REPORT 9

Subject: **Treasury Management Strategy**
Agenda item: Public Item 12
Report No: 9
Meeting date: 26 March 2013
Report to: Board
Report of: Jonathan Dutton, Executive Director of Finance and Corporate Services

FOR DECISION

This report will be considered in public

1. SUMMARY

1.1. This report constitutes the LLDC's Treasury Management Strategy Statement (TMSS) for 2013-14 (including a Treasury Management Policy Statement and Minimum Revenue Provision Policy), prepared in accordance with the Treasury Management in the Public Services Code of Practice (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. RECOMMENDATIONS

2.1. The Board is invited to **APPROVE** the TMSS, relevant Prudential Indicators, Treasury Management Policy Statement and Minimum Revenue Provision Policy.

2.2. The Board is invited to **DELEGATE** the production, maintenance and approval of Treasury Management Practices (TMPs), subordinate to this TMSS, to the Executive Director of Finance and Corporate Services.

3. BACKGROUND

3.1. The TMSS has been prepared with regard to the Code and other relevant guidance issued by CIPFA and DCLG.

3.2. The LLDC formally adopts the Code through the following provisions:

I. The LLDC will create and maintain as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement stating the policies, objectives and approach to risk management of its treasury management activities; and
- suitable Treasury Management Practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the proposed policy statement and TMPs follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the LLDC. Such amendments do not result in the LLDC materially deviating from the Code's key principles.

II. The Board will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

III. The Board holds responsibility for the implementation and regular monitoring of its treasury management policies and practices, and delegates responsibility for the execution and administration of treasury management decisions to the Executive Director of Finance and Corporate Services. The Executive Director of Finance and Corporate Services will act in accordance with the organisation's policy statement and TMPs and, if this officer is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

IV. The Board delegates the responsibility for ensuring effective scrutiny of the treasury management strategy and policies to the Audit Committee.

3.3. The Executive Director of Finance and Corporate Services will prepare an annual TMSS, subject to in year revisions as required, and report to the Board. Under delegated authority, the Executive Director of Finance and Corporate Services will manage all aspects of the implementation and control of treasury activities as defined in the Treasury Management Policy and including the approval of TMPs with appropriate delegation of day to day activities to his staff.

3.4. The execution and operational aspects of investment and borrowing, together with the management of external advisors, are delegated to the Greater London Authority (GLA) under a shared service agreement managed by the Executive Director of Finance and Corporate Services. All delegated activities will comply with the provisions of this TMSS. The GLA Group Treasury Manager will report to the Executive Director of Finance and Corporate Services, Audit Committee and Board as required.

4. TMSS Details

4.1. The nature of LLDC's current funding model means treasury operations are focussed on the management of short term cash balances. The objectives are security of capital, meeting the organisation's operational cash flow requirements and obtaining the best available yield from balances available for investment. The priorities are ranked that order, security, liquidity then yield.

4.2. The LLDC is in the process of procuring a joint external treasury advice contract with the GLA, the London Fire and Emergency Planning Authority (LFEPA) and Mayor's Office for Policing and Crime (MOPAC). The principal service covered by the contract is the provision of credit rating data, since the cost of direct subscriptions to rating agencies is prohibitive. The management of counterparty risk described in the Investment Strategy below relies on a methodology provided by the GLA's current service provider and so may be subject to revision in the event of another provider winning the contract.

Limits and Indicators for Treasury Activities

4.3. The LLDC's affordable borrowing limit ("the Authorised Limit") is set by the Mayor in consultation with the London Assembly. The Mayor does not expect the LLDC to borrow to finance capital expenditure over the following 3 year period, so during the consultation stage the Authorised Limit for the LLDC was indicated as nil. In determining the final limit, the Mayor has authorised borrowing of up to £10m for treasury management purposes, subject to the other treasury and prudential limits proposed below.

4.4. The following limits shall apply for the financial years 2013/14 - 2015/16. Other than in accord with Section 5 of the Local Government Act 2003, which permits the organisation to temporarily exceed the Authorised Limit where an expected payment has not been received on the due date, these may not be breached without revision of the TMSS or explicit approval of the Board for particular circumstances.

Table 1 - Limits

Limit	Description	2013/14	2014/15	2015/16
Authorised Limit	Maximum level of external debt (borrowings plus other long term liabilities)	£10m	£10m	£10m
Upper limit for investments maturing in more than one year[1]	Maximum principal permitted for long term investment	Nil	Nil	Nil
Upper limit for borrowings maturing in more than one year	Maximum principal permitted for long term borrowing	Nil	Nil	Nil

4.5. The following Prudential Indicators are set to describe the expected financial position of the LLDC over the next three year period. Where actual indicators deviate from the ranges below, the Executive Director of Finance and Corporate Service shall provide explanations to the Audit Committee at the next available reporting date.

Table 2 - Indicators

Indicator	Description	2013/14	2014/15	2015/16
Capital Financing Requirement	Capital expenditure to be funded by future revenues	Nil	Nil	Nil
Gross External Debt	Total borrowing plus other long term liabilities	Nil	Nil	Nil
Upper Fixed Interest Rate Exposure based on Net Debt	Fixed rate debt less fixed rate investments as a proportion of total debt less total investments	0%	0%	0%
Upper Variable Interest Rate Exposure based on Net Debt	Variable rate debt less fixed rate investments as a proportion of total debt less total investments	100%	100%	100%

In line with CIPFA guidance, LLDC classifies all instruments maturing within one year of inception as variable rate.

Investment Strategy

4.6. It is proposed that the LLDC's short-term cash balances will be invested through the GLA Group Investment Syndicate (GIS). The GIS is an operation jointly

[1] Does **not** apply to exposure via pooled arrangements or externally managed funds, unless the LLDC would be unable to withdraw its stake within 1 year.

controlled by the participants for the investment of pooled monies belonging to those participants and operated by the GLA as Investment Manager under the supervision of the Syndics (i.e. the participants' respective chief financial officers). The participants are the GLA, LFEPA and such bodies as sign the Syndicate Agreement agreeing to the terms of the syndicate, currently expected to include MOPAC.

4.7. Pooling resources allows the Group Treasury team to make larger individual transactions and exploit the greater stability of pooled cash flows to obtain better returns. A risk sharing agreement ensures risk and reward relating to each instrument within the jointly controlled portfolio are shared in direct proportion to each participant's investment.

4.8. The GIS Investment Strategy including creditworthiness policy and permitted instruments, as agreed between the GLA, LFEPA and LLDC, is attached as Appendix 2.

4.9. Additionally, the Executive Director of Finance and Corporate Services may from time to time instruct the Group Treasury team to invest sums independently of the GIS, for instance if the Authority identifies balances which are available for longer term investment. It is proposed that the LLDC adopt an identical set of parameters for such investments as those detailed in Appendix 2, except that there shall be no requirement to maintain a weighted average maturity of 91 days.

4.10. Where funds are placed in pooled vehicles such as Money Market Funds (MMFs), each MMF is only an approved counterparty while the underlying investments are instruments of the kinds listed in Appendix 2. Variation between an MMF's list of approved counterparties and the approved counterparties of the LLDC is permissible, at the discretion of the Executive Director of Finance and Corporate Services, providing the MMF's own rating meets the criteria of Appendix 2.

4.11. Adoption of this strategy harmonises LLDC's approach with that of the GLA and LFEPA, reflecting a common risk appetite for Mayoral funds under investment. A common approach is essential for maximum efficiency of the shared group treasury service, however the views of all participants will be reflected in the ongoing development of the shared strategy.

4.12. The strategy permits only small allocations of the overall cash portfolio to individual institutions, with the exception of the UK government and banks in a significant level of UK government ownership. This reflects the view that as UK public authority, the LLDC's existence and financial position is subordinate to that of the State, therefore for practical purposes these institutions represent zero risk.

4.13. As this ownership position changes, it should be noted that a far greater level of diversification will be required to deliver an appropriately low level of risk. The additional transaction costs and potential restriction of investment duration are likely to have a significant negative impact on returns, however, the pooled arrangements within the GLA group will reduce the total number of transactions required and facilitate a level of diversification that would be impractical for LLDC to deliver independently and cost effectively.

Borrowing Strategy

4.14. Borrowing within the prescribed limits is permissible where doing so represents prudent management of the Corporation's affairs. As an example, where a cash flow requirement is very short-lived, the opportunity cost of withdrawing or otherwise liquidating investments may exceed that of temporary borrowing. In such a circumstance, borrowing may be the prudent action.

4.15. Borrowing for capital expenditure is not currently authorised. This strategy and the relevant limits will be revised if such investment is deemed necessary.

Minimum Revenue Provision Policy

4.16. Minimum Revenue Provision (MRP) is a means of charging previously unfunded capital expenditures (the Capital Financing Requirement or CFR) to the General Fund over a period commensurate with benefits of the relevant capital spending.

4.17. Where the LLDC has an outstanding opening CFR, the annual MRP shall be calculated as the sum equivalent to the principal repayable on an annuity loan at a rate equal to the Corporation's aggregate cost of borrowing and maturity equal to the remaining weighted average life of relevant assets.

5. FINANCIAL IMPLICATIONS

5.1. The principal financial implications are integral to this report.

5.2. LLDC will contribute £10,000 towards the cost of Group Treasury arrangements managed by the GLA, including external advisory services.

6. LEGAL IMPLICATIONS

6.1. The TMSS is a requirement of LLDC’s reporting procedures and both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. LLDC is required to comply with both Codes through Regulations issued under the Local Government Act 2003. Section 23(1)(d) and (e) of the Local Government Act 2003 provides that the functional bodies of the GLA are local authorities for this purpose.

6.2. Section 3(1) of the 2003 Act provides that all local authorities are to determine and keep under review how much money they can borrow. Section 3(2) of the Act is more specific in relation to the Mayor and functional bodies by providing that the determination is to be made by the Mayor following consultation with the Assembly, in the case of the GLA, or the relevant functional body.

6.3. Regulations under the 2003 Act state that LLDC has a duty to make an amount of MRP which it considers to be “prudent”. The regulation does not itself define “prudent provision” however; the MRP guidance makes recommendations to authorities on interpretation and determination of MRP provision for the future.

6.4. Paragraph 7 of Schedule 21 to the Localism Act 2011 allows the board ofLLDC or any committee of the board to delegate any of its functions to staff of LLDC.

7. APPENDICES

Appendix 1 - Treasury Management Policy
Appendix 2 - Investment Strategy, Permitted Instruments and Counterparty Policy
Appendix 3 - Sample Operational Counterparty List

List of Background Papers

- None

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Appendix 1 – Treasury Management Policy

Treasury Management Policy Statement (form recommended by the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes)

1. The LLDC defines its treasury management activities as: “The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2. The LLDC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. The LLDC acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Appendix 2 - GIS Investment Strategy

The Investment Manager (the GLA) will generally use call accounts and short-dated or highly liquid instruments in order to maintain liquidity and will target maintaining the weighted average maturity of the short term portfolio arising from investing GIS balances at less than 3 months.

Performance benchmarks may be set from time to time by unanimous agreement of the Syndics.

The following instruments are permissible within the GIS. The investment manager may delegate the management of a portion, not exceeding the forecast minimum GIS balance for the next 12 months, of the GIS to external fund managers if this is deemed prudent. As a result of very large scale pooling, such managers may be able to engage in trading which is impractical for the GLA. Therefore a slightly broader range of instruments is available to those managers.

The Investment Manager shall, at a minimum, implement the credit methodology of Sector Treasury Services, the Participants' common treasury advisor. Counterparties are banded corresponding to a maximum investment duration, described subsequently.

Specified and Non-Specified Investments

Specified Investments				
Investment	**Minimum Credit Criteria (Expressed as Sector durational band or raw ratings)**	**Managed: Internally (I) or Externally (E)**	**Maximum percentage of total investments**	**Maximum Duration (months)**
DMADF	--	I	100%	12
Term Deposit – UK public body (e.g. Local, Police or Fire Authority)	Eligible for PWLB or National Loans Fund finance	I/E	100%	12
Term Deposits, Call Accounts and Certificates of Deposit – Rated Bank or Building Society	Green; domicile long term sovereign rating equivalent to Fitch AA or better	I/E	100%	12
Term Deposits, Call Accounts and Certificates of Deposit – Financial Institution in significant part owned by UK Government	Blue	I/E	100%	12
Term deposits, Call Accounts and Certificates of Deposit– Institutions not meeting general criteria but instruments explicitly guaranteed by sovereign national Government rated AA+ or above (Fitch long term)	None	I/E	100%	12
UK Government Gilts held to maturity	--	I/E	100%	12
UK Treasury Bills held to maturity	--	I/E	100%	12

Bonds issued by multilateral development banks (e.g. The European Investment Bank) held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moodys)	I/E	100%	12
Corporate bonds explicitly guaranteed by UK Government held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moodys)	I/E	100%	12
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -				
Government Liquidity Funds	Fitch AAAmmf; or S&P AAAm; or Moody's Aaa.	I/E	100%	12
Money Market Funds	Fitch AAAmmf; or S&P AAAm; or Moody's Aaa.	I/E	100%	12

Forward term deposits may be negotiated with institutions meeting the criteria above with the sum of the forward period and duration of the deal subject to a maximum of 12 months. Total forward dealt exposure may not exceed 20% of the forecast average daily balance at the time. The GIS defines 'forward' as negotiated more than 4 banking days in advance of deposit. Shorter forward periods are viewed as normal cash management practice providing cash resources are certain. The Investment Manager may make exceptions to this limit where the counterparty is a member of the GLA Group.

Non- Specified Investments Aggregate exposure to non-specified investment shall not exceed 50% of total forecast daily average balances.				
Investment	**Minimum Credit Criteria (Expressed as Sector durational band or raw ratings)**	**Use: Internal (I) or Externally (E) managed**	**Maximum percentage of total investments**	**Maximum Duration (months)**
Term Deposits, Call Accounts and Certificates of Deposit – institutions eligible for specified investments	Defined as per specified investments	I/E	50%	24
Term Deposits, Call Accounts and Certificates of Deposit – unrated institutions covered by explicit and unconditional parental guarantee from institution meeting criteria as above.	For parental guarantor: Green; domicile long term sovereign rating, equivalent to Fitch AA or better.	I/E	50%	24
UK Government Gilts held to maturity	--	I/E	50%	240
UK Government Gilts held for trading	--	E	50%	600
UK Treasury Bills held for trading	--	E	50%	12

Corporate bonds explicitly guaranteed by UK Government held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moodys)	I/E	50%	240
Corporate bonds explicitly guaranteed by UK Government held for trading	Long term AAA (Fitch or S&P) or Aaa (Moodys)	E	50%	300
Bonds issued by multilateral development banks held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moodys)	I/E	10%	120
Bonds issued by multilateral development banks held for trading	Long term AAA (Fitch or S&P) or Aaa (Moodys)	E	10%	300
Floating Rate Notes (multi lateral development banks issuances only)	Long term AAA (Fitch or S&P) or Aaa (Moodys)	I/E	10%	120
Corporate Bonds or commercial paper held to maturity	Green	I/E	10%	12

Creditworthiness Policy: Rated Institutions

The Investment Manager makes use of the sophisticated creditworthiness methodology developed and maintained by Sector Treasury Services. The methodology uses an average of the ranked ratings from all three[2] of the Ratings Agencies to arrive at a score which places the institution into the following recommended durational bands for investment:

Yellow	5 years
Purple	2 years
Orange	1 year
Red	6 months
Green	3 months
No Colour	not to be used

An exception is made for those banks with significant share capital in UK public ownership (i.e. >20%).

Blue 1 year (applies only to nationalised or semi-nationalised UK Banks)

Following this initial classification, the score (hence, potentially, the band) is adjusted downwards to account for negative rating watches or outlooks (ie indications by the Agencies that a downgrade is being considered). Scores are further adjusted downwards if Credit Default Swap spreads exceed certain barrier levels. UK banks in the Blue band are excepted from these further steps due to the security offered by their nationalised or semi-nationalised status.

It is the opinion of the Participants and their advisors that significant divestment of Government shareholdings in RBS or the Lloyds Banking Group is highly unlikely over

[2] Organisations with incomplete ratings are progressively penalised in the scoring system, consistent with the reduction in assurance arising from only one or two opinions.

the next 12 month horizon. In light of the additional security[3] **provided by this and** continuing perceived risks in the rest of the financial sector, exposure limits are comparatively high.

In addition to organisations placed in the Blue band under Sector's methodology, the Investment Manager may, in exceptional circumstances and with regard to independent professional advice, include organisations that fall short of ratings criteria but are backed by an explicit and credible sovereign guarantee.

The process by which the Investment Manager will construct the lending list of rated organisations will consist of:

- taking the range of organisations placed by Sector in the Green band and above, prior to outlook and CDS adjustments;
- excluding those domiciled in foreign countries with a Fitch long-term sovereign rating below AA (or equivalent from another agency); and
- including organisations backed by an explicit and credible sovereign guarantee.

Such a list shall be termed the Approved List and will be monitored on a daily basis by the Investment Manager. The Investment Manager will suspend organisations falling short of the criteria immediately.

Policy for the Inclusion of Un-rated Organisations

The Investment Manager may add organisations without credit ratings to the Approved List in the following circumstances only:

- The organisation has an explicit, financially credible guarantee from a foreign sovereign state of Fitch AA (or equivalent) rating:
    - Treated in the Orange band, subject to the duration of deals not exceeding the term of the guarantee;
- The organisation is explicitly guaranteed by a parent company meeting Approved List criteria:
    - Treated in the same band as its parent, subject to the duration of deals not exceeding the term of the guarantee; and
- The organisation is a UK Public Body meeting criteria for loans from the PWLB or National Loans Fund (eg Local Authorities, Police and Fire Authorities):
    - Treated as UK government securities[4].

Deposit facility of last resort

In the circumstance of being unable to place funds with counterparties on the operational list within approved limits, the Investment Manager will attempt to place the surplus funds with the Debt Management Agency Deposit Facility (DMADF). This facility may, of course, also be used in other circumstances if it offers rates above

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[3] The Participants consider the UK government as a zero-risk counterparty for practical treasury management purposes, since the Participants' individual viability, in common with all UK public bodies, depends on the ability of central government to meet its obligations.

[4] The rationale for this is that the GLA would not generally take an alternative view on the credit quality of another Public Body to that taken by HM Treasury acting through the PWLB. However, officers may ask of such bodies' statutory chief finance officers whether their borrowing falls within their affordable limit as defined by the LGA 2003 and may restrict investments with individual counterparties where there may be a risk that any delay in repayment could disadvantage the GLA's operations.

equivalent market levels, though in past experience this is unlikely. Where the sums to be invested were large or durations significant, officers would investigate the use of UK government securities held to maturity (or MMFs investing solely in these instruments) and within the parameters of the overall strategy adopt the financially preferable course.

In the instance of technical failures or unexpected monies being received after the cut-off time for sending payments, the Investment Manager will have no choice but to leave the funds with the GLA's bankers, RBS. In such circumstances, the funds will be moved to the GLA's call account at RBS. At present, however, the quasi-governmental security of RBS arising from the high level of public ownership means it ranks as a 'blue' counterparty and enjoys a 100% overnight limit.

Determining the Operational List of Approved Counterparties and Investment Limits

The Approved List shall form the basis of the Operational List used by the Investment Manager when making investments. For the further control of risk, the Operational List may be subject to temporary restrictions to higher levels of credit worthiness or suspension of countries or individual counterparties on the basis of professional external advice or the due diligence of the Investment Manager. This list will be monitored in exactly the same way as the Approved List, with reference to any additional criteria.

Limits for short term balances

The durational band AFTER adjustment for outlook and CDS data, where available, determines the limits on acceptable exposure in terms of both total invested and duration as follows:

		Cash exposure limits			
Band	Max. Tenor	Overnight	> 1 day	> 3 months	> 6 months
Yellow	5 years	100%	30%	15%	5%
Purple	2 years	100%	20%	10%	5%
Blue	1 year	100%	50%	50%	25%
Orange	1 year	50%	15%	10%	5%
Red	6 months	25%	10%	5%	n/a
Green	3 months	10%	5%	n/a	n/a
UK Sovereign	5 years	100%	No more than 50% >12months		
		Percentages applied to daily balance	Percentages are applied to forecast annual average balance and are cumulative		

The limits above are overlaid with the following considerations:

- Companies within the same group shall be subject to group limits, defined as the limits applying the highest rated member of the group; and
- When placing new investments, other than overnight, exposure to organisations domiciled in any one state, excepting the United Kingdom, exposure relative to the forecast average balance shall not exceed 25% for AAA rated states, 15% for AA+ rated states or 5% for AA rated states.
- The 5 year limit for "Yellow" counterparties may be reduced depending on the type of instrument and the trading status. For term deposits, the maximum tenor is 2 years.

Appendix 3 - APPROVED COUNTERPARTY LENDING LIST
(Revised March 2013)

Approved Counterparties

Country	Name	Band
Australia	**Australia and New Zealand Banking Group Ltd**	O - 12 mths
Australia	**Commonwealth Bank of Australia**	O - 12 mths
Australia	**National Australia Bank Ltd**	O - 12 mths
Australia	**Westpac Banking Corporation**	O - 12 mths
Belgium	**Fortis Bank**	G - 3 mths
Canada	**Bank of Montreal**	O - 12 mths
Canada	**Bank of Nova Scotia**	O - 12 mths
Canada	**Canadian Imperial Bank of Commerce**	O - 12 mths
Canada	**National Bank of Canada**	R - 6 mths
Canada	**Royal Bank of Canada**	O - 12 mths
Canada	**Toronto Dominion Bank**	P - 24 mths
Finland	**Nordea Bank Finland plc ~**	R - 6 mths
France	**BNP Paribas**	R - 6 mths
France	**Credit Industriel et Commercial**	G - 3 mths
Germany	**Deutsche Bank AG**	R - 6 mths
Germany	**DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)**	G - 3 mths
Germany	**Landesbank Berlin AG**	G - 3 mths
Germany	**Landesbank Hessen-Thueringen Girozentrale (Helaba)**	G - 3 mths
Germany	**Landwirtschaftliche Rentenbank**	O - 12 mths
Hong Kong	**The Hong Kong and Shanghai Banking Corporation Ltd**	O - 12 mths
Luxembourg	**Banque et Caisse d'Epargne de l'Etat**	R - 6 mths
Luxembourg	**Clearstream Banking**	P - 24 mths
Netherlands	**Bank Nederlandse Gemeenten**	P - 24 mths
Netherlands	**Cooperatieve Centrale Raiffeisen Boerenleenbank BA**	O - 12 mths
Netherlands	**ING Bank NV**	G - 3 mths
Norway	**DnB Bank**	R - 6 mths
Qatar	**Qatar National Bank**	R - 6 mths
Singapore	**DBS Bank Ltd**	O - 12 mths
Singapore	**Oversea Chinese Banking Corporation Ltd**	P - 24 mths
Singapore	**United Overseas Bank Ltd**	P - 24 mths
Sweden	**Nordea Bank AB**	O - 12 mths
Sweden	**Skandinaviska Enskilda Banken AB**	R - 6 mths
Sweden	**Swedbank AB**	G - 3 mths
Sweden	**Svenska Handelsbanken AB**	O - 12 mths
Switzerland	**Credit Suisse**	G - 3 mths
Switzerland	**UBS AG**	G - 3 mths
U.K	**Bank of New York Mellon (International) Ltd**	O - 12 mths
U.K	**Barclays Bank plc**	G - 3 mths
U.K	**Credit Suisse International**	R - 6 mths
U.K	**HSBC Bank plc**	O - 12 mths
U.K	**MBNA Europe Bank**	R - 6 mths
U.K	**Standard Chartered Bank**	O - 12 mths
U.K	**Sumitomo Mitsui Banking Corporation Europe Ltd ~**	G - 3 mths
U.K	**UBS Ltd**	R - 6 mths
U.K	**Nationwide BS**	G - 3 mths
U.K	**Lloyds Banking Group plc**	B - 12 mths
U.K	**Bank of Scotland Plc**	B - 12 mths
U.K	**Lloyds TSB Bank Plc**	B - 12 mths
U.K	**Royal Bank of Scotland Group plc**	B - 12 mths
U.K	**National Westminster Bank Plc**	B - 12 mths
U.K	**The Royal Bank of Scotland Plc**	B - 12 mths
U.K	**Ulster Bank Ltd**	B - 12 mths
U.S.A	**Bank of New York Mellon, The**	P - 24 mths
U.S.A	**HSBC Bank USA, N.A.**	R - 6 mths
U.S.A	**JP Morgan Chase Bank NA**	R - 6 mths
U.S.A	**Northern Trust Company**	G - 3 mths
U.S.A	**State Street Bank and Trust Company**	O - 12 mths
U.S.A	**Wells Fargo Bank NA**	O - 12 mths

Automatically approved and treated as UK Sovereign are:

UK Government Securities
DMADF
UK public bodies eligible for PWLB or NLF finance

Approved Countries

(Limits will automatically be enforced by the Counterparty Exposure report)

	Rating	Agency	Limit
Australia	AAA	Fitch	25%
Belgium	AA	Fitch	5%
Canada	AAA	Fitch	25%
Finland	AAA	Fitch	25%
France	AAA	Fitch	25%
Germany	AAA	Fitch	25%
Hong Kong	AA+	Fitch	15%
Luxembourg	AAA	Fitch	25%
Netherlands	AAA	Fitch	25%
Qatar	AA	S&P	5%
Singapore	AAA	Fitch	25%
Sweden	AAA	Fitch	25%
Switzerland	AAA	Fitch	25%
U.K	AAA	Fitch	100%
U.S.A	AAA	Fitch	25%

The country limit is applied to the forecast average balance to calculate the gross aggregate limit for investments with counterparties domiciled in that state, other than overnight investments.

General Limits Policy

		Cash exposure limits %				
Band	Max Duration	O/night	> 1 day	> 3 months	> 6 months	> 12 months
UK Sovereign	2 years	100%	100%	100%	100%	50%
Yellow	2 years	100%	30%	15%	5%	5%
Purple	2 years	100%	20%	10%	5%	5%
Blue	1 year	100%	50%	50%	25%	0%
Orange	1 year	50%	15%	10%	5%	0%
Red	6 months	25%	10%	5%	0%	0%
Green	3 months	10%	5%	0%	0%	0%

Overnight limits apply to daily cash balance, others to forecast average balances

General Remarks

This list should be edited and reapproved weekly or whenever an investment is proposed for a counterparty whose status has changed, whichever is sooner;

The weekly Sector list should be appended for the benefit of the approver. Where there are reasons for limits on this list differing from the Sector report, the relevant correspondence should also be attached;

Approval from this list is necessary but not sufficient - check Sector's updates or Bloomberg to verify there has been no change in counterparty or country status before placing investments;

Any dealer may suspend a counterparty but should report the reason to their manger at the earliest available opportunity;

New investments should be supported by a copy of the most recent approved version of this report, to justify the counterparty AND a Conterparty Exposure Report to justify the amount.