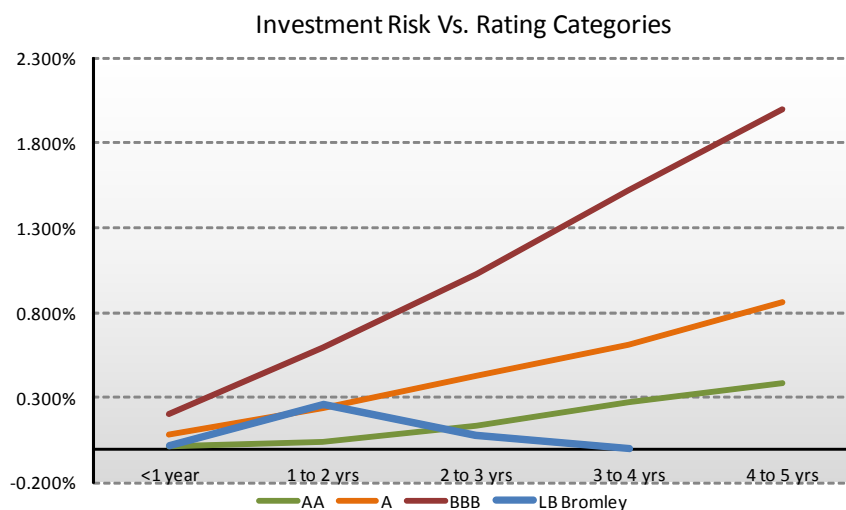


Relative Investment Risk and Rating Exposure

The aim of the graph below is to assess the investment risk of a Local Authority's portfolio when compared to the historic risk of default assigned to each of the rating categories according to duration by the rating agencies Fitch, Moody's and S&P.



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.017%	0.038%	0.137%	0.271%	0.384%
A	0.087%	0.237%	0.425%	0.610%	0.861%
BBB	0.201%	0.595%	1.025%	1.519%	2.000%
LB Bromley	0.022%	0.258%	0.082%	0.000%	0.000%

Historic Risk of Default

The table illustrates the issuer weighted historical average default rates by rating category over various investment horizons. First defaults are examined by year for each statistic pool and individual rating category. For example, if 25 issuers defaulted in 2002, and the 2002 static pool consisted of 2,000 issuer ratings, the resulting annual default rate for all ratings in 2002 would be 1.3%. If 10 of these defaults consisted of defaults among issuers rated 'BB' at the beginning of the year and the 'BB' cohort at the beginning of the year totalled 500, the 'BB' 2002 default rate would be 2% (10/500).

From these annual default rates, average annual default rates are derived by weighing each cohort's default rates by the number of ratings outstanding in the given cohort relative to the number of total ratings outstanding for all cohorts. Following the example, the 2002 'BB' annual default rate of 2% might be followed by a 2003 'BB' annual default rate of 1%. A straight average of these two rates would ignore potential differences in the size of the two cohorts. Rather, weighing the results based on the relative number of 'BB' ratings outstanding in 2002 and 2003 gives greater emphasis to the results of the 'BB' cohort with the most observations.

The same technique is used to calculate average default rates over multiple-year horizons. For example, the two-year default rate for the 2002 'BB' rating pool would be averaged with the two-year default rate for the 2003 'BB' rating pool by weighing the default rates by the relative size of each pool.

These average default rates over multiple-year horizons are then tabulated by each of the rating agencies as shown below:

2013 Default Calculations

FITCH	1	2	3	4	5
AAA	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
AA	0.0300%	0.0300%	0.0700%	0.1300%	0.1900%
A	0.0800%	0.2200%	0.3800%	0.5200%	0.7100%
BBB	0.1900%	0.6600%	1.1900%	1.7600%	2.3600%

Fitch Ratings recorded 14 issuer defaults in 2013, below the 18 recorded in 2012 and resulting in a default rate of 0.51% on the year (down from 0.65% in 2012). The 2013 defaults all carried speculative-grade ratings at the beginning of the year (rated BB- or lower). EM issuer defaults (nine) led advanced economy defaults (five) in 2013.

The 14 issuer defaults were:

Fitch-Rated Corporate Finance Defaults 2013^a

Issuer	Rating at B-O-Y	Rating 12-Months Prior	Sector Detail	Country
Agroton Public Ltd.	B-	B-	Food, Beverage and Tobacco	Ukraine
Axcel, S.A.B. de C.V.	B-	B+	Telecommunications	Mexico
Bank of Cyprus Public Company Ltd.	BB-	BB+	Banking and Finance	Cyprus
Corporacion GEO, S.A. de C.V.	BB-	BB-	Homebuilding and Construction	Mexico
Cyprus Popular Bank Public Co Ltd.	BB-	BB+	Banking and Finance	Cyprus
Desarrolladora Homex, S.A.B. de C.V.	BB-	BB-	Homebuilding and Construction	Mexico
Energy Future Holdings Corp.	CCC	CCC	Power Markets and Generation	U.S.
Energy Future Intermediate Holdings, Inc.	CCC	CCC	Power Markets and Generation	U.S.
Hellenic Bank Public Company Ltd.	BB-	BB+	Banking and Finance	Cyprus
Interpipe Ltd.	B-	B-	Natural Resources	Ukraine
OGX Petroleo E Gas Participações S.A.	B	B	Energy (Oil and Gas)	Brazil
Siderurgica del Turbio, S.A. (Sidetur)	CCC	B-	Natural Resources	Venezuela
Urbí Desarrollos Urbanos, S.A.B. de C.V.	B	BB-	Homebuilding and Construction	Mexico
Winsway Coking Coal Holdings Ltd.	BB-	BB-	Natural Resources	China

^aRated by Fitch at the beginning of the year in which they defaulted. B-O-Y – Beginning of year.
Source: Fitch.

MOODY'S	1	2	3	4	5
AAA	0.0000%	0.0360%	0.0360%	0.0360%	0.0360%
AA	0.0000%	0.0140%	0.2120%	0.4430%	0.6010%
A	0.1100%	0.3210%	0.6160%	0.8810%	1.2740%
BBB	0.2020%	0.5240%	0.8640%	1.2680%	1.5810%

World-wide, 66 Moody's-rated corporate issuers defaulted in 2013, up slightly from 63 in 2012. The majority of the 2013 defaults were recorded in the first half of the year when 40 companies defaulted, accounting for 60% of defaults for the whole year.

S&P	1	2	3	4	5
AAA	0.0000%	0.0300%	0.1300%	0.2400%	0.3500%
AA	0.0200%	0.0700%	0.1300%	0.2400%	0.3600%
A	0.0700%	0.1700%	0.2800%	0.4300%	0.6000%
BBB	0.2100%	0.6000%	1.0200%	1.5300%	2.0600%

In 2013, 81 Standard & Poor's global corporate issuers defaulted, relatively unchanged from 83 in 2012 (see table 1). These 81 defaulted issuers accounted for a total of \$97.3 billion in debt, up from \$86.7 billion in 2012.

CAS then takes an average of these default calculations to generate an overall figure encompassing each of the rating agencies default rates, as seen below. The Local Authority's portfolio is then benchmarked against each of rating categories to see what type of rated portfolio it most closely resembles.

Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.017%	0.038%	0.137%	0.271%	0.384%
A	0.087%	0.237%	0.425%	0.610%	0.861%
BBB	0.201%	0.595%	1.025%	1.519%	2.000%
LB Bromley	0.022%	0.258%	0.082%	0.000%	0.000%

Treasury solutions

40 Dukes Place, London, EC3A 7NH

Tel 0871 664 6800 Fax 0871 664 6830 www.capitaassetservices.com

Whilst Capita Treasury solutions makes every effort to ensure that all the information it provides is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. All information supplied by Capita Treasury solutions should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision. The Client should not regard the advice or information as a substitute for the exercise by the Client of its own judgment.

Capita Asset Services is a trading name of Sector Treasury Services Limited which is authorized and regulated by the Financial Conduct Authority only for conducting advisory and arranging activities in the UK as part of its Treasury Management Service. Registered office: 71 Victoria Street, Westminster, London, SW1H 0XA. Registered in England No. 2652033