



# WHAT IS A DEPOSIT?



# WHAT IS A DEPOSIT AND WHY IS IT NEEDED?



A bank deposit is an investment of funds into a bank account to keep savings and increase the amount invested. Having invested his money, the client of the bank allows the bank to use his/her finances, and the bank, in turn, pays the depositor interest on the invested amount.

## TYPES OF BANK DEPOSITS:

### **On-demand deposit**

Their validity period is unlimited. The client can withdraw their funds at any time. Banks offer a small rate for such products, interest is calculated on the actual period of the account and is usually paid when the account is closed.

### **Term deposit**

Their duration is indicated in advance by the bank and can range from several months to several years. These products have a higher rate than on-demand products, and their amount and payment terms depend on the terms of the agreement.

Term deposits, therefore, are divided into subspecies:

- savings deposits do not include withdrawals or replenishments;
- accumulative deposits allow you to periodically deposit additional funds to your account;
- current deposits allow both withdrawals and replenishments.

# HOW IS INTEREST ACCRUED?



Interest on the invested amount begins to accrue on the next day after the conclusion of the contract. This process continues for the entire term of the deposit until the end date of the contract or its closing by the client. The calculation takes into account the actual number of days when the money was in the bank.

According to the method of interest accrual, deposits can be simple or capitalized.

- For simple deposits, the interest accrued on the principal amount is transferred to a separate account within the agreed time period – for example, to the current account of the depositor.
- For deposits with capitalization, interest is regularly added to the main amount invested, so the “body” of the deposit gradually increases, and the rate is applied each time in a larger amount.

## WHAT DOES THE DEPOSIT PERCENTAGE DEPEND ON?

Deposit interest rates directly depend on such parameters as:

- Deposit currency (Uzbek sum, US dollar, euro). High percentage of profit for sum deposits (why is described below);
- The amount of the investment. The more money the client deposits, the more profit they will make;
- Prolongation. Long-term investments are usually more profitable than short-term ones;
- Whether it is possible to withdraw or top up funds from the deposit. An extended list of possible transactions (for example, withdrawal or replenishment) has a bad effect on profitability.

# HOW IS INTEREST PAID?



The regularity of payments depends on the agreements with the bank and the terms of the deposit. Simple interest on non-capitalized deposits can be paid in two ways: at the end of the full term of the deposit, or once in a while—for example, every quarter or every year. The exact payment terms are specified in the terms of the agreement.

Compound interest payments on capitalized deposits occur with a certain frequency: banks offer deposits with quarterly, monthly, and sometimes even daily capitalization. Such interest is not paid directly to the client, but is added to the principal amount of the deposit once in a specified period of time.

## **CHARACTERISTICS THAT ARE MOST OFTEN ASSIGNED TO DEPOSITS WHEN THEY ARE CREATED:**

- Currency (Uzbek sum, US dollar, or euro);
- The interest rate;
- Minimum and maximum amount;
- Duration;
- Ability to replenish or withdraw funds before the expiration date;
- Ability to capitalize or withdraw interest;
- Conditions of prolongation;
- Ability to open / close a deposit online via the website or mobile app.

# WHAT TO CONSIDER WHEN "CREATING" A DEPOSIT?



When "creating" a sum deposit, it is important to take into account the current level and dynamics of inflation of the national currency, as well as key conditions of the deposit, for example, whether it is possible to withdraw funds before the maturity of deposit. Interest rates on sum deposits are always higher than on dollar deposits. It should be borne in mind that the income from a foreign currency deposit consists of two components: the interest on the investment and the possible benefit from exchange rate changes. Despite the fact that the rates on dollar deposits are lower than on sum deposits, a depositor who chooses to invest money in foreign currency can get a significantly higher return due to a sharp change in the dollar exchange rate.

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