C

c.i.f. is an abbreviation of cost, insurance and freight; a cost added to the cost of merchandise imports and exports in balance of payments accounting; in contrast with f.o.b., or free on board value of merchandise exports and imports.

C's of Credit: are the four C's of credit concerning the credit risk associated with a borrower are character or confidence, capability, collateral, and capital. *Character* is the integrity of the borrower; honesty, and reputation in the fulfillment of contracts, timely repayment of debts, and high standard of business ethics, thus providing the basis for the confidence which the lender places in the borrower; without this, no lender would be inclined to lend. *Capability* involves business capacity and success as shown by profit-making record. C*ollateral* is the security tendered for the credit, its market value, access, and convertibility. *Capital* is the net worth of the borrower, equity and assets net of liabilities outstanding. These four elements together provide the real measure of the borrower's creditworthiness.

Call: this term has several meanings depending on the context such as:

- in banking business, a bank may demand repayment of a loan before the due date if the borrower has not met the conditions specified in the loan agreement such as obtaining insurance for collateral tendered.
- in securities market operations, call is a type of option authorizing the buyer to buy a specific quantity of asset at a fixed price within a stated period for a fee or premium.

Call Loans: are bank's liquid asset since these are short-term loans for a period ranging from overnight up to fourteen days, and are repayable on call; for example, day to day advances of a bank to stock brokers and members of money market or inter-bank call money operations by payable by borrower banks.

Call Plan: is a plan to call a bond for redemption before maturity; a program to make calls for unpaid amount of share capital; specific provision in a bond issue to reserve the right of redemption of bonds, debentures and preferred stock by a corporation.

Call Provision: is a provision in a bond indenture that gives the right to call in a bond issue for total or partial redemption or its retirement; may be with or without restriction as to the time to call the issue.

Call Value of a Bond: is the price of a bond stated in the indenture agreement at which bonds will be redeemed, if called. *(see Bond, Indenture Agreement)*

Callable Bond: is a bond that can be called in by the bond issuer for redemption or retirement of the entire bond issue outstanding, or a portion of it, under the call provision of the indenture agreement, under which a bond is issued, giving the bond issuer the right to call in the bond; call provision specifies a call value, or the price at which the bond is to be redeemed; the difference between the face value of the bond and the call value is the call premium, which is generally stated as a percentage of the face value of the bond; the call premium can be without restrictions as to the time, thus allowing the firm to call the bonds any time after they have been issued; bonds with deferred call provision for the specified number of years are non callable for that period.

Callable Preferred Stock: are preferred stocks which may be redeemed by the issuer at specified call price usually having a premium over the face value or issue price.

CAMEL: is an acronym for Capital adequacy, Asset quality, Management effectiveness, Earnings and profitability, and Liquidity; it is a system of performance rating of banks or financial institutions providing a measure of their financial strength and overall soundness on a scale of 1 to 5, where 1 is the highest rating and 5 is the lowest.

Cap and Collar: an arrangement whereby the interest charged on a loan shall not exceed a stated maximum percentage, the cap, nor fall below a stated minimum percentage, the collar.

Cap Rate Loan: is an adjustable interest rate loan, where the maximum interest rate chargeable, or the cap rate, is pre-specified, thereby restricting the borrower's interest rate risk; the limit set on the interest rate of the loan is called cap rate.

Capital: income generating assets of the owner of a line of business or an investor, a company or a bank, held in various type of asset as needed depending on business activity; for example:

- ***in finance,*** capital is owner's equity, retained reserves, plus part of profit or surplus re-invested for future growth.
- ***in banking,*** capital consists of paid-in capital, or the owner's equity held as common stock purchased by shareholders, capital notes and preferred stocks, reserves, the core capital; and various items defined as supplementary capital.
- ***in manufacturing,*** capital mainly consists of fixed capital such as plant, machinery and equipment, buildings and working capital.
- ***in trading*** and distributive business, a trader's capital is usually interpreted as excess of assets over the liabilities.

Capital, types of: various types of capital listed as *fixed capital, working capital, circulating capital, core and supplementary capital, foreign and domestic capital; short, medium and long term capital, venture capital. (see entries listed)*

Capital Account: in a business**,** an account recording the amount of capital held or invested in a business other than loan financing; consists of the shareholders' equity of a company, or amount invested by the partners of a firm, or by the proprietor of a sole-ownership, together with profits retained in the business, or the loss carried forward, thus determining the net position of the capital of a business organization; in government accounting, capital account in contrast to current account concerns capital budget, showing the capital expenditures of the government and their financing; in balance of payments, capital account records capital movements both on private and government accounts.

Capital Account, to open : a general ledger account opened in the books of a business to record capital brought in by owners and changes therein, showing owners' stake in the business; in a proprietorship concern there is only one capital account, and in a partnership firm there are separate capital accounts of individual partners; for a limited company capital account represents shareholders' equity, which is the issued and paid-up capital plus the premium thereon, if any, and retained earnings; it may also mean an account of short term financial items, as against a current account which relates to short term financial transactions; and 'open' means a situation in which debit and credit entries can freely be made without any restrictions.

Capital Adequacy: for a bank, capital adequacy is the sufficiency of capital of a bank to sustain its lending operations and other activities; in particular, sufficiency of capital of a bank as determined by central bank or supervisory authority to meet its obligations as they fall due, and to meet its loan losses as they arise, or to absorb unexpected trading losses from a bank's asset portfolio and its off-balance sheet commitments. Capital adequacy for banks is measured in terms of the ratio of the banks assets to banks' capital. *(see below)*

Capital Adequacy Ratio: of a bank is calculated as the sum of Tier 1 capital, the core capital, and Tier 2 capital the supplementary capital, divided by the sum of risk weighted assets in the balance sheet and credit equivalents of off-balance sheet assets; real value of balance sheet assets is obtained by adjusting their nominal values with the weight of their associated risk; and credit equivalents are obtained by assigning each off-balance sheet asset a weighted risk and classifying them into appropriate risk categories. The most widely accepted capital adequacy standard is stipulated by the Basle Accord Update of 1997 requiring a capital adequacy ratio of 8 per cent; in stipulating the capital adequacy ratio, the major objective of Basle Accord is to have:

- a uniform definition of capital.
- a common system of risk weighing for assets and credit equivalents, and
- a minimum level of capital to be held by the banks against risk adjusted assets to achieve a uniform international standard of banking supervision. *(see Core, Supplementary Capital,Conversion Factors)*

Capital-Asset Ratio: is the ratio of total equity to total assets; for banks and financial institutions capital-asset ratio is a measure of capital adequacy; for companies and businesses, capital-asset ratio shows whether or not a business organization is adequately leveraged as compared to the industry ratios; since assets are built up partly by debt and partly through equity, therefore, to determine what proportion of assets is financed through what source, the debt-assets and capital-assets ratios are worked out by dividing total equity or total debt by total assets. *(see Debt-Asset Ratio, Capital Adequacy)*

Capital Budgeting: is an indispensable tool of investment decision making by a firm or an investor; capital budgeting involves evaluation of investment costs of a business venture and its income or returns over a number of years in future; and thus, capital budgeting provides a ranking of investment opportunities relative to their costs and returns. Capital budgeting helps to determine what investments or projects a firm should undertake; thus it helps to evaluate and decide whether a new project should be undertaken, or an existing project

should be completed or abandoned in case of cost over-runs; whether existing fixed assets should be upgraded, modernized, or replaced; and whether certain research and development costs should be incurred given their prospective returns. Capital budgeting is central to financing decisions; it helps to identify appropriate type of external financing, given costs of financing, and given the firm's own financial resources for investments, such as equity financing through issues of common stocks, preferred stocks, or bond issue, or long term loans.

Capital Cost of Project: is the investment cost of a project including expenditures on fixed capital, its acquisition and installation, such as plant, machinery and equipment; expenditures of long term nature and non-recurring expenditures on the project facilities and associated infrastructure.

Capital Exporting Country: is a capital surplus country whose foreign capital outflows are higher than foreign capital inflows on a net basis; a country engaged in foreign investment, foreign loans, credits, grants or assistance.

Capital Flight: is a massive outflow of funds in foreign currency from the host country caused by the fear of adverse exchange rate or interest rate movements, or to take advantage of higher returns abroad, or in anticipation of adverse rules and regulations affecting foreign investment, or enhanced insecurity due to political or economic upheavals and to avoid risk of being frozen in an unstable country; this transfer of funds may be legal or illegal, but in most cases, it involves currency transactions through the banking system, if allowed, or through informal barter or swap arrangements, or through *hundi* system, or through over-invoicing of imports and under-invoicing of exports.

Capital Gain or Loss: capital gain is the increase in the market value of an asset held over its acquisition cost which is the original price plus cost of transaction paid by the investor; conversely, capital loss is the decrease in the market value of an asset over its acquisition cost during the accounting or the reporting period. The assessment of possible capital gain and their expectations are central to any investment activity, and is the main element in wealth creation.

Capital Intensity: is defined in terms of the amounts or units of capital required to produce a unit of output; if a business, or a manufacturing activity, or a project requires large capital investment relative to labor employed, it is regarded as capital intensive activity; is measured by the capital-output ratio.

Capital Issue: involves issuing long term financing instruments to obtain funds for investment in a business or a company such as stocks, shares, bonds and corporate debentures. These are the long term liabilities of the company in contrast to the short term or current liabilities.

Capital Market: is the long term segment of financial markets providing debt and equity finance and consisting of bond markets and stock markets; its instruments are long-term bonds issued by government and corporations for long-term debt financing; stocks issued by limited liability companies or corporations to provide equity finance; infrastructure of capital markets consists of facilities for entries listed, trading, clearing and settlement, reposting and information services at stock exchanges and over the counter markets; a network of dealers, brokers and markets makers; rating agencies; depository and registration; the legal and regulatory framework; monitoring, supervision, and regulatory control agencies. *(see Bond Markets, Stock Markets).*

Capital Market Participants: consist of the borrowers, lenders, suppliers of funds, and the intermediaries; borrowers are government, companies and corporations and households; whereas suppliers of funds are mainly households since they are principal source of savings and long-term funds; they may participate directly as investors in bonds and stocks, or through financial intermediaries such as banks, insurance companies, pension funds, and investment funds, who may invest in stocks and bonds from deposits or contractual savings collected from households.

Capital Movements: are movement of medium and long term funds in foreign currency both on government and private accounts and recorded in the balance of payments accounts of a country; consist of direct foreign investment and portfolio investment; medium and long term debt, net of repayments, both on the private sector and government account; bilateral aid, grant, and assistance; multilateral assistance on net basis, and uses of IMF funds. *(see Balance of Payments)*

Capital Notes and Debentures: are interest-bearing obligations to repay a fixed amount of money at some future date; they have a fixed claim on earnings and assets of the company issuing capital notes and debentures, ahead of preferred and common stock. However, these obligations cannot be secured by specific assets, and their claim for payment is subordinated to that of depositors.

Capital Outflows: outflow of medium to long term funds from a country to the rest of the world, recorded as payment in the capital accounts of balance of payments. *(see Balance of Payments)*

Capital Rationing: is undertaken in times of capital scarcity to ensure that the distribution and use of capital conforms to desired investment priorities; a system of allocating capital through directives based on various considerations.

Capital Requirement: is the amount of capital needed to establish and operate a business concern or a bank, together with an amount needed for contingencies and as a cushion for operating losses; funded by investments of the shareholders, reserves, and retained earnings, and long term borrowings; also statutory requirements of capital specified for licensing and establishment of a new bank.

Capital Stock: of a company or a business is the total value of the fixed assets of a company net of depreciation. In finance, it is the total value of the shares issued by a company to its stockholders, and other shareholders' funds such as retained earnings and reserves held, excluding long term borrowings.

Capital Structure: the components of capital stock of a firm, consisting of common equity, preferred stock and long term debt.

Capitalized Amount: the capitalized amount of a bank or a company consists of the paid-up capital and undistributed profits, where the undistributed profits retained amounts, enhancing the total capital base, and are redeployed in the business to increase the total capital.

Capitalized Expenditures: are amounts spent or expenditures incurred for replacement or modernization of fixed assets, and are accounted as capital expenditures, amortized in installments over a specified period, specially if the returns or the benefits of the capital expenses cover a period of more than one year.

Capitalization: for companies and businesses capitalization is issue of shares to raise equity finance; or conversion of retained earnings into capital by issuing bonus shares; or capitalization of costs by charging an expenditure to the cost of an asset, or adding expenses on the improvements and modernization of existing assets to the cost of the assets; involves determining the market value of assets based on costs incurred less depreciation, or cost of replacement; it is not the same as investment. (see Investment)

Capitalization Issues: is the issue of shares of common stock, or preferred stock to raise equity finance; or it is the issue of additional shares to the existing shareholders; or it is a transfer of funds from retained earnings or reserves to the share capital account, and therefore in effect it is capitalization of retained earnings or reserves.

Capitalization Rate: is a discount rate used to find the present value of future cash receipts. *(see Present Value, Discount Rate)*

Capitalization Ratio: is the ratio of the book value of shares issued and outstanding and the market value of such shares.

Card: credit card issued for personal credit; four basic types of credit cards:

- ***cheque guarantee cards*** guarantee that a cheque will be honored and paid upon presentation, provided the payee has followed the instructions and satisfied the conditions applicable to such cheques.
- ***credit cards*** allowing a customer to make payments on credit.
- ***cash cards*** enable the card holder to withdraw cash round the clock from cash dispensers or ATMs (Automated Teller Machines) after verification of confidential PIN (Personal Identification Number). Some card issuing banks include cheque card and debit card functions in the cash card.
- ***payment cards*** are commonly known as EFTOPS (Electronic Funds Transfer on Point of Sale), allowing a retail outlet to debit an account of the purchaser while at the same time crediting the retailer's bank account.

Card Holder: is a person in whose name a card has been issued and who is authorized to use it. Frequently, a second card is also issued on the same account, mostly in the name of the spouse of the principal holder, who is also authorized to operate the card and therefore has the status of the card holder, but the liability arising out of the use of the card rests on the primary holder, unless otherwise agreed upon by the joint holders.

Card Issuer: are banks, other financial institutions, large chain stores, retailers, and other businesses that provide credit financing by issuing credit cards. In Pakistan, card issuers are mainly commercial banks, domestic or foreign.

Carnet: is an international document concerning transit agreement which permits dutiable goods to pass through a country without paying duty until the goods arrive at their destination in another country.

Carry-Back: an accounting entry method in banking and finance transferring the sum figure of one account to another, or from one column to another in the same account provided these transfers or carry-banks are permissible through accounting rules and procedures; a tax reporting method which allows shifting items like losses to different reporting periods to reduce tax obligations in the current period.

Carry-Forward: an accounting entry method in banking and finance, transferring entries from one account to another; or from one accounting period to another, or shifting the balance of one item to another item within the same period across different sub-accounts.

Cartel: is an agreement or understanding between business firms within an industry to collude on their business operations in order to discourage competition, thus creating an effective monopoly to control prices or to regulate market supplies, or to carve out market shares among themselves; cartels have been used in various parts of the world to promote export.

Carveout: is to divide, segment or consolidate a business or financial position; or carveout a territory in marketing and sales; or carveout the niche market for high value goods or high profile clients; or carveout low cost and high fee business clients; or divide a stream of cash to be received from future transactions into components.

Case of Need: arises when a bill of exchange is dishonored by non acceptance or non-payment; to cover this contingency under the rules of bills of exchange, the drawer of a bill and any endorser may insert the name of a person whom the bill holder may resort to in case of need, that is to say, in case the bill is dishonored by non acceptance or non-payment by the original drawee.

Cash, near cash: consists of currency or coins, or near cash items held, conferring immediate and direct purchasing power; or readily acceptable in settlement of a liability; may also include commercial papers which are immediately and easily convertible into money, such as bearer cheques, matured coupons or bills, deposits with banks in chequing and savings accounts, and cheques and money orders that have been received but not yet deposited.

Cash Credit: is a short term credit or advance granted for financing receivables pledged to the bank; or advances financed the security of near cash items for immediate cash or liquidity needs.

Cash Basis: is an accounting system where transactions are recorded when cash has actually been received or paid, and not when the transaction takes place as done in accrual basis of accounting. *(see Accrual Basis)*

Cash Equivalents: are financial instruments of high liquidity and safety such as treasury bills, commercial papers, and marketable debt securities which can easily be converted into cash with negligible risk of market value; also includes immediately realizable cash from sales.

Cash Expenditures: are amounts spent in cash on goods and services in a given time period.

Cash Flow: is the receipt and payment of cash in a given period; or the expected stream of cash receipts or payments over a future time period; for businesses, it consists of the realized cash amount from turnover or sales, and payments for business expenses in cash over a given period.

Cash Flow Analysis: is a method of analysis to provide information about a company's ability to generate cash in a given time period, thus its' liquidity and financial flexibility; a systematic presentation of net cash flows from a business operations; cash flow analysis is routinely done thorough comparison of balance sheet information and cash flow statement that reveals sources and uses of cash funds from turnover and sales and working capital, and financing of business activities during a given period.

Cash Flow Cycle: starts from the purchase of raw materials, inventories or tradable items, followed by sales and reconversion into cash; it is the continuous inflow and outflow of cash at various stages of a firm's normal business operations.

Cash Flow Forecast: is based on expected receipts and payments of cash in a given period in future gives the business trends and anticipated business developments involving sophisticated analytical tools, decision parameters, and judgments regarding future market trends; provides a forehand knowledge of when cash shortages or cash surpluses are likely to occur, so that appropriate actions can be taken or planned to deal with these eventualities.

Cash Flow Statement: is a financial statement that identifies the amount and sources of cash receipts and payments during a period of time in future.

Cash Inflow: are receipts of cash payments pursuant to sales, turnover, or financial transactions; it is cash inflow from receivables or repayments of dues, or regular cash inflow as deposits in a bank, and cash repayments on obligations due to the bank from others; or regular periodic cash inflow of insurance companies from insurance premium which are obligatory to those insured through contractual arrangements.

Cash Items: are financial instruments immediately convertible into cash, such as cheques, bank drafts, notes, or acceptances deposited with a bank for simultaneously crediting their proceeds into the relevant accounts; such credits however may be reversed if the instruments are ultimately dishonored; or items other than money deposited at the receiving teller's window.

Cash Letter/Collection Letter: a covering letter or schedule accompanying a remittance such as a cheque, matured bill, or cash forwarded by an out-station depositor for crediting into his account; these may be cash letters or collection letters; for cash letters the depositor receives credit for the proceeds of all the items listed under a cash letter, subject to subsequent reduction for any item which is unpaid; whereas for collection letters, the crediting of proceeds is deferred until the instrument is reported paid; cash letters are usually phrased "we enclose for credit", or "we enclose for collection and credit"; collection letters are worded as "we enclose for collection and credit when realized".

Cash Management: involves managing liquidity through monitoring of cash receipts and cash payments; or cash flow forecasts based on turnover, sales and recurrent expenses; or controlling cash receipts and disbursements; or managing cash holdings and investing excess cash balances in short term, liquid or convertible assets such as treasury bills; or arranging for liquidity needs in case of excess cash requirements and liquidity shortages.

Cash Outflow: are cash payments made to others for expenses incurred or pursuant to a purchase or a financial transactions; or regular periodic cash outflow on contractual obligations; cash outflows normally finance current expenses and overheads, purchases of raw materials, and payroll expenses.

Cash Receipt: is the amount received in cash; the total amount of cash received on the counter of a bank during banking hours in a day.

Cash Reserves: of a bank consist of vault cash, reserve balances held with the central bank in cash, and marketable securities that can be easily sold and converted in cash.

Cash Reserve Requirement: is a powerful monetary control instrument stipulated by the central bank to regulate banking credit and money supply, thus control inflation; these stipulations require the banks to keep in cash or near cash items a prescribed percentage of deposits or statutory liabilities as reserves with the central bank usually in noninterest bearing account; the near cash items include treasury bills and certain types of short term government securities. In Pakistan, the statutory liquidity requirement of the SBP stipulates that the scheduled banks maintain 25 per cent of demand and time liabilities with a minimum 5 per cent in cash and the remaining 20 per cent in approved securities. *(see Liquidity, Reserves, Reserve Requirements)*

Cash Shortage: a situation in cash forecast when estimated receipts fall short of expected payments; a strain on liquidity; an excess of the net position of cash on hand drawn by the cashier at the close of the day's business over the amount of cash physically present in the till; the cash amount less than the amount shown in the teller's books.

Cash Turnover Velocity: is the velocity of cash turnover is measured by the ratio of sales for the period to initial cash balance; a simpler approach to the definition of the required cash balance.

Cash Withdrawals: is the amount withdrawn in cash from a bank; the amount of cheques paid in cash by a bank.

Cashier: an official who receives or disburses money for a business; an employee of the bank who is responsible for the custody of cash. Duties of a bank cashier range from simply receiving and paying of cash to managing assets of the bank and the securities and valuables held for safe custody.

Cease and Desist Order: it is an extreme measure taken in extraordinary adverse circumstances facing a business or a bank; it is an order issued by a court or by a competent authority to a business or a company to stop its functions, operations, or business transactions; or a directive issued to a bank and its directors by the central bank or a regulatory authority to stop banking operations pursuant to a banking crisis; penalties for the violation of such an order are severe, including dismissal of directors and management.

Central Bank: is the apex institution of a financial system and is entrusted with two main functions as below.

- As the monetary authority and as a custodian of the public confidence in the currency and its value both domestically and abroad, the main function of a central bank is to maintain price stability and exchange rate stability. For price stability, the central bank articulates and implements monetary policy; manages supply of money and banking credit; conducts open market operations and thus affects liquidity of the banking system; and sets the discount rate which serves as the peg rate for short term interest rates in money markets. Central bank issues its own currency backed by gold and reserves under a fractional reserve system, and as banker to the government, it provides credit to the government and manages government's borrowings operations, domestically and abroad. All these actions of a central bank, collectively, affect availability of credit and interest rates, which in turn have an impact on the general price level or the rate of inflation in the country. Central bank manages the foreign exchange system of the country and is the prime holder of foreign exchange reserves, and actively intervenes in the

foreign exchange market as feasible in attempts to stabilize or maintain a desired level of exchange rate with significant consequences for international trade, transfers and capital flows which materially impact on the balance of payments of the country.

- As the ***regulatory authority***, and as the custodian of public confidence in the banking and financial system, the central bank operates a system of banking supervision and regulation and takes appropriate actions to maintain financial strength, soundness and solvency of the banking system. As banker to the banks, central bank is the lender of the last resort to banks in financial distress and takes actions based on its early warning system well before their financial distress degenerate into wide-spread banking crisis or insolvency of concerned banks. On their part, banks are required to follow the rules, regulations and guidelines as stipulated by the central bank concerning capital adequacy, liquidity, risk management, defaults and non-performing loans in their portfolio and have to make mandatory provisions for bad loans as classified under these rules and guidelines. These stipulations have a direct impact on the quality of the portfolio and profitability of banks as well other financial institutions whose supervision is entrusted to the central bank.

Central Bank, Pakistan: The State Bank of Pakistan (SBP) is the central bank, established in July 1948, through State Bank of Pakistan Order 1948. It is a powerful institution exercising its authority and control over the banking and financial system; chief executive of SBP is the governor appointed by the federal government, assisted by deputy governors, executive directors and advisers. SBP also has a Central Board of executive directors nominated by the federal government and chaired by the governor.

Central Bank Rediscount: is the rediscounting mechanism of the central bank operated mainly to regulate liquidity and money supply, or to affect the level of interest rates through changes in the rediscount rate; involves discounting by the central bank of a treasury bill or a bill of exchange for a bank which has earlier discounted that bill for its client. *(see Discount, Rediscount)*

Central Bank Refinancing: are credit facilities funded by the central bank through the banking system under a protocol specifying eligibility, terms and conditions, draw down arrangements, replenishment and refinancing for the participating banks and the borrowers. The objectives of refinancing facility are to provide credit to the borrowers through banks to promote investment, employment and exports, on terms and conditions close to market based arrangements in contrast with the system of subsidized credit through specialized financial institutions. In Pakistan, SBP is operating concessionary

export financing schemes to boost exports of non-traditional items, through commercial banks for eligible export commodities, providing loan finance to exporters up to full amount of the L/C, or firm contracts of exports. Banks are exempted from SBP's credit ceilings on these loans, but there is a limit for refinancing facility stipulated as proportion of equity of each bank.

Central Credit Information Bureau: a centralized organization or unit in a supervisory institution responsible for collecting, maintaining and supplying to the member institutions up-to-date information on borrowers concerning their outstanding liabilities and overdue payments together with record of defaults, if any, and other relevant details.

Centralized Credit Allocation: allocation of credit by the government or the central bank to selected borrowers accorded priority or preferential status to ensure adequate flow of credit to these borrowers.*(see Directed Credit, Priority Borrowers)*

Certainty Equivalent: an acceptable substitute for risky items; for example, risky net cash flow considered equivalent to the risk-free net cash flows of a business activity or a project; yield that someone would require with certainty in order to be indifferent between this certain yield and a risky yield.

Certificate: in finance and banking, there are various types of certificates as listed below; these are routinely interpreted as a document authenticating accomplishment or compliance, issued by an established private or public institution.

Certificate of Commencement of Business: is permission granted by the Registrar of Companies to a public limited company to commence business on or after the date of the issue of the certificate.

Certificate of Deposit (CDs): is a deposit instrument; a receipt issued by a bank as an evidence of a deposit specifying the amount, the period of deposit, and the rate of interest. There are several types of deposit certificates issued in domestic or foreign currency; since CDs are negotiable instruments; these are freely traded in secondary money markets.

Certificate of Incorporation: is a certificate issued by the authorities concerned to allow establishment of a business or a company; a formal approval of the formation of a company; a certificate entitling a company to come into existence; a charter or franchise issued by the competent authority, legally empowering the proposed corporation to establish and commence operations.

Certificate of Indebtedness: is a corporate or government note evidencing indebtedness; a corporate certificate is an unsecured promissory note whose beneficiary has recourse against unencumbered assets of the company like a general creditor.

Certificate of Inspection: is a document certifying that the goods being traded conform to the specifications laid down in the letter of credit, issued at the request of the importer by the named official or organization operating in the exporter's country. The certificate accompanies other documents required under the L/C.

Certificate of Origin: is a certificate issued at the instance of the importer confirming that the goods were manufactured in the stated country.

Certificate of Search: is a certificate issued by the Registrar of Charges or Land Registrar showing the result of a search made in the register in respect of encumbrance on the named property.

Certificate of Title: is an authoritative certificate evidencing ownership of a tangible asset such as a property or a real estate, a transport vehicle, an automobile, an airplane or a ship, or certain types of machinery and equipment.

Certified Cheques: a US term for cheques marked "good for payment" this practice of marking cheques "good for payment" is lately abandoned in favor of payment orders or bankers' cheques; a cheque the payment of which cannot be refused for insufficiency of funds; certification of a cheque is tantamount to acceptance which makes the cheque an obligation of the bank; this, however, does not constitute a bank a guarantee for payment.

Certified Public Accountant (CPA): a member of the US or Canadian Institute of Certified Public Accountants; an accountant who has passed the prescribed examination and is therefore permitted to use the designation of CPA.

Chain Banking: an investor or a few individuals controlling operations of three or more separately incorporated independent banks through stock ownership, common directors, or any other lawful manner; the operational mechanism of the chain is developed around a key bank which is considerably larger than other members of the chain.

CHAPS (Clearing House Automated Payments System, UK): is the settlement and payment system in the UK which provides a same-day guaranteed sterling electronic credit transfer service for cheque clearing and settlement of accounts among banks within the UK; the system allows for payments to be transmitted by one bank to another via a computer network linked through British Telecom.

Charge: an encumbrance, a duty or a claim to be paid; creation of security in property or asset; an obligation to meet a debt; expenses of executing an order or carrying out an operation; the amount debited by a bank to a customer's account for services rendered; aggregate of expenses, freight, miscellaneous expenses.

Charge Card: is a credit card issued by a retailer to a client enabling the client to buy goods on credit from that retailer on agreed terms to the limit of credit and mode of settlement; a type of credit card with restricted use, since the card can be used only at the counter of the issuer.

Charge Certificate: after a charge created on the immovable property to secure a loan has been registered at the Land Registry, a certificate to that effect is issued called charge certificate. This charge certificate represents the security of the loan.

Charge for Cheques Processed: is a charge made by a bank for processing cheques of its customers; processing includes cheque payment, remittance, confirmation or verification and other related services rendered by the bank; it is a narration on a debit voucher or a debit advice indicating that the account is debited for the service charges for processing cheques over a period of time. Some banks charge certain percentage of the value amount of cheques processed, while others charge on the basis of number of cheques processed, yet others charge a fixed amount for a period, say a quarter of the year.

Charges for Excess Withdrawal: is a penalty for amount drawn in excess of the balance on the account; or penalty for withdrawals in excess of prescribed ceiling, if any; banks make extra charges for unarranged overdrafts or for withdrawals in excess of the overdraft arrangement.

Charge Order: is an order by which a company is restrained from allowing dealings with a specific share holder if the shareholder is liable for a bad debt; the order is obtained by a creditor if judgment has been obtained against a debtor and the credit remains unsatisfied; if the debtor holds stocks and shares, these can then be tied up by means of a charging order which takes effect in the creditor's favor from the date of the court order.

Charter: is a document incorporating a corporation; an instrument by which powers and privileges are conferred by the state on an incorporated entity or a beneficiary for a special purpose; an instrument granted by the authority concerned conferring rights and privileges on the beneficiary; a formal deed by the government guaranteeing the rights and privileges; also means to hire a ship.

Charter Agreement: in shipping business, an agreement between a ship owner and a party, to charter a ship or part of it for shipment of the cargo on a specified voyage during a specified period for an agreed amount of freight charge.

Chartered (companies, institutions): is a corporation or company established for carrying out a business and incorporated under a charter granted by the authorities concerned.

Chartered Banks: are new banks incorporated under a charter granted by the authorities concerned, usually the central bank, fulfilling the licensing and incorporation requirements with regard to subscribed capital, ownership, management, and lines of operations.

Chattel: a legal term for the tangible and movable property, as distinguished from immovable or real property, which can be transferred by delivery; chattels personal refer to the articles which can be transferred by delivery; chattels real refer to leasehold property.

Cheap Credit, Money: a credit obtained on low interest rate; money borrowed at a low rate of interest compared to current interest rate prevailing in the market.

Check, Cheque: in the US, a bank cheque or a bill due for payment; a synonym of US bank check; a bill of exchange drawn on a specified bank and payable on demand only to those named in the cheque.

Cheque-Bearing Deposits: or chequing deposits which can be withdrawn by cheques or deposit accounts against which cheques can be issued; all current accounts, saving accounts and profit and loss sharing (PLS) accounts are cheque-bearing deposits.

Cheque Clearing System: is an arrangement under which the member banks exchange cheques drawn on them and collected by them to make settlement of net amount receivable or payable through a centralized unit called the clearing house; processing of cheques deposited by a bank's customers for presenting the same to drawee banks for payment through the clearing system.
(see Payment Systems)

Chief Rent, Fee Rent: is the rent a landholder charges in lieu of sale price in perpetuity.

CHIPS (Clearing House Inter-Bank Payments System, USA): is an electronic payment system based in New York for paying and receiving funds on the same day; a highly secure and efficient system which handles large value payments relating to foreign exchange and international transactions; it is a private, large value credit transfer system operated by New York Clearing House and owned by major New York clearing banks; handles the bulk of international payments of the US financial institutions where transactions are continuously netted but a participant's net final position at the end of the day is settled through Fedwire. *(see Payment System)*

Circulating Capital: is the amount of capital constantly deployed in a business activity; for example in any trading business, funds are initially used to purchase merchandise for sale, and later on the turnover funds are used in the trading business; thus, funds which are being continuously redeployed may also be called floating capital.

Circumvent Banking Law: to get around the banking law without incurring a violation of the law; for example, a bank may legally acquire another bank through setting up a holding company, if prohibited by law or banking rules and regulations to acquire it directly. The holding company can own both the banks as subsidiary companies; this being quite legal, is a way to circumvent the law.

Claim: a right to demand and receive; an enforceable legal right to receive payments or funds due; a right to claim a refund.

Claims on Bank: are the outstanding liabilities of a bank; demands on the financial resources of a bank; cheques drawn on or payable by the bank; financial claims on a bank through clearing process; dues from a bank of any type such as unpaid bills.

Classes of Borrowers: several types of borrowers classified on the basis of the segment of the economy to which they belong; for example, households, private sector, public sector, or the government; or on the basis of origin, for example, domestic and foreign; or on the basis of sectoral activity for example, agriculture, industry, mining; or on the basis of type of business activities they are engaged in for example, investors, builders and developers; or on the basis of type of loan granted such as commercial loan, consumer loan, or mortgage loan.

Classification of Assets: is based on several feature; assets may be classified as *current or fixed assets* depending on the time period of use and their convertibility into cash; *liquid or illiquid assets* depending on their liquidity; *real assets or financial assets* depending on their base or origin; *riskless or risky* assets depending on the degrees of risk; *short term or long term* assets, depending on their tenure or maturity; *tangible or intangible assets* depending on their physical attributes.
(see entries in italics above)

Classification of Loan: is carried out by banks as part of their own internal control and monitoring mechanism based on various methods to enable a systematic assessment of loan portfolio quality, credit risk and concentration, and portfolio diversification.

Loans may be classified in several ways as follows:

- ***by purpose*** or use of loan such as working capital, trade financing, or seasonal business loans; mortgage, construction or house building loans; maintenance and improvement loans; or loans for refinancing, lease financing, educational loans.
- ***by type of security*** or collateral tendered such as finished goods and inventories, liquid assets such as cash or near cash or marketable securities; free hold or lease hold on property, buildings, machinery and other fixed assets; assignments of receivables, contracts; signature and guarantees.
- ***by terms of loan,*** the rate of interest rate charged such as fixed or floating interest rate loans; or prime plus loans.
- ***by type of borrowers,*** that is, amounts borrowed; or scale of borrowings such as government or private businesses; loans of large businesses, manufacturing, trading, or service enterprises; or loans of small and medium enterprises; or loans of profit or non-profit institutions.
- ***by maturity of the loan*** such as short term, medium term or long term.
- ***by type of clients and thus credit rating,*** such as prime or nonprime borrowers, where rating of client in done through private recognized institutions.
- ***by SBP codes,*** classifying businesses by type of activity in its quarterly returns submitted by the banks so as to determine concentration of risk in an activity.

Classification of Problem Loans: overdue loans classified according to the time period in default status and by maturity of loans; or the nature of loan default and the delay in their repayment; this may be a statutory classification based on banking regulation and supervision framework of the central bank, requiring monitoring, supervision, and provisioning for potential loan losses depending on the seriousness of default; or it may be a prudential classification adopted by a bank to closely monitor the magnitude of the impaired loan portfolio. In Pakistan, the classification of problem loans and delineation of their limits is stipulated by the SBP as follows:

Category	Short term Loans	Long term Loans
	(interest or principal overdue from due date)	
Loss	beyond two years.	by three years or more

(Trade bills not paid within 180 days of the due date are also treated as loss)

Doubtful	by one year or more	by two years or more
Sub-Standard	by 180 days or more	by one year or more
OAEM (Other assets especially mentioned)	by 90 days or more	by 90 days or more

Classified Bonds: are bonds of the same corporation issued in a classified series, for example, Series A, Series B, denoting the quality of the bond, carrying different rates of interest, or issue date, or date of maturity.

Classified Stock: is stock of the same corporation issued in a series, such as first preferred stock, second preferred stock, or Class A or Class B common stock, denoting the quality of the claim of the stock on the assets of the issuing corporation.

Clean Bill: is a bill of exchange without any commercial document accompanying it.

Clean Bill of Lading: is a bill of lading without any indication or superimposed clauses that goods or packaging are in any way defective or damaged.

Clean Credit: in trade financing, a letter of credit permitting clean bill of exchange, authorizing the exporter to draw a bill of exchange without commercial documents to accompany it.

Clean up: in banking, the traditional requirement of annual adjustment of bank advances; or the period of time during which the borrower is completely off the bank's books. Some bankers argue that the cleanup gives them an opportunity to review the credit before taking it on again, while others consider it unrealistic.

Cleared Cheques: cheques whose proceeds have been received by the collecting bank for crediting them to the beneficiary's account.

Clearing Bank: is a bank undertaking clearing and settlement functions for inter-bank transactions, drawings, net balances due.

Clearing House: for the banking system, an institution where inter-bank transactions and payments are cleared and settled; a part of payments and settlements system; a cheque clearing and settlement institution.

Close the Books: in accounting, it refers to balancing the accounts and closing the books at the end of accounting period to finalize accounts; for shareholders' record, it refers to the closing of share transfer book for a stated period during which no transfer of share is officially recorded in company's books in order to determine the exact shareholder entitled to receive dividends.

Closed Reserve: is a reserve or surplus created by undervaluing assets or overstating liabilities, which is not apparent from the balance sheet; the overstatement of the value of assets will result in understatement of net income as asset cost is assigned to revenue.

Closed-End Investment Company: is an investment company that does not accept additional investments or issue additional shares beyond a specified amount of shares already issued.

Closed-End Mortgage: is a mortgage that precludes further indebtedness on the property pledged as security.

Closed-End Mutual Fund: is a mutual fund that does not issue additional shares beyond a stipulated level of shares or level of investment, or admit new investors.

Closing: is the process of finalizing accounts to mark the end of financial year; drawing net position of all the accounts of a bank at the end of the accounting period to determine the operating results; an arranged meeting of the buyer and seller of a property or real estate to finalize the transaction.

Closing Entries: accounting journal entries at the end of the financial period as a part of processing of final accounts.

COD: an abbreviation of Cash on Delivery; a commitment in a trading transaction that goods shall be paid upon delivery.

Collateral: a term synonymous to ***security*** for a loan; a security tendered to obtain a loan; an asset pledged for borrowing funds; the backing provided for securing a credit; cash, financial assets, or valuables assigned as security for a debt, loan or a credit; the guarantee offered by borrower, or the backer of the loan, and acceptable to the lender as a viable collateral.

Collateral, Acceptable: acceptance of a wide range of assets by the lender as a collateral depending on the type of loan, and borrowers' networth and creditworthiness; may be an asset already in possession of the borrower, or may be acquired from the loan being sought and tendered as collateral; for example a property, real estate, or a fixed asset; or an inventory or goods in warehouse or in transit; or a deposit, a third party guarantee, or an unsecured commitment tendered as a collateral.

Collateral Base: is the financial soundness, quality and strength of a collateral relative to the magnitude of loan; sufficiency or otherwise of a security to cover a loan; the collateral value of property as a ratio to the amount that can be borrowed; security against which a loan is granted.

Collateral Liquidation: is the sale or disposal of security placed as collateral for a credit pursuant to a foreclosure and using the proceeds so realized for the adjustment of outstanding debt.

Collateral, quality of: primarily depends on how well the collateral holds up its market value over the life of the loan to provide a meaningful security for the loan; other dimensions of quality are; transferability and ease of possession or acquisition in case of default; convertibility into cash or how liquid is the collateral; size and access to the market for pledged asset as collateral, if it were to be liquidated; clarity of ownership of the borrower for the pledged asset, free of liens and encumbrances; a third party confirmation of collateral rating and its appraised value.

Collateral, Types of: the classification of various types of collateral is based on the classification of assets that can be tendered as collateral because collateral is essentially an asset pledged by the borrower to secure a loan; such as quality of collateral, its marketability or convertibility, ownership and its access, sustainability of collateral value, and security over the period of loan.

Collateral Value-to-Loan: is the value of collateral relative to the amount of loan; requires maintenance of a minimum ratio of current market value of collateral to the amount of the outstanding loan.

Collateralized Credit: is a secured credit for which the borrower has tendered some kind of collateral or security with the lender, such as documents of title on assets, bonds, stocks, which may be sold to satisfy the debt, if not paid at maturity; in contrast with unsecured credit issued on the general guarantee or the promise of the borrower to repay the loan.

Collateralized Lending: loans extended by a bank and secured by collateral, as against unsecured loan, a loan extended on promise to pay, such as a signature loan.

Collection: of amounts by a bank as per written instructions from a customer; or the collection of financial or commercial documents to obtain acceptance or payment; or collection on delivery of commercial documents against acceptance or payment, or on other terms and conditions. Collection may be clean or documentary; if collection of financial documents is unaccompanied by commercial documents it is clean collection; whereas a documentary collection is with or without financial documents. *(see Trade Financing)*

Collection Agency: an organization which acts as agent of another organization under an agreement to pursue collection on behalf of the client.

Collection Order: are written instructions from a customer to the bank or from one bank to another bank to undertake collection of financial or commercial documents. The instructions given in the collection order have to be meticulously followed by the bank; beyond that, the bank is under no obligation to examine the documents it handles, except that the collecting bank should verify that all the documents listed in the collection order have been received, and that the form of acceptance of a bill of exchange appears to be complete and correct.

Collection Ratio: it is an important performance indicator of a lending institution or a bank; it is the percentage of recoveries or collections to the total amount of accounts receivable; a high collection ratio reflects sound lending practices and an efficient collection system.

Combined Transport: is transportation of goods by at least two different modes of transport, from a place at which the goods are taken in charge to a place designated for delivery; the document covering such transportation is called combined transport bill of lading, introduced at the advent of container shipment and transport.

Comfort Letter: is a letter written by a parent company to the bank regarding its subsidiary company to support a loan request of the subsidiary company under consideration by the bank, if the parent company is not able or willing to formally secure or guarantee the loan to its subsidiary, but the parent company would be willing to provide financial support to the subsidiary company to prevent default and liquidation; thus, a letter of comfort is short of a guarantee and is not enforceable in a court of law.

Commercial Banking: consists of the mainline banking activities carried out by commercial banks, licensed, chartered, and organized under the banking law, such as the scheduled banks in Pakistan, who are closely monitored, supervised and regulated by the central bank, the SBP. Activities of the scheduled banks are

mainly deposit mobilization through a branch network; extending credit, mostly concentrated in short term collateralised lending such as trade financing and overdrafts, together with a range of financial services provided to the clients. With the liberalization of banking rules and laws, commercial banks in many countries are now increasingly being allowed to undertake related activities, short of investment banking or underwriting, portfolio investment and securities market operations, and related services. At the same time, commercial banking is no longer the exclusive domain of commercial banks as it used to be, rather increasingly some of the mainline over by other financial institutions offering stiff competition to commercial banks, and blurring the distinction between commercial banking and other types of banking activities.

Commercial Bill: is a bill of exchange originating in trading or a commercial transaction as distinguished from treasury bills, finance bills, traveler's cheques, bank drafts; the term is also used for all bills other than treasury bills.

Commercial Invoice: a commercial document prepared by the exporter in conformity with the terms of credit, which incorporates the description of goods, rate per unit, total price, and shipping terms.

Commercial Law (Mercantile Law): The collective name given to the laws directly or indirectly governing different aspects of commercial operations.

Commercial Mortgage Lending: is lending for commercial property; construction or acquisition of commercial property against mortgage on the property taken as security for repayment.

Commercial Paper: are unsecured promissory notes of relatively low risk and short maturity of 3 to 6 months, issued by highly rated large corporations who usually maintain backup credit lines with their banks to ensure payment at maturity; notes, bills, and acceptances arising out of commercial, industrial or agricultural transactions of short term maturity, self-liquidating and used as trade financing instruments for non-speculative purposes.

Commission: a compensation for services rendered; charges recovered by banks, brokers, or members of stock and commodity exchanges for rendering services to their customers.

Commitment Fee: a fee charged by a bank for committing itself to make the loan funds available to a borrower when needed; a fee charged by a bank for approving a credit line to a borrower, based on un drawn balance of the loan and represents costs to the bank for holding the balance for the borrower; it could be fixed or floating fee rate; the fixed rate is determined at the time of loan agreement; floating rate is based on the current market rate chargeable on undistributed balance at the time of loan disbursal.

Commitment Letter: is a letter written by a bank or a financial institution committing itself to a financial obligation to be performed in the future; or a letter written at the time of purchase of stock or bond confirming an obligation to pay for subscribed stock on call, or to take up the bonds subscribed or purchased on the delivery date.

Commodities Dealing: is trading in agricultural, mineral or precious metals on a commodity exchange by dealers and brokers licensed to do trading on behalf of their clients.

Commodity Exchange: is similar to a stock exchange, where trading is done by the members of the commodity exchange, authorized and licensed to trade on behalf the clients; the trading is mainly in futures contracts in commodities, minerals or precious metals.

Common Repayment Source: loans granted to several borrowers having a single or common source of repayment; for example transport loans given to several staff members of a company, where the repayments are the installments deducted from their salaries; the payroll of the company being the single source.

Common Stock: are commonly known as ordinary shares; are a part of the capital stock of a corporation which has the last claim upon assets and dividends, as distinguished from preferred stock, though common stockholders exercise control through the voting rights attached to their shares. The rights between various classes of ordinary shares as to profits, votes and other benefits are proportionate to the paid-up value of shares.

Community Bank: is a local bank that primarily meets the credit needs of the local community within its service area; it is often organized on cooperative basis in areas not served by main banks; community banks provide access to credit and banking services to the community member who otherwise may not have access to main banks.

Comparative Advantage: in the context of international trade, comparative advantage refers to a lower unit cost of a traded item in a country relative to the unit cost of the same item in trading partner country; this cost differential confers a comparative advantage in international trade, and may arise from resource endowments, technological superiority in production processes, labor efficiency, and productivity differentials. In general terms, comparative advantage means relative superiority over the rivals in production, marketing and sales arising from superior management and organizational and technical skills.

Comparative Analysis: is an analysis of trends or performance of a firm through ratios analysis relative to the performance of other firms in the industry.

Comparator: provides a standard or a bench-mark for comparisons of a product, a service, or a compensation to determine cost effectiveness and cost control.

Compensating Balance: is an arrangement between the bank and its borrower requiring the borrower to keep in a chequing account a certain percentage of the balance outstanding in his loan account; an interest-free deposit kept with a bank by a borrower, or by a user of its services to compensate the bank for the services rendered; thus, the noninterest-bearing amount is available to the bank and, in return, it foregoes its fee or part of its interest on loan.

Competition: in banking and finance, competition means existence and operation of several banking and financial institutions offering similar services and financial products at prices and rates largely determined by market forces of supply and demand. In practice, competition is always imperfect in that a few major banks or financial institutions dominate and are recognized leaders of the industry, are trend setters, even price setters; thus competing with their rivals in a narrow range of rates and prices but with efficient services pertinent to banking and finance industry.

Competitive Environment: In banking and finance, competitive environment is fostered by a body of rules and regulations that prevent banks and financial institutions acquiring an exclusive access to the market, or creating barriers to restrict entry into operation by their rivals; it constitutes a set of procedures, practices and mode of operation that is open to all the banks and financial institutions, and offer similar set of services and products as offered by their rivals.

Competitive Position: of a bank or financial institution is judged by how close are its services, products, prices and rates to those prevailing in the market offered by its competitors. In practice, interest rates and prices of financial instruments are identical or nearly identical in the market across the banks and financial institutions; hence, no single bank or financial institution enjoys a noticeable competitive edge over others. It is the quality of service, and fee charges for those services that provide the turf to compete; therefore banks and financial institution lavishly compete to maintain their competitive position in this area, through cultivating and nurturing long term client relationship, carefully matching their services to the needs of their clients.

Competitive Pressure: stems from market, forcing banks and financial institutions to keep their rates, prices, fees and charges in line with those prevailing in the market, without compromising on the quality or the range of services rendered to their clients, and thus risk losing their client base and business; the competitive pressure applies to the costs of funds to the bank or financial institution, in a uniform manner, mostly the ability to contain and manage their losses and administrative costs, enables them to maintain their competitive position and avoid competitive pressure.

Competitiveness: is the capacity to compete in the market as reflected in pricing, management, quality of goods and services, marketing and innovation.

Composite Balance: is the total of various amounts lodged into various accounts for a single category of financial activity; for example, the total amount of long-term deposits maintained in different bank account by a single depositor.

Composite Rate: approximation of a rate on the basis of average rates; for example, the interest rate on several loans obtained on different interest rates by a borrower from various sources to finance a single business purpose; or the tax rate calculated on the basis of calculating the rate of tax on the basis of approximate average rate of tax payable by all depositors; a rate of tax lower than the basic rate of tax charged on banks and building societies in respect of interest paid to depositors; depositors who receive such interest on their deposits can believe that tax has been deducted at the source.

Composite Rating: is to determine a single rating, a single bench-mark, based on various types of indicators; for example performance rating of a bank based on quality of management, soundness of portfolio, cost of operations, and quality of serious offered.

Compound Interest: is the interest earned not only on the initial principal but also on the accumulated interest from previous periods.

Compounding: is a method of calculating and adding interest on the unpaid balance of interest accrued on a loan, or on balances receivable, or a deposit balance, thus adding to the value of the principal amount; in contrast with discounting.

Concentration: in banking, concentration is predominance of a bank or a few banks in the banking system as measured by their share in total deposits liabilities of the banking system which shows to what extent banking resources are concentrated among these banks; or the predominance of a class borrower or an industry in the loan portfolio of a bank; the largest the proportion, the higher is the concentration risk to the lender. *(see Concentration Risk)*

Concentration Banking: is a method of improving collection of funds in which a number of collection centers are established and some depository banks are designated to receive funds from these centers; as and when the amount of deposit at these banks exceeds the prescribed limit, it is transferred to the firm's major bank, called the concentration bank.

Concentration of Credit Risk: the risk of loan loss because of concentration of credit facility with large amounts of loans in one borrower, or one group of borrowers, or in one industry; if the borrower, or the group or the industry suffers a loss or faces a crisis, the bank may sustain substantial loan losses. To avoid concentration risk, the credit portfolio is to be kept broad-based and diversified.

Concentration Ratio (Harfindahl Index): a measure of industry concentration which is calculated as the sum of the squares of the market shares of all firms in an industry; percentages of market share used as criteria for assessing the competitive effect of mergers and acquisitions. In recent years the use of Harfindahl index has increased to guide decisions related to the anti competitive effects of horizontal mergers.

Concessional Finance: is banking credit provided to designated borrowers at terms below those prevailing in the market to promote development of priority sectors such as agriculture, exports, manufacturing; or to promote development of less developed regions in a country: or assist small and medium enterprises (SMEs) who can not access banking credits; or to diversify domestic production base and thus promote employment and economic activities. The concessional elements or the financial subsidy consists of preferential interest rates together with longer maturity of loans than those offered by the banking system; improved access to credit through development financial institutions like Agricultural Development Bank of Pakistan. Concessional finance, also known as development finance, has been provided by governments both in the advanced and developing countries in the early phases of their development for these objectives. Since early 1980s, however, concessional finance has been gradually reduced in several countries because of the massive costs, abuses of the system of credit and widespread default and insolvency. *(see Development Finance, Institutions)*

Concessions in Terms: are concessions and discounts allowed in credit term, usually in credit sales and payment of bills, encouraging the borrowers to pay before the stipulated due date of payment; for example, a discount of 2 per cent may be allowed if payment is made within 15 days, and one per cent if payment is made within 30 days.

Conditionality, Loan: conditionality concerns the terms of the loan, like interest rate, maturity, and repayments, and collateral requirements; additionally, the lender may stipulate business performance conditions not related to the loan repayment, rather on the conduct of the business, and overall business results, as part of the loan agreement depending on the type of the loan and the borrower.

Confirmation: a formal verification or admittance in writing of an order, an agreement or a communication previously conveyed orally, on telephone, or by electronic media. Authorized signature or confidential test number is the essential in confirmation without which the note of confirmation, although in writing, is incomplete and inoperative. When a bank confirms a letter of credit it is considered to have added its confirmation to the credit which constitutes definite undertaking by the confirming bank.

Confirmed Credit: in trade financing, when an advising bank in the exporter's country adds its confirmation to an irrevocable letter of credit and therefore becomes a confirming bank, the L / C becomes a confirmed credit; which becomes a definite undertaking of the confirming bank in addition to that of the issuing bank, provided documents stipulated in the credit are presented and all the terms and conditions of credit are met; country risk and sovereign risk involved in international trade are covered through confirmation of credit. *(see L/C)*

Confirming Bank: is a correspondent bank that adds its own engagement to that of the issuing bank in a letter of credit guaranteeing to the beneficiary that the credit shall be honored.

Conflict of Interest: is an activity or a transaction in which one party has an interest opposed to the interest of some other party; for example, a company's director awarding contract to a firm in which he is a partner. The interest of the director, as a partner of the contracted firm, creates a conflict with the interest of the company which he should safeguard as a director.

Congeneric Merger: is merger of firms in the same industry where the firms are neither customers nor suppliers to one another.

Conglomerate: is an industrial group consisting of companies which have diverse or unrelated interests; a large group of companies with interlocking ownership and business relations, market sharing arrangements, supportive production and marketing, with a diversified base of operation across industries and sectors.

Conservative Bank Management: a risk averse management style of a bank in contrast with aggressive banking; relying on proven and tested lines of banking activities and client base, instead of venturing out in new and risky types of business to keep the banking risks well within acceptable limits, and accepting lower than market returns.

Conservative Investment: is less risky investments; investment with greater security for principal and returns commensurate to low risk investment activities.

Consideration: some preferential treatment, right, interest, profit, or benefit accorded to one party, relative to or at the detriment or expense of another party; it is a basic ingredient of a valid contract; for example, a negotiable instrument may be made, drawn, accepted, endorsed or transferred without consideration; but if for a consideration, then it may create a side obligation.

Consolidated Accounts: are financial statements prepared for a group of companies assuming them as a single company; financial statements of a parent company and its subsidiaries, presenting the composite account as if the companies were a single entity, instead of preparing statements of the parent company alone; in the consolidated statements, inter-company items are eliminated, such as amounts owed by one affiliated company to another; also called group accounts.

Consolidated Balance Sheet: merged or composite balance sheet of two or more companies as if they were one entity; balance sheet of a parent company and its subsidiaries presenting the composite balance sheet as if the companies were a single firm; in the consolidated balance sheet, inter-company items are eliminated such as amount owed by one affiliated company to another, security held by one affiliated company in another.

Consolidated Income Statement: is the income statement of a company or a business, including profit and loss account of various lines of activities merged into a consolidated account; a consolidated income statement of a group of companies showing composite income and expenses, share of profits, share of taxes and share of extraordinary items for the group concerned; however, inter-company accounting items outstanding against each other are deleted.

Consolidated Subsidiary: a consolidated subsidiary is a company whose assets are controlled by the holding company, and the consolidated balance sheet includes all the assets and liabilities of the holding company and of the subsidiary.

Consolidation: of ownership is the process of acquisition of one company by the other; consolidation of operations of merged units of a company or merged companies, streamlining activities of consolidated units, avoiding duplications and layered control of operations; a major cost cutting step taken by consolidated companies.

Consolidation of Loans: by a large borrower of various loans into a large loan or into new loan liabilities to reduce loan processing and loan administration costs, or to reduce interest costs.

Consortium Banks: is a group or association of banks formed to jointly finance a large loan in agreed proportion either because it is beyond the capacity of a single bank, but more commonly to spread the lending risk, or to leverage the loan, or to enhanced the bargaining position of the member banks vis-à-vis the borrower, who may be a conglomerate, a government, or a government owned large enterprise; members of the consortium are called consortium banks.

Constant Price: an economic term; constant price is defined as the current price adjusted for inflation by a suitable price index; such as the consumer price index, or the wholesale price index, thus expressing the real value of an economic or financial aggregate in terms of prices prevailing in a selected base year to gauge changes in the real amount, net of price fluctuations or inflation. *(see Real Price)*

Constant Value: an economic term; constant value or the real value of an item is the current value adjusted for inflation with reference to a base year; the adjustment is done by a price index, thus denominating the value in terms of prices prevailing in the base year; for example, the constant value of income, salaries and wages adjusted for inflation by the consumer price index to determine the real value or the real purchasing power of income, salary, or wages. *(see Real Value)*

Construction Loan: are loans extended to finance construction to builders, contractors, or engineering firms against the collateral of constructed facility, or against the collateral of builders or contractors market reputation and expertise in construction, as well as on the basis of agreements and clauses in the terms of the forward sale contract, apart from a good status report of the bankers; construction loans are also obtained by speculative builders or contractors without firm buyers in hand, their loan requirements are large and fairly risky, thus adding substantial risks in construction loans which need to be adequately covered by the bankers.

Consumer Finance Company: is a finance company which provides credit for purchases of consumer items or consumer durables.

Consumer Loan: is extended as credit by banks or others to consumers for installment purchase or for their own financial needs.

Consumer Price Index (CPI): the CPI measure the weighted average changes in the price of a pre-defined basket of consumer goods to gauge the increase in the cost of living over the reporting period. The CPI is widely used to denote the rate of inflation, and is used to adjust wages and salaries to maintain their real purchasing power. In Pakistan, the CPI is reported by the Bureau of Statistics, who compiles and reports on a quarterly basis.

Contingent Liability: is an uncertain liability; a liability depending upon the fulfillment or lack of fulfillment of certain conditions; potential liability that may become absolute on the occurrence or non-occurrence of certain events; for example, the liability of an endorser should a bill of exchange not be paid by the acceptor; a secondary liability.

Contingent Ownership: is a conditioned ownership usually in property that will come into existence on compliance with pre-specified conditions, the contingencies.

Continuing Security: is a guarantee expressed as a continuing security relating to the liability for loan balances outstanding now and in future; it extends the guarantee beyond the original advance to subsequent advance, whether or not a subsequent advance materializes; a guarantee may be limited as to the time and still be a continuing security; in contrast with a specific guarantee, one given for a specific amount in which case repayments reduce the size of guaranteed obligation.

Contract (Financial): in finance, an agreement between two parties, such as a bank or its clients concerning lending or financing a business activity, which is binding on both the parties of the contract, as per terms and conditions of the contract, stipulating timely performance requirements together with costs and penalties in case of nonperformance which becomes legally enforceable, the financial liability of the nonperforming party.

Contractual Obligation: is a commitment arising from a contract; a binding agreement enforceable under law. In banking and finance, the contractual obligations bind the banker and the client as follows.

- ***Banker's Obligations*** to customer are to receive customer's deposits and cheques and other instruments for collection and crediting; repay the customer's deposits and other funds on demand; observe confidentiality concerning the customer's accounts and serve reasonable notice before closing the account.
- ***Customer's Obligations*** are to repay the debt owed and the interest on overdrawn account and reasonable charges for services rendered by the bank; and to do transactions with sufficient care so as to prevent mistakes or frauds.

Contribution: in finance, it is a payment for a shared commitment, or for a share in a proportional participation in an activity as required, whether profitable or charitable; in another sense, it is the rule for apportioning the burden of different mortgage debts for the benefit of a mortgage, or of different properties or different mortgagors of one and the same property; if the mortgaged property belongs to more than one person, the burden of the mortgage debt is to be distributed proportionally upon the different shareholdings of that property; the principle of contribution also applies in case of co-sureties; for example, if one of the co-sureties has paid more than his due share, he is entitled to call upon his co-sureties for their contributions to compensate him for what he has overpaid; further, any securities deposited by the principal debtor with any of the co-sureties as cover for the liability under the guarantee must be pooled, so as to secure proportionality, and if the liability occurs, it has to be divided among all the co-sureties equally or proportionally as the case may be.

Contribution Margin: is sales revenue less variable expenses; where variable expenses change in direct proportion to the change in volume of sales.

Contributory Negligence: if a person by his own negligence does not look after his interest and therefore sustains a loss, it may be because that he failed to take reasonable care of his asset or property, thereby contributing to his loss. This lack of reasonable care is contributory negligence. In banking, a customer may be responsible for contributory negligence for issuing a blank signed cheque without appropriate safeguards thus exposing to a risk of loss.

Control Process: is a system of check and balance, and standard procedures; in banking, extensive control system is vital to safeguard against fraud and losses arising from routine transactions during the course of a business day; in lending set procedures have to be followed through appropriate levels of authority; in foreign exchange dealings, a system of trading limits, exposure and floor and cap pricing provide the control.

Convention of Management Accounting: governing principles of accounting which assist management with hard information to formulate policies and plan, and control the activities of the organization.

Conversion: in finance, it is conversion of an asset into another asset through trade or exchange; in bank lending, conversion of an expired loan into a new loan; in deposit accounts, conversion of a current account to a term deposit account; in foreign exchange trading, it is conversion of a currency into another at an exchange rate, like converting dollars into rupees or otherwise; in dealing with maturity dates, conversion is transformation of maturity of one asset into another, such as converting a fixed deposit into saving or current account; in securities market transactions, conversion of stock or bond for a specified numbers of shares or stock provided conversion price of the securities is the same; in manufacturing, conversion of raw material into finished goods.

Conversion Premium: is the charge or the cost paid for conversion; the difference between a convertible bond's issue price and its conversion value set at the time of issue.

Conversion Price: is the price at which shares of common stock are converted.

Convertible: is an exchangeable or tradable asset; a bond may be convertible on demand by the bearer; a convertible currency that can be easily traded in foreign exchange markets; convertible stock and securities which can be easily converted into other assets.

Convertible FRNs: these floating rate notes (FRNs) with variable interest rates can be converted into long term fixed rate bonds at the issuers' option.

Convertible Preferred Stock: is a preferred stock that is convertible into common stock at a predetermined price at the option of the preferred stockholder; in contrast, there are straight or non-convertible preferred stocks.

Convertible Capital: represents deferred sale of common stock; or conversion of senior capital into common stock, where senior capital consists of debt instruments and preferred stocks, such as bonds or preferred stocks which are convertible into common stock.

Convertibility: is the ability or the facility to convert a financial asset or instrument into another asset; such as sale of an asset to convert it into cash; or the ability to convert one currency into another; or the ability to convert a bond into another asset or into cash.

Conveyance: is the transfer of title of real property from one person to another; the deed by which transfer of property is affected.

Cooperative Bank: is a bank established and registered as a cooperative venture to provide banking facilities to members of the cooperative, such as a farmers' cooperative or traders' cooperative, thus bypassing the stringent licensing requirements of a regular bank, especially the minimum capital requirements, reporting requirements, or dividend distribution.

Cooperative Credit: is credit extended by cooperative bank or cooperative societies, organized to provide loans to the small borrowers like farmers, manufacturer and businesses; replacing the large formal lenders like banks and other financial institutions. Members of the cooperatives are nominated from the community of farmers in case of agriculture, or small manufacturers or fishermen, depending upon the trade. Each member's liability is unlimited, that means each member is fully responsible for the society's entire loss, therefore each one should be fully aware of the activities of others in the cooperative society or cooperative bank, and loans are given for shorter duration and for specific purposes on soft terms.

Core and Supplementary Capital: is calculated mainly to assess the capital adequacy of a bank; it needs to be uniformly defined and adopted by all banks to allow meaningful comparisons of networth of banks and their cross section analysis. The Basle Capital Accord of 1988 and its subsequent amendments and updates being adopted by several countries since then define core and supplementary capital as follows.

- ***Core Capital:*** also called **Tier 1** capital constituting shareholders' equity in paid-up share capital or common stock held, plus disclosed reserves. For purposes of bank supervision, the Basle Accord prescribes that core capital should be 50 per cent of the capital base of the bank, and the other 50 per cent may be supplementary capital as defined below.
- ***Supplementary Capital:*** also called **Tier 2** capital, consists of undisclosed reserves, revaluation reserves, hybrid debt capital instruments, general provisions or reserves for loan loss, and subordinated debt limited to 50 per cent of tier 1 items. *(see Capital Adequacy)*

Core Business: is the main line of business operations or principal product of a company which generates bulk of the company's revenues

Core Deposits: are stable deposits of a bank; deposits which are not expected to fall below a certain level over a reasonable period of time and thus provide a stable source for lending.

Corporate Advisory Services: advisory services, usually fee-based, provided by banks to their corporate clients; the range of such advisory services includes advising on investments, buy-outs, trade prospects and fund management.

Corporate Capital Structure: is exhibited by the composition of the equity of a company and long term debts comprising of common stocks, preferred stocks, reserves, retained earnings and long term borrowings.

Corporate Debenture: is a borrowing instrument like this issued by a corporation or a company which creates a debt and contains an acknowledgment of the issuer with an obligation to repay the debt at a fixed future date, with charge on all or some of the assets of the company; debenture is a term of British origin; its equivalent in the US is corporate bond.

Corporate Debt: loans borrowed by a single corporation; debt financing obtained by a company against its general credit rating or against a charge on some or all of its assets; also means the aggregate of corporate borrowings from the banks.

Corporate Finance: concerns procedures, methods, instruments and policies regarding acquisition and use of financial resources by a company or a business, or a corporation; concerns cash budgeting and management of cash flow, inventories, and accounts receivable; management of fixed assets and their acquisition, involving capital budgeting, financing strategies, instruments and procedures such as those concerning issue of shares and stocks, corporate debentures or bond financing, or long term borrowings from banks.

Corporate Financial Structure: is the composition of corporate finances; funds raised by or available to a corporation or a company from owners' equity and long term debts and short term sources such as bank borrowing and accounts receivable.

Corporate Guarantee: is a guarantee issued by a corporation under proper authorization; not for the benefit of a third party unless issuing guarantees is corporation's business.

Corporation: a corporate body, an association of persons, registered and recognized by the law as having a collective personality, separate from its owners and having a continuity of existence, regardless of changes in its ownership, through sale or purchase of its shares; the liability of its members is limited to the extent of shares held by them.

Correspondent Account: is the account of one bank with another, generally in a foreign country or foreign currency to facilitate financial transactions and settlement of debts due from one to the other.

Correspondent Bank: is a bank in one country which acts as an agent for a bank in another country; a bank having service relations with another bank.

Correspondent Relationship: a bank having direct client relationship with another bank, formalized under an agreement to facilitate banking transactions and to arrange financing for their clients; this relationship may be between two banks of the same country, or two banks in two different countries.

Costs: are expenses incurred in establishing and operating a business, or a financial institution or a bank, or in production, manufacturing, and sales, depending on the line of business activity.

Costs, Types of: classified as: *administrative costs, fixed costs, variable costs, direct and indirect costs*, *economic costs, financial costs, real costs, banking costs, explicit and implicit costs, and intermediation costs. (see entries listed)*

Cost Accounting: is an accounting system, procedures and methods concerned primarily with the classification, recording, allocation and analysis of costs of a company or business concerning their operations and business activities.

Cost Center: is a definable area of activity or a unit or department within a business for which costs can be ascertained and allocated but which does not directly contribute to revenue generation.

Cost of Capital: it has various components including, cost of preferred stock, cost of common equity, cost of retained earnings, and cost of debts; when the cost of capital is determined on the basis of the relative proportions of these components in a capital structure, it is weighted average cost of capital; also interpreted as the minimum rate of return a company must earn in order to satisfy the rate of return expected by investors; also the discount rate used for capital budgeting decisions.

Cost of Default: is several components; or for a bank is it the loan loss or bed defaulted loans, primarily incurred due to nonpayment of a loan; it is a substantial loss first charged to loan loss reserve kept specifically to cover loan losses; or it is charged to income; if it is still not fully covered, then the loan loss is charged to shareholders' funds. *(see Default)*

Cost of Deposit Insurance: is the premium paid by the banks for an insurance policy to provide depositors with a guarantee of repayment of a stated amount or a proportion of their deposit balances with a bank in the event of insolvency of the bank.

Cost of Funds: in banking, it is the cost of loanable funds raised by banks mainly from deposits and also from borrowings, both domestically and abroad in foreign currency funds; thus cost of funds includes the interest paid to the depositors, interest cost of borrowed funds, together with any specific fees or charges paid in borrowing operations.

Cost of Goods Sold: is the purchase price of goods sold during a specified period, and other costs such as transportation.

Cost-Plus Pricing: is a pricing formula where the price of a commodity is set at cost of the commodity plus a mark-up; a contract where the customer agrees to pay the cost of work in the contract and an agreed percentage as profit; the revenue derived from the contract is determined after the contracted work is complete.

Cost Price: is the price of an item reflecting its cost of production and sales without a sales or profit margin; it is used for inventory evaluation or clearance of overstocked items; represents a discounted price of an item.

Countermand of Payment: is revocation of authority in writing and in unequivocal terms to stop payment of a cheque by the drawer or by the joint account holder.

Counter-Party Failure Risk: is the risk of nonperformance by a counter-party to fulfill its commitment under a contract; an important risk in financial transactions.

Country Risk: in banking, it is the risk facing banks who are engaged in lending operations in foreign countries; in addition to the usual credit risks, country risk includes cross country financial risks such as transfer risks, foreign exchange risks, together with performance risks, economic and political risks of banking in a foreign country.

Coupon: is the interest certificate attached to bearer bonds, which can be detached and presented for payment on respective due dates.

Coupon Bond: a bond paying the bond holder a regular amount on specified dates as coupon payment through its maturity.

Coupon Payment: the periodic payment received by the coupon bond holder as part of the bond indenture agreement.

Coupon Rate: is the interest rate paid on bond's par value; or the rate of interest stated on the face of a security; or the ratio of the annual coupon payments on a bond to its par value; it is the interest rate on par value of the bond fixed for maturity period of the bond; it is the obligation of bond issuer, the borrower of long-term funds in capital markets; for bond investors, coupon rate is a fixed rate of return but it is only a part of the total return on a bond, the other part being capital gain or loss at the time of sale based on the market price relative to purchase price or issue price of the bond paid by purchaser at the time of purchase; coupon rate is determined by market conditions as assessed by the underwriters at the time of bond issue, such as long-term interest rates on comparable borrowings, the size of bond issue, maturity of the bond, and above all financial depth of the borrower.

Covenant: an undertaking designed to protect interests of the lender; or to ensure compliance with specific terms as stipulated; or a formal promise to abide by stipulations or restrictions specified in an agreement; or a binding assurance to refrain from undertaking certain activities.

Cover: has several meanings; in banking, cover is the net additional value of securities against an advance; or cover provided for lending costs other than interest charge; or cover provided for certain risks for a fee, like foreign exchange risks, or transfer risks of short term foreign credits; in insurance, the coverage, or the assumption of certain risks and potential liabilities as specified by insurance agreement; in sale or purchase of futures trading in commodities, cover is to buy back the futures contracts already sold.

Coverage: in the analysis of financial statements it is determined by the ratio of security to advances or specific liabilities of a customers; in income analysis, it refers to the total income relative to cost of dividends; in letters of credit transactions, it refers to the agreed covenants of the terms and conditions; for example, a letter of credit covering partial-shipments or trans-shipments.

Credit: this term has dual meanings; as an accounting entry, it means adding to the account balance; as a loan, a *credit* is the amount of money borrowed from a lender for a period of time at a rate of interest and at terms of repayments as agreed between the borrower and the lender, backed by a collateral or loan security; hence, *credit* in this sense is a financial obligation and a liability, just the

opposite of accounting credit; as a loan, the term *credit* in daily usage is regarded synonymous to terms like *debt, loan,* and *borrowing* but is interpreted somewhat differently depending on the context; that is, a *credit* or a *loan* is usually meant as a single repayment obligation, a self-standing liability; while the term *debt* or *borrowings* is meant as the *total amount of all loans* outstanding, itemized and listed in a borrowers' portfolio; the sources of credit are similar to the sources of a loan; likewise, types of credit are similar to those of loans. *(see Loan, Debt, Borrowing)*

Credit Advice: conveying to customer the details of an amount credited to his account.

Credit Allocation: a system of allocation of credit announced by the government or the central bank specifying flow of banking system credit in proportionate shares to designated categories of users over a defined period to achieve financial, economic or social objectives; non-compliance to these allocations may entail financial penalties thus forcing the bank to adhere to the allocation instructions; this is also called directed credit system as outlined below.

- ***At the aggregate level***, credit allocations stipulated for public sector and private sector for user categories; and by suppliers of credit to the public and private sector to be provided by the commercial banks, specialized financial institutions, and the central bank.
- ***At the sectoral level***, credit shares allocated to the priority sectors such as SMEs, exports, manufacturing, agriculture, and transport to be supplied by commercial banks and specialized institutions. *(see Directed Credit, Development Finance)*

Credit Allocation Guideline: for the banking system, a set of guidelines issued by the central bank concerning directed credit program and credit allocations; for a bank, policy formulated by the board of directors and disseminated to operating levels for guidance in granting credit facilities by the bank staff.

Credit Appraisal: is the evaluation and assessment of a credit request centering on the assessment of credit risks such as the net worth and creditworthiness of the potential borrower, together with borrower's loan repayment capacity; assessment of the proposed collateral, its value, liquidity, access and convertibility; the proposed use of the credit, cash flow and income generation potential and returns to the borrower; evaluation of industry or business risks associated with the borrowers' line of business; and past financial performance record; these are main elements of credit assessment, but credit appraisal may involve a thorough scrutiny depending on the type of credit being sought and the amount of credit requested.

Credit Association: is an association of small borrowers, businesses or individuals who agree to pool their savings so that members may then borrow money out of this pool at reasonable rates; an informal credit arrangement for those who can not access banks or institutional lenders.

Credit Card Payment: is a method of payment through credit card as an alternative to cash or cheques; it is also a means of postponing payment for goods or services and is a source of consumer credit, usually at substantially high interest rates than market rates for regular loans.*(see Card)*

Credit Ceiling: is a limit on the expansion of bank credit imposed by the central bank by amounts or by permissible rate of growth over previous levels, or specified by sectors, to implement an across-the-board credit control on credit and monetary expansion as part of the monetary and credit policy in a given time period; there are usually stiff penalties for non-compliance with credit ceilings, and by and large banks do conform to this type of credit control.

Credit Committee: a committee of senior executives of a bank responsible for credit policy and lending operations of the bank; the senior most authority in the bank to approve large credits, or credit limits beyond those authorized to the general manger or the credit officer.

Credit Concentration: occurs when a large number of loans of bank are extended to a few borrowers, or to a group of borrowers belonging to a particular sector or industry, thereby exposing the bank to concentration risk because its lending risks are enhanced, in that a default by one major borrower may jeopardise the bank; it is measured as the ratio of credit extended by a bank to a single borrower to the total credit outstanding, or to a single line of business activity, or a sector or a sub-sector of the economy. *(see Lending Risk, Concentration Risk)*

Credit Cooperative: is a cooperative established to provide credit facilities to its members; an association which collects deposits from its members and lends it out only to the members of the association such as savings and loan associations.

Credit Discount: is the percentage discount admissible to the debtor if the credit amount due is paid within the credit period.

Credit Extension: is to approve a credit or a line of credit to borrowers; or to extend the credit amount on the maturity date of the debt, or to extend the credit maturity.

Credit Facilities: a wide range of standard credit facilities offered by banks and other lending institutions based on common collateral requirements, interest rates, maturity and repayment features; or loan facilities specially structured on customized terms and conditions to cater to the financial and borrowing needs of the borrower company. *(see Credit, Loan)*

Credit File, History: a complete record maintained for each borrower containing credit proposals, financial statements, approval letters, repayment of loan installments, record, correspondence and company documents such as memorandum and articles of association, list of directors and officials

Credit Guarantee: provided to the lender by a third party on behalf of a borrower; the guarantee may be a formal undertaking to repay the lender in case of default in which case the guarantor is effectively a co-borrower; or may be additional collateral such as a lien on convertible assets of the guarantor, a fixed term deposit, a foreign currency guarantee, or a bank guarantee secured for a fee for short term credits. In export trading, a lender may take out a policy under a credit guarantee scheme as protection against the risk of non-payment by the exporting borrower, but such insurance is available only for export credit under a scheme to promote exports.

Credit Inquiry: an inquiry usually made by a lender before extending credit to prospective borrower; in trade financing an inquiry initiated by the seller addressed to the buyer's bankers as to his bonafides and track record in honoring commitments, to ascertain his creditworthiness.

Credit Institutions: consist of a wide variety of institutions depending on the type of credit; but mainly commercial banks, specialized development finance banks, sectoral activity banks such as mortgage banks, cooperative and community banks; nonbank financial institutions engaged in lending activities such as finance companies and credit societies, and leasing companies; trade financing credit made available by suppliers, consumer credit advanced by distributors and retailers, though extending credit is not their main business and these businesses can not be regarded as credit institutions.

Credit Insurance: available mostly to exporters; a method of insuring the payment of export credits under export promotion schemes by taking out a credit insurance policy, if available; an exporter selling on credit basis may be indemnified against any loss sustained by him due to non-payment by importers.*(see Credit Guarantee)*

Credit Memorandum: a report prepared by a credit officer on the basis of his analysis of a credit proposal and analysis of the financial statements of the prospective borrower.

Credit Officer: is an officer of a bank, who is assigned the task of managing a credit and who in that capacity processes the proposal for credit, negotiates with the borrower the terms and conditions of the credit, and monitors the loan and the collateral to safeguard bank's interests.

Credit Period: is the period admissible to a client to repay a credit without being considered a defaulter; or to pay an invoice within a specified time.

Credit Policy: are policies and guidelines formulated by the bank concerning its lending activities, together with lending rules and procedures, borrower eligibility, security, the terms and conditions, disbursements and repayments.

Credit Policy Manual: is a handbook for communicating the credit policy and procedures set by the bank for implementation by its operational staff.

Credit Proposal: is a proposal outlining credit request form a prospective borrower; or a proposal developed by the bank itself prior to the approval of the credit, containing details of borrower's financial needs, credit use, and assessment of borrowers' ability of loan repayment and overall creditworthiness.

Credit Rating: is the grading of business entity with regard to its creditworthiness based on the its net worth, credit history, and future prospects of growth of income and profits of the business, along with an outlook of the industry or the line of activity.

Credit Rating Agencies: are credit investigating, organizations that specialize in estimating the extent of credit that can be safely granted to mercantile and manufacturing concerns according to a ranking system or a rating system.

Credit Rating System: is a system designed to facilitate grading of creditworthiness on a uniform basis based on the evaluation of borrowers with regard to their equity, solvency, profitability, liquidity, key personnel and history of borrowings and repayments.

Credit Rationing: to apportion credit among users through directives and a system of control set by the authorities concerned.

Credit Recovery: is to obtain repayment of loans and advances; this is usually the responsibility of the credit officer who has more information about the borrower, and could be charged with the responsibility of loss, in case of default; or recovery may be the sole responsibility of collection department, separate from the credit department and under the direct supervision of comptroller or the treasurer.

Credit Request: is a loan application to a bank; a formal request for a credit by a borrower; a proposal to purchase goods and services on a deferred payment basis.

Credit Review: is periodic review and evaluation of the performance of a borrower to decide whether the advance should be continued or renewed on the same basis, curtailed or enhanced.

Credit Risk: is the risk of default by a borrower to a lending bank; the risk of nonperformance by the borrower, or non-repayment of a loan, forcing the bank to make provisions from current income, hence causing a reduction in current profits or eventual loss; credit risk may emerge from a market downturn, or a recession, or a slack in business and financial activities, causing losses to the borrowers, and transmitting these losses to nonperformance on credit obligations; or may emerge from an unrealistic assessment of future income and profitability used as the basis of credit appraisal; or may emerge from an insufficient collateral base or illiquidity of collateral; or may emerge from an outright and deliberate default by the borrower, if the borrower is able to get loan write-offs; or fraudulent lending and borrowing practices.

Credit Risk Analysis: involves evaluation of various aspects of credit risk by the lender, centering around borrower's creditworthiness, summarized in the four C's of credit, that is, *character, capacity, collateral, and capital* of the borrower; in addition the analysis focuses on the viability of the business of the borrower and the proposed credit use, the forecasts of cash flow and income over the loan repayment period, industry and business risks. *(see C's of Credit)*

Credit Sale: sale of goods or services on deferred payment or installment basis; occurs when the parties involved in any transaction agree that the payment is not to be made immediately upon transfer of the goods, but after a specific credit period with an interest charge on the balance due.

Credit Standards: are set by lenders specifying the criteria for evaluation and approval of credit proposals, concerning financial strength and creditworthiness of the borrowers that must be satisfied by the borrower.

Credit Tranches: are the amounts of a large credit divided into various parts to be disbursed in several installments in variable or fixed amounts over a specified credit period; hence a tranche is a part of the total loan amount disbursed at one time; or these are the amounts a borrower can draw down over a specified period; that is, if the full amount of loan is not disbursed in one payment at the start of credit period, instead it is to be disbursed in installments, then credit tranches are pre-agreed between the lender and the borrower for periodic withdrawls in specified amounts, which may be fixed or variable according to the loan agreement; tranches are usually specified for large loans to reduce interest costs, such as loans for multipurpose projects, or loans for large infrastructure projects, or large multilateral credits to the government; but tranches may also be specified for large commercial loans or for large lines of credit.

Credit Union: is a financial cooperative which collects savings of its members as deposits, and provides the members low-cost medium to long term credit. These are organized as cooperative depository institutions on the pattern of mutual saving banks. In the US, credit unions have recently been allowed to accept deposits of various types, maintain checking and savings accounts like a bank, and extend loans of various maturities, but only to the members of the credit union.

Creditor Countries: countries who extend loans and financial assistance to borrowing countries on bilateral basis and government-to-government transactions, with liabilities denominated in creditor country's currency; the objectives of these loans is to enhance better relations between countries and foster economic development of the recipient countries. *(see Bilateral Debt)*

Creditor of a Bank: anyone having a financial claim on a bank; for example, depositors of a bank, or lenders from whom the bank may have borrowed funds.

Creditors' Committee: is a committee established by the creditors to control and manage a debtor company and its' business in case of default, or in the face of imminent bankruptcy, to prevent a foreclosure; an attempt on the part of creditors to salvage the company and prevent a foreclosure especially if the creditors have lost confidence in the management of the company.

Creditor Satisfaction: is payment of a debt in full or other arrangements to satisfy the creditors acceptable to them, such as part payment with additional securities or guarantees, rescheduling or allowing moratorium on the debt, or pledging other assets such as shares in satisfaction of the debt.

Creditworthiness: of a borrower depends on the assessment of the credit risk associated with the borrower, focusing on the character, business capability, financial strength and collateral value, and capital of the borrower; together with an assessment of industry risks associated with the borrower's business activities; creditworthiness of a bank, similarly is based on the financial strength of the bank, its track record and business success, it's client base; and its capital and shareholders; creditworthiness of a country is the ability and willingness of a country to repay its debts which are based on an assessment of country risk, sovereign risk, and transfer risk with prime concern for the country's overall external financial accounts.

Cross-Guarantee: a guarantee tendered by a parent company for its' subsidiary company to cover borrowings and other transactions in addition to any guarantee tendered by the subsidiary itself.

Cross Rate: an exchange rate calculated from two separate quotes of the same currency; for example, through the rate of pound sterling per US dollar and Japanese Yen per US dollar, one can calculate the cross rate between pound sterling and Japanese Yen.

Cross-Subsidization: a subsidy extended by the government to a sector, a sub-sector, or to a group or to a line of business activity in consideration of a subsidy offered to another sector or sub-sector or to a group, that may adversely affect them if a cross subsidy is not extended.

Crowding Out: in credit availability, crowding out is to pre-empt the private sector borrowers from access to credit, or reduction in the amount of credit available to the private sector because of the priority claim of the government or the public sector agencies on the total credit available from the banking system.

Cumulative Preferred Stock: a stock which carries a stated annual dividend expressed as a percentage of the par value, and has prior claim on the dividends; if the dividends are not paid, arrears accumulate which must be paid in full before the common stock holders receive a dividend.

Currency Markets: global markets in international currencies with nearly round the clock trading on global basis at major financial centers, with a very large turnover estimated at nearly a trillion dollar per day, with a very large number of buyers and sellers, all of them price takers rather than price setters.

Currency Swap: is the purchase of a foreign currency with forward sale of the same foreign currency on deposit at a future date coinciding with the maturity date of the deposit; where two parties sell each other matching accounts of their respective currencies and usually enter into an obligation to repurchase at a given date of maturity.

Current Account: in banking, it is a customer account with a bank for deposit and withdrawls, where withdrawls are made for without restrictions; in balance of payments of a country, it is the account of merchandise trade, exports and imports, the account of invisibles, the services account including receipts and payments for interest on external debt, profits on foreign investment, remittances, and the balance of other services transactions.

Current Account Deficit: is the deficit on the current account of the balance of payments of a country; it is the composite of two sub-accounts, the merchandise trade account; and services account; the current account deficit commonly emerges from a deficit on merchandise trade, because of excess of merchandise imports over exports; or it may also emerge from an excess of payments over receipts, that is, on the balance of services account, where payments may be interest payments on heavy external debt; repatriation of profits if foreign investments are substantial, and service payments such as freight and insurance paid for merchandise trade.

Current Assets: consists mainly of cash and other assets which are readily convertible into cash; or assets held for current use in operations such as inventory, marketable securities, bills of exchange and other receivables.

Current Liabilities: are obligations which must be covered by current assets, and paid within the normal operating cycle from cash and other liquid sources; amounts payable within a brief period.

Current Liquidity: consists of cash and near cash items, immediately convertible assets into cash such as treasury bills, and liquidity reserves available to the bank in its accounts with the central bank; defines the ability of a firm or company to immediately pay the amounts due.

Current Price: the price of an item prevailing in the market for trading during the current point in time, the current period, defined as a day, week or month; as opposed to past or future price of the same item prevailing at different points in time; or the constant price reflecting the real value of the item at a point of time.

Current Ratio: the ratio of current assets and current liabilities; the ratio indicates the capacity of a business to meet its short term obligations as they fall due.

Current Value: of an item or an asset on a given date is the current market price if it is being traded in the market; current value is not the same as present value or the book value, and may be the same as market value if transactions costs are zero or negotiable.

Current Yield: on an asset is equal to the annual amount of interest income divided by the current market value of the asset; for example the current yield on a bond is interest earned on bond divided by the current market value of the bond. *(See Yield)*

Custodian: is a party entrusted with safe keeping of a financial instrument or a security or possession of a property encumbered with financial lien; a party responsible for safeguarding a trust; in a wider sense, a central bank is a custodian of the currency it has issued with respect to maintaining the value of currency from depreciating domestically because of inflation and abroad due to adverse exchange rate movements.

Cut-off Point: in capital budgeting, the minimum rate of return on acceptable investment opportunities.

Cycle: a period of time in which events occur in a certain order and which constantly repeat themselves; a recurring series of changes; in economics, it refers to a period of economic activity with similar trends upwards or downwards commonly known as business cycles; in finance a cycle refers to period of billing and payments in a recurring fashion spread over the maturity of financial obligations; that is payments must be made within the billing cycle to avoid overdue penalty.