GUIDELINES ON THE BASE RATE SYSTEM
FOR
NON-BANKING FINANCIAL INSTITUTIONS

June, 2013

Department of Financial Institutions and Markets
Bangladesh Bank

Guidelines on the Base Rate System
For
Non-Banking Financial Institutions

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Coordinators and members of the working group would like to thank Mr. Glenn Tasky, Banking Supervision Advisor of Bangladesh Bank for his valuable suggestions and comments on the earlier draft version.

FOREWORD

This is a fresh start of the Base rate system in the financial sector of Bangladesh. Base rate is the minimum rate below which it is not viable for a financial institution to lend in the market. Base rate system promotes transparency in product pricing and encourages healthy competition in the economy. The Cost of Funds Index (CoFI) is another vital start pioneering the price-setting mechanism in the industry. This index will track movement of cost data in the industry of the financial institutions.

Non-Bank Financial Institutions (NBFIs) in Bangladesh have been playing a significant role in the financial system of the country. They have achieved impressive growth in recent years reflecting the process of financial innovation and holding the promise of deepening financial intermediation in long term financing needs.

In the process of ensuring corporate governance and sustainable development of this emerging financial sector, BB extended its policy support in the risk management culture through adoption of the best practices on prudential regulations, Basel accord implementation, Stress testing model. Base rate system is a new inclusion in this endeavor.

Pricing of financial products like loans, leases and other services is a critical issue in the financial sector as many approaches are available and they capture different aspects. CoFI will serves as the reference rate for floating rate loan products. Base Rate captures all those elements of the lending rates that are common across all categories of borrowers. However, the actual lending rates charged to the borrowers would be the Base Rate plus borrower-specific charges, which would include product-specific operating costs, risk premium and tenor premium. The Base Rate System is aimed at ensuring corporate governance and market efficiency in the financial sector of the country. The guideline provides a framework for the Base rate system, its components, computation mechanism, reporting formats and prudential regulations on the system.

I would like to appreciate the role of those officers who were involved in this exercise. I also express my gratitude to the honorable Governor for his valuable guidance and support in this regard.

(S.K. Sur Chowdhury)
Deputy Governor

Guidelines on the Base Rate System for FIs

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1. Introduction

Non-Bank Financial Institutions (FIs) have been playing a significant role in the financial system of Bangladesh. They added differentiation to the bank based financial market of the country. This sector has become a distinct player to maintain the sound health of our financial and economic sectors. FIs in Bangladesh play a major role in filling gaps in financial intermediation by providing diversified investment instruments and risk polling services.

Bangladesh Bank (BB), as the Central Bank of Bangladesh, has the statutory task of regulating and supervising the financial system of Bangladesh. Along with others, BB is responsible for monitoring the financial conditions of the banks and FIs that have been licensed to be part of the financial sector. To play this vital role, BB assesses the overall strength and stability of the financial system as a whole, as well as the safety and soundness of each individual bank and FI.

Pricing of financial products like loans, leases and other services is a critical issue in the financial sector as many approaches are available and they capture different aspects. Loan pricing should be linked to the FI's overall business targets. Base rate can be described as the minimum rate below which it is not viable for an FI to lend in the market. Base Rate also serves as the reference benchmark rate for floating rate loan products, apart from other external market-based benchmark rates. Base Rate captures all those elements of the lending rates that are common across all categories of borrowers. However, the actual lending rates charged to the borrowers would be the Base Rate plus borrower-specific charges, which would include product-specific operating costs, risk premium and tenor premium. The Base Rate System is aimed at enhancing transparency in lending rates of FIs and enabling better assessment of transmission of monetary policy.

2. Benefits of the Base Rate System

The introduction of Base Rate has several benefits in the financial sector. The Base Rate System promotes transparency in product pricing and encourages healthy competition in the economy. The Base Rate System may prevent undercutting in interest rates due to competition, increase the credit flow to small borrowers at a reasonable rate of interest and also prevent the FIs from overcharging any customers at the cost of another, and safeguarding the interest of low income people. Besides meeting the primary objective of bringing about required transparency in the pricing of the lending products, the Base Rate will also facilitate the transmission of monetary policy that translates through the policy rate and other policy instruments. Thus, in order to make the lending rate more responsive to BB's policy, the FIs are required to periodically review and announce their Base Rates to the public. Other advantages of the Base Rate are as follows:

- Offer interest rate differential treatment for different borrowers for the same products;
- Provide better rates for good borrowers on the same product;
- Enable floating interest rates;
- Promote domestic savings.

3. Methodology and computation of Base Rate

Each FI shall compute their own base rate and shall include all those elements of the lending rates that are common across all categories of borrowers. The FIs shall compute their Base Rate based on the following variables:

Base Rate =
Cost of Funds + Cost of CRR and SLR + Cost of Administration + Cost of Equity Capital

3.1. Cost of Funds

This is the weighted average interest rate of all the interest-bearing liabilities of an FI. All non-equity funded liabilities will be taken under consideration in this computation. Cost of funds is computed as follows:

Cost of Funds	=	Weighted cost of Deposits, Borrowings and other interest-bearing liabilities.
	=	(Interest Expense ÷ Average of Deposits, Borrowings and other interest-bearing liabilities) X (Days in the year ÷ Days in the period) X 100%.

Computation details of cost of funds is given below:

Cost of Funds	
Periodic Interest Expense	326,417,461
÷ Average of Deposits, Borrowings and other interest-bearing liabilities	32,064,011,690
= Periodic Cost of Funds	1.02%
÷ Days in the period	30
X Days in the year	365
= Annualized Cost of Funds	12.39%

3.1.1. Cost of Funds Index (CoFI)

Consolidating the monthly data of the FIs, BB will prepare and publish a monthly weighted average Cost of Funds Index (CoFI) in the website. CoFI reflects the interest expenses reported for a given month by the reporting FIs. CoFI will serve as the reference rate for pricing variable interest loan products. In setting the interest rate on a new loan, FIs will add a margin to the industry CoFI as per their evaluation of risk associated with the particular borrowers. Salient feature of the index will be as follows:

- The weighted average cost of all interest-bearing liabilities of the FI industry will be addressed in the index.
- Low-cost specific purpose funding facilities will be addressed differently so that they cannot distort the cost of funds for general business. For this purpose, two computation of cost of funds will be made; one containing all the interest-bearing funds and the other excluding the low-cost specific purpose scheme funds; the later will be termed as adjusted cost of funds.
- To start with, a monthly index will be published using the daily average of every month's data. This will later be accompanied by a smoother moving average index.
- All variable lending interest rates will use CoFI as a reference rate and thus firm-specific cost movements will not become a burden to the individual borrower. From time to time, BB will

issue necessary instructions in this regard.

CoFI may move differently than market interest rates. Movement of CoFI is affected by a number of factors, such as changes in market interest rates, the sources of funds used by the FIs, merger and acquisition activities, and changes in accounting rules or regulatory reporting instructions. CoFI may not move up or down as rapidly as market interest rates because FIs rely mainly on fixed rate deposits as a primary source of funds. Rates on these deposits are not generally affected by changing market interest rates until the deposit matures.

BB will announce the CoFI for a given month on or before the last business day of the following month. For example, the CoFI for June, which reflects the interest expenses incurred by the FIs during June, will usually be announced on or before the last business day of July.

If any FI do not transmit the necessary data according to the timetable, BB will make a good faith effort to publish the CoFI as scheduled, based on whatever data received from other FIs. If BB publishes the CoFI based on data received from fewer than all the FIs, BB will disclose the number of FIs that reported data and the total number of FIs. In cases, where it deems fit, BB will conduct inspection for attaining satisfaction of the report's true view. With the issue of CoFI, more transparency and accountability will be ensured.

3.2. Cost of CRR and SLR

This includes the negative carry on CRR and SLR. CRR stands for Cash Reserve Ratio and SLR stands for Statutory Liquidity Ratio which includes CRR. Negative carry on CRR and SLR balances arises because the return on CRR balances is nil and the SLR balances provide little return. Negative carry on CRR and SLR is arrived at in three steps.

- First, return on SLR investment is calculated.
- Second, effective cost is calculated by taking the ratio (expressed as a percentage) of cost of funds (adjusted for return on SLR investment) and interest bearing investible funds (total funds less the deposits locked as minimum SLR balances).
- Third, negative carry cost on CRR and SLR is arrived at by taking the difference between the effective cost and the cost of funds.

Cost of CRR and SLR=	[(Minimum SLR amount X CoF) – (Minimum SLR amount – Minimum CRR amount) X (Interest Income for SLR Investment ÷ (Average of SLR amount maintained-Minimum CRR amount)) X (Days in the year ÷ Days in the period)] ÷ Average Interest bearing investible Fund X 100%.

Computation details of cost of CRR and SLR is given below:

Cost of CRR & SLR	
Minimum SLR amount	1,55,40,81,000
X Cost of Funds	12.39%
= Funding cost of SLR amount	19,24,86,725
Minimum SLR amount	1,55,40,81,000
– Minimum CRR amount	59,94,15,000
= Minimum earning SLR assets	95,46,66,000
Average of SLR amount maintained	1,76,04,07,071
-Minimum CRR amount	59,94,15,000
= Earning SLR assets	1,16,09,92,071
Periodic Interest Income for SLR Investment	1,07,97,363
÷ Earning SLR assets	1,16,09,92,071
= SLR assets periodic earning rate	0.93%
= SLR assets annualized earning rate	11.32%
X Minimum earning SLR assets	95,46,66,000
= Earning from minimum SLR assets	10,80,21,829
Net cost of CRR & SLR	8,44,64,896
÷ Average interest-bearing Investible Funds	30,50,99,30,690
= Annualized negative carry of CRR & SLR in Base rate	0.28%

3.3. Cost of Administration

These are the unallocated overhead expenses which include aggregate employee compensation relating to administrative functions in corporate office, directors' and auditors' fees, legal and premises expenses, depreciation, cost of printing and stationery, expenses incurred on communication and advertising, spending on information and technology, operating expenses, etc. Total Operating Expense attributed to the investible funds for the purpose of Base Rate Calculation is allocated as per the interest earning and other earnings ratio.

Cost of Administration=	(Total Operating Expense ÷ (Average Interest bearing investible funds + Average Equity Capital)) X (Total Interest Revenue ÷ Total Revenue) X (Days in the year ÷ Days in the period) X 100%.

Computation details of cost of administration is given below:

Cost of Administration	
Total Operating Expense	2,01,98,483
Average interest-bearing Investible Funds	30,50,99,30,690
+ Average Equity Capital	3,91,83,70,833
= Average total Funds (including equity funds)	34,42,83,01,523
= Periodic operating expense to average total funds ratio	0.06%
Total Interest Revenue	52,63,44,527
÷ Total Revenue	60,66,09,202
= Adjustment factor for attribution to interest income	86.77%
= Annualized cost of administration	0.62%

3.4. Cost of Equity Capital

This addition is for the cost of equity capital born by the investible funds. For Base Rate purpose cost of equity capital should be computed considering a relatively moderate risk association and a considerably minimum pre-tax expected rate of return of 10%. Computation formula for Cost of Equity Capital would be:

Cost of Equity=	((Average Equity Capital X Expected rate of return) ÷ (Average Interest bearing investible funds + Average Equity Capital) X (Total Interest Revenue ÷ Total Revenue) X 100%.

Computation details of cost of Equity Capital is given below:

Cost of Equity Capital	
Average Equity Capital	3,91,83,70,833
X Expected rate of return	10.00%
= Total cost of Equity Capital	39,18,37,083
÷ Average total Funds (including equity funds)	34,42,83,01,523
= Adjustment factor for attribution to interest income	86.77%
= Cost of Equity Capital	0.99%

4. Asset Pricing

The actual lending rates charged to borrowers shall be the Base Rate *plus* the risk premium and the tenor premium. In other way, actual lending rates charged to borrowers shall be the Cost of funds plus margin.

Actual lending rate = Base Rate + Risk premium + Tenor premium + other premium

Actual lending rate= Cost of Funds + Margin

Margin = Cost of CRR and SLR + Cost of Administration + Cost of Equity Capital + Risk premium + Tenor premium + other premium

4.1. Risk Premium

The risk premium should be set based on the specific borrower's characteristics by the financial institutions. Risk premium varies from borrower to borrower. There are variety of ways to compute the risk premium. A general reference of risk premium can be calculated on the basis of the bad and loss loans. The formula can be expressed as follows:

Risk Premium =	Total bad and loss investments ÷ Average total investments X 100%.

4.2. Tenor Premium

Tenor premium is based on the tenor the loan facility extended to the borrower. The premium should be set based on the specific loan tenor by the financial institutions.

5. General provisions

5.1. Base Rate shall include all those elements of the lending rates that are common across all categories of borrowers. FIs may choose any benchmark to arrive at the Base Rate for a specific tenor that may be disclosed transparently. FIs are free to use any other methodology, as considered appropriate, provided it is consistent and is made available for supervisory review/scrutiny, as and when required.

5.2. FIs may determine their actual lending rates on loans and advances with reference to the Base Rate and by including such other customer specific charges as considered appropriate.

5.3. For variable-rate lending, the interest rate should be the cost of funds index, which may fluctuate, plus a margin, which does not fluctuate over the life of the loan. And the frequency with which the interest rate is "reset" should be given at the outset, and not changed over the life of the loan.

5.4. The actual lending rates charged may be transparent and consistent and be made available for supervisory review/scrutiny, as and when required.

Applicability of Base Rate

5.5. The Base Rate could also serve as the reference benchmark rate for floating rate loan products, apart from external market benchmark rates. The floating interest rate based on external benchmarks should, however, also analyze the Base Rate at the time of sanction or renewal.

5.6. Changes in the Base Rate shall be applicable in respect of all existing loans linked to the Base Rate, in a transparent and non-discriminatory manner.

Exceptions

5.7. The price-setting mechanism in Base Rate System, however, may not be applicable to the following type of loans until further notice from the BB:

- Loans for agriculture sector,
- Loans linked with different refinance schemes,
- Staff Incentive loans,
- Loans against fixed deposit etc.

Funds directly linked with the above mentioned loans may be reported separately in borrowing under scheme (low or no cost).

Review of Base Rate

5.8. FIs are required to review the Base Rate on a monthly basis with the approval of the Board or the Asset Liability Management Committees (ALCOs) as per the FI's practice. Since transparency in the pricing of lending products has been a key objective, FIs are required to exhibit the information on their Base Rate at all branches and also on their websites. Changes in the Base Rate should also be conveyed to the general public from time to time through appropriate channels.

Transitional issues

5.9. The Base Rate System would be applicable for all new loans and for those old loans that come up for renewal. Existing loans based on the current system may run till their maturity. In case existing borrowers want to switch to the new system, before expiry of the existing contracts, an option may be given to them, on mutually agreed terms. FIs, however, should not charge any fee for such switch-over.

5.10. In line with the above Guidelines, FIs may announce their Base Rates after seeking approval from their respective ALCOs/ Boards.

Effective date

5.11. The above guidelines on the Base Rate System will become effective on January 1, 2014.

5.12. In order to give FIs some time to stabilize the system of Base Rate calculation, FIs are permitted to change the benchmark and methodology any time during the initial six month period i.e. end-June 2014.

6. Reporting

FIs are required to review the Base Rate on a monthly basis. They will have to submit their Base Rate report as per formats along with the cover letter as mentioned in Annexure: I within the 10(ten) days of the following month as well as send an electronic version of the report through email. A template for Enterprise Data Warehouse (EDW) of BB will soon be developed.

7. Conclusion

The guideline on Base rate system will improve corporate governance culture in the financial sector. Stakeholders will be benefited with the disclosure of performance which will eventually ensure market discipline in the sector. However, there is always scope for making improvement in the guideline. BB will continue its effort to make the guideline more efficient and effective one in the times to come.

REPORT ON BASE RATE OF FINANCIAL INSTITUTION

As on ……………………….

NAME OF FI	DATE OF SUBMISSION

Information in this return is endowed as per the Base Rate Guideline for NBFIs. This return has been prepared in accordance with the instructions issued by Bangladesh Bank. We certify that this return is, to the best of our knowledge and belief, correct.

………………………………… ……………………………
Chief Executive Officer Chief Financial Officer

………………………………… ………………………….
Name Name

Name and telephone number of responsible person who may be contacted by Bangladesh Bank in case of any query.

………………………………… …………………………………
Name Telephone Number

---------- Finance Limited

Details of Base Rate (Monthly)

June 2013

1. Base Rate

S.n	Particulars	Regular	Adjusted	Remarks
1	Cost of Funds	0.00%	0.00%	Interest-bearing liabilities
1.1	Cost of Funds (General)	0.00%	0.00%	
1.2	Cost of Funds (Scheme)	0.00%	0.00%	Low-cost specific purpose schemes
2	Cost of CRR & SLR	0.00%	0.00%	
3	Cost of Administration	0.00%	0.00%	
4	Cost of Equity Capital	0.00%	0.00%	Minimum ERR = 10%
	Base rate	**0.00%**	**0.00%**	

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Details of Base Rate (Monthly)

June 2013

2. Additional details related to base rate

Day	Deposits	Borrowings	Borrowing under Scheme (low or no cost)	Bond, Debenture & Other interest-bearing liabilities	Equity Capital	SLR Investment
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						

24						
25						
26						
27						
28						
29						
30						
31						
Total	-	-	-	-	-	-
Average	-	-	-	-	-	-

3. Additional Details

S.n	Particulars	
1	Minimum Amount of SLR to be maintained	
2	Minimum Amount of CRR to be maintained	
3	Average interest-bearing Investible Funds	-
4	Total Interest Income	
5	Interest Income on SLR Investment	
6	Total Revenue	
7	Total Interest Expense	-
7.1	Interest expense on Deposits	
7.2	Interest expense on Borrowings	
7.3	Interest expense on Borrowing under Scheme (low cost)	
7.4	Interest expense on Bond, Debenture & Other interest-bearing liabilities	
8	Total Operating Expense	

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Details of Base Rate (Monthly)

June 2013

4. Computation details

Cost of Funds	
Periodic Interest Expense	-
÷ Average of Deposits, Borrowings and other interest-bearing liabilities	-
= Periodic Cost of Funds	0.00%
÷ Days in the period	30
X Days in the year	365
= Annualized Cost of Funds	0.00%

Cost of CRR & SLR		
Minimum SLR amount	-	
X Cost of Funds		0.00%
= Funding cost of SLR amount	-	
Minimum SLR amount	-	
– Minimum CRR amount	-	
= Minimum earning SLR assets	-	
Average of SLR amount maintained	-	
-Minimum CRR amount	-	
= Earning SLR assets	-	
Periodic Interest Income for SLR Investment	-	
÷ Earning SLR assets	-	
= SLR assets periodic earning rate		0.00%
= SLR assets annualized earning rate		0.00%
X Minimum earning SLR assets	-	
= Earning from minimum SLR assets	-	
Net cost of CRR & SLR	-	
÷ Average interest-bearing Investible Funds	-	
= Annualized negative carry of CRR & SLR in Base rate		0.00%

Cost of Administration		
Total Operating Expense	-	
Average interest-bearing Investible Funds	-	
+ Average Equity Capital	-	
= Average total Funds (including equity funds)	-	
= Periodic operating expense to average total funds ratio		0.00%
Total Interest Revenue	-	

÷ Total Revenue		-
	= Adjustment factor for attribution to interest income	0.00%
	= Annualized cost of administration	0.00%

Cost of Equity Capital		
Average Equity Capital		-
÷ Expected rate of return		10.00%
	= Total cost of Equity Capital	-
÷ Average total Funds (including equity funds)		-
= Adjustment factor for attribution to interest income		0.00%
	= Cost of Equity Capital	0.00%

An example of the Base Rate System.

---------- Finance Limited

Details of Base Rate (Monthly)

June 2013

1. Base Rate

S.n	Particulars	Regular	Adjusted	Remarks
1	Cost of Funds	12.39%	12.39%	Interest-bearing liabilities
1.1	Cost of Funds (General)	13.33%	13.33%	
1.2	Cost of Funds (Scheme)	4.48%	4.48%	Low-cost specific purpose schemes
2	Cost of CRR & SLR	0.28%	0.28%	
3	Cost of Administration	0.62%	0.62%	
4	Cost of Equity Capital	0.99%	0.99%	Minimum ERR = 10%
	Base rate	**14.27%**	**15.21%**	

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Details of Base Rate (Monthly)

June 2013

2. Additional details related to base rate

Day	Deposits	Borrowings	Borrowing under Scheme (low or no cost)	Bond, Debenture & Other interest-bearing liabilities	Equity Capital	SLR Investment
1	25,212,329,277	3,360,822,612	3,108,769,253	161,875,000	3,897,962,542	1,673,588,798
2	25,188,642,363	3,560,822,612	3,108,355,298	161,875,000	3,897,962,542	1,767,763,359
3	25,349,520,478	3,297,822,612	3,413,477,514	161,875,000	3,918,212,542	1,951,271,604
4	25,380,412,798	3,297,822,612	3,413,477,514	161,875,000	3,917,832,542	1,931,430,732
5	25,424,215,279	3,017,674,529	3,403,466,403	161,875,000	3,919,382,542	1,786,667,728
6	25,490,950,586	2,767,674,529	3,416,801,236	161,875,000	3,929,112,542	1,670,061,590
7	25,490,950,586	2,767,674,529	3,415,676,236	161,875,000	3,929,112,542	1,670,061,590
8	25,490,950,586	2,749,152,029	3,413,394,950	161,875,000	3,929,112,542	1,673,055,534
9	25,518,519,660	2,729,152,029	3,412,948,097	161,875,000	3,932,692,542	1,630,503,791
10	25,519,174,728	2,709,152,029	3,412,948,097	161,875,000	3,936,462,542	1,635,840,852
11	25,518,220,816	2,599,152,029	3,412,948,097	161,875,000	3,939,562,542	1,617,317,054
12	25,519,158,492	2,619,152,029	3,460,948,097	161,875,000	3,862,078,265	1,678,066,803
13	25,547,568,259	2,759,152,029	3,460,472,212	161,875,000	3,863,018,265	1,729,923,899
14	25,547,568,259	2,759,152,029	3,460,472,212	161,875,000	3,863,018,265	1,729,923,899
15	25,547,568,259	2,758,988,002	3,460,472,212	161,875,000	3,863,018,265	1,737,062,636
16	25,538,286,155	2,818,988,002	3,460,472,212	161,875,000	3,865,878,265	1,924,795,825
17	25,518,168,320	2,788,988,002	3,460,472,212	161,875,000	3,892,728,265	1,835,122,686
18	25,557,016,280	2,848,988,002	3,460,472,212	161,875,000	3,898,638,265	1,709,199,073
19	25,628,851,132	2,948,988,002	3,460,472,212	161,875,000	3,898,358,265	1,714,696,375
20	25,672,830,086	2,948,988,002	3,447,649,990	161,875,000	3,900,828,265	1,740,846,272
21	25,672,830,086	2,948,988,002	3,447,072,336	161,875,000	3,900,828,265	1,740,846,272
22	25,672,830,086	2,948,988,002	3,447,072,336	161,875,000	3,900,828,265	1,744,678,760

23	25,700,224,790	2,898,988,002	3,445,249,057	141,875,000	3,925,698,265	1,708,927,318
24	25,761,730,320	2,948,988,002	3,445,249,057	141,875,000	3,934,768,265	1,842,427,505
25	25,761,730,320	2,948,988,002	3,445,249,057	141,875,000	3,934,768,265	1,842,427,505
26	25,791,068,648	2,838,988,002	3,421,881,532	141,875,000	3,954,198,265	1,902,433,738
27	25,793,006,529	2,958,988,002	3,421,881,532	141,875,000	4,004,578,265	1,819,412,492
28	25,793,006,529	2,958,988,002	3,404,157,786	141,875,000	4,004,578,265	1,819,412,492
29	25,793,006,529	2,955,938,539	3,404,157,786	141,875,000	4,004,578,265	1,690,397,009
30	25,757,466,814	3,223,230,206	3,402,656,901	120,000,000	3,931,328,265	1,894,048,950
31						
Total	767,157,803,050	87,739,379,008	102,348,793,647	4,674,375,000	117,551,124,999	52,812,212,144
Average	25,571,926,768	2,924,645,967	3,411,626,455	155,812,500	3,918,370,833	1,760,407,071

3. Additional Details

S.n	Particulars	
1	Minimum Amount of SLR to be maintained	1,554,081,000
2	Minimum Amount of CRR to be maintained	599,415,000
3	Average interest-bearing Investible Funds	30,509,930,690
4	Total Interest Income	526,344,527
5	Interest Income on SLR Investment	10,797,363
6	Total Revenue	606,609,202
7	Total Interest Expense	326,417,461
7.1	Interest expense on Deposits	286,804,418
7.2	Interest expense on Borrowings	25,838,229
7.3	Interest expense on Borrowing under Scheme (low cost)	12,557,279
7.4	Interest expense on Bond, Debenture & Other interest-bearing liabilities	1,217,534
8	Total Operating Expense	20,198,483

---------- Finance Limited

Details of Base Rate (Monthly)

June 2013

4. Computation details

Cost of Funds	
Periodic Interest Expense	326,417,461
÷ Average of Deposits, Borrowings and other interest-bearing liabilities	32,064,011,690
= Periodic Cost of Funds	1.02%
÷ Days in the period	30
X Days in the year	365
= Annualized Cost of Funds	12.39%

Cost of CRR & SLR	
Minimum SLR amount	1,554,081,000
X Cost of Funds	12.39%

= Funding cost of SLR amount	192,486,725
Minimum SLR amount	1,554,081,000
– Minimum CRR amount	599,415,000
= Minimum earning SLR assets	954,666,000
Average of SLR amount maintained	1,760,407,071
-Minimum CRR amount	599,415,000
= Earning SLR assets	1,160,992,071
Periodic Interest Income for SLR Investment	10,797,363
÷ Earning SLR assets	1,160,992,071
= SLR assets periodic earning rate	0.93%
= SLR assets annualized earning rate	11.32%
X Minimum earning SLR assets	954,666,000
= Earning from minimum SLR assets	108,021,829
Net cost of CRR & SLR	84,464,896
÷ Average interest-bearing Investible Funds	30,509,930,690
= Annualized negative carry of CRR & SLR in Base rate	0.28%

Cost of Administration	
Total Operating Expense	20,198,483
Average interest-bearing Investible Funds	30,509,930,690
+ Average Equity Capital	3,918,370,833
= Average total Funds (including equity funds)	34,428,301,523
= Periodic operating expense to average total funds ratio	0.06%
Total Interest Revenue	526,344,527
÷ Total Revenue	606,609,202
= Adjustment factor for attribution to interest income	86.77%
= Annualized cost of administration	0.62%

Cost of Equity Capital	
Average Equity Capital	3,918,370,833
÷ Expected rate of return	10.00%
= Total cost of Equity Capital	391,837,083
÷ Average total Funds (including equity funds)	34,428,301,523
= Adjustment factor for attribution to interest income	86.77%
= Cost of Equity Capital	0.99%