

## **Op Risk In A Post AMA World**

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### ***Using Risk Appetite Metrics To Steer The Operational Risk Profile Of The Business***

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Roma, 22<sup>nd</sup> June 6

## A metric known as "ELOR"

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- Risk Appetite Framework defines the **level of risk that UniCredit Group is prepared to accept in pursuit of its strategic objectives and business plan,** taking into account the interest of its customers and shareholders as well as capital and other requirements

***ELOR aims to be a managerial tool informing business decisions  
pursuing a sustainable in time value creation***

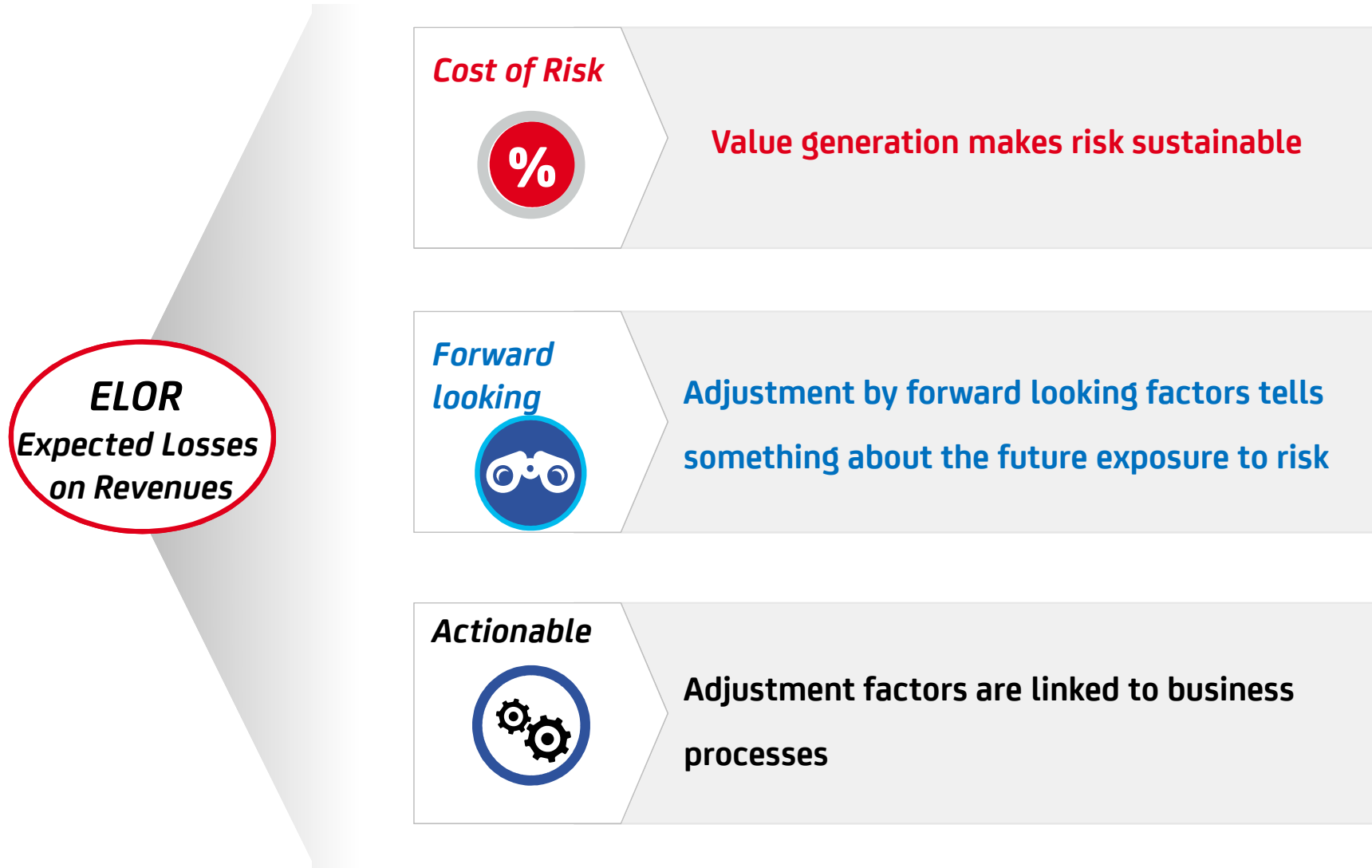
# Agenda

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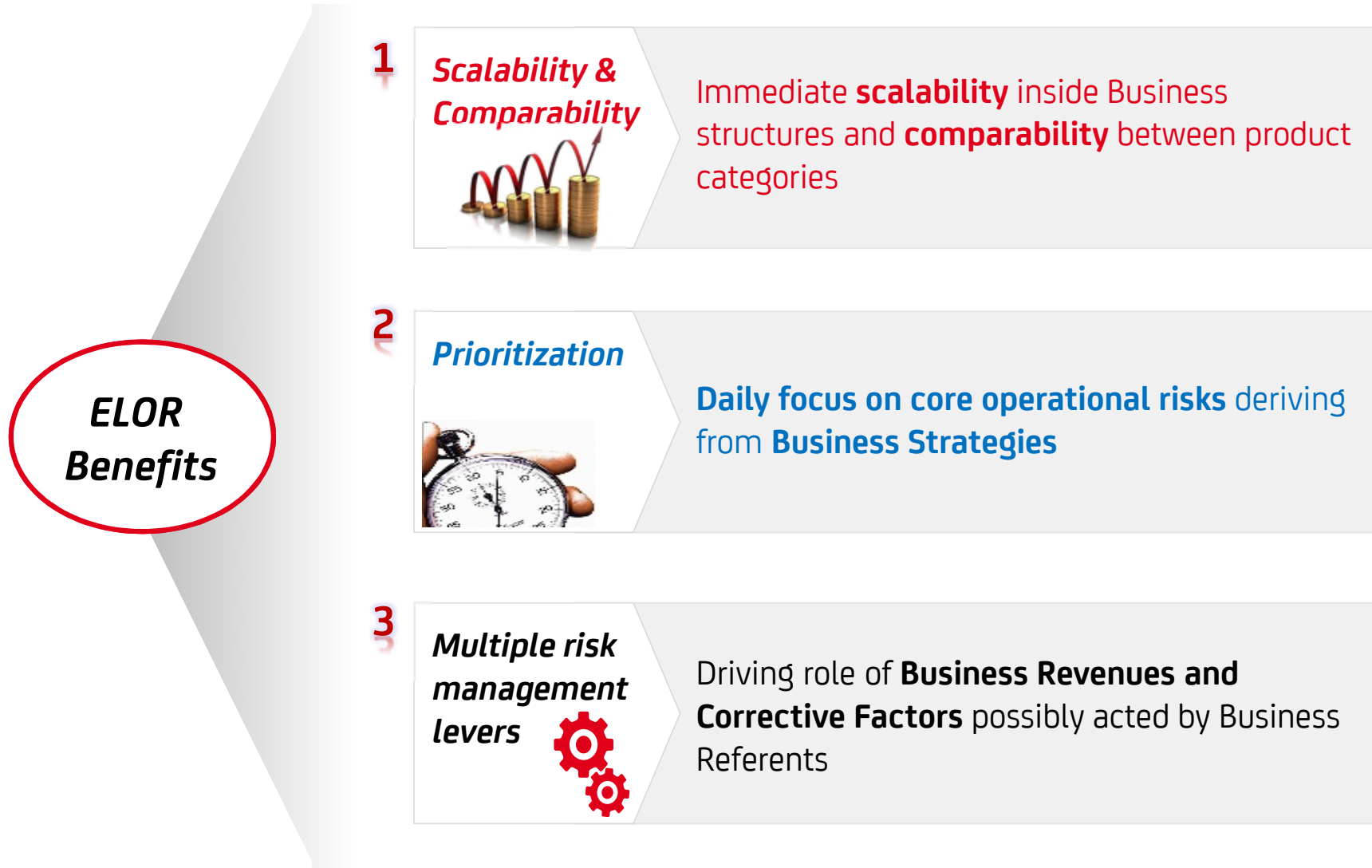


# Grounded on OpRisk fundamentals, ELOR is a tremendous opportunity to provide business with a tool *looking into the future*

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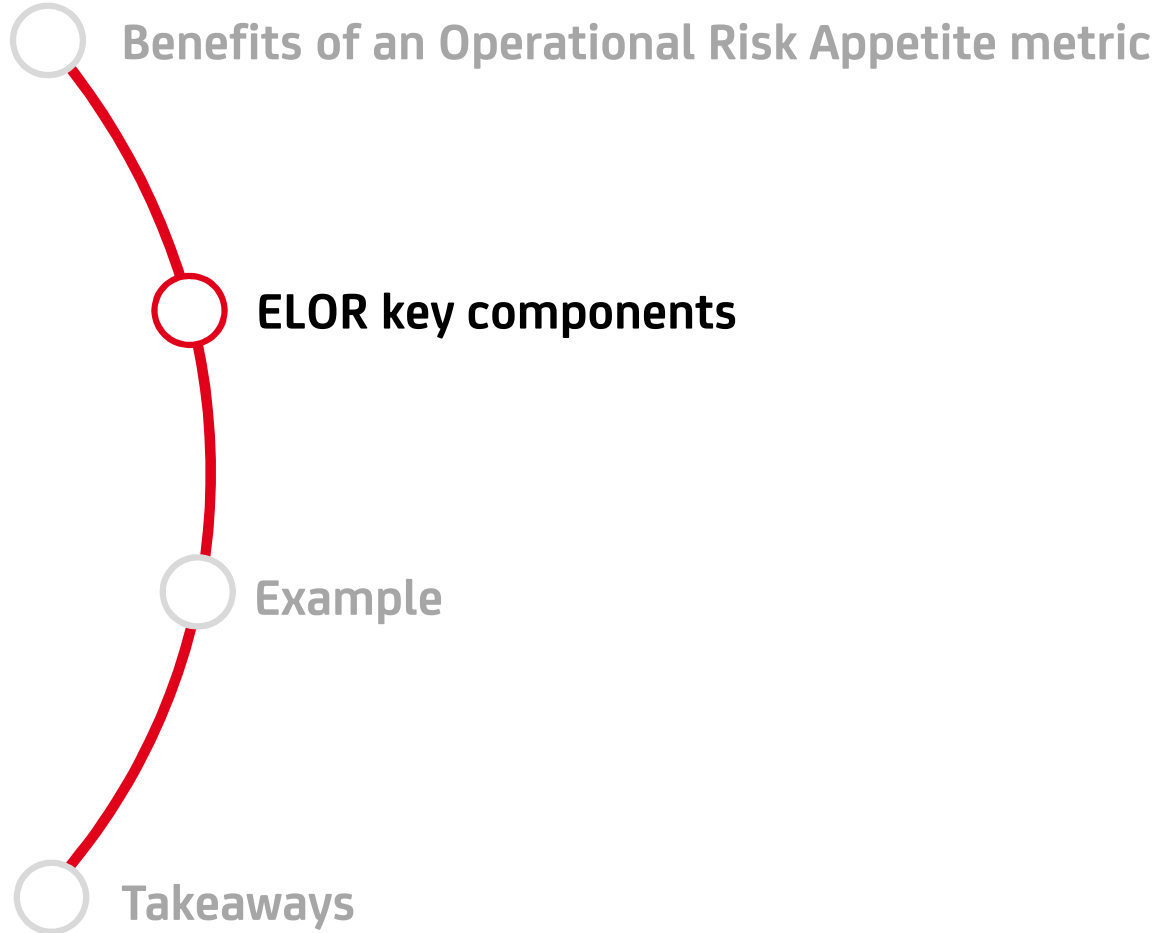


# In the context of constantly changing business environment, increasing innovation and regulatory pressure, ELOR adoption implies three key benefits



# Agenda

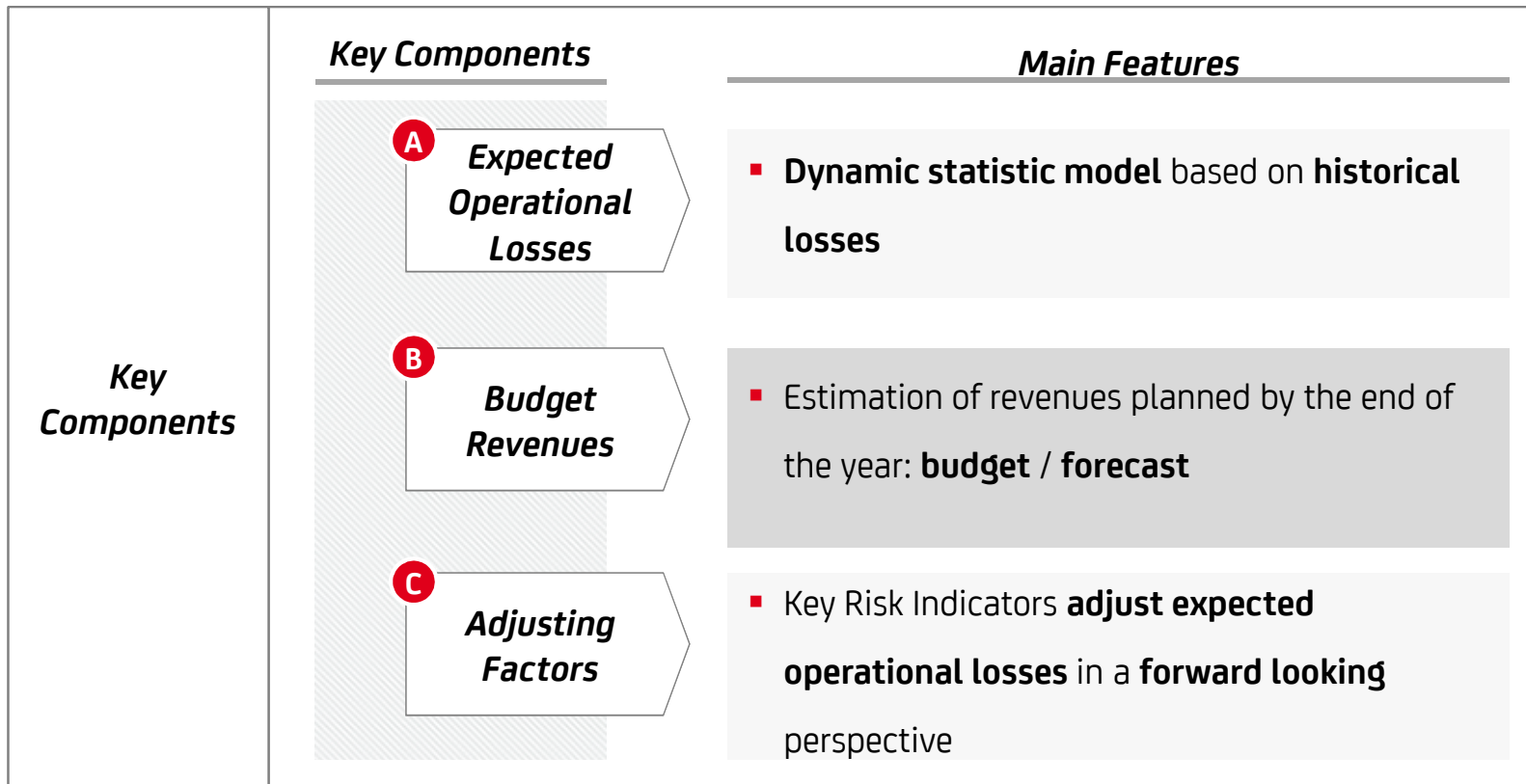
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# RAF - Expected Operational Losses on Revenues (ELOR)

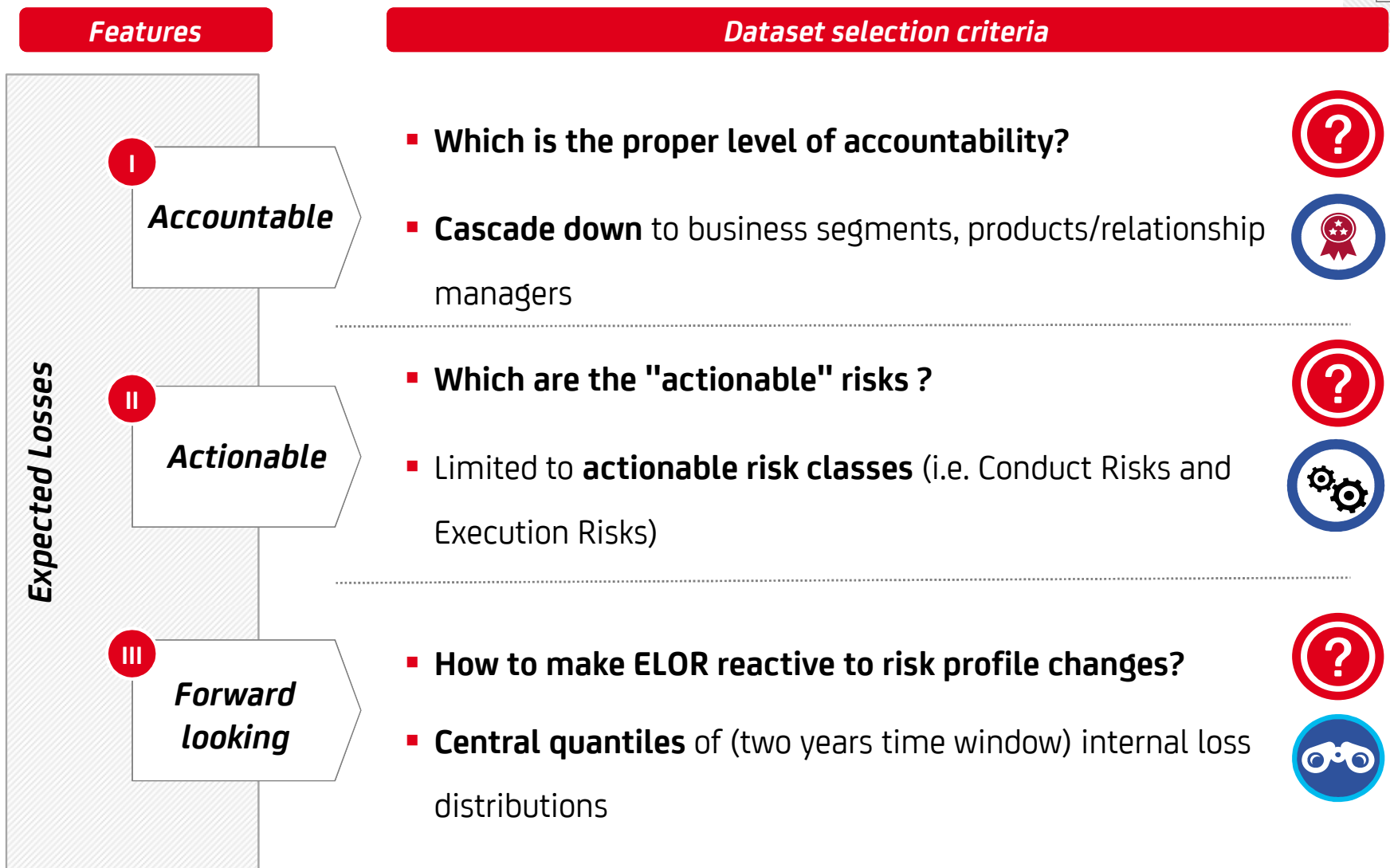
Metric & Key Components

<i>RAF Metric</i>	<b>ELOR =</b>	$\frac{\overset{\text{C}}{\text{Adjusted}} \overset{\text{A}}{\text{Expected Losses}}}{\underset{\text{B}}{\text{Budget Revenues}}}$
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<b>ELOR as a managerial tool</b>	<p style="text-align: center;">ELOR is expressed as a <b>cost of risk measure</b>:</p> <p style="text-align: center;"><b>higher Operational Risk profile is allowed if it is properly rewarded by Budget Revenues</b></p>
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# ELOR focus on Expected Losses to improve business choices awareness



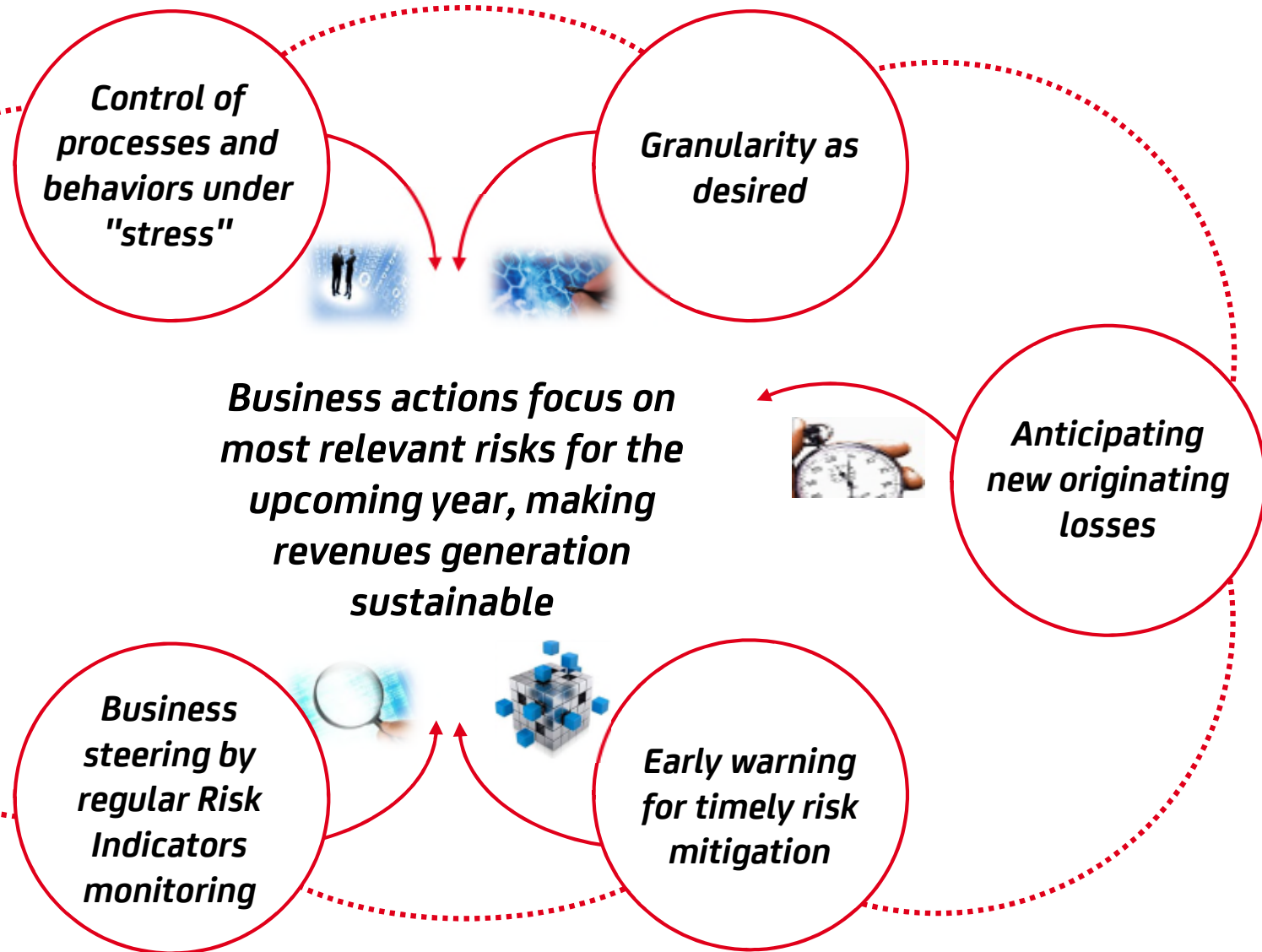


# Revenues selection is crucial to measure the business capability to repay operational risk



Items	Features	Op-RAF relevant
<p>I</p> <p><b>Net Interest income</b></p>	<ul style="list-style-type: none"> <li>▪ Traditional funding and lending activities</li> <li>▪ Remunerates <b>credit risk</b></li> <li>▪ <b>Strictly influenced by "macro"</b></li> </ul>	<input checked="" type="checkbox"/>
<p>II</p> <p><b>Net Commission and Fee income</b></p>	<ul style="list-style-type: none"> <li>▪ Mainly related to <b>products and services generating operational risk</b></li> </ul>	<input checked="" type="checkbox"/>
<p>III</p> <p><b>Trading Profit</b></p>	<ul style="list-style-type: none"> <li>▪ Strictly connected to the <b>buying and selling of financial instruments</b></li> <li>▪ <b>High volatility due to market conditions</b></li> </ul>	<input checked="" type="checkbox"/>

Adjustment factors (Risk Indicators), shared with business, are key for “looking into the future” and steer business actions

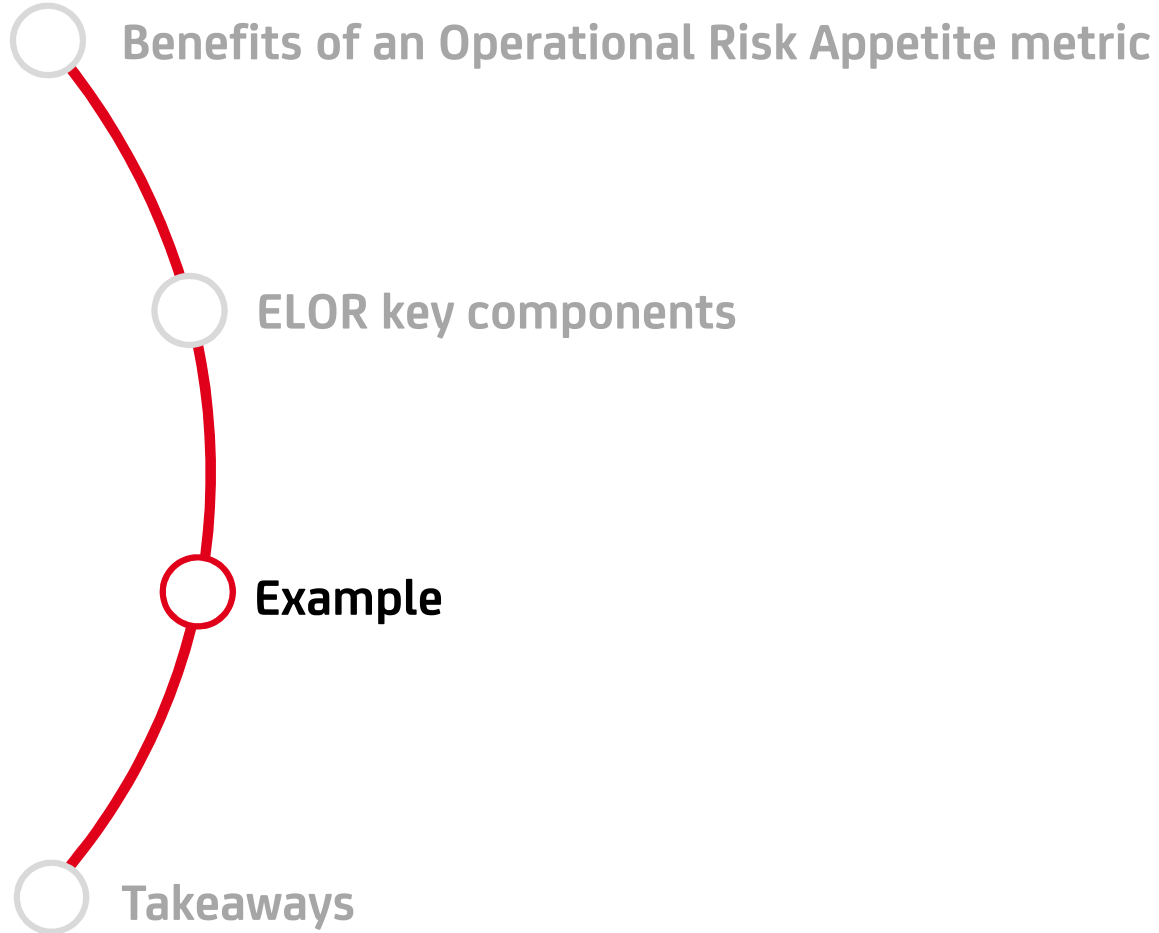


**Business Syndication**

**Risk Indicators**

## Agenda

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# Challenge is to identify behaviors and processes that could be stretched in pursuing budget targets

**ILLUSTRATIVE**

<p><b>Business Strategy</b></p>	<p>Transformation of <i>client deposits</i> into <i>assets under management</i></p>
<p><b>Risk indicator</b></p>	<p>MIFID → Percentage of <i>customers increasing their risk profile</i> in conjunction with a purchase order</p>
<p><b>Example of ELOR trend considering Risk indicator evolution</b> (other conditions being equal)</p>	<p>monitoring process</p> <p>ELOR</p> <p>10%</p> <p>5%</p> <p>3%</p> <p>1% 2% 3% 4% 5% 6%</p> <p>Risk Indicator</p> <p>comfort</p> <p>consequent management</p>
<p><b>Managerial lever</b></p>	<p><i>timely review customer profile</i></p>

## Agenda

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## TAKE AWAYS

**ELOR  
potentials**



**MANAGERIAL TOOL TO IDENTIFY AND MONITOR RISKS  
EFFICIENTLY**



**PRIORITIZING TOOL TO FOCUS ON KEY PROCESSES AND  
BEHAVIORS**



**BUDGETING TOOL TO INFORM BUSINESS DECISIONS**

***Business involvement makes ELOR an effective steering tool  
leading to a continuous improvement of the risk profile, creating  
sustainable value overtime***

## Contacts

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