GCR GLOBAL CREDIT RATING CO.

Local Expertise • Global Presence

GLOSSARY OF TERMS, ACRONYMS AND RATIOS USED IN THE CORPORATE SECTOR

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Introduction

This list of terms, acronyms and ratios is compiled from those that are commonly used in Global Credit Ratings' published reports and occasional research papers. The content of this glossary is not intended to be comprehensive and/or complete, remains a work in progress, and will be updated periodically as needed.

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Terms, Acronyms and Formulas (A-Z Selector)

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A

African Development Bank	**A development finance organisation with headquarters in Tunis, which aims to reduce poverty and promote social development among its members.**
Amortisation	From a liability perspective, the paying off of debt in a series of instalments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life).
Annual Report	A status report on the current financial condition of a company. It usually includes the chairman's report, the auditor's report and detailed financial statements. It is issued once a year for shareholders to examine before the annual general meeting (AGM). In many markets, comprehensive Integrated Reports covering a wide spectrum of information have replaced traditional annual reports.
Asset Backed Securities (ABS)	Securitisation: debt securities issued that are backed or covered by a pool of assets or receivables (Auto loans and leases, consumer loans, commercial assets, credit cards, mortgage loans).

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Back-To-Back Loans	A loan given by party A to party B, which then on-lends to party C. The purpose of such an agreement is usually to benefit from interest rate differentials or to mitigate currency risk.
Back Up Facility	A bank line of credit used to provide back-up liquidity should an issuer be unable to fund the redemption of outstanding debt.
Bad Debt	A bad debt is an amount owed by a debtor that is unlikely to be paid due, for example, to a company going into liquidation. There are various technical definitions of what constitutes a bad debt, depending on accounting conventions, regulatory treatment, and the individual entity's own provisioning and write-off policies.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets

	the company holds and how they have been financed.
Bankers Acceptance (BA)	A draft or bill of exchange drawn on and accepted by a bank. It is an order by the drawer to the bank to pay a specified sum on a specified date to a named person or to the bearer of the draft. Once accepted it becomes a liability of the bank. If the bank has a secure reputation it is readily tradable. BA's are widely used money market instruments.
Bankruptcy	Court proceedings at which an individual or a company is declared unable to pay its creditors. The liabilities of a bankrupt company typically exceed its assets.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Book Building	An exercise by a transaction arranger (typically an investment bank) to assess the likely levels of demand for a new security and thereby determine the appropriate pricing point. It is designed to prevent an issue being over/undersubscribed.
Bourse	French term for stock exchange.
Bullet Bond	A bond that pays a fixed rate of interest and is redeemed in full on maturity. It is also known as a straight or fixed bond because it has no special features.
Brownfield Investment	A term that describes an investment made where an existing operation already exists, or previously existed. This may include an extension, a refurbishment or an adjoining development.
Bullish	Perception that demand or prices will rise. The opposite of bearish.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Business Cycle	Regular fluctuations in overall activity in an economy over time. The cycle has four distinct elements: recession, recovery, peak and slowdown.

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CAGR	**The compound annual growth rate is the year-on-year percentage growth rate of an investment over a given period of time.**
Call Option	A security that gives the holder or buyer the right but not the obligation to buy an underlying instrument at an agreed price (the strike price) within a specified time. The seller or writer has the obligation to sell the underlying instrument if the holder exercises the option.
Callable	A provision that allows an Issuer to repurchase a security before its maturity.

Capital	The sum of money that is invested to generate proceeds.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Capital Expenditure (Capex)	Expenditure on long-term assets such as plant, equipment or land, which will form the productive assets of a company.
Capital Gains	An increase in the price of a capital asset or investment such as property, land or securities.
Capital Goods And Equipment	Fixed assets such as plant and machinery which comprise the productive assets of a company.
Capital Intensive	A project, a business or a production process is said to be capital intensive if it uses large amounts of assets to produce goods or services. Examples are oil refineries, and airlines. Projects/businesses can be either fixed capital intensive or working capital intensive or a combination.
Cash Equivalent	An asset that is easily and quickly convertible to cash such that holding it is equivalent to holding cash. A Treasury Bill is considered cash equivalent.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash Flow Statement	The cash flow statement shows the cash flows associated with the operating, investing and financing activities of a company, combining to explain the net movement in cash holdings.
Commercial Paper	Commercial paper is a negotiable instrument with a maturity of less than one year.
Commitment Fee	A fee paid by a borrower for a lender's commitment to make funds available when required.
Committed Facility	A line of credit extended to a borrower that is guaranteed to be available for a specified period. The lender is obliged to lend the predetermined amount for the defined period under the terms of the agreement.
Commodity	Raw materials used in manufacturing industries or in the production of foodstuffs. These include metals, oil, grains and cereals, soft commodities such as sugar, cocoa, coffee and tea, as well as vegetable oils.
Common Stock	Common stock or ordinary shares represent ownership in a limited liability company. Holders of common stock are entitled to dividends when they are declared. They have the last claim on the assets and income of a company after other creditors have been paid.
Competition Commission	A regulator that seeks to prevent monopolies and anti-competitive activities by scrutinising company behaviour for potential collusion and the impact of mergers and acquisitions.
Conglomerate	A company made up of subsidiaries that operate in several business

sectors that are unrelated to each other.

Consolidated Balance Sheet	A balance sheet in which the assets and liabilities of a parent company and its subsidiaries are presented as a single entity. Also known as a consolidated account.
Consortium	A group of companies that combine some or all of their resources to undertake a joint project.
Consumer Price Index (CPI)	CPI is an index of inflation. It is calculated by collecting and comparing the prices of a set basket of goods and services bought by a typical consumer at regular intervals over time.
Convertible Bond	A bond that is convertible into shares at a pre-set conversion price. Conversion may be automatic or at the option of the holder.
Corporate Governance	Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Correlation	A term that describes the degree to which two variables move together. A correlation of 1 means that they move together exactly, while a correlation of minus 1 means that they move in exactly the opposite direction from each other.
Coupon	The interest paid on a bond expressed as a percentage of the face value. If a bond carries a fixed coupon, the interest is usually paid on an annual or semi-annual basis. The term also refers to the detachable certificate entitling the bearer to the interest payment.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Rating Agency	An entity that provides credit rating services.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Currency Risk	The potential for losses arising from adverse movements in exchange rates.
Current Ratio	A measure of a company's ability to meet its short-term liabilities and is calculated by dividing current assets by current liabilities. Current assets are made up of cash and cash equivalents ('near cash'), accounts

receivable and inventory, while current liabilities are the sum of short-term loans and accounts payable.

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Debentures	Debenture is also referred to as a Bond or Note. A bond is a legal contract in which a borrower such as a government, company or institution issues a certificate by which it promises to pay a lender a specific rate of interest for a fixed duration and then redeem the contract at face value on maturity..
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Debt Financing	Raising capital by selling debt instruments such as bonds, bills or notes.
Debt For Equity Swap	A process in which a company's creditors cancel some or all of the debt in exchange for equity in the company. They may decide there is no benefit to them to drive a company into bankruptcy if it could be run as a going concern. The original shareholder's stake may as a result be sharply reduced or entirely eliminated.
Debt Service Ratio	A measure of a company's ability to service its interest and principal redemption costs, expressed as the ratio of earnings or cash flows over a period to the sum of interest and principal payments over the same timeframe.
Debt/Equity Ratio	A ratio that measures a company's debt relative to its equity. Calculated by dividing long term debt by shareholders' equity. GCR typically uses a tangible equity as the denominator, after stripping out goodwill and other intangible assets.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Discount Rate	A term with two meanings. Either the interest rate a central bank charges banks and other institutions for short term borrowings. Or the interest rate used to calculate the present value of payments and receipts made and received in the future.
Distressed Debt	Debt whose credit rating and market value has fallen sharply because the borrower has defaulted or is highly likely to default on repayments.

Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Dividend Cover	The extent to which a company's dividend is matched or exceeded by the earnings available for distribution to shareholders.
Dollarisation	Adoption of the U.S. dollar in part or all of an economy. It can occur informally and without official approval, or formally when a country stops issuing its own currency and uses only dollars.
Downgrade	The assignment of a lower credit rating to a corporate or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
Downstream	Downstream refers to the processing of raw materials into a product required by end users and consumers.
Drawdown	When a company utilises facilities availed by a financial institution or an international lender there is said to be a drawdown of funds.
Dual Listing	A company that is listed on more than one stock exchange.

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Early Redemption	The repurchase of a bond by the issuer before it matures.
Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA)	EBITDA is useful for comparing the income of companies with different asset structures. EBITDA is usually closely aligned to cash generated by operations.
Economic Indicators	Statistical data about country's economy, such as unemployment figures, the Consumer Price Index (CPI), Gross Domestic Product (GDP), money supply and housing statistics. This data gives information about the future direction of output and demand in an economy.
Economies Of Scale	Economies of scale are the cost advantages of an increase in output if the fixed costs of doing so, such as those for plant and equipment, remain the same. The marginal cost, or the cost of the last unit of production, falls as output is raised.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exceptional Item	Exceptional items are costs or profits that need to be shown separately in an

	income statement to provide a clear and accurate view of a company's core activities as they are often non-recurring, once-off items.
Exchange Rate	The value of one country's currency expressed in terms of another.
Exercise	To exercise an option is to use the right of the holder to buy or sell the underlying asset on which the option is based at the strike price.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.

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Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Fiscal Policy	A government's fiscal policy is its policy on taxation, spending and borrowing.
Fix	The setting of a currency or commodity price for trade at a future date.
Fixed Assets	Assets of a company that will be used or held for longer than a year. They include tangible assets, such as land and equipment, stake in subsidiaries and other investments, as well as intangible assets such as goodwill, information technology or a company's logo and brand.
Fixed Capital	Fixed capital is the part of a company's total capital that is invested in fixed assets such as land, buildings and equipment that remains on the balance sheet, usually for years, but for at least one accounting period.
Fixed Costs	Company costs such as rent, administrative overheads and depreciation, which do not vary with the level of production or sales.
Fixed Deposit	Where funds are deposited in a savings account for a pre-determined period of time.
Fixed Exchange Rate	Where the exchange rate of a currency is fixed, or pegged, to another currency or a basket of currencies. The opposite of a floating exchange rate, which fluctuates according to supply and demand.
Fixed Income Instrument	Any type of investment that produces regular or fixed returns. Also a

generic term for debt instruments such as bonds that pay interest in the form of a coupon. The rate of interest is often fixed, hence the term.

Fixed/Floating Bonds	Bonds that pay fixed and floating interest rates at different periods during their life.
Floating Rate Note/Bond	A floating rate note/bond is a medium-term debt instrument that pays a variable interest rate. The coupon is usually set at a premium to LIBOR or its local equivalent such as JIBAR.
Force Majeure	Force majeure is an event that is beyond the control of contracting parties, whereby they cannot be held responsible for the fulfilment of the contract.
Forward Contract	A forward contract, colloquially known as a forward, is an agreement to buy or sell a commodity, security or financial instrument at a specified future date at a predetermined price.
Fundamental Analysis	A method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors.

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Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Generally Accepted Accounting Principles (GAAP)	A term that refers to the standards and conventions that underpin accounting rules and the preparation of financial statements in a particular country.
Going Concern	An accounting convention that assumes a company will continue to exist and trade normally for the foreseeable future. In practice this is likely to mean at least for the next 12 months.
Goodwill	Arises upon the sale/acquisition of a business and is defined as an established entity’s reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets.
Greenfield Investment	A term that describes investment made where no existing operation exists, and little or no physical infrastructure or facilities exist.
Greenshoe Option	A provision in the underwriting agreement of a share issue for the sale of additional shares to meet unexpectedly high demand. The greenshoe option normally amounts to an extra 15 percent of the issue.

Gross Lettable Area (GLA)	GLA is the portion of the total floor area of a building that is available for tenant leasing, and is usually expressed in square meters or square feet.
Gross Profit	Gross profit is the difference between company revenues or sales and the cost of sales, before accounting for administrative and financing costs.

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Haircut	The percentage by which the market value of a security used as collateral for a loan is reduced. The size of the haircut reflects the expected ease of selling the security and the likely reduction necessary to realised value relative to the fair value.
Hedge	A form of insurance against financial loss or other adverse circumstances.
Hedge Fund	A hedge fund is an investment fund which aims to produce absolute returns and whose trading methods include the use of short-selling, program-trading, swaps, arbitrage and derivatives.
Hedging	A financial risk management process or function to take a market position to protect against an eventuality. Taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.

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IFRS	International Financial Reporting Standards are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
Illiquid	Markets or financial instruments are described as being illiquid if there are few buyers and sellers. Assets may also be considered illiquid. It may be difficult, or even impossible, to find a reliable price for an illiquid security.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Initial Public Offering (IPO)	An initial public offering is the first offering of shares to the

public by a privately or state owned company. IPOs are used by companies to raise new funds, or to achieve a listing on an exchange.

Insolvent
When an entity's liabilities exceed its assets.

Institutional Investors
Financial institutions such as pension funds, asset managers and insurance companies, which invest large amounts in financial markets on behalf of their clients.

Intangible Assets
The non-physical assets of a company such as trademarks, patents, copyright, information systems and goodwill.

Interest
Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.

Interest Cover
Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.

Interest Leakage
Situation whereby a company has outstanding debt that yields a higher interest cost than the interest earned on cash balances.

Interest Rate
The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.

Interest Rate Risk
The potential for losses or reduced income arising from adverse movements in interest rates.

Interest Rate Swap
An interest rate swap is an agreement in which two parties make interest payments to each other for a set period based upon a notional principal.

International Finance Corporation (IFC)
The IFC is an affiliate of the World Bank, which finances private sector investment in developing countries and provides advisory services to businesses and governments.

International Scale Rating (ISR)
ISRs relate to either foreign currency or local currency commitments, assessing the capacity of an issuer to meet these commitments using a globally applicable (and therefore internationally comparable) scale.

- International foreign currency (International FC) ratings measure the ability of an organisation to service foreign currency obligations, taking into account transfer and convertibility risk.
- International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled.

Investment Grade	Credit ratings equal to or higher than "BBB-".
Issue Date	The date of issue of a new security. Often used as the date from which interest begins to accrue.
Issue Price	The issue price is the price at which securities are first offered for sale.
Issued Capital	The par value of the proportion of authorised share capital that has been issued and allotted to shareholders in the form of shares.

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JIBAR	**The Johannesburg Interbank Agreed Rate, or JIBAR, is the annualised interest rate at which banks obtain unsecured loans from each other. It is often used as the basis for pricing floating interest rate instruments, and is the main reference rate used in South Africa.**
Joint Venture	A project or other business activity in which two persons or companies partner together to conduct the project.
JSE	Johannesburg Stock Exchange.

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Letter of Credit (LC)	An LC is a guarantee by a bank on behalf of a corporate customer that payment will be made if that entity cannot to meet its obligations.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
LIBOR	The London Interbank Offered Rate, or LIBOR, is the annualised interest rate at which banks obtain unsecured loans from each other. It is often used as the basis for pricing floating interest rate instruments. It is quoted each business day for 10 currencies, over 15 maturity periods

	from overnight to 12 months.
Liquidation	Liquidation is the process by which a company is wound up and its assets distributed. It can be either compulsory or voluntary. It can also refer to the selling of securities or the closing out of a long or short market position.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Loan To Value (LTV)	Principal balance of a loan divided by the value of the property that it funds. LTVs can be computed as the loan balance to most recent property market value, or relative to the original property market value.
London Metal Exchange (LME)	The London Metal Exchange is one of the world's most important non-ferrous metals markets. It offers futures and options contracts in aluminium, copper, nickel, tin, zinc and lead. Producers and consumers use LME prices for long-term contacts.
Long term rating	A long term rating reflects an issuer’s ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation’s current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.

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Management Buyout (MBO)	A management buyout is the purchase of part or all of a company by its existing management. While these are generally funded through bank loans, private equity and venture capital funding is increasingly being used.
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Margin	A term whose meaning depends on the context. In the widest sense, it

	means the difference between two values.
Mark to Market	The act of recording the value of a security based on its current market price.
Market Capitalisation	The total value of a company's shares as quoted on a stock exchange. It is calculated by multiplying the total number of shares in issue by the market price.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
MBO	A management buyout is the purchase of part or all of a company by its existing management. While these are generally funded through bank loans, private equity and venture capital funding is increasingly being used.
Medium-term Notes (MTNs)	Medium Term Notes are corporate debt instruments issued as part of a programme, with maturities extending from 3 months to 10 years. MTNs provide issuers with regular funding from the capital markets.
Moratorium	A period of time in which an activity is suspended until such time as a change in circumstances permits its removal. For example, a borrower can declare a moratorium on the repayments of the principal, and sometimes the interest, on a loan.
Mortgage Loan	A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan.
Mortgage Pool	A group of mortgages held as collateral for a mortgage-backed security. The securities issued represent shares in the pool. The mortgages in a particular pool have similar maturities and yields, and are on a similar class of property.
Multinational	A company that operates commercially in a number of countries outside of the one wherein it is based. Such companies are often listed on more than one stock exchange or have shares available via depository receipts.

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National Scale Rating (NSR)	**The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this**

	rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Negative Pledge	A clause in a bond agreement, which prevents a borrower from pledging assets to other lenders. A negative pledge prevents the borrower from issuing other bonds if they have the effect of eroding existing bondholders' claims on the borrower's assets.
Net Asset Value (NAV)	The value of an entity's assets less its liabilities. It is a reflection of the company's underlying value and is usually quoted on a per share basis.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Nominal Value	The value of a security set by the entity that issues it. It is unrelated to market value. Also known as face value or par value.

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Off Balance Sheet	Off balance sheet items are assets or liabilities that are not shown on a company's balance sheet. They are usually referred to in the notes to a company's accounts.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Order Book	This refers to the portfolio of confirmed contracts/orders that a corporate entity has at any point in time, and is jargon typically associated with construction and manufacturing companies in reference to their prospective business.
Over The Counter (OTC)	An OTC market or trade is one conducted directly between dealers and principals rather than via an exchange.
Overnight Rate	The overnight rate is the interest rate at which money due to be returned the next day is lent by one bank to another.

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Pari Passu	Securities issued with a pari passu clause have rights and privileges that are equivalent to those of existing securities of the same class. Pari passu means 'with equal step' in Latin.
Payment Date	The date on which the payment of a coupon or dividend is made.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Pledge	An asset or right delivered as security for the payment of a debt or fulfillment of a promise, and subject to forfeiture on failure to pay or fulfill the promise.
Political Risk	The risk associated with investing and operating in a country where political changes may have a negative impact on earnings or returns.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Preference Share	Preference or preferred shares entitle a holder to a first claim on any dividend paid by the company before payment is made on ordinary shares. Such dividends are normally linked to an interest rate and not determined by company profits. Preference shares are normally repayable at par value in the event of liquidation. They do not usually carry voting or pre-emptive rights. Preference shares can be redeemable or perpetual.
Prepayment	Any unscheduled or early repayment of the principal of a mortgage/loan.
Prime Rate	The benchmark interest rate that banks charge their customers.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Private Equity Fund	Private equity funds are firms that invest pools of capital raised from financial institutions in a wide range of commercial projects managed by investment professionals. They are normally not listed on stock exchanges, though some have gone public in recent years.
Private Placement	The sale of securities to a small number of institutional investors such as large banks, insurance companies and pension funds. Such issuances do not require a formal prospectus and are often not listed on an exchange.

Privatisation	The sale of state-owned businesses to the private sector by a government.
Promissory Notes	A promissory note, or PN, at represents a promise by a borrower to repay a loan and is generally used in trade finance. The notes detail the principal, interest rate and maturity date of the obligation. The PN can be discounted by the receiver to realise immediate value.
Prospectus	A document produced by a company issuing new equity or debt, which provides detailed information about the offering and the company.
Provisions for Bad Debts	Balance sheet charges against profits for debtors who may not pay for goods and services they have received.
Public Placement	A public placement is where a security is offered to the whole market rather than to selected investors. It is usually listed on a stock exchange.
Public-private Partnerships (PPPs)	A project or private business venture funded and operated through a partnership between government and private sector companies.
Put Option	An option giving the holder the right, but not the obligation to sell the underlying instrument at an agreed price or strike price within a specified time. The seller or writer has the obligation to buy if the holder exercises the option to sell.

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Rating Outlook	A Rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: "Stable" (nothing to suggest that the rating will change), "Positive" (the rating symbol may be raised), "Negative" (the rating symbol may be lowered) or "Evolving" (the rating symbol may be raised or lowered).
Rating Watch	Indicates that a rating is under review for possible change in the short term and the movement may be either positive or negative.
Real Interest Rates	An interest rate adjusted for the effect of inflation by deducting the inflation rate from the nominal interest rate.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.

Redemption	The repurchase of a bond at maturity by the issuer.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Real Estate Investment Trust (REIT)	A REIT is a company that owns or finances income-producing real estate. REITs are subject to special tax considerations and generally pay out all of their taxable income as distributions to shareholders.
REPO Rate	In South Africa the REPO rate refers to the rate at which the South African Reserve Bank lends money to banking institutions. The money is lent through a repurchase agreement.
Repurchase Agreement (REPO)	In a REPO one party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Return on Assets	A ratio of the attributable profits for the last 12 months to total assets (fixed and current) for the same period, expressed as a percentage. It measures how effectively a company generates earnings from its assets.
Return On Equity	Return on equity, or ROE, is the ratio of a company's profit to its shareholders' equity, expressed as a percentage. It is the most widely used measure of how well management uses shareholders' funds. Its main advantage is that it is a benchmark that allows investors to compare the profitability of companies in different industries.
Revaluation	Formal upward or downward adjustment to assets such as property or plant and equipment.
Rights Issue	One of the ways that a company can raise additional funds is to issue new shares. These must be first offered to current shareholders and a rights issue allows a shareholder to buy shares in proportion to the number already held.
Ringfencing	Ringfencing occurs when certain of a company's assets, liabilities or profits are financially separated for regulatory reasons, to isolate risk related to specific assets and/or liabilities, or to protect assets and/or income streams from risks (inter alia).
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.
Risk Premium	The extra reward required from an investment in order to compensate for higher risks.

Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.

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Secondary Market	The secondary market is where securities are bought and sold once they have been issued in the primary markets. The secondary market gives a continuing opportunity for buying and selling and price discovery, and provides the liquidity that allows the primary market to function.
Secured Debt	Debt backed with or secured by collateral to reduce lending risk and thus the interest rate charged.
Senior Secured Debt	Secured Debt that is paid first in the event of a default.
Senior Unsecured Debt	Securities that have priority ahead of all other unsecured or subordinated debt for payment in the event of default.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Shareholders' Funds	The holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Short term rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Sinking Fund	Mandatory prepayments made by a borrower into a special account to be used to redeem a certain amount of a bond issue, thereby reducing the principal amount due at maturity.
Solvent	The state of a company where its assets exceed its liabilities and it is able to service its debt and meet its other obligations, especially in the long-term.
Sovereign Debt	A bond issued by a government or a government-backed agency.
Special Purpose Vehicle (SPV)	An entity that is created to fulfil specific objectives. An SPV is normally bankruptcy/insolvency remote and created to isolate financial risk.
Spot Market	A market where trades are delivered and settled within two working days. The price of a commodity on the spot market provides the best indication of its current trading price.
Stock Exchange	A market with a trading-floor or a screen-based system where members buy and sell securities.

Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Sukuk	Sukuk are instruments similar to bonds that comply with Islamic law which prohibits the charging or paying of interest. Other assets are used to generate an income equivalent to that which would be paid on conventional bonds.
Swap	An exchange of payment streams between two parties for their mutual benefit. Swaps can involve an exchange of debt obligations, interest payments or currencies, with a commitment to re-exchange them at a specified time.
Syndicated Loan	A large loan arranged by a group of funders, usually international banks, that form a syndicate, headed by a lead manager.

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Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.
Term Deposit	A savings account held for a fixed term. Also called a time deposit. Generally, there are penalties for early withdrawal.
Tranche	Used to mean an allocation or instalment of a larger loan facility. Tranches of the same debt programme may differ from each other because they pay different interest rates, mature on different dates, carry different levels of risk, or differ in some other way.
Trustee	Institution or individual appointed to ensure all terms and conditions of a bond indenture are fully adhered to and that the interest of certain parties are looked after.
Turnover	The total value of goods or services sold by a company in a given period. Also known as revenue or sales. Turnover can also refer to the total volume of trades in a market during a given period.

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Under Review	Failure to carry out a full review of a rated entity within the designated timeframe, either through lack of information or delays in finalisation, i.e. review is ongoing.

Undercapitalised	Term used when a business is not supplied with enough funds by its owners to support its activities and provide for any needed expansion.
Undersubscribed	When investor demand for a new issue of securities is lower than the offer. Opposite of oversubscribed.
Underwriter	In a general sense, an underwriter is a person or company that assumes financial risk. In corporate analysis an underwriter refers to a financial institution closely involved in the pricing and distribution of a new issue of a security and who accepts the obligation to purchase all securities not sold to outside investors.
Unlisted Stock	A security that is not listed or traded on a stock exchange.
Unrealised Gain/Loss	The profit or loss that would be made if a position were to be liquidated.
Upstream	A term referring to the exploration and extraction of a commodity, in contrast with the downstream manufacturing and processing.

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Vanilla Bond	A bond with no unusual features, paying a fixed rate of interest and redeemable in full on maturity.
Variable Costs	A cost that varies with the volume of production or sales, such as the cost of raw materials or packaging. In contrast with fixed costs, such as rent, which stay the same regardless of the volume of production or sales.

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Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.

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Yield	Percentage return on an investment or security, usually calculated at an annual rate. Also an agricultural term describing output in terms of quantity of a crop.

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