ANNEX 1

Illustrative Methodology for the Computation of the Base Rate (Paragraph 3.2)

Base Rate = a + b + c + d

a -Cost of Deposits / Funds = D_{cost} (benchmark)

b -Negative Carry on CRR and SLR= $\left[\left[\frac{\{D_{cost} - (SLR * T_r)\}}{\{1 - (CRR + SLR)\}}\right] * 100\right] - D_{cost}$

c- Unallocatable Overhead Cost= $\left(\frac{U_c}{D_{ply}}\right) * 100$

d- Average Return on Net Worth= $\left[\left(\frac{NP}{NW}\right) * \left(\frac{NW}{D_{ply}}\right)\right] * 100$

Where :

D_{cost} :	Cost of Deposits / Funds
D :	Total Deposits = Time Deposits + Current Deposits + Saving Deposits
D_{ply} :	Deployable Deposits = Total Deposits less Share of Deposits locked as CRR and SLR balances. i.e. = D * [1 - (CRR + SLR)]
CRR :	Cash Reserve Ratio
SLR :	Statutory Liquidity Ratio
T_r :	364 T-Bill Rate
U_c :	Unallocatable Overhead Cost
NP :	Net Profit
NW :	Net Worth = Capital + Free Reserves

Negative Carry on CRR and SLR

Negative Carry on CRR and SLR= $\left[\left[\frac{\{D_{cost} - (SLR * T_r)\}}{\{1 - (CRR + SLR)\}}\right] * 100\right] - D_{cost}$

Negative carry on CRR and SLR balances arises because the return on CRR balances is nil, while the return on SLR balances (proxied using the 364-day Treasury Bill rate) is lower than the cost of deposits. Negative carry on CRR and SLR is arrived at in three steps. In the first step, return on SLR investment was calculated using 364-day Treasury Bills. In the second step, effective cost was calculated by taking the ratio (expressed as a percentage) of cost of deposits (adjusted for return on SLR investment) and deployable deposits (total deposits less the deposits locked as CRR and SLR balances). In the third step, negative carry cost on SLR and CRR was arrived at by taking the difference between the effective cost and the cost of deposits.

Unallocatable Overhead Cost

Unallocatable Overhead Cost= $\left(\frac{U_c}{D_{ply}}\right) * 100$

Unallocatable Overhead Cost is calculated by taking the ratio (expressed as a percentage) of unallocated overhead cost and deployable deposits.

Average Return on Net Worth

Average Return on Net Worth= $\left[\left(\frac{NP}{NW}\right) * \left(\frac{NW}{D_{ply}}\right)\right] * 100$

Average Return on Net Worth is computed as the product of net profit to net worth ratio and net worth to deployable deposits ratio expressed as a percentage.