



## Treasury Management Trading Room

The Trading Room performs operations in the main national and international (public and private) fixed income, currency, equity and derivatives markets, both on a proprietary basis and for our clients. These activities are always conducted following principles which guarantee a comfortable liquidity position and high solvency. Moreover, Cecabank is the market maker for Spanish Treasury Public Debt, taking an active part in auctions and facilitating liquidity in the secondary market, not only in spot purchases and sales, but also in financing in the repo market. The bank is a direct member of the main Central Counterparty Clearing Houses (BME Clearing, LCH London, LCH Paris and Eurex).

Moreover, Cecabank is a benchmark in the market for the purchase and sale of foreign banknotes.

Spanish Treasury market maker for

## Public Debt

A direct member of the main Central  
Counterparty Clearing Houses

BME Clearing    LCH Londres  
Eurex            LCH Paris

### Activity during the year

Cecabank's Treasury Management Department has responded well to the new challenges. From the liquidity standpoint, there was a change in the source of business from securitization fund accounts, which moved away with the drops in ratings of previous years, to a more stable situation stemming from the depositary service activity, in a process which was efficiently adjusted over time and which has raised the daily operating volume in a sustained manner.

On rating our entity, the ratings agencies value three key aspects: compliance with our Strategic Plan, greater business stability and diversification, and comfortable compliance with the new regulatory liquidity and leverage ratios. As a result of this, Moody's upped its rating 4 notches on 17 July 2015, putting our rating at Baa2. In the course of 2015, a large number of counterparties reopened their lines to us, not only because of the improved perception of country-risk, but also because of our enhanced positioning and business consolidation as a wholesale bank. In addition, the central counterparty clearing houses have raised their operating limits with us.

Moreover, Cecabank worked even harder to attract new direct cross-sales customers amongst depositing entities and entities with which it had never had a commercial relationship. As a result, operations in currency with third parties, fixed income and repo operations increased.

In respect of currency operations, there was a change in technology as the former SICE price platform was replaced by a new, more technically advanced platform, which basically functions through the internet and speeds up and improves the service provided for our clients.



**Derivatives operations.** Cecabank is investing in reducing risk and the capital cost of these operations. In this respect, agreements were reached with members of the LCH clearing house for settlement and Cecabank will be taking part in the new Spanish clearing house for derivatives, created by Meff, which is expected to come on stream in 2016. In the future, clients will be able choose whether to settle transactions at the clearing house if they are members of it, which will mean a lower capital cost, or continue with bilateral guarantee contracts which are starting to produce differences in price and cost in comparison with the former method.

**Spanish Treasury market maker for public debt.** We continue to play the important role of Spanish Treasury market maker and we have added a price platform through Bloomberg where counterparties can find prices that can be executed in real time. In addition, we still take part in Spanish Treasury auctions, including syndicated issuances. Our exposure to other treasuries, such as Germany, Italy and USA, allows us to offer our services in these markets too.

Apart from State debt, we have also added the daily price in real time of over 200 eligible private fixed income bonds between regions, corporates and debentures. This is quite an important step for several reasons: the evolution of the business required it, it helps us to extend our range of national and international clients, who have access to our prices, and it projects us as an institution which plays a role in the market.

## Treasury Management

### Banknotes

Cecabank is the leader in the wholesale foreign banknote market in Spain and serves nearly all the country's financial institutions. It has extensive experience in logistics and securities transport, on both a national and international scale. Thanks to our logistics structure, we can offer customers a highly flexible, top quality service which adapts to their every need.

#### Activity during the year

In 2015 Cecabank received over 2,100 foreign banknote purchase and sales transactions per day and carried out the whole process of transport, handling and security.

Our clients have total flexibility for requesting any type of service and can even ask Cecabank to directly deliver banknotes to their branch network or to take them away, with the corresponding cost saving and improvement in the quality of service. Over 15,000 bank branches are currently served directly by Cecabank in this way.

#### Main figures

December 2015

*Leader in the wholesale foreign banknote market in Spain*

#### Purchase and sales of foreign banknotes

+ 2,100 transactions per day

#### Bank branches directly served by Cecabank

+15,000

### 03 Our Business Model

1. **Strategic lines** | Economic and regulatory environment | Building the future | Business lines
2. **Financial information** | Activity | Income Statement | Capital base | Ratings
3. **Business risk** | The risk function at Cecabank



## Treasury Management

### Treasury and Risk Support

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

- /// *Treasury Front Office.*
- /// *Treasury Back Office.*
- /// Control of market and counterparty risk and calculation of management results.
- /// Operational Risk Management.
- /// Support for the banknote activity.

In addition, we provide integrated collateral management services for all types of collateral contracts in financial activities (*CSA, CMOF, GMRA, GMSLA and EMA*). We also communicate suspicious transactions for the identification and control of operations that might need to be communicated to the Spanish securities and exchange commission (CNMV) and we provide the EMIR service so that user entities can meet certain requirements established in the said regulation, along with clearing of OTC derivatives, communication of transactions to the registry and the application of techniques to reduce operational and credit risk.

The services provided by the Treasury and Risk Services Centre give all types of financial institutions, public administrations and corporates access to standard computer applications specializing in the different activities of a Trading and Risk Room, run by leading servers in the national and international markets. The corrective and evolutionary service provided guarantees their adaptation to changes in regulation and to new products developed in the markets.

### Activity during the year

In 2015 the scope of the services provided increased in terms of both the number of users and the range of services provided.

In order to respond to the regulatory information requirements of entities using the Treasury and Risk Platform, a specific module has been developed to generate the outputs necessary to provide the information for preparing the statements for the Bank of Spain and for COREP and FINREP for the Treasury Division's activity.

In addition, the reporting service for the Trade Repository has been extended and includes the specific operations conducted by a number of corporates.

### Main figures

December 2015

#### Operational Risk loss database

+ 1.5 million loss events

#### Leading Treasury and Risk Platform in Spain

20 financial institutions, public administrations and corporates

#### It manages collateral contracts for

10 entities

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## Treasury Management

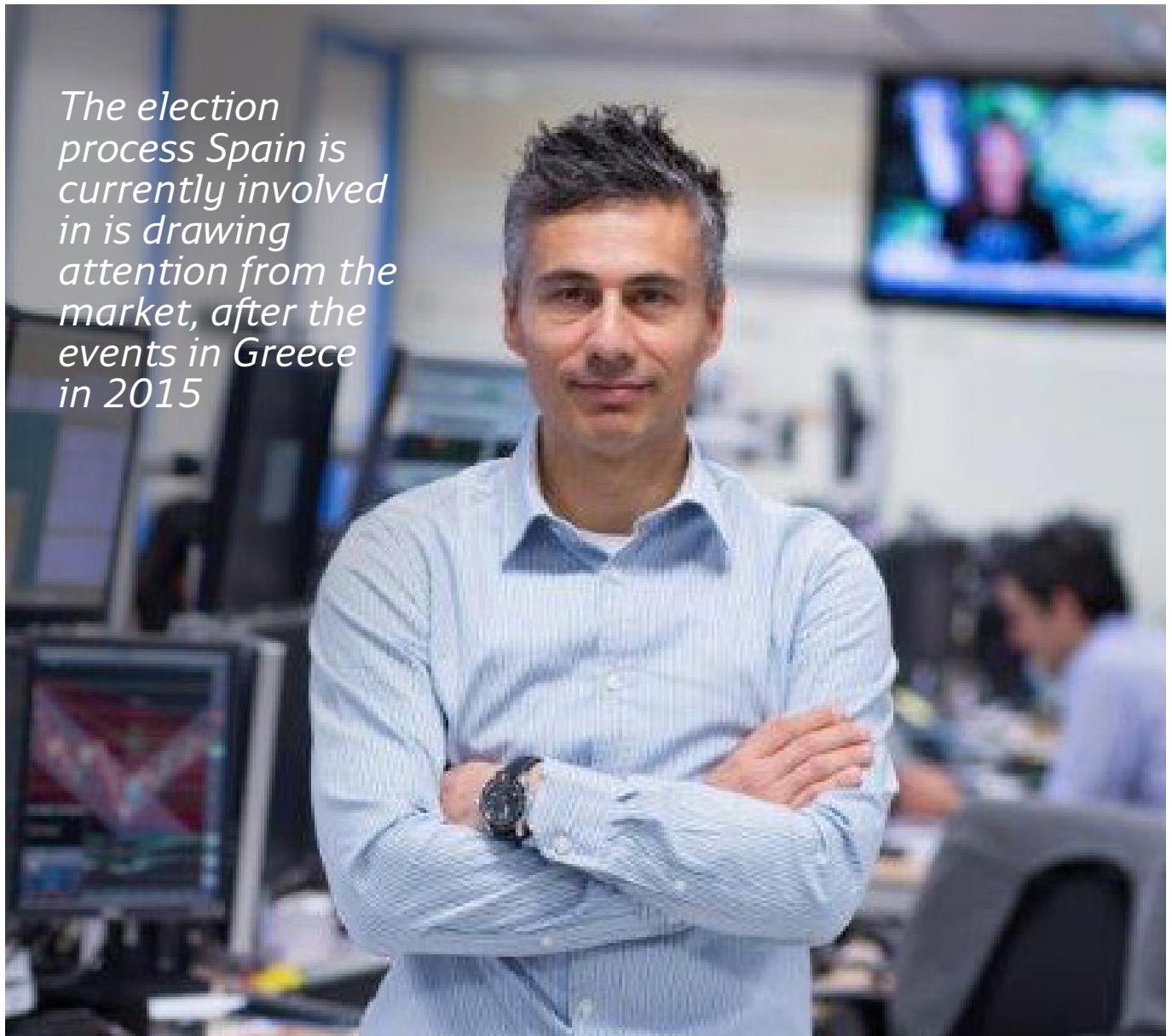
### Interview

Enrique David Velasco Moscardó  
Manager of FX, sovereign risk and equities

 [View interview online](#)

## BCE, inflation and economic growth

*The election process Spain is currently involved in is drawing attention from the market, after the events in Greece in 2015*



*The downturn in raw materials, especially oil, has meant that economies closely related to this business have registered low growth rates*

### What are main factors affecting the markets?

Two mainly: oil and China. Both oil and China have marked the future of the markets. On the one hand, the downturn in raw materials, especially oil, has meant that economies closely related to this business have registered low growth rates and that their Central Banks have tried to fight this slack growth with more expansive monetary policies.

And then there's China. The transformation that China is trying to impose, i.e. moving from a foreign sector model to an internal consumption model, is taking longer than anticipated and its growth rates were notably affected.

The two problems are related. If there is to be solution in the short term, this would either come from an increase in raw materials prices or rapid growth of the Chinese economy that would take us back to the rates of around 7 per cent registered a few years ago.

### How do you see the Spanish economic situation?

As regards the Spanish economy, we could say that 2015 was a fairly buoyant year with strong growth, although some economists believed it would be difficult to reach these rates. In my opinion, this is mainly due to the measures taken by the ECB which weakened the euro and favoured the Spanish economy's foreign sector and tourism, both elements our economy is very dependent on. Secondly, access to cheaper credit to foment internal consumption and, lastly, the geopolitical situation which meant that the flow of tourists was perhaps greater than

at other times. Everything came together – tail winds, as they say – to support these growth rates.

As regards uncertainties, the election process Spain is currently involved in is drawing attention from the market, after the events in Greece in 2015.

The outcome of this process will determine the reaction the markets have towards different products, bonds, equities, investor confidence...

### What effect is the current monetary policy having on the banking system?

We can see that the ECB's interest rate cut is having very negative effect on banks mainly, with shrinking margins. It's clear that it is also even having an effect on ROEs which have dropped from over 10 per cent a few years ago to levels of around 3-4 per cent. Although it's also true that the ECB's measures aim to boost economic growth and if they finally bear fruit, then this will benefit the financial systems and, above all, banks.