# Effective Interest Rate (EIR)

The **effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

The **effective interest method** is basis for financial instruments measured at amortised cost. It s a method of allocating interest income or interest expense over the relevant period while calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities).

Please refer to the section below for further details about:

- Calculation Technique
- Challenges
- Splitting the EIR / Smoothing Effect