

## Glossary of terms regarding Banking Funds and Deposits

- ▶ **CASA Deposit:** Deposit in bank in current and Savings account.
- ▶ **High Cost Deposit:** Deposits accepted above card rate (for the deposits) of the bank.
- ▶ **Liquid Assets:** Liquid assets consists of: cash, balances with RBI, balances in current accounts with banks, money at call and short notice, inter-bank placements due within 30 days and securities under "held for trading" and "available for sale" categories excluding securities that do not have ready market.
- ▶ **Funding Volatility Ratio (FVR):** Liquid assets [as above] to current and savings deposits - (Higher the ratio, the better)
- ▶ **Market Liability Ratio:** Inter-bank and money market deposit liabilities to Average Total Assets
- ▶ **ALM:** Asset Liability Management (ALM) is concerned with strategic balance sheet management involving all market risks. It also deals with liquidity management, funds management, trading and capital planning.
- ▶ **ALCO: Asset-Liability Management Committee (ALCO)** is a strategic decision making body, formulating and overseeing the function of asset liability management (ALM) of a bank.
- ▶ **Banking Book:** The banking book comprises assets and liabilities, which are contracted basically on account of relationship or for steady income and statutory obligations and are generally held till maturity.
- ▶ **Venture Capital Fund:** A fund set up for the purpose of investing in startup businesses that is perceived to have excellent growth prospects but does not have access to capital markets.
- ▶ **Held Till Maturity (HTM):** The securities acquired by the banks with the intention to hold them up to maturity.
- ▶ **Held for Trading (HFT):** Securities where the intention is to trade by taking advantage of short-term price / interest rate movements.
- ▶ **Available for Sale (AFS):** The securities available for sale are those securities where the intention of the bank is neither to trade nor to hold till maturity. These securities are valued at the fair value which is determined by reference to the best available source of current market quotations or other data relative to current value.
- ▶ **Yield to maturity (YTM) or Yield:** The Yield to maturity (YTM) is the yield promised to the bondholder on the assumption that the bond will be held to maturity and coupon payments will be reinvested at the YTM. It is a measure of the return of the bond.
- ▶ **Convexity:** This represents the rate of change of duration. It is the difference between actual price of a bond and the price estimated by modified duration.
- ▶ **Foreign Currency Convertible Bond:** A bond issued in foreign currency abroad giving the investor the option to convert the bond into equity at a fixed conversion price or as per a pre-determined pricing formula.
- ▶ **Trading Book:** Investments in trading book are held for generating profits on the short term differences in prices/yields. Held for trading (HFT) and Available for sale (AFS) category constitute trading book.
- ▶ **CRR:** Cash reserve ratio is the cash parked by the banks in their specified current account maintained with RBI, calculated on their **previous fortnightly average 'Net demand and time Liabilities(NDTL)'**
- ▶ **SLR:** Statutory liquidity ratio is in the form of **cash (book value), gold (current market value) and balances in unencumbered approved securities, which the banks keep with them to meet daily liquidity requirements.**
- ▶ **Stress testing:** Stress testing is used to evaluate a bank's potential vulnerability to certain unlikely but plausible events or movements in financial variables. The vulnerability is usually measured with reference to the bank's profitability and /or capital adequacy.
- ▶ **Scenario Analysis:** A method in which the earnings or value impact is computed for different interest rate scenario.
- ▶ **LIBOR:** London Inter Bank Offered Rate. It is the interest rate at which banks offer to lend funds in the interbank market.
- ▶ **Basis Point:** It is one hundredth of one percent. 1 basis point means 0.01%. Used for measuring change in interest rate/yield.

### **Glossary of terms regarding NPAs and Securitisation**

- ▶ **Non Performing Assets (NPA):** An asset, including a leased asset, becomes non- performing when it ceases to generate income for the bank.
- ▶ **Net NPA: Gross NPA - (Balance in Interest Suspense account + DICGC/ECGC claims received and held pending adjustment + Part payment received and kept in suspense account + Total provisions held).**
- ▶ **Coverage Ratio:** Equity minus net NPA divided by total assets minus intangible assets.
- ▶ **Slippage Ratio:** (Fresh accretion of NPAs during the year/Total standard assets at the beginning of the year)\*100
- ▶ **Restructuring:** A restructured account is one where the bank, grants to the borrower concessions that the bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances/securities, which would generally include, among others, alteration of repayment period/ repayable amount/ the amount of installments and rate of interest. It is a mechanism to nurture an otherwise viable unit, which has been adversely impacted, back to health.
- ▶ **Substandard Assets:** A substandard asset would be one, which has remained NPA **for a period less than or equal to 12 months.** Such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.
- ▶ **Doubtful Asset:** An asset would be classified as doubtful if it has **remained in the substandard category for a period of 12 months.** A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, - on the basis of currently known facts, conditions and values - highly questionable and improbable.
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- ▶ **Loss Asset: A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.** In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.
- ▶ **Off Balance Sheet Exposure: Off-Balance Sheet exposures refer to the business activities of a bank that generally do not involve booking assets (loans) and taking deposits.** Off-balance sheet activities normally generate fees, but produce liabilities or assets that are deferred or contingent and thus, do not appear on the institution's balance sheet until and unless they become actual assets or liabilities.
- ▶ **Securitization: A process by which a single asset or a pool of assets are transferred from the balance sheet of the originator (bank) to a bankruptcy remote SPV (trust) in return for an immediate cash payment.**
- ▶ **Special Purpose Vehicle (SPV):** An entity which may be a trust, company or other entity constituted or established by a 'Deed' or 'Agreement' for a specific purpose.
- ▶ **SARFAESI Act: Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.** It is the act banks utilize as an effective tool for recovery of their bad loans (NPAs). It is where **non-performing assets (NPAs) are backed by securities charged to the Bank by way of hypothecation or mortgage or assignment.** Upon loan default, banks **can seize the securities (except agricultural land) without intervention of the court.** SARFAESI is **effective only for secured loans where bank can enforce the underlying security** i.e. hypothecation, **pledge and mortgages.** In such cases, court intervention is not necessary, unless the security is invalid or fraudulent. However, if the asset in question is an unsecured asset, the bank would have to move the court to file civil case against the defaulters.