

**EIP (Equal Instalments Principle) Method:** Under this method the debt is repaid by equal instalments of principal over a pre-determined period of time. For example, a debt of £1million with a life of 25 years will be repaid at the rate of £40,000 per annum together with interest calculated on the amount of debt outstanding at the commencement of the financial year. The annual interest charge will reduce as the loan is repaid and consequently the level of loan charges (i.e. debt repayment plus interest) are highest in the first year and reduce year-on-year as the debt is repaid.

**Annuity Method:** Under this method, the total annual loans charges remain constant throughout the lifetime of the debt since the make-up of repayment and interest always add up to the same annual amount. Within this same annual amount, the mix of repayment and interest changes each year. In the first year, the amount of debt repaid is quite small and this gradually increases, whilst interest costs are higher in the early years and gradually reduce. The effect of this is to end-load the debt repayment to the later years of the loan.

**Maturity loan:** In the case of a maturity loan, interest is payable annually and the principal is payable at the end of the term.

The illustration below shows the cost of the various types of loans based on an example of a £10m loan over 10 years:

Year	EIP			Maturity			Annuity		
	Principal Repayment in £000	Interest 1.18% in £000	Total Repayment in £000	Principal Repayment in £000	Interest 2.79% in £000	Total Repayment in £000	Principal Repayment in £000	Interest 1.82% in £000	Total Repayment in £000
1	1000	176	<b>1176</b>	0	279	<b>279</b>	920	178	<b>1098</b>
2	1000	158	<b>1158</b>	0	279	<b>279</b>	937	161	<b>1098</b>
3	1000	140	<b>1140</b>	0	279	<b>279</b>	954	144	<b>1098</b>
4	1000	122	<b>1122</b>	0	279	<b>279</b>	972	126	<b>1098</b>
5	1000	104	<b>1104</b>	0	279	<b>279</b>	990	108	<b>1098</b>
6	1000	86	<b>1086</b>	0	279	<b>279</b>	1008	90	<b>1098</b>
7	1000	68	<b>1068</b>	0	279	<b>279</b>	1026	72	<b>1098</b>
8	1000	50	<b>1050</b>	0	279	<b>279</b>	1045	53	<b>1098</b>
9	1000	32	<b>1032</b>	0	279	<b>279</b>	1064	34	<b>1098</b>
10	1000	14	<b>1014</b>	10,000	279	<b>10,279</b>	1084	14	<b>1098</b>
<b>Total</b>	<b>10,000</b>	<b>950</b>	<b>10950</b>	<b>10,000</b>	<b>2790</b>	<b>12,790</b>	<b>10,000</b>	<b>980</b>	<b>10980</b>