**Liquidity Coverage Ratio: December 31, 2020**

The essential role of banks is to attract savings (deposits) and lend it to others. The management of this activity generates a benefit but also entails that the bank holds necessary liquidity to meet the cash needs of those who have deposited their money with the bank.

To mitigate this risk, the Basel committee has designed the Liquidity Coverage Ratio to ensure that financial institutions have sufficient liquidity to meet their short-term obligations, absorb shocks arising from financial and economic stress, improve risk management and governance, and strengthen banks' transparency and disclosures. The objective of the Liquidity Coverage Ratio (LCR) is aimed at measuring and promoting short-term resilience of banks to potential liquidity disruptions by ensuring maintenance of sufficient high quality liquid assets (HQLAs) to survive net cash outflows over next 30 days under stress conditions.

The LCR is the percentage resulting from dividing the bank's stock of high-quality liquid assets by the estimated total net cash outflows over a 30 calendar day stress scenario.

High quality liquid assets (HQLA) under LCR are divided into two parts i.e. Level 1 HQLA which comprises of primarily cash, excess CRR, excess SLR securities and a portion of mandatory SLR as permitted by RBI (under MSF and FALLCR) and Level 2 HQLA which comprises of investments in highly rated non-financial corporate bonds and listed equity investments, considered at prescribed haircuts.

The calculation of net cash outflow incorporates prescribed standardized outflow and inflow rates. Total net cash outflows are defined as the total expected cash outflows minus total expected cash inflows (up to an aggregate cap of 75% of total expected cash outflows). The expected cash outflows are calculated by multiplying the current outstanding balances of various categories or types of liabilities (such as deposits, unsecured and secured wholesale borrowings) and off-balance sheet commitments (such as credit and liquidity lines to customers) by the prescribed outflow run-off rates linked to customer categories.

The cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in.

From 1st October 2020, the minimum liquidity coverage ratio required for banks is 90%, on a daily average basis. The LCR requirement will reset to 100% on 1st April 2021 vide RBI notification dated 17 April, 2020.

The daily calculation of LCR is evaluated against the minimum and in the event that it falls below the threshold on any given business day, the Bank is required to notify the Reserve Bank of India (RBI) and prepare LCR restoration plans for scrutiny by the Department of Supervision, RBI.

Kotak Mahindra Bank has implemented LCR framework across the consolidated group since January, 2016 and manages LCR to be above an internal threshold that reflects our liquidity risk tolerance and takes into account business mix, asset composition and funding capabilities.

The RBI through its notification dated 1 April, 2015, as amended, permitted both private and public sector banks to set up banking units in International Financial Services Centres (IFSC), provided that they are eligible to deal in foreign exchange and have minimum capital of USD 20 million or equivalent in foreign currency. In December 2019, Parliament passed a bill to set up a unified authority for regulating all financial activities at IFSCs in the country. The International Financial Services Centres Authority (IFSCA) which is the regulator of IFSCs including Gift City has now notified the regulations that will be applicable for banking and investment activities in the International Financial Services Centres.

IFSC banking Units (IBU) are exempt from CRR and SLR requirement specified by the RBI and may raise capital from persons not resident in India and overseas branches of Indian banks. IBUs must maintain LCR as applicable to Indian banks on a stand-alone basis. The Bank maintains LCR of the IBU at GIFT City on a standalone basis as per the extant guidelines and is well above the required threshold.

The Bank has an overseas branches at DIFC (Dubai). Kotak Mahindra Bank (DIFC Branch) is a Category 1 Authorized branch, located in the Dubai International Finance Centre and regulated by the Dubai Financial Services Authority. As per extant DFSA regulations, the branch maintains LCR above 100%.

HQLAs are actively managed and our Level 1 assets, calculated according to RBI LCR requirements, represent 95.3% of total HQLA. The amount of HQLA held at individual subsidiaries that is included in the consolidated LCR is limited to the extent of Net Cash Outflow (NCO) contributed by the subsidiary. The daily average LCR for the quarter ended December 31, 2020 at the consolidated level was at 191.22% which is well above the regulatory threshold of 90%.

The following table sets out average LCR of the Bank (Consolidated) for the quarter ended December 31, 2020 and September 30, 2020.

(Amt in INR million)

| | | | Average Q3 2020-2021 | | Average Q2 2020-2021 | |
|---|---|---|---|---|---|---|
| **High Quality Liquid Assets** | | | | | | |
| 1 | Total High Quality Liquid Assets (HQLA) | | | 1,023,581 | | 1,009,897 |
| **Cash Outflows** | | | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | | | | | |
| | (i) | Stable deposits | 5,80,713 | 29,036 | 474,749 | 23,737 |
| | (ii) | Less stable deposits | 11,97,179 | 1,19,718 | 1,268,116 | 126,812 |
| 3 | Unsecured wholesale funding, of which : | | | | | |
| | (i) | Operational deposits (all counterparties) | | | | |
| | (ii) | Non-operational deposits (all counterparties) | 7,29,149 | 4,11,708 | 740,384 | 412,278 |
| | (iii) | Unsecured debt | 38,440 | 37,790 | 28,075 | 27,194 |
| 4 | Secured wholesale funding | | | 8,267 | | 8,364 |
| 5 | Additional requirements, of which | | | | | |
| | (i) | Outflows related to derivative exposures and other collateral requirements | 1,22,091 | 1,20,563 | 112,866 | 109,408 |
| | (ii) | Outflows related to loss of funding on debt products | | | | |
| | (iii) | Credit and liquidity facilities | 19,782 | 1,966 | 21,379 | 2,220 |
| 6 | Other contractual funding obligations | | 40,852 | 40,852 | 32,275 | 32,275 |
| 7 | Other contingent funding obligations | | 1,167,930 | 51,467 | 1,195,526 | 53,507 |
| **8** | **Total Cash Outflows** | | | **821,367** | | **795,796** |
| **Cash Inflows** | | | | | | |
| 9 | Secured lending (e.g. reverse repos) | | 361,122 | 0 | 314,287 | 0 |
| 10 | Inflows from fully performing exposures* | | 335,822 | 275,679 | 259,127 | 229,023 |
| 11 | Other cash inflows | | 20,786 | 10,393 | 22,359 | 11,179 |
| **12** | **Total Cash Inflows** | | **717,731** | **286,072** | **595,772** | **240,202** |
| | | | | | | |
| **13** | **TOTAL HQLA** | | | 1,023,581 | | 1,009,897 |
| **14** | **Total Net Cash Outflows** | | | 535,295 | | 555,593 |
| **15** | **Liquidity Coverage Ratio (%)** | | | **191.22%** | | **181.77%** |

*Incl. Derivative inflows