

Introduction to Banking and Finance

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Study guide – key concepts, functions, and terminology

1. What Is Banking?

Aspect	Description
Definition	A financial intermediary that accepts deposits, provides loans, and offers payment and investment services.
Core Functions	1. Deposit taking – safekeeping of money (savings, checking, term deposits). 2. Credit intermediation – lending to individuals, businesses, and governments. 3. Payments & settlements – processing checks, electronic transfers, cards, and real-time gross settlement (RTGS).
Types of Banks	• Commercial banks – serve businesses & consumers. • Retail banks – focus on personal banking services. • Investment banks – underwriting, advisory, trading. • Central banks – monetary policy, currency issuance, lender of last resort. • Specialized banks – development, agricultural, cooperative.
Regulation	Usually overseen by a central bank and a banking supervisory authority (e.g., FDIC, FCA). Key objectives: safety, soundness, consumer protection, financial stability.

2. What Is Finance?

Dimension	Explanation
Definition	Management of money, assets, and liabilities over time, including acquisition, allocation, and use of resources to achieve objectives.
Major Branches	1. Corporate Finance – capital budgeting, capital structure, dividend policy. 2. Personal Finance – budgeting, saving, investing, retirement planning. 3. Public Finance – government revenue/expenditure, fiscal policy.

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Dimension	Explanation
	• Time value of money – present vs. future value.
Key	• Risk-return trade-off – higher expected returns compensate for higher risk.
Concepts	• Liquidity – ease of converting assets to cash. • Leverage – use of borrowed funds to amplify returns (and risk).

3. The Banking-Finance Relationship

1. **Intermediation** – Banks channel household savings to corporate borrowers, enabling investment and economic growth.
 2. **Risk Transformation** – Convert short-term, low-risk deposits into longer-term, higher-risk loans while managing credit, interest-rate, and liquidity risk.
 3. **Information Processing** – Banks assess borrower creditworthiness (credit analysis) better than individual savers, reducing adverse selection.
 4. **Payment System** – Finance relies on banks for safe, efficient transfer of funds (e.g., ACH, SWIFT).
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4. Fundamental Banking Products & Services

Category	Examples	Typical Users
Deposits	• Demand (checking) • Savings • Time/term (CDs)	Individuals, firms
Loans	• Personal & auto loans • Mortgage • Business term loans • Overdraft facilities	Consumers, SMEs, corporates
Trade Finance	• Letters of credit • Documentary collections • Export-import financing	Importers/exporters
Investment Services	• Mutual funds • Brokerage accounts • Wealth management	Retail & high-net-worth clients

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Category	Examples	Typical Users
Cash Management	• Treasury services, sweep accounts, electronic cash concentration	Corporations
Foreign Exchange	• Spot, forward, FX swaps, currency options	