Treasury Management
Quarterly Report to 30 June 2026

Cyngor Bwrdeistref Sirol
Pen-y-bont ar Ogwr
BRIDGEND
County Borough Council

EXECUTIVE SUMMARY

- Treasury Management is the management of the Council's cash flows on a day-to-day basis and is carried out in accordance with legislation and Codes of Practice. The Treasury Management Strategy for 2026-27 was approved by Council on 25 February 2026.
- The Consumer Prices Index (CPI) rose by 2.6% in the 12 months to June 2026, down from 2.8% the previous month. On a monthly basis, CPI rose by 0.1% in June 2026, compared with a rise of 0.3% in June 2025.
- Core CPI (CPI excluding energy, food, alcohol and tobacco) rose by 2.6% in the 12 months to June 2026, unchanged from the 12 months to May; the CPI goods annual rate slowed from 2.0% to 1.7%, while the CPI services annual rate eased from 3.7% to 3.6%
- Having been expected to cut Bank Rate from 3.75%, the Bank of England's Monetary Policy Committee (MPC) instead held Bank Rate steady throughout the quarter.
- Total external borrowing at 30 June 2026 was £94.53 million, a decrease from the previous quarter at £99.72 million due to repayment of £5 million borrowing from the Public Works Loan Board (PWLB) and repayment of some Salix interest free loans.
- Total investments at 30 June 2026 were £68.00 million, an increase from £44.50 million at the previous quarter.
- Average interest rates on investments as at 30 June 2026 were 3.71%, a reduction from those at 31 March 2026 of 4.29%. This decrease is due to the maturity of several short term loans made to other Local Authorities (LAs) over the end of year period which had secured good interest rates.
- The Council's investments are diversified across a number of institutions, including Local Authorities, Money Market Funds, Debt Management Office and banks. Security of the Council's cash resources is always the primary factor when investing cash resources.
- The Council had to borrow in 2025-26, to replace long term borrowings repaid, and this was taken out over a 16-month term. The Council may have an additional borrowing need during 2026-27, although this is dependent on the expenditure required on capital projects and the use of earmarked reserves. In the short term the Council uses the cash available from earmarked reserves to finance capital expenditure, known as internal borrowing. This is prudent whilst the Council has resources available, but these will need to be replaced with borrowing as the reserves are used.
- The liability benchmark indicates the Council may need to borrow up to £70.58 million during 2026-27, however this will be subject to the level of capital expenditure during the year and the level of reserves held and actual borrowing is likely to be below this level. This will be monitored on a regular basis throughout the year.
- The Council has operated within the approved limits set out in the Treasury Management Strategy 2026-27.

1.0 INTRODUCTION

Treasury management activities are the *'management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.'* (Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice (CIPFA TM Code).

The definition of 'investments' includes:

- Treasury Management investments (held for the prudent management of financial affairs), and
- Non-Treasury investments, undertaken as part of a Capital Strategy either in the course of provision of services, or made for commercial reasons purely to make a financial gain. These are managed outside of normal treasury management activity.

The Council carries out its treasury management function in accordance with the CIPFA TM Code and the legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code and Welsh Government Guidance.

The Council has an integrated Treasury Management Strategy where borrowing and investments are managed in accordance with best professional practice, which is assessed either from internal expertise or consultation with our external advisers. The Council will look to borrow money if needed to either meet short term cash flow needs or to fund capital schemes approved within the capital programme. Therefore, any actual loans taken are not generally associated with particular items of expenditure or assets.

The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer. The Governance and Audit Committee are responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies and regular reports will be presented to the Committee for their consideration.

2.0 ECONOMIC CONTEXT

The conflict in the Middle East, which started on 28 February 2026, continued throughout the quarter, with strikes by Israel and the US on Iran. The conflict led to the closure of the Hormuz Strait, a waterway through which around 20% of the world's oil and liquified natural gas flows, resulting in sharp rises in energy and other commodity prices. Towards the end of the quarter, the US and Iran came to an agreement to negotiate a peace settlement, which prompted a reduction in energy commodity prices, albeit remaining higher than pre-war.

Coming close on the heels of the last energy price shock in 2022 following Russia's invasion of Ukraine, central bank policymakers and financial markets reacted quickly to reflect the new reality for monetary policy. In the UK, the headline consumer price inflation (CPI) rate was widely expected to fall back to 2% in April, with changes to government energy policy announced in the budget reducing energy bills and therefore headline inflation rates. Instead, the sharp rise in petrol prices occurring from the war maintained the CPI rate well above target at 2.8%.

Having been expected to cut Bank Rate from 3.75%, the Bank of England's Monetary Policy Committee (MPC) instead held Bank Rate steady throughout the quarter. Despite sending hawkish signals with each monetary policy decision, and the voting split changing from a 9-0 hold in March to a 7-2 hold in June, the majority of committee members appear to believe the UK economy and labour market were soft enough to absorb the price shock without producing the persistent inflationary conditions seen in 2022, which led to Bank Rate rising to 5.25%. This appears to be backed up by business surveys towards the end of the quarter suggesting that business pricing pressures, while elevated, are abating.

UK headline consumer price inflation (CPI) rose by 2.6% in the 12 months to June 2026, down from 2.8% the previous month, and still well above the Bank of England's 2% target. On a monthly basis, CPI rose by 0.1% in June 2026, compared with a rise of 0.3% in June 2025.

Core CPI (CPI excluding energy, food, alcohol and tobacco) rose by 2.6% in the 12 months to June 2026, unchanged from the 12 months to May; the CPI goods annual rate slowed from 2.0% to 1.7%, while the CPI services annual rate eased from 3.7% to 3.6%. Upside pressure in inflation generally reflected fuel prices, but many other categories experienced disinflation, providing some evidence that higher energy prices were not immediately feeding into a wider subset of products.

Inflation will rise from July, however, as the retail energy price cap is increased by 13%. Expectations range from inflation rising to 3.5% to 4.0% and the MPC's resolve to maintain Bank Rate at 3.75% will likely be tested at this point.

Information published by the National Statistics Office shows that in the three months to June 2026, compared with the three months to March 2026 real gross domestic product grew by 0.4%, following a growth of 0.6% in the three months to May 2026 (revised down from a previously reported growth of 0.7%), and an unrevised growth of 0.8% in the three months to April 2026.

Labour market data showed a continued softening in employment conditions, as weaker private sector earnings growth was reported for the period February to April 2026. The unemployment rate for April was 4.9% and remained at that rate through to June, PAYE employment was down over the year, and the number of vacancies continued to fall. The looser labour market is supporting the MPC's decision not to tighten monetary policy, with the likelihood of wage growth rising in line with inflation appearing remote.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate will remain at 3.75%, and that the Bank of England would focus on the spare capacity in the economy, notably the labour market, rather than the upside risk of persistent inflation. The balance of risks over the near term, however, is deemed to be to the upside as signs of second round inflationary effects will prompt policymakers to raise interest rates. Over the medium term, the balance of risk for Bank Rate shifts to the downside, with tighter monetary policy, higher prices and weaker growth presenting downside risks for inflation.

3.0 EXTERNAL DEBT AND INVESTMENT POSITION

The Council's external debt and investments at 30 June 2026 is set out in Table 1 below. The Council held £94.53 million of Long Term Borrowing comprising:

- Public Works Loan Board (PWLB - UK government) at fixed rates and duration
- Lender's Option Borrower's Option (LOBO). These options were called in July 2026 which falls after this report date but the repayments have been referenced within this report. This is due to a rate change option exercised by the lender which is not considered acceptable (an increase from 4.65% to 7.52%.
- £1.93 million of Salix interest-free loans and £0.02 million of Salix loans at a rate of 2.15%

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board (PWLB), and this was the case when the Council borrowed £5 million for a duration of 16 months in January 2026. The Council will however consider long term loans from other sources including banks, pension funds and other local authorities if appropriate. The Council may also investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA TM Code if appropriate.

At 30 June 2026 the Council had £68.00 million of investments for treasury management purposes and £4.755 million of investments for commercial purposes.

Table 1: Council's external debt and investment position as of 30 June 2026

Investments for Treasury Purposes	Principal as at 31/03/2026 £m	Principal as at 30/06/2026 £m	Average Rate 30/06/2026 %
External Long Term Borrowing			
Public Works Loan Board (PWLB)	78.33	73.33	4.73
Lenders Option Borrowers Option (LOBO)	19.25	19.25	4.65
Salix Loans (Interest Free)	2.12	1.93	NIL
Salix Loans (Other)	0.02	0.02	2.15
Total External Borrowing	**99.72**	**94.53**	**4.62**
Other Long Term Liabilities			
Private Finance Initiative*	10.89	9.73	
IFRS 16 Leases	1.98	1.60	
Total Other Long Term Liabilities	**12.87**	**11.33**	
Total Gross Debt	**112.59**	**105.86**	
Investments for treasury management purposes			
Debt Management Office	NIL	28.00	3.73
Money Market Funds (instant access)	6.50	35.50	3.82
Banks	8.00	4.50	2.72
Local Authorities	30.00	NIL	NIL
Total Treasury Investments	**44.50**	**68.00**	**3.71**
Net Debt	**68.09**	**37.86**	

Investments for Commercial Purposes	Fair Value as at 31/03/2026 £m	Anticipated return 31/03/2027 £m
Investments	4.755	0.449

* *(PFI) arrangement for the provision of a Secondary School in Maesteg* with a remaining term to 30 September 2033

The profile of repayment of the Council's long-term debt as at 30 June 2026 is set out in the Liability Benchmark chart below. The chart takes into account the repayment of the Lender's Option Borrower's Option loans, and assumes that the Public Works Loan Board loans will be repayable on their maturity date.

*PWLB lending criteria requires that the Council does not invest purely for financial return if it wishes to access any new PWLB borrowing. The CIPFA TM Code sets out that it is not prudent for local authorities to invest for financial return.

All borrowing by the Council is as a single pool of debt rather than having loans specific to individual schemes. Where a Council finances capital expenditure by debt, it must put aside revenue to repay that debt in later years, known as Minimum Revenue Provision (MRP). The forecast MRP for the year as set out in the Capital Strategy is

£5.43 million, which includes supported and unsupported borrowing, the PFI for Maesteg School and leases recognised on the balance sheet as from 1 April 2024.

Liability benchmark

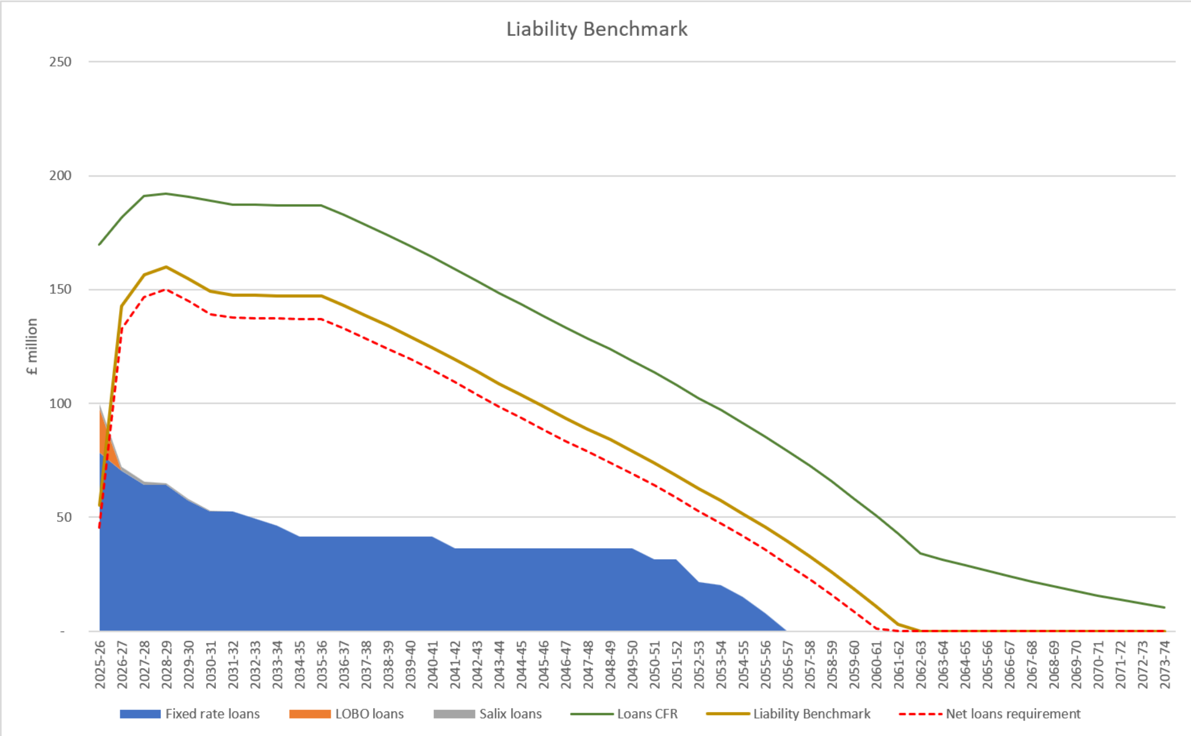
The liability benchmark is a tool which helps to assess the lowest level of borrowing the Council needs, taking into account available cash resources to fund capital expenditure in the short term. A minimum level of investments is factored into the calculation, set at £10 million, which are held as reasonably liquid to ensure the Council has available cash resources to meet day-to-day cash flow requirements. Forecast borrowing needs are based on capital expenditure estimates and available usable reserves. The underlying need to borrow to fund capital expenditure (known as the Capital Financing Requirement or CFR) is the amount of capital expenditure which is not funded via grants, capital receipts or contributions from revenue and earmarked reserves.

Table 2 below shows the Capital Financing Requirement and the calculation of the liability benchmark. It is important to note that the graph is based on the current approved capital programme and the borrowing associated therewith. Any new schemes which require debt financing will increase the CFR and loans requirement.

Table 2: Liability benchmark

	31 March 2025 actual £m	31 March 2026 estimate (TMS) £m	31 March 2026 actual £m	31 March 2027 forecast £m	31 March 2028 forecast £m
Capital Financing Requirement	181.09	183.22	182.56	193.21	200.82
Less: Other debt liabilities	(15.65)	(15.12)	(12.87)	(11.41)	(9.85)
Loans Capital Financing Requirement	***165.44***	***168.10***	***169.69***	***181.80***	***190.97***
Less: Balance Sheet Resources	(108.44)	(58.52)	(124.24)	(48.96)	(44.38)
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability Benchmark	**67.00**	**119.58**	**55.45**	**412.84**	**156.59**

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its **current** capital plans while keeping treasury investments at the minimum level to manage day-to-day cash flow.



The chart shows that the Council may need to borrow during 2026-27 although this is based on a number of assumptions including the forecast capital programme expenditure and the level and use of reserves. Currently the forecast need to borrow during the year is £70.58 million, although this is likely to reduce as capital expenditure and use of earmarked reserves forecasts are updated during the year. This figure includes the repayment of the LOBO loans of £19.25 million, which may need to be refinanced either in total or in part duing the year.

The Section 151 Officer will monitor and update the liability benchmark assumptions on an on-going basis and report any significant changes within the treasury management monitoring reports to Cabinet, the Governance and Audit Committee and Council as appropriate. This could be as a result of changes in the level of usable reserves at year end, slippage within the Capital Programme or changes within the working capital assumptions which may affect the Council's need to take new long-term borrowing.

4.0 BORROWING

As at 30 June 2026 the Council held £94.53 million of Long-Term Borrowing, £92.58 million of which is fixed long term loans payable in full on maturity, and £1.95 million short-medium term Salix fixed and zero interest repayment loans, as part of its strategy for funding previous years' capital programmes.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board (PWLB), and this was the case when the Council borrowed £5 million for a duration of 16 months in January 2026. The Council will however consider long term loans from other sources including banks, pension funds and other local authorities if appropriate. The Council will seek to minimise interest costs and reduce over-reliance on one source of funding where appropriate in line with the CIPFA TM Code.

The Council has loans from PWLB maturing within the next 3 financial years that it will need to repay. Given the anticipated level of expenditure within the capital programme over the current and next financial years, it is likely that new borrowing will be required to replace these maturing loans. The value of the loans repaid and due to be repaid over the next 3 years is shown in Table 3.

Table 3: Value of maturing debt

	2026-27 £ million	2027-28 £ million	2028-29 £ million
Value of maturing PWLB debt	7.790	6.395	0.00
Value of prepayment LOBOs	19.250	0.00	0.00
Value of maturing Salix debt	0.398	0.398	0.398
Total maturing debt	**27.438**	**6.793**	**0.398**

During 2026-27 £5 million was repaid on 5 June 2026 and a further £2.790 million will be repaid on 31 March 2027. It is likely that the Council will need to borrow to replenish these funds over the forthcoming periods. FMS Wertmanagement have exercised their option to increase the interest rate of their LOBOs from 4.65% to 7.52% effective 22 July 2026 and subsequently the decision was made to repay these loans. The Salix debt includes mostly interest free funding for several schemes with varying maturity dates, ranging between financial year 2028-29 and 2033-34. These schemes have two repayments per year at 6 monthly equal instalments.

Maturity structure of borrowing

The maturity structure of borrowing indicator is set to control the Council's exposure to refinancing risk with respect to the maturity of the Council's external borrowing. The limits are set to avoid having large amounts of debt maturing in a short space of time and is the amount of projected borrowing maturing in each period as a percentage of total projected borrowing.

Table 4: Maturity Structure of Borrowing

Maturity structure of borrowing	Upper limit	lower limit	£ million	As at 30 June 2026
Under 12 months	50%	0%	22.44	23.74%
12 months and within 24 months	25%	0%	6.79	7.19%
24 months and within 5 years	25%	0%	12.56	13.29%
5 years and within 10 years	40%	0%	11.35	12.00%
10 years and within 20 years	50%	0%	5.00	5.29%
20 years and above	60%	25%	36.39	38.49%

As can be seen from the above table the maturity structure remains within the limits approved as part of the Treasury Management Strategy 2026-27. The following chart provides the maturity profile of the Council's long term debt.

The LOBO loans are subject to the lender having the right to change the rate of interest payable during the financial year at either of two trigger points - January and July, with the Council having the right to refuse the change, triggering early repayment and the need to re-finance. The option was exercised on the next call date, 22 July 2026, and a decision was made to refuse the increased interest rate and repay the loans. Whilst the Council currently has sufficient funds to repay the loans, it will need to consider taking out new debt to replace part or all of them in the near future.

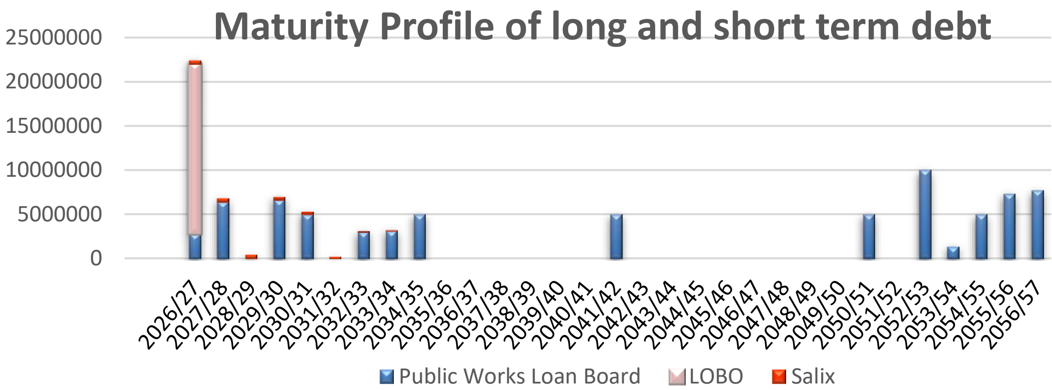
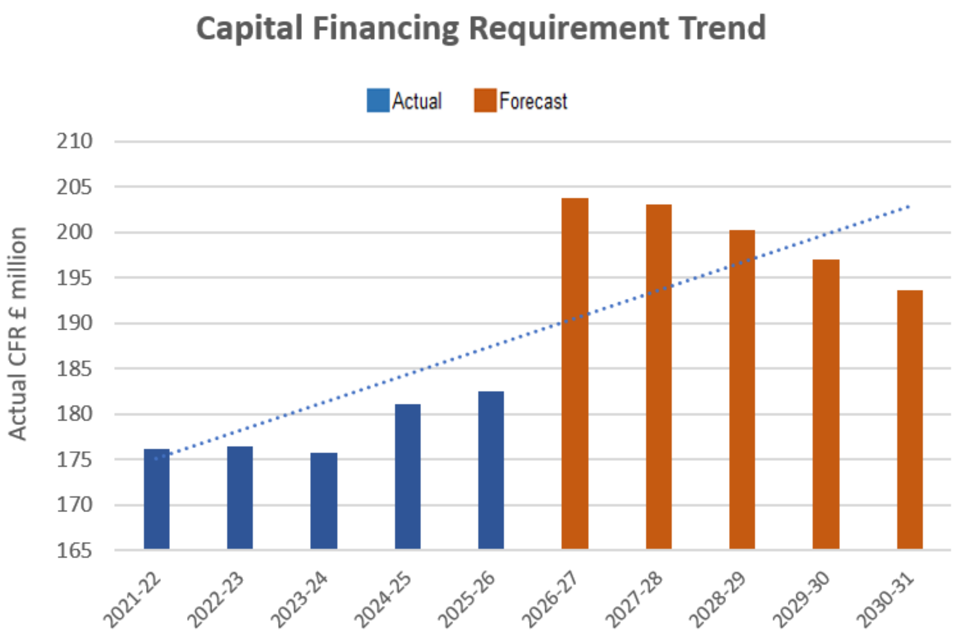


Table 5: LOBO loans

Commencement date	Loan value £m	Early repayment date	Option frequency	Original maturity date
22 January 2004	4.00	22 July 2026	6 months	22 January 2054
22 January 2004	5.00	22 July 2026	6 months	22 January 2054
22 January 2004	10.25	22 July 2026	6 months	22 January 2054

In accordance with the Treasury Management Strategy, the Council is internally borrowing, which is when it uses temporary cash balances it holds in the short term instead of undertaking external borrowing. Internal borrowing was £69.97 million as at 31 March 2026. This is shown by the Council's Capital Financing Requirement (CFR) net of its external level of debt including other long term debt liabilities. The Council's CFR as at 31 March 2026 was £182.56 million, external borrowing £99.72 million and other long term debt liabilities £12.87 million, which is primarily the PFI Maesteg School scheme plus the lease commitments of right of use assets.

The chart below shows the trend in the CFR based on **current** capital commitments within the approved capital programme. The CFR is anticipated to increase in the next year assuming capital expenditure is incurred as currently anticipated. The CFR in future years shows a marginal reduction, however, this is on the assumption that there will be no new schemes added to the capital programme which require debt financing. If new schemes requiring debt financing are added, the CFR will continue to increase.



5.0 TREASURY INVESTMENTS

The Council holds treasury investments as a result of temporary cash balances arising from its day-to-day activities. The management of the day-to-day cash requirements of the Council is undertaken in-house with advice from Arlingclose, the Council's Treasury Management advisors. This may involve temporary borrowing to meet cash-flow needs or temporary lending of surplus funds. Investment balances can fluctuate daily and arise as a result of a range of circumstances, including timing differences of revenue and capital cash flows, reserves and other balances held for future use.

Investments are made in institutions approved by the Council as part of its Treasury Management Strategy and in accordance with investment guidelines issued by the Welsh Government. As part of the Markets and Financial Instruments Directive II, the Council elected for 'professional' status, which covers national and regional governments and public bodies. The categories of investments the Council can invest in can be changed with any proposed changes being presented to Council for approval. Treasury investments are made primarily on the basis of ensuring security of the funds invested, whilst managing liquidity, and only then considering a commensurate return on the investment. As at 30 June 2026, the Council held £68.00 million of investments, with a weighted average return (based on the rate of return of each investment over the 3 month period) of 3.87% (£44.50 million at 3.98% as at 31 March 2026). This compares to the average interest rate of investments as at 30 June 2026 of 3.71%, as shown in Table 1.

Table 6 below shows the investment profile as at 30 June 2026.

Table 6: Investments by counterparty type

Investment Category	Balance 1 Apr 2026 £m	Investments made in period £m	Investments repaid in period £m	Balance 30 Jun 2026 £m	Weighted interest rate 1 Apr 2026 to 30 Jun 2026 %
Government DMO	0.00	187.00	(159.00)	28.00	3.73
Money Market Funds	6.50	37.00	(8.00)	35.50	3.83
Banks (instant access/notice accounts)	8.00	12.43	(15.93)	4.50	2.72
Local Authorities	30.00	20.00	(50.00)	0.00	4.62
TOTAL	**44.50**	**256.43**	**(232.93)**	**68.00**	**3.87**

The following should be noted:

- During the period to 30 June 2026 all investments made were in line with the approved counterparties within the Treasury Management Strategy.
- Investments are diversified over a number of organisations across different sectors, demonstrating a diversified investment portfolio.
- All investments are in sterling and are rated AA- and above as per the approved criteria or with a public body.
- The weighted average rates are for all investments made during 1 April 2026 to 30 June 2026.

The overall interest receivable from treasury investments for the period 1 April 2026 to 30 June 2026 was £0.704 million. The Bank of England base rate has remained unchanged at 3.75% since the last reduction on 18 December 2025. The Council will continue to take a cautious approach to investing to ensure as its primary concern the security of any investments made. The risk of default for investments held is considered negligible.

All investments longer than 364 days will be made with a cautious approach to cash flow requirements and advice from the Council's Treasury Management advisors will be sought as necessary. All investments as at 31 March 2026 were short term of less than one year duration, as shown in Table 7 below.

Table 7: Sums invested for periods longer than a year

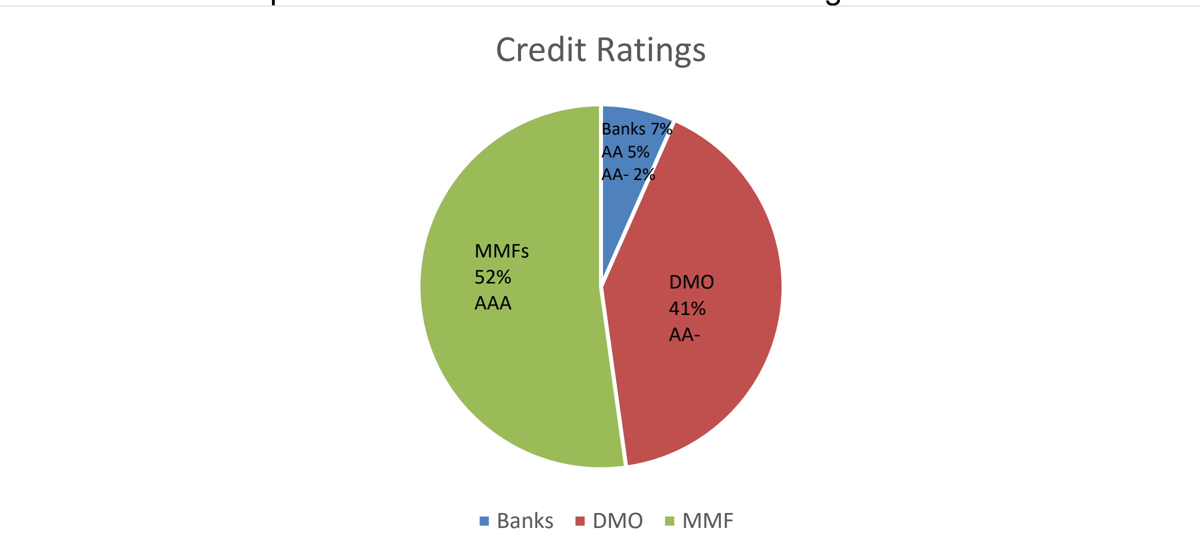
Price risk indicator	TMS 2026-27 £m	Actual £m	Full term maturity
Limit on principal invested beyond financial year end	10	NIL	NIL

The below table details the Council's investments by counterparty and maturity profile.

Table 8: Investments by maturity

Counterparty Category	Instant Access £m	Deposits maturing within 1 month £m	Deposits maturing within 2-3 months £m	Deposits maturing within 4-12 months £m	TOTAL £m
Government DMO	0.00	28.00	0.00	0.00	28.00
Local Authorities	0.00	0.00	0.00	0.00	0.00
Money Market Funds	35.50	0.00	0.00	0.00	35.50
Banks	4.50	0.00	0.00	0.00	4.50
Total	**40.00**	**28.00**	**0.00**	**0.00**	**68.00**

The pie chart below summarises the distribution of the Council's investments by credit ratings. Most local authorities do not have credit ratings but are considered secure investment counterparties. The Government DMO are UK government and rated AA.



6.0 INTEREST RATE EXPOSURES

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. Short term and variable rate loans expose the Council to the risk of short-term interest rate rises and are therefore subject to the Treasury Management indicator below.

The following Table is based on investments at 30 June 2026.

Table 9: Interest Rate Exposure

Interest rate risk indicator	£ million
One year revenue impact of a 1% rise in interest rates	(0.442)
One year revenue impact of a 1% fall in interest rates	0.635

It is important to note that this is an indicator, not a limit. It is calculated at a point in time on the assumption that maturing loans and investments would be replaced at rates 1% higher or lower than they are currently, and that the treasury investment and borrowing portfolios remain unchanged over the next 12 months, which in practice is not the case. The figure for the 1% fall in interest rates indicator is not the same figure as the 1% increase (but reversed) as the borrowing relates to variable LOBO loans where it is assumed that the lender would only exercise their option if there was an increase in interest rates. All other borrowing does not have a rate reset in the next year and is with the PWLB at fixed rates.

A comparison of interest payable on borrowings excluding other long term liabilities (PFI and lease interest), and interest income due for the period 1 April 2026 to 30 June 2026 is shown below.

Table 10: Interest

	Financial Year 2025-26 £m	2026-27 Interest to 30 June 2026 £m
Interest expenditure payable on long term borrowing	(5.851)	(0.038)
Interest income receivable in period	4.396	0.704
Net Interest (cost)/income	(1.455)	0.666

7.0 NON-TREASURY INVESTMENTS

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activities include investments in subsidiaries and investments in property. A schedule of the Council's existing non-treasury investments (currently limited to owned property) is set out in Table 11 below. Recent PWLB guidance requires that local authorities should review their investment portfolio if they wish to secure PWLB borrowing but does not require the local authority to sell existing investment assets. This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. These assets are valued on an annual basis to reflect market conditions and the current value at the time they are valued, otherwise known as Fair Value, which provides security of their value and continued benefit to the Council.

Table 11: Non-treasury investments

Non-treasury investments	£ million
Bridgend Science Park - Units 1 & 2	3.000
Waterton Cross Land	0.530
Brynmenyn Industrial Estate Plot 53	0.630
Village Farm Plots 32,119 & 120	0.395
Tyrewise Bridgend	0.200
Total at Fair Value	**4.755**
Anticipated annual return 2026-27	**0.449**

The Council considers that the scale of its investment properties is proportionate to the resources of the Council as the investment represents less than 1% of its total long-term assets. In addition, the value of these investments has increased from the previous year.

In accordance with Welsh Government Investment Guidance these are classified as non-treasury investments.

Schedule A – Credit Rating Equivalence Table

Credit Rating Equivalence Table

Grade	Description	Fitch Long	Fitch Short	Moody's Long	Moody's Short	Standard & Poor's Long	Standard & Poor's Short
INVESTMENT GRADE	Extremely strong	AAA	F1+	Aaa	P-1	AAA	A-1+
	Very strong	AA+		Aa1		AA+	
		AA		Aa2		AA	
		AA-		Aa3		AA-	
	Strong	A+	F1	A1		A+	A-1
		A		A2		A	
		A-		A3		A-	A-2
	Adequate	BBB+	F2	Baa1	P-2	BBB+	
		BBB		Baa2		BBB	
		BBB-	F3	Baa3	P-3	BBB-	A-3
SPECULATIVE GRADE	Speculative	BB+	B	Ba1	Not Prime (NP)	BB+	B
		BB		Ba2		BB	
		BB-		Ba3		BB-	
	Very speculative	B+		B1		B+	
		B		B2		B	
		B-		B3		B-	
	Vulnerable	CCC+	C	Caa1		CCC+	C
		CCC		Caa2		CCC	
		CCC-		Caa3		CCC-	
		CC		Ca		CC	
		C				C	
	Defaulting	D	D	C		D	D

Schedule B – Arlingclose Economic & Interest Rate Forecast – June 2026

Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**	**3.75**
Downside risk	0.00	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-1.00	-1.25	-1.25	-1.25	-1.25	-1.25
3-month money market rate													
Upside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	**3.90**	**3.85**	**3.80**	**3.80**	**3.80**	**3.80**	**3.80**	**3.80**	**3.80**	**3.80**	**3.80**	**3.80**	**3.80**
Downside risk	0.00	-0.05	-0.25	-0.25	-0.50	-0.50	-0.75	-1.00	-1.25	-1.25	-1.25	-1.25	-1.25
5yr gilt yield													
Upside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	**4.38**	**4.45**	**4.40**	**4.35**	**4.30**	**4.30**	**4.30**	**4.30**	**4.30**	**4.30**	**4.30**	**4.30**	**4.30**
Downside risk	0.00	-0.40	-0.50	-0.50	-0.50	-0.75	-0.85	-0.95	-1.20	-1.25	-1.25	-1.25	-1.25
10yr gilt yield													
Upside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	**4.83**	**4.95**	**4.90**	**4.85**	**4.80**	**4.80**	**4.80**	**4.80**	**4.80**	**4.80**	**4.80**	**4.80**	**4.80**
Downside risk	0.00	-0.40	-0.50	-0.50	-0.50	-0.75	-0.85	-0.95	-1.20	-1.25	-1.25	-1.25	-1.25
20yr gilt yield													
Upside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	**5.46**	**5.50**	**5.50**	**5.45**	**5.40**	**5.40**	**5.40**	**5.40**	**5.40**	**5.40**	**5.40**	**5.40**	**5.40**
Downside risk	0.00	-0.40	-0.50	-0.50	-0.50	-0.75	-0.80	-0.90	-1.00	-1.20	-1.20	-1.20	-1.20
50yr gilt yield													
Upside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	**5.14**	**5.15**	**5.15**	**5.10**	**5.05**	**5.05**	**5.05**	**5.05**	**5.05**	**5.05**	**5.05**	**5.05**	**5.05**
Downside risk	0.00	-0.40	-0.50	-0.50	-0.50	-0.75	-0.80	-0.90	-1.00	-1.20	-1.20	-1.20	-1.20

Arlingclose expects Bank Rate to be held at 3.75% for the foreseeable future. There are a range of possible scenarios outside this central case, dependent on the Strait remaining open conduct and temporary or lasting damage to energy infrastructure.

In the short term, risks around the forecast are weighted to the upside, but the chances of excessive tightening have diminished.

Gilt yields/swap rates will remain high without early monetary tightening or greater signs of deteriorating activity, which would argue against the need for rate increases. The risks around Arlingclose's gilt yield forecasts are weighted to the upside given the risks around Bank Rate and continued political uncertainty.

Monetary tightening, or delayed monetary loosening, over the short term increase the downside risks for rates over the medium term.