

## 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:

- a) Credit quality for selecting counterparties.
- b) Credit ratings for institutions 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 matrices set out in 2 below.

##### UK Part Nationalised Banks

Royal Bank of Scotland Group whilst it continues to be part nationalised, or meets the requirements of the credit matrices.

##### The Authority's banker

National Westminster Bank (NWB), for transactional purposes. NWB is a subsidiary of the Royal Bank of Scotland. For investment purposes investments can be made with NWB and the Royal Bank of Scotland (RBS). RBS is a part nationalised bank. If this were to cease and the ratings of RBS did not meet the creditworthiness criteria then cash balances would 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 requirements of the short term and or long-term credit matrices set out in 2 below; or
- b) Have assets in excess of three billion pounds.

##### AAA rated Money Market Funds

UK Government (including the Debt Management Account Deposit Facility)

Enhanced Cash Funds

Local Authorities (including GLA, Police and Fire Authorities)

Non-UK Government

Supranational Institutions

Bonds Funds

Equity Funds

**2. Credit Criteria**

2.1 The Authority adopts a range of credit rating criteria. Creditworthiness is based on the credit ratings supplied by Fitch, Moody’s, and Standard & Poor’s.

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:

	<b>Fitch</b>	<b>Fitch</b>	<b>Moody’s</b>	<b>Moody’s</b>	<b>S&amp;P’s</b>	<b>S&amp;P’s</b>
	<b>Highest</b>	<b>Lowest</b>	<b>Highest</b>	<b>Lowest</b>	<b>Highest</b>	<b>Lowest</b>
Long term credit	AAA	A-	Aaa	A3	AAA	A-
Short term credit	F1+	F1	P-1	P-1	A-1	A-1

Long Term Credit Matrix

For Long Term lending (more than one year), the following minimum credit criteria will apply:

	<b>Fitch</b>	<b>Fitch</b>	<b>Moody’s</b>	<b>Moody’s</b>	<b>S&amp;P’s</b>	<b>S&amp;P’s</b>
	<b>Highest</b>	<b>Lowest</b>	<b>Highest</b>	<b>Lowest</b>	<b>Highest</b>	<b>Lowest</b>
Long term credit	AAA	A	Aaa	A2	AAA	A-
Short term credit	F1+	F1	P-1	P-1	A-1	A-1

Long Term – relates to long term credit quality / Short Term – relates to short term credit quality.

Monitoring of Investment Counterparties

The credit rating of counterparties is monitored regularly. The Authority receives credit rating information (changes, rating watches and outlooks) from Link Asset Services 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

The Code of Practice requires the Authority to supplement credit rating information. The above criteria relate 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 decisions 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 exposure of the Authority’s investments. No more than 35% of the total investment portfolio will be placed with non-UK countries at any one time.

For countries other than the UK, sovereignty ratings must fall within the ratings matrix below, before the country can be considered for inclusion on the lending list and then each individual institution domiciled to that country must meet the high credit quality criteria as detailed, and the credit matrices.

	<b>Fitch</b>	<b>Fitch</b>	<b>Moody’s</b>	<b>Moody’s</b>	<b>S&amp;P’s</b>	<b>S&amp;P’s</b>
	<b>Highest</b>	<b>Lowest</b>	<b>Highest</b>	<b>Lowest</b>	<b>Highest</b>	<b>Lowest</b>
Sovereign ratings	AAA	AA-	Aaa	Aa3	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

Credit Rated Institutions							
Minimum Credit Rating Short Term			Minimum Credit Rating Long Term			Limit	Time Limit
Fitch	S & P	Moody's	Fitch	S & P	Moody's	£m	Years
F1	A-1	P-1	A	A	A2	5	1
F1	A-1	P-1	A-	A-	A3	3	1
F1	A-1	P-1	AA-	AA-	Aa3	3	2
F1	A-1	P-1	A+	A+	A1	2	2
F1	A-1	P-1	A	A	A2	1	2
Other Institutions							
Money Market Funds			AAA			3	1
Money Markets Funds (LVNAV)			AAA			2	1
Money Markets Funds			AAA			1	1
Unrated Building Societies			Assets <b>greater £3bn</b>			3	6
Enhanced Cash Funds			AAA/V1			3	2

Other			
UK Government – DMADF		25	2
UK Government - Bonds		25	2
UK Government – Part Nationalised Banks	Per group	5	2
UK Corporate Bonds		1	1
Local Authorities		5	2

Sovereign Ratings			
Non-UK Government - Bonds	AA-	3	1
Supranational Bonds	AA-	3	1

The creditworthiness criteria detailed above provide a sound approach to investment in 'normal' market circumstances. However, under exceptional market conditions institutions can face real and sudden difficulties with a time lag before the credit rating agencies reflect this. Therefore, the Authority will maintain a strategy of responding swiftly and the Finance Director will restrict further investment activity to those counterparties that are at any one time considered to be of the highest credit quality. Security of the Authority's money always remains the main priority and this strategy will take precedence over yield.