

AUDIT COMMITTEE - 27 NOVEMBER 2015

| | | |
|--|---|----------------------------|
| Title of paper: | TREASURY MANAGEMENT 2015/16 HALF YEARLY UPDATE | |
| Director(s)/ Corporate Director(s): | Glen O'Connell, Corporate Director for Resilience | Wards affected: All |
| Report author(s) and contact details: | Glyn Daykin, Finance Analyst - Treasury Management Tel: 0115 8763724 E-mail: glyn.daykin@nottinghamcity.gov.uk | |
| Other colleagues who have provided input: | Members of Treasury Management Panel: Geoff Walker, Director of Strategic Finance Jeff Abbott, Head of Strategic Finance Theresa Channell, Head of Corporate Finance Barry Dryden, Senior Finance Manager | |
| Recommendation(s): | | |
| 1 | To note the treasury management actions taken in 2015/16 to date. | |

1. REASONS FOR RECOMMENDATIONS

To ensure that Councillors are kept informed of the actions taken by the Chief Finance Officer (CFO) under delegated authority. The currently adopted Treasury Management Code of Practice requires the CFO to submit at least three reports on treasury management each year; a policy and strategy statement for the ensuing financial year, a 6-monthly progress report and an outturn report after the end of the financial year.

The CIPFA Prudential Code requires local authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity. It is considered that the City Council's Audit Committee is the most appropriate body for this function. In undertaking this function, the Audit Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices.

2. BACKGROUND

Treasury management is the management of a local authority's cash flows, borrowings and investments, together with the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks. Since 1 April 2004 councils have been required to have regard to the Prudential Code. The Code requires treasury management to be carried out in accordance with good professional practice. The City Council retains external advisors to assist with this activity.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

The half yearly update report is scheduled to be considered by Executive Board on 22 December 2015.

3. TREASURY MANAGEMENT ACTIVITY TO 30 SEPTEMBER 2015

3.1 2015/16 Strategy

The overall Treasury Management Strategy for 2015/16 was approved by the City Council on 9 March 2015. Table 1 summarises the actions taken to 30 September 2015 against each of the main three elements of that strategy:

| TABLE 1: TREASURY MANAGEMENT ACTIONS | |
|--|---|
| Strategy 2015/16 | Actions to 30 September 2015 |
| New borrowing – to raise up to £15.0m to finance new capital expenditure in the year and replace maturing long-term debt. | To 30 September, no new long-term borrowing had taken place (see 4.4). |
| Debt rescheduling – to consider any debt rescheduling or repayment opportunities which enable revenue savings to be generated in the year. | To 30 September, no debt rescheduling had taken place (see 4.5). |
| Investments – to ensure the security of funds invested through the application of a restricted counterparty list and the imposition of limits on the period and levels of individual investments. Within those confines, to maximise the return on investments. | The average return on investments from 1 April to 30 September 2014 was 0.664%. The benchmark average 7-day London Inter-Bank Bid (LIBID) rate for the same period was 0.460%. The 2015/16 budget assumed an average return of 0.750% for the period (see 4.8). |

3.2 The Economy and Interest rates during 2015/16

The economy has remained resilient over the last six months. Although economic growth slowed in Q1 2015 to 0.4%, year/year growth to March 2015 was a relatively healthy 2.7%. Q2 2015 Gross Domestic Product (GDP) the main UK growth measure bounced back and was confirmed at 0.7%, with year/year growth showing slight signs of slowing, decreasing to 2.4%. GDP has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009.

The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to -0.1%, before fluctuating between 0.0% and 0.1% over the next few months. The Bank of England's projections for inflation expect inflation to gradually increase to around 2% over the next 18 months and then remain there in the near future.

Further improvement in the labour market saw the unemployment rate for the three months to July fall to 5.5%. In the September report, average earnings excluding bonuses for the three months to July rose 2.9% year/year.

The Bank of England Base Interest Rate of 0.50% has been so far unchanged in 2015. Although the UK has shown some economic growth during the year, this is developing slowly and it is currently expected that the base rate will remain at its present level for at least the first half of 2016.

Appendix B shows the money market interest rates and the PWLB borrowing rates for the half-year to 30 September 2015.

3.3 Local Context

At 31/3/2015 the Council's underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), was £960.733m, while usable reserves and working capital which are the underlying resources available for investment were £363.415m. At 31/3/2015, the Council had £687.961m of borrowing, £124.536m other liabilities, including Private Finance Initiative (PFI) debt and £216.120m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance in the region of £30m.

The Council has an increasing CFR over the next 3 years due to the capital programme, and expects to hold minimal investments and will therefore anticipate borrowing up to £115m over the forecast period.

3.4 Borrowing strategy

At 30/9/2015 the Council held £690.813m of loans, an increase of £2.852m on the 31/3/2015 balance, due to short term borrowing although no new long-term borrowing has been taken to date in 2015/16 as part of its strategy for funding previous years' capital programmes.

The Council expects to borrow up to £15.000m in 2015/16. The chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the long-term plans change being a secondary objective.

Affordability and the 'cost of carry' remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained lower than long-term rates and are likely to remain so for at least the next two years, the Council determined it was more cost effective in the short-term to use internal resources instead

The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with this 'cost of carry' and breakeven analysis.

Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. £26.0m of such loans were borrowed at an average rate of 0.43% and an average life of 2 months which includes the replacement of maturing loans.

Table 2 summarises the Council's outstanding external debt at 30 September 2015 showing the value of debt and the average interest rate payable on the debt:

| TABLE 2: DEBT PORTFOLIO | | |
|--------------------------------|--------------------|--------------|
| | 30 SEP 2015 | |
| DEBT | £m | % |
| PWLB borrowing | 627.006 | 3.850 |
| Market loans | 49.000 | 4.348 |
| Local bonds & stock | 0.620 | 3.000 |
| Temporary borrowing | 14.186 | 0.422 |
| TOTAL DEBT | 690.813 | 3.814 |

3.5 Debt rescheduling

The penalties (premia) for the early repayment of Public Works Loan Board (PWLB) debt, which constitutes over 90% of the Council's existing long-term borrowing, have remained prohibitively high. Therefore, no opportunities for debt rescheduling arose in the first half of 2015/16

3.5 PWLB Certainty Rate and Project Rate Update

The Council qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2014. In April the Council submitted its application to the DCLG along with the 2015/16 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2015.

3.6 Lender's Option Borrower's Options (LOBO) Loans

The Council holds £49.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £34.000m of these LOBO loans have options during the year, none of which have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

3.7 Housing Revenue Account (HRA) Treasury Management Strategy

From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. As a result of existing debt maturing, and not being replaced, the HRA accumulates an internal borrowing position. The interest payable in 2015/16 is expected to be £12.322m at an average rate of 4.40%. This includes £37.161m of fixed rate internal borrowing on a maturity loan basis for 30 years.

3.8 Investments

The Council has held significant investment balances over the last few years, representing income received in advance of expenditure plus balances and reserves held. Cash flow forecasts indicated that during 2015/16 the Council's investment balances would range between £50m and £220m.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Table 3 below summarises investment activity in 2015/16.

TABLE 3 - Investment Activity in 2015/16

| Investments | Balance on 01/04/2015 £m | Balance on 30/09/2015 £m | Avg Rate/Yield (%) Avg days to maturity |
|---|--------------------------------|--------------------------------|--|
| Short term Investments (call accounts, deposits) | | | |
| - Banks and Building Societies with ratings of A- or higher | 90.0 | 25.0 | 0.76% / 93 |
| - Local Authorities | 45.0 | 10.0 | 0.98% / 79 |
| Long term Investments | | | |
| - Local Authorities | 10.0 | 10.0 | 1.40% / 537 |
| UK Government: | | | |
| - Treasury Bills | 0.0 | 10.0 | 0.54% / 96 |
| Money Market Funds | 47.2 | 12.6 | 0.49% / 1 |
| Other Pooled Funds | | | |
| - Cash Plus funds (<i>VNAV fund</i>)* | 0.0 | 10.0 | 0.71% / 3 |
| TOTAL INVESTMENTS ** | 192.2 | 77.6 | 0.79% / 122 |
| - Increase/ (Decrease) in Investments £m | | (114.6) | |

Note:

* Cash Plus Fund is recommended to be held for at least 9 months, but requires 3 days notice to mature. Units held 9,974,256.45 at 100.15p at 30/09/2015.

** excludes remaining balance held in Icelandic ISK Escrow account and LEP Growth Fund monies

The £114.6m decrease in balances is a reflection of the overall strategy to reduce credit risk exposure by reducing investment balances by the delaying of taking new long term borrowing to fund the capital programme and the repaying of maturing debt. In August the Council paid over £100m towards the NET tram scheme for which it had borrowed in advance of need and had been carrying within its short term investments.

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is B+ across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Given the increasing risk and continued low returns from short-term unsecured bank investments, and having estimated that £10.0m is available for longer-term investment, the Council sought to access the security of covered bonds via pooled funds which have the advantage of diversifying investment risks without the need to own and manage the underlying investments, coupled with professional fund management. The recommended minimum 9 month duration is to mitigate against short-term volatility on the funds variable net asset value.

Appendix A provides details of the Council's external investments at 30 September 2015, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.

3.9 Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

| Date | Value Weighted Average – Credit Risk Score | Value Weighted Average – Credit Rating | Time Weighted Average – Credit Risk Score | Time Weighted Average – Credit Rating |
|------------|--|--|---|---------------------------------------|
| 31/03/2015 | 3.95 | AA- | 3.34 | AA |
| 30/06/2015 | 3.91 | AA- | 2.83 | AA |
| 30/09/2015 | 3.34 | AA | 2.87 | AA |

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

- D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

3.10 Counterparty Update

All three credit ratings agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite this reduction in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

At the end of July, the Council's treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions, following improvements in the global economic situation and the receding threat of another Eurozone crisis.

3.11 Icelandic Bank deposits – update

The administrators for the recovery of Glitnir Bank deposits (£11m) have made repayment to all priority creditors, including the City Council, in full settlement of the accepted claims. However, approximately 21% (£2.3m) of this sum has been paid in ISK. Because of ongoing currency restrictions in Iceland, this sum is currently retained in an interest-bearing account with the Central Bank of Iceland, pending resolution of the currency release issues.

The administrators of Heritable made a further £0.635m payment on 26 August 2015, this increased the repayments to date to 98p in the pound. No other payments have been received up to 30 September 2015.

3.12 Compliance with Prudential Indicators

The Council confirms compliance with its Prudential Indicators for 2015/16 set on 9 March 2015 as part of the Council's Treasury Management Strategy Statement.

The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The limits on fixed and variable rate interest rate exposures on its debt are:

| | 2015/16 % | 2016/17 % | 2017/18 % |
|--|--------------|--------------|--------------|
| Upper limit on fixed interest rate-debt | 50-100 | 50-100 | 50-100 |
| Actual | 89 | | |
| Upper limit on variable interest rate exposure | 0-50 | 0-50 | 0-50 |
| Actual | 11 | | |

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

| | Lower | Upper | Actual |
|--------------------------------|-------|-------|--------|
| Under 12 months | 0% | 25% | 3% |
| 12 months and within 24 months | 0% | 25% | 2% |
| 24 months and within 5 years | 0% | 25% | 15% |
| 5 years and within 10 years | 0% | 50% | 18% |
| 10 years and within 25 years | 0% | 50% | 32% |
| 25 years and within 40 years | 0% | 25% | 21% |
| 40 years and above | 0% | 75% | 9% |

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Operational Boundary and Authorised Limit for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

| | 2014/15 (max in year £m) | 2015/16 (max to date £m) |
|--------------------------|-----------------------------|-----------------------------|
| Total Debt including PFI | 803.9 | 929.7 |
| Operational Boundary | 1041.6 | 1,030.5 |
| Authorised Limit | 1091.6 | 1,050.5 |

3.13 Adoption of the CIPFA Treasury Management Code

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in March 2012.

3.14 Training

To support the Audit Committee in their role as the body responsible for the scrutiny of treasury management activities a training session on Treasury Management was delivered at Loxley House on 7 August 2015.

3.15 Outlook for Q3 and Q4 2015/16

Arlingclose's expectation for the first rise in the Bank Rate (base rate) remains the second calendar quarter of 2016. The pace of interest rate rises will be gradual and the extent of rises limited. The appropriate level for Bank Rate for the post-crisis UK economy is likely to be lower than the previous norm. We would suggest this is between 2.0% and 3.0%. There is also sufficient momentum in the US economy for the Federal Reserve to raise interest rates in 2015, although risks of issues from China could possibly push this back.

The weak global environment and resulting low inflation expectations are likely to dampen long term interest rates. We project gilt yields will follow a shallow upward path in the medium term, with continuing concerns about the Eurozone, and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued. The uncertainties surrounding the timing of UK and US interest rate rises, and the Chinese stock market-led turmoil, are likely to prompt short term volatility in gilt yields.

3.16 General Fund Revenue Implications

Treasury management payments comprise interest charges and receipts and provision for repayment of debt. A proportion of the City Council's debt relates to capital expenditure on council housing and this is charged to the HRA. The remaining costs are included within the treasury management section of the General Fund budget. The General Fund Treasury Management budget is £47.237m for 2015/16.

3.17 An estimated outturn for 2015/16 is included in the quarter 2 revenue monitoring report on the 22 December 2015 Executive Board agenda. The budget for 2016/17 will be submitted with the 2016/17 treasury management strategy, in February 2016.

3.18 Risk management

Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is prepared for the treasury function.

The key Strategic Risk relating to treasury management is SR17 'Failure to protect the Council's investments'. The rating for this risk at 30 September 2015 was Likelihood = unlikely, Impact = moderate which represents the same risk assessment as at 31 March 2015. The Treasury Management working group continue to manage this risk and take appropriate actions as required.

4. **BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

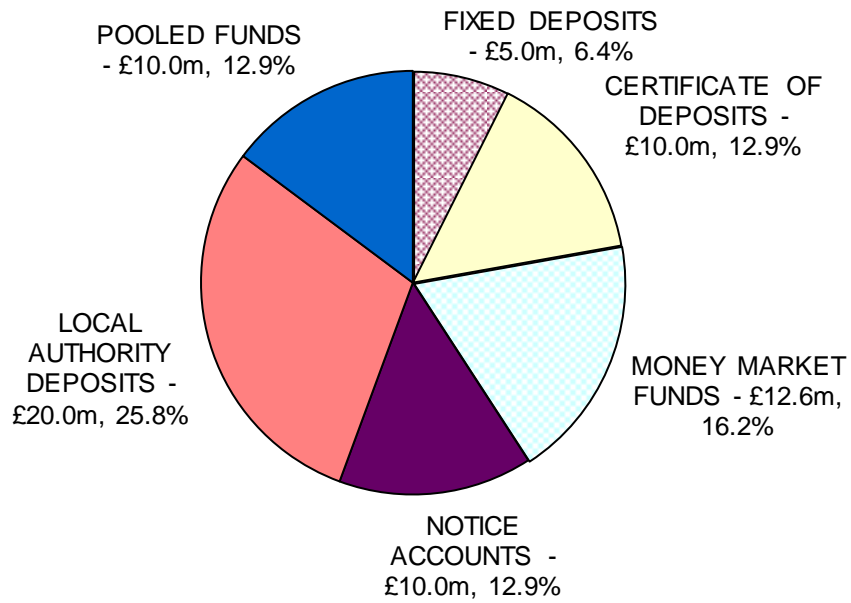
None.

5. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

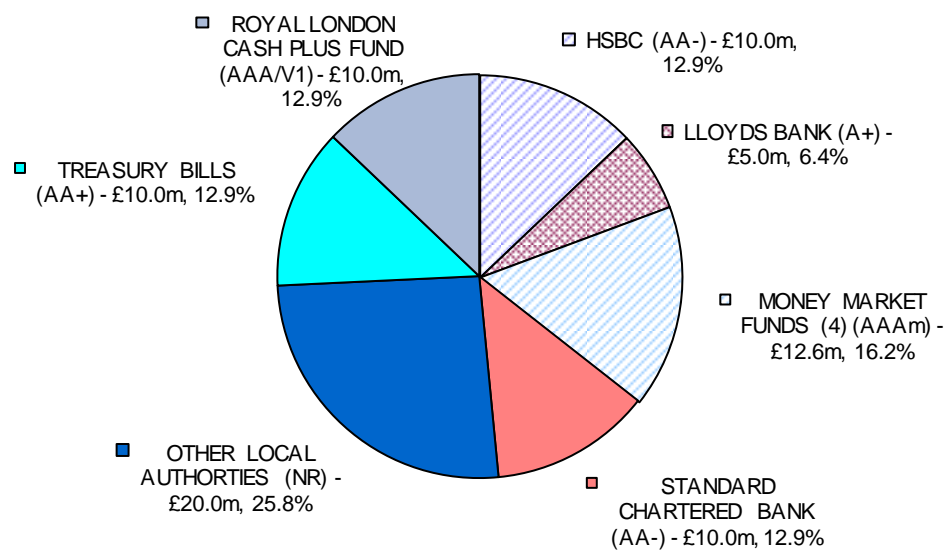
Treasury Management in the Public Services, Code of Practice 2011 – CIPFA

CIPFA statistics, Bloomberg sourced Money Market rates and PWLB loan rates 2015/16.

Type of Investments as at 30 September 2015



Investment and Fitch credit long-term rating as at 30 September 2015





Investment Benchmarking

30 September 2015

| | Nottingham | 22 English Unitaries Average | 122 Local Authorities Average |
|--------------------------|---------------|------------------------------|-------------------------------|
| Internal Investments | £67.6m | £63.3m | £75.7m |
| External Funds | £10.0m | £6.6m | £7.1m |
| TOTAL INVESTMENTS | £77.6m | £70.6m | £82.7m |

Security

| | | | |
|---------------------------------------|------|------|------|
| Average Credit Score | 3.34 | 4.15 | 4.23 |
| Average Credit Rating | AA | AA- | AA- |
| Average Credit Score (time-weighted) | 2.87 | 3.66 | 3.75 |
| Average Credit Rating (time weighted) | AA | AA- | AA- |
| Number of Counterparties / Funds | 8 | 13 | 14 |
| Proportion Exposed to Bail-in | 56% | 69% | 68% |

Liquidity

| | | | |
|--------------------------------------|-----|-----|-----|
| Proportion Available within 7 days | 42% | 41% | 43% |
| Proportion Available within 100 days | 74% | 72% | 72% |
| Average Days to Maturity | 140 | 118 | 52 |

Market Risks

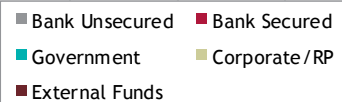
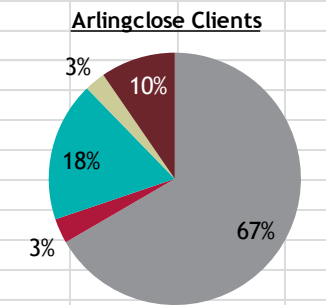
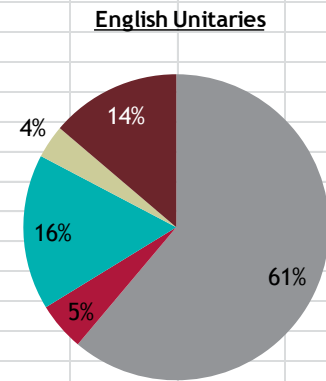
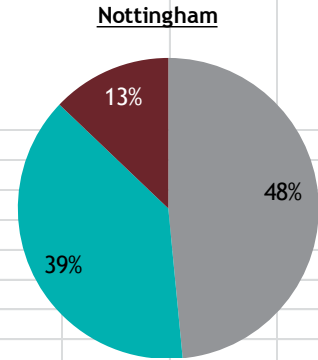
| | | | |
|---------------------------------|------|------|------|
| Average Days to Next Rate Reset | 148 | 109 | 68 |
| External Fund Volatility | 0.1% | 1.5% | 2.6% |

Yield

| | | | |
|--|--------------|--------------|--------------|
| Internal Investment Return | 0.80% | 0.62% | 0.66% |
| External Funds - Income Return | 0.71% | 4.12% | 3.14% |
| Total Investments - Income Return | 0.79% | 1.12% | 0.87% |

Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by amount, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.



Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

Table 1: Bank Rate, Money Market Rates

| Date | Bank Rate | O/N LIBID | 7-day LIBID | 1-month LIBID | 3-month LIBID | 6-month LIBID | 12-month LIBID | 2-yr SWAP Bid | 3-yr SWAP Bid | 5-yr SWAP Bid |
|----------------|-------------|-------------|-------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|
| 01/04/2015 | 0.50 | 0.35 | 0.46 | 0.43 | 0.51 | 0.76 | 0.97 | 0.87 | 1.05 | 1.32 |
| 30/04/2015 | 0.50 | 0.35 | 0.48 | 0.43 | 0.52 | 0.74 | 0.98 | 1.00 | 1.21 | 1.51 |
| 31/05/2015 | 0.50 | 0.43 | 0.50 | 0.43 | 0.52 | 0.75 | 0.98 | 0.97 | 1.18 | 1.49 |
| 30/06/2015 | 0.50 | 0.35 | 0.45 | 0.43 | 0.52 | 0.79 | 0.99 | 1.09 | 1.35 | 1.68 |
| 31/07/2015 | 0.50 | 0.32 | 0.43 | 0.43 | 0.53 | 0.79 | 1.01 | 1.10 | 1.33 | 1.66 |
| 31/08/2015 | 0.50 | 0.42 | 0.40 | 0.43 | 0.54 | 0.82 | 1.02 | 1.03 | 1.24 | 1.61 |
| 30/09/2015 | 0.50 | 0.37 | 0.41 | 0.43 | 0.54 | 0.74 | 1.00 | 0.93 | 1.11 | 1.41 |
| | | | | | | | | | | |
| Average | 0.50 | 0.40 | 0.46 | 0.43 | 0.53 | 0.76 | 0.99 | 1.03 | 1.25 | 1.58 |
| Maximum | 0.50 | 0.48 | 0.58 | 0.56 | 0.65 | 0.86 | 1.02 | 1.17 | 1.44 | 1.82 |
| Minimum | 0.50 | 0.17 | 0.40 | 0.43 | 0.51 | 0.55 | 0.97 | 0.87 | 1.04 | 1.29 |
| Spread | -- | 0.31 | 0.18 | 0.13 | 0.14 | 0.31 | 0.05 | 0.30 | 0.40 | 0.53 |

Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans

| Change Date | Notice No | 1 year | 4½-5 years | 9½-10 years | 19½-20 years | 29½-30 years | 39½-40 years | 49½-50 years |
|-------------|----------------|--------|------------|-------------|--------------|--------------|--------------|--------------|
| 01/04/2015 | 128/15 | 1.32 | 2.07 | 2.66 | 3.21 | 3.34 | 3.30 | 3.28 |
| 30/04/2015 | 166/15 | 1.41 | 2.27 | 2.90 | 3.44 | 3.55 | 3.50 | 3.48 |
| 29/05/2015 | 204/15 | 1.44 | 2.26 | 2.90 | 3.44 | 3.54 | 3.48 | 3.45 |
| 30/06/2015 | 248/15 | 1.48 | 2.44 | 3.13 | 3.65 | 3.72 | 3.64 | 3.60 |
| 31/07/2015 | 294/15 | 1.54 | 2.45 | 3.07 | 3.56 | 3.62 | 3.54 | 3.49 |
| 28/08/2015 | 334/15 | 1.47 | 2.30 | 2.92 | 3.47 | 3.54 | 3.44 | 3.40 |
| 30/09/2015 | 379/15 | 1.44 | 2.19 | 2.79 | 3.42 | 3.50 | 3.42 | 3.39 |
| | | | | | | | | |
| | Low | 1.31 | 2.02 | 2.60 | 3.16 | 3.28 | 3.23 | 3.21 |
| | Average | 1.46 | 2.32 | 2.96 | 3.51 | 3.59 | 3.52 | 3.49 |
| | High | 1.55 | 2.55 | 3.26 | 3.79 | 3.87 | 3.80 | 3.78 |

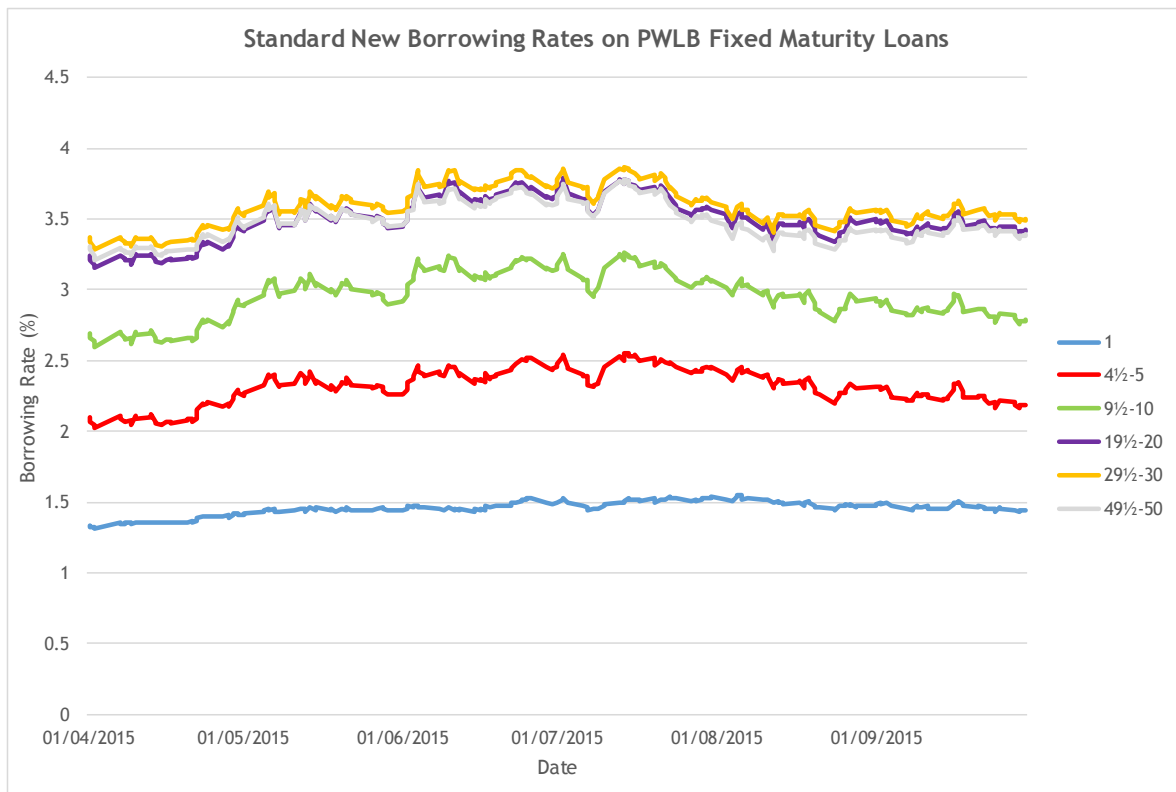


Table 3: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans

| Change Date | Notice No | 4½-5 yrs | 9½-10 yrs | 19½-20 yrs | 29½-30 yrs | 39½-40 yrs | 49½-50 yrs |
|-------------|----------------|----------|-----------|------------|------------|------------|------------|
| 01/04/2014 | 127/15 | 1.63 | 2.11 | 2.68 | 3.00 | 3.22 | 3.32 |
| 30/04/2014 | 166/15 | 1.79 | 2.31 | 2.92 | 3.24 | 3.45 | 3.54 |
| 29/05/2014 | 204/15 | 1.78 | 2.30 | 2.93 | 3.26 | 3.45 | 3.53 |
| 30/06/2014 | 248/15 | 1.90 | 2.49 | 3.15 | 3.47 | 3.65 | 3.72 |
| 31/07/2014 | 294/15 | 1.96 | 2.50 | 3.09 | 3.39 | 3.57 | 3.63 |
| 28/08/2014 | 334/15 | 1.83 | 2.34 | 2.94 | 3.27 | 3.48 | 3.55 |
| 30/09/2014 | 379/15 | 1.76 | 2.23 | 2.82 | 3.19 | 3.43 | 3.51 |
| | Low | 1.60 | 2.06 | 2.62 | 2.94 | 3.16 | 3.26 |
| | Average | 1.84 | 2.37 | 2.99 | 3.31 | 3.51 | 3.59 |
| | High | 1.99 | 2.60 | 3.28 | 3.61 | 3.79 | 3.87 |

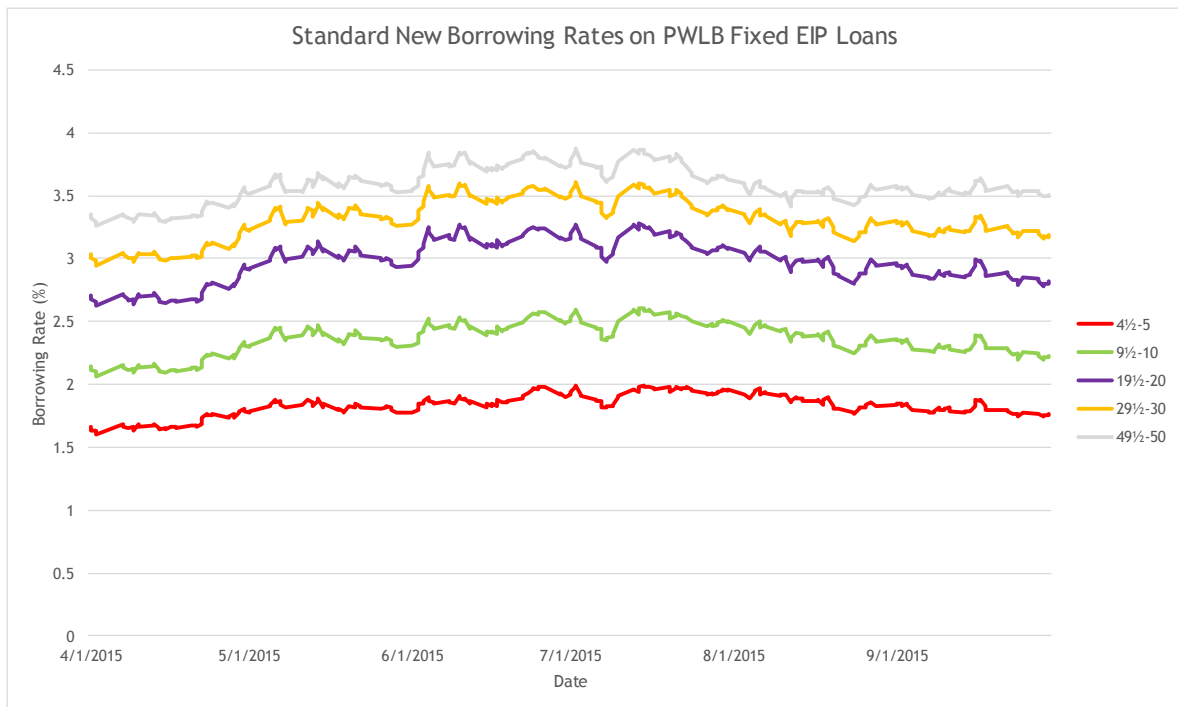


Table 4: PWLB Variable Rates

| | 1-M Rate | 3-M Rate | 6-M Rate | 1-M Rate | 3-M Rate | 6-M Rate |
|----------------|-------------|-------------|-------------|--------------|--------------|--------------|
| | Pre- CSR | Pre- CSR | Pre- CSR | Post- CSR | Post- CSR | Post- CSR |
| 01/04/2015 | 0.62 | 0.63 | 0.66 | 1.52 | 1.53 | 1.56 |
| 30/04/2015 | 0.62 | 0.64 | 0.67 | 1.52 | 1.54 | 1.57 |
| 29/05/2015 | 0.62 | 0.65 | 0.68 | 1.52 | 1.55 | 1.58 |
| 30/06/2015 | 0.62 | 0.66 | 0.70 | 1.52 | 1.56 | 1.60 |
| 31/07/2015 | 0.62 | 0.66 | 0.72 | 1.52 | 1.56 | 1.62 |
| 28/08/2015 | 0.62 | 0.66 | 0.70 | 1.52 | 1.56 | 1.60 |
| 30/09/2015 | 0.66 | 0.67 | 0.76 | 1.56 | 1.57 | 1.66 |
| Low | 0.62 | 0.61 | 0.66 | 1.52 | 1.51 | 1.56 |
| Average | 0.63 | 0.65 | 0.70 | 1.53 | 1.55 | 1.60 |
| High | 0.66 | 0.69 | 0.78 | 1.56 | 1.59 | 1.68 |