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**National Accounts:** in economics, national accounts consist of the macro-economic aggregates, also called macro-economic variables, such as gross domestic product (GDP) by industrial origin; gross national product (GNP); net national product (NNP); consumption, investment, savings, depreciation, government fiscal accounts, and foreign trade accounts, imports and exports, and other aggregates; these accounts provide a statistical measure of these aggregates over time, and are indispensable for economic analysis.

**Near Money:** consist of liquid assets such as time deposits, treasury bills and convertible short term government securities, short term high grade commercial papers; items that can be used in discharging a payment obligation, but are not included in money supply. (*see Money Supply*)

**Negative Confirmation:** at times the statements of accounts sent by the banks to the customers have a verification or confirmation clause; if the bank does not hear anything from the customer, it is assumed that the entries recorded in the statement stand confirmed by the account holder; however, such a clause carries no legal validity.

**Negative Gap:** refers to matching maturities of asset or liability portfolio at a negative spread, if the cost of liabilities exceed the return on assets due to change in the interest rate when the assets are on floating rate and liabilities are on a fixed rate; in another sense, it means the specific time interval, such as a 30-day negative gap, by which the maturing liabilities exceed the maturing assets.



**Negative Pledge:** in a loan agreement it refers to the undertaking of the borrower not to pledge its assets to other lenders until the value of the loan is fully collateralised and secured; in a bond indenture, it refers to a similar undertaking by the issuer not to pledge its assets until the bond holders are equally secured.

**Negative Value:** occurs if the realizable value or market value is less than the stated or expected value of an investment, or an asset, or a portfolio.

**Negatively Sloped Yield Curve:** also called inverted yield curve; inversion occurs when the yield is steadily declining with increasing maturity, as opposed to normal, positively sloped yield curve, when the yields are rising with increasing maturity; such an inversion in the yield curve may occur if the short term interest rates are higher than the long term rates during inflationary period.

**Negotiable:** a financial instrument is considered negotiable on demand or at a future date if it can be endorsed or is marked as NEGOTIABLE; or is transferable; or is payable to the holder or bearer of the instrument under terms of negotiability, if specified; or is acceptable in payments or transactions.

**Negotiable Instrument:** are financial instruments such as bills of exchange, promissory notes and drafts, certificates of deposits (CDs), cheques, payment orders or payment instruments if labeled so are negotiable instruments through endorsement or delivery to the bearer, transferee or to the holder of instrument who then has unrestricted claims and legally recognized title to the instrument. For example, in cashing a cheque, the account holder negotiates the cheque by signing it and delivering or presenting it to the bank who is then obligated to pay the cash to account holder. Negotiable instruments are of various maturities, though usually short term, and may be interest bearing such as the CDs; may be held by institutions, companies or individuals as part of their liquid assets; may have a secondary market, though at a discount and thus may be traded. A bearer instrument is negotiated by delivery, while an instrument payable to order is negotiated by endorsement and delivery.

**Negotiable Time Deposit:** interest-bearing time deposit such as negotiable certificate of deposit (CD) where the holder is paid a fixed amount of interest at maturity.

**Net Fixed Asset:** the historic cost or acquisition cost of a fixed asset minus accumulated depreciation, also called written down value of an asset such as installed machinery, plant or equipment.



**Net Income (business):** is the part of the gross income left after the total costs, business expenses, allowances for depreciation, and various types of business charges such as carry-over losses have been deducted.

**Net Intangible:** is the original value or acquisition value of an intangible asset such as goodwill, copyright, market access, or client base, plus any change reflected in the current market value of these items or any costs incurred in maintaining the market value of these intangibles.

**Net Interest Margin(NIM):** in its simple version, NIM is measured as interest incomes less interest expenses divided by interest earning assets and expressed as a percentage; that is the difference between the interest income and interest expense expressed as a ratio of weighted average of interest earning assets over a specific period held in the portfolio of a financial institution; thus NIM can be expressed as the difference between total interest income divided by total interest earning assets, and total interest expenses divided by total interest earning assets where interest expense ratio also represents the break-even point on the costs of interest earning assets of a financial institution; in this sense NIM represents a critical benchmark of a bank's profitability.

**Net Operating Cash Flow:** is the difference between cash receipts and cash disbursements from the operations of a business for a given period, other than cash from financing and investing activities; if cash receipts are more than the cash disbursements, then there would be a net inflow of cash and if disbursements are larger, then there would be a net outflow of cash from the business.

**Net Operating Income:** is the net income produced by operating assets, before interest and income tax payment, but after depreciation.

**Net Operating Loss:** is the difference between income before income tax and interest payments and operating costs.

**Net Operating Profit:** is the net profit reported by a company or a bank after deducting normal operating expenses from income but before taking gains or losses from non-operational activities, other losses and charge-offs.

**Net Present Value (NPV):** of an investment or a project is the discounted sum of net cash flow over the life of the investment or the project; the discounting is done by a rate of discount which represents the average cost of capital plus an appropriate premium for the risk; NPV is derived as:



$$\text{NPV} = \text{sum (over } t = 0, 1, n) \text{ CF } t / [(1 + k) \text{ to the power } t]$$

where: CF = is cash flow in period t  
 t = is time period (0,1,2,..n)  
 k = is the rate of discount  
 n = is the life of investment or project

Note that NPV is critically sensitive to the rate of discount, k, which is inclusive of average cost of capital over the life of investment plus risk premium. If the rate of discount represents only marginal cost of capital, then the initial cost of capital in period t = 0 is to be included with minus sign, while the sum of discounted net cash flows begin with t = 1 onwards.

**Net Profit after Tax:** is the gross profit minus income tax.

**Net Profit (Loss) After Unusual Items:** is the net profit for a given period of a business unit after taking into account the unusual items such as losses due to natural calamities, or windfall profits through a chance or extraordinary factor.

**Net Profit Margin:** (*see Profit Margin*)

**Net Profit Margin Ratio:** is the ratio of net profit to sales; that is, profits after taxes divided by sales; it is a measure of earnings on shareholder's funds available for distribution as dividends and retained reserves; it provide an indicator of cost and profit structure of a firm. (*see Ratios, Profitability Ratios*)

**Net Realized Gain/Loss (Assets):** accrues to the holder of an asset at the time of its sale and consists of capital gain or loss on the asset over the holding period; it is the difference between purchase price and sale price of the asset, plus any expenses, costs, commissions and charges on transaction.

**Net Return:** on an asset, equity, or investment in stocks or shares, net return consists of their income, capital gain or loss in their market value plus any dividends less charges, expenses, and taxes; net return may be expressed as an annualized rate of return for a single year, or an average rate of return for a single year, or an average rate of return over the entire holding period.

- **Annualized return:** is the distributed dividend or income on the asset or security plus any capital gain over the year less any charges or expenses and taxes and expressed as a percentage rate over the initial value of an asset or security at the beginning of the year.





- **Average return:** it is the average percentage rate of return on assets and equities over the entire holding period for a number of years on the initial value of asset or equities at the beginning of the holding period and consisting of dividends and income, less expenses, charges, taxes, adjusted for capital gains or losses in the market value at the end of the holding period.

**Net Transfers:** in an open account, the net amount finally received or paid to settle the account on a periodic basis after netting off the debit and credit items; for loans, local or foreign, the net amount available from fresh loan after deducting or adjusting the outstanding amount of old loan and interest, if any.

**Net Worth:** is the value of assets minus liabilities; the remainder of asset after deducting liabilities; for items listed below, networth

- **of a business:** is owner's equity in business less liabilities.
- **of an individual:** is the total value of all assets owned by the individual such as savings, deposits, real estate, stocks and shares, less all liabilities, mainly loans outstanding and other obligations.
- **of a financial institution:** is the net value of share holder's funds inclusive of capital, retained earnings and reserves held by the financial institution.

**New Issue:** is the issue of a new debt security floated by a company, public authority or the government, in the form of fixed interest securities, such as government bonds and certificates, company debentures, or may be in the form of new stocks or equity; also, new issues of preference shares or convertible securities.

**Night Depository:** is a bank vault accessible for customer deposits after banking hours and on weekends; many banks have night collection boxes for deposit of daily cash and cheques; some have an ATM giving the customer an on-the-spot transaction receipt; these deposits are later processed by the bank and credited to the customer's account.

**Nominal Assets:** assets of a face value that may not be their true market value.

**Nominal Capital:** the amount of authorized capital in the memorandum of association of a limited company; also called the registered capital.



**Nominal Interest Rate:** the rate of interest of a financial obligation or a financial instrument stated in the contract, such as a debt or a loan, a deposit account or instrument of deposit, or the rate of interest stated in a security as opposed to the actual interest yield based on the purchase price of security, the holding period or the maturity; nominal interest rate may be expressed as a simple rate or a compound rate for a given period, and may differ from real rate of interest owing to inflation. (*see Real Interest Rate*)

**Nominal Income or Wages:** the amount of cash received as income, salary or wages over a given period; as opposed to its real purchasing power, the real income, real salary or real wages which differs from nominal or cash value owing to inflation.

**Nominal Price:** the stated price of an item, a valuable, or an asset; as opposed to realized price owing to discounts or transaction costs, and real price owing to inflation.

**Nominal Rates:** the stated or contracted rate of interest or profit on the par value of a fixed income security, an investment or a debt instrument, for a period usually a year and quoted as a percentage; nominal rates are the stated base rates without indicating any deductible charges, taxes and levies ignoring premia or other benefits accruing to the investor such as insurance coverage, travel discounts and issuance of credit cards.

**Nominal Value:** in finance, it is the face value of a financial asset, or the original book value of a fixed asset at the time of acquisition; a value of an item or asset entered for accounting purposes, and may be significantly different from market value; in economics, nominal value is the current value based on current market prices; or the current level of variables like income, savings, wages, in contrast to their real levels obtained after adjusting the nominal values for the rate of inflation.

**Nonacceptance:** is refusal to accept a financial instrument such as usance bill of exchange when it is presented for acceptance to the drawee of the bill, thus in effect, dishonoring it; in such an event, the notice of nonacceptance is to be promptly given to the concerned parties.

**Nonaccrual Basis:** is a system of accounting on cash basis where entries into account books or account statements are made only if the cash underlying a transaction has been received or paid; for example, income or expenditures accrued, but if not received or paid within a given period, these are not entered into cash accounts. (*see Accrual Basis*)

**Nonbank:** a nonbank financial institution; or an activity or a transaction not involving a bank.



**Nonbank Deposit Institutions:** are financial institutions allowed to accept deposits from their customers such as investment and finance companies, mutual saving societies, or funds, and credit cooperatives, who are *not* organized, licensed or registered as a bank, and are outside routine regulatory and supervisory control of the central bank, though these are formal institutions, registered as companies or cooperatives, and may even perform a number of banking functions besides deposit collection such as lending, money transfers and may provide chequing account facilities.

**Nonbank Financial Institutions:** are those institutions that offer various types of financial services to their customers, such as acceptance of non-chequing deposits, investments, lending, insurance, hire purchase and leasing, but are not registered, organized or licensed as a bank and do not perform all the functions of a bank; for example, investment and finance companies, leasing and insurance companies; these institutions are outside the formal regulatory control and supervision of the central bank, but together as a group they usually represent a fairly large proportion of the financial system, hence their activities are fairly important in an economy; these are

- **contractual savings institutions** such as pension funds, social security funds, life insurance companies, collecting periodic payments and investing in financial or real assets.
- **finance and investment companies**, accept business deposits, and do lending for long term, or function like an investment bank.
- **investment funds**, are investment **unit trusts** and **mutual funds** portfolio investment services to their clients.
- **general insurance companies** provide coverage for various risks and for a designated premium, thus receive contractual amounts of cash flow, a contractual payment stream over a defined period.
- **leasing companies** provide hire purchase and term financing arrangements to their customers, similar to an installment credit mechanism.
- **brokerage houses and securities dealers** besides their securities business, they provide bank like services to their customers, such as margin loans on customer accounts, cheque writing facilities, and transfers.

These nonbank financial institutions are registered under their own laws, and operate within rules and regulations pertaining to their line of activity; they raise large amounts of funds hence compete with the banking system for deposits and household savings, and provide these financial resources to institutional investors or the government through financial markets; this is because these financial institutions are already burdened by a variety of financial risks on the liability side of their balance sheet, such as underwriting activities on retail customer basis; therefore they cannot afford to enhance their overall risk exposure by assuming investment risks on the asset side of their balance sheet.



**Nonbank Financial Intermediaries:** are institutions other than banks engaged in financial intermediation activities, they are active in financial markets, or they bring together parties seeking funds and their suppliers, assisting them with their financial arrangements. (see *Financial System*)

**Nonbank Liabilities:** are liabilities of a business concern to parties other than banks; all current and long term liabilities exclusive of bank borrowings.

**Nonbank Subsidiaries:** are subsidiary companies of a bank holding company, which are not banks; for example, a bank holding company may have a travel or an insurance company as its subsidiary.

**Nonbanking Expansion:** is expansion in activities other than banking; if expansion occurs in the activities of nonbank financial institutions or in commercial activities without a corresponding increase in banking activities if financial transactions take place through unregulated indigenous markets, or if trading is conducted purely on cash basis and if such activities are not channeled through the banking system, then it is non-banking expansion.

**Nonbusiness Organizations:** a wide spectrum of organizations, registered as educational, religious, charitable, social, cultural, and political organizations; those organizations not explicitly engaged in business or financial activities except as part of their fund raising operations though some of them are involved in finance.

**Noncallable:** an exemption stipulated in the agreement of an issue of a bond, or a security whereby issuer, the borrower may not proceed for redemption of issue prior to maturity date or a stated time period. Usually long term government or corporate bonds are callable after five year so that bond purchaser, the investor, is protected against income loss from premature redemption.

**Noncallable Bond:** an exemption provided in the bond indenture agreement, whereby the bond issuer cannot redeem the bond before maturity, or before a specific date covering part of the maturity period; usually, long term government and corporate bonds are noncallable for five years to provide protection to investors against loss of income in case of early redemption.

**Nonconfirmed Credit:** a letter of credit which is issued by the opening bank and the correspondent bank simply advises it to the beneficiary, without adding its confirmation, thus avoiding any commitment or liability on its part.

**Noncorporate Sector:** is the sector of an economy composed of business units other than incorporated companies, limited liability companies and other corporations established under special charters, ordinances or enactments.





**Noncredit Services:** are services performed by a bank for their customers or for other banks via correspondent banking relationship that do not involve the extension of credit and payment of interest charge; such services include fee-based bank advisory services, transfer payments, cheque collection, cash management or trust services; these services are a major source of fee income, supplementing interest income earned on outstanding loans.

**Nonearning Assets:** are assets of a financial institution or a bank which do not directly contribute to income generation; for example unused fixed assets, real estate or property; assets under litigation awaiting court decision.

**Nonfinancial Corporations:** is a limited liability company, other than a finance company or a bank, involved in a business, trading, manufacturing or providing services; a non-business association of persons established for providing public services or welfare services, but duly incorporated under a charter, an act or an ordinance; for example, a municipal corporation.

**Nongovernment Borrowing:** borrowings by the private sector; loans and advances extended to individuals, private business concerns and private organizations.

**Noninsurable Risk:** a hazard or risk for which insurance is not available because the risk cannot be evaluated or can not be determined by actuarial computations.

**Noninterest Bearing:**

- **financial instruments:** financial instruments without interest charge or without interest payment, such as interest-free house building advances to bank's own staff; also zero-coupon bonds issued at a price below the par value.
- **loan balances:** outstanding balances on loans without interest charge.
- **deposits:** deposits in a bank or any other institution, without any interest payable; for example, current account deposits and deposits recovered by a bank as margin on letters of credit and letters of guarantee.
- **reserves:** are noninterest bearing deposits of banks kept with the central bank as part of the reserve requirements, or banks' own reserves, entailing loss of interest income hence a cost item for the banks; reserves in the accounts of a company not invested in interest earning securities or investments but retained in the business and the reserve funds are utilized in business operations.

**Noninterest Income:** is the income of a bank other than the interest or mark-up earned on loans and advances, including commission on bills and remittances, foreign exchange earnings and charges on various types of services rendered.



**Noninterest Operating Expenses:** are expenses on business operations other than interest such as personnel costs, communication expenses, occupancy costs and contingencies.

**Non-negotiable:**

- **Asset:** an asset which can not be converted into another asset, or into cash, or can not be exchanged with another asset.
- **Deposits:** deposits with a bank which are nontransferable, and are repayable only to the depositor.
- **Financial Instruments:** those instruments which can not be transacted if marked or classified or non-negotiable; for example, cheques, bills of exchange, or any payment instrument if classified or marked as non-negotiable though it may still be transferable.
- **Terms of Loan:** terms and conditions of a loan which are not subject to revision, or adjustments, such as the rate of interest, terms of repayment, or maturity.

**Nonperformance:** occurs when an undertaking, commitment, or an agreement is not fulfilled or is not carried out according to the terms and conditions as originally stipulated; a default on the performance criteria specified in a contractual obligation, such as a bank loan; inability of a business firm or individual to meet its commitments and obligations as due.

**Nonperforming Asset:** an asset which is no longer profitable or financially rewarding, an asset which has ceased to generate the anticipated cash flow, income or return for asset holder; such assets may be retained on the balance sheet, but if nonperformance sustains, they may be classified as a loss and removed from the balance sheet thereby lowering the net worth of the asset holder.

**Nonperforming Loan:** a loan is nonperforming if the borrower has ceased to pay principal and interest due as specified in the loan repayment agreement, or if the repayments on the loan are past due by 90 days or more; the borrower then is in a state of default and the lending bank may invoke legal procedures of recovery, and seize the collateral or security tendered, if it has already exhausted routine steps and recourse to recover overdue payments; but banks usually refrain from invoking legal procedures and keep the nonperforming loans on the books if the collateral is impaired or is insufficient to cover the overdue accounts to avoid the resulting loan losses from being charged against income or share holder's funds in bank's balance sheet. (*see Loan Loss, Impaired Loan*)



**Nonpreferential:** actions or decision based entirely on the merits of the case, without any preference on other grounds or considerations; for example in bank lending when the borrowers are treated at par and are granted loans solely on the basis of their creditworthiness.

**Nonprice Competition:** competition based on some factor other than price of the product; for example, sales promotion, product differentiation, or variety of services offered; banks providing a range of services to customers, since they cannot offer preferential interest rates beyond market level.

**Nonprime Borrowers:** are usually medium and small scale businesses, companies, individuals or noncorporate clients of a bank who do not have ready access to credit facilities owing to their relatively small or weaker financial position as compared to the prime borrowers. Nonprime borrowers are generally more risky because their business activities are riskier and have less stable flows and income; they are costlier to process because they may not have solid and dependable performance record, and their collateral may not be of high quality; hence, the banking spread or interest margin of the lending bank may not be sufficient to cover the costs or lending risks of nonprime borrowers. (*see Prime Borrowers*)

**Nonrecurring Income, Gain:** income, profit, or capital gain that is not likely to occur again; for example a capital gain on the sale of a property in the year the transaction occurred; in accounting a one time event; a casual event in routine business.

**Nonrenewal:** any written arrangement between two parties which is not renewed; for example, credit line facilities, term deposits, agency agreements which are not renewed on the expiry of the period originally agreed upon between the parties.

**Nonrevolving Credit Line:** a credit line which is sanctioned by a bank to its customer to be utilized up to the credit limit but is not available again if the loan is repaid; as against a revolving credit which enables the customer to reborrow if he repays the previous loan balance, thereby revolving the amount more than once but within the loan limit and within the loan period.

**Nontransferable Time Deposit:** a time deposit or a term deposit which is not transferable in favor of another person and is paid to the depositor only; time deposit receipts issued by banks are usually not transferable and this fact is mentioned on the face of the receipt itself.

**Nonviable Firms:** business concerns which are unable to do business successfully and make profits for various reasons such as wrong planning, lack of sufficient finances, unstable markets, or stiff competition.



**Norms of Corporate Financing:** the parameters or policy guidelines for raising short term and long term finances for the company from owners or stockholders, banks, financial institutions and other sources, keeping in view the elements of financial leverage and cost of borrowings.

**Note:** is a promise to pay as distinguished from an order to pay, such as a draft or a check which is an order to pay; note represents a written and unconditional promise of the note-maker to pay a certain sum of money on demand, or on a fixed or determinable future date to the payee or to order or to the bearer; a note may be issued by individuals, partnerships, corporations or the government, and may be interest bearing or non-interest bearing; notes are ordinarily negotiable giving superior rights to the holder in due course where negotiation is achieved by delivery, that is, when the note is made payable to bearer or by endorsement and delivery when it is made payable to order; if a note is endorsed, the endorser is liable if the note is not honored on due date; a note may be payable upon a specified date such as the fixed date note, or may be payable after a certain number of days beyond a fixed date and is known as days after date note.

- **Notes Payable:** are obligations to be paid by the issuer of notes or acceptances held by creditors representing sums of money to be paid at a future time and constituting a liability of the business; if a note is not paid at maturity, it is deemed to ESTET dishonored; from an accounting point of view notes payable is the total number of notes contracted to be paid, also known as bills payable due to others.
- **Notes Receivable:** are assets of note holder representing sums of money to be received on a determined future time; the holder of a receivable note, the payee, may sell it prior to maturity, thus discounting the note either with recourse or without recourse; if a note is discounted with recourse, the payee is contingently liable for the payment of the note if it is dishonored at maturity by the note issuer; if a note is discounted without recourse the payee is not liable if the note is not honored at maturity by the note issuer.

**Notional Principal (amount):** the nominal value of principal amount used to calculate cash flows on swaps and other cash-settled derivatives; the nominal value of assets used as a basis for cash settlement of disputed claims to the ownership of the asset.

**Notional Value:** the face value of an asset in contrast with the market value, cash value or real value of the asset; notional values are not received or paid, but serve as a bench-mark for valuation; a hypothetical amount ascribed to an asset or an item.







