ANNEX 5

COMMITT EE **Cabinet**	DATE **10th February 2010**	CLASSIFICATION **Unrestricted**	REPORT NO. (CAB 116/090)
REPORT OF: **Director of Corporate Resources** ORIGINATING OFFICER(S): **Alan Finch: Service Head – Corporate Finance** **Oladapo Shonola – Chief Financial Strategy Officer**		TITLE: **TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2010/11** Ward(s) affected: **All**	

Lead Member	**Cllr Ohid Ahmed – Resources and Performance**
Community Plan Theme	**All**
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

1.1 It is consistent with the requirements of treasury management specified by the Chartered Institute of Public Finance and Accountancy (CIPFA), which the Council is required to have regard to under the Local Government Act 2003 and regulations made under that Act, for the Council to produce three strategy statements to support the Prudential Indicators (dealt with in a separate report) which ensure that the Council's capital investment plans are affordable, sustainable and prudent. The three statements may be summarised as :

- A Treasury Management Strategy which sets out the Council's proposed borrowing for the financial year and establishes the parameters within which officers under delegated authority may undertake such activities;
- An annual Investment Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments; and
- A policy statement on the basis on which provision is to be made in the revenue accounts for the repayment of borrowing – Minimum Revenue Provision (MRP) Policy Statement.

1.2 The report proposes that the Council adopts the credit criteria set out in section 11.4.5 of this report.

1.3 Officers will report details of the council's treasury management activity to the Audit Committee at each of its meetings during the year.

2. DECISIONS REQUIRED

Cabinet is recommended to:-

2.1 Agree the Treasury Management Strategy Statement as set out in sections 6 - 10 of this report.

2.2 Agree the Annual Investment Strategy set out in section 11 of this report.

2.3 Agree the Minimum Revenue Provision Policy Statement as set out in section 12 of this report.

2.4 Recommend that Full Council adopt the Treasury Management Strategy Statement, the Annual Investment Strategy and the Minimum Revenue Provision Policy Statement as set out in the body of this report and that officers involved in treasury management must follow these policies and procedures.

2.5 Delegate to the Director of Corporate Resources after consultation with the Lead Member for Resources and Performance authority to vary the figures in this report to reflect decisions made in relation to the Capital Programme prior to submission to Budget Council.

3 REASONS FOR DECISIONS

3.1 It is consistent with the requirements of treasury management specified by CIPFA, which the Council is required to have regard to under the Local Government Act 2003 and regulations made under that Act, for the Council to produce three strategy statements to support the Prudential Indicators (dealt with in a separate report) which ensure that the Council's capital investment plans are affordable, sustainable and prudent. The three documents that the Council should produce are:

- Treasury Management Strategy
- Investment Strategy; and
- Minimum Revenue Provision Policy Statement.

4 ALTERNATIVE OPTIONS

4.1 The Council is bound by legislation to have regard to the CIPFA requirements for treasury management. 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 the Council's capital investment plans are affordable, sustainable and prudent.

4.2 The strategies and policy statement put forward in the report are considered the best methods of achieving the CIPFA requirements. Whilst it may be possible to adopt variations of the strategies and policy statement, this would risk failing to achieve the goals of affordability, sustainability and prudence.

5 BACKGROUND

5.1 The Local Government Act 2003 Act requires the Council to establish a treasury strategy for borrowing, and an investment strategy for each financial year, which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

5.2 The proposed strategy for 2010/11 encompasses elements of the treasury management function and incorporates the economic forecasts provided by the Council's treasury advisor. It specifically covers:

- Parameters which will limit the treasury risk and activities of the Council;
- Prudential Indicators;
- The current treasury position;
- The borrowing requirement;
- Prospects for interest rates and other macroeconomic indicators;
- The borrowing strategy;
- Debt rescheduling;
- The investment strategy;
- The Minimum Revenue Provision strategy; and
- Minimum Revenue Provision Policy.

6 TREASURY LIMITS FOR 2010/11 TO 2012/13

6.1 The Prudential Borrowing System requires Councils to calculate and monitor a number of indicators to ensure that the level of borrowing to fund capital investment is affordable. It is these indicators which set the parameters within which treasury operations are undertaken.

6.2 These indicators are set out on another report on this agenda.

7 CURRENT PORTFOLIO POSITION

7.1 The Council's borrowing and investments as at the 31st December 2009 are as set out in Table 1:

7.2 Total borrowing against the General Fund currently total £261.5M growing to £321M by the end of the 2009/10 financial year. Investments currently total £66.5M.

Table 1

Type of Borrowing	Principal Amount £m	Total Principal Amount £m	Average Rate %	Total Average Rate %
Fixed Rate Borrowing				
PWLB (Public Works Loans Board)	244.0		8.67	
Market	17.5		4.15	
		261.5		8.355
Variable Rate Borrowing				
PWLB and Market	60.0*		0.850	
		60		0.850
Total Debt		**321.5**		**6.954**
Investments				
Debt Management Office	0			
UK Banks & Building Societies	66.5			
Overseas banks	0			
Total Investments	**66.5**			

*This borrowing has been forward fixed to be taken up in February 2010.

8 PROSPECTS FOR INTEREST RATES

8.1 The borrowing and investment strategy is in part determined by the economic environment within which it operates.

8.2 The Council has appointed Sector Treasury Services as treasury adviser and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Sector's overall view on interest rates for the next three years.

Table 2

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Bank Rate	0.50%	0.50%	0.75%	1.00%	1.50%	2.25%	2.75%	3.25%	3.50%	3.75%	4.25%	4.25%	4.50%
5Yr PWLB Rate	3.05%	3.20%	3.30%	3.40%	3.60%	3.85%	4.15%	4.55%	4.60%	4.80%	4.80%	4.85%	4.85%
10Yr PWLB Rate	4.00%	4.05%	4.15%	4.30%	4.45%	4.60%	4.80%	4.90%	5.00%	5.10%	5.10%	5.15%	5.15%
25Yr PWLB Rate	4.55%	4.65%	4.70%	4.80%	4.90%	5.00%	5.05%	5.10%	5.20%	5.30%	5.30%	5.35%	5.35%
50Yr PWLB Rate	4.60%	4.70%	4.75%	4.90%	5.00%	5.10%	5.15%	5.20%	5.30%	5.40%	5.40%	5.45%	5.45%

8.3 Sector's current interest rate projections are based on moderate economic recovery and moderate Bank of England Monetary Policy Committee concerns about the outlook for inflation.

8.4 Sector projects that Bank Rate:-

- will hold steady at 0.50% until the end of Q1 2010
- will start to rise from 0.50% in Q2 2010 reaching 4.5% by the end of Q4 2012; and
- long term (50 Year) PWLB rates to steadily increase reaching 5.45% by end of Q4 2012

8.5 Other factors influencing these projections are; uncertainties about the timing and amount of Quantitative Easing reversal, bank recovery, balance of trade as well as the timing of the General Election.

9 BORROWING STRATEGY

9.1 The Council will continue to borrow for the following purposes:

- Supported Capital Expenditure Allocations
- Repayment of Maturing Debt (net of Minimum Revenue Provision)
- Unsupported (Prudential) Borrowing Capital Expenditure
- Short Term Cash Flow Financing

9.2 The Director of Corporate Resources under delegated powers will determine the timing, term, type and rate of new borrowing to take into account factors such as:

- Expected movements in interest rates
- Current maturity profile
- The impact of borrowing on the council's Medium Term Financial Plan
- Approved prudential indicators and limits

9.3 Officers will continue to monitor interest rate movements closely and adopt a pragmatic approach to changing circumstances. For example, the following potential scenarios would require a reappraisal of strategy:

- A significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap
- A significant risk of a sharp fall in long and short term rates, due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

9.4 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

9.5 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

10 DEBT RESCHEDULING

10.1 The Director of Corporate Resources will continue to consider options to reschedule and restructure the Council's debt portfolio, having due regard for the broad impact of such exercises on the following:

- The maturity profile – council will only undertake debt restructuring where it benefits the maturity profile
- Ongoing revenue savings will be achieved
- The effect on the HRA
- The impact of premiums and discounts has been fully considered; and
- The impact on prudential indicators.

11 ANNUAL INVESTMENT STRATEGY

11.1 The Investment Strategy for 2010/11 has been put together in recognition of the 2008 banking crisis that led to a global recession. Money markets are becoming more stable although Bank of England base rate is still being held at the historical low rate of 0.50%.

11.2 The Director of Corporate Resources in response to the market uncertainty in 2009 implemented an interim credit criterion which restricted term investments to UK institutions which had support guarantees from the British Government. This policy is however difficult to sustain in the long term because of the limited number of counterparties and the relatively low returns obtainable given historically low interest rate in the UK.

11.3 It is recommended that the credit criteria as set out in section 11.4.5 be adopted and the Director of Corporate Resources be given discretion on the timing and return to the investment criteria set out in section 11.4.5.

11.4 Investment Policy:

11.4.1 The Council will have regard to the Department of Communities and Local Government's (DCLG) Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code"). The Council's investment priorities are: -

- The security of capital;
- The liquidity of investments to ensure that the Council has cash available to discharge its liabilities as necessary; and that
- Within these priorities, the Council will also aim to achieve the optimum return on its investments commensurate with appropriate levels of security and liquidity.

11.4.2 To achieve these objectives, the Council is required to classify investment products as either "specified" or "non-specified".

11.4.3 Specified investments comprise investment instruments which the Council considers offer high security and liquidity. These instruments can be used with minimal procedural formalities. The guidance issued by the Government considers that specified investments have the following characteristics: -

- Denominated in Sterling and have a term of less than one year
- Have "high" credit ratings as determined by the Council itself.

11.4.4 All other investments are termed non-specified investments. These involve a relatively higher element of risk, and consequently the Council is required to set a limit on the maximum proportion of their funds which will be invested in these instruments. The Strategy should also specify the guidelines for making decisions and the circumstances in which professional advice is obtained.

11.4.5 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

11.4.5.1 **<u>Specified Investments:</u>**

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum ‘high credit’ quality criteria where applicable). The council will continue its policy of lending surplus cash to counterparties that have high credit ratings, defining ‘high credit rating’ as being F1+ Fitch short-term and AA- long-term credit rating.

Institution	**Minimum High Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	Not applicable	In-house
Term deposits – Other Local Authorities	Not applicable	In-house
Term deposits – banks and building societies	Short-term F1+, Long-term AA-	In-house
Institutions with Government guarantee on ALL deposits by high credit rated (sovereign rating) countries.	Sovereign rating	In-house
Institutions with UK Government support.	Sovereign rating	In-house
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)		
Money Market Funds	AAA rated	In-house

Definitions of credit ratings are attached at Appendix 1.

The change from last year’s strategy is the addition of investments in money market funds with the highest credit rating criteria (AAA rated). This facility allows the council to diversify risk within its investment portfolio whilst ensuring that the Council still has access to its funds at short notice. Additionally, the Council can expect returns closer to the 7 day/1 Month London Interbank Bid Rate (LIBID) and can be a useful alternative to short term deposits in bank accounts which normally returns below LIBID.

11.4.5.2 **<u>Non-Specified Investments:</u>**

The Council will not undertake any investment in non specified investments.

11.5 The Council uses Fitch ratings to derive its counterparty criteria, but will take into consideration ratings from all three main credit ratings providers when compiling its counterparty list. The Council will take an overall view on its counterparties so that an organisation could be removed from the list if the predominate view of the organisation is pessimistic. Where the overall view of the three main ratings agency is pessimistic, the Council is likely to adopt the most pessimistic of the available ratings.

11.6 All credit ratings will be monitored on a monthly basis and the Council is alerted to changes in ratings through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria as outlined in 11.5, its further use as a new investment will be withdrawn immediately.

- If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the of the minimum acceptable rating for placing investments with that body as outlined in 11.5, then no further investments will be made with that body.

11.7 The credibility of credit ratings providers has been called into question for failing to identify the potential problems with Icelandic Banks as part of the Icelandic Banking Crisis. In order to further improve the security of council funds and in line with CIPFA guidance, the Council as well as using credit rating agencies will now also use financial press, market data, information on government support for banks and the credit ratings of that government support when compiling its counterparties list.

11.8 Investment Strategy:

11.8.1 **In-house funds**: The Council's in house investments are principally related to cashflow. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

11.8.2 **Interest rate outlook**: Bank of England Base Rate has remained at 0.50% since the initial tumble down from a high of 5.75% in November 2007 to the current rate in March 2009. The council's treasury advisors are forecasting that interest rates will start to rise steadily from Q1 of 2010. It is expected that rates would have risen to 4.5% by Q4 of 2012.

- There is slightly more certainty over the projected level of interest rates in 2010/11 than in 2009/10 as the economic recovery gathers pace and inflation starts to push up toward government target. However, there remains a distortion in the inter-relationships between money market rates and bank rate. The 2010/11 budget has been set to take account of the fall in interest, but officers will continue to investment to maximise returns in line with the Council's stringent counterparty criteria.

12 MINIMUM REVENUE PROVISION POLICY STATEMENT 2010/11

12.1 The Council is required to provide an annual amount in its revenue budget to provide for the repayment of the debt it has incurred to finance its General Fund capital investment. The calculation of this sum termed the Minimum Revenue Provision (MRP) was previously prescribed by the Government.

12.2 The Department of Communities and Local Government (DCLG) now require Councils to establish a policy statement on the MRP and has published guidance on the four potential methodologies to be adopted.

12.3 The guidance distinguishes between supported borrowing which relates to assumed borrowing which is incorporated into the Governments Formula Grant calculation and consequently has an associated amount of government grant and unsupported borrowing. Unsupported borrowing is essentially prudential borrowing the financing costs of which have to be met by the Council locally.

12.4 The DCLG guidance provides two options for the calculation of the MRP associated with each classes of borrowing.

12.5 The two options for the supported borrowing are variants of the existing statutory calculation which is based on 4% of the aggregate assumed borrowing for general fund capital investment - termed the Capital Financing requirement (CFR). The two options are:

- **Option 1 (Regulatory Method)**: To continue the current statutory calculation based on the gross CFR less a dampening factor to mitigate the impact on revenue budgets of the transition from the previous system. This calculation is further adjusted to repay debt transferred to the Council when the Inner London Education Authority (ILEA) was abolished.

- **Option 2 (Capital Financing Requirement Method)**: The statutory calculation without the dampener which will increase the annual charge to revenue budget.

12.6 The options purely relate to the timing of debt repayment rather than the gross amounts payable over the term of the loans. The higher MRP payable under option 2 will accelerate the repayment of debt.

12.7 It is recommended that because of budget constraints in the medium term the existing statutory calculation with the ILEA adjustment be adopted as the basis of the Councils MRP relating to supported borrowing.

12.8 The guidance provides two options for the MRP relating to unsupported borrowing. The options are:-

- **Option 3 (Asset Life Method)**: To repay the borrowing over the estimated life of the asset with the provision calculated on either an equal instalment or annuity basis. This method has the advantage of simplicity and relating repayments to the period over which the asset is providing benefit.

- **Option 4 (Depreciation Method)**: A calculation based on depreciation. This is extremely complex and there are potential difficulties in changing estimated life and residual values.

12.9 It is recommended that option 3 is adopted for unsupported borrowing.

12.10 In order to comply with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, it is recommended that Cabinet recommend to Full Council that for the 2010/11 financial year, the Council makes Minimum Revenue Provision using Option 1 (Regulatory Method) for supported borrowing and Option 3 (Asset Life Method) for unsupported borrowing.

13 COMMENTS OF THE CHIEF FINANCIAL OFFICER

13.1 The comments of the Chief Finance Officer have been incorporated into the report.

14 CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

14.1 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.

14.2 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.

14.3 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 adopt the strategies and policies proposed in the report.

14.4 The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority's borrowing, investments or capital expenditure, or for determining the authority's minimum revenue provision, is a matter that should not be the sole responsibility of the authority's executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by full council.

15 ONE TOWER HAMLETS CONSIDERATIONS

15.1 Capital investment will contribute to achievement of the corporate objectives. Establishing the statutory policy statements required facilitates the capital investments and ensures that it is prudent.

16 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

16.1 There are no sustainable actions for a greener environment implication.

17 RISK MANAGEMENT IMPLICATIONS

17.1 There is inevitably a degree of risk inherent in all treasury activity.

17.2 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

17.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council.

17.4 The council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the Council has obtained independent advice from Sector Treasury Services who specialise in Council treasury issues.

18 CRIME AND DISORDER REDUCTION IMPLICATIONS

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

19 EFFICIENCY STATEMENT

19.1 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that 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.

20. Appendices

Appendix 1 - Credit Ratings

Local Government Act, 1972 Section 100D (As amended)
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.**
Sector Guidance	*Oladapo Shonola (x4733), Chief Financial Strategy Officer, 4th Floor Mulberry Place*

Appendix 1: 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 are 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.