

Loan (A) • Kredyt (udzielony) • A *financial asset* that, upon *repayment*, will convert to *cash*. In the meantime, it will generate *interest* income. A diversified group of loans to various *borrowers* is known as a loan *portfolio*. Because the value of the loan is dependent upon the future receipt of interest and *principal*, neither of that can be predicted with certainty, loans have *credit risk* associated with them.

Quotable

POLONIUS: Neither a borrower nor lender be:
For **loan** oft loses both itself and friend;
And borrowing dulls the edge of husbandry.

Shakespeare, *Hamlet*, 1601

Loan Classification • Klasyfikacja kredytów • An *accounting* and *regulatory* procedure that segregates a bank loan *portfolio* according to broad groupings of *risk grades*. An example of a system of very broad categories would be as follows:

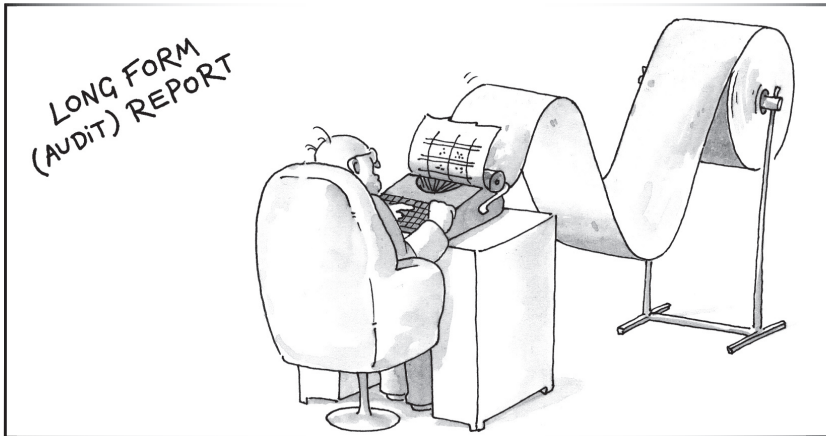
| Loan Classifications | | |
|----------------------|--------------------------------------|---|
| Category | Description | Accounting Treatment |
| Performing | ◆ Solvent borrower; no defaults | ◆ Accrue interest; no impairments |
| Watch-List | ◆ Vulnerable or warning signs | ◆ Accrue interest; general reserve |
| Non-performing | ◆ Financial distress; defaults | ◆ Non-accrual; prudential loss provisions |
| Lost | ◆ Realisation of collateral security | ◆ Non-accrual; write down to NRV |

Within the above categories, banks would typically have more refined classifications based on quantifying a probability of loss (a requirement under *Basel II* capital adequacy rules). The classifications can in turn be used in *risk management* and loan loss *provisioning*. Bank loans are *financial assets* whose ultimate recoveries are highly dependent on the impact of *credit risk*. Gauging their asset quality by a system of loan classifications is particularly important in assessing their true financial condition.

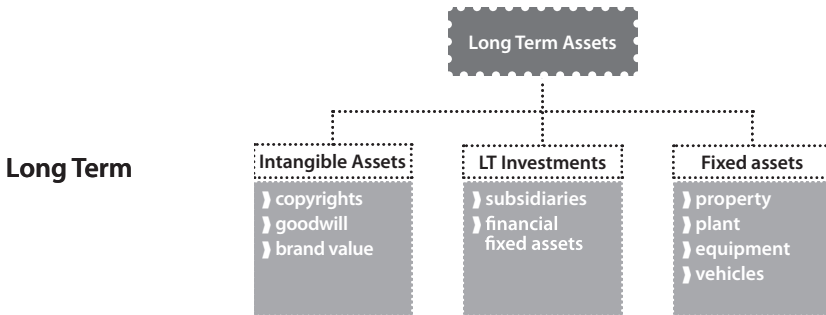
LOCOM Valuation Method ► Lower-of-Cost-or-Market Valuation Method.

Long Form (Audit) Report • Raport biegłego rewidenta z badania sprawozdania finansowego • A detailed report issued by an *auditor* documenting the findings and general comments of the *audit*. Such detail is usually too much for *shareholders* who are typically satisfied with the customary *short form audit opinion* that focuses on *fair presentation* and adherence to *accounting standards*. However, *accounting regulators* or *audit committees* will find the details contained in a long form report worth looking at. As well, curious or thorough investors, who are offered

access to the long form report, may also want to look at it. The requirement for a long form report varies with jurisdictions. The USA, for example, does not require it; whereas it is required in many other countries. See also *management letter*.



Long Lived/Term Assets • Aktywa długoterminowe • An all-inclusive category for any *asset* with a long life span on the *balance sheet*. This will include *fixed assets* such as *property, plant and equipment; long-term investments* and *intangible assets*.



Long Term Debt • Zadłużenie długoterminowe • Loans that are to be repaid over an extended period of time (as opposed to *on demand* or within 1 year). There are two variations in defining the time periods:

1. An *accounting* classification of *balance sheet* debt that refers to loans that mature beyond a 12 month time period.
2. A finance classification of debt with *maturities* beyond 7–10 years; contrast to *short term debt* (up to 1 year) and *medium term debt* (1 to 7–10 years).