

## Annex 1: Illustrative Methodology for the Computation of the Base Rate

$$\text{Base Rate} = a + b + c + d$$

$$a - \text{Cost of Deposits} = D_{cost}$$

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

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

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

Where:

$D_{cost}$  : Cost of Deposits

$D$  : 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

TL : Total Liabilities

### Negative Carry on CRR and SLR

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

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**

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

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

**Average Return on Net Worth**

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

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