

CREDITWORTHINESS
(Extract from Treasury Management Practices)

The Authority is required to invest prudently and demonstrate that priority is given to security and liquidity before yield. Creditworthiness covers:-

1. Credit quality for selecting counterparties.
2. Credit ratings for institution and country.

1 Credit Quality

1.1 The criteria for providing a pool of high quality investment counterparties for both Specified and Non Specified investments is as follows:

Banks with a Good Credit Quality

- (a) UK banks
- (b) Non UK banks domiciled in a country, which has a minimum Sovereign long term rating of AA.
- (c) Meet the requirements of the short term and or long-term credit matrixes set out in 2 below.

Guaranteed Banks with suitable Sovereign Support

The Authority will use banks whose ratings fall below the credit matrix criteria specified below if the following conditions are met:

- (a) the wholesale deposits in the bank are covered by a government guarantee.
- (b) the government providing the guarantee is rated at least AA by all three major rating agencies.
- (c) the Authority's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

Eligible Institutions under the HM Treasury Credit Guarantee Scheme

The Authority will use banks and building societies that are classified as an eligible institution for the HM Treasury Credit Guarantee Scheme initially announced on the 13 October 2008, and have the necessary short and long-term ratings as specified in the short term / long term credit matrix.

UK Nationalised Banks

The Authority's banker – National Westminster Bank (NWB), for transactional purposes is a subsidiary of the Royal Bank of Scotland. For investment purposes investments are made with the Royal Bank of Scotland (RBS). RBS is an eligible institution. If this were to cease and the ratings of RBS did not meet the credit matrix criteria then cash balances are to be minimised in both monetary size and time.

Bank Subsidiary and Treasury Operations

The Authority will use these where the parent bank has the necessary ratings outlined above.

Building Societies –the Authority will use Building Societies that:

- (a) Meet the ratings for banks outlined in the credit matrix; or
- (b) Meet the requirements of an Eligible Institution; or
- (c) Have assets in excess of three billion and are ranked within the top 10 building societies.

AAA rated Money Market Funds

UK Government (including gilts and the Debt Management Account Deposit Facility)

Local Authorities

Supranational Institutions

Corporate Bonds

2 Credit Criteria

The Authority adopts a range of credit rating criteria. Creditworthiness is based on the credit ratings of all three credit rating agencies supplied by Fitch, Moody's, and Standard & Poors. Where appropriate, the rating criteria applied will be the "lowest common denominator" method for selecting counterparties and applying limits using all three credit rating agencies. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, then the institution will fall outside the lending criteria. This is in compliance with the revised CIPFA Treasury Management Code of Practice.

Short Term Credit Matrix

For short term lending (less than one year) the following minimum credit criteria for Banks and Rated Building Societies will apply using the lowest common denominator method:

	Fitch Highest	Fitch Lowest	Moody's Highest	Moody's Lowest	S&P's Highest	S&P's Lowest
Long term credit	AAA	A	Aaa	A2	AAA	A
Short term credit	F1+	F1	P-1	P-2	A-1+	A-1
Individual standing	A	C	*	*	*	*
Financial Strength	*	*	A	C -	*	*
Support	1	3	*	*	*	*

* no equivalent / comparable rating criteria

Long Term Credit Matrix

For Long Term lending (more than one year), the following minimum credit criteria will apply using the lowest common denominator method:

	Fitch	Fitch	Moody's	Moody's	S&P's	S&P's
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Long term credit	AAA	AA-	Aaa	A1	AAA	AA
Short term credit	F1+	F1+	P-1	P-1	A-1+	A-1+
Individual standing	A	C	*	*	*	*
Financial Strength	*	*	A	C	*	*
Support	1	3	*	*	*	*

* no equivalent / comparable rating criteria

Long Term – relates to long term credit quality

Short Term – relates to short term credit quality

Individual/Financial Strength – Strength of the organisation as a stand alone entity

Support – Fitch's assessment of whether the bank would receive support if necessary

Monitoring of Investment Counterparties

The credit rating of counterparties is monitored regularly. The Authority receives credit rating information (changes, rating watches and outlooks) from Butlers as and when ratings change and counterparties are checked promptly. Any counterparty failing to meet the criteria is removed from the list immediately.

Use of additional information other than credit ratings

Additional requirements under the Code of Practice now require the Authority to supplement credit rating information. The above criteria relates primarily to the application of credit ratings, however additional operational market information such as negative ratings watches /outlooks and financial press information must be considered before any specific investment decision can be made. In addition, movement in credit default swap prices can provide an indication of credit risk. As can the rate of interest being offered if it is out of line with the market.

Country Sovereignty Considerations

Due care will be taken to consider the country, group and sector exposure of the Authority's investments, no more than 25% of the total investment portfolio will be placed with any non UK country at any time.

For countries other than the UK, sovereignty ratings for foreign banks must fall within the ratings matrix using the lowest common denominator approach before they can be considered for inclusion on the lending list and then each individual foreign institution must meet the criteria as detailed as high credit quality and the credit matrixes.

	Fitch	Fitch	Moody's	Moody's	S&P's	S&P's
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Sovereign ratings	AAA	AA	Aaa	Aa1	AAA	AA

A Fitch rating of 'AAA' denotes the highest credit rating quality with the lowest expectation of default risk. The lowest rating "C" denotes that default is imminent and a rating of 'D' denotes that the issuer is currently in default.

Time and Monetary limits applying to Investments

Type of Investment	Minimum Fitch rating (or equivalent)				Limit £'m	Time Limit
	1*	2*	3*	4*		
Credit rated institutions	F1+	A	B	3	5	1 Year
	F1+	A	C	1	4	1 Year
	F1+	A	B/C	3	4	1 Year
	F1	A	B	3	3	1 Year
	F1	A	C	1	3	1 Year
	F1	A	B/C	3	2	1 Year
	F1+	AA-	B	2	3	3 Years
	F1+	AA-	B/C	3	2	3 Years
	F1+	AA-	C	1	2	3 Years
	F1+	AA-	B	2	3	3 Years
	F1+	AA-	B/C	2	2	3 Years
	F1+	AA-	C	1	1	3 Years
Other Institutions						
Money Market Funds	AAA				3	1 year
Unrated Building Societies	Assets greater £3bn				3	3 months
Supranational Bonds	F1+	AA			3	1 Year
Guaranteed Organisations						
Bank of England - DMADF					30	3 years
Local Authorities (each)					5	5 years
UK Government Backed Banks	F1	A			5	1 Year
UK Government Backed Banks	F1+	AA-			1	3 years
Guaranteed Banks with suitable Sovereign Support	F1+	A			1	3 months

1* **Short Term** – relates to long term credit quality

2* **Long Term** – relates to short term credit quality

3* **Individual/Financial Strength** – Strength of the organisation as a stand alone entity

4* **Support** – Fitch's assessment of whether the bank would receive support if necessary