LIQUIDITY COVERAGE RATIO (LCR) DISCLOSURE AT 30-SEPTEMBER-2020

The core objective of bank remains to accept deposit from customers and provide loans to customers. In this process bank shall ensure adequate liquidity to honour the outflows. The Basel Committee on Banking Supervision (BCBS) had introduced the Liquidity Coverage Ratio (LCR) in order to ensure that a bank has an adequate stock of unencumbered High Quality Liquid Assets (HQLA) to survive a significant liquidity stress lasting for a period of 30 days. The LCR is defined as:

$$\text{LCR} = \frac{\text{Stock of High Quality Liquid Assets (HQLAs)}}{\text{Total net cash outflows over the next 30 calendar days}}$$

Reserve Bank of India, vide its circular dated June 09, 2014, issued guidelines on Liquidity Coverage Ratio (LCR).

The Bank has comprehensive liquidity risk management structure as cited in the Board approved ALM Policy of the Bank. The Asset Liability Management Committee (ALCO), ensures efficient management of liquidity, interest rate risk and keeps a check on adherence to the risk tolerance/limits set by the RBI/Board. ALCO formulates and monitors the funding strategy of the bank duly taking the requirements of operations. Adequate Contingency Funding Plan is also in place, which is reviewed on periodic basis to ensure the availability of funds to meet any stressed liquidity event.

The LCR promotes short-term resilience of banks to potential liquidity disruptions by ensuring that they have sufficient high quality liquid assets (HQLAs) to survive an acute stress scenario lasting for 30 days. The LCR standard aims to ensure that a bank maintains an adequate level of unencumbered HQLAs that can be converted into cash to meet its liquidity needs for 30 calendar day time horizon under a significantly severe liquidity stress scenario specified by RBI.

As per the RBI guideline Banks are required to maintain a minimum LCR of 100% from 1st January 2019. In order to ease the burden on banks' cash flows on account of the COVID19 pandemic, RBI vide notification dated 17th April 2020, reduced the LCR requirement to 80%. Which shall be raised to 90% w.e.f. 1st October 2020 and shall be restored to 100% w.e.f. 1st April 2021.

RBI through its circular dated 27th March 2020 permitted banks to grant moratorium to customers on the payment of instalments and/or interest, falling due between 1st March 2020 and 31st May 2020. This moratorium was extended until 31st August 2020 vide RBI circular dated 23rd May 2020.

HQLA comprises of Level 1 assets (0% hair-cut), Level 2A assets (15% hair-cut) and Level 2B assets (50% hair-cut). Level 1 assets comprising of cash, excess CRR, excess SLR securities, government securities to the extent allowed by RBI under Marginal Standing Facility (MSF) [currently 3% of the Bank's Net Demand & Time Liabilities (NDTL)- till 31st March 2021] and Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [15% of the Bank's NDTL].

Level 2A assets comprises of sovereign guaranteed marketable securities, corporate bonds or commercial papers which are rated AA- and more are issued other than by financial institutions. Level 2B assets include investments in common equity shares included in NSE CNX Nifty and/or S&P BSE Sensex indices.

Expected net cash outflows under stress are the weighted sum of outflows minus inflows in the next 30 days. Funding from retail and small business customers carries lower run-off factor as compared to wholesale funding.

The prime drivers of the LCR are the level of surplus SLR investments over and above the mandatory requirements. Retail deposits constitute major portion of total funding sources which are well diversified.

Weighted Level 1 assets of the Bank constitutes around 98% of the total HQLA, and the remaining 2% comprises of Level 2A and Level 2B assets. Excess SLR securities (part of level 1 assets) forms around 25% of the total HQLA.

Bank reports LCR position on daily / monthly basis to Management / RBI. In addition, bank monitors the liquidity position through various regulatory statements viz. Structural Liquidity Statement and Interest Rate Sensitivity Statement.

Bank has maintained LCR levels well above the minimum regulatory levels on an ongoing basis. Bank maintained an average daily LCR of 125.35% for quarter ended September 30, 2020.

The following table summarizes the average of unweighted and weighted value of the LCR components. The simple average has been computed based on daily values for the three months of quarter ended September 30, 2020.

Liquidity Coverage Ratio

Rs. in Crore

		Quarter ended September 30, 2020	
Particulars		**Total Unweighted Value (average)***	**Total Weighted Value (average)***
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		**243132.25**
Cash Outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**544635.13**	**40730.79**
(i)	Stable Deposits	274654.56	13732.73
(ii)	Less Stable Deposits	269980.57	26998.06
3	**Unsecured wholesale funding, of which:**	**281356.03**	**165200.63**
(i)	Operation Deposits (all counterparties)	467.38	100.86
(ii)	Non-operation Deposits (all counterparties)	280888.66	165099.77
(iii)	Unsecured Debt	0.00	0.00
4	**Secured Wholesale Funding**		**0.00**
5	**Additional Requirements, of which**	**69190.61**	**12265.06**
(i)	Outflows related to derivative exposures and other collateral requirements	3567.52	3567.52
(ii)	Outflows related to loss of funding on debt products	0.00	0.00
(iii)	Credit and liquidity facilities	65623.10	8697.55
6	**Other Contractual Funding Obligations**	**3031.27**	**3031.27**
7	**Other Contingent Funding Obligations**	**110247.21**	**3984.91**
8	**Total Cash Outflows**		**225212.66**
Cash Inflows			
9	Secured Lending (e.g. reverse repos)	12608.37	0.00
10	Inflows from Fully Performing Exposures	36390.56	26276.82
11	Other Cash Inflows	5185.06	4972.03
12	**Total Cash Inflows**	**54184.00**	**31248.86**
Total Adjusted Value			
13	Total HQLA		243132.25
14	Total Net Cash Outflows		193963.80
15	Liquidity Coverage Ratio (%)		**125.35%**

** The average weighted and unweighted amounts are calculated taking simple average based on daily observation for the respective quarter.*