

FITCH AFFIRMS MUNICIPAL FINANCE AUTHORITY OF BRITISH COLUMBIA, CANADA AT 'AAA'

Fitch Ratings-Chicago-24 February 2009: Fitch Ratings assigns an 'AAA' rating to the Municipal Finance Authority of British Columbia (MFABC), Canada's C\$400 million, series DQ debenture, dated Nov. 20, 2008. Fitch also affirms the 'AAA' rating on MFABC's outstanding senior unsecured debt. The debentures are direct and unconditional unsecured obligations of MFABC. The Rating Outlook is Stable.

The 'AAA' rating is based on the strength of the authority's joint and several security of participating municipalities, which in practice obligates all municipalities in the province for debt service repayment; the authority's financial reserves, encompassing both MFABC resources and the reserves held by all constituent municipalities; and the authority's role in facilitating debt structuring and monitoring credit conditions of municipal borrowers.

The authority maintains the unconditional power to levy ad valorem taxes province-wide, without external approval, if a municipal borrower fails to meet its debt service payments. While the authority is not immune to the effects of the global economic downturn, expressed both economically, through slightly higher provincial unemployment rates, and financially, through dampened investment earnings, the authority has stepped up its already vigilant monitoring of municipal credit quality and maintains an impeccable record of debt repayment. The authority has never had a payment default from one of its borrowers nor has it needed to draw property taxes or fiscal reserves to cure a debt service deficiency in its 39-year history.

MFABC's board and regional administrative districts consist of municipal representatives that carefully manage capital project planning and debt issuance to achieve low borrowing costs for local governments. Additionally, MFABC returns all excess earnings on investments to its borrowers, once sinking funds have earned enough to satisfy associated debt service requirements. This strategy effectively reduces borrowing costs, as sinking funds typically are large enough to cover one-third of principal.

MFABC is the borrowing vehicle for all municipalities and regional districts in the province and provides financing for general municipal projects, water and sewer infrastructure, and transportation. The joint and several pledge supporting MFABC's debt issuance requires all member governments to satisfy the obligations of a deficient borrower and ultimately requires the borrower to repay the authority for the deficiency. MFABC's sizable available liquidity includes C\$1.1 billion from sinking fund set asides and debt service reserves of approximately C\$101.3 million to deal with temporary payment interruptions. If any municipality cannot meet its payments, MFABC will draw on these unencumbered reserves. Although these fully unencumbered reserves are relatively modest, the authority also maintains a \$200 million line of credit available for any short term disruption and its taxing ability province-wide ultimately counters any related risk.

A key component supporting MFABC's financial capacity is the economic strength of British Columbia, particularly within the Greater Vancouver region. With a 2008 estimated population of 4.4 million, provincial population growth was 5.5% since 2004, compared with 4.3% for Canada over the same period. After declining to 4.6% in 2006, the lowest unemployment rate for the province in three decades, unemployment has increased to 6.1% in January 2009, up from 4.1% in January 2008. The province has experienced some softness in construction-related activity and development cost charges with the global economic downturn. However, the housing market remains relatively resilient to date in part due to substantial barriers to home ownership and continued strong housing values.

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