Liquidity Coverage Ratio: September 30, 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.

As of September 30, 2020, the minimum liquidity coverage ratio required for banks is 80%, on a daily average basis. In view of the exceptional conditions due to Covid-19, the RBI vide notification dated 17th April, 2020, had reduced the LCR requirement to 80%. The LCR requirement will reset to 90% on 1st October, 2020 and 100% on 1st April, 2021.

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. HQLAs are actively managed and our Level 1 assets, calculated according to RBI LCR requirements, represent 95.7% of total HQLA. The daily average LCR for the quarter ended September 30, 2020 at the consolidated level was at 181.77% which is well above the regulatory threshold of 80%.

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

(Amt in INR million)

			Average Q2 2020-2021		**Average Q1 2020-2021**	
High Quality Liquid Assets						
1	Total High Quality Liquid Assets (HQLA)			1,009,897		9,45,456
Cash Outflows						
2	Retail deposits and deposits from small business customers, of which:					
	(i)	Stable deposits	474,749	23,737	4,66,288	23,314
	(ii)	Less stable deposits	1,268,116	126,812	12,02,787	1,20,279
3	Unsecured wholesale funding, of which :					
	(i)	Operational deposits (all counterparties)				
	(ii)	Non-operational deposits (all counterparties)	740,384	412,278	8,07,601	4,42,470
	(iii)	Unsecured debt	28,075	27,194	26,774	25,139
4	Secured wholesale funding			8,364		7,919
5	Additional requirements, of which					
	(i)	Outflows related to derivative exposures and other collateral requirements	112,866	109,408	1,01,493	98,330
	(ii)	Outflows related to loss of funding on debt products				
	(iii)	Credit and liquidity facilities	21,379	2,220	19,819	1,944
6	Other contractual funding obligations		32,275	32,275	28,452	28,452
7	Other contingent funding obligations		1,195,526	53,507	1,190,952	53,364
8	**Total Cash Outflows**			**795,796**		**8,01,212**
Cash Inflows						
9	Secured lending (e.g. reverse repos)		314,287	0	4,24,542	47
10	Inflows from fully performing exposures*		259,127	229,023	2,34,407	2,15,657
11	Other cash inflows		22,359	11,179	21,815	10,908
12	**Total Cash Inflows**		**595,772**	**240,202**	**6,80,764**	**2,26,612**

		Average Q2 2020-2021		Average Q1 2020-2021	
13	**TOTAL HQLA**		1,009,897		945,456
14	**Total Net Cash Outflows**		555,593		574,600
15	**Liquidity Coverage Ratio (%)**		**181.77%**		**164.54%**

*Incl. Derivative inflows