COMMITTEE: **Council**	DATE: **10 September 2014**	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: **Chris Holme, Acting Corporate Director of Resources** ORIGINATING OFFICER(S): **Bola Tobun, Investment & Treasury Manager**		TITLE: **2013-14 Treasury Management Outturn Report** Ward(s) affected: N/A		

Lead Member	Cllr Alibor Choudhury – Resources
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

1.1 This report advises Full Council of treasury management activity for the financial year ended 31 March 2014 as required under the Local Government Act 2003.

1.2 The report details the treasury management outturn position based on the credit criteria adopted by the Corporate Director of Resources, the investment strategy for the financial year as approved by Council and the investment returns.

1.3 The Council complied with its legislative and regulatory requirements. The key actual prudential and treasury management indicators detailing the impact of capital expenditure activities during the year, with comparators are also addressed in this report.

1.4 The Acting Corporate Director, Resources confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.

1.5 The CIPFA codes of practice require that a committee scrutinises the investment strategy, mid-year and outturn treasury management reports and that they are reported to the full Council. Updates on treasury management activities were also reported to the Audit Committee on a quarterly basis.

2. DECISIONS REQUIRED

2.1 Members are recommended to note the contents of this report.

3. REASONS FOR DECISIONS

3.1 This Council is required by Regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2013/14. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

3.2 The minimum reporting requirements stipulated by the Code are that Full Council should receive the following reports:

- an annual treasury strategy in advance of the year(Council;27 February 2013)

- a mid-year treasury update report (Council; 27 November 2013)
- an annual report following the year describing the activity compared to the strategy (this report)

3.3 In addition, the Audit Committee received treasury management activity update reports on 25 June 2013, 26 September 2013, 17 December 2013 and 18 March 2014.

3.4 The Code requires Members to review and scrutinise treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

3.5 The annual report on treasury management should assist Members in scrutinising officer decisions and checking that the investment strategy was implemented as approved by the Full Council.

4 ALTERNATIVE OPTIONS

4.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council should receive an annual report on treasury management activities.

4.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council.

5 BACKGROUND

5.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council should receive an annual report on treasury management activities.

5.2 The Council approved the Treasury Management Strategy Statement on 27 February 2013, which included the Investment Strategy, Minimum Revenue Provision and prudential indicators for 2013/14. These reports set out the parameters within which Treasury Management officers should operate when executing their roles. In line with the requirement of the Code, this report should assist Members in discharging their responsibilities relating to the review and scrutiny of Treasury Management policies and activities in 2013/14.

5.3 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Debt activity;
- Summary of interest rate movements in the year; and
- Investment activity.

6. SCRUTINY OF TREASURY MANAGEMENT ACTIVITIES

6.1 The Council complied with its legislative and regulatory requirements in 2013/14 and was not in breach of any of the prudential and treasury management indicators. The table below summarises the key indicators relating to capital expenditure activities in the year. A more detailed report of the indicators is attached as Appendix 1.

6.2 The Acting Corporate Director of Resources also confirms that the Council did not undertake any external borrowing during the year, thus operating within the Authorised borrowing limit in the financial year.

7. CAPITAL EXPENDITURE AND FINANCING 2013-14

7.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply available resources, the capital expenditure will give rise to a borrowing need.

7.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	2012/13 Actual	2013/14 Estimate	2013/14 Actual
Non-HRA capital expenditure	110.254	107.212	82.653
HRA capital expenditure	39.045	78.481	50.255
Total Capital Expenditure	149.299	185.693	132.908
Resources			
Capital Grants	116.010	126.629	87.391
Direct Revenue Financing	3.658	5.586	10.258
Major Repairs Allowance	11.375	17.930	11.799
Developers Contributions	6.263	7.741	7.740
Capital Receipts	11.193	12.993	14.701
Capital Expenditure (Financed from borrowing)	**(0.800)**	**(10.000)**	**(1.000)**

7.3 Actual capital expenditure was less than the estimated figure of £180.548m by £47.64m. This is not an underspent against the total programme; any resources not used in this reporting year will be used in future years of the programme. This year slippage was mainly due to Decent Homes Backlog, Ocean New deal for Communities, Regional Housing Pot and Non Decent homes schemes.

8. OVERALL BORROWING NEED

8.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. This represents the 2013/14 unfinanced capital expenditure as set out in the above table, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

8.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies such as the Public Works Loan Board (PWLB) or the money markets, or utilising temporary cash resources within the Council.

8.3 The Council's non-Housing Revenue Accounts (HRA) underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR).

8.4 The Council's 2013/14 MRP Policy was approved as part of the Treasury Management Strategy Report for 2013/14 on 27 February 2013.

8.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need although no borrowing is actually required against these schemes as a borrowing facility is included in the contract.

General Fund CFR (£m)	**31-Mar-13 Actual**	**31-Mar-14 Estimate**	**31-Mar-14 Actual**
Opening balance	162.060	156.174	**156.174**
Add unfinanced capital expenditure	0.800	10.000	**1.019**
Add PFI adjustment	40.299	40.299	**39.410**
Less MRP	(6.686)	(6.372)	**(6.145)**
Less PFI Adjustment	(40.299)	(40.299)	**(39.410)**
Closing balance	**156.174**	**159.802**	**151.045**

HRA CFR (£m)	**31-Mar-14 Actual**	**31-Mar-14 Estimate**	**31-Mar-14 Actual**
Opening balance	69.675	69.675	**69.675**
Add unfinanced capital expenditure	0.000	0.000	**0.000**
Closing balance	69.675	**69.675**	**69.675**

8.6. **Net Borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the sum of CFR for 2013/14 plus the expected changes to the CFR in 2014/15 and 2015/16. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2013/14.

8.7 A summary of opening and closing CFR balances are also set out in table below.

£m	31-Mar-13 Actual	31-Mar-14 Original	31-Mar-14 Actual
Non HRA CFR	156.174	159.802	**151.045**
HRA CFR	69.675	69.675	**69.675**
CFR (Total)	**225.849**	**229.477**	**220.720**

8.8 **The Authorised Limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2013/14 the Council has maintained gross borrowing within its authorised limit.

8.9 **Maximum Gross Borrowing** – this is the maximum outstanding debt owed by the Council at any time during the financial year.

8.10 **The Operational Boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

8.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

£m	2013/14
Authorised limit	265.720
Gross borrowing position	89.564
Operational boundary	245.720
Financing costs as a proportion of net revenue stream (Non-HRA)	2.40%
Financing costs as a proportion of net revenue stream (HRA)	3.67%

9. TREASURY POSITION as at 31 March 2014

9.1 The Council’s debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting as detailed in section 3 of this report, and through officer activity as detailed in the Council’s Treasury Management Practices Schedule. The treasury position at the start and end of 2013/14 was as follows:

Debt £m	31 March 2013 Principal	Rate/ Return	31 March 2014 Principal	Rate/ Return
Fixed Rate Funding:				
-PWLB	12.909	7.55%	12.064	7.37%
-Market	13.000	4.37%	13.000	4.37%
Total Fixed Rate Funding	25.909	5.95%	25.064	5.81%
Variable Rate Funding:				

-PWLB	0	0.00%	0	0.00%
-Market	64.500	4.32%	64.500	4.32%
Total Variable Rate Funding	64.500	4.32%	64.500	4.32%
Total debt	***90.409***	***4.79%***	***89.564***	***4.73%***
CFR	***225.849***		***220.720***	
Over/ (under) borrowing	***(135.440)***		***(131.156)***	

Investments: £m				
In house	244.000	1.24%	292.450	0.82%
External managers	0	0.00%	0	0.00%
Total investments	***244.000***	***1.24%***	***292.450***	***0.82%***

9.2 The under-borrowed amount represents the element of the programme that is currently being funded from internally held resources. Although this reduces the need to borrow from external sources, it does not allow for additional borrowing over and above the CFR. The Council also repaid £0.8m of maturing PWLB loans, thereby reducing the overall debt outstanding from £90.4m to £89.6m as at 31 March 2014.

9.3 The maturity structure of the debt portfolio was as follows:

	31 March 2013 Actual £m	**2013/14 Original Limits %**	**31 March 2014 Actual £m**	**31 March 2014 Actual %**
Under 12 months	0.845	10%	0.671	0.7%
12 months and within 24 months	0.671	30%	1.068	1.2%
24 months and within 5 years	3.927	40%	4.532	5.1%
5 years and within 10 years	6.256	80%	4.584	5.1%
10 years and above	78.710	100%	78.709	87.9%

9.4 The maturity structure for the investment portfolio was as follows:

	31 March 2013 Actual £m	**2013/14 Original Limits**	**31 March 2014 Actual £m**
Under 1 year	229.00	100%	277.45
More than 1 year	15.00	25%	15.00
Total	**244.00**		**292.45**

10. THE STRATEGY

10.1 The Annual Treasury Management Strategy and the Prudential Borrowing Indicators were approved by the Council on the 26 February 2013. This report provided commentary on the borrowing requirements and debt management arrangements for 2013/14, along with Annual Investment Strategy.

10.2 The interest rate outlook for 2013/14, prepared in conjunction with Capita, the Council's Treasury Adviser, was that the base rate would remain unchanged, throughout 2013/14; the base rate remained at 0.5%.

10.2 For the fifth consecutive year, Bank of England base rate remained at a historic low of 0.5% throughout the year. The MPC have also indicated their concerns that an earlier increase in Bank Rate could help them later with implementing a slower pace of increases in Bank Rate and keeping Bank Rate lower, than if there was a later timing for the first increase. Many forecasters have, therefore, brought forward their forecast for the first increase in Bank Rate to take account of the various comments that have been made by the MPC and Carney.

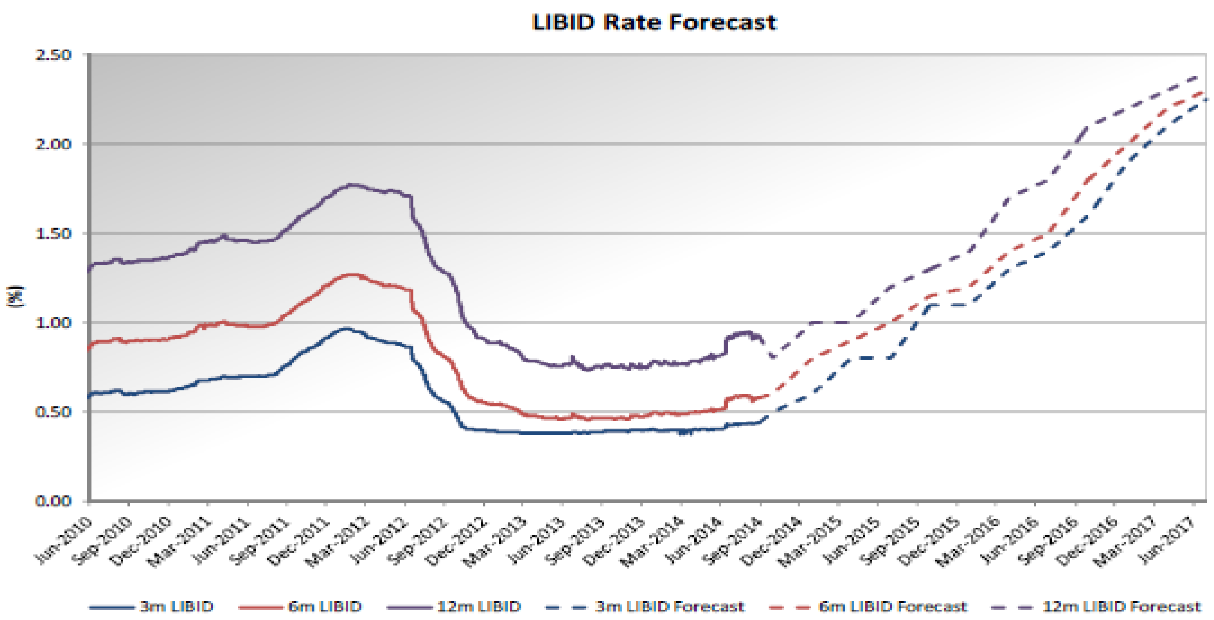
10.3 The Council has continued with its conservative approach of prioritising security and liquidity over yield, Investments would therefore continue to be dominated by low counterparty risk considerations though, this results in a high cost of carry as investment returns are relatively low compared to borrowing rates.

11. BORROWING OUTTURN

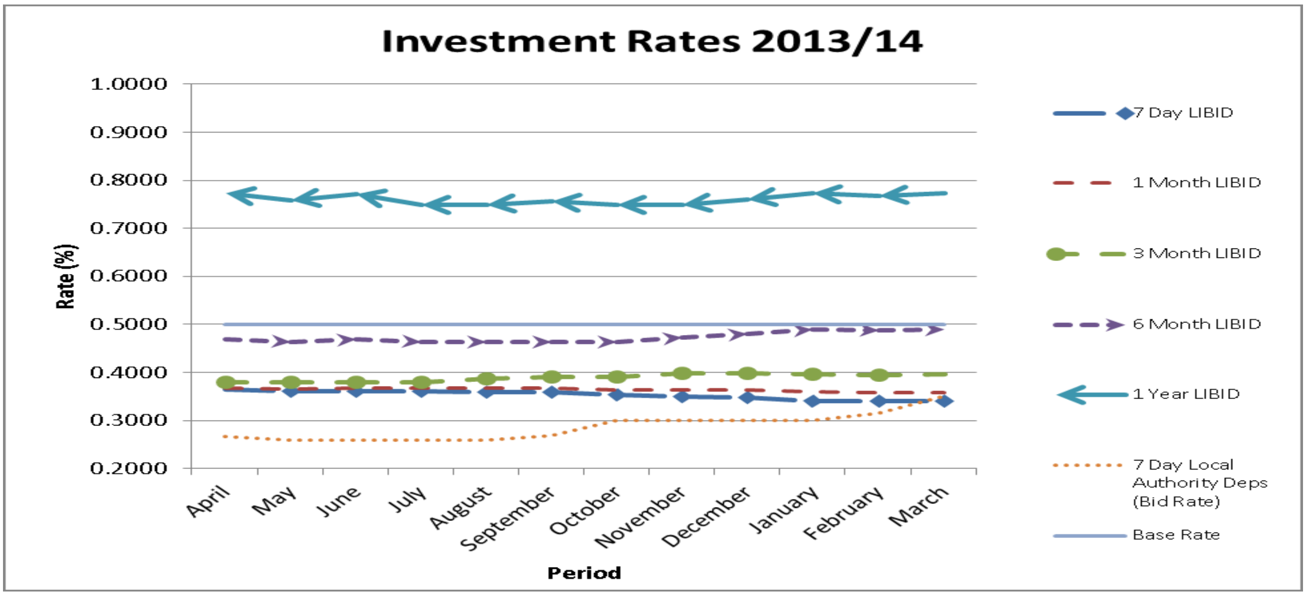
11.1 The Council did not undertake any external borrowing in 2013/14. Capital financing needs were met either from existing debt or internal borrowing.

12. INVESTMENT RATES

12.1 After strong UK GDP growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, and 0.8% in Q1 2014, it appears very likely that strong growth will continue into 2014 as forward surveys are very encouraging. There are also positive indications that recovery is starting to broaden away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster through the threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, now broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. Accordingly, markets are expecting a first increase around the end of 2014.



12.2 The graph below illustrates that investment rates remained at historically low levels over the course of the financial year 2013/14.



13. INVESTMENT OUTTURN

13.1 The Council's investment policy is governed by CLG guidance, which was implemented in line with the annual investment strategy approved by Full Council on 26 February 2013 and the revised investment strategy approved by Full Council on 26 November 2013. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented with additional market data (such as rating outlooks, credit default swaps, bank share prices etc.)

13.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

13.3 The Council held an outstanding balance of £292.45m as at 31 March 2014, and maintained an average balance of £278.8m of internally managed funds which earned an average rate of return of 0.82%. This compared favourably against the 7-day LIBID benchmark of 0.35%.

14. COMMENTS OF THE CHIEF FINANCIAL OFFICER

14.1. The comments of the Acting Corporate Director Resources have been incorporated into the report of which he is the author.

15 LEGAL COMMENTS

15.1 The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

15.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

15.3 It is a key principle of the Treasury Management Code that an authority should put in place "comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities". Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to review performance against the strategies and policies it has adopted.

15.4 The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council's Constitution, the audit committee has the functions of monitoring the Council's risk management arrangements and making arrangements for the proper administration of the Council's affairs and for the proper stewardship of public funds.

15.5 When discharging its treasury management functions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. Information is contained in section 15 of the report relevant to these considerations.

16. ONE TOWER HAMLETS CONSIDERATIONS

16.1 Interest on the Council's cash flow has historically contributed significantly towards the budget. This Council's ability to deliver its various functions, to meet its Community Plan targets and to do so in accordance with its obligations under the Equality Act 2010 may thus be enhanced by sound treasury management.

17. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

17.1 There are no Sustainable Actions for A Greener Environment implications.

18. RISK MANAGEMENT IMPLICATIONS

18.1 Any form of investment inevitably involves a degree of risk. To minimise risk the investment strategy has restricted exposure of council cash balances to UK backed banks or institutions with the highest short term rating or strong long term rating.

19. CRIME AND DISORDER REDUCTION IMPLICATION

19.1 There are no crime and disorder reduction implications arising from this report.

20. EFFICIENCY STATEMENT

20.1 Monitoring and reporting of treasury management activities ensures the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	***Name and telephone number of holder And address where open to inspection***
Investment Reports; Sector Treasury Advisory Services	*Bola Tobun Ext. 4733* *Mulberry Place, 3rd Floor.*

Appendix 1: Prudential and Treasury Indicators

Prudential indicators	**2012/13**	**2013/14**	**2013/14**	**2014/15**	**2015/16**
Extract from budget and rent setting reports	**Actual**	**Actual**	**Estimate**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m
Capital Expenditure					
Non – HRA	110.254	82.653	107.212	26.525	30.980
HRA	39.045	50.255	78.481	76.590	39.000
TOTAL	**149.299**	**132.908**	**185.693**	**103.115**	**69.980**
Ratio of Financing Costs To Net Revenue Stream					
Non – HRA	2.51%	2.40%	2.89%	3.05%	3.55%
HRA	3.98%	3.67%	4.04%	3.87%	4.66%
	£m	£m	£m	£m	£m
Gross Debt and Capital Financing Requirement					
Gross Debt	90.409	89.564	99.564	113.965	128.897
Capital Financing Requirement	225.848	220.720	159.802	238.628	268.409
Over/(Under) Borrowing	(135.439)	(131.156)	(60.238)	(124.663)	(139.512)
In Year Capital Financing Requirement					
Non – HRA	(5.887)	(5.128)	3.628	(6.146)	(6.219)
HRA	0.000	0.000	0.000	15.072	36.000
TOTAL	**(5.887)**	**(5.128)**	**3.628**	**8.926**	**29.781**
Capital Financing Requirement as at 31 March					
Non - HRA	156.173	151.045	159.802	153.881	147.662
HRA	69.675	69.675	69.675	84.747	120.747
HRA Settlement	0.000	0.000	0.000	0.000	0.000
TOTAL	**225.848**	**220.720**	**229.477**	**238.628**	**268.409**
Incremental Impact of Financing Costs (£)					
Increase in Council Tax (band D) per annum	0.000	0.000	0.000	0.000	0.000
Increase in average housing rent per week	5.305	0.000	0.059	1.080	1.451

Treasury Management Indicators	2012/13	2013/14	2013/14	2014/15	2015/16
	Actual	Actual	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Authorised Limit For External Debt:					
Borrowing & Other long term liabilities	250.848	245.720	254.477	263.628	293.409
Headroom	20.000	20.000	20.000	20.000	20.000
TOTAL	**270.848**	**265.720**	**274.477**	**283.628**	**313.409**
Operational Boundary For External Debt:					
Borrowing	250.848	245.720	254.477	263.628	277.409
Other long term liabilities	0.000	0.000	0.000	0.000	16.000
TOTAL	**250.848**	**245.720**	**254.477**	**263.628**	**293.409**
Gross Borrowing	**90.409**	**89.564**	**99.564**	**113.965**	**128.897**
HRA Debt Limit*	**184.381**	**184.381**	**184.381**	**184.381**	**184.381**
Upper Limit For Fixed Interest Rate Exposure					
Net principal re fixed rate borrowing / investments	**100%**	**100%**	**100%**	**100%**	**100%**
Upper Limit For Variable Rate Exposure					
Net interest payable on variable rate borrowing / investments	**20%**	**20%**	**20%**	**20%**	**20%**
Upper limit for total principal sums invested for over 364 days (per maturity date)	**£25m**	**£25m**	**£25m**	**£25m**	**£25m**

Maturity structure of new fixed rate borrowing for 2013/14	Upper Limit	Lower Limit
Under 12 months	10%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

Appendix 2: Definition of Credit Ratings

Support Ratings

Rating	
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

Short-term Ratings

Rating	
F1	**Highest credit quality.** Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	**Good credit quality.** A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	**Fair credit quality.** The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Long-term Ratings

Rating	Current Definition (August 2003)
AAA	**Highest credit quality.** 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	**Very high credit quality.** 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	**High credit quality.** 'A' ratings denote a low expectation of credit risk. The capacity for timely 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 is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions is more likely to impair this capacity. This is the lowest investment-grade category

Individual Ratings

Rating	
A	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
B	A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects
C	An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.
D	A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability, substance and resilience, balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.
E	A bank with very serious problems, which either requires or is likely to require external support.