Liquidity Coverage Ratio: March 31, 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 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 with effect from Apr 1, 2021 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.

GIFT City Branch: The International Financial Services Centres Authority (IFSCA) which is the regulator of IFSCs including Gift City has notified regulations applicable for banking and investment activities in the

International Financial Services Centres. IBUs must maintain LCR as applicable to Indian banks on a stand-alone basis.

DIFC Branch: The Bank has a Category 1 Authorized branch, located at Dubai International Finance Centre, regulated by Dubai Financial Services Authority [DFSA]. As per extant DFSA regulations, the branch is required to maintain LCR on a standalone basis – with stipulated minimum threshold of 100%.

The daily average LCR for the quarter ended March 31, 2022 at consolidated level was at 129.66% which is above the regulatory minimum threshold of 100%. The following table sets out average LCR of the Bank (Consolidated) for the each quarter of current Financial Year.

(Amt in INR million)

			Average Q4 2021-2022		**Average Q3 2021-2022**		**Average Q2 2021-2022**		**Average Q1 2021-2022**	
			Unweighted Value	**Weighted Value**	**Unweighted Value**	**Weighted Value**	**Unweighted Value**	**Weighted Value**	**Unweighted Value**	**Weighted Value**
High Quality Liquid Assets										
1	Total High Quality Liquid Assets (HQLA)			866,196		986,624		959,265		901,805
Cash Outflows										
2	Retail deposits and deposits from small business customers, of which:									
	(i)	Stable deposits	279,373	13,969	271,420	13,571	274,336	13,717	603,821	30,191
	(ii)	Less stable deposits	1,634,336	163,434	1,609,326	160,933	1,563,968	156,397	1,187,157	118,716
3	Unsecured wholesale funding, of which :									
	(i)	Operational deposits (all counterparties)								
	(ii)	Non-operational deposits (all counterparties)	922,152	533,522	997,149	601,231	959,877	576,143	874,739	501,510
	(iii)	Unsecured debt	42,783	41,030	46,750	45,598	40,556	37,947	35,712	34,311
4	Secured wholesale funding			1,834		5,210		9,849		10,059
5	Additional requirements, of which									
	(i)	Outflows related to derivative exposures and other collateral requirements	190,718	190,718	218,003	218,003	186,948	186,948	185,562	185,434

			Average Q4 2021-2022		Average Q3 2021-2022		Average Q2 2021-2022		Average Q1 2021-2022	
			Unweighted Value	**Weighted Value**	**Unweighted Value**	**Weighted Value**	**Unweighted Value**	**Weighted Value**	**Unweighted Value**	**Weighted Value**
	(ii)	Outflows related to loss of funding on debt products								
	(iii)	Credit and liquidity facilities	26,832	2,257	21,450	1,975	16,819	1,578	17,316	1,677
6	Other contractual funding obligations		62,748	62,748	67,746	67,746	52,560	52,560	48,134	48,134
7	Other contingent funding obligations		1,476,098	65,747	1,355,726	59,640	1,275,059	56,211	1,208,771	53,222
8	**Total Cash Outflows**			**1,075,258**		**1,173,907**		**1,091,350**		**983,253**
Cash Inflows										
9	Secured lending (e.g. reverse repos)		188,676	0	230,258	0	242,738	0	177,499	0
10	Inflows from fully performing exposures*		480,365	397,563	564,084	486,480	544,662	477,430	509,636	445,665
11	Other cash inflows		19,271	9,636	21,857	10,928	18,696	9,348	23,939	11,970
12	**Total Cash Inflows**		**688,311**	**407,199**	**816,199**	**497,408**	**806,096**	**486,778**	**711,074**	**457,634**
13	**TOTAL HQLA**			**866,196**		**986,624**		**959,265**		**901,805**
14	**Total Net Cash Outflows**			**668,060**		**676,499**		**604,572**		**525,619**
15	**Liquidity Coverage Ratio (%)**			**129.66%**		**145.84%**		**158.67%**		**171.57%**

*Incl. Derivative inflows