

Liquidity Coverage Ratio: December 31, 2023

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 in accordance with extant regulations.

The daily average LCR for the quarter ended December 31, 2023 at consolidated level was at 126.85%, which is above the regulatory minimum threshold of 100%. The following table sets out average LCR of the Bank (Consolidated) for the quarter ended December 31, 2023, September 30, 2023 and June 30, 2023.

(Amt. in INR million)

		Average Q3 2023-2024		Average Q2 2023-2024		Average Q1 2023-2024	
High Quality Liquid Assets							
1	Total High Quality Liquid Assets (HQLA)		11,92,178		11,79,084		10,26,535
Cash Outflows							
2	Retail deposits and deposits from small business customers, of which:						
	(i) Stable deposits	4,00,533	20,027	3,80,135	19,007	3,63,982	18,199
	(ii) Less stable deposits	19,79,133	1,97,913	18,98,298	1,89,830	18,02,144	1,80,214
3	Unsecured wholesale funding, of which :						
	(i) Operational deposits (all counterparties)						
	(ii) Non-operational deposits (all counterparties)	12,08,011	7,46,693	11,77,507	7,21,069	10,66,233	6,45,209
	(iii) Unsecured debt	63,421	62,429	70,867	69,919	55,265	53,835
4	Secured wholesale funding		10,216		6,115		3,570
5	Additional requirements, of which						
	(i) Outflows related to derivative exposures and other collateral requirements	2,88,930	2,88,930	2,47,122	2,47,122	2,25,698	2,25,698
	(ii) Outflows related to loss of funding on debt products						
	(iii) Credit and liquidity facilities	27,726	2,892	36,272	4,456	30,783	2,803
6	Other contractual funding obligations	93,607	93,607	75,109	75,109	62,873	62,873
7	Other contingent funding obligations	20,64,265	92,075	19,83,877	88,423	19,14,469	85,735
8	Total Cash Outflows		15,14,782		14,21,048		12,78,136
Cash Inflows							
9	Secured lending (e.g. reverse repos)	1,10,883	52	90,672	103	26,698	74
10	Inflows from fully performing exposures*	6,64,630	5,67,623	5,70,734	4,86,529	5,08,330	4,31,988
11	Other cash inflows	14,556	7,278	10,663	5,332	15,203	7,601
12	Total Cash Inflows	7,90,069	5,74,953	6,72,070	4,91,964	5,50,231	4,39,663
13	TOTAL HQLA		11,92,178		11,79,084		10,26,535



		Average Q3 2023-2024		Average Q2 2023-2024		Average Q1 2023-2024	
14	Total Net Cash Outflows		9,39,829		9,29,084		8,38,474
15	Liquidity Coverage Ratio (%)		126.85%		126.91%		122.43%

*Incl. Derivative inflows