

CEO'S CORNER SCRIPT – BORROWING PROGRAM UPDATE

FEBRUARY 13, 2018

Hi, I'm Gadi Mayman, CEO of the Ontario Financing Authority. Thank you for joining me for the next few minutes.

I'd like to take this opportunity today to talk about the Province's borrowing program, and also provide an update on our recent Green Bond.

Let's start with the Borrowing Program.

Since my last update following the Province's Fall Economic Statement and Fiscal Review in November, we've successfully completed our borrowing requirement of \$25.8 billion for 2017–18. To date, the Province has borrowed \$33.9 billion, which includes \$8.1 billion in pre-borrowing for 2018–19. After borrowing \$5.25 billion last week, through a three-year U.S. dollar global issue and a new 5-year domestic syndicated issue, we may selectively continue to pre-borrow for next fiscal year if market conditions are favourable.

Canadian dollar borrowing currently totals \$21.1 billion, primarily through domestic syndicated issues and a new Green Bond issue — which I'll discuss in detail later. This accounts for 62% of this year's borrowing-to-date, which is roughly in line with the Province's target of completing approximately two-thirds of this year's long-term borrowing in Canadian dollars.

Foreign borrowing currently accounts for \$12.8 billion, or 38% of this year's program, and includes issues in Euros, pound sterling, Swiss francs, Australian dollars, and U.S. dollars.

Speaking of U.S. dollars, a large portion of our recent borrowing was done through a very successful, 3-year U.S. dollar deal for \$3.0 billion on February 6th. This is our third U.S. dollar transaction for fiscal 2017–18 and it's the largest USD bond issued by any Canadian province since 2012. The book built quickly for this deal and had a final size of almost four billion U.S. dollars, with 97 investors participating in the trade — of which eight were new investors for us.

The U.S. dollar market has remained an important source of funding for Ontario this year, with a total of \$9.0 billion, or 26% of our total borrowing, issued in U.S. dollars.

I want to spend just a few minutes talking about term extension.

To protect the province from an increase in interest rates, we have continued to extend the term of our debt. Since making the decision to extend duration at the beginning of fiscal 2010–11, Ontario has issued \$70.6 billion of bonds longer than 30 years to lock in low rates. As a result, the average term of Ontario's debt portfolio has been extended significantly, from 9.7 years in 2009–10 to 10.9 years as of December 31, 2017.

Rates have begun to rise, so while we are still able to lock in very attractive interest rates, they are no longer at historically low levels. So, while we are continuing to extend the term of our debt when investor demand enables us to do so, we aren't doing so as aggressively as we have in the past few years.

In determining the term structure of our new issuance program, we also look very carefully at the maturity profile that we have going forward. We recognize that we have years with heavy maturities, and individual dates within those years that have large benchmarks maturing, so we've built up our liquid reserves to over \$20 billion. Last week's volatility and gyrations in the equity markets have reminded us that disruptions can occur. We will continue to ensure that we have a hefty safety margin through our liquid reserves and short-term borrowing programs in Canada and the US in case borrowing long-term debt becomes more difficult for an extended period of time.

Next, I'd like to discuss Green Bonds.

On January 25, the Province successfully launched its fourth Green Bond issue of C\$1.0 billion. This is not only the largest Green Bond offering from the Province of Ontario, but also the largest issue to be priced in the Canadian dollar Green Bond market to date.

The 7-year deal was very successful — the transaction was met with strong demand, with books opening at a minimum size of \$500 million, and then growing rapidly to in excess of \$1.6 billion.

Since we started the Green Bond program in 2013, I've been encouraged to see the number of Canadian dollar Green Bond investors grow, and this bond was no exception. Overall, 71 investors participated in the trade. Through this transaction, Ontario added eight new investors and expanded its Canadian dollar investor base by eleven names.

The placement saw a wide participation of investors by geography and investor type. Demand was largest from domestic Canadian investors, highlighting the increasing number of Canadian investors with socially responsible investing mandates. Investors with Green mandates and/or UN PRI signatories represented over 85% of overall sales.

Asset Managers and Pensions took the largest share of allocation, at 51% and 29% respectively.

We now have over \$3 billion in Green Bonds outstanding. Ontario has a mature Green Bond program in an expanding Canadian dollar Green Bond market. Green Bonds will continue to play an important role in the Province's annual borrowing program.

Now, I'd like to provide an overview on the eligible projects selected for our fourth Green Bond issue.

Ontario's Green Bonds are a cost-effective way to assist the Province in financing transit and other environmentally friendly infrastructure projects. Proceeds from this issue will be used to help fund a basket of seven projects, with an emphasis on the Clean

Transportation and Energy Efficiency and Conservation categories. More information on these projects can be found on the [Ontario Financing Authority's Green Bond Website](#). A [presentation](#) is also available with further details on Ontario's fourth Green Bond issue.

The first four of seven projects fall under the Clean Transportation category, and while all four projects have received funding from our previous Green Bonds, the large dollar size of these projects allows for additional funding from subsequent Green Bond issues.

The remaining three projects fall under the Energy Efficiency and Conservation category. These projects have not received Green Bond funding in the past.

I would also like to note that the projects that Ontario funds with its Green Bond proceeds align with four of the United Nations Sustainable Development Goals, otherwise known as SDGs. Developed by the UN in 2015, SDGs are universal goals aimed at improving areas such as climate change, innovation, and sustainable consumption, among other priorities.

Finally, I'd like to talk about Impact Reporting.

Ontario strives to be a leader in its transparency and impact reporting efforts with the publication of our annual Green Bond newsletter. Our first newsletter was published in December 2015 and our most recent newsletter was released on December 21, 2017.

In developing the newsletter, the OFA works alongside other Ontario ministries and government agencies, with support from the Ministry of the Environment and Climate Change providing expertise in the analysis of projected environmental benefits.

Ontario uses core indicators for projects that are widely recognized by the market and, where possible, aims to adopt any future Green Bond Principles impact reporting recommendations.

Our Green Bond Newsletter includes:

- An overview of the process for project evaluation and selection;
- The total funds allocated to projects and amounts;
- Updates on selected projects and their status;
- A link to the assurance audit performed by the Auditor General of Ontario; and the
- Projected environmental benefits of each project.

In conclusion, Ontario's borrowing program is well ahead of pace with \$8.1 billion in prefunding already completed for fiscal 2018–19. Subject to market conditions, the Province may continue to pre-borrow over the remainder of this fiscal year. We have continued to extend the duration of our debt portfolio to lock in attractive interest rates and smooth our maturity profile, but have not been as aggressive as in the past few years because of the recent rise in long-term interest rates. Approximately 62% of our borrowing

this fiscal year has been in Canadian dollars, roughly in line with our target of completing approximately two-thirds of this year's long-term borrowing in Canadian dollars.

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Thank you very much for your time.