


Liquidity risk during the COVID crisis, lessons learnt

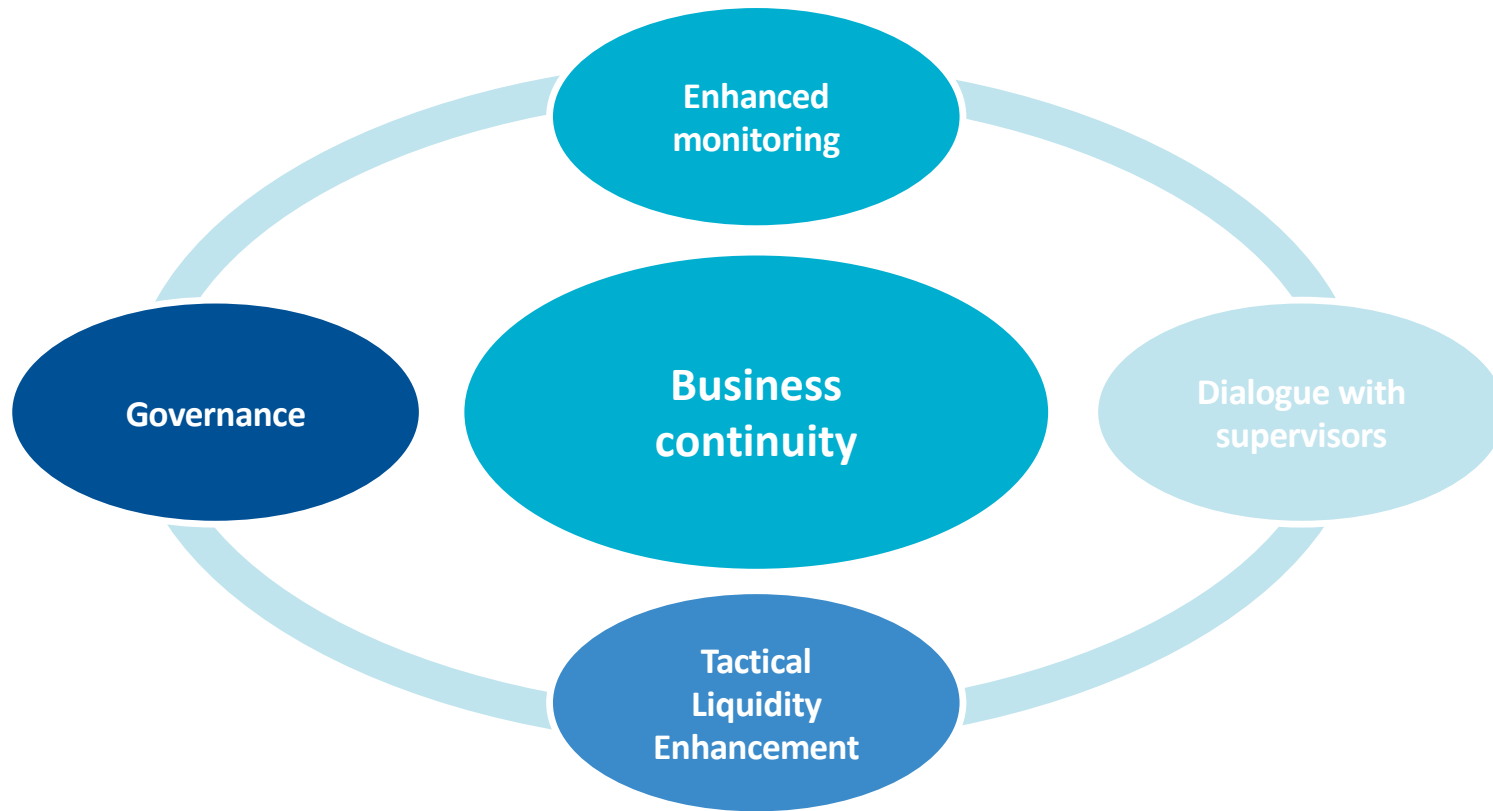
Liquidity position and exceptional measures taken by the Group

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Milan, Sep 22nd 2020

Banking that matters. |  **UniCredit**

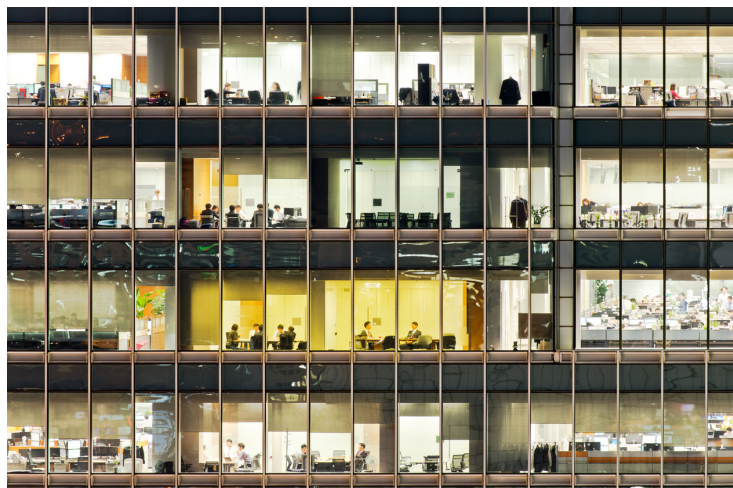
Group reaction to the COVID-19 outbreak: four pillars anchored around business continuity



First priority: ensuring operational continuity through the COVID outbreak



Business continuity



Business continuity management plans, with the aim to ensure the regular execution of Treasury activities and the proper information flows



IT areas Business Continuity, disaster, recovery,...



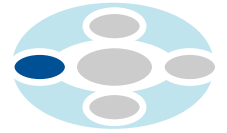
Working in the primary site or in remote mode (e.g. Virtual Trading Machines)



Critical functions split in different locations. Back up sites



COVID crisis as a test on the robustness of LRM governance frameworks



Text

Contingency

- Contingency framework setup
- Real test of escalation mechanisms in different LE

BoD involvement

- Frequency and granularity of disclosure

CEO briefings

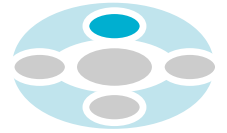
- Strong alignment cross-functions to bring clear-cut and actionable messages

LE coordination

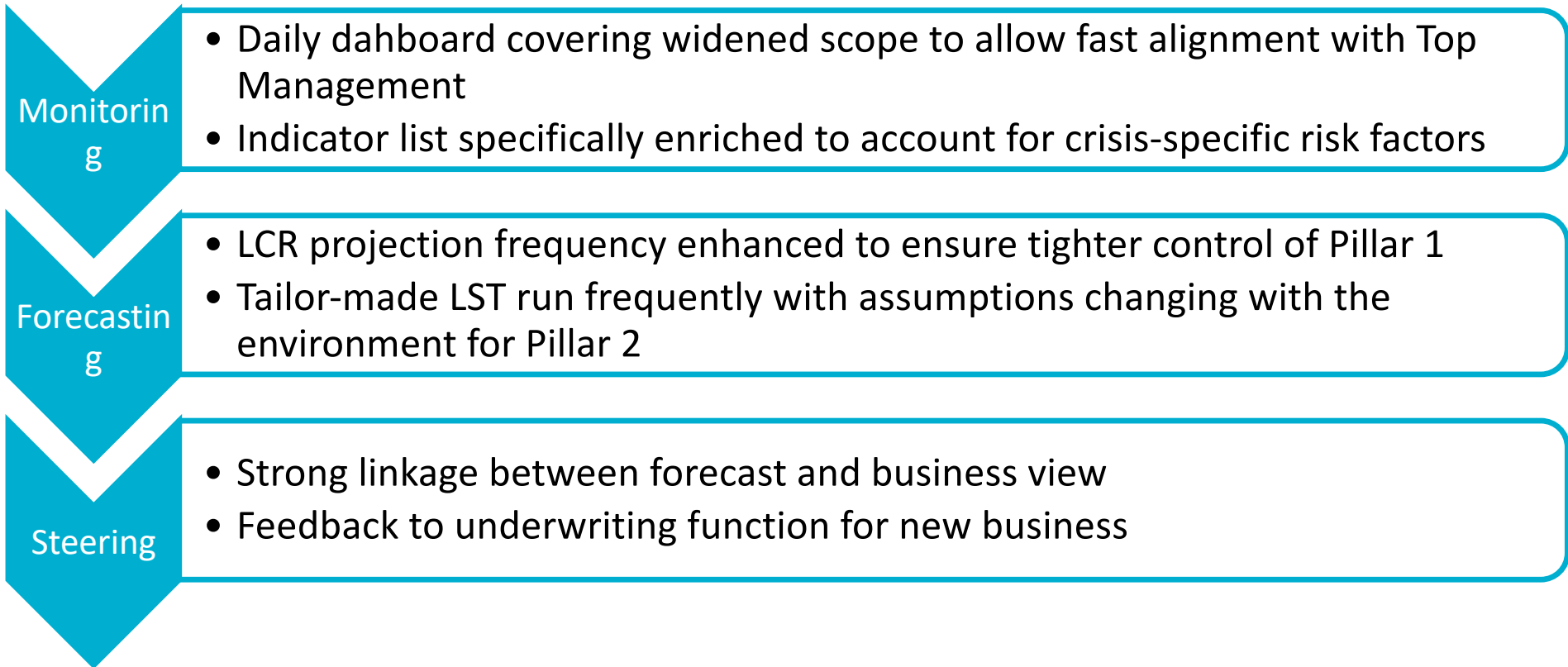
- Challenge in the specificities of local environment (virus spread, different Government Interventions, local authorities...)



Significant improvement in monitoring with dedicated high-level overviews and detailed drill downs on main risk factors



Enhanced monitoring



Pillar 1 steering- LCR forecasting process to ensure buffer adequacy under different business assumptions

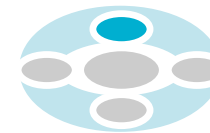
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Enhanced monitoring



Pillar 2 steering - Liquidity stress testing provided a more flexible, hence usable, projection framework



	Item	Parameters on the 6-month horizon	
		LIST Adverse Scenario	COVID
Contractual maturity items	Secured market lending and funding	100% in/outflow rate	=
	Unsecured own debt issuances	100% outflow rate	<
	Derivatives & FX swaps (inflows/outflows)	100% in/outflow rate	=
	Loans (commercial counterparties)	Constant stock	<
	Loans (financial counterparties)	100% inflow rate	>
	Own portfolio investments	100% inflow rate	=
	Stable Retail Sight Deposits, as defined by Art.421 CRR	10-20% outflow rate	<
Open maturity items	Non-operational sight deposits from non-financial counterparties	55%-75% outflow rate	<<
	Sight deposits (financial counterparties)	100% outflow rate	<<
	Sight loans	Constant stock	≤
CBC	HQLA (L1 & L2) and non-tradable assets eligible for CB	Post-haircut value	>>
	Other tradable assets	Post-haircut value	>>
Contingencies	Committed credit facilities	10%-15% outflow rate	>
	Committed liquidity facilities	60%-75% outflow rate	>
	Impact from own rating downgrade	1-to-3 notch downgrade	

Funding Plan

Flexibility looking at market developments to envisage different percentages of realization



Deposits

Significantly lower outflows designed in LST, as no drawdown experienced

Credit Lines

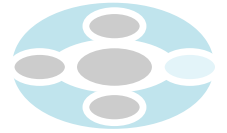
Generally higher drawdowns foreseen during COVID, also related to uncommitted lines

Rating / market

Outflows from RD and FV changed during the crisis with the evolution of ECB stance



Continuous dialogue with the Supervisor ensures full compliance with both supervisory and regulatory expectations and requests

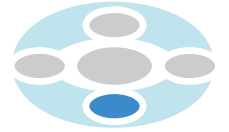


Dialogue with Supervisors

- The main trends on liquidity and the outcome of the daily discussions among the senior managers were also reported in the **daily calls** among JST members and the banks
- The JST asked several **data templates and subsequent deep-dives** to monitor banks. In particular:
 - the daily dashboard distributed to top managers was also sent to the JST along with a set of other managerial reports (e.g. short term funding, customer deposits breakdown, committed/uncommitted lines usage)
 - an ad hoc reporting was requested on the impact of the use of committed/uncommitted lines on capital and liquidity ratios
 - since mid-April the Supervisor asked to submit on a weekly basis (each Wednesday) data on loan commitments and support programs
 - starting from April, upon Supervisory request the Bank is duly delivering to ECB the SSM Liquidity Template, a set of tables to be delivered on a weekly basis (each Tuesday)



Strong governance and enhanced monitoring allowed Bank's management to take preemptive action



Tactical Liquidity enhancement

GOVERNANCE

The activation of crisis management and escalation mechanisms allows Top Managers to be involved from the early stages

MONITORING

More frequent and more granular monitoring brings to the attention of crisis management committees the expected liquidity evolution

ACTION

This leads to identifying wherever needed potential liquidity enhancing actions, on top of those prescribed by the ordinary CFP



Conclusions



Focus on LCR stems from disclosure requirements more than from actual liquidity risk?

Actual liquidity

- Relevance of LCR in a situation where the ladder is rich might lead to inefficient use of resources

Stressed liquidity

- Managerial stress test (P2) more flexible and hence usable

Communication

- LCR as an important signal to investors

ECB waiver

- Is it really helpful under stress?

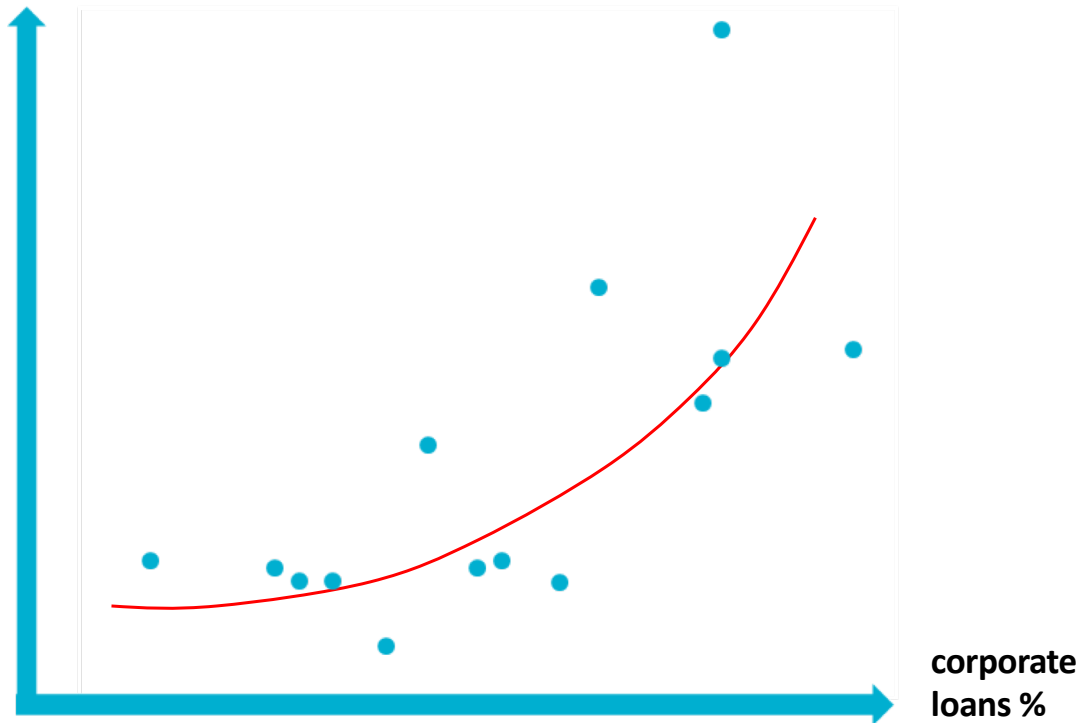
LCR under stress

- Stress²



One “emerging” risk factor: LCR art. 23 vs. corporate exposure

LCR DR art. 23 products / Net customer loans (2019 average) (%)



- It must be noticed that **data could be underestimated** as the data source (Pillar III 4Q19 publication) shows the average level over the previous 12 months.
- The scatter graph highlights a **positive relation** when observing the exposure of the banks to corporate customers and the amounts reported under LCR DR art. 23 products
- This could be explained by the fact that **uncommitted and trade finance products are mainly dedicated to corporate customers**

Customer counterparty type based on HY19 EBA Transparency and balance-sheet reports.

Average of Net Customer Loans based on 2019 Financial Statements.

LCR DR art. 23 products from Pillar III 4Q19 publications



Conclusions 2/2: the main point of attention emerging was related to uncommitted exposures

Actual liquidity

- Initial fears dwindling as crisis progressed

Internal models

- Art 23 allows for internal modeling, which now capture a “stressed” period

Trade finance

- Is the prescribed 5% too harsh?

Pricing

- All these questions are important to correctly price art 23 exposures...

