

Glossary

A

Accounting Policies

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

Accrual Basis

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

Amortisation

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

Associate

An entity in which the investor has significant influence and which is neither a subsidiary nor an interest in a joint venture.

Available-for-Sale Financial Assets

Non-derivative financial assets that are designated as available for sale or are not classified as; (a) loans and receivables; (b) held to maturity investments or, (c) financial assets at fair value through profit or loss.

C

Capital Adequacy Ratio

The relationship between capital and risk-weighted assets as prescribed by Central Bank of Sri Lanka.

Cash Equivalents

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

Collective Impairment

Impairment assessment on a collective basis for homogeneous groups of loans and receivables that are not considered individually significant and to cover losses which have been incurred but have not yet been identified at the reporting date.

Commercial Paper

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities, which are debt, is usually issued at a discount, reflecting prevailing interest rates.

Commitments

Credit facilities approved but not yet utilised by the customers as at the reporting date.

Consolidated Financial Statements

Financial statements of a holding (Parent) company and its subsidiaries based on their combined assets, liabilities and operating results.

Contingencies

A condition or situation existing on the reporting date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Corporate Governance

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

Cost to Income Ratio

Total operating expenses as a percentage of total operating income.

Credit Ratings

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

Credit Risk

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Currency Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Customer Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

D

Deferred Taxation

Sum set aside for tax in the financial statements that may become payable/receivable in a financial year other than the current financial year.

Depreciation

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

Derecognition

The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Dividend Cover

Profit attributable to shareholders divided by dividends paid to ordinary shareholders including tax withheld. This ratio measures the number of times dividend is covered by current year's attributable profits.

Dividend Yield

Dividend earned per share as a percentage of its market value.

E

Earnings per Ordinary Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in use.

Economic Value Added (EVA)

A measure of productivity, that takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)

Income tax expense divided by the profit before tax.

Employee Retention Ration

Represents the number of employees retained out of the employees attrition during the year as a percentage of average number of employees for the year end.

Equity method

Method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.

Exposure

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

F

Fair Value

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

Finance Lease

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

Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Liability

Is a contractual obligation to deliver cash or another financial asset to another entity.

Foreign Exchange Contract

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

G

Gearing

Long-term borrowings divided by the total funds available for shareholders.

Group

A group is a parent and all its subsidiaries.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rates, prices and commodities etc.).

Held-to-Maturity Investments (HTM)

Non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity.

Hire Purchase

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I

Impaired Loans and Receivables

Loans and receivables where the Group does not expect to collect all the contractual cash flows or expect to collect them later than they are contractually due.

Impairment

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

Impairment Provisions/Allowance

Provisions held as a result of the raising of a charge against profit for the incurred loss. An impairment provision may either be identified or unidentified and individual (specific) or collective (portfolio).

Individual Impairment

Exposure to loss is assessed on all individually significant accounts that do not qualify for collective assessment.

Intangible Asset

An identifiable non-monetary asset without physical substance.

Interest Cover

Number of times interest expense is covered by earnings before interest and tax.

Interest Rate Risk

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

Interest Spread

This represents the difference between the average interest rate earned and the average interest rate paid on interest-bearing liabilities.

Investment Properties

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

K

Key Management Personnel

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

L

Liquid Assets

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

Liquidity Risk

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

Loss Given Default (LGD)

The actual loss that is experienced by the company when a customer defaults on a loan from that company.

M

Market Capitalisation

Total market value of a company's outstanding shares.

Materiality

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

N

Net Assets Value per Share

Shareholders' fund excluding preference shares if any, divided by the number of ordinary shares in issue.

Net Interest Income

The difference between income earned from interest-bearing assets and cost incurred on financial instrument/facilities used for funding the interest-bearing assets.

Net Interest Margin

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

Non-performing Portfolio

The aggregate value of the advances portfolio that has being delinquent for a period of more than six months.

Non-performing Ratio (NPA Ratio)

Non-performing advances, portfolio expressed as a percentage of total advance portfolio.

P**Parent**

A parent is an entity which has one or more subsidiaries.

Price Earnings Ratio (P/E Ratio)

Shows what the market is willing to pay for a stock based on its current earnings.

R**Related Parties**

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

Return on Average Assets (ROA)

Profit before tax expressed as a percentage of the average assets; indicates overall effectiveness in generating profits with available assets.

Return on Equity (ROE)

Net profit attributable to owners, expressed as percentage of average ordinary shareholders' equity.

Reverse Repurchase Agreements

A reverse repurchase agreement with the agreement to sell at a higher price at a specific future date.

Risk Weighted Assets

Sum total of assets as per the statement of financial position and the credit equivalent of assets that are not on the statement of financial position multiplied by the relevant risk weighting factors prescribed by the Central Bank of Sri Lanka.

S**Segmental Analysis**

Disclosure of company's assets, income and other information; broken down by activity and geographical area.

Shareholders' Funds

Consist of issued and fully paid up ordinary shares, redeemable preference shares and other reserves.

Staff Turnover Ratio

Represents the number of employees attrition during the year as a percentage of average number of employees for the year end.

Statutory Reserve Fund

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003.

Subsidiary

An entity that is controlled by another entity which is known as the Parent.

T**Tier I Capital**

Representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Representing general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

V**Value Added**

Value of wealth created by providing financial and other related services less the cost of providing such services.

Y**Yield**

Rate of return on an investment in percentage terms, taking in to account annual income and any change in capital value.