



EXPLAIN TREASURY LIKE I'M FIVE – THE ROLE OF A TREASURY FUNCTION

February 2026 – Gus Racadio



AGENDA

1. **INTRODUCTION** – *Who am I and what I currently do?*
2. **THE BASICS** – *What is a bank and how have they evolved?*
3. **THE TREASURY** – *What is it and the main objectives?*
4. **KEY STAKEHOLDERS** – *Who does a Treasury team engage with and why?*
5. **TREASURY RISKS MANAGEMENT FUNDAMENTALS** – *Understanding Funding, Liquidity and Capital*
6. **BALANCE SHEET FORECASTING AND STRESS TESTING** – *Preparing for the worst*
7. **WHAT HAPPENS WHEN TREASURY FAILS** – *Case study on Northern Rock*
8. **HOW TREASURY TODAY IMPACTS YOU TOMORROW** – *How news today impacts Treasuries*
9. **WRAP-UP, KEY TAKEAWAYS & Q&A** – *Final remarks*

JOURNEY AND ROLE

2022



MSci in Physics
University graduate

2023



Graduate Scheme
Santander UK - Funding & Liquidity

2024



Treasury Dealer
Balance Sheet Execution Team

2025



CertBALM® Certified
FCA-regulated via CISI



Gus Racadio is connected to:

Santander UK Plc

The individual's information has been confirmed as correct by their firm within the last 12 months
Firms are required to confirm that the information shown is correct at least annually.

[FCA CF] Proprietary trader

From 06 Jan 2025

This individual has been certified and/or assessed by an authorised firm that is regulated for certain activities. This firm accepts responsibility for the certified/assessed individual and the information on this record.

[FCA CF] Client dealing

From 06 Jan 2025

Back to top

THE BASICS

- **What is a bank and how they have evolved?**

WHAT IS A BANK?

A bank takes deposits and lends to those that need it, generating profit but also risk!

Takes Deposits

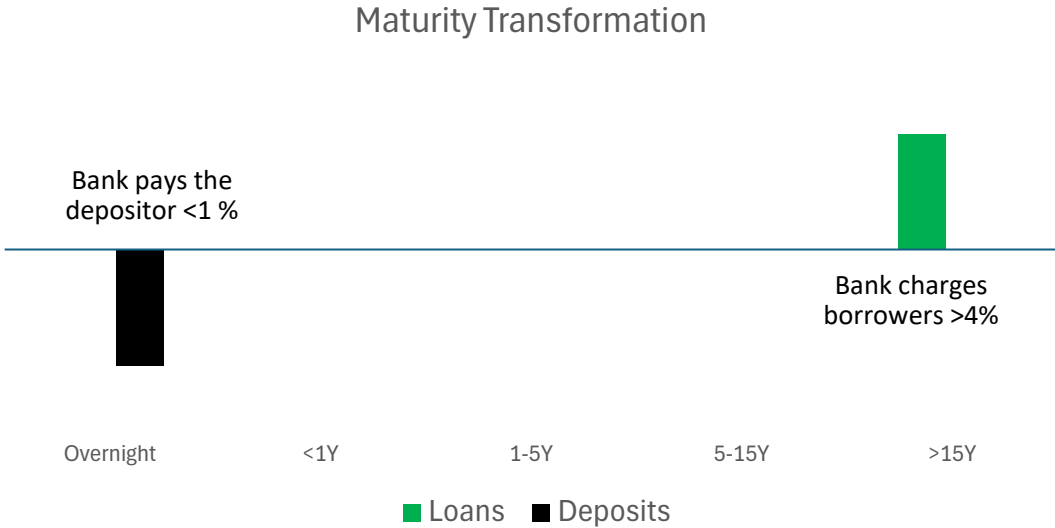
Accepts customer funds
Pays interest (<1%)

Maturity Transformation

Borrows short-term
Lends long-term

Makes Loans

Provides credit to businesses
Charges interest (>4%)



 **Banking Creates Risks**

Liquidity Risk • Credit Risk • Interest Rate Risk

EVOLUTION OF BANKING

Banking has become more complex, increasing the importance of Treasury functions



THE TREASURY

- What is it and the main objectives?



WHAT IS TREASURY?

The Central Financial Hub

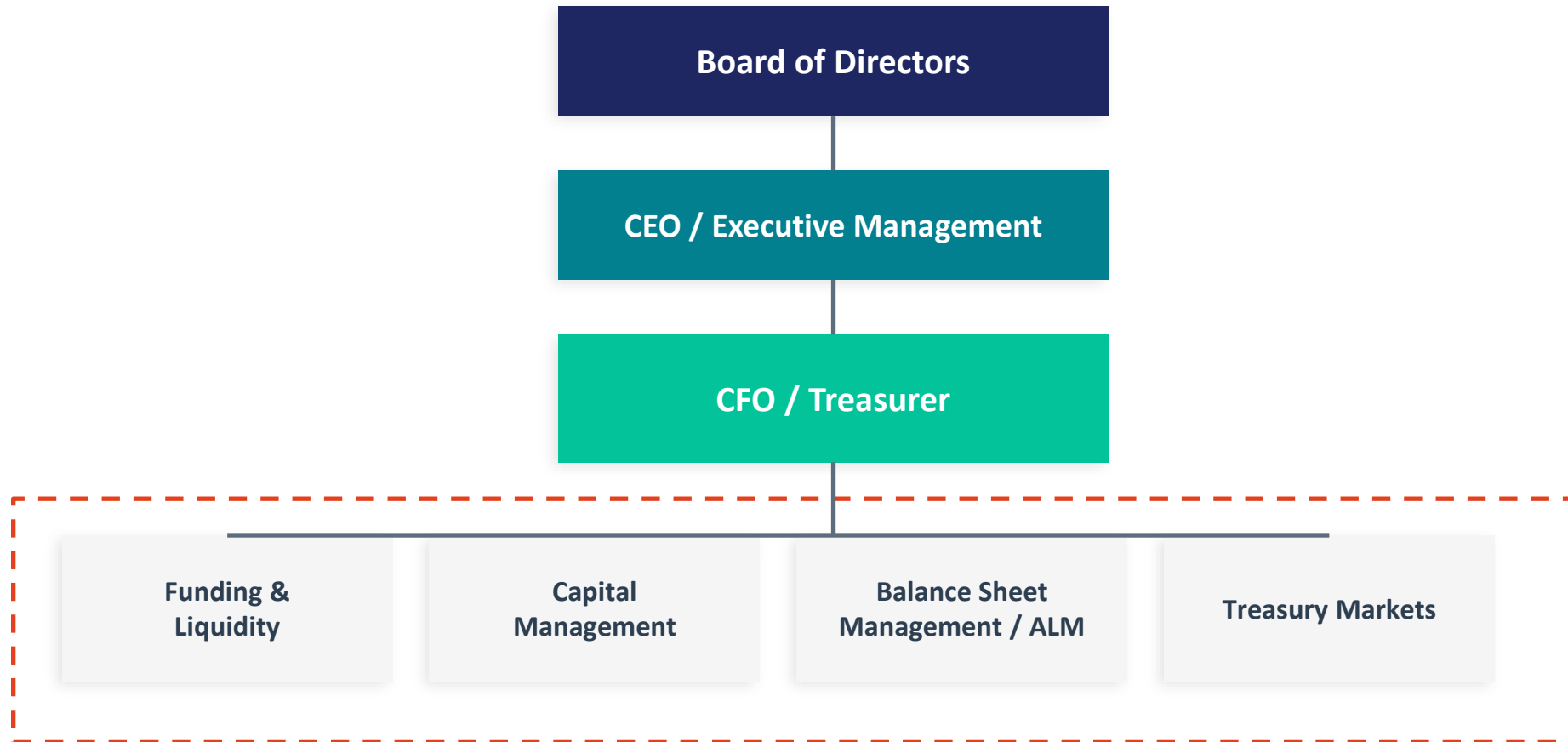
Treasury is the bank's financial control center, responsible for managing the institution's overall financial resources, risks, and strategic positioning.

Think of it as the CFO's operational arm for financial strategy execution.

Key Functions:

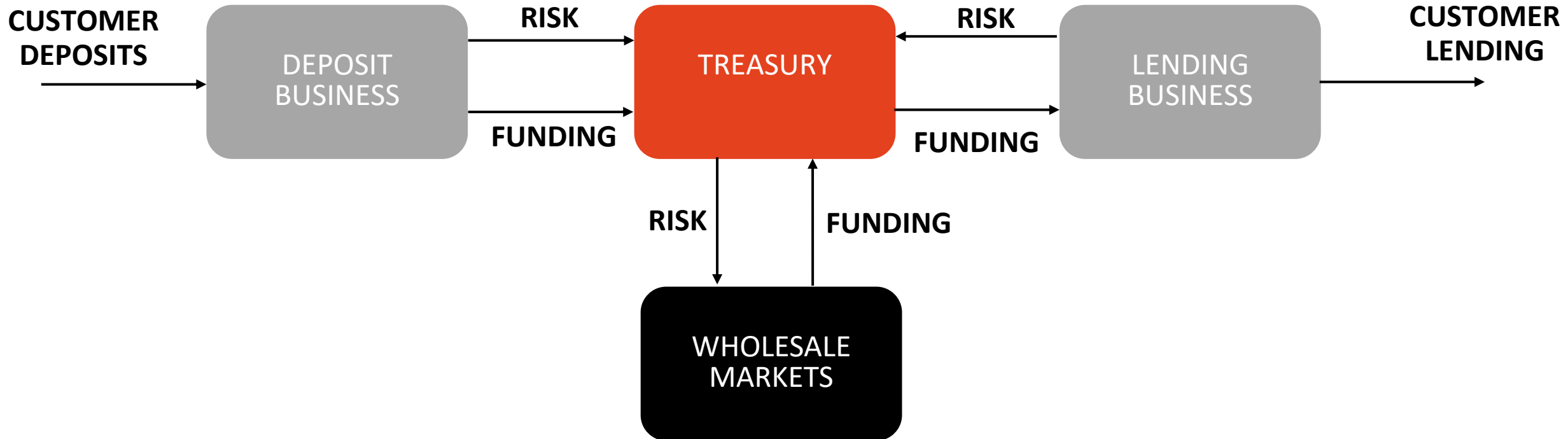
- Manages cash & liquidity
- Oversees funding strategy
- Controls financial risks
- Ensures regulatory compliance
- Optimises balance sheet

WHERE TREASURY SITS IN THE ORGANISATION



ROLE OF TREASURY

Treasury functions are a “Bank within a Bank”



TREASURY'S CORE OBJECTIVES



Risk Management

Identify, measure, and mitigate financial risks including interest rate, liquidity, and funding risks



Balance Sheet Optimisation

Maintain optimal capital structure and ensure efficient deployment of financial resources



Regulatory Compliance

Ensure adherence to capital, liquidity, and leverage regulatory requirements (Basel III, LCR, NSFR)



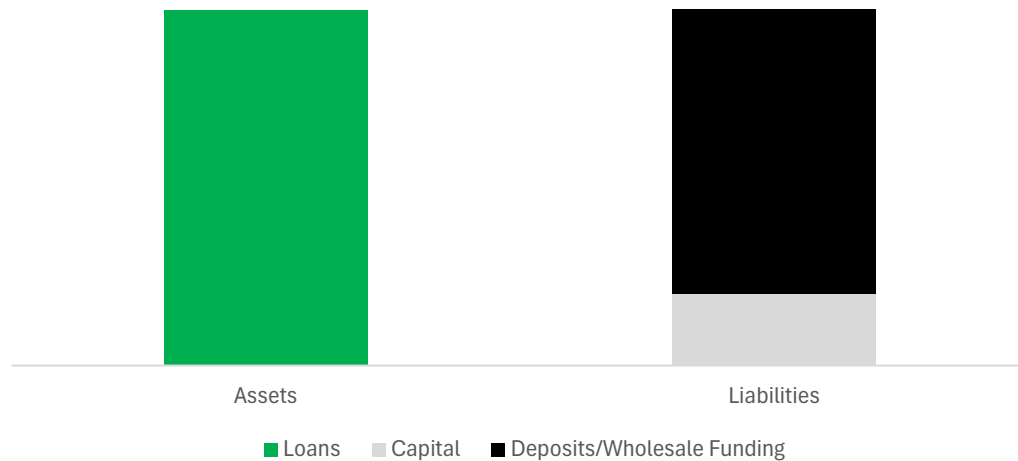
Value Creation

Support business growth while maintaining strong risk-adjusted returns and shareholder value

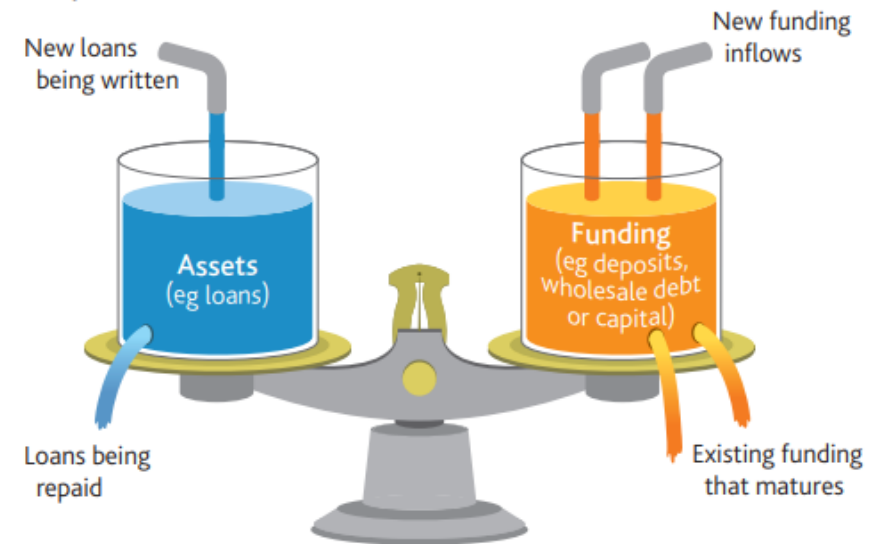
TREASURY'S IMPACT ON THE BALANCE SHEET

Treasury doesn't grow the balance sheet — it shapes it.

A Basic Banks Balance Sheet



Summary figure 'Buckets and scales' depiction of a bank's simplified balance sheet^(a)



KEY STAKEHOLDERS

- Who does a Treasury team interact with and why?



KEY INTERNAL STAKEHOLDERS

Senior Management / Board

Strategic direction, risk appetite, capital allocation decisions

Finance / Accounting

Financial reporting, budgeting, P&L analysis, tax planning

Risk Management

Risk identification, measurement, monitoring, and mitigation

Business Lines (Retail, Corporate, Investment Banking)

Funding needs, product pricing, balance sheet usage

Operations / IT

Systems, data management, process automation, settlements

Compliance / Legal

Regulatory adherence, policy development, documentation

KEY EXTERNAL STAKEHOLDERS



Regulators

Central banks, prudential authorities (e.g., PRA, FCA)

Focus: Capital adequacy, liquidity ratios, stress testing



Credit Rating Agencies

Moody's, S&P, Fitch

Focus: Financial strength, creditworthiness assessment



Investors & Shareholders

Equity holders, bondholders

Focus: Returns, dividends, capital allocation



Counterparties

Other banks, central banks, market participants

Focus: Funding, lending, derivatives transactions

TREASURY MANAGEMENT FUNDAMENTALS

- **Understanding the risks and management of liquidity, funding and capital**



KEY RISKS TO A BANK

“Insolvency takes time, but illiquidity kills you tomorrow.”



Solvency Risk

Assets < Liabilities = Balance Sheet Insolvency

Caused by:

- Credit Risk: Loan defaults
- Interest Rate Risk: NII erosion

🕒 Develops over time



Funding & Liquidity Risk

Unable to meet cash obligations, or at significant cost when due

Key characteristics:

- Can be solvent but illiquid
- Deposit withdrawals exceed cash
- Cannot access funding markets

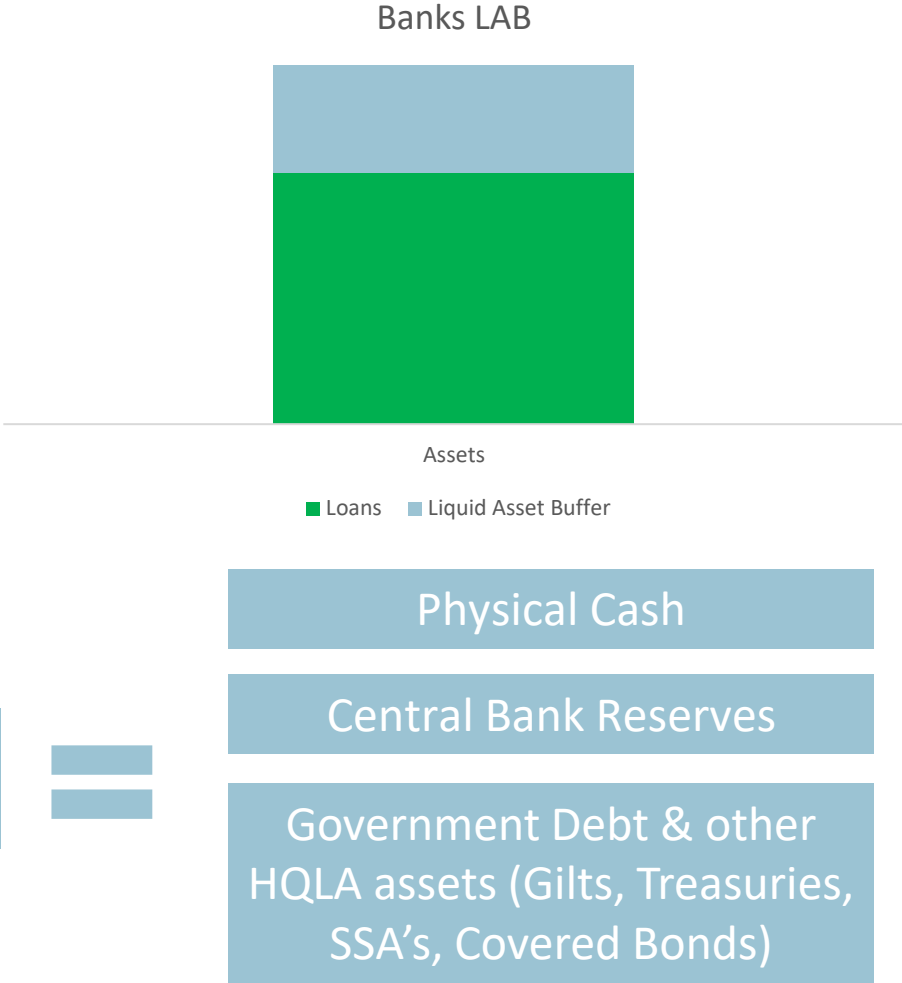
⚠️ TYPICALLY THE CAUSE OF BANK FAILURE

LIQUIDITY MANAGEMENT

Liquidity = Cash Availability

The ability to meet cash obligations as they come due without incurring unacceptable losses.

Treasury maintains a buffer of high-quality liquid assets (HQLA) to handle withdrawals, payments, and stress scenarios.



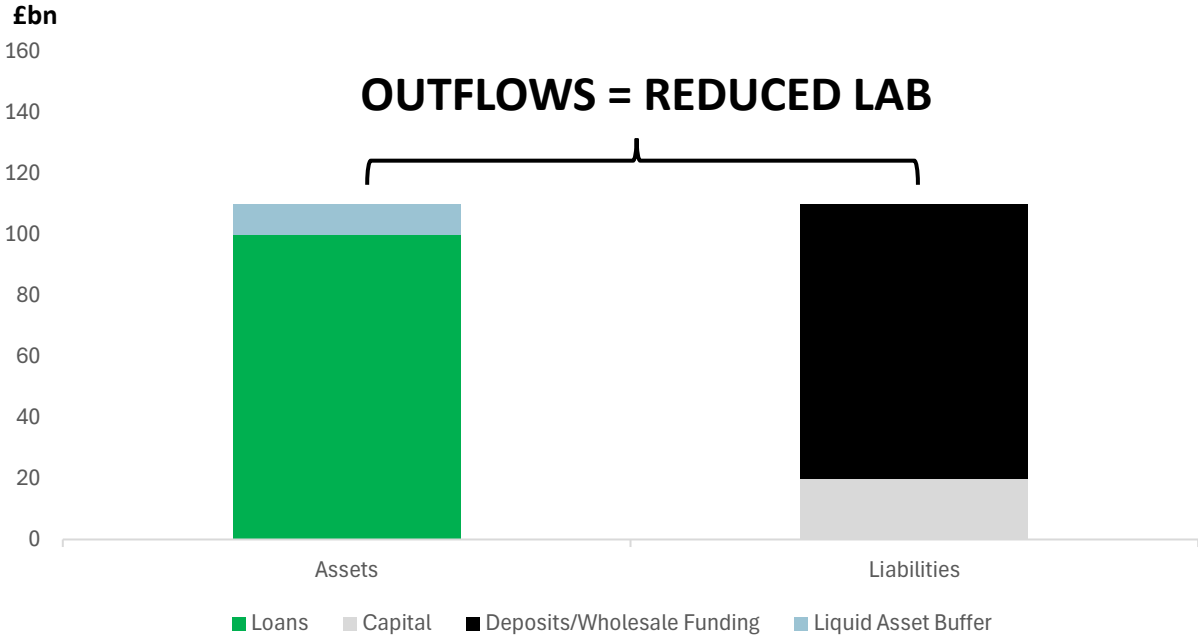
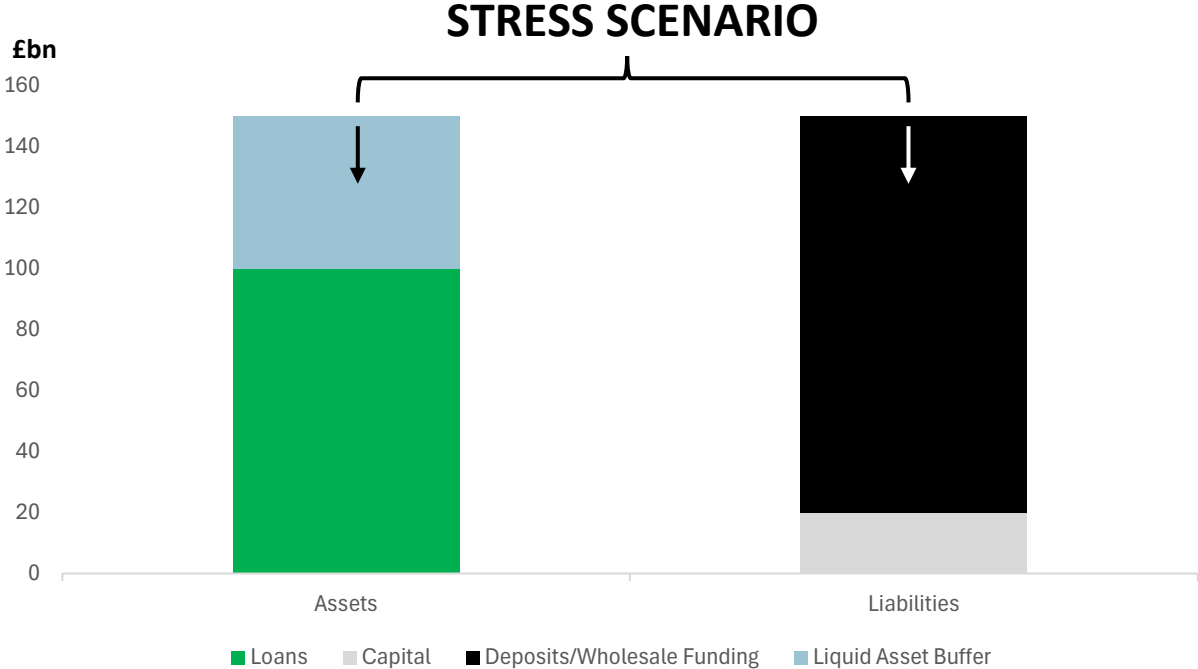
LIQUID ASSET BUFFER (LAB)



HIGH QUALITY LIQUID ASSETS



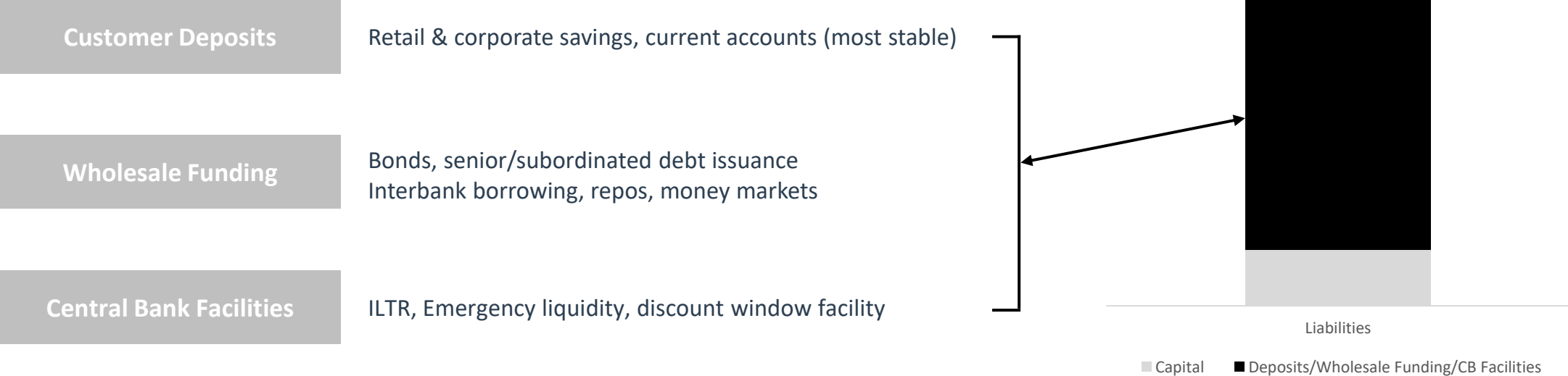
HOW TREASURY DEALS WITH FUNDING & LIQUIDITY RISK



FUNDING MANAGEMENT

What is Funding?

Funding is how a bank raises money to finance its assets (loans, investments) and operations. Treasury ensures the bank has stable, cost-effective funding to support lending and growth.



STRATEGIC FUNDING PRIORITIES

1

Stability

Diversify funding sources and tenors to reduce rollover risk

2

Cost Efficiency

Minimize funding costs while meeting regulatory and business needs

3

Flexibility

Maintain capacity to respond to changing market conditions and growth

Treasury Balancing Act: Optimise the trade-off between stability (safety), cost (profitability), and flexibility (agility) based on the bank's risk appetite and market conditions.

UNDERSTANDING BANK CAPITAL

Capital = The Bank's Financial Cushion

Capital represents the bank's own funds (equity + certain debt instruments) that absorb losses and protect depositors and creditors. It's the foundation of financial strength and regulatory compliance.



CAPITAL PLANNING AND ALLOCATION

- 1 Capital Assessment**
Evaluate current capital position against regulatory requirements and internal targets
- 2 Business Planning**
Forecast RWA growth from lending, trading, and new business initiatives
- 3 Stress Testing**
Model capital adequacy under adverse economic scenarios
- 4 Capital Actions**
Decide on dividends, buybacks, debt issuance, or equity raises
- 5 Regulatory Reporting**
Submit capital plans and stress test results to supervisors (e.g., ICAAP, CCAR)

CREDIT RISK

WHAT IS IT?

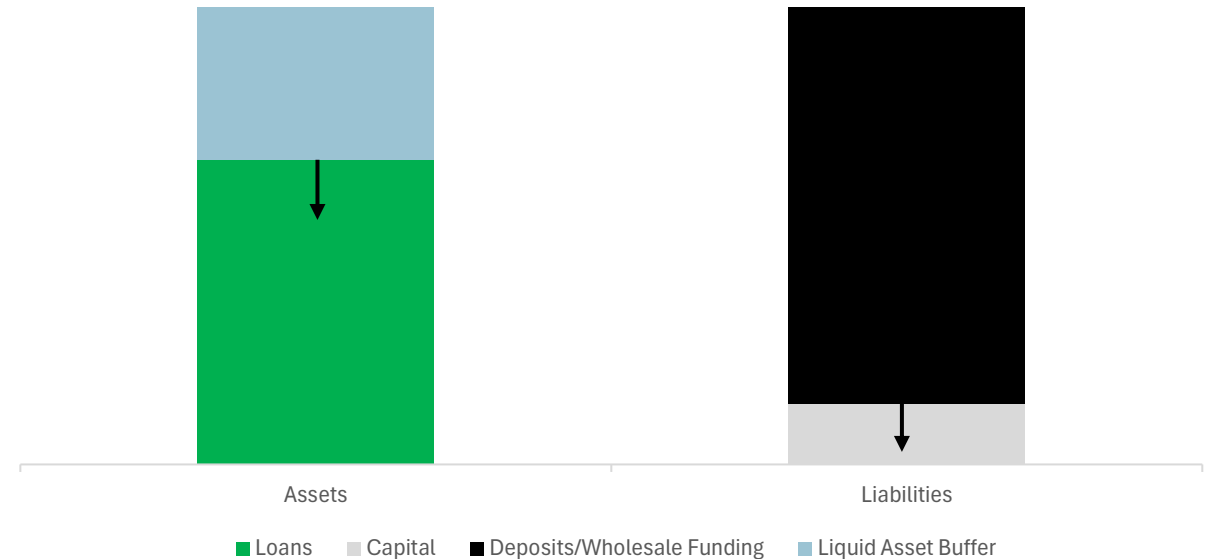
Credit risk is the risk taken by a bank in lending money to individuals or companies.

When a bank makes a loan, there is a possibility that it may not be repaid (borrower defaults). The bank will incur a loss as a result.

WHERE IT COMES FROM?

- **Probability of Default** – Creditworthiness of borrower
- **Loan Duration** – Longer loans are more risky
- **Loss Given Default** – Banks claim to loan collateral

HOW ITS MANAGED?



Bank capital serves as a cushion against unexpected losses.

This creates a strong incentive to manage a bank's risks in a prudent manner, because owners' equity is at risk in the event of large losses.

BALANCE SHEET FORECASTING AND STRESS TESTING

- **Understanding preparing for the worst is the best way to protect a bank**



BALANCE SHEET FORECASTING

Why Forecast?

Treasury forecasts the bank's future balance sheet to anticipate funding needs, capital requirements, and regulatory ratios. This supports strategic planning and risk management.

Key Forecast Inputs:

- Business growth plans (loan volumes, deposits)
- Market assumptions (interest rates, FX rates)
- Regulatory changes and requirements

Forecasting Process

1. Collect Data

Historical trends, business plans, market data

2. Build Models

Project assets, liabilities, capital, and liquidity

3. Scenario Analysis

Base case, upside, downside scenarios

4. Validate & Review

Stress assumptions, review with stakeholders

STRESS TESTING: PREPARING FOR THE WORST



What is Stress Testing?

Stress testing evaluates the bank's resilience under severe but plausible adverse scenarios (e.g., recession, market crash, pandemic). It identifies vulnerabilities and informs risk mitigation actions.

Baseline Scenario

Expected economic conditions

Adverse Scenario

Moderate recession, rising unemployment, credit losses

Severely Adverse Scenario

Deep recession, major market disruption, extreme credit losses

STRESS TESTING: PREPARING FOR THE WORST

What We Measure:

- Capital ratios under stress
- Liquidity position and runway
- P&L impact and revenue erosion
- Credit losses and provisions
- Funding availability

Goal: Ensure capital remains above regulatory minimums even in severe stress

Management Actions:

Preserve Capital

Reduce or suspend dividends and buybacks

Strengthen Liquidity

Increase HQLA holdings, reduce RWA

De-risk Portfolio

Reduce exposure to high-risk assets

Adjust Strategy

Slow lending growth, optimize pricing

Communicate

Engage regulators, investors, rating agencies

WHAT HAPPENS WHEN TREASURY FAILS?

- **Case Studies on
Northern Rock and
Silicon Valley Bank**

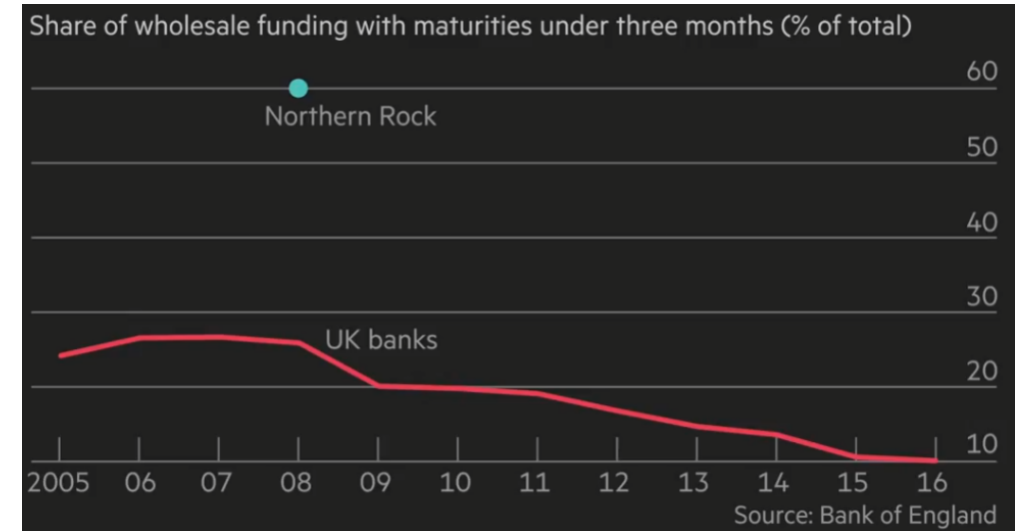
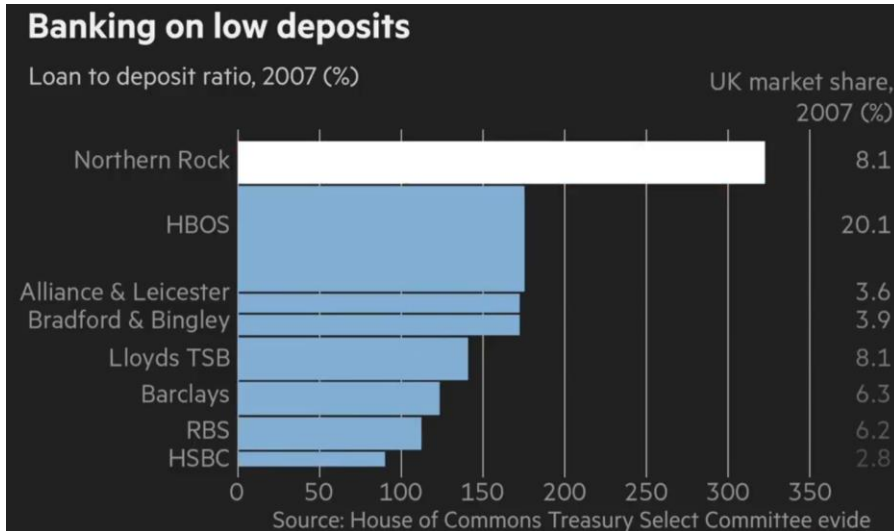


NORTHERN ROCK CASE STUDY



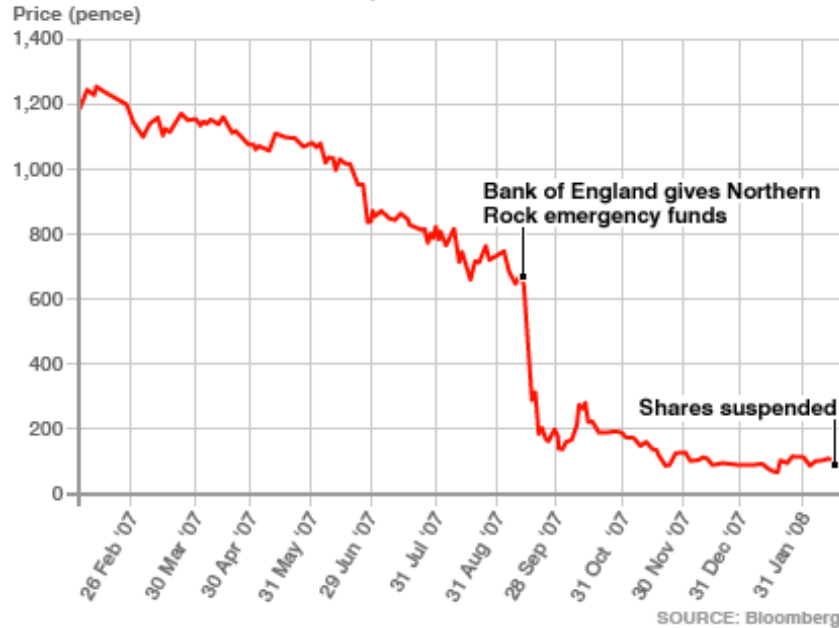
Improper risk management pre crisis:

- **Aggressive Growth:** Before the crisis, the bank was aggressively growing, which left it vulnerable to market shocks.
- **High Risk Lending:** Rapid mortgage book expansion (100%+ LTV products)
- **Unsustainable Business Model:** Northern Rock heavily relied on borrowing money from other financial institutions (wholesale funding) on a short-term basis to fund long-term mortgages.



NORTHERN ROCK - THE FIRST UK BANK RUN IN 150 YEARS

NORTHERN ROCK SHARE PRICE, JAN 2007 UNTIL SUSPENSION



Trigger Event: Global Credit Crunch (Summer 2007)

- US subprime crisis spreads
- Interbank markets freeze

Immediate Impact on Northern Rock

- Unable to roll short-term wholesale funding
- Emergency liquidity assistance requested from Bank of England (Sept 2007)

Loss of Confidence

- News of BoE support became public
- Retail bank run begins
- £4.6bn withdrawn in days

Liquidity failure — not initial credit losses

- Solvent on paper
- Illiquid in practice

NORTHERN ROCK - REGULATORY REFORM AND TREASURY EVOLUTION

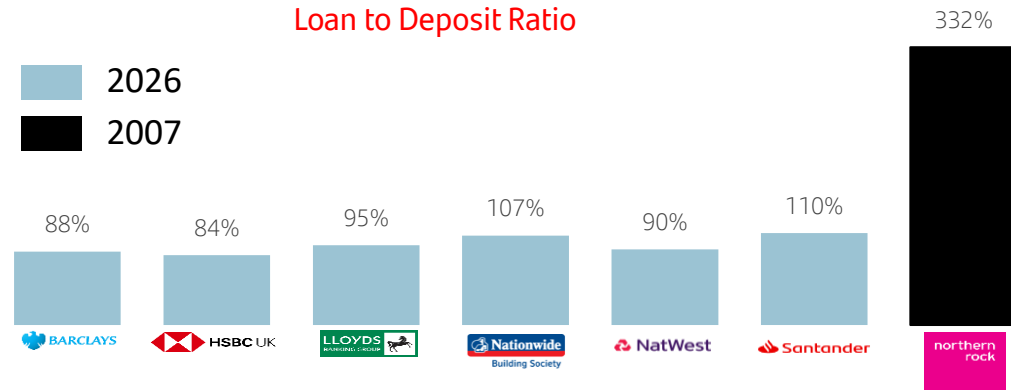
Outcomes

- Nationalisation:** Following the failed search for a buyer, the UK government took Northern Rock into public ownership in February 2008 to prevent further financial instability.
- Restructuring:** The business was split, with the profitable retail operations sold to Virgin Money (now owned by Nationwide) in 2012, while the riskier, non-performing mortgage assets remained in public ownership until sold to a private firm in 2016.
- Regulatory Change:** The crisis prompted significant regulatory changes in the UK, leading to better-capitalised banks and reduced reliance on wholesale funding. Marking the end of “light-touch” regulation and shifting focus toward liquidity, capital adequacy, and the ability to handle failing banks.

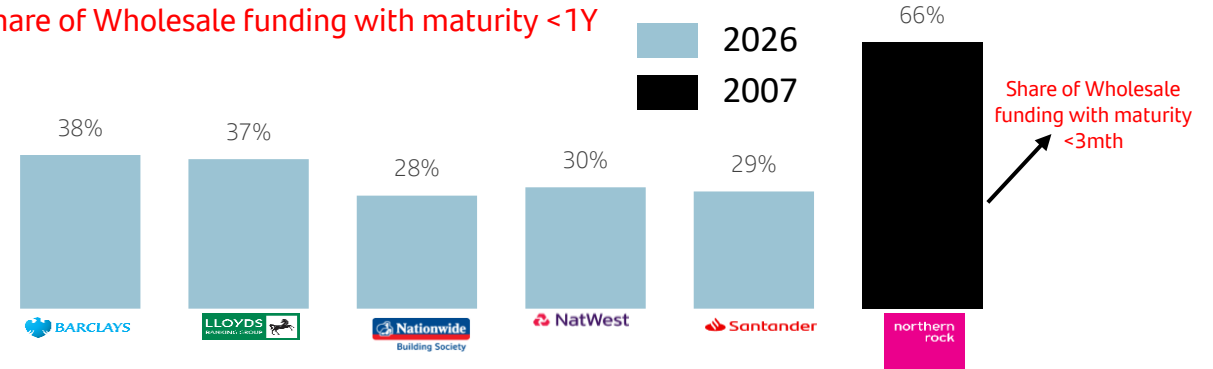
Structural Lessons for Treasury

- Diversified funding base is essential
- Maintain high-quality liquid assets (HQLA)
- Robust contingency funding plans
- Behavioural assumptions must be realistic
- Treasury must challenge growth strategy

Loan to Deposit Ratio



Share of Wholesale funding with maturity <1Y



Northern Rock did not fail because of bad mortgages. It failed because its treasury model assumed markets would always be open.

SVB CASE STUDY

- SVB was the 16th largest bank in the US, headquartered in California, but likely unknown to many in the US.
- It had a highly concentrated customer base, with a heavy Venture Capital (VC) focus, and tech companies in particular.
- As a result of its customer base, a significant majority of its deposits were uninsured.
- Due to its size, and changes made to US law in 2018, it was not subject to same standards of liquidity regulation as the largest US banks (and to those applied in the UK and Europe).
- The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) did not apply, and there were US accounting standard carve-outs that meant assets held as Available-for-Sale (AFS) were not held at current market value.



We bank:

Nearly
Half

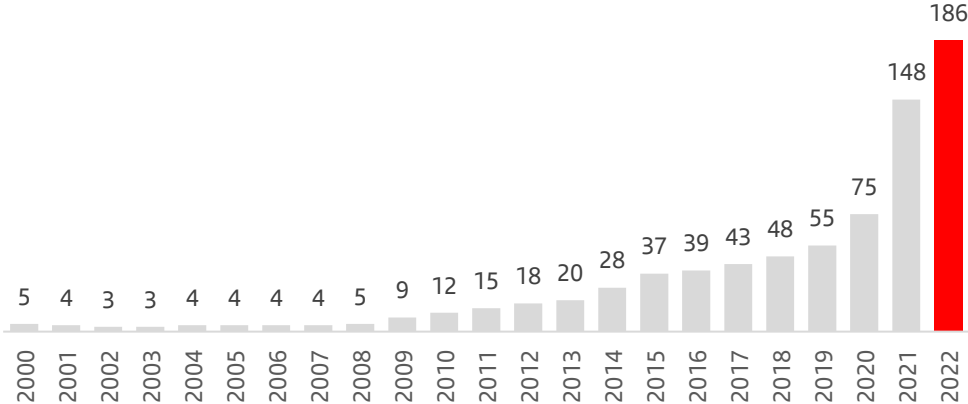
2022 U.S. venture-backed technology and life science companies*

44%

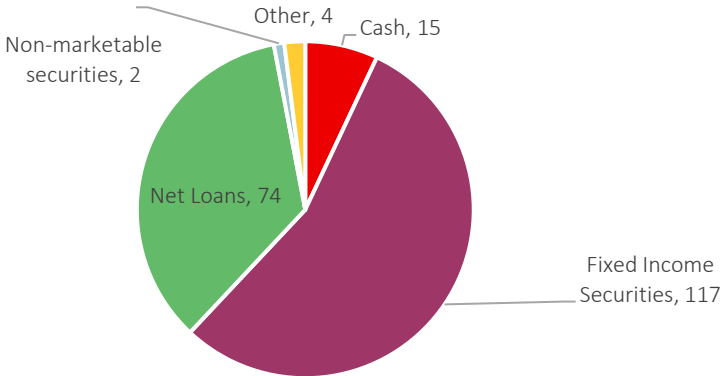
2022 U.S. venture-backed technology and healthcare IPOs*

SVB DEPOSIT GROWTH

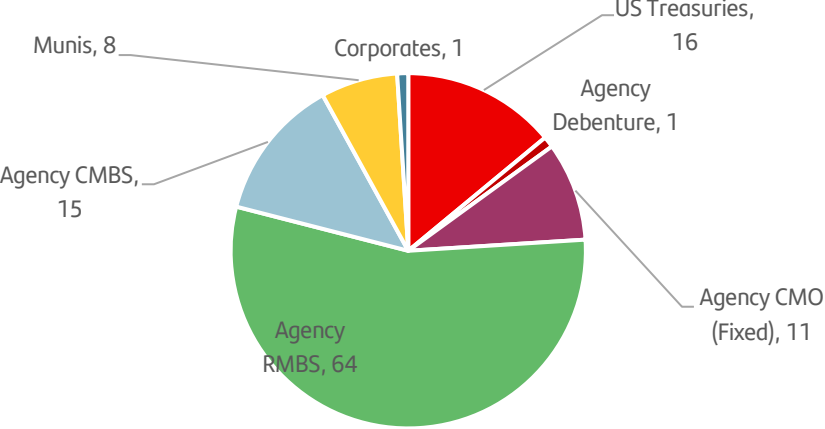
SVB deposits over time (\$bn)



SVB Assets (\$bn)



SVB Fixed Income portfolio (\$bn)



- With SVB’s focus on VC, and the subsequent boom due to the low rate environment and Covid-19 stimulus in the US (impacting science and tech companies particularly), its deposits grew rapidly in recent years.
- Deposit growth far outstripped loan growth and SVB invested the proceeds in a portfolio of bonds, which were largely unhedged with SVB seeking yield and making a big bet on interest rates.

SVB'S COLLAPSE

As a result of inflationary pressures, the Fed began raising interest rates aggressively from March 2022.

This resulted in significant falls in the value of its fixed income securities, and material unrecognised losses built up (exceeding \$15bn by end-2022).

The increasing interest rates and inflationary pressure increased the need for liquidity for many of SVB's VC clients, and they began withdrawing funds to meet these needs.

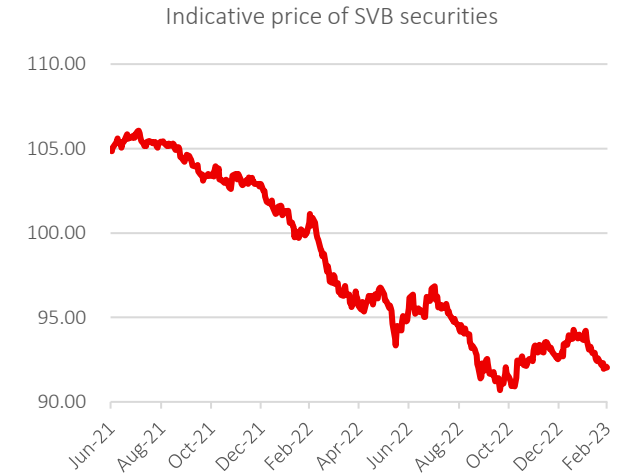
In order to meet these deposit outflows, SVB liquidated its entire AFS portfolio of \$21bn and crystallised losses of \$1.8bn (post-tax).

SVB announced this loss on 8 March 2023 alongside a \$2.25bn capital raising. Major VC investors recommended withdrawing funds, and a bank run began.

In one day SVB lost \$42bn of deposits (24%).

On 10 March 2023, regulators seized SVB, which triggered the Bank of England to begin insolvency proceedings in the UK.

Early Monday morning on 13 March 2023, the UK government announced that HSBC UK would acquire SVB's UK operations.



HOW TREASURY TODAY IMPACTS YOU TOMORROW

- How news today impacts Treasuries



HOW TREASURY IMPACTS YOU?



Financial System Stability

Treasury manages liquidity & capital → Prevents bank failures → Protects economy



Your Bank's Health

Good Treasury = Competitive rates, reliable access to credit, confidence in deposits



Your Personal Financial Life



Mortgage Rates

Funding costs affect your home loan rate



Savings Returns

Liquidity position impacts deposit rates



Credit Access

Capital levels determine lending capacity



Student Loans

Risk appetite shapes product availability



Poor treasury management = 2008 crisis = Millions lost homes, jobs, savings

WRAP UP

- **CertBALM[®] course and key takeaways**



CERTBALM[®] COURSE AND FURTHER MATERIALS

- CertBALM[®] provides structured, bank-specific ALM training
 - Known as the 'go-to' professional qualification for bank treasury professionals
 - Suitable not just for those in Treasury but adjacent functions
 - Enhances career prospects (as the recognised benchmark in the profession)
 - Networking opportunities are valuable
-

[ALMA Previous Events — Asset & Liability Management Association](#)

[Bank of England Staff Working Paper: Measuring the stability of the banking system: capital and liquidity at risk](#)

[Treasury Operations of Banks - Management Study Guide](#)

*The Principles of Banking (Moorad Choudhry) - book on banking fundamentals, including **liquidity management and asset-liability management***

KEY TAKEAWAYS



Treasury is the bank's financial control center, managing liquidity, funding, capital, and risk



Treasury works with internal teams and external stakeholders to ensure regulatory compliance and strategic alignment



Funding and liquidity management ensure the bank can meet obligations and operate safely



Capital management builds resilience through capital buffers to protect the bank in economic downturns



Balance sheet forecasting and stress testing prepare the bank for future challenges and adverse scenarios

Q&A
