

GLOSSARY OF FINANCIAL TERMS

ACCRUAL BASIS

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

ASSOCIATE COMPANY

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

BILL DISCOUNTED

A promissory note or bill of exchange that has been purchased for less than face value, the difference representing interest on the unexpired term of the bill. At maturity the holder collects the face value of the bill for its own account.

BILL 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 bill of exchange and draft are often used interchangeably.

CALL DEPOSITS OR CALL MONEY

Deposits or funds lent out which are repayable on demand.

CAPITAL ADEQUACY

The ability of a bank to meet the needs of their depositors and other creditors in terms of available funds. As per requirement of Bank for International Settlements (SIBS) and Central Bank of Sri Lanka, Local Banks should maintain a stipulated minimum capital.

*Tier I Capital (Core Capital)

Core Capital includes selected items of capital funds. Major core capital items are share capital, share premium, statutory reserve funds, retained profits, general reserves, surpluses/losses after tax arising from the sale of fixed and long-term investments.

*Tier II Capital (Supplementary Capital)

Supplementary Capital includes, approved revaluation reserves, general provisions, hybrid (debt/equity) capital items and approved subordinated term debts.

CASH EQUIVALENTS

Short-term highly liquid investments that are readily convertible to known amounts of cash and which subject to an insignificant risk of changes in value.

CERTIFICATE OF DEPOSIT (CD)

A certificate issued by a bank against funds deposited with it that specifies the rate of interest payable and the date when the deposit will be repaid to the bearer. CDs are often negotiable.

COMMERCIAL PAPER

Unsecured short-term promissory notes issued by banks and credit worthy corporate borrowers.

COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

CONTINGENCIES

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

CORRESPONDENT BANK

A bank that acts as an agent for another bank. The correspondent bank will generally provide a wide variety of banking services on behalf of the other bank in the region in which the correspondent bank is located.

COST INCOME RATIO

Operating expenses as a percentage of net income.

COUNTERPARTY

The other party (including a bank) with whom a deal is made or closed.

COUNTRY RISK

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

CROSS RATE

The calculated foreign exchange rate from two separate quotations involving the same currency.

CURRENCY SWAP

A current exchange of principle amounts in two currencies combined with an agreement to re-exchange the currencies at a later date and to make interest payments, until the re-exchange, on the currency received.

DISINTERMEDIATION

The term often used to describe borrowers raising funds directly from the capital markets rather than from the banking sector. This is usually only undertaken by borrowers with the strongest credit ratings.

DOCUMENTARY BILL

A bill of exchange that is accompanied by various documents, such as a bill of lading, an invoice and an insurance policy.

DOCUMENTARY CREDIT

A letter of credit that stipulates the documents that must be produced in order for payment to be made.

DRAFT

A term generally synonymous with bill of exchange but sometimes used specifically in the context of inter-bank bills. A banker's draft is a draft, payable on demand, drawn by or on behalf of a bank.

FIXED CHARGE

A charge on specific property, usually freehold or leasehold property, or plant and machinery, given under a legal mortgage.

FLOATING CHARGE

A charge, taken by a lender to secure an advance upon property, such as stock, debtors, or cash, that permits the company to continue using and disposing of those assets in connection with its ordinary business. Such a charge becomes fixed in the event of the company's default.

FORWARD CONTRACT

A contract that commits two parties to an exchange at a specific future date under terms set out at the contract date.

FORWARD RATE

The price of currency with a maturity beyond the spot date. Forward rates may be either the same in price as spot rates or different. In the first case, the forward is flat. In the second case, the price is either higher, at a premium, or lower, at a discount.

FORWARD RATE AGREEMENT (FRA)

An agreement to exchange payments at a specified future date based on the difference between a particular interest rate index (e.g. LIBOR) and an agreed fixed rate.

HEDGING

A methodology used to cover against risk of unfavourable price movements (interest rates, prices, commodities etc.)

INDEMNITY

An agreement whereby a person agrees to bear any loss that is suffered by a party to a contract to which he himself is not a party. The person giving the indemnity assumes primary liability, unlike a guarantor who assumes secondary liability.

INTEREST MARGIN

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

LETTER OF CREDIT (LC)

A document issued by a bank, requesting another bank or banks to advance money to a third person, up to a certain amount, in accordance with the terms and conditions set out in the document.

MARK TO MARKET

The policy to periodically revaluing positions up or down to their current market or fair value.

MORTGAGE

A lien on real property used to secure a borrowing.

NEGOTIABLE INSTRUMENT

A security or other financial instrument which can be freely sold to a third party (i.e. 'negotiated'). Bank notes, bearer bonds, bills of exchange and cheques are normally negotiable instruments.

NET INTEREST MARGIN

Interest income as a percentage of Average Interest Earning Assets.

NON-PERFORMING LOAN

A loan where principal or interest payments are not being made on the due dates, or where the borrower is failing to meet some other term or condition of the loan. Non-performing loans are frequently allocated non-accrual status.

NOSTRO ACCOUNT

A foreign currency current account maintained with another bank, usually but not necessarily a foreign correspondent bank. At the other bank, the deposit is called a nostro account.

OFF-BALANCE SHEET TRANSACTIONS

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

POSITION

The netted total commitments in a given currency or interest rate. A position can be either flat or square (no exposure), long (more currency bought than sold overbought) or shot (more currency sold than bought oversold).

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PRIME RATE

The interest rate which a bank charges its most credit worthy corporate customers.

PROMISSORY NOTE

An unconditional promise in writing made by one person to another, signed by the promisor, engaging to pay on demand or at fixed or determinable future time a fixed sum to, or to the order of, a specified person, or to bearer.

RELATED PARTIES

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

REPO

Jargon for sale and repurchase agreement.

RESERVE ASSETS

Assets of a financial institution which form part of its reserve requirements with the Central Bank.

REVERSE REPO

The opposite of a repo, i.e. a purchase and resale agreement.

REVOLVING CREDIT

A line of credit that has terms permitting successive drawings and payments at the borrower's discretion. The funds available to the borrower are replenished by any repayments of principal.

SECURITISATION

This involves the transfer of a block of income producing assets to a vehicle company that finances the purchase through the issue of debt (usually notes or commercial paper).

SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically, the different geographical areas in which it operates.

SEGMENT REPORTING

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking & securities dealings, property and insurance.

SETTLEMENT DATE

The date on which a securities transaction is completed by actual exchange of securities for cash.

SHORT POSITION

An excess of liabilities (and/or forward sale contracts) over assets (and/or forward purchase contracts). A dealer's position when the net of purchases and sales leaves a net sold or oversold position.

SUBSIDIARY COMPANY

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

SUSPENSE ACCOUNT

An account used to record items temporarily which are held subject to clarification and transfer to the appropriate account.

SYNDICATED LOAN

A loan arrangement in which a number of banks, in a form of joint venture, provide funds which they would individually be unwilling or unable to provide. Syndications are used for customers whose scale of financing is too great for any single bank to accommodate without distorting its loan portfolio.

TIME DEPOSIT

An interest bearing deposit account which is subject to withdrawal only after a fixed term.

TREASURY BOND (T-BOND)

A long-dated security issued by the Central Bank of Sri Lanka. T-Bonds carry a coupon rate of interest.

VALUE ADDED

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital to Government by way of taxes and retained for expansion and growth. Value at Risk (VAR).

A risk management methodology that estimates the potential loss arising from adverse movement in market interest or exchange rates over a defined holding period.

VOSTRO ACCOUNT

A local currency current account maintained with a bank by another bank (compare with nostro account).

YIELD CURVE

A graph showing market interest rates as a function of maturity. Normally, the yield curve is upward sloping: interest rates increase with the term of the instrument.