



# Training 4: Savings & Investment

Simple and compound interest





## When do you get interest?

A

If you're good at math

B

If you borrow money

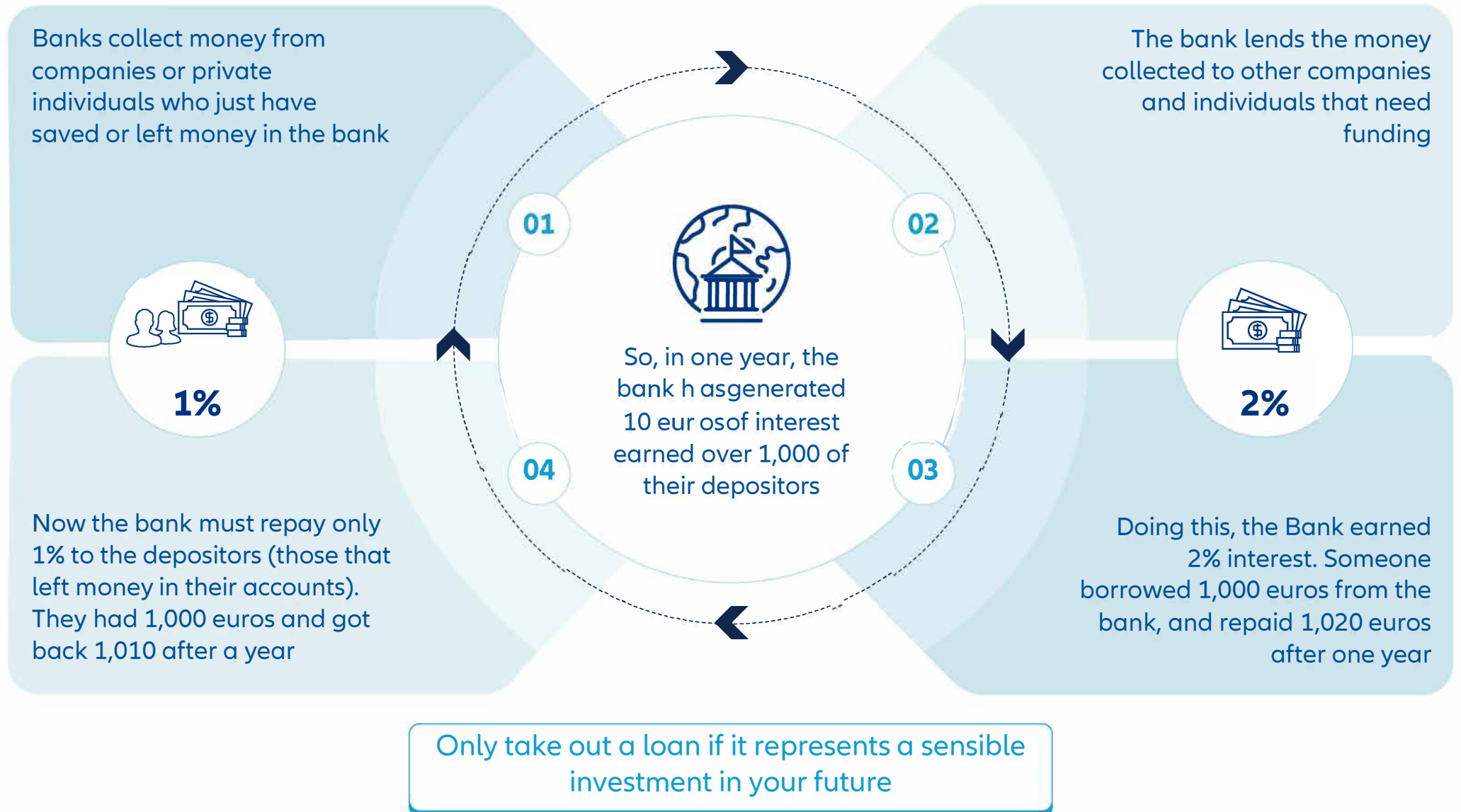
C

**If you invest money**

D

If you need money from your bank

# How banks and savings banks make money



# How do you calculate interest?



$$\text{Interest (Z)} = \frac{\text{Capital (K)} \times \text{Time (t)} \times \text{Interest rate (p)}}{100}$$

With a loan you pay you get back more money than you borrowed from you.

# What is compound interest?

When you are saving money on your bank account, you have **two choices**



01

You withdraw the interest from your account every year

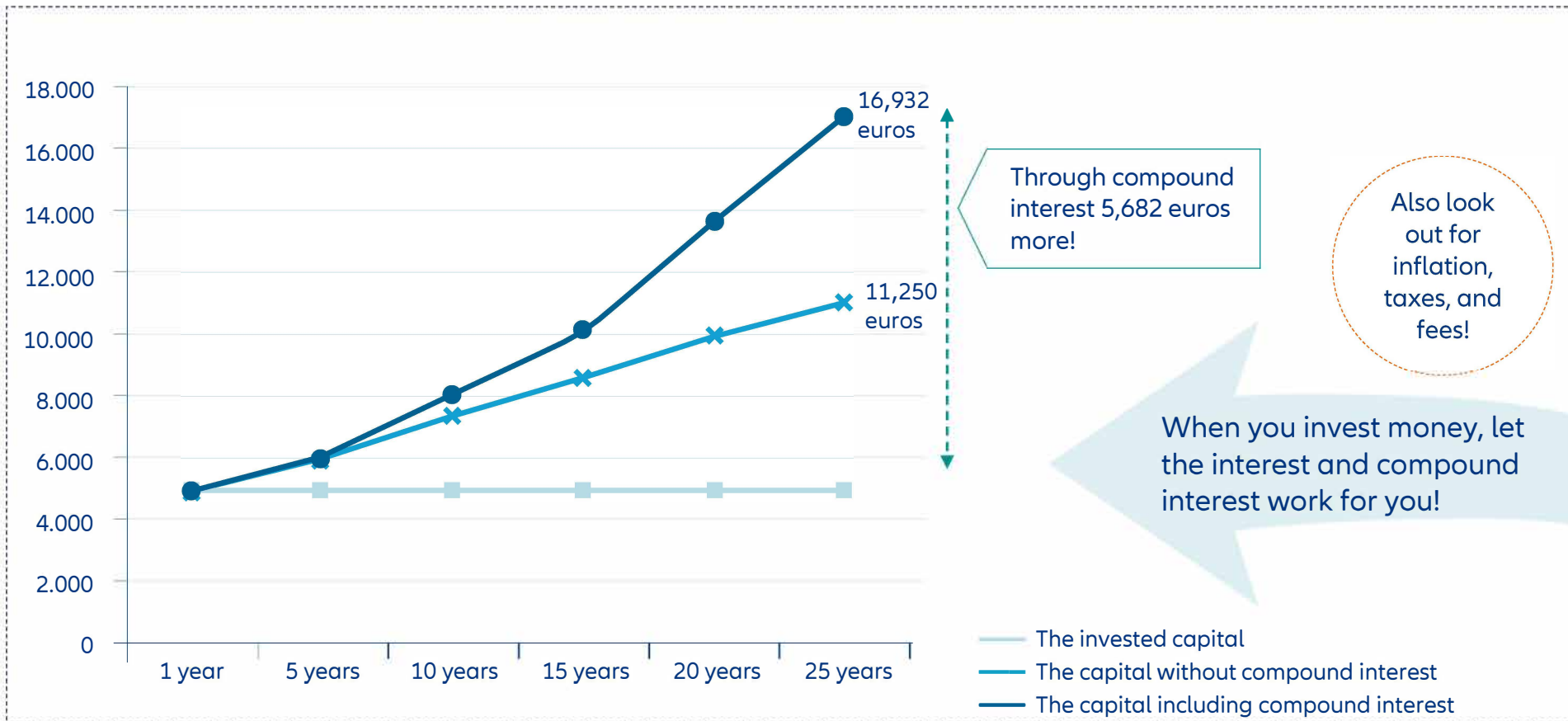
02

You leave the interest in the account. Interest is then paid on this interest again in the following year. So there is interest on the interest – compound interest!

## **Compound Interest:**

“Interest earned on undisbursed Interest credited .”

# Compound interest – It pays off in the long run!



## This is how 5,000 euros developed in 25 years:

**Capital development without compound interest:** 5,000 Euros at 5 % interest became 11,250 euros!

**Capital development with compound interest:** 5,000 Euros at 5 % became 16,932 Euros!



## When do you pay interest?

A

If you open an account

B

If you exchange your money to other currencies

C

If you take out a loan

D

If you withdraw money

# There are different types of credit



**Installment loan**



**Overdraft**



**Mortgage Loan**

**All loans work the same way.  
However, they have different interest rates.**



# What cost is the cost of a 1,000 euro loan =C?



**Overdraft facility?**



**Installment credit?**

Save rather than take out a loan.  
It is faster to save up a sum, than to pay back that same amount as a loan.

# Alliance Finance Workout Tips

You invest money, interest and compound interest work for you.

Save rather than take out a loan. It is faster to save a sum than to repay the same amount as a loan.

With a loan, you pay back more money than you borrowed.

Do not take out a loan unless it is a sensible investment in your future.

Thank you  
for your  
attention!



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