

2022-2024: Impact of last years events on the liquidity management

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Key events and expected evolution

Geopolitical risks. Russia-Ukraine and Israel-Hamas conflicts generating **uncertainty and volatility** in the markets

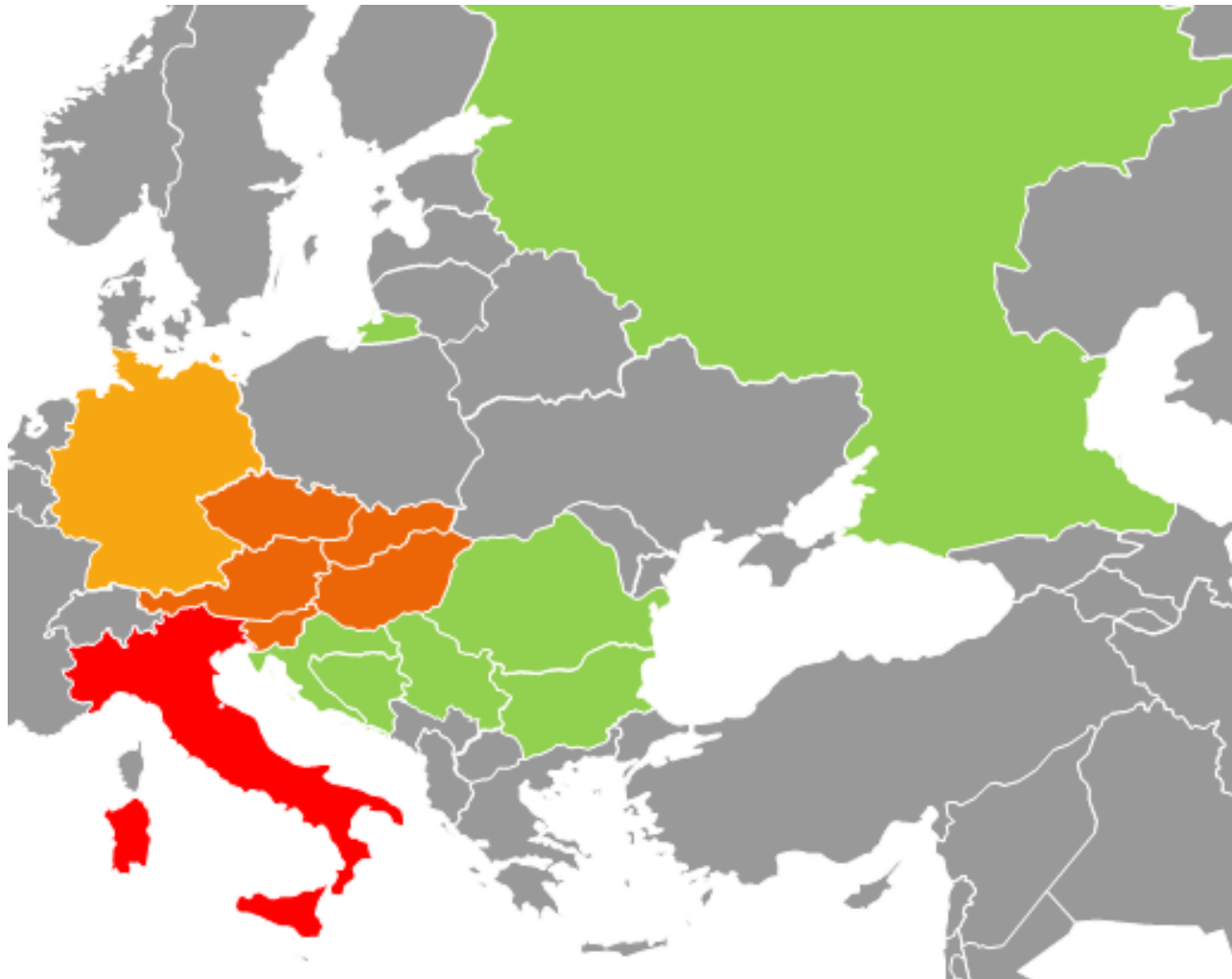


Rising interest rates. Central Banks responded to **inflationary** pressures by significantly **increasing interest rates**, with impacts on liquidity buffers, deposits and collateral exchanges

Regulatory changes. Changes in regulation on the horizon either expected (ESG rules, NSFR revision) or prompted by the regulators' concern over the stability of banking systems



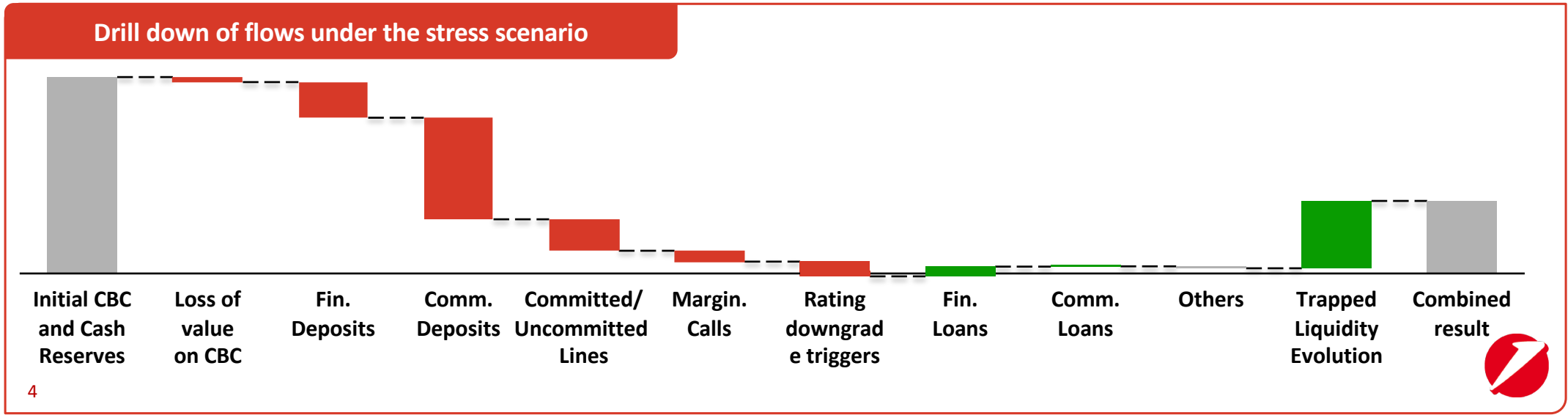
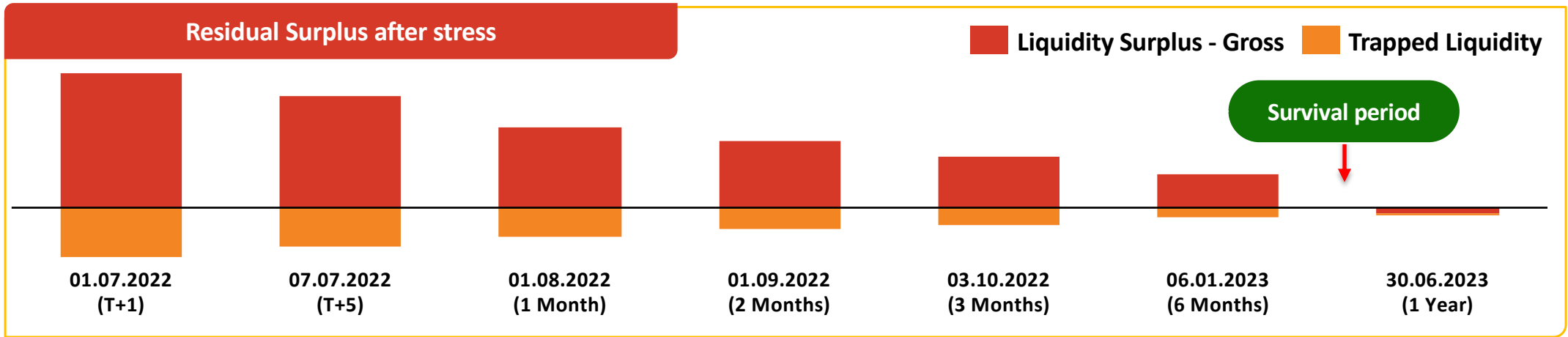
UniCredit geographical footprint



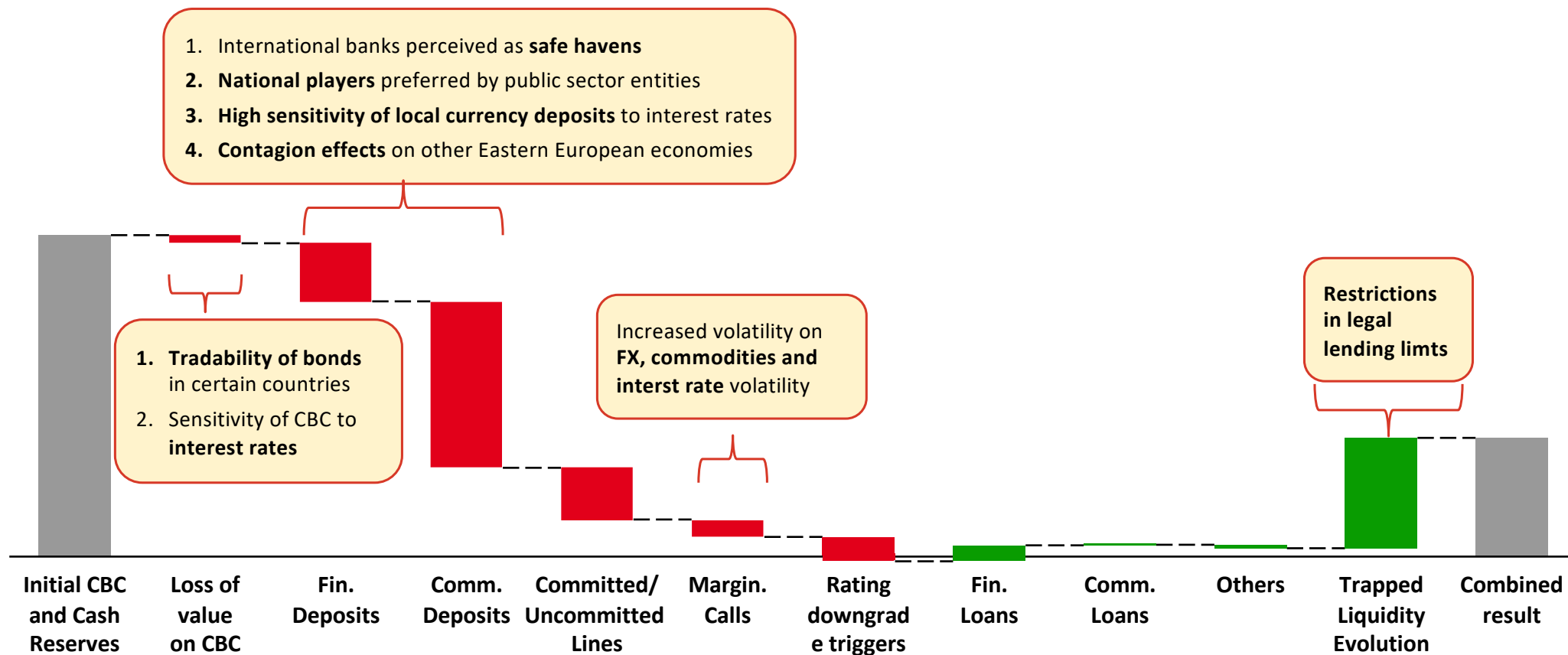
The wide footprint, in 4 different European geographical areas, gives UniCredit a comprehensive perspective on the liquidity risk impacts of the current **geopolitical** and **economic** scenario





The liquidity buffers can be eroded by different risk factors



New risk factors act on the traditional liquidity stress test drivers



Counterbalancing capacity liquidity value under pressure

Event	Risk considerations
 <p>In Bosnia, government bonds do not have a secondary market and the local Central Bank does not offer repo operations. Notwithstanding govies are HQLA in the LCR.</p> <p>In Serbia, the Bank increased the haircut on counterbalancing capacity during the recent crisis.</p>	<p>Make sure that internal metrics apply a stress on the counterbalancing capacity (both in terms of pricing, time to sell and haircut)</p>
 <p>The spike in interest rates depressed the market value of the counterbalancing capacity</p>	<p>When designing economic approach to stress the liquidity buffer, properly discriminate between:</p> <ul style="list-style-type: none">▪ banks that hedge their investment portfolio against interest rate risk▪ from banks that do not hedge it



Financial and commercial deposits hit by interest rate move

ALL COUNTRIES

Event	Risk considerations
<p>The recent movement of interest rates moved the rates on short term assets from negative or very low levels to the levels of years ago.</p>	<p>High net worth customers withdrew their deposits searching for higher yields. The stable portion of deposits was affected by the sharp move, in some countries in particular.</p>
<p>Typically foreign currency deposits are more volatile than local currency. Different path in interest rates changed the stability profile of deposits more in favour hard currency deposits</p>	<p>Better calibration of extreme scenarios in the different behavior between local currencies and hard currencies deposits.</p>

ALL COUNTRIES



Financial and commercial deposits: 2 sides of the same coin



ALL COUNTRIES

Event	Risk considerations
<p>International Groups from countries hit by sanctions sold their subsidiaries to local banks.</p> <p>Other banks in those countries experienced deposits outflows from local authorities / government, which re-addressed their liquidity to the purchasing entity.</p>	<p>Better calibration of extreme scenarios for deposits from local authorities / governments.</p>
<p>In the aftermath of the geopolitical crisis, international banks were perceived like safe havens.</p>	<p>Contingency actions on deposits price might produce opposite effects compared to the desired ones.</p>



Margin calls and limits to intragroup liquidity transfers



In order to prevent outflows of capital from the countries, **National Government restricted or introduced limitations to the transfer of liquidity among banks** (i. e. Hungary).

Reinforce the ability to define and project the estimate of **trapped liquidity**.



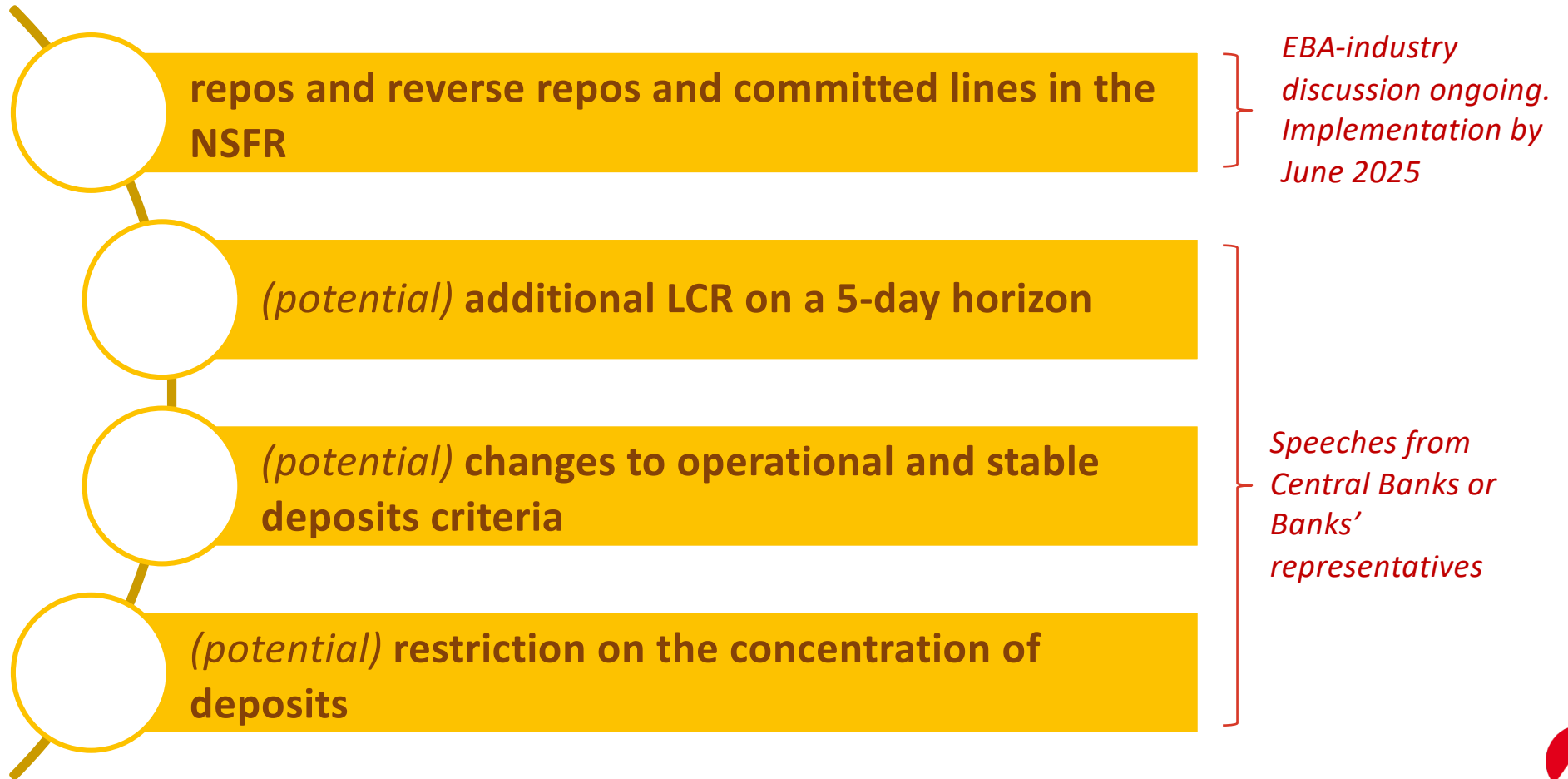
High volatility in:

- **FX rate** generated by the geopolitical risks;
- **Commodity prices** due to the offer constraints related with the war and the Covid lockdowns; produced spikes in margin calls.

Potential inefficiencies driven by the application of the **historical look back approach** (HLBA)



Potential regulatory changes on the horizon



ESG impact on liquidity regulation and framework

The EBA Report on the **role of environmental and social risks in the prudential framework** (October 2023) states that **no changes are envisaged on the LCR and NSFR framework** to capture environmental risks, but...

Ordinary Monetary Policy

“We have decided that only assets that **comply with the EU CSRD** will remain eligible once it enters into force”

“We are now looking at **setting limits on the share of assets issued by entities** with a high carbon footprint that banks can pledge as collateral for our lending operations”

“When we reviewed the resilience of the **haircuts** [...] we did not find any evidence that the existing scheme provides insufficient protection against climate-related financial risks”

Extraordinary Monetary Policy

“We started **tilting** our reinvestments of **corporate bonds** towards issuers that have a better climate performance”

“When there is no clear monetary policy rationale for preferring domestic sovereign bonds, we should contemplate increasing the share of EU **supranational** bonds”

“Whenever there is a monetary policy need in the future to reconsider **targeted longer-term refinancing** operations for banks, there are compelling reasons to seriously **consider greening them**”

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1. Speech by Frank Elderson, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, at the Bertelsmann Stiftung, Berlin, November 2023
2. Corporate Sustainability Reporting Directive

