



Royal Bank

Royal Bank of Canada

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Glengarry Memorial Hospital

20260 County Road 43, Alexandria ON K0C 1A0

Robert Alldred Hughes and Linda Ramsay

Re: Financing Request

Dear Robert and Linda

RBC is honored and privileged to put together financing options for your review, which is contained in a separate document.

The financing options as you will see have varying amortizations to help meet your cashflow needs. The dollar value used for this discussion paper was \$7,000,000 but can always be amended prior to funding. The funding option that is being provided is a SWAP arrangement which is outlined in our second document. We can arrange to have a call with our Capital Markets Team and your board should you wish to on January 30th to review further.

Should any questions present themselves please feel free to reach out to me directly.

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RBC Capital Markets

Fixed Rate Flexible Financing

Using Interest Rate Hedging Strategies to
Manage Financing Risk

January 2025

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Capital
Markets

Interest Rate Risk Management

Interest Rate Swap Overview

Fixed Rate Flexible Financing

- RBC, via its partners in RBC Capital Markets (“RBC CM”), would be pleased to explore a fixed rate flexible solution that is comprised of a **CORRA Loan facility, hedged with an Interest Rate Swap** that will fix the underlying interest rate (cost of funds) on the financing requirements of the anticipated facility
- The advantages of an Interest Rate Swap compared to a Fixed Rate Term Loan (“FRTL”):
 - Ability to forward fix the cost of funds today for a date in the future
 - Ability to fix the cost of funds for up to the full amortization of the loan
 - More favorable breakage terms with two-way breakage cost calculation (FRTL one way breakage)
 - Competitive rates, and no extra fees to consider a swap

Notes on Swap Rate Pricing

- Swap rates are fixed for the entire term selected, while the Credit Spread on the CORRA Loan facility is re-evaluated upon the maturity of the selected CORRA Loan facility term
- All-in rates assume no change in Credit Spread upon the renewal of the selected CORRA Loan facility term
- A forward starting swap can also be considered; to fix the swap rate ahead of the expected financing need

Indicative Interest Rate Swap Pricing

- **Daily CORRA Rate** : 3.28% + 0.95% Credit Spread = **4.23%**

Effective Date	Swap Term	Amortization	Indicative Swap Rate ⁽¹⁾	1-year CORRA Credit Spread	All-In Rate
01-Mar-2025	5-years	18-years	3.17%	0.95%	4.12%
	10-years		3.39%		4.34%
	15-years		3.50%		4.45%
	18-years		3.51%		4.46%

Required Swap Documentation & Process Overview ⁽²⁾

ISDA	Regulatory/KYC	Post-Trade Swap Confirmation
<ul style="list-style-type: none"> ▪ The International Swaps and Derivatives Association (“ISDA”) is a globally recognized organization dedicated to promoting and developing sound and efficient business practices and standards in the over-the-counter derivatives industry worldwide ▪ All entities looking to enter into an OTC derivative transaction are required to negotiate and sign an ISDA Agreement, which sets out provisions governing the parties’ overall relationship 	<p>Specific Regulatory and KYC requirements differ by Counterparty & jurisdiction – includes but not limited to:</p> <ul style="list-style-type: none"> ▪ Legal Entity Identifier (LEI) ▪ CAD Rep /Cross-Border Rep Letter ▪ Certificate of Incumbency ▪ ID Verifications ▪ List of Directors ▪ Organizational Structure Chart 	<ul style="list-style-type: none"> ▪ A legally binding document signed by participating Counterparties to a transaction, lays out specific parameters of the trade ▪ The swap confirmation also references the ISDA executed between Counterparties

(1) Indicative pricing as of January 9th, 2025 and subject to change

(2) ISDA & Regulatory/KYC documentation are all required to be completed pre-trade

Appendix: Interest Rate Risk Management Strategies

Understanding and Summary

- Glengarry Memorial Hospital (“*Glengarry*”) is seeking C\$7MM in financing for an IT project
- Glengarry Memorial Hospital has two possible solutions to manage interest rate risk on the loan
 1. Fixed Rate Term Loan
 2. Interest Rate Swap (***Recommended***)

	① Fixed Rate Term Loan	② Interest Rate Swap
Mechanics	<ul style="list-style-type: none"> ▪ Closer to the funding date, Glengarry Memorial Hospital can lock in a fixed rate via a Fixed Rate Term Loan ▪ Comparable to a fixed mortgage rate ▪ The take-out date is fixed and not flexible, ex: cannot adjust take-out date & keep the same rate 	<ul style="list-style-type: none"> ▪ Ahead of financing requirement, Glengarry Memorial Hospital can utilize a forward-starting interest rate swap to obtain a fixed cost of borrowing for the future take-out date ▪ A Flexible Window Feature can be added to fix the interest rate and accommodate any changes on the takeout date, without any penalty or rate adjustment after the fact
Credit Spread	<ul style="list-style-type: none"> ▪ The Credit Spread is embedded within the all-in rate for the term chosen; ex: a 5y mortgage rate includes a 5y credit spread 	<ul style="list-style-type: none"> ▪ Can select a 1 to 10-year Credit Spread term. Selecting a shorter term will provide a lower Credit Spread, thereby reducing the interest expense ▪ The Credit Spread will be re-evaluated at the end of each term
Forward Locking Rates	<ul style="list-style-type: none"> ▪ Limitations forward fixing, capped at 1-year forward and requires fees ▪ No flexibility with take-out date 	<ul style="list-style-type: none"> ▪ Ability to forward fix a rate for financing up to 2-years in the future, without additional fees ▪ Flexible window can accommodate changing take-out date in the event of delay
Benefits	<ul style="list-style-type: none"> ▪ Interest rate certainty up to 10 years ▪ Prepayment options; up to 10%/year ▪ Credit spread typically matching fixed rate term 	<ul style="list-style-type: none"> ▪ Long-term interest rate certainty, up to the full loan amortization ▪ Two-way breakage cost calculations ▪ No dollar or frequency limits on repayment, flexibility with extensions and restructuring, subject to two-way adjustment calculations ▪ No upfront fees ▪ Ability to obtain rate certainty now for future financing needs via forward starting swap
Considerations	<ul style="list-style-type: none"> ▪ One-way interest rate breakage cost & credit spread penalty ▪ Can typically only lock in up to 10-years ▪ Less flexibility on pre-payments and restructuring ▪ Potential fees for forward fixing, only up to 1-year in advance 	<ul style="list-style-type: none"> ▪ Additional documentation needed (ISDA) ▪ Additional administration as it involves the combination of two products ▪ Credit spread term may be shorter than fixed rate term

The rate risk mitigation decision is not “all or none”; Glengarry could consider partial fixes and/or laddering into the fixed rates over time to “average” into an all-in rate

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