have to pay
6. __________	A clever but still legal way of reducing the amount of tax to an absolute minimum
7. __________	A country such as Liechtenstein and the Bahamas where tax is low
8. __________	A mistake in the law which allows people to avoid paying tax
9. __________	In the accounts the company is seen to make this is capital expenditure is brought forward to use up profits
10. __________	In the accounts the company is seen to make this if capital expenditure is brought forward to use up profits
11. __________	This tax is added to the price of goods and services
12. __________	Avoiding paying tax by giving false information to the authorities
13. __________	Investment schemes which allow people to postpone paying tax
14. __________	Handling money made from illegal activity

UNIT 5: PERSONAL BANKING

VOCABULARY

A – Current accounts

A **current account** is an account which allows customers to take out or **withdraw** money, with no restrictions. Money in the account does not usually earn a high rate of **interest**: the bank does not pay much for 'borrowing' your money. However, many people also have a **savings account** or **deposit account** which pays more interest but has restrictions on when you can withdraw your money. **Deposit is** an amount of money paid into a bank account or held in a bank account, especially when it is earning interest. **Depositor is** a person or organisation that puts money into a bank account so that it can be held there and earn interest.

Collocations:

- **deposit account** [C] a bank account in which money can be held and will earn interest;
- **to give sb a deposit;**
- **to pay sb a deposit;**
- **to pay interest on deposit;**
- **to make a deposit** – to put money on the deposit account*:* *She made a deposit of € 100 into her account;*
- **to get back a deposit –** to pay back a deposit;
- **cash deposit/dollar, sterling, euro, hryvnya deposit;**
- **eurodollar deposits** [plural] US dollars held by banks outside the US on which interest is paid: *Six-month eurodollar deposits yield 5.58 %, compared with 8.137 % for equivalent euro deposits;*
- **short-term deposit/long-term deposit.**

Banks usually send monthly **statements** listing recent sums of money going out, called **debits**, and sums of money coming in, called **credits**.

Nearly all customers have a **debit card** allowing them to make **withdrawals** and do other transactions at **cash dispensers**. Most customers have a **credit card** which can be used for buying goods and services as well as for borrowing money. In some countries, people pay bills with **cheques**. In other countries, banks don't issue cheque books and people pay bills by **bank transfer**. These include **standing orders**, which are used to pay regular fixed sums of money, and **direct debits**, which are used when the amount and payment date varies.

BrE: current account; AmE: checking account

BrE: cash dispenser, cash machine; AmE: ATM (Automated Teller Machine)

BrE: cheque; AmE: check

B – Banking products and services

Commercial banks offer **loans** – fixed sums of money that are lent for a fixed period (e.g. two years). **Loan account** an account opened by a bank in the name of a customer to whom it has granted a loan, rather than an overdraft facility. The amount of the loan is debited to this account and any repayments are credited; interest is charged on the full amount of the loan less any repayments. The customer's current account is credited with the amount of the loan. With an overdraft facility, interest is only charged on the amount of the overdraft, which may be less than the full amount of the loan.

Line of credit also **credit line** an arrangement in which a bank or vendor extends a specified amount of secured credit to a specified borrower for a specified time period

Collocations:

- **principal of the loan –** the original amount of a loan, not including any of the interest that is paid: *No principal is due for repayment until next year;*
- **extended loan** given loan;
- **large/massive loan;**
- **long-term/short-term loan;**
- **low-interest loan;**
- **interest-free loan;**
- **secured/***opposite* **unsecured loan:** *As it was an unsecured loan, their property was not at risk;*
- **outstanding loan.**

Banks also offer **overdrafts**, which allow customers to **overdraw** an account – they can have a debt, up to an agreed limit, on which interest is calculated daily. This is cheaper than a loan if, for example, you only need to overdraw for a short period. Banks also offer **mortgages** to people who want to buy a place to live. These are long-term loans on which the property acts as **collateral** or a guarantee for the bank. If the borrower doesn't repay the mortgage, the bank can **repossess** the house or flat – the bank takes it back from the buyer, and sells it.

Banks exchange **foreign currency** for people going abroad, and sell **traveller's cheques, which** are protected against loss or theft. They also offer advice about **investments** and **private pension plans** – saving money for when you retire from work. Increasingly, banks also try to sell insurance products to their customers.

BrE: traveller's cheque; AmE: traveler's check

C – E-banking

In the 1990s, many commercial banks thought the future would be in **telephone banking** and **internet banking** or **e-banking**.

Functions of Internet banking:

- to do online banking
- to deal with payment codes
- to process payments
- to provide balance inquiries
- to make bill payments
- to offer online loan
- to exchange financial documents
- to carry out transactions, to perform transactions
- to perform account transfers
- to serve online accounts
- to do financial monitoring
- to maintain reference books of banks.

But banks discovered that most of their customers preferred to go to **branches** – local offices of the bank – especially ones that had longer opening hours, and which were conveniently situated in shopping centers.

BrE: shopping centre; AmE: shopping mall:

CONSOLIDATION

1. Complete the advertisement with words from the box. Look at A and B to help you.

credit card	current accounts	debit card
direct debit	statements	foreign currency
savings accounts	standing order	traveller's cheques

Calling all students!

ABC Bank now offers 1 % on (1) ………………. and 2.5 % on (2) ………… . We will give you a chequebook and plastic: a free (3) ………….. for use in cash dispenser, and the possibility to apply for a (4) ………. . You can pay fixed monthly bills by (5) ………….., and other bills by (6) ………. . There are no account charges as long as you remain in credit, and we send you free monthly (7) ……… . We can also sell you (8) ……….. for your next holiday, or (9) …………. for greater security. What are you waiting for? Call us today.

2.Find words in B with the following meanings.

1 what you can earn when you leave your money in the bank

2 an amount of money borrowed from a bank for a certain length of time, usually for a specific purpose

3 something that acts as a security or a guarantee for a debt

4 an arrangement to withdraw more money from a bank account than you have placed in it

5 a long-term loan to buy somewhere to live

6 an arrangement for saving money to give you an income when you stop working

7 to take back property that has not been completely paid for

3. Are the following statements true or false? Find reasons for your answers in A, B and C.

1. Current accounts pay more interest than savings accounts.
2. There is less risk for a bank with a mortgage than with unsecured loans without collateral.
3. Traveller's cheques are safer for tourists than carrying foreign currency.
4. The majority of customers prefer to do their personal banking at the bank.
5. Bank branches are now all in shopping centres.

READING

Part I: Banking products and services

1. Read the article about complaints in relation to financial products and answer the questions below:

1. Which of these financial institutions are mentioned specifically?

a) banks b) insurance companies c) building societies

2. Which of these financial products do the problems mentioned relate to?

a) pensions b) current assets

c) loan payment protection insurance

3. Which other financial products are mentioned?

4. For which products has the number of complaints increased? For which ones has it decreased?

Complaints About Financial Products Reach Record Levels

Complaints about financial products and services leapt by 30 per cent last year to hit a record, underlining growing dissatisfaction with banks and insurers. The Financial Ombudsman Service (FOS) said the sharp rise was fueled by "sudden surges" in complaints about unauthorized overdraft charges and loan payment protection insurance (PPI), driven largely by media and internet campaigns.

The FOS said that during the year, it referred 123,089 new cases for more detailed dispute-resolution work. A spokesman said it had seen the number of mortgage and banking disputes more than triple, while insurance complaints had doubled.

There was a tenfold increase in complaints about charges on current accounts, and a six fold increase in complaints about PPI, which has been heavily criticized amid claims that it is overpriced and is mis-sold. Meanwhile, the number of disputes relating to travel and health insurance fell during the period. Sir Christopher Kelly, chairman of the FOS, said: "This time last year we had hoped we were starting to see a downward trend in complaint numbers for the first time. But instead, events during the year have led to the service receiving record numbers of new cases".

Part II: E-banking

1. Read the web page below advertising online banking, and complete the sentence overleaf.

Why bank online?
Because you have access to your account 24 hours, 7 days a week.
With internet banking you can:

- Check your balance whenever you want.
- Pay bills without writing cheques or queuing at the bank.
- Transfer money between your current account and your savings account.
- Print a statement at any time.
- Set up, change and delete your standing orders.
- View and cancel direct debits.
- Apply for a loan.
- Apply for a new or increased overdraft.
- Order foreign currency or traveller's cheques.

1. A …… ……. is an instruction to a bank to pay varying sums of money to another account on particular dates.
2. A ……. ……. pays interest but usually has limits as to how much money can be withdrawn during a certain period of time.
3. A ……lists the recent debits and credits in a bank account.
4. An …… is an arrangement allowing someone to borrow money by withdrawing more than they have deposited in their account, up to a certain limit.

5. A …… ……. pays no or little interest, but usually allows the holder to withdraw cash or pay cheques without any restrictions.

6. A ……. is an amount of money borrowed from a bank for a fixed period.

7. A …… is the amount of money in a bank account at a particular time.

8. A ……. ……. is an instruction to a bank to pay regular, fixed sums of money to another account.

2. Use a word or phrase from each box to make common word combinations. You can use some words more than once.

apply for cancel check set up transfer write	the balance a cheque an overdraft a direct debit a loan money a standing order

OVER TO YOU

Do you prefer to go to the local branch of your bank, or to use the internet or the telephone? Why? Why do you think most customers still prefer to go to the bank?

UNIT 6: INVESTMENT BANKING

VOCABULARY

A – Raising capital

Ruth Henly works in an investment bank in New York. ‘Unlike commercial banks, investment banks like ours don’t lend money. Instead we act as **intermediaries** between companies and investors. We help companies and governments raise capital by **issuing securities** such as **stocks** and **bonds** – that is, we offer them for sale. We often **underwrite** securities issues: in other words, we guarantee to buy the securities ourselves if we can’t find other purchasers.

As well as **initial public offerings (IPOs)**, when companies offer stock for sale for the first time, there are other occasions when they **raise funds**. For example, they might want to expand their operations, or to **acquire** another company, or to reduce their amount of debt, or to finance a specific project. They don’t only raise capital from the public: they can sell stocks or **shares** to **institutional investors** like insurance companies, **investment funds** – companies that invest the money of lots of small investors, and **pension funds** – companies that invest money that will later be paid to retired workers.

We also have a **stockbroking** and **dealing** department. This **executes orders** – buys and sells stocks for clients – which is broking, and trades with our own money, which is dealing. The stockbroking department also offers advice to investors.’

BrE: flotation; AmE: initial public offering (IPO)

B – Mergers and acquisitions

Investment banks often represent firms in **mergers**, **takeovers**, **acquisitions**, and **divestitures**.

Merger is a combination of two or more business enterprises into a single enterprise.

Collocations:

- **proposed merger;**
- **to plan merger;**
- **to carry out merger;**
- **merger activity;**
- **merger proposal:** *The merger proposal calls for the three companies to be combined into a new entity;*
- **merger negotiations;**
- **merger agreement;**
- **merger talks:** *The two airlines ended merger talks after falling to agree on how much of the combined company each side would own;*
- **merger frenzy** when a lot of mergers are taking place: *The merger frenzy has helped push up cable valuations to record highs on Wall Street;*
- **merger between:** *A merger between similar banks in the same area should enable them to eliminate 40 % of the expenses of one of the banks.*

Demerger *n* [C] making one part of a large company into a separate company: *Merchant bankers proposed a demerger of the company into two separate businesses.*

Takeover *n* [C] the act of getting control of a company by buying over 50 % of its shares: *To avoid a takeover, the investment company went deeply in debt to pay a huge special dividend.*

Collocations:

- **attempted/proposed takeover;**
- **agreed takeover;**
- **company takeover;**
- **takeover attempt;**
- **takeover offer;**

- **takeover battle:** *The consortium won a fierce takeover battle for the engineering group;*
- **takeover bid** an offer by one company to buy another, or the value of this offer: *There was a takeover bid by a larger and more aggressive company;*
- **anti-takeover plan** one to try and avoid a takeover.

Acquisition *n* [C] something that is bought by a company, such as another company, a building, or a piece of land: *There were many additional costs related to the company's acquisition of Walker Software.*

Collocations:

- **big/large/major acquisitions:** *If the company doesn't make any big acquisitions this year, it will hand back cash to shareholders;*
- **potential/proposed/recent acquisition:** *Investment banks were changing rapidly into financial supermarkets whose business increasingly revolved around* ***mergers and acquisitions****;*
- **to complete/make an acquisition:** *Management intend to use the cash to make acquisition;*
- **to finance/fund an acquisition:** *The company will fund the acquisition from its existing cash resources.*

A divestiture is when a company sells a **subsidiary** – another company that it owns. Most of the **fee** – the money the company pays us for the service – will depend on us completing the deal successfully. This gives the bank a good reason to make sure that the transaction succeeds.

C – Consulting and research

'Large corporations have their own finance and corporate development departments. But they often use an investment bank like ours because, like a **consulting firm**, we can offer independent advice, and we have a lot of experience in financial transactions. We also have a large network of contacts, and relationships with investors and companies that could be interested in a merger or acquisition.

If we've worked on a transaction with a company, we know a lot about its business. This means we can give advice about **strategic planning** – deciding what do to in the future – or **financial restructuring** – changing the way the business is financed. Large investment banks also have extensive **research** departments with **analysts** and **forecasters** who specialize in the **valuation** of different markets, industries, companies, securities and currencies. Analysts try to work out how much things are worth now, and forecasters study the prospects for the future'.

CONSOLIDATION

1. Complete the table with words from A, B and C and related forms. Put a stress mark in front of the stressed syllable in each word. The first one has been done for you.

Verb	Noun (s)	Noun for people	Adjective(s)
acquire		–	–
advise			–
			analytical
institute		–	
invest			–
value		–	

2. Complete the sentences from newspaper articles with words from the box.

acquiring	advised	divesting	fees	IPOs	merged	underwritten

1. Deutsche Telekom's IPO was …………… by Goldman Sachs.
2. During their acquisition of Mannesman, Vodafone were …………. by UBS.
3. Large multinationals are always ……………. less successful parts of their business as well as ………………. successful companies.
4. Big Wall Street banks earned millions of dollars in consulting ……………. from Enron before the company collapsed.
5. When Mitsubishi Tokyo Financial Group ……………… with UFJ Holdings, they became the world's biggest bank.
6. In 2000, the global value of ………… as over $ 220 billion.

3. Match the words in the box with the definitions below. Look at A, B and C to help you.

financial restructuring	consulting firm	forecasters	institutional investor
strategic planning	pension fund	subsidiary	valuation

1 a company of experts providing professional advice to businesses for a fee

2 a financial institution that invests money to provide retirement income for employees

3 deciding what a company is going to do in the future

4 people who try to predict what will happen in the future

5 a company that is partly or wholly owned by another one

6 a financial institution that purchases securities

7 making changes to how a company is financed

8 establishing how much something is worth

READING

Part I: Raising capital

1. Read the texts below and then answer the following questions:

1. What are the two main ways in which large companies and corporations raise capital?

2. What might explain why only one bank has AAA rating?

3. What form of income do banks now get from large companies?

> ***Corporate bonds*** *are issued by companies to raise capital. They are an alternative to issuing new shares on the stock market (equity finance) and are a form of debt finance. A bond is basically an IOU (short for "I owe you") – a promise to pay back your original investment (the "principal") at a maturity date, plus interest payments (the "yield" or "coupon") at regular intervals between now and then. The bond is a tradeable instrument in its own right, which means that you can buy and sell it during its life, and its value will tend to rise and fall as interest rates change (from* ***Finance Glossary****: www.finance-glossary.com).*

Thirty or forty years ago, large companies that wanted to borrow money generally got loans from banks.

Then they discovered that they could borrow at a lower rate by raising money directly from the public (and from institutional investors like insurance companies and pension funds), by issuing bonds. This process of disintermediation − cutting out the intermediary (the banks) between the borrower and the lenders – is obviously not a good thing for commercial banks. They now have to lend their money to borrowers that are less secure than large corporations.

Companies and financial institutions are given investment ratings, reflecting their financial situation and performance, by ratings companies such as Standard & Poor's and Moody's. The highest rating (AAA or Aaa) is given only to top-quality institutions, with minimal credit risk. Today, only one of these is a bank (Rabobank, in the Netherlands). The only other AAA ratings – and there are very few – belong to large corporations.

On the other hand, companies use investment banks to issue their bonds for them, permitting banks to make money from fees rather than from interest.

2. Use a word from each box to make word combinations from the text. You can use some words more than once. Then use some of the word combinations to complete the sentences below.

credit	date
debt	finance
equity	instruments
financial	payments
interest	performance
investment	rating
maturity	risk
tradeable	situation

1. Bondholders get ……. …... until the bond's …… ……. .
2. Because bonds are ……. ……. you can sell them at any time, but their price will depend on the company's ……. ……. and the level of interest rates.
3. Only companies with hardly any ……. ……. get a AAA ……. ……. .

Part II: Mergers, takeovers and buyouts

1. Read the text below and match the titles (1–5) to the paragraphs (a–e).

Mergers, takeovers and buyouts

1. Disadvantages of takeovers.
2. Raiders and asset-stripping.
3. Raids and bids.
4. The "make-or-buy" decision.
5. The role of banks.

a) Successful companies generally want to diversify: to introduce new products or services, and enter new markets. Yet entering new markets with new brands is usually a slow, expensive and risky process, so buying another company with existing products and customers is often cheaper and safer. If a company is too big to acquire, another possibility is to merge with it forming a new company out of the two old ones. Apart from diversifying, reasons for acquiring companies include getting a stronger position in a market and a larger market share, reducing competition, benefitting from economies of scale, and making better use of a plant and equipment.

b) There are two ways to acquire a company: a raid and a takeover bid. A raid simply involves buying as many of a company's stocks as possible on a stock market. Of course if there is more demand for stock than there are sellers, this increases the stock price. A takeover bid is a public offer to a company's stockholders to buy their stocks at a certain price (higher than the current market price) during a limited period of time. This can be much more expensive than a raid, because if all the stockholders accept the bid, the buyer has to purchase 100 % of the company's stocks, even though they only need 50 % plus one to gain control of a company. (In fact they often need much less, as many stockholders do not vote at stockholders' meetings.) If stockholders accept a bid, but receive stocks in the other company instead of cash, it is not always clear if the operation is a takeover or a merger – journalists sometimes use both terms.

c) Companies are sometimes encouraged to take over other ones by investment banks, if researchers in their Mergers and Acquisitions departments consider that the target companies are undervalued. Banks can earn high fees for advising on takeovers.

d) Yet there are also a number of good arguments *against* takeovers. Diversification can damage a company's image, goodwill and shared values (e.g. quality, good service, innovation). After a hostile takeover (when the managers of the company do not want to be taken over), the top executives of the newly acquired company are often replaced or choose to leave. This is a problem if what made the company special was its staff (or "human capital") rather than its products or customer base. Furthermore, a company's optimum size or market share can be quite small, and large conglomerates can become unmanageable and inefficient. Takeovers do not always result in synergy. In fact, statistics show that most mergers and acquisitions reduce rather than increase the company's value.

e) Consequently, corporate raiders and private equity companies look for larger conglomerates (formed by a series of takeovers) which have become inefficient, and so are undervalued. In other words, their market capitalization (the prize of all their stocks) is less than the value of their total assets, including land, buildings and – unfortunately – pension funds. Raiders can borrow money, usually by issuing bonds, and buy the companies. They then split them up or sell off the asset, and then pay back the bonds while making a large profit. Until the law was changed, they were also able to appropriate the pension funds. This is known as asset-stripping, and such takeovers are called leveraged buyouts or LBOs. If a company's own managers but its stocks, this is a management buyout or MBO.

2. Find words and phrases in the text that mean the following:

1 adding new and different product or services

2 a company's sales expressed as a percentage of the total sales in a market

3 reduction of costs resulting from increased production

4 money paid to investment banks for work done

5 all the individuals and organizations that regularly or occasionally purchase goods or services from a company

6 best, perfect or ideal (adjective)

7 combined production of productivity that is greater than the sum of the separate parts

8 people or companies that try to buy and sell other companies to make a profit

9 large corporations or groups of companies offering a number of different products or services

10 buying a company in order to sell its most valuable assets at a profit

OVER TO YOU

Can you name the largest investment banks in your country? Are they local or international? Describe the services they offer.

UNIT 7: CENTRAL BANKING

VOCABULARY

A – The functions of central banks

A journalist is interviewing Professor John Webb, an expert in central banking.

– What are the main functions of central banks?

“Well, most countries have a central bank that provides financial services to the government and to the banking system. If a group of countries have a common currency, for example the euro, they also share a central bank, such as the European Central Bank in Frankfurt.

Some central banks are responsible for **monetary policy** – trying to control the rate of inflation to maintain **financial stability**. This involves changing interest rates. The aim is to protect the value of the currency – what it will purchase at home and in other currencies.

In many countries, the central bank **supervises** and **regulates** the banking system and the whole financial sector. It also collects financial data and publishes statistics, and provides financial information for consumers. In most countries, the central bank prints and **issues currency** – putting banknotes into circulation. It also participates in clearing cheques and settling debts among commercial banks.”

B – The central bank and the commercial banks

– How exactly does the central bank supervise the commercial banks:

“Well, commercial banks have to keep reserves – a certain amount of their deposits – for customers who want to withdraw their money. These are held by the central bank, which can also change the **reserve-asset ratio** – the minimum percentage of its deposits a bank has to keep in its reserves.

If one bank goes bankrupt, it can quickly affect the stability of the whole **financial system**. And if depositors think a bank is unsafe they might all try to withdraw their money. If this happens it's called a **bank run** or a **run on the bank**, and the bank will quickly use up its reserves. Central banks can act as **lender of last resort**, which means lending money to financial institutions in difficulty, to allow them to make payments. But central banks don't always **bail out** or **rescue** banks in difficulty, because this could lead banks to take risks that are too big."

C – Central banks and exchange rates

– What about exchange rates with foreign currencies?

"Central banks manage a country's **reserves of gold** and **foreign currencies**. They can try to have an influence on the **exchange rate** – the price at which their currency can be converted into other currencies. They do this by **intervening** on the currency markets, and moving the rate up or down by buying or selling their currency. This changes the balance of **supply** – how much is being sold – and **demand** – how much is being bought."

CONSOLIDATION

1. Match the two parts of the sentences. Look at A and B to help you.

1. The central bank will sometimes lend money
2. Banks would probably start taking too many risks
3. Central banks are usually responsible for
4. The central bank can alter
5. There will be low and stable inflation

A if they could always be sure of rescue by the central bank.
B if there is a run on a commercial bank.
C if monetary policy is successful.
D printing and distributing banknotes.
E the amount of money commercial banks are able to lend.

2. Complete the text from the website of the Federal Reserve, the central bank of the United States. Look at A to help you.

Today the Federal Reserve's duties fall into four general areas:

- conducting the nation's (a)……….. policy;
- (b) …............ and regulating banking institutions and protecting the credit rights of consumers;
- maintaining the (c) ……………………………. of the financial system;
- providing certain (d) …………… services to the US government, the public, financial institutions, and foreign official institutions.

3. Make word combinations using a word from each box. One word can be used twice. Then use the word combinations to complete the sentences below. Look at A, B and C to help you.

bank currency exchange financial monetary	markets run system policy rate stability

1. …………….. ……………… , including setting interest rates, is designed to maintain ……………. …………………… .

2. If there's a ………….. and the bank goes bankrupt, this can have a rapid effect on the whole ………………………………………. .

3. On one day in 1992, the Bank of England lost over £ 1 billion (more than half of the country's foreign reserves) in the ……………………….., trying to protect the ………………………… of the pound.

READING

1. You are going to read about the major functions of the Bank of England. Before you read, check your understanding of the words (1–9) below by matching them with their definitions (a–i).

1 policy	a) a level or situation which you intend to achieve
2 threats	b) a general, continuous increase in prices
3 oversight	c) an agreed plan of what to do
4 target	d) basic and most important
5 core (adjective)	e) in good condition
6 sound (adjective)	f) paid
7 sterling	g) potential sources of danger
8 inflation	h) supervision
9 remunerated	i) the name of the British currency

2. Complete the text with the words (1–9) from the exercise above.

The Bank of England has two 1) ……. purposes. One is ensuring monetary stability, i.e. having stable prices – low 2) ……. – and consequently confidence in the currency.

The government sets an inflation 3) ……, and the Bank's Monetary Policy Committee tries to meet it by raising or lowering the official interest rate when necessary.

UK banks and building societies have to hold reserves at the Bank. These are 4) …… at the Bank's official interest rate. If

British banks need to borrow short-term funds they do this in the 5) …… money markets.

The Bank can influence the amount of money and the interest rates in these markets − this is how it implements its monetary 6) …… .

The Bank also deals in the foreign exchange market. It can use the UK's foreign currency and gold reserves to try to influence the exchange rate if needed.

The Bank's other core purpose is to maintain the stability of the financial system. The Bank has to detect and reduce any 7) …… to financial stability, and make sure the overall system is safe and secure. It monitors and analyses the behavior of the major participants in the financial system and the wider financial and economic environment, and tries to identify potential risks. A 8) ……. and stable financial system is important, and also necessary for carrying out monetary policy efficiently.

The Bank's role also includes 9) ……. of payment systems for transactions between individuals, businesses and financial institutions.

The Bank sometimes acts as "lender of last resort" to financial institutions in difficulty, to prevent panic or a loss of confidence spreading through the whole financial system.

3. According to the text, are the following statements true or false?

1. The Bank of England wants to prevent prices rising.
2. The government sets a figure for what it thinks should be the maximum inflation rate.
3. The government makes decisions about interest rates.
4. Commercial banks have to keep some of their funds at the Bank of England.
5. The Bank does not pay interest on commercial banks' deposits.
6. The Bank can try to change the sterling exchange rate.
7. The Bank has to eliminate threats to financial stability.

8. The Bank supervises the clearing system: the settlement of claims between banks.

9. The Bank always lends money to financial institutions in danger of going bankrupt.

4. Use a word or phrase from each box to make combinations from the text. You can use some words more than once. Then use the correct form of some of the word combinations to complete the sentences below.

identify implement influence maintain reduce	exchange rates policies risks stability threats

1. Just like the central bank, all companies have to try to …… potential financial ……. .

2. The Bank can spend the country's currency reserves in order to ……. ……. .

3. The Bank can try to ……. ……. to the financial system, but it can't eliminate them completely.

4. The Bank has to ……. the ……. of the financial system, but that doesn't mean it rescues irresponsible banks.

5. The Bank ……. ……. that should enable it to meet the inflation target set by the government.

OVER TO YOU

Is the central bank in your country independent from the government? What powers and responsibilities does it have?

UNIT 8: INTEREST RATES

VOCABULARY

A – Interest rates and monetary policy

An **interest rate** is the cost of borrowing money: the percentage of the amount of a loan paid by the borrower to the lender for the use of the lender's money. Thus, a rate of interest of 15 % per annum means that for every £ 100 borrowed for one year, the borrower has to pay a charge of £ 15, or a charge in proportion for longer or shorter periods. In **simple interest** the charge is calculated on the sum loaned only. In **compound interest** the charge is calculated on the sum loaned plus any interest that has accrued in previous periods. These calculations of interest apply equally to deposits that attract income in the form of interest.

A country's minimum interest rate (the lowest rate that any lender can charge) is usually set by the central bank, as part of monetary policy, designed to keep inflation low. This can be achieved if demand (for goods and services, and the money with which to buy them) is nearly the same as supply. **Demand** is how much people consume and businesses invest in factories, machinery, creating new jobs, etc. **Supply** is the creation of goods and services, using labour – paid work – and capital. When interest rates fall, people borrow more, and spend rather than save, and companies invest more. Consequently, the level of demand rises. When interest rates rise, so that borrowing becomes more expensive, individuals tend to save more and consume less. Companies also invest less, so demand is reduced.

If interest rates are set too low, the demand for goods and services grows faster than the market's ability to supply them. This causes prices to rise so that inflation occurs. If interest rates are set too high, this lowers borrowing and spending. This brings down inflation, but also reduces **output** – the amount of goods produced and services performed, and **employment** – the number of jobs in the country.

BrE: labour;
AmE: labor

B – Different interest rates

The **discount rate** is the rate that the central bank sets to lend short-term funds to commercial banks. When this rate changes, the commercial banks change their own **base rate**, the rate they charge their most reliable customers like large corporations. This is the rate from which they calculate all their other deposit and lending rates for savers and borrowers.

Banks make their profits from the difference, known as a **margin** or **spread**, between the interest rates they charge borrowers and the rates they pay to depositors. The rate that borrowers pay depends on their **creditworthiness**, also known as **credit standing** or **credit rating**. This is the lender's estimation of a borrower's present and future **solvency**: their ability to pay debts. The higher the borrower's solvency, the lower the interest rate they pay. Borrowers can usually get a lower interest rate if the loan is guaranteed by securities or other collateral. For example, **mortgages** for which a house or apartment is collateral are usually cheaper than ordinary bank loans or **overdrafts** – arrangements to borrow by spending more than is in your bank account. Long-term loans such as mortgages often have **floating** or **variable interest rates** that change according to the supply and demand for money.

Leasing or **hire purchase (HP)** agreements have higher interest rates than bank loans and overdrafts. These are when a consumer makes a series of monthly payments to buy durable goods (e.g. a car, furniture). Until the goods are paid for, the buyer is only hiring or renting them, and they belong to the lender. The interest rate is high as there is little security for the lender: the goods could easily become damaged.

CONSOLIDATION

1. Match the words in the box with the definitions below. Look at A and B to help you.

creditworthy	floating rate	invest	labour
spread	output	solvency	interest rate

1 the cost of borrowing money, expressed as a percentage of the loan
2 having sufficient cash available when debts have to be paid
3 paid work that provides goods and services
4 a borrowing rate that isn’t fixed
5 safe to lend money to
6 the difference between borrowing and lending rates
7 the quantity of goods and services produced in an economy
8 to spend money in order to produce income or profits

2. Name the interest rates and loans. Then put them in order, from the lowest rate to the highest. Look at B to help you.

a ……………….: a loan to buy property (a house, flat, etc.)
b ……………….: borrowing money to buy something like a car, spreading payment over 36 months
c ………………: commercial banks’ lending rate for their most secure customers
d ………….……: occasionally borrowing money by spending more than you have in the bank
e………………..: the rate at which central banks make secured loans to commercial banks

1		2		3		4		5

Lowest Highest

3. Are the following statements true or false? Find reasons for your answers in A and B.

1. All interest rates are set by central banks.

2. When interest rates fall, people tend to spend and borrow more.

3. A borrower who is very solvent will pay a very high interest rate.

4. Loans are usually cheaper if they are guaranteed by some form of security or collateral.

5. If banks make loans to customers with a lower level of solvency, they can increase their margins.

6. One of the causes of changes in interest rates is the supply and demand for money.

READING

Part I: Lending decisions

1. Before you read the interview about lending decisions, check your understanding of the words and phrases in the box by matching them with their definitions (1–10).

collateral	credit rating	maturity	portfolio
cost of funds	EBIT	operating cash flow	
credit limit	margin	overhead costs	

1 the abbreviation for a company’s earnings before interest and taxes

2 all the securities and financial assets held by a financial institution or an individual

3 an evaluation of a borrower’s ability to pay interest and pay back a loan in the future

4 something of value that secures a loan or other credit; if the borrower cannot repay, the lender can sell it to pay off the loan

5 the date on which a loan must be repaid, or the length of time until this date

6 the difference between the interest rate a lender pays and the rate it charges its borrowers

7 the expenses of operating a business that are not directly related to individual products or services (e.g. electricity, telephones, administrative costs)

8 the maximum amount that a bank will lend to a customer

9 the money generated from a business's normal activities

10 the price (interest rate) that a financial institution must pay for the use of money

2. Gerlinde Igler works for a German bank. Read an extract from the interview about lending decisions for commercial and corporate customers, and complete the notes.

Interviewer: How do banks decide who to lend to?

Gerlinde Igler: Normally we analyze the customers. That means that we analyze the annual reports, the figures during the year. We have to analyze how the company will develop in the future. So we evaluate the current situation of the customer and the future situation of the customer.

We also discuss the loan with the customers – what kind of loan is this? Is it a short-term loan or is it a long-term loan? It's very important to know the maturity of this loan. If we lend money for a long time we have to be sure that the customer can repay this loan. Normally the company must be able to repay form the operating cash flow, the EBIT of the company.

Our decisions also depend on the bank's portfolio. We finance different sections in industry, and we've got different limits for the sector. And if we overstep this limit with the new customer, we need a new approval for the higher limit for the sector, and we have to decide if it's OK to increase the credit limit for the sector.

We also have a rating for each sector, and we have to decide if it is a sector with a good rating or a sector with a bad rating. If you have a sector with a bad rating we normally only finance the best companies in this sector.

Sometimes the customer would like to finance some different transactions in foreign countries. If we finance transactions in Eastern Europe or in Asia we have to look at the country rating and we have to look at the limit for this country. For these countries we have limits or we have no limits. If we don't have a limit for this country we can't finance it – it's too dangerous. Normally the bank analyzes ……	
The bank has to evaluate ……	
The bank discusses ……	
Normally the company should be able to……	
The bank has got different limits for ……	
They also have a rating for ……	
Before financing foreign transactions, the bank ……	
If the bank doesn't have a limit ……	

Part II: Margins

1. Read an extract from the interview with Gerlinde Igler about determining lending rates and answer the questions below.

Margins

1. What are the two factors that determine the interest rate a customer is charged?

2. What is the advantage for a business of having a Triple A or AAA rating?

3. What are the different costs involved in the calculation of the bank's margin?

4. How can a bank reduce the risks involved in granting a loan?

Gerlinde Igler: The last important point is that we would like to earn money with customer; we need an agreement about the margin. We have a special system, a special calculation system, in which we calculate the margin, and the margin is added to the cost of funds, and the cost of funds plus the margin is then the interest rate of the customers. We need an acceptable margin.

The cost of funds will depend on the market situation and the ban's rating. If you have a good rating you can get money on the capital markets more cheaply than a bank with a bad rating. Every bank is rated by the international agencies, Standard & Poor's and Moody's. It's a big disadvantage if you don't have a Triple A rating. You have to pay higher interest for the money you borrow.

We calculate a margin and the margin includes the product costs. The product costs depend on the product the customer will use. Then we have the overhead costs. Overhead costs depend on the situation of the bank. A smaller bank has a lot of overhead costs and a big bank normally has lower overhead costs.

The most important point is the risk costs, because the risk costs depend on the customer's rating. If I have a bad customer and the customer has a bad rating, in this case the customer has to pay a higher margin. If we can get securities or collateral we can reduce our risks, because we can use this collateral if the company goes bust.

But there is a lot of competition between the banks and it's very hard for small banks to get good customers or get acceptable margins.

OVER TO YOU

- What are the average interest rates paid to depositors by banks in your country?
- How much do borrowers have to pay for loans, overdrafts, mortgages and credit card debts?
- Is there much difference among competing banks?

REVISION B

1. Match each of the words or phrases on the left (1–13) to an appropriate definition (a–m).

1	acquisition	a	An offer to buy part of the share capital of a company
2	bid	b	Making one part of a large company into a seprate company
3	buy-in	c	Joining together of the stock of two companies, so they become part of the same company
4	competitor	d	A situation when one company buys another one, or part of another one
5	demerger	e	Buying a majority of the shares in a company, and so winning control over the company
6	divestiture	f	A rival business which is trying to sell in the same market as another business
7	flotation	g	Selling equity capital in a company, and so ending ownership of the company
8	joint venture	h	The open sale to private investors of shares in a company on the Stock Exchange
9	merger	i	An arrangement where two companies work together for a particular project
10	takeover	j	A situation when a company buys its own shares from existing shareholders
11	employee/ staff buyout	k	A situation when a company's top managers buy the company they work for.
12	management buyout	l	A situation when a person or organization buys a company using a loan borrowed against the company's assets, some of which may be sold to pay off the loan
13	leveraged buyout	m	A situation when employees buy the company they work for

2. Complete each sentence with the correct words from the box.

investment	stock	dividend	
shares	growth	interest	portfolio
earnings	investors	stake	

1. This year, the steel industry's ……… should be higher with the competition of costly modernization programs.
2. Any spare cash is best put in a savings account where it will earn ……….
3. The group raised its regular ……… on common shares 19 % to 25 cents.
4. Analysts expect the company to sell its large ……… in the Hong Kong bank.
5. Friendly companies and bank hold 56 % of all ……… in Germany's listed companies.
6. Officials have argued for lower interest rates because of recent slow ……… in the economy.
7. The company might issue ……… in order to pay down debt.
8. More ……… is also needed to develop the food-processing industry in rural areas.
9. European stocks make up 50 % of his investment ……….
10. ……… are confused about where to put their money in stocks.

3. Find a term with a similar meaning.

1. spot market	a) high-grade market
2. investment-grade market	b) graveyard market
3. futures market	c) foreign exchange market
4. bear market	d) cash market
5. currency market	e) options market

4. Choose the best answer: a, b, c or d.

1. The pound rose and the yen fell as the …… markets reacted to a jump in oil prices.

a) grey b) currency c) mortgage d) black

2. Market dealing in commodities, currencies, and securities for future delivery at prices agreed-upon today is called ……. market.

a) graveyard b) insurance c)forward d) kerb

3. Period in which prices of securities or commodities fall by 20 percent or more refers to …… market.

a) bear b) futures c) bond d) capital

4. A financial market in which prices are rising, especially over a long period of time is called …… market.

a) bear b) bull c) graveyard d) new issue

5. Network of banks, discount houses, institutional investors, and money dealers who borrow and lend among themselves for the short-term refers to …… market.

a) credit b) loan c) money d) over-the-counter

6. The market for loans made by banks and other financial institutions is called …… market.

a) credit b) spot c) loan d) third

7. A market in which a borrower with one type of loan exchanges it with another borrower with a different type of loan is called …… market.

a) securities b) swaps c) credit d) mortgage

8. A place where companies' shares are bought and sold refers to …… market.

a) stock b) bull c) high-grade d) grey

9. The buying and selling of shares just before they are officially issued refers to …… market.

a) gilt-edged b) new-issue c) grey d) bull

10. On a(n) …… market, buyers and sellers are connected by computer, rather than trading in a particular building.

a) parallel b) spot c) swaps d) over-the-counter

11. A market where commodities are bought for immediate delivery is called …… market.

a) spot b) swaps c) stock d) third

12. A market for loans to people and organization buying property is called …… market.

a) equity b) mortgage c) high-grade d) kerb

13. An unofficial market in shares is called …… market.

a) kerb b) cash c) forward d) currency

14. The market for the British government bonds is called …… market.

a) gilt-edged b) new issue c) capital d) discount

15. UK's short-term money market comprising of banks, discount houses, and money brokers who discount bills of exchange refers to …… market.

a) grey b) third c) credit d) discount

5. Complete each sentence with the correct word or words.

1 If you want to borrow money to buy a house, you should ask the bank for a ………….. .

2 The bank has raised its ……………… to 6 %.

3 If you haven't enough money in your account to pay your bills, you'll have to ask for an ………………… .

4 Whereas you pay interest on a mortgage, you ………… interest on a savings account.

5 An undertaken given by a bank to settle a debt if the debtor fails to do so is called bank …………….. .

6 An ……………. letter of credit cannot be cancelled by the person who opens it.

7 A ………………… is commonly used for financial transactions, and in other cases where it is important to detect forgery or tampering.

8 To reduce or alter risk may be one of the reasons to …………. a loan.

9 An official document promising that a government or company will pay back money that it has borrowed, often with interest is a …………... .

10 The most common …………. are futures contracts and options.

11 A situation in which the value of stocks is decreasing is a ………… market.

6. Choose the best answer: a, b, c or d.

1. The bank granted a loan for a two-year ………... .
   a) repayment b) rate c) time d) term
2. Stocks, shares and bonds can collectively be called …………... .
   a) equities b) securities c) gilts d) share capital
3. To sell its shares to the general public, a company must be….……… on the stock exchange.
   a) put b) taken c) listed d) drawn
4. The person who will receive a payment is called the ………... .
   a) drawer b) receiver c) beneficiary d) debtor
5. ………….. means allowing a currency to find its true level against other currencies.
   a) Floating b) Holding up c) Bouncing d) Picking up
6. The shares recommended by analysts usually ………… the average stock.
   a) generate b) exceed c) underperform d) outperform
7. By issuing a ……………, the bank made an undertaking to pay the exporter for the goods, provided that the correct documentation was presented.
   a) bill of lading b) advice note
   c) debit advice d) letter of credit

8. If a …………. could be available for low interest, or none, this may be something to consider.

a) installment b) loan c) mortgage d) deposit

9. The ability to pay down debt years sooner by avoiding the ……………. interest on all your debts is worth it.

a) simple b) add-on c) compound d) accrued

10. ……………… typically have lower interest rates than a credit card so if you have one, or can get one, moving some of your debt there is a good idea.

a) debit cards b) product lines c) smart cards d) credit lines

11. ………………. banking through traditional banks enable customers to perform all routine transactions, such as account transfers, balance enquiries, bill payments, and stop-payment requests, and some even offer online loan and credit card applications.

a) offshore b) online c) investment d) home

12. The Hong Kong bank had more than US $ 1 billion on …………… when it was closed.

a) deposit b) credit c) debt d) e-money

7. Complete the following words.

1. This is the name for buildings, machinery, money in the bank and money owned by customers	A S S E T S
2. The loss of value of the things in number 1	D _ P _ _ _ _ _ _ _ _ N
3. Money which is borrowed	L _ _ _
4. The extra money a company or person pays for borrowing money	I _ _ _ _ _ S T
5. The total sum of money which is supplied by the owners of a company to set it up	C _ _ _ T _ _

6. Cash or goods, which is supplied by the owners of a company for his own private use	D _ _ W _ _ _ S
7. These are bought by people wishing to invest in the company	S _ _ _ S
8. The extra amount which is paid for a company above the value of its assets	G O O _ _ _ _ _
9. The purchase of another company.	A C Q U _ _ _ _ _ _ _ _
10. An official examination of the accounts	A _ _ _ T
11. A financial plan for the future	B _ _ _ _ T
12. A statement of the financial position of the company	B _ _ _ _ _ E SHEET

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Навчальне видання

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АНГЛІЙСЬКА ДЛЯ ФІНАНСИСТІВ: ПІДВИЩУЄМО СВІЙ РІВЕНЬ

Навчально-методичний посібник
(Англійською мовою)

Художнє оформлення обкладинки А. О. Ходцевої
Редактор Л. В. Штихно
Комп’ютерне верстання О. Ф. Лебідь

Формат 60x84/16. Ум. друк. арк. 5,35. Обл.-вид. арк. 6,53. Тираж 300 пр. Зам. №

Видавець і виготовлювач
Сумський державний університет,
вул. Римського-Корсакова, 2, м. Суми, 40007
Свідоцтво суб’єкта видавничої справи ДК № 3062 від 17.12.2007.