CAB1931
FOR DECISION
WARD(S): GENERAL

CABINET

9 December 2009

PRINCIPAL SCRUTINY COMMITTEE

14 December 2009

REVISED INVESTMENT STRATEGY 2009/10

REPORT OF HEAD OF FINANCE

Contact Officer: Alan Goard Tel No: 01962 848117
email: agoard@winchester.gov.uk

RECENT REFERENCES:

CAB1754: Revised Investment Strategy, 18 November 2008

CAB1785: Treasury Management Strategy, 4 February 2009

CAB1890: Treasury Management Stewardship Report 2008-09

EXECUTIVE SUMMARY:

In response to exceptional instability in the world's financial markets, a restrictive counter party list was approved by Council on 7 January 2009 (Report CAB1754 refers) and followed up by Treasury Management Strategy (CAB1785 refers). The consequence of this is that at 31 October 2009, 60% of the Councils Investments are with the UK Government Debt Management Office at rate of 0.27%, the rate on all short term investments being 0.35% (See appendix A)

Under guidance issued by the Department for Communities and Local Government (DCLG), the Council is required to ensure security and liquidity. This reports proposes a less restrictive investment strategy as the market has returned to more normal circumstances although markets remain nervous

The Investment Strategy and approved financial institutions will be kept under review to respond to any further changes in the financial markets.

RECOMMENDATIONS to Cabinet:

That the Cabinet:

1. recommends the approval of the Revised Investment Strategy included in Appendix C to Council.

RECOMMENDATIONS to Principal Scrutiny Committee

That Principal Scrutiny Committee:

1. considers any recommendations it wishes to make to the Council for its considerations of the Revised Investment Strategy

RECOMMENDATIONS to Council

That the Council:

1. approves the Revised Investment Strategy for 2009/10, and the detailed criteria included in Appendix C.

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REVISED INVESTMENT STRATEGY 2009/10

REPORT OF HEAD OF FINANCE

1. Introduction

1.1 The purpose of this report is to propose revisions to the Council's Investment Strategy, (as approved in the annual Treasury Management Strategy for 2009/10, CAB1785, 4 February 2009) in order to seek to improve the yield on the Council's investments whilst maintaining proper levels of security and liquidity.

1.2 Proposals are being presented for a Revised Investment Strategy only; the other aspects of treasury management remain unchanged; a full annual Treasury Management report will be presented to the Council for approval in February aligned with the budget for 2010/11. This will include a further review of the Investment Strategy.

2. Regulatory Framework

2.1 Section 15(1) of the Local Government Act 2003 requires a local authority *"…to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify…"*

2.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires authorities to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) publication *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* – "The CIPFA Code".

2.3 Therefore, Local Authorities are required to 'have regard' to both the CLG guidance and the CIPFA Code.

2.4 Changes to the capital finance system are currently being consulted upon by the Department for Communities and Local Government (CLG), with a view to being effective from 1 April 2010.

2.5 A fully revised edition of The CIPFA Code was published in December 2009.

2.6 The proposed Revised Investment Strategy is fully compliant with both the current and the proposed guidance.

3. Key Principles of the guidance

3.1 The guidance defines a prudent investment policy as having two objectives: achieving first of all **security** (protecting the capital sum from loss) and then **liquidity** (keeping the money readily available for expenditure when needed).

3.2 The generation of investment income is distinct from these prudential objectives and is accordingly not a matter for the guidance. However, that does not mean that authorities are recommended to ignore such potential revenues. Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest **yield** consistent with those priorities. This widely-recognised investment policy is sometimes more informally and memorably expressed as follows:

__S__ecurity - __L__iquidity -__Y__ield …in that order

4. Current Investment Strategy

4.1 The financial year 2008/09 presented exceptional circumstances with regard to treasury management. The downturn in the economy, coupled with increased counterparty credit risk presented the Council with additional issues not normally encountered.

4.2 In response to the increased counterparty credit risk the Council adopted a more cautious Investment Strategy which is kept under close review by an Informal Cabinet Member/Officer Working Group.

4.3 Revisions to this Strategy are now being proposed in advance of the annual Treasury Management Report, in order that the Council can optimise the potential yield to be obtained, whilst maintaining proper levels of security and liquidity.

4.4 The Current Approved List of Financial Institutions and Investment Criteria is provided at Appendix A.

4.5 A summary of the Investments held at 31 October 2009 is provided at Appendix B. It can be seen that at that date, 60% was invested with the UK Government's Debt Management Office at an average rate of 0.27% with other investments increasing the total weighted average return receivable to 0.35%. Bank base rate has been 0.50% throughout the year.

4.6 The Council's investment with Heritable Bank (in administration) is included in Appendix C at £838,183; which is the original investment of £1m minus the distribution received in July 2009 of £161,817. The Council is still expecting to recover 80 per cent of its investment and a second distribution – estimated at £100,000 is expected in December 2009, with substantial run off by the end of 2010. The estimated impairment loss, based on a recovery of 80% was fully charged to the accounts in 2008/09.

5. Revised Investment Strategy

5.1 The revision is being proposed as the exceptional conditions in global financial markets recede, although markets remain nervous. There is an increased element of risk involved which is being addressed by the use of minimum credit rating requirements and eligibility certificates to the 2008 Credit Guarantee scheme. Ultimately the least risk option is to put the Council's funds with the UK government DMADF which is currently paying 0.25%.

Security

5.2 The CLG guidance makes a distinction between Specified and Non-specified investments:

5.3 ***Specified investments*** – offer high security and high liquidity and authorities can rely on them with "minimal procedural formalities". They are investments which:

- Are in sterling;
- Mature within 364 days; and
- Are of a "high credit rating/quality*"

5.4 *The wording in the new guidance changes from "High credit rating" to "High credit quality*. This means that "other" criteria in addition to credit ratings should be taken into account. The determination of what "other" criteria are – is currently left to local discretion although the CIPFA Treasury Management Panel will be issuing guidance in the future.

5.5 Tiers 1-4 of the proposals are considered to be Specified Investments.

5.6 ***Non-specified investments*** - are all those which do not qualify as "***specified"*** and therefore have greater potential risk.

5.7 These include the Council's investment in the Local Authorities Mutual Investment Trust, which is a long term investment at an historical cost of £1m.

5.8 The inclusion of a new category "tier 5" is presented below for consideration.

Liquidity

5.9 There are no proposals for the Council's funds to be invested for periods longer than 364 days (with the exception of LAMIT). Application of the Council's Treasury Management Practice note - TMP1 sets out the Council's arrangements for the effective management of cash flow.

6. Proposed List of Financial Institutions and Investment Criteria (Appendix C)

6.1 ***Tier 0: Existing Investments***
All investments under the original 2008-09 policy CAB1599 have now been repaid, with the exception of Heritable Bank in administration, so this "Tier" ceases to exist.

6.2 ***Tier 1: Investments with UK government – these include DMADF, Local Authorities and UK Govt backed AAA Money Market Funds.***
The only changes being proposed to this category is to expand the limits for lending to Local Authorities; it is proposed to increase the individual limit per Local Authority from £1m to £2m per authority, and to increase the total limit on this tier from £5m to £10m. There is currently little activity from Local Authorities in the market and they pay little above the DMADF rate at the moment, however there is usually increased activity January – February which is the low point in the Local Government cash cycle. The increase in limit will help take early advantage of this.

The UK Government, Local Authorities, and Parish Councils are automatically classified as "specified investments" and considered to be of high credit quality.

6.3 ***Tier 2: Investments with UK nationalised institutions (up to a limit of £3m for no longer than 3 months).***
This is currently only Northern Rock (Bradford & Bingley wholesale division is being wound down). No changes are currently being proposed although a watching brief is being kept on the progress and possible implications of the restructuring proposals.

6.4 ***Tier 3 (current): Investments with other AAA sovereign rated government-guaranteed organisations*.**
This was restricted to investments with Irish institutions, as it was considered that overseas investments should not be included because of the practical problems that might be experienced in the event of failure, including different legal systems and different approaches to depositor priority (para 4.5, CAB1754, 18 November 2008).

During the year the Irish government lost its AAA rating, and so no deposits are invested in this category. It is still considered that overseas investments should not be considered at this time – so the criteria for this tier will be deleted (see below for new tier).

6.5 ***Tier 4 (current): Investments with UK organisations highlighted in the original UK authority financial "rescue" plan (plus the highest short term ratings from all 3 credit ratings institutions).***
This scheme has become the UK Government's 2008 Credit Guarantee Scheme and 50 further financial institutions have been added to the scheme. The scheme does not directly guarantee our deposits but allows the institutions to issue UK government backed bonds should they have any liquidity problems (see below for new tier). The scheme is currently effective up to December 2009 with "roll-over" possible until 2014.

6.6 ***Tier 3 (proposed): Investments with UK Banks that are Eligible Institutions of the 2008 Credit Guarantee Scheme*** –
..and also have long term ratings of A and above with all three ratings agencies where rated. The time limit will be less than 1 year and the cap will be £1m per institution group, and £10m for this type of investment as a whole.

It is anticipated that the return for 6 months is between 0.45% - 0.80% compared to 0.25% at the DMADF

Historic Risk profile on Fitch ratings 1990 – 2007 (per Butlers)
The Historic default rates within 1,2 etc years of making the investment

Rating/Years	**1**	**2**	**3**	**4**	**5**
AAA	0.00%	0.00%	0.00%	0.00%	0.00%
AA	0.00%	0.00%	0.00%	0.03%	0.06%
A	0.03%	0.15%	0.30%	0.44%	0.65%

6.7 ***Tier 4 (proposed): "A" rated Investments with UK Building Societies that are Eligible Institutions of the 2008 credit Guarantee Scheme***

It is proposed to include long term "A" rated, UK registered building societies that have eligibility certificates to the 2008 Credit Guarantee scheme. Additionally the time limit would be restricted up to 364 days; with a cap of £1m per institution group and £5m for this type of investment as a whole. It is anticipated that the return for 6 months is between 0.45% - 0.80% compared to 0.25% at the DMADF.

Risk profile; in the same 1990 – 2007 time period no top 30, by asset value, Building Society has defaulted (Source Butlers).

6.8 ***Tier 5 (proposed):Unrated or below "A" rated Investments with UK Building Societies that are Eligible Institutions of the 2008 credit Guarantee Scheme***

It is proposed to include the UK registered Building Societies in the top 30 (by asset value) that have eligibility certificates to the 2008 Credit Guarantee scheme, with long term ratings below "A" or those that are Unrated. Additionally the time limit for Building Societies that are not at least long term A rated with all 3 ratings agencies, where rated, would be restricted to 6 months. The cap will be £1m per institution group and £5m for this type of investment as a whole. It is anticipated that the return for 6 months is between 0.70% - 2.1% compared to 0.25% at the DMADF.

Risk profile; in the same 1990 – 2007 time period no top 30, by asset value, Building Society has defaulted (Source Butlers).

7. Investment Consultants

7.1 The Council's Treasury Management Practice note –TMP11 states the policy for the use of external service providers and for 2009/10 Butlers continue to provide support and advice on treasury management activities.

7.2 Our Treasury Management advisors have assisted in the preparation of the Council's Investment Strategy and are satisfied that the revised Counterparty Credit criteria recommended in the report reflects the Council's requirement to seek increased yields whist maintaining a high credit quality of counterparty.

8. Investment Training

8.1 The new CIPFA guidance extends the requirements for training, including that for relevant Members. TMP10 deals with staff training and will be updated, in line with the guidance as part of the annual review of the Treasury Management Strategy to be presented in February 2010.

8.2 Training for Members is being planned for early in 2010.

OTHER CONSIDERATIONS:

9. SUSTAINABLE COMMUNITY STRATEGY AND CORPORATE BUSINESS PLAN (RELEVANCE TO):

9.1 The Investment Strategy supports all tenets of the Sustainable Community Strategy including the core value of being efficient and ensuring value for money.

10. RESOURCE IMPLICATIONS:

10.1 The implications for 2009/10 are marginal. Based on revised budget figures for the last three months of the year a 0.5% increase in rates would generate £18k (additional to the Revised Estimate for the General Fund Interest Income of £275k).

10.2 A continuation into 2010/11 will help achieve the bank base rate forecast, a target currently not achievable based on the October 2009 position (0.32% current rate against a target of 0.50%). A 0.50% increase in addition to base rate forecast would achieve £96k increased income which will be a consideration when finalising the budget.

11. RISK MANAGEMENT

11.1 These are considered within the report

12. BACKGROUND DOCUMENTS:

12.1 Local Government Investments - Guidance under Section 15(1) (a) of the Local Government Act 2003.

12.2 Communities and Local Government - Changes to the capital finance system - consultation.

http://www.communities.gov.uk/documents/localgovernment/pdf/1383728.pdf

12.3 Chartered Institute of Public Finance and Accountancy (CIPFA) publication *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* – “The CIPFA Code”.

12.4 UK Government 2008 credit guarantee scheme

http://www.dmo.gov.uk/index.aspx?page=CGS/CGS_about

12.5 Operational and financial records held in the Finance Division.

APPENDICES:

Appendix A: Current Approved List of Financial Institutions and Investment Criteria (CAB1785 approved February 2009)

Appendix B: Investments at 31 October 2009

Appendix C: Proposed List of Financial Institutions and Investment Criteria

Appendix D: Ratings Definitions

Approved List of Financial Institutions and Investment Criteria

Classification	Description	Institution	Requirements	Maximum total investment
Tier 0	Existing Investments	all repaid as at 31 October 2009	until maturity date	
Tier 1	Investments with UK government	DMADF	6 months (max)	No limit
		Local Authorities	1 year	£5m total £1m per authority
		UK Govt backed AAA Money Market Funds		£3m total £1m per fund
Tier 2	Investments with UK nationalised institutions	Currently only Northern Rock- but Bradford & Bingley may be added by the Head of Finance when the full terms of its guarantee are revealed.	Govt guarantee (currently time limited to 3 months)	£3m
Tier 3	Investments with other AAA sovereign rated government-guaranteed organisations.	Irish: Allied Irish Banks Anglo Irish Banking Corporation Bank of Ireland Irish Permanent EBS Building Society Irish Nationwide Building Society	AAA Stable from all 3 rating agencies – maximum 3 months	£5m – overall country limit £1m per Institution
Tier 4	Investments with UK organisations highlighted in the original UK authority financial "rescue" plan.	Abbey National Barclays HBOS HSBC Lloyds Nationwide Building Society Standard Chartered	F1+ / P-1 / A-1+ (highest short term rating from all 3 agencies) Maximum 3 months	£1m per institution and for National Westminster only - exceptionally up to £3m daily with approval by Head of Finance
		Royal Bank of Scotland - National Westminster current account		

Note greyed out named counterparties are not available as they currently fail the requirements column

WINCHESTER CITY COUNCIL

Investments & Bank as at 31st October 2009

Tier 1 UK Government	**£**	**Weighted Ave Rates %**
Debt Management Office	16,150,000	0.27
Local Authorities: Plymouth City Council	1,000,000	0.38
Local Authorities: The Highland Council	1,000,000	0.55
Local Authorities: Salford City Council	1,000,000	0.55
Local Authorities: Aberdeen Council	1,000,000	0.55
Local Authorities: Eastleigh Borough Council	1,000,000	0.31
Total Tier 1	**21,150,000**	**0.31**
Tier 2 UK Nationalised Institutions		
Northern Rock	3,000,000	0.44
	3,000,000	**0.44**
Tier 4 Highlighted in the UK Governments Rescue plan		
National Westminster Bank - Current Account	1,199,623	0.50
HBOS Bank of Scotland	1,000	0.51
Abbey National Plc	1,000,000	0.72
Barclays	1,000,000	0.40
Total Tier 4	**3,200,623**	**0.54**
All Short Term Funds	**27,350,623**	**0.35**
Impaired Investments Heritable Bank Ltd in administration (Original Investment less distribution received)	838,183	

Appendix C

Proposed List of Financial Institutions and Investment Criteria

Classification	Description	Institution	Requirements	Maximum total investment
Tier 1	Investments with UK government	DMADF	6 months (max)	No limit
		Local Authorities	364 days	£10m total £2m per authority
		UK Govt backed AAA Money Market Funds		£3m total £1m per fund
Tier 2	Investments with UK nationalised institutions	Northern Rock	Govt guarantee (currently time limited to 3 months)	£3m
Tier 3	Investments with UK Banks that are Eligible Institutions of the 2008 Credit Guarantee Scheme.	Currently meeting criteria:- Abbey National Barclays HBOS HSBC Lloyds Standard Chartered Close Brothers Finance Clydesdale Bank Co-operative Bank Standard Life	Long term rating of A and above with all three agencies*, where rated Max 364 days	£1m per institution £10m for Tier

Proposed List of Financial Institutions and Investment Criteria

Classification	**Description**	**Institution**	**Requirements**	**Maximum total investment**
		Royal Bank of Scotland - National Westminster current account		and for National Westminster only - exceptionally up to £3m daily with approval by Head of Finance
Tier 4	A Rated Investments with UK Building Societies that are Eligible Institutions of the 2008 Credit Guarantee Scheme	Currently meeting criteria:- Coventry Leeds Nationwide	Long term rating of A and above with all three agencies*, where rated Max 364 days	£1m per institution £5m for Tier
Tier 5 **For Consideration**	Unrated or below A rated Investments with UK Building Societies that are Eligible Institutions of the 2008 credit Guarantee Scheme	Currently meeting criteria:- Cambridge Cumberland Darlington Furness Hinckley and Rugby Ipswich Kent Reliance Leek United Manchester Market Harborough Melton Mowbray Monmouthshire National Counties Newbury Newcastle **	Top 30 by net assets, not rated or below A rated Max 6 Months ** = Investment Grade rating below A	£1m per institution £5m for Tier

Proposed List of Financial Institutions and Investment Criteria

Classification	**Description**	**Institution**	**Requirements**	**Maximum total investment**
		Norwich and Peterborough ** Nottingham * Principality ** Progressive Skipton ** Stroud and Swindon Tipton & Coseley West Bromwich ** Yorkshire / Chelsea **		

* Agencies:- Fitch
Moodys
Standard & Poors

Appendix Di: Standard & Poors Rating Definitions

S&P ISSUER CREDIT RATING DEFINITIONS

A Standard & Poor's issuer credit rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The issuer credit rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor.

Counterparty credit ratings, ratings assigned under the Corporate Credit Rating Service (formerly called the Credit Assessment Service) and sovereign credit ratings are all forms of issuer credit ratings.

Issuer credit ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any issuer credit rating and may, on occasion, rely on unaudited financial information. Issuer credit ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances. Issuer credit ratings can be either long term or short term. Short-term issuer credit ratings reflect the obligor's creditworthiness over a short-term time horizon.

Long-Term Issuer Credit Ratings

AAA

An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poor's.

AA

An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.

A

An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB

An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB, B, CCC, and CC

Obligors rated 'BB', 'B', 'CCC', and 'CC' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'CC' the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB

An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors.

However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.

B

An obligor rated 'B' is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC

An obligor rated 'CCC' is currently vulnerable, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.

CC

An obligor rated 'CC' is currently highly vulnerable.

Plus (+) or minus (-)

The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

R

An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision the regulators may have the power to favour one class of obligations over others or pay some obligations and not others. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of regulatory supervision on specific issues or classes of obligations.

SD and D

An obligor rated 'SD' (selective default) or 'D' has failed to pay one or more of its financial obligations (rated or unrated) when it came due. A 'D' rating is assigned when Standard & Poor's believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of a default on specific issues or classes of obligations.

NR

An issuer designated NR is not rated.

Short-Term Issuer Credit Ratings

A-1

An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by Standard & Poor's. Within this category, certain obligors are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is extremely strong.

A-2

An obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

A-3

An obligor rated 'A-3' has adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

B

An obligor rated 'B' is regarded as vulnerable and has significant speculative characteristics. Ratings of 'B-1', 'B-2', and 'B-3' may be assigned to indicate finer distinctions within the 'B' category. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitments.

B-1: Obligors with a 'B-1' short-term rating have a relatively stronger capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.
B-2: Obligors with a 'B-2' short-term rating have an average speculative-grade capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.
B-3: Obligors with a 'B-3' short-term rating have a relatively weaker capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.

C

An obligor rated 'C' is currently vulnerable to non-payment and is dependent upon favourable business, financial, and economic conditions for it to meet its financial commitments.

R

An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision the regulators may have the power to favour one class of obligations over others or pay some obligations and not others. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of regulatory supervision on specific issues or classes of obligations.

SD and D

An obligor rated 'SD' (selective default) or 'D' has failed to pay one or more of its financial obligations (rated or unrated) when it came due. A 'D' rating is assigned when Standard & Poor's believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of a default on specific issues or classes of obligations.

NR

An issuer designated NR is not rated.

APPENDIX DII MOODY'S RATING DEFINITIONS

Moody's Bank Deposit Ratings

Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its foreign and/or domestic currency deposit obligations. Foreign currency deposit ratings are subject to Moody's country ceilings for foreign currency deposits. This may result in the assignment of a different (and typically lower) rating for the foreign currency deposits relative to the bank's rating for domestic currency obligations.

Unless otherwise indicated, Moody's Bank Deposit Ratings apply to a bank's foreign and domestic currency deposit obligations. A bank may also be assigned different (typically higher) domestic currency deposit ratings that are unconstrained by the respective country ceilings for foreign currency deposits.

Foreign currency deposit ratings are applicable only to banks and branches located in countries that have been assigned a country ceiling for foreign currency for bank deposits. Such obligations are rated at the lower of the bank's deposit rating or Moody's country ceiling for bank deposits for the country in which the branch is located.

Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk that are relevant to the prospective payment performance of the rated bank with respect to its foreign and/or domestic currency deposit obligations. Included are factors such as intrinsic financial strength, sovereign transfer risk (for foreign currency deposits), and both implicit and explicit external support elements.

Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes that make payments to depositors, but they do recognize the potential support from schemes that may provide direct assistance to banks.

In addition to its Bank Deposit Ratings, Moody's also publishes Bank Financial Strength Ratings, which exclude certain of these external risk and support elements (i.e., sovereign risk and external support). Such ratings are intended to elaborate and explain Moody's Bank Deposit Ratings, which incorporate and reflect such elements of credit risk.

Long-Term Bank Deposit Ratings

Moody's long-term bank deposit ratings employ the same alphanumeric rating system as that for long-term issuer ratings.

Aaa

Banks rated Aaa for deposits offer exceptional credit quality and have the smallest degree of risk. While the credit quality of these banks may change, such changes as can be visualized are most unlikely to materially impair the banks' strong positions.

Aa

Banks rated Aa for deposits offer excellent credit quality, but are rated lower than Aaa banks because their susceptibility to long-term risks appears somewhat greater. The margins of protection may not be as great as with Aaa-rated banks, or fluctuations of protective elements may be of greater amplitude.

A

Banks rated A for deposits offer good credit quality. However, elements may be present that suggest a susceptibility to impairment over the long term.

Baa

Banks rated Baa for deposits offer adequate credit quality. However, certain protective elements may be lacking or may be characteristically unreliable over any great length of time.

Ba

Banks rated Ba for deposits offer questionable credit quality. Often the ability of these banks to meet punctually deposit obligations may be uncertain and therefore not well safeguarded in the future.

B

Banks rated B for deposits offer generally poor credit quality. Assurance of punctual payment of deposit obligations over any long period of time is small.

Caa

Banks rated Caa for deposits offer extremely poor credit quality. Such banks may be in default, or there may be present elements of danger with regard to financial capacity.

Ca

Banks rated Ca for deposits are usually in default on their deposit obligations.

C

Banks rated C for deposits are usually in default on their deposit obligations, and potential recovery values are low.

Note: Moody's appends the numerical modifiers 1, 2, and 3 to each generic rating category from Aa to Caa. The modifier 1 indicates that the bank is in the higher end of its letter-rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the bank is in the lower end of its letter-rating category.

Short-Term Bank Deposit Ratings

Moody's employs the following designations to indicate the relative repayment ability for bank deposits:

P-1

Banks rated Prime-1 for deposits offer superior credit quality and a very strong capacity for timely payment of short-term deposit obligations.

P-2

Banks rated Prime-2 for deposits offer strong credit quality and a strong capacity for timely payment of short-term deposit obligations.

P-3

Banks rated Prime-3 for deposits offer acceptable credit quality and an adequate capacity for timely payment of short-term deposit obligations.

NP

Banks rated Not Prime for deposits offer questionable to poor credit quality and an uncertain capacity for timely payment of short-term deposit obligations.

Bank Financial Strength Ratings

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. In addition to commercial banks, Moody's BFSRs may also be assigned to other types of financial institutions such as multilateral development banks, government-sponsored financial institutions and national development financial institutions.

Unlike Moody's Bank Deposit Ratings, Bank Financial Strength Ratings do not address the probability of timely payment. Instead, Bank Financial Strength Ratings are a measure of the likelihood that a bank will require assistance from third parties such as its owners, its industry group, or official institutions.

Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honour its domestic or foreign currency obligations.

Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Bank Financial Strength Rating Definitions

A

Banks rated A possess superior intrinsic financial strength. Typically, they will be institutions with highly valuable and defensible business franchises, strong financial fundamentals, and a very predictable and stable operating environment.

B

Banks rated B possess strong intrinsic financial strength. Typically, they will be institutions with valuable and defensible business franchises, good financial fundamentals, and a predictable and stable operating environment.

C

Banks rated C possess adequate intrinsic financial strength. Typically, they will be institutions with more limited but still valuable business franchises. These banks will display either acceptable financial fundamentals within a predictable and stable operating environment, or good financial fundamentals within a less predictable and stable operating environment.

D

Banks rated D display modest intrinsic financial strength, potentially requiring some outside support at times. Such institutions may be limited by one or more of the following factors: a weak business franchise; financial fundamentals that are deficient in one or more respects; or an unpredictable and unstable operating environment.

E

Banks rated E display very modest intrinsic financial strength, with a higher likelihood of periodic outside support or an eventual need for outside assistance. Such institutions may be limited by one or more of the following factors: a weak and limited business franchise; financial fundamentals that are materially deficient in one or more respects; or a highly unpredictable or unstable operating environment.

Note: Where appropriate, a "+" modifier will be appended to ratings below the "A" category and a "-" modifier will be appended to ratings above the "E" category to distinguish those banks that fall in intermediate categories.

APPENDIX DIII: FITCH RATING DEFINITIONS

Fitch International Long-Term Credit Ratings

International Long-Term Credit Ratings (LTCR) may also be referred to as Long-Term Ratings. When assigned to most issuers, it is used as a benchmark measure of probability of default and is formally described as an Issuer Default Rating (IDR). The major exception is within Public Finance, where IDRs will not be assigned as market convention has always focused on timeliness and does not draw analytical distinctions between issuers and their underlying obligations. When applied to issues or securities, the LTCR may be higher or lower than the issuer rating (IDR) to reflect relative differences in recovery expectations.

The following rating scale applies to foreign currency and local currency ratings:

Investment Grade

AAA
Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA
Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A
High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB
Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

Speculative Grade

BB
Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B
Highly speculative.

For issuers and performing obligations, 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment.

For individual obligations, may indicate distressed or defaulted obligations with potential for extremely high recoveries. Such obligations would possess a Recovery Rating of 'RR1' (outstanding).

CCC

For issuers and performing obligations, default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic conditions.

For individual obligations, may indicate distressed or defaulted obligations with potential for average to superior levels of recovery. Differences in credit quality may be denoted by plus/minus distinctions. Such obligations typically would possess a Recovery Rating of 'RR2' (superior), or 'RR3' (good) or 'RR4' (average).

CC

For issuers and performing obligations, default of some kind appears probable.

For individual obligations, may indicate distressed or defaulted obligations with a Recovery Rating of 'RR4' (average) or 'RR5' (below average).

C

For issuers and performing obligations, default is imminent.

For individual obligations, may indicate distressed or defaulted obligations with potential for below-average to poor recoveries. Such obligations would possess a Recovery Rating of 'RR6' (poor).

RD

Indicates an entity that has failed to make due payments (within the applicable grace period) on some but not all material financial obligations, but continues to honour other classes of obligations. .

D

Indicates an entity or sovereign that has defaulted on all of its financial obligations. Default generally is defined as one of the following:

Failure of an obligor to make timely payment of principal and/or interest under the contractual terms of any financial obligation;

The bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of business of an obligor;

The distressed or other coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.

Default ratings are not assigned prospectively; within this context, non-payment on an instrument that contains a deferral feature or grace period will not be considered a default until after the expiration of the deferral or grace period.

Issuers will be rated 'D' upon a default. Defaulted and distressed obligations typically are rated along the continuum of 'C' to 'B' ratings categories, depending upon their recovery prospects and other relevant characteristics. Additionally, in structured finance transactions, where analysis indicates that an instrument is irrevocably impaired such that it is not expected to meet pay interest and/or principal in full in accordance with the terms of the obligation's documentation during the life of the transaction, but where no payment default in accordance with the terms of the documentation is imminent, the obligation may be rated in the 'B' or 'CCC-C' categories.

Default is determined by reference to the terms of the obligations' documentation. Fitch will assign default ratings where it has reasonably determined that payment has not been made on a material obligation in accordance with the requirements of the obligation's documentation, or where it believes that default ratings consistent with Fitch's published definition of default are the most appropriate ratings to assign.

Notes to International Long-Term ratings:

The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' Long-term rating category, to categories below 'CCC', or to Short-term ratings other than 'F1'. (The +/- modifiers are only used to denote issues within the CCC category, whereas issuers are only rated CCC without the use of modifiers.)

Rating Watch: Ratings are placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.