



CITY OF
Lethbridge

Background on City of Lethbridge Asset-Backed Commercial Paper (ABCP) Holdings

- The City of Lethbridge uses investments to provide a return on public funds while they are held by the City. The investment activities of the City are governed by the Municipal Government Act and an Investment Policy adopted by City Council.
- Prior to August 2007, the City invested a portion of its portfolio in Asset Backed Commercial Paper (ABCP). These investments carried the highest short term rating of the Dominion Bond Rating Service – R1High. Investments with an R1 High rating are considered prime credit quality. In August 2007, the Canadian market for ABCP ceased functioning and the investments were frozen while the Pan Canadian Investors Committee attempted to restructure the investments. The City of Lethbridge held \$30.2M or one tenth of 1% of the \$32B in frozen ABCP investments nationwide.
- The ABCP restructuring led by Pan Canadian Investors Committee was successfully completed on January 21, 2009. As a result of the restructuring, the City of Lethbridge has received new replacement notes with the face value approximating the original ABCP investments in the amount of \$30.2M.
- Of our total \$30.2M, \$22.3M are rated by the Dominion Bond Rating Service and have an expected repayment date of January 22, 2017. The City of Lethbridge has been working with National Bank to maximize the value of the remaining \$7.9M of restructured notes.
- We have now reached an agreement with National Bank that provides the City of Lethbridge an option, through a financing solution, to receive 75% of the January 21, 2009 face value of the restructured notes in two years (maturity date). This option results in the return to the City of Lethbridge of \$5.9M of the \$7.9M in restructured notes, if exercised.
- In order to facilitate the successful exercise of this option, the City passed a bylaw authorizing the borrowing of \$5.9M. This borrowing is solely secured and fully repaid by the \$7.9M of restructured notes. The City anticipates that it will borrow under this loan just prior to the maturity date and will fully repay same by transferring the restructured notes to National Bank at maturity.

- This agreement provides the City a reasonable option relative to current market conditions and it establishes the minimum value for these restructured notes. The City will continue to monitor the financial markets to maximize the value of these restructured notes.

Frequently Asked Questions

Helping Residents Understand the City of Lethbridge's Agreement with National Bank

Why does the City of Lethbridge invest money?

We use investments to provide a return on public funds while they are held by the City. Simplified, we collect revenues from a variety of sources and because we do not spend the funds on the same day we received them, some of those funds are invested.

Are there rules around how the City of Lethbridge invests?

Our investments activities are governed by the Municipal Government Act (MGA) and an investment policy which has been adopted by City Council.

How much money is typically invested?

Our average investment portfolio was approximately \$165M in 2009. This is primarily comprised of Prepaid Taxes, Reserves held for specific purposes and Capital Grants not yet expended.

How much money was invested in Asset-Backed Commercial Paper (ABCP)?

The City of Lethbridge held \$30.2M or one tenth of 1% of the \$32B in frozen ABCP investments nationwide. Of our total \$30.2M, \$22.3M are rated by the Dominion Bond Rating Service and have an expected repayment date of January 22, 2017. The City of Lethbridge has finalized an agreement with National Bank to maximize the value of the remaining \$7.9M of restructured notes.

Why did the City invest in ABCP?

We made a decision to invest a portion of our portfolio in Asset Backed Commercial Paper when they carried the highest short term rating of the Dominion bond Rating Service – R1 High. An R1 High rating denotes prime credit quality and is the same rating given to the Government of Canada treasury bills.

How does the agreement with National Bank help?

The agreement with National Bank provides the City of Lethbridge an option to receive 75% of the January 21, 2009 face value of the restructured notes in two years (maturity date). This option results in the return to the City of Lethbridge \$5.9M if exercised. We believe that this agreement provides a reasonable option relative to current market conditions.

How much money will the City of Lethbridge lose?

Since any actual loss depends on market conditions, it is impossible to say what the loss on this investment will be. Our most recent audited loss estimate calculation at December 31, 2008 was reported at \$5.7M on the total \$30.2M ABCP investment. This agreement solidifies the value of a portion of our ABCP holdings and will be considered in our loss estimate calculation for December 31, 2009. The City will continue to estimate the value of these investments and report annually in our financial statements.

When did the City become aware that this investment was at risk?

August 2007.

Why has this taken so long to get resolved?

The restructuring, led by Pan Canadian Investors Committee, was successfully completed on January 21, 2009. Since January 21, 2009, the City has been working with National Bank to seek a solution that would maximize the value of the City's investments.

Has the City of Lethbridge lost money on its investments before?

This is the first time that we have experienced a loss due to credit risk since our first investment policy was approved in 1986.

Because this deal is with National Bank, will they be in a preferred situation in the future in dealing with the City of Lethbridge?

National Bank will not be in a preferred situation, but they will be able to submit proposals to provide financial services to the City. These proposals will be considered on a competitive basis with all other proposals received.

Can the City disclose the details of the agreement with National Bank?

As all other ABCP financing agreements entered into by National Bank and its clients, the transaction is confidential. However, the City may, if required by law and after having consulted with National Bank, disclose information relative to the transaction.

Has this incident changed how the City of Lethbridge will manage investments in the future?

The audit committee has drafted a new investment policy, subject to City Council's approval, that takes a more conservative approach to our investment decisions. This policy will be presented to City Council for consideration once it has been certified by the Association of Public Treasurers under their investment policy certification program.