

Banking & Financial Systems

Chapter 13: Bank Performance—Glossary

asset. Something owned by an individual or other entity.

asset quality. The credit risk associated with the loans and investments held by a bank.

balance sheet. A document that reports a company's assets, liabilities, and stockholders' equity.

CAMELS. An international bank-rating system used by the US to evaluate the overall financial condition of banks and other financial institutions.

capital ratio. How much capital the bank has relative to its assets; the most common way capital adequacy is measured.

credit risk. The possibility that a borrower will not repay a loan.

interest rate risk. The chance that a bank may lose revenue due to a change in interest rates.

liability. What the bank owes.

liquidity. The ability of a financial asset to be quickly converted into cash without any financial loss; having enough cash available to meet normal withdrawals.

liquidity risk. The chance a bank cannot sell its assets quickly enough to make a profit and meet the demand for cash.

market risk. The chance that the value of an asset will change due to market conditions.

net interest income. The difference between interest received and interest paid.

net interest margin (NIM). How much net profit the bank is making on interest as a percentage of assets.

net profit. The difference between the income and expenses of the business.

ratio. The relationship between two numbers that have the same unit of measurement.

return on assets (ROA). The amount of money a business makes for each dollar of assets it owns.

return on equity (ROE). A ratio that tells the stockholder how much return was made for each dollar of profit.

risk. The chance that an unfavorable event will happen to a person or property.

spread. The difference between the average percentage rate the bank receives on loans made to customers and the average percentage rate that the bank pays on customer deposits.

stockholders' equity. The money a bank receives from investors in return for stock.