GCR GLOBAL CREDIT RATING CO.
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GLOSSARY OF TERMS, ACRONYMS AND RATIOS USED IN THE FINANCIAL 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 Ratios (A-Z Selector)

Note: in this glossary the terms company/bank are used interchangeably.

A

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.
Arm's Length	A transaction in which the parties act independently and have no transaction favourable relationship with each other, or are not subject to undue influence or duress from one another.
Arrears	An overdue debt, liability or obligation. An account is said to be "in arrears" if one or more payments have been missed in transactions where regular payments are contractually required.
Arrears Bucket	A non-performance classification, classified according to the number of days in arrears, ie, 30, 60, 90 days.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
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).
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Audit Report	A written opinion of an auditor (attesting to the financial statements' fairness and compliance with generally accepted accounting principles).

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Bad Debt	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 a 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.

Banking Book Assets on a bank's balance sheet that are expected to be held to maturity. Banks are not required to mark these to market. Unless there is reason to believe that the counterparty will default on its obligation, they are held at historical cost.

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.

Basel Basel Committee on Banking Supervision housed at the Bank for International Settlements.

Basel I Basel Committee regulations, which set out the minimum capital requirements of financial institutions with the goal of minimising credit risk.

Basel II Basel Committee regulations, which attempt to integrate Basel capital standards with national regulations, by setting the minimum capital requirements of financial institutions with the goal of ensuring institutional liquidity.

Basel III A comprehensive set of reform measures designed to improve the regulation, supervision and risk management within the banking sector. Largely in response to the credit crisis, banks are required to maintain prescribed leverage ratios and meet certain capital requirements.

Basis Point 1/100th of a percentage point.

Basis Risk The imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.

Bond A long term debt instrument issued by either: a company, institution or the government to raise funds.

Building Society A type of deposit-taking financial institution that engages in long-term mortgage lending, primarily to finance owner-occupied residential mortgages/property.

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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Compound Annual Growth Rate (CAGR) — The year on year percentage growth rate of an investment over a given period of time. It is found by calculating:

$$\mathbf{CAGR} = \left\{\frac{\textbf{ending value}}{\textbf{begining value}}\right\}^{\left(\frac{1}{\textbf{\# of periods}}\right)} - 1$$

Call Option — A security that gives the holder/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.

CAMEL — The acronym for the mainstream approach to credit analysis of financial institutions, referring to the five core elements of any credit assessment: Capital Adequacy, Asset Quality, Management (Competency), Earnings (Profitability) and Liquidity (Funding).

Capital — The sum of money that is invested to generate proceeds.

Capital Adequacy — A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.

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.

Cash — Funds that can be readily spent or used to meet current obligations.

Cash Equivalent — An asset that is easily and quickly convertible to cash such that holding it is equivalent to holding cash.

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.
Certificate of Deposit (CD)	A savings certificate entitling the bearer to receive interest, typically issued by a commercial bank. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination.
Collateral	Asset provided to a creditor as security for a loan.
Commercial Paper (CP)	CP is a negotiable instrument with a maturity of less than one year.
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.
Consolidated Financial Statements	Financial statements in which the assets and liabilities of a parent company and its subsidiaries are presented as a single entity.
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.
Contingent Assets	Assets not recorded in an entity's financial reports, but which may be realised.
Contingent Liabilities	Liabilities not recorded in an entity's financial reports, but which might become due.
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.
Core Deposits	That portion of a bank's deposits that is relatively stable and has a predictable cost. Deposits fluctuate seasonally and cyclically, but even in adverse circumstances, deposits normally do not fall below some minimum level.
Corporate Governance	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.
Cost of Funds	The rate that a bank pays to borrow funds.

Cost Ratio — The ratio of operating expenses to operating income. Used to measures a bank's efficiency,

Country Risk — The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.

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 Bureau — Provider of consumer credit information to credit providers.

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/or interest when due.

Credit Spread — The difference in yield between two bonds of similar maturity but different credit quality.

Creditworthiness — An assessment of a debtor's ability to meet debt obligations.

Country Exposure — Amount of an institution's total investment and/or claims on borrowers in a specific county, direct as well as indirect.

Currency risk — The potential for losses arising from adverse movements in exchange rates.

Customer Deposit — Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.

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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.

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.

Demand Deposit A deposit of funds that can be withdrawn without any advance notice, or "on demand".

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.

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.

Dollarisation Adoption of the US 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 US dollars.

Downgrade The assignment of a lower credit rating to a company or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.

Drawdown When a company utilises facilities availed by a financial institution or 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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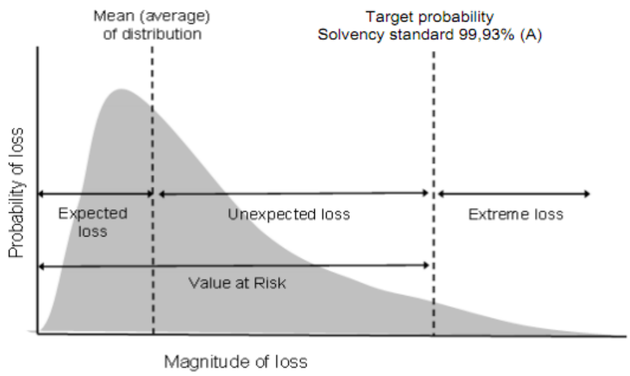
Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA)	EBITDA is useful for comparing the income of companies with different asset structures. EBITDA is usually closely aligned to cash generated by operations.
Economic Capital	The capital that the group holds and allocates internally as a result of its own assessment of risk. It differs from regulatory capital, which is determined by regulators. It represents the amount of economic losses the group could withstand and still remain solvent with a target level of confidence (solvency standard or default probability) over a one-year time frame.
Economic Indicators	Statistical data about a 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	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.
Electronic Banking	A service that allows an account holder to obtain account information and manage certain banking transactions through a personal computer via the financial institution's website on the Internet. This is also known as Internet or online banking.
Enterprise Risk Management (ERM)	ERM refers to an integrated or holistic approach to managing risk across an organisation, using clearly articulated frameworks and processes controlled from board level.
Equity	Equity (or shareholders' funds) 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.
Expected Loss	Losses that a bank expects to bear over a certain period (generally a year). These losses are a consequence of doing business, namely the bank's role as financial intermediary.



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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Facility
The grant of availability of money at some future date in return for a fee.

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 Institution
An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.

Financial Statements
Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.

Financial Year
The year used for accounting purposes by a company. 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.

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 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.
Fixed Deposit	Where funds are deposited in a savings account for a pre-determined period of time.
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.
Forecast	A calculation or estimate of future financial events.

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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.
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.
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.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.

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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 risk management technique used to reduce the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates arising from normal banking operations. Most often, the hedge involves the use of a financial instrument or derivative such as a forward, future, option or swap. Hedging may prove to be ineffective in reducing the possibility of loss as a result of, inter alia, breakdowns in observed correlations between instruments, or markets or currencies and other market rates.

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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International Financial Reporting Standards (IFRS) IFRS is 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.

Industry Risk The risk that defaults will arise in an industry because of factors specifically affecting that industry.

Inherent Risk

Inherent risk is the product of the impact of the risk on the objective(s) and the likelihood of the risk occurring should no management actions/controls be in place to mitigate the risk.

Initial Public Offering (IPO)

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 a stock 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 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 risk in the banking book is the risk that earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are repricing/mismatch, basis and yield curve risk.

Internal Capital Adequacy Assessment Process (ICAAP)

The process by which banks demonstrate that chosen internal capital targets are well founded and that these targets are consistent with their overall risk profile and current operating environment. The five main features of a rigorous process are:

- board and senior management oversight;
- sound capital assessment;
- comprehensive assessment of risks;
- monitoring and reporting; and
- internal control review.

Internal Control System

Methods put in place by a company to ensure the integrity of financial and accounting information, meet operational and profitability targets and transmit management policies throughout the organisation.

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-'.

Investment Risk
The risk of a decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to the investment itself (eg, reputation and the quality of management).

Islamic Banking
A banking system that is based on the principles of Islamic law (also known as Shariah) and guided by Islamic economics. Two basic principles behind Islamic banking are the sharing of profit and loss and, significantly, the prohibition of the collection and payment of interest.

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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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King III
King Code of Governance Principles and the King Report on Governance (King III) is a corporate governance code determining standards of conduct for public, private and non-profit organisations.

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Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
Legal Risk	Legal risk arises from the necessity that the bank or group conducts its activities in conformity with the business and contractual legal principles applicable in each of the jurisdictions where it conducts its business. It is the possibility that a failure to meet these legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences.
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 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.
Line of Credit	A pre-approved loan authorisation with a specific borrowing limit based on creditworthiness. A line of credit allows borrowers to obtain a number of loans without re-applying each time as long as the total of borrowed funds does not exceed the credit limit.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
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 Current Value Ratio Principal balance divided by the most recent property market value.

Loan To Original Value Ratio Principal balance divided by the original (as at origination) property market value.

Long-Term Not current; ordinarily more than one year.

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.

Loss Given Default (LGD) This is an estimate of the amount of the exposure at default that will not be recovered. It also includes other costs such as legal costs.

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Margin The rate taken by the lender over the cost of funds, which effectively represents the entity's profit and remuneration for taking the risk of the loan; also known as spread.

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.

Medium Term Notes (MTNs) 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.

Monetary Policy	Measures taken by the central bank to influence the quantity of money or the rate of interest with a view to achieving stable prices, full employment and economic growth.
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.

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National Credit Act	The National Credit Act 34 of 2005 (South Africa).
National Scale Rating (NSR)	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 Interest Margin	Net interest income divided by average interest earning assets. Measures a bank’s margin after paying funding sources and how successful a bank’s interest-related operations are.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account (including taxes).
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.
Non-Investment Grade	Credit ratings equal to or lower than ‘BB+’ (double B plus).
Non-Performing Loan (NPL)	When a borrower is overdue, typically 90+ days in arrears or as defined by the lender, or in the transaction documents.

NPL Ratio	The ratio of non-performing loans and advances to total gross loans and advances, expressed as a percentage.

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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 Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
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.
Origination Fee	The charges a lender or creditor levies for processing a loan. It includes cost of loan document preparation, verification of the credit history of the borrower and conducting an overall appraisal.
Overdraft	When the amount of money withdrawn from a bank account is greater than the amount actually available in the account, the excess is known as an overdraft, and the account is said to be overdrawn.
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 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.
Past Due	Any note or other time instrument of indebtedness that has not been paid on the due date.

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 fulfilment of a promise, and subject to forfeiture on failure to pay or fulfil the promise.

Point of Sale (POS) The term ‘point of sale’ can refer to either:

- the location at which a transaction takes place; or
- systems that allow bank customers to effect transfers of funds from their deposit accounts and other financial transactions at retail establishments.

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 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.

Probability of Default (PD) Quantification of the likelihood of a borrower being unable to repay during a specific time horizon, usually 12 months.

Prospectus A document produced by a company issuing new equity or debt, which provides detailed information about the offering and the company.

Provision The amount set aside or deducted from operating income to cover expected or identified loan losses.

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	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 Rate	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.
Recourse	The right to demand payment/collect from the maker or endorser of a negotiable instrument.
Redemption	The repurchase of a bond at maturity by the issuer.
Refinancing	The issue of new debt/loan to replace maturing debt/loan. New debt may be provided by existing or new lenders, with a new set of terms in place.
Regulatory Capital	The total of primary, secondary and tertiary capital.

Reinvestment Risk — The risk that a company will not be able to reinvest cash flows from an investment at a rate equal to the investment's current rate of return.

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.

Repricing Risk — Repricing/mismatch risk is the timing differences in the maturity (for fixed-rate) and repricing (for floating-rate) of bank assets, liabilities and off-balance-sheet positions.

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.

Reputational Risk — The risk of impairment of an entity's image in the community or the long-term trust placed in it by its shareholders as a result of a variety of factors, such as performance, strategy execution, the ability to create shareholder value, or an activity, action or stance taken by the entity.

Reserve Requirement — Minimum amount of cash or cash equivalents (computed as a percentage of deposits) that banks are required by law to keep on hand, and which may not be used for lending or investing. Reserve requirements serve as a safeguard against a sudden and inordinate demand for withdrawals, and as a control mechanism for injecting cash (liquidity) into, or withdrawing it from, an economy.

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 (ROA/ROaA) — A ratio of a company's attributable profits (usually a 12 month period) 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 (ROE/ROaE) — A ratio of a company's attributable profits (usually for a 12 month period) to its shareholders' equity for the same period, expressed as a percentage. It is the most widely used measure of how well management uses shareholders' funds, and 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.

Revolving Credit — A credit agreement that allows a customer to borrow against a preapproved credit line.

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 chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
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.
Risk Management Process	The systematic application of management policies, procedures and practices to the tasks of risk identification, assessment and measurement, response and action, monitoring and review, and risk reporting.
Risk Premium	The extra reward required from an investment in order to compensate for higher risks.
Risk-Weighted Assets (RWA)	RWAs are determined by applying risk weights to balance sheet assets and off-balance-sheet financial instruments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off-balance-sheet financial instrument is governed by the respective regulatory authorities.

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Secondary Market	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 Loan	A loan which is backed by a pledging of real or personal property (collateral) by the borrower to the lender. Unlike unsecured loans, which are backed by a promise by the borrower that he will repay the loan, in case of a secured loan, the lender can initiate legal action against the borrower to reclaim and sell the collateral (pledged property).
Securities	Various instruments used in the capital market to raise funds.

Securitisation A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.

Security An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.

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.

Settlement Full repayment of an obligation.

Settlement Risk The risk that an organisation gives, but fails to receive, consideration from a counterparty during the settlement of a transaction. The settlement may be cash or securities.

Shareholder An individual, entity or financial institution that holds shares or stock in an organisation or company.

Shareholders' Funds Shareholders' funds (or equity) are 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 Current; ordinarily less than one year.

Short-Term Rating An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.

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.

Sovereign Risk The risk of default by the government of a country on its obligations.

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 risks.

Stock Exchange A market with a trading-floor or a screen-based system where members buy and sell securities.

Strategic Risk The risk of an adverse impact on capital and earnings due to business policy decisions (made or not made), changes in the economic environment, deficient or insufficient implementation of decisions, or failure to adapt to changes in the environment. Strategic risk is either the failure to do the right thing, doing the right thing poorly, or doing the wrong thing.

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.
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.
Systemic Risk	Risk associated with the general health or structure of the financial system which would have serious adverse effects on economic conditions or financial stability.

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Tenor	The time from the value date until the expiry date of a financial instrument.
Term Deposit	A savings account held for a fixed term. Also called a time deposit. Generally, there are penalties for early withdrawal.
Tier 1/Tier I (Primary) Capital	Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and other regulatory deductions.
Tier 2/Tier II (Secondary) Capital	Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions.
Tier 3/Tier III (Tertiary) Capital	Capital held by banks to cover certain classes of risk, including foreign currency exchange risk and commodities risk. To qualify as Tier 3 capital, assets must be limited to 250% of a bank's Tier 1 capital, be unsecured, subordinated, and have a minimum maturity of two years.
Trading Book	This comprises positions in financial instruments and commodities, including derivative products and other off-balance-sheet instruments that are held with trading intent or to hedge other elements of the trading book. It includes financial instruments and commodities that: • are held for short-term resale; or • are held with the intention of benefiting from price variations; or • arise from broking and market making; or • are held to hedge other elements of the trading book.

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.
Treasury Bill	Short-term obligation backed by the government that bears no interest and is sold at a discount.
Trustee	A person or firm that holds or administers property or assets for the benefit of a third party.

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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 security and who accepts the obligation to purchase all securities not sold to outside investors.
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.
Unrealised Gain/Loss	The profit or loss that would be made if a position were to be liquidated.
Usury Laws	Regulations governing the amount of interest that can be charged on a loan.

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Value at Risk (VaR)	A statistical technique used to measure and quantify the level of financial risk within a company over a specific timeframe. VaR is measured in three variables: the amount of potential loss, the probability of that amount of loss, and the timeframe.

Vanilla Bond — A bond with no unusual features, paying a fixed rate of interest and redeemable in full on maturity.

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Waiver — In banking terms, a waiver is the relinquishing of rights. Sometimes also considered to be the exemption or settlement of a part of debt.

Wholesale Banking — A term used for banking services offered to other corporate entities, large institutions and other financial institutions.

Working Capital — 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.

Write-off — The total reduction in the value of an asset.

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Yield — Percentage return on an investment or security, usually calculated at an annual rate.

Yield Curve — A line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.

Yield to Maturity (YTM) — The rate of return anticipated on a bond if held until the end of its lifetime/maturity date.

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Ratios

Ratio	Formula	Explanation
Capitalisation		
Internal Capital Generation	Net Income / Shareholders' Equity	Measures the pace at which a bank is able to generate equity capital from internal sources.
Total Capital to Total Assets (Leverage Ratio)	Total Capital and Reserves / Total Assets	Measures the solvency of a bank, assessing a bank's ability to meet its obligations and absorb unexpected losses.
Risk Weighted Capital Adequacy Ratio ("RWCAR")	Tier 1 Capital + Tier 2 Capital / Risk Weighted Assets	Indicates the capacity of a bank's total (equity and hybrid) capital base to absorb losses which may arise as a result of credit, operational or other risks. A RWCAR below the minimum statutory level indicates that the bank is not adequately capitalised to support/expand its operations.
Tier 1 Capital Ratio	Tier 1 Capital / Risk Weighted Assets	Indicates the capacity of a bank's core/equity capital base to absorb losses.
Dividend Payout Ratio	Dividends / Net income	Measures the percentage of net income that is distributed to shareholders (ie, the portion not retained to reinvest, pay off debt or add to cash reserves).
Liquidity		
Net Advances to Customer Deposits	Net Advances / Customer Deposits	Measures the relative portion of a bank's loan portfolio that is funded by customer deposits. This ratio aids analysis as to the role deposits play as a funding source.
Net Advances to Total Funding	Net Advances / Total Funding (excl. equity)	Measures the percentage of funding that is tied up in loans. The higher the ratio, the less liquid a bank is.
Liquid Assets to Total Assets	Liquid Assets + Marketable Debt Securities / Total Assets	Measures the proportion of the bank's asset base which is available within a short period to cover repayment obligations/redemptions.
Liquid Assets to Total Deposits	Liquid Assets + Marketable Debt Securities / Total Deposits	Measures the proportion of the bank's deposits which can be redeemed using resources available within a short period of time.
Liquidity Ratio	Liquid Assets + Marketable Debt Securities / Short-Term Funding	Indicates the percentage of a bank's short-term obligations that can be met using its liquid assets (ie, its liquidity buffer in the event of unexpected funding withdrawals).
Liquid Assets to Total Funding	Liquid Assets + Marketable Debt Securities / Total Debt Funding	Indicates the percentage of a bank's total obligations that can be met using its liquid assets (ie, its liquidity buffer to cover redemptions).
Asset Quality		
Gross Non-Performing Loan Ratio	Impaired Loans / Gross Loans	Measures the value of delinquent loans as a proportion of the total loan portfolio.
Net Non-Performing Loan Ratio	Impaired Loans - Provisions / Net Loans	Measures the value of delinquent loans (less all provisions) as a proportion of the total loan portfolio.
Net Non-Performing Loans to Capital	Impaired Loans - Provisions / Capital	Measures the ability of the capital base to absorb potential bad debts.
Specific Provision Coverage	Specific Provisions / Impaired Loans	Measures the level of specific provisions held against gross non-performing loans.
Total Loan Loss Reserves to Gross Advances	Total Loan Loss Reserves / Gross Advances	Indicates the proportion of the total portfolio that has been provided for but not written off.
Bad Debt Charge to Gross Advances	Bad Debt Charge (Income Statement) / Average Gross Advances	Measures the proportion of loans that are estimated to be uncollectable in the financial period.
Sustainability and Profitability		
Net Interest Margin	Net Interest Income / Average Earning Assets	Measures a bank's margin after paying funding sources, and how successful a bank is at generating income from its funded business.
Non-Interest Income to Total Operating Income	Other Income / Operating Income	Measures the proportion of a bank's total income that has been generated by non-interest related activities.
Bad Debt Charge to Total Operating Income	Bad debt (income statement) / Operating income	Measures the burden that uncollectable debt is placing on the bank's operating efficiency.
Cost Ratio	Operating Expenses / Total Operating Income	Measures a bank's efficiency, highlighting the extent to which operating income covers operating expenses.
ROaE	Net Income / Average Common Shareholder's Equity	Measures a bank's ability to build equity through retained earnings.
ROaA	Net Income / Average Total Assets	Measures how a bank is managing its asset base to optimise its profitability.