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Treasury management

Trading Room

The trading room conducts operations in the main national and international fixed income (public and private), currency, equities and derivatives markets, both on a proprietary basis, investing its own capital, and to meet client orders. These activities are always guided by principles ensuring ample liquidity and a high level of solvency. Cecabank is also a market maker for Spanish Treasury Public debt, actively participating in auctions and facilitating secondary market liquidity, not only in spot sales, but also in repo market financing, given that Cecabank is a direct member of the main central clearing houses (Meffrepo, LCH London, LCH Paris and Eurex).

Cecabank is a benchmark institution in the market for the sale/purchase of foreign currency banknotes.

Market maker for

Government debt

Member of the

4 main

central counterparties

Activity during the year

Cecabank's treasury has responded well to the new challenges. From the liquidity viewpoint, there has been a transformation in the source of business from securitisation funds, which saw an outflow following the cut in their ratings in previous years, to a more stable situation deriving from depositary business, in an efficiently timed process.

Three key aspects of fulfilling our Strategic Plan are building the stability and diversification of our business and deleveraging the balance sheet. These have been judged positively by ratings agencies when assessing our institution. As a result, S&P improved our rating on 27 November 2014.

Over the course of 2014 we have managed to reopen lines with many of our counterparties, not just as a result of the improved country-risk perception, but also our better positioning and the consolidation of our business as a wholesale bank. Central clearing houses have also increased our operating limits and reduced haircuts.

At the same time, efforts to obtain new direct clients from cross-selling to depositary institutions have been stepped up, resulting in an increase in foreign currency operations with third parties and repo operations. One key

point to note in these operations is the technological change brought about by replacing the old SICE listings platform with a new technically more advanced platform that basically operates over the Internet.

Derivatives operations

Investments are being made in reducing the risk and the cost of capital of derivatives operations. Highlights regarding this line include settlement agreements with members of the LCH clearing house and membership of the new national derivatives clearing house created by MEFF, which is due to come into operation in 2015.

Government debt market maker

We continue to promote the important task of government debt market making, incorporating a price quotation platform via Bloomberg on which counterparties are given real-time price information. We continue to take part in all Spanish treasury tender operations, including syndicated operations.

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Banknotes

Cecabank is the market leader in Spain for wholesale foreign banknotes and provides a service to almost all the country's financial institutions.

Cecabank has extensive experience in national and international secure transport and logistics. The logistic structure in place allows it to offer clients a top quality service with total flexibility to adapt to each specific need.

Activity during the year

In 2014 Cecabank handled over 2,000 foreign banknote sale/purchase transactions a day, taking charge of the end-to-end transport, handling and insurance process.

Our clients have full flexibility to request any level of service, and can even entrust Cecabank with withdrawals and deliveries directly to and from their branch network, with the attendant cost savings and service quality improvements. Cecabank currently caters to over 15,000 bank branches under these arrangements.

Key data for 2014

The Spanish market leader for wholesale foreign banknotes.

Purchase and sale of foreign banknotes

+2,000

transactions a day

Bank branches

+15,000 served

directly by Cecabank

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Treasury and Risk Support

The Treasury and Risk Services Centre provides services relating to the support, maintenance and development of various applications for the following activities:

- /// Treasury Front Office.
- /// Treasury Back Office.
- /// Market and counterparty risk monitoring and calculation of operating performance.
- /// Operational risk management.
- /// Banknote activity support.

Other key services include comprehensive collateral management, for the management of all types of financial business collateral contracts (CSA, CMOF, GMRA, GMSLA and EMA): suspicious transaction reports for the identification and monitoring of transactions that may need to be reported to the National Stock Market Commission (CNMV) and the EMIR service for user institutions able to comply with certain requirements established by this regulation: clearing of OTC derivatives, reporting to the trade repository, and application of operational and credit risk-reduction techniques.

The services provided by the Treasury and Risk Services Centre allow all types of financial institutions, public authorities and corporations to access standard IT applications specialising in the various trading room and risk activities, developed by leading suppliers on national and international markets. The corrective maintenance and upgrading service performed ensures the systems are adapted in line with regulatory changes and new products appearing on the markets.

Activity during the year

Over the course of 2014 the scope of the services provided has been expanded in terms of user numbers and the range of services offered.

New institutions joining the Treasury and Risk Platform include the Instituto de Crédito Oficial (ICO), which selected Cecabank's solution to provide IT support for the management of its Treasury and Capital Markets. Thanks to the wide coverage of the offered services, Cecabank's IT infrastructure and its flexibility to adapt to technical and business requirements, Cecabank obtained the best overall score in the evaluation of the award criteria set by the ICO.

In 2014 the EMIR service was launched with the aim of getting ahead of the new regulatory requirements of the European Markets Infrastructure Regulation (EMIR).

Key data for 2014

Operational risk database

+ 1.5 million
loss events

Treasury and Risk Platform, Spain's leader

18 financial institutions,
public authorities and
corporates

Collateral contract
management for

8 institutions

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Treasury management

José Manuel Villaverde Parrado, Financial Division Director



How did the Financial Division perform in 2014 and what were its main milestones?

- /// Consolidation of the traditional market.
- /// Rating upgrade.
- /// New clients.
- /// Debt market making and treasury support.
- /// And, of course, beating the budgeted target.

In terms of performance, 2014 was a fairly good year for Cecabank's trading room. The income obtained, net of expenses, was 107.62 percent over the targets we budgeted for in December 2013, so we can consider we had a strong year. This good performance was based on our getting our portfolio positioning right, particularly in fixed-income assets, and growing transaction volumes generated by our client portfolio, including both

direct clients and those generated by cross-selling. Our achieving a good transaction price, together with good pre-sale and post-sale service has meant that trading volumes have grown significantly over the course of the year.

Do you think that this performance can be sustained in post-crisis markets?

It is true that the crisis has been beneficial for our institution, all the more so considering that our institution has been one of the winners emerging from the crisis strengthened. To keep ourselves in this position our institution has been able to transform itself into an agile and flexible organisation in all respects. We have reduced our expenses, improved efficiency and, more importantly, we have changed our business model, turning ourselves into a market benchmark. Cecabank's income is now much more diverse than it was ten years ago and its capacity for action is much greater. We have grown in all respects, with prudence, and with a clear idea of our strategy. Cecabank is a reality, it is successful, and it has huge potential.

The current climate is significantly more complex than that we faced at the start of 2014. Numerous significant events have occurred during the year, leading most central banks to set their intervention rates at minima, or even negative in some cases, such as in Switzerland or Denmark. This

is uncharted territory which is going to cause serious profitability problems for both investment and pension funds and its effects on the global economy are as yet unknown. These shifts are the outcome of the currency wars being waged to gain market share and they make it much harder for banks with a profile like ours to turn a profit.

How do regulatory changes affect the Financial Division's business?

Treasury's budget presents the challenge of client diversification. Liquidity is of course an extremely important aspect, but we have to optimise. It is worth recalling that interest rates are currently negative and an excessively prudent approach to liquidity represents a cost for the institution. In 2014 we also designed and approved our new Risk Tolerance Framework, which clearly sets out our limits, current and future ratings, and, in short, our risk appetite.

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The new standards emerging from Basel III mean that institutions are much more strictly regulated in order to avoid the excesses of the past. At Cecabank we are highly focused on taking the necessary steps to be a medium-low risk profile entity. These last few months have seen numerous meetings and partnerships, both internal and external, and this collective effort is bearing fruit in the form of a series of internal standards approved by the Board of Directors, which will be the basis guiding future action.

What factors do you think will affect how markets develop and how will the bank utilise them?

The environment is clearly complicated, but it is in circumstances like these that opportunities arise.

- Consolidation of the financial system: new and bigger institutions seeking to boost their efficiency, which tend to outsource services of all kinds. Cecabank has the answers to their needs.
- The regulatory framework may favour one of the basic lines of our strategy and our business model, namely Securities Services.

- Our specialisation in many treasury products, together with an enviable capital, liquidity and leverage situation allow us to take advantage of the opportunities that arise. We are an institution that is present in all markets, and are highly demanding in terms of product innovation. A clear example is our presence in fixed-income central counterparties (CCPs) and our commitment to variable-income CCPs arising out of securities market reform.

We clearly see that Cecabank is going to be an extremely important market player with a clearly defined role.

What are the main challenges facing the treasury platform, the banknotes desk and the corporate business?

Our main challenge—and it could not be otherwise—is first and foremost to obtain new clients, but no less important is retaining them. Therefore our distribution desk and our traders focus their efforts on providing the best service. We have invested in platforms, both in currencies and fixed income, and we are always available for any request.

The banknotes desk is the Spanish market leader and has been for many years. More importantly, it is well regarded by its customers. As regards corporate business, we are making efforts jointly with the risk department to establish more and better operating links to allow us to continue to grow in terms of business and products.