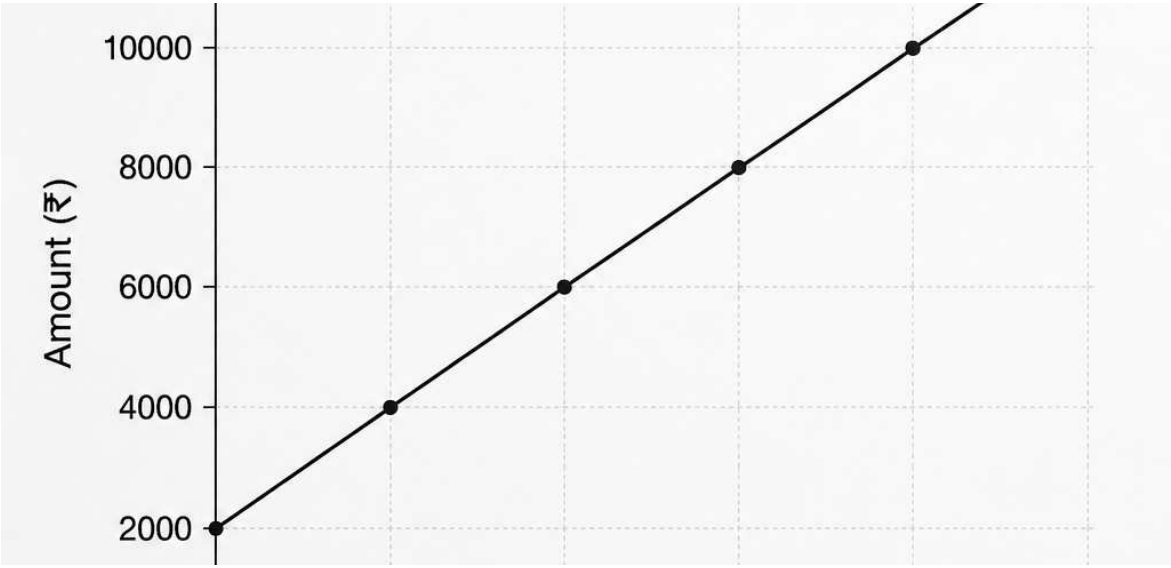
Simple vs. Compound Interest

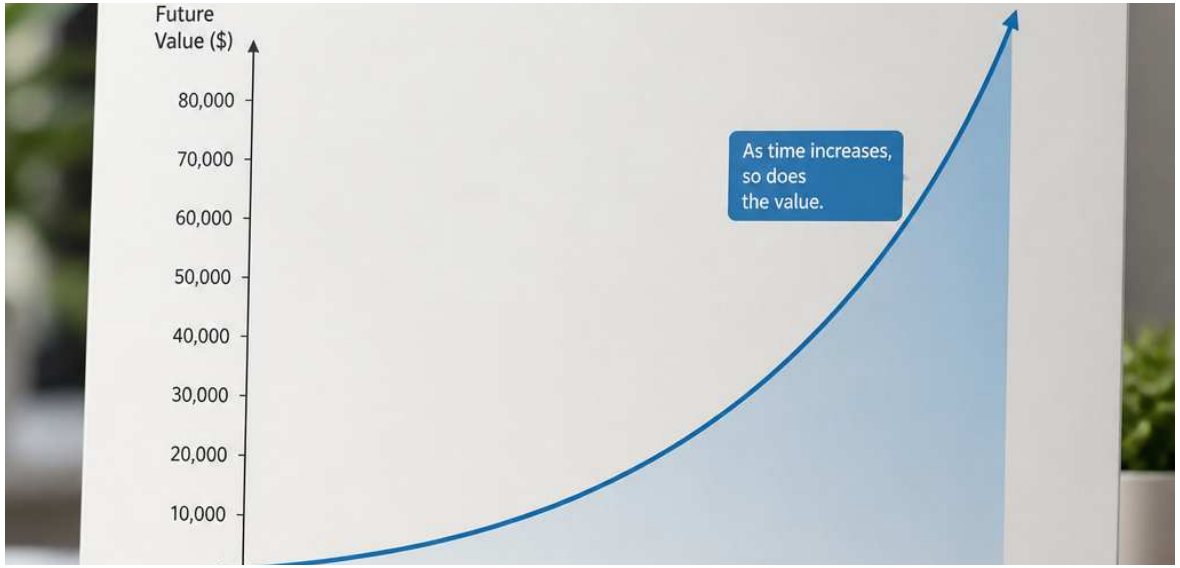
Understanding the two primary methods of interest calculation

Simple Interest



Calculated only on the original principal amount using the formula I = P x R x T. Best suited for short-term loans and simple financial agreements.

Compound Interest



Calculated on the principal plus all previously accumulated interest. Known for exponential growth, it is the ideal choice for long-term wealth accumulation and investment strategies.

Inflation: The Silent Eroder

Understanding the impact of rising prices on purchasing power and banking strategy



Definition

The rate at which the general level of prices for goods and services rises, leading to a decrease in purchasing power over time.



Economic Impact

Erosion of real value where money saved today buys less in the future, necessitating wage and price indexing.



Banking Perspective

Banks act as a buffer by aligning product yields with macroeconomic trends, ensuring interest rates outpace inflation to preserve client wealth.

Time Value of Money (TVM)

Understanding the core principle of financial timing

- **Present Value (PV)**

  The current worth of a future sum of money or cash flow stream, adjusted for a specific rate of return.

- **Future Value (FV)**

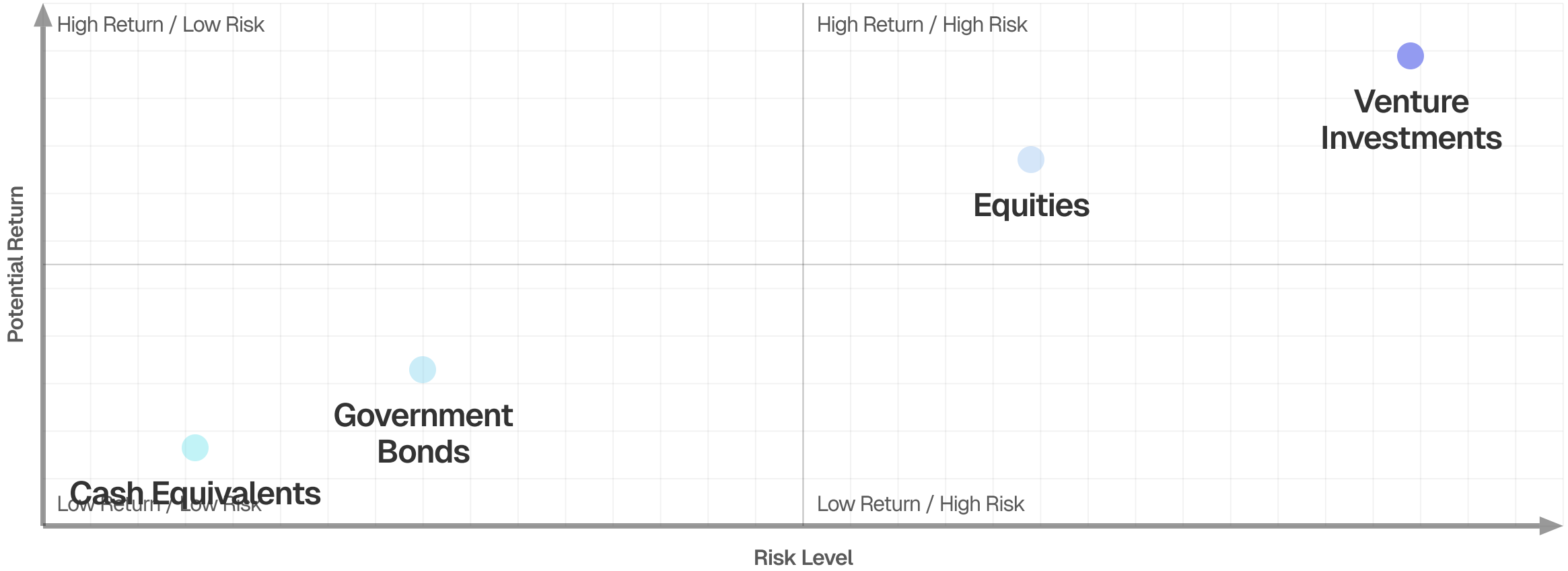
  The anticipated value of an asset or cash at a future date based on projected investment growth.

- **Discount Rate**

  The interest rate applied to discount future cash flows, accounting for risk and the time value of money.

Risk vs. Return

The Fundamental Trade-off in Investment Strategy



Banking professionals must conduct rigorous risk-appetite assessments to align portfolio allocation with client objectives.

Investment Strategy

The Power of Diversification

Core Concept

- **Definition:** Spreading investments across various asset classes (stocks, bonds, real estate, cash) to minimize exposure to any single asset.
- **The Philosophy:** "Don't put all your eggs in one basket."

Strategic Benefits

- **Risk Mitigation:** Specifically targets the reduction of unsystematic risk within a portfolio.
- **Volatility Management:** Buffers the impact of underperformance in any individual asset or market sector.
- **Balanced Growth:** Enables exposure to different market cycles and economic environments simultaneously.



Understanding Credit Scores

An overview of creditworthiness metrics and their real-world impact



What is a Credit Score?

A numerical representation of a borrower's creditworthiness based on their financial history.



Key Determinants

Factors include payment history, credit utilization ratios, length of credit history, and new credit applications.



Real-World Impact

Influences eligibility for loans and housing, while determining the interest rate tiers and total cost of borrowing.

Debt Management

Distinguishing Between Strategic and Detrimental Debt

Good Debt



Investments that build assets or increase future earning capacity, such as a mortgage or education loans.

Bad Debt



High-interest obligations for depreciating assets or consumption, such as credit card debt and high-interest personal loans.

Strategic Management



Strategies like minimizing interest, avoiding debt traps, and optimizing through consolidation to streamline finances.

Equated Monthly Installments (EMI)

Understanding the mechanics and benefits of monthly loan repayments



- **Definition**

  A fixed payment amount made by a borrower to a lender at a specified date each month.

- **Core Components**

  Consists of Principal Repayment (reducing balance) and Interest Charge (cost of borrowing).

- **Strategic Importance**

  Enhances affordability, ensures cash flow predictability, and builds transparency through amortization.

Loan-to-Income (LTI) Relationship

Assessing borrower capacity and financial risk



- **Definition**

  A key metric measuring a borrower's total monthly debt obligations relative to their gross monthly income.

- **Lender Utility**

  Primarily used by financial institutions to assess a borrower's capacity to service new debt.

- **Risk Indicator**

  High LTI ratios serve as an early warning sign of increased default risk, indicating high debt-to-income allocation.

Investment vs. Saving

Understanding the core differences between capital preservation and long-term growth.

Saving



Focuses on short-term goals and emergency reserves with low-risk, high-liquidity assets like cash equivalents.

Investing



Allocating capital into assets for long-term growth, accepting market risk and lower liquidity for potential returns.