

# Glossary of Financial/Banking Terms

## A

### Acceptances

Promise to pay created when the drawee of a time draft stamps or writes the word “accepted” above his signature and a designated payment date.

### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

### Accrual Basis

To recognise the effects of transactions and other events as they occur, without waiting for the receipt or payment of related cash or its equivalent.

### Actuarial Assumptions

An entity’s unbiased and mutually compatible best estimates of the demographic and financial variables that will determine the ultimate cost of providing post-employment benefits.

### Actuarial Gains and Losses

Actuarial gains and losses comprise the effects of differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

### Actuarial Present Value of Promised Retirement Benefits

The present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.

### Actuarial Valuation

Fund value determined by computing its normal cost, actuarial accrued liability, actuarial value of its assets, and other relevant costs and values.

### Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset or goodwill, the term “amortisation” is generally used instead of “depreciation”. Both terms have the same meaning.

### Amortised Cost

The amount at which a financial asset or liability is measured at initial recognition, minus any repayment of principal, minus any reduction for impairment or uncollectibility, and plus or minus the cumulative amortisation using the effective interest method of the difference between that initial amount and maturity amount.

### Anti-Money Laundering (AML)

A set of procedures, laws or regulations designed to prevent money laundering. Money laundering is an activity which aims to disguise the ownership of money that has an illegal origin such as trading of drugs, organised crimes, fraud and terrorism.

### Associate Company

A company other than a subsidiary in which a holding company has a participating interest and exercises a significant influence over its operating and financial policies.

### Attrition Rate

A measure of how many employees leave over a certain period of time.

### Average Weighted Deposit Rate (AWDR)

AWDR is calculated by the Central Bank of Sri Lanka monthly on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates.

### Average Weighted Prime Lending Rate (AWPLR)

AWPLR is calculated by the Central Bank of Sri Lanka weekly based on commercial banks lending rates offered to their prime customers during the week.

## B

### Basis Points

A unit that is equal to 1/100th of 1%. Often used in quotation of spreads between interest rates or to change in yield in securities.

### Bills of Exchange

A signed, written unconditional order addressed by one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of a third person (the payee). The terms bills of exchange and drafts are often used interchangeably.

## C

### Capital Adequacy Ratio (CAR)

The ratio between capital and risk-weighted assets, as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by Central Bank of Sri Lanka.

### Cash Equivalents

Investments/assets that are readily convertible to cash, subject only to an insignificant risk of change in their value.

### Collectively-Assessed Loan Impairment Provisions

Impairment assessment which carried out on a collective basis for homogeneous groups of loans that are not considered individually significant, in order to cover losses that has been incurred but has not yet been identified at the Reporting date.

### Compound Annual Growth Rate (CAGR)

The year over year growth rate over a specified period of time.

### Contractual Maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

### Corporate Governance

The process by which corporations are directed and controlled. It is concerned with the rights and responsibilities among stakeholders used to determine and control the strategic directions and performance of the corporation.

### Cost/Income Ratio

Operating expenses excluding impairment charge for loans and other losses, as a percentage of total operating income.

### Country Risk

The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

### Credit Risk

The risk of loss due to non-payment of a loan or other line of credit (either the principal or interest or both), by the borrower or a counterparty.

### Credit Ratings

An evaluation of a corporate’s ability to repay its obligations or the likelihood of not defaulting carried out by an independent rating agency.

## D

### Dealing Securities

Securities acquired and held with the intention of reselling them in the short term.

### Debt Equity Ratio

Long-term borrowings divided by shareholder’s equity.

### Deferred Taxation

Sum set aside for tax in the Financial Statements that will become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

### Defined Benefit Plans

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees’ earning history, tenure of service and age.

### Derivatives

A financial instrument, the price of which has a strong relationship with an underlying commodity, currency variable or financial instrument.

### Documentary Letters of Credit (LC)

Written undertakings by a bank on behalf of its customers (typically an importer), authorising a third party (e.g. an exporter) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

## E

### Equity Method

A method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the invested. The Income Statement reflects the investor's share of the results of operations of the invested.

### Events After the Reporting Date

Events after the Reporting date are those events, both favourable and unfavourable, that occur between the Reporting date and the date when the financial statements are authorised for issue.

### Exchange Company/House

An overseas location where the Bank's representatives provide banking services as a promotional tool.

## F

### Fair Value

The price that would be required to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Finance Lease

Leases which transfer risks and rewards of ownership. Title may or may not eventually be transferred.

### Financing Activities

Activities that result in changes in the size and composition of the equity capital and borrowings of the entity.

### Financial Instruments

Financial instrument is any contract that gives rise to financial asset of one entity and a financial liability or equity instrument of another entity.

### Financial Instruments Held for Trading

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as at fair value through profit or loss.

### Financial Investments Available for Sale

All non-derivative financial assets that are not in any of the following three categories; loans and receivables, held to maturity of financial instruments and held for trading.

### Financial Investments Held to Maturity

Held to maturity financial investments are non-derivative financial assets with fixed or

determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

### Financial Investments Loans and Receivables

Non-derivative financial assets with fixed or determinable payments which are not quoted in an active market.

### Foreclosed Properties

Properties acquired in full or partial settlement of debts, which will be held with the intention of resale at the earliest opportunity.

### Foreign Exchange Income

The gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the Reporting date at prevailing rates which differ from those rates in force at inception or on the previous Reporting date. Foreign exchange income also arises from trading in foreign currencies.

### Forward Exchange Contracts

Agreements between two parties to exchange one currency for another at a future date at a rate agreed upon today.

## G

### Global Reporting Initiatives (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

### Gross Domestic Product (GDP)

The value of all goods and services produced domestically in an economy during a specified period, usually a year. Nominal GDP, adjusted for inflation, gives GDP in real terms.

### Guarantees

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer is unable to perform its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

## H

### Historical Cost Convention

Recording transactions at the actual value received or paid.

## I

### Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

### Individually Significant Loan

#### Impairment Provisions

Impairment measured individually for loans that are individually significant to the Group.

### Intangible Asset

An identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

### Interest Margin

Net interest income as a percentage of average interest earning assets.

### Interest Spread

Represents the difference between the average interest rate earned on interest earning assets and the average interest rate incurred on interest bearing liabilities.

### Investment Securities

Securities acquired and held for yield or capital growth purposes and usually held to maturity.

## K

### Key Management Personnel (KMP)

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

### Key Performance Indicators (KPI)

KPIs are quantifiable measures that a company users to gauge its performance over time.

## L

### Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

### Liquid Assets Ratio

Liquid assets expressed as a percentage of total liabilities other than shareholders' funds.

### Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of default.

## M

### Mark to Market

The practice of periodically revaluing marketable securities to their current market value.

### Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of financial statements.

### Minority Interest

That portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the Parent.

### **Mortality Rate**

A measure of the number of deaths in some population, scaled to the size of that population, per unit time.

**N**

### **Net Asset Value Per Share**

Shareholders' equity divided by the number of ordinary shares in issue.

### **Net Interest Income**

The difference between what the Bank earns as interest on assets such as loans and securities and what it pays as interest on liabilities such as deposits, refinance funds and interbank borrowings.

### **Net Realisable Value**

The estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### **Nostro Account**

A nostro account is a bank account held in a foreign country by a domestic bank, denominated in the currency of that country.

**O**

### **Off-Balance Sheet Transactions**

Transactions not recognised as assets or liabilities in the balance sheet but which give rise to contingencies and commitments.

### **Operating Activities**

The principal revenue producing activities of an entity and other activities that are not investing or financing activities.

**P**

### **Plan Assets of an Employee Benefit Plan**

Assets held by a long-term employee benefit fund.

### **Price Value Per Basic Point (PVBP)**

Estimated change in the value of portfolio due to one basic point change in interest rate.

### **Primary Dealer Special Risk Reserve**

Reserve maintained in order to strengthen capital base further with development of capital market.

### **Probability of Default (PD)**

PD is a financial term describing the likelihood of a default over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its debt obligations.

### **Projected Unit Credit Method**

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

### **Property, Plant and Equipment (PPE)**

Tangible assets that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

### **Prudence**

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty such that assets or income are not overstated and liabilities or expenses are not understated.

**R**

### **Redemption**

Repayment of principal monies.

### **Related Parties**

Two parties where one controls the other or exercise significant influence in financial and operating decisions, directly or indirectly.

### **Repurchase Agreement**

Contracts relating to securities sold to creditors (who lend money for funding purposes), with the intention of buying them back at a set price on a specified future date.

### **Return On Average Assets (ROAA)**

Profit before tax expressed as a percentage of average total assets. Used along with ROAE, as a measure of profitability and as a basis of intra industry performance comparison.

### **Return On Average Equity (ROAE)**

Profit after tax less preferred share dividends, if any, expressed as a percentage of average ordinary shareholders' equity.

### **Revenue Reserves**

Reserves set aside for future distribution and investment.

### **Risk-Weighted Assets**

On-balance sheet assets and the credit equivalent of off-balance sheet assets multiplied by the relevant risk weighting factors.

**S**

### **Securities Purchased Under Resale Agreement**

The purchase of securities under an agreement to resell at a given price on a specific future date.

### **Shareholders' Equity**

Shareholders' equity consists of issued and fully paid ordinary share capital plus capital and revenue reserves.

### **Significant Influence**

Significant influence is the power to participate in the financial and operating policy decisions of an investee but is not controlled or jointly controlled over those policies.

### **Solvency**

The availability of cash over the long term to meet financial commitments as they fall due.

### **Subordinated Debenture**

The claims of the debenture holders shall in the event of winding up, rank after all the claims of the secured and unsecured creditors and any preferential claims under any statutes, but in priority to and over claims and rights of the shareholders.

### **Swaps**

The simultaneous purchase and sale of foreign exchange or securities, with the purchase executed at once and the sale back to the same party. Carried out on an agreed upon price to be completed at a specified future date. Swaps include interest rate swaps, currency swaps and credit swaps.

### **Syndicated Loan**

A large loan by a group of banks to a large multinational firm or government. Syndicated loans allow the participating banks to maintain diversification by not lending too much to a single borrower.

**T**

### **Tier 1 Capital**

Consists of the sum total of paid up ordinary shares, non-cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less intangible assets and other deductions.

### **Tier 2 Capital**

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

### **Total Capital**

The sum of Tier 1 and Tier 2 capital.

**U**

### **Unit Trust**

An undertaking formed to invest in securities under the terms of a trust deed.

### **Unsecured**

Repayment of the principal and interest not being secured by any specific asset.

**V**

### **Value at Risk (VaR)**

Estimated maximum loss that the Bank may incur in a given horizon at 99% confidence level.

### **Vostro Account**

A local currency current account maintained with a bank by another bank.