Glossary of Terms

A

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

Accrual basis
Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised cost
Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

Asset and Liability Committee (ALCO)
A Risk Management Committee in a bank that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance sheet allocations.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Average Weighted Deposit Rate (AWDR)
AWDR is calculated by the Central Bank monthly based 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 weekly based on commercial banks lending rates offered to their prime customers during the week.

B

Basel II
The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in the form of the "International Convergence of Capital Measurement and Capital Standards".

Basel III
The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

C

Capital adequacy ratio
The percentage of risk-adjusted assets supported by capital 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 the Central Bank of Sri Lanka.

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

Cash flows
Cash flows are inflows and outflows of cash and cash equivalents.

Cash Generating Unit (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Collectively assessed loan impairment provisions
Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the consumer banking business are assessed on a portfolio basis.

Commitment to extend credit
Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing or through off-balance sheet products such as guarantees.

Commitments
Credit facilities approved but not yet utilised by the clients as at the reporting 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.

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.

Control
An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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.

E

Earnings Per Share (EPS)
Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

Economic Value Added (EVA)
A measure of productivity which takes into consideration cost of total invested equity.

Effective interest rate
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate (ETR)
Provision for taxation excluding deferred tax divided by the profit before taxation.

Equity instrument
Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Equity method
The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Events after the reporting period
Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue

Expected Loss (EL)
A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

Exposure
A claim, contingent claim or position which carries a risk of financial loss.

F

Fair value
Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Finance lease
A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

Financial guarantee contract
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial asset or financial liability at fair value through profit or loss
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 instrument
Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Firm commitment
A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

Financial risk
The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index or other variable provided in the case of a non-financial variable that the variable is not specific to the party to the contract.

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.

G

Global Reporting Initiative (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.

Going concern
The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

Gross dividends
The portion of profit inclusive of tax withheld distributed to shareholders.

Group
A Group is a parent and all its subsidiaries.

Guarantees
Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet his/her financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H

Held-to-maturity investments
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.

High Quality Liquid Assets (HQLA)
HQLA are assets that can be easily and immediately converted into cash at little or no loss of value, that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

I

Impaired loans
Loans where the Bank does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

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

Impairment provisions
Impairment provisions are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Impairment allowances
Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio) respectively.

Individually significant loans
Exposures which are above a certain threshold decided by the Bank's Management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

Individually significant loan impairment provisions
Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the corporate banking business of the Group are assessed individually.

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

Interest cover
A ratio showing the number of times interest charges is covered by earnings before interest and tax.

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

Interest rate risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest spread
This represents the difference between the average interest rate earned and the average interest rate paid on funds.

Investment properties
Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

K

Key Management Personnel
Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

Liquidity Coverage Ratio (LCR)
Banks are required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash to meet their liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. LCR is computed by dividing the stock of HQLA by the total net cash outflows over the next 30 calendar days.

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 and Treasury Bills.

Liquidity risk
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans and receivables
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

Loss Given Default (LGD)
LGD is the percentage of an exposure that a lender expects to loose in the event of obligor default.

M

Market capitalisation
Number of ordinary shares in issue multiplied by the market value of each share at the year end.

Market risk
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

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

N

Net asset value per share
Shareholders' funds divided by the number of ordinary shares in issue.

Net-interest income
The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter bank borrowings.

Non-controlling interest
Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

O

Operational risk
Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

Power
The Power is the existing rights that give the current ability to direct the relevant activities.

Price Earnings Ratio (P/E Ratio)
The current market price of the share is divided by the earnings per share of the Bank.

Probability of Default (PD)
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

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

Relevant activities
Relevant activities are activities of the investee that significantly affect the investee's returns.

Repurchase agreement
This is a contract to sell and subsequently repurchase Government Securities at a given price on a specified future date.

Return on Average Assets (ROAA)
Profit after tax expressed as a percentage of average total assets, used along with ROE, 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 reserve
Reserves set aside for future distribution and investment.

Reverse repurchase agreement
Transaction involving the purchase of Government Securities by a bank or dealer and resale back to the seller at a given price on a specific future date.

Rights issue
Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

Risk-weighted assets
Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk weighting factors.

S

Segmental analysis
Analysis of financial information by segments of an enterprise specifically-the different industries and 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 and securities dealings, property and insurance.

Shareholders' funds
Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

Single borrower limit
30% of Tier II Capital.

Specific impairment provisions
Impairment is measured individually for loans that are individually significant to the Bank.

Statutory reserve fund
Reserve created as per the provisions of the Banking Act No. 30 of 1988.

Substance over form
The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T

Transaction costs
Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Tier I 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 goodwill.

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

Total capital
Total capital is the sum of Tier I capital and Tier II capital.

U

Useful life
Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

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.

Y

Yield to maturity
Discount rate which the present value of future cash flows would equal the security's current price.