

Glossary

Active Management

Active management of an investment fund aims to assure a return higher than a specified benchmark. To achieve this objective the fund manager analyzes assets and selects those considered suitable for investment by the fund.

Agribusiness Credit Bills (LCA)

Fixed-income debt instruments issued by financial Institutions to fund loans to agribusiness.

Allocation

Distribution of resources available for investment in different assets in order to obtain the highest possible return with the lowest possible risk.

Allowance for Loan Losses

Allowance for Loan Losses is a balance sheet account that represents a bank’s best estimate of future loan losses due to client delinquency and default.

Backtesting

Procedure to validate financial models based on their past performance. In this manner it is possible to determine how well a given model would have performed in the past as a basis for predicting its future performance.

Bank Bonds (LF)

LFs are designed to extend the maturity of financial institutions' funding profiles. They can be Issued for at least two years by universal banks, commercial banks, development banks, investment banks, credit and investment societies, savings banks, mortgage companies, home loan societies, and BNDES, the national development bank. They can be linked to inflation or pay a fixed interest rate at least semiannually.

Basel Ratio

Index that measures the degree of leverage of a financial Institution.

CAGR

Compound Annual Growth Rate, an indicator used to estimate the average return on an investmeft in a specific period.

Cash and Cash Equivalents

Cash equivalents/Investments that can be readily converted to cash such as commercial paper, marketable securities, money market holdings and other highly liquid assets.

CEO

Chief Executive Officer, the person with the highest authority at the top of the organization's hierarchy.

Certificates of Deposit (CD)

Short-term negotiable debt instruments issued by financial institutions that promise to pay the bearer or registered owner a fixed or floating rate of interest.

Compliance

Being in compliance means acting in conformity with laws, regulations, policies and guidelines, thus guaranteeing ethical and transparent conduct.

Debentures

Medium- to long-term debt instruments that pay a fixed rate of interest and make the holder a creditor of the issuing company.

Derivatives

Financial instruments whose value derives from an underlying asset, reference rate or market index.

Derivativo

Instrumento financeiro que tem o preço derivado do preço de um ativo, de uma taxa de referência ou até de um índice de mercado.

Type 1 | Forwards: over-the-counter contracts between two parties to buy or sell a specified quantity of a commodity or financial asset at a price agreed in the present but for settlement on a future date. May entail periodic adjustments.

Type 2 | Futures: exchange-traded contracts that obligate the parties to transact an asset at a future date and price. Settlement may be by physical delivery or in cash. Both parties must post margin throughout the life of the contract as the price varies.

Type 3 | Options: exchange-traded contracts giving the buyer the right but not the obligation to

buy or sell an asset or instrument at a fixed price prior to or on a specified date. The option buyer pays the writer (seller) a premium.

Type 4 | Swaps: over-the-counter contracts between two parties to exchange financial instruments, yields, rates or payments for a certain time.

DPGE

The Portuguese-Language acronym for Time Deposit with Special Collateral, a type of CD (certificate of deposit) issued by financial institutions for funding purposes. Commercial banks, full-service banks, development banks, investment banks, credit associations (SCFIs) and savings and loan associations are authorized by law to issue DPGEs, which are guaranteed by the FGC deposit insurance fund.

Expanded Credit Portfolio

Loans and securities with credit risk such as debentures, promissory notes or farm produce bonds (CPRs).

Interbank Deposit Certificate (CDI)

CDIs are fixed-income securities issued by financial institutions for mutual lending purposes, usually overnight.

Liabilities

Debts and obligations of the business recorded on the right side of the balance sheet, including accounts payable, deferred revenues and accrued expenses, for example.

Liquid Assets

Cash and cash equivalents, repos, interbank deposits, foreign exchange and marketable government bonds.

Multilateral Organizations

Also known as multilateral institutions, these are entities established by the world's leading nations to work together for the full development of political and economic activities, health, security and infrastructure. Examples include the UN, WHO, IDB, IFC, Proparco, and DEG.

Operational Limits

All limits to which the institution is subject in order to comply with regulatory requirements and internal policies.

Real Estate Credit Bills (LCI)

Fixed-income debt instruments issued by financial institutions to fund loans to the real estate, housing and construction industry.

Repos

Repurchasing agreements structured as bond sales, with an agreement to repurchase the debt security in a future date at a higher price to factor in the dealer's interest expense. Equivalent to a secured deposit.

Return on Average Equity (ROAE)

This is an indicator that measures a firm's capacity to add value from its own resources and investor funds, based on net income as a percentage of average shareholders' equity over a period (typically two years).

Risk Appetite Statement (RAS)

The RAS formalizes the types of risk to which the institution is exposed in the course of conducting its business activities and its appetite for each of these risks. Its purpose is to establish an effective governance process that aligns the interests of the institution with the risks effectively practiced.

Subordinated Debt

A debt instrument with a subordination clause, meaning that in the event of the issuing institution's liquidation or bankruptcy the holder will be paid only after all other creditors have been paid.

Suitability Control

Control of investors' profiles to ensure that requested investments in financial assets are compatible with their objectives and risk tolerance.

Total Funding

Demand and time deposits, interbank deposits, bank bonds (LFs), agribusiness credit bills (LCAs), real estate credit bills (LCIs), foreign borrowings, and pre-export finance.