Liquidity Coverage Ratio: September 30, 2022

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 (LCR) 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 unencumbered high quality liquid assets (HQLAs) to survive net cash outflows over next 30 days under stress conditions.

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

The HQLA, follow the RBI defined set of eligibility criteria that considers fundamental and market-related characteristics, and the ability to generate liquidity from such assets on a timely basis during a period of stress. The portfolio of HQLA is centrally managed by the Bank Treasury, to be well above the regulatory requirements, while continuously assessing risks to market funding conditions and its liquidity position and taking actions to manage the size of the liquidity pool as appropriate.

High quality liquid assets (HQLA) under LCR are divided into two parts:

- Level 1: comprises primarily of Cash, excess CRR balances, investments in SLR in excess of the regulatory requirement, RBI Standing Deposit Facility (SDF) and a portion of mandatory SLR as permitted by RBI (under MSF and FALLCR); and
- Level 2: comprises 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. Cash Outflow / Inflow for the next 30 days is reckoned by applying the run-off factors / weights – as prescribed by RBI, on various liability & asset pools of the Bank – both on balance sheet and off balance sheet items. The run-off factors are stipulated basis customer categories and nature of liability / asset. 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 minimum LCR requirement is 100%. 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 Limited (KMBL) has implemented LCR framework for both Standalone Bank as well as for the Group on a consolidated basis since January, 2016. KMBL manages LCR to be above the regulatory threshold - reflecting our liquidity risk tolerance and takes into account business mix, asset composition and funding capabilities.

The Bank maintains LCR as per regulatory stipulations at its International branches at GIFT City & DIFC Dubai in accordance with extant regulations.

The daily average LCR for the quarter ended September 30, 2022 at consolidated level was at 119.08% which is above the regulatory minimum threshold of 100%. The following table sets out average LCR of the Bank (Consolidated) for the quarter ended September 30, 2022 and June 30, 2022.

(Amt in INR million)

			Average Q2 2022-2023		Average Q1 2022-2023	
High Quality Liquid Assets						
1	Total High Quality Liquid Assets (HQLA)			853,209		870,753
Cash Outflows						
2	Retail deposits and deposits from small business customers, of which:					
	(i)	Stable deposits	331,897	16,595	321,151	16,058
	(ii)	Less stable deposits	1,668,467	166,847	1,634,925	163,493
3	Unsecured wholesale funding, of which :					
	(i)	Operational deposits (all counterparties)				
	(ii)	Non-operational deposits (all counterparties)	963,570	569,873	996,997	572,747
	(iii)	Unsecured debt	42,772	39,402	40,958	39,594
4	Secured wholesale funding			3,276		2,851
5	Additional requirements, of which					
	(i)	Outflows related to derivative exposures and other collateral requirements	219,854	219,854	180,830	180,830
	(ii)	Outflows related to loss of funding on debt products				
	(iii)	Credit and liquidity facilities	29,616	2,425	28,463	2,325
6	Other contractual funding obligations		67,139	67,139	66,702	66,702
7	Other contingent funding obligations		1,718,181	76,778	1,650,556	73,821
8	**Total Cash Outflows**			**1,162,188**		**1,118,420**
Cash Inflows						
9	Secured lending (e.g. reverse repos)		41,240	0	75,386	0
10	Inflows from fully performing exposures*		514,814	437,146	454,752	380,939
11	Other cash inflows		17,130	8,565	22,838	11,419
12	**Total Cash Inflows**		**573,184**	**445,711**	**552,976**	**392,358**
13	**TOTAL HQLA**			**853,209**		**870,753**
14	**Total Net Cash Outflows**			**716,477**		**726,062**
15	**Liquidity Coverage Ratio (%)**			**119.08%**		**119.93%**

*Incl. Derivative inflows