



Nominal and effective interest rates of the loan

The loan interest rate may not exceed double the bank interest calculation rate set by the Central Bank of Armenia.

Loan interest is calculated based on the nominal interest rate. And the effective annual interest rate shows how much the loan will cost you if you make the interest payments and other payments in the specified terms and amounts.

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$$A = \sum_{n=1}^N \frac{K_n}{(1 + i)^{\frac{D_n}{365}}}$$

Where:

i – effective annual percentage rate (APR),

A - loan amount (initial amount of loan disbursed by the creditor to the consumer),

n - number of the regular repayment on loan,

N - number of the last repayment on loan,

K_n - amount of the n^{th} regular repayment on loan,

D_n - time from the date of loan disbursement to the date of the n -th regular repayment on loan

measured in terms of days,

i - effective annual interest rate can be calculated provided that the rest of equation data are

known from loan agreement or otherwise.

An example of calculating the effective annual interest rate

Loan amount 1,000,000 AMD

Loan term – 24 months

Annual nominal interest rate: 16%

Repayment type: annuity

Annual Percentage Rate (APR): 17.1%.

Due to changes in the amount of the loan, the term, frequency of repayments and the cost of other ancillary services, the actual annual interest rate of the loan may differ from the example.