

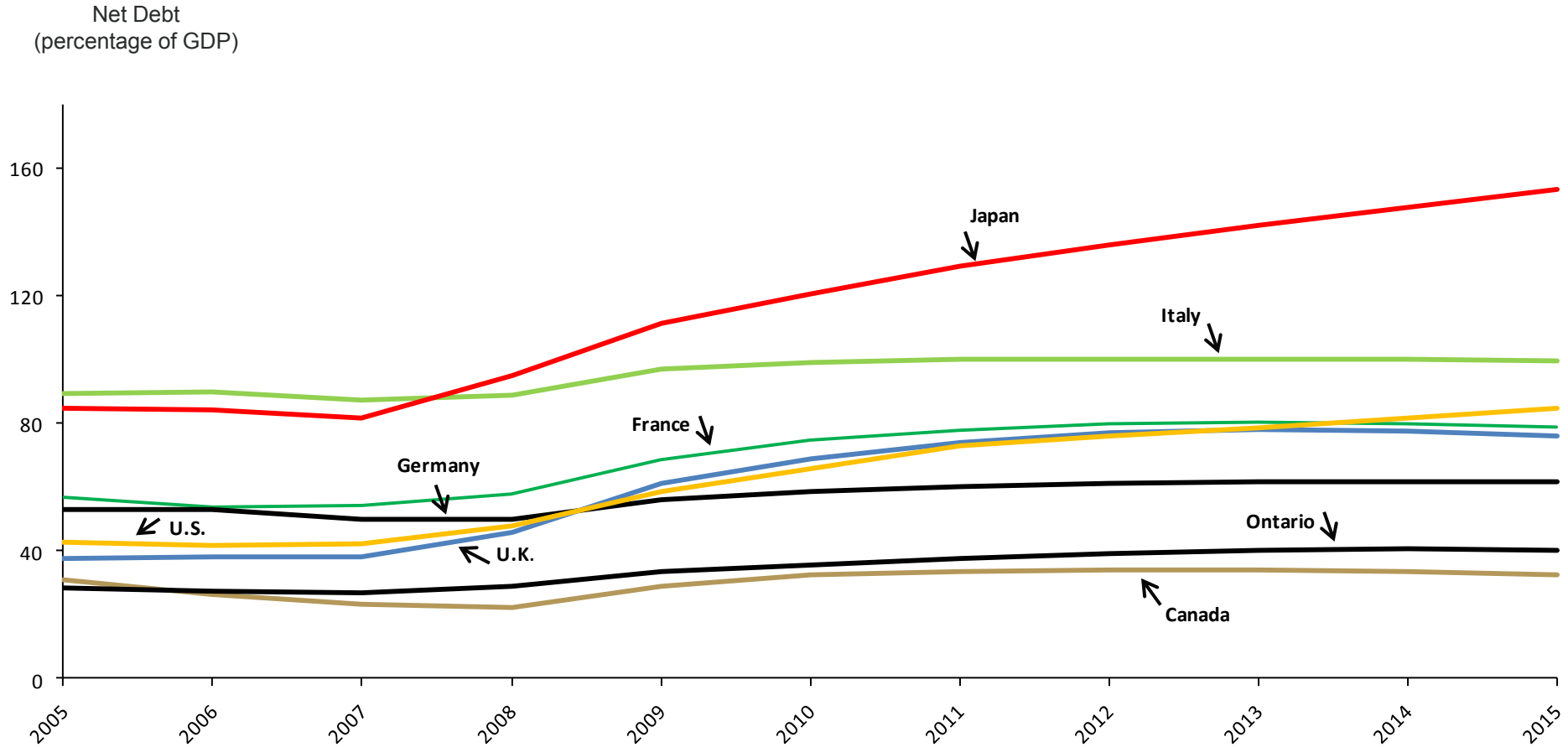


April 2011

Ontario Financing Authority  
[www.ofina.on.ca](http://www.ofina.on.ca)

- Lowest government net debt-to-GDP ratio of any G7 country, and expected to remain so
- Ranked as having soundest banking system for three consecutive years
- Solid housing market, supported by conservative mortgage market and long-term economic fundamentals
- Economy expected to grow faster than most other G7 nations in 2011

# Relatively Low Net Debt-to-GDP Ratio

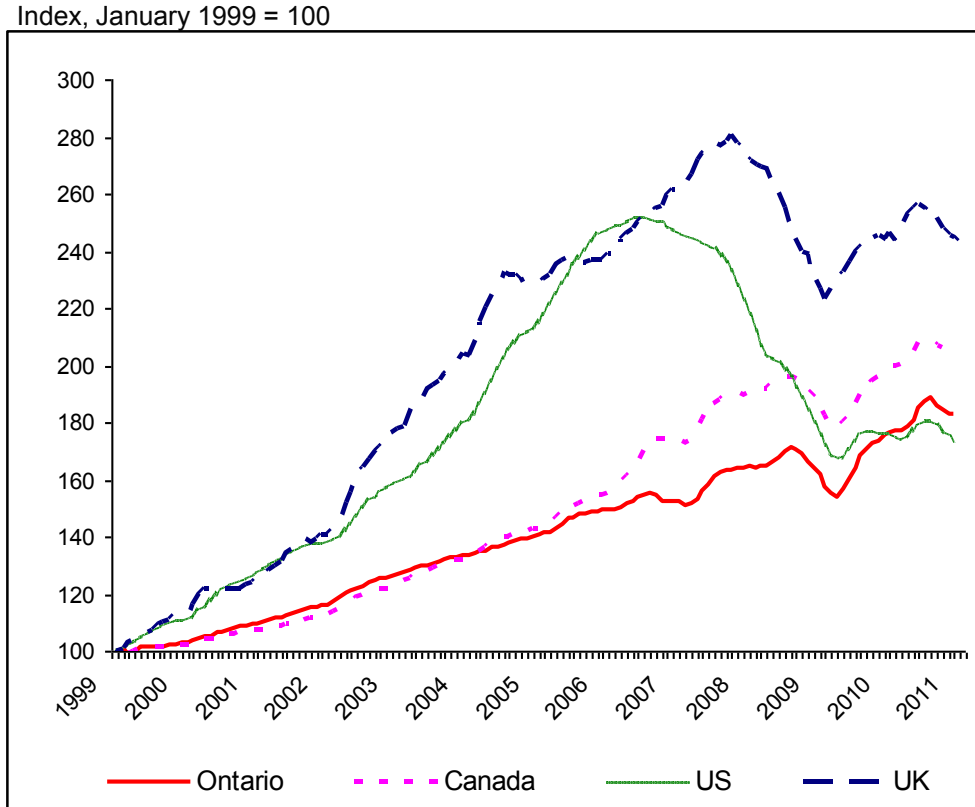


Source: IMF World Economic Outlook (April 2011) and Ontario Ministry of Finance

# Conservative Mortgage and Housing Market

- Existing home prices in Ontario and Canada did not experience a bubble like the U.S. and U.K., and have surpassed pre-recession peaks
- Resilient and affordable mortgage market attributed to strong economic fundamentals
- Lower defaults and arrears reflect Canadian credit culture and more rigorous underwriting standards
- In Canada, all high-ratio residential mortgages issued by regulated financial institutions must be insured

Existing Home Prices



Source: S&P/Case Shiller Home Price Index for U.S., Teranet-National Bank Index for Canada and Ontario and Nationwide House Price Index for U.K.

Source: CMHC and IMF

# Ontario Overview

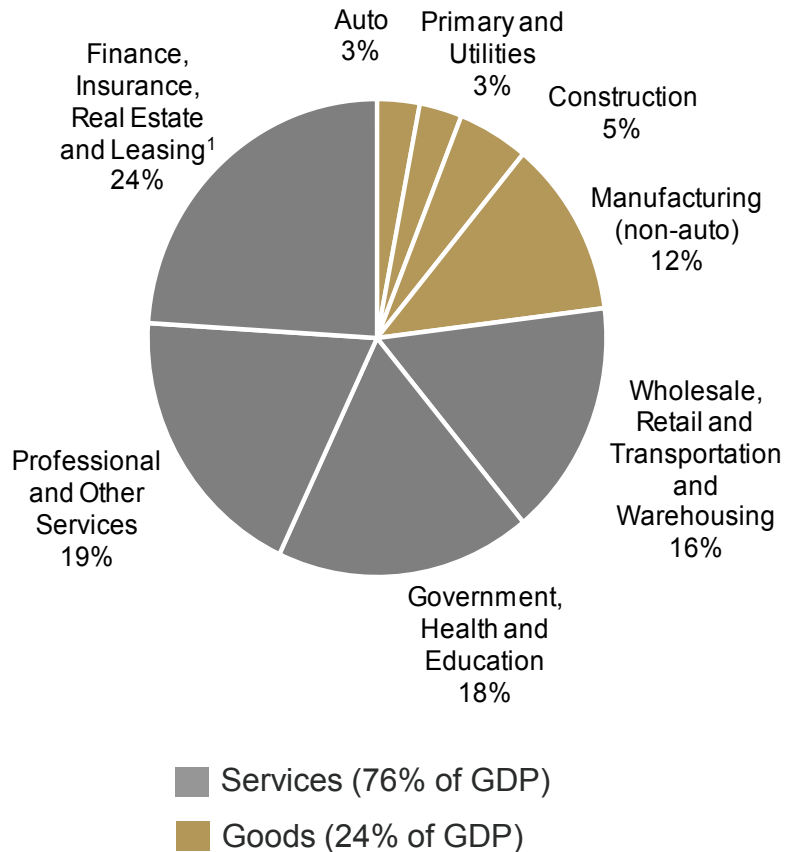


- Located in prime area with close ties to many major U.S. cities
- Population of 13.2 million and GDP of \$613 billion in 2010\*, both about 40 per cent of Canada
- Government policy focused on long-term growth and innovation through investment and tax reform

\* Ministry of Finance estimate

# Ontario's Diverse Economy

Structure of the Ontario Economy, 2010 (per cent share of Ontario GDP)



- Canada's business and financial services and manufacturing centre
- About half of Canada's high-tech employment
- One of the largest concentrations of bio-technology firms in North America

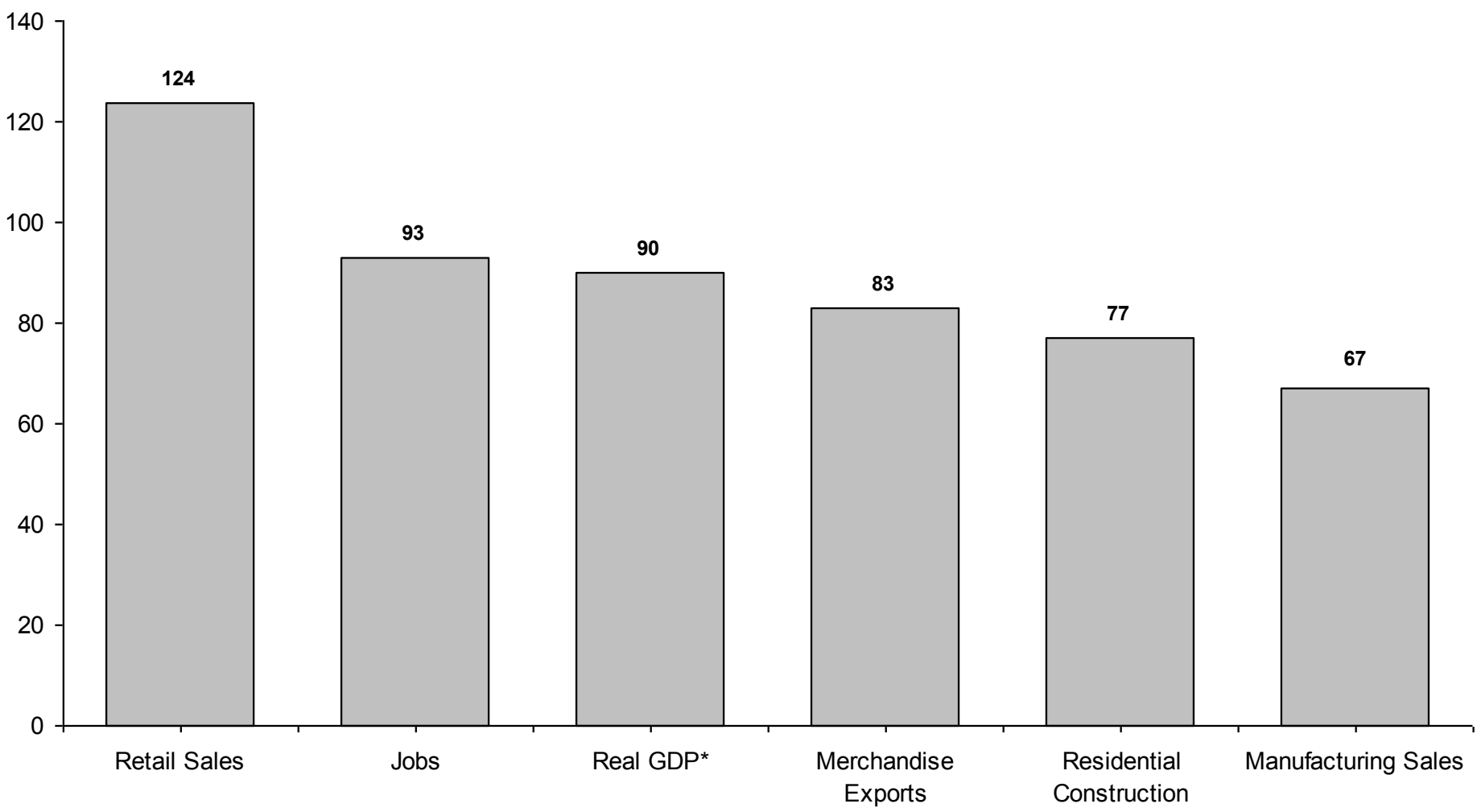
Note: Numbers may not add due to rounding

<sup>1</sup> Includes estimate of imputed rental income on owner occupied dwellings

Sources: Statistics Canada and Ontario Ministry of Finance

# The Progress of Ontario's Economic Recovery

Percentage Recovered of Recessionary Decline



Sources: Statistics Canada and Ontario Ministry of Finance

\* estimate

# Ontario Economic Outlook for Continued Growth

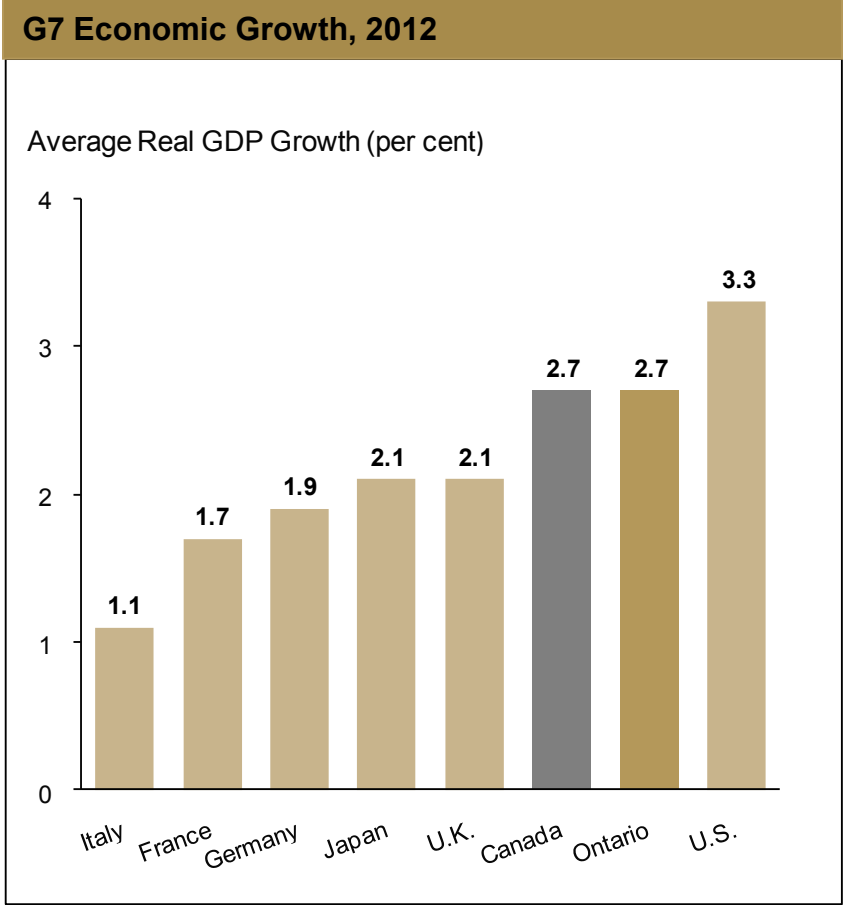
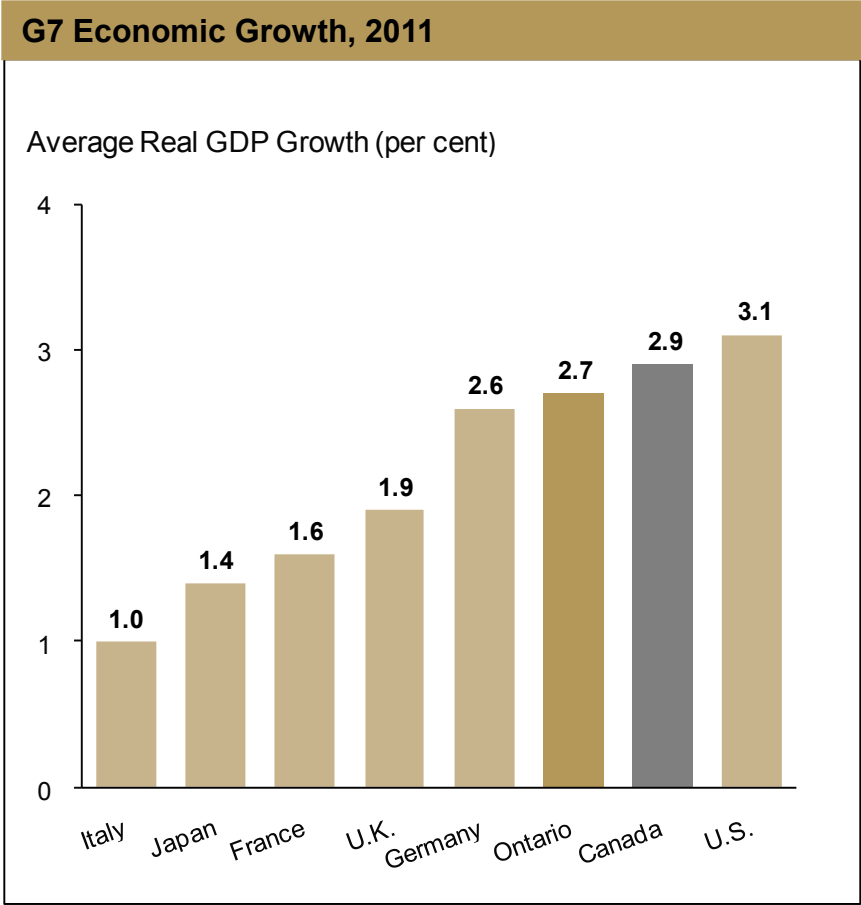
**Ontario Economic Outlook**  
(per cent)

	2008	2009	2010	2011	2012	2013	2014
<b>Real GDP Growth</b>	(0.9)	(3.6)	2.8	2.4	2.7	2.7	2.6
<b>Nominal GDP Growth</b>	0.1	(1.1)	6.1	4.6	5.1	4.8	4.6
<b>Employment Growth</b>	1.6	(2.5)	1.7	1.7	1.8	1.8	1.7
<b>Unemployment Rate</b>	6.5	9.0	8.7	8.2	7.7	7.1	6.7
<b>CPI Inflation</b>	2.3	0.4	2.5	2.3	2.1	2.0	2.0

□ Actual      ■ 2011 Budget projection

Source: Statistics Canada and Ontario Ministry of Finance

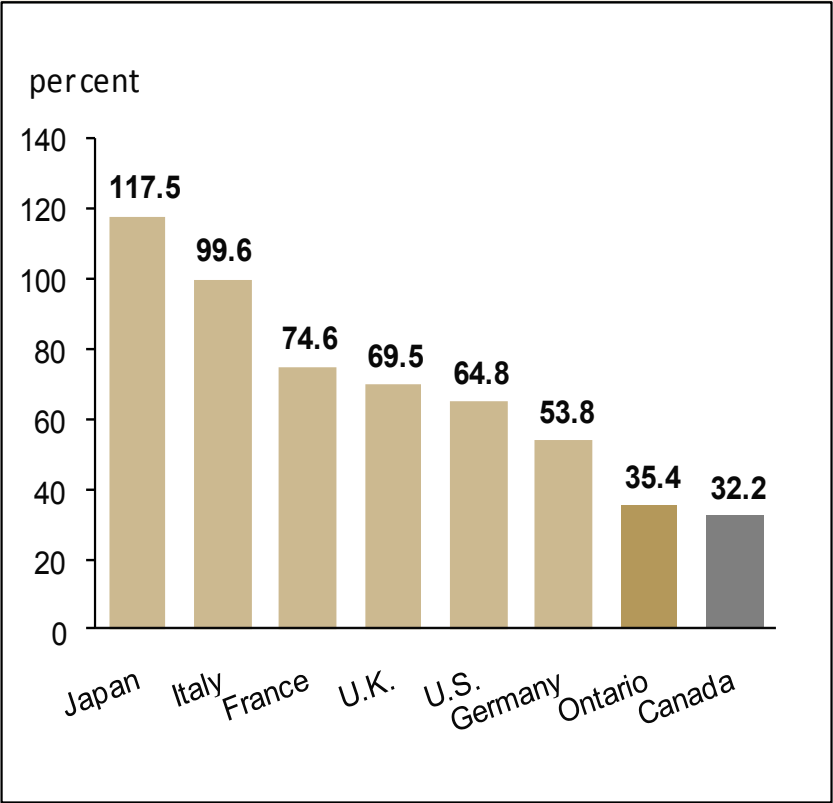
# Relatively Strong Economic Growth Outlook



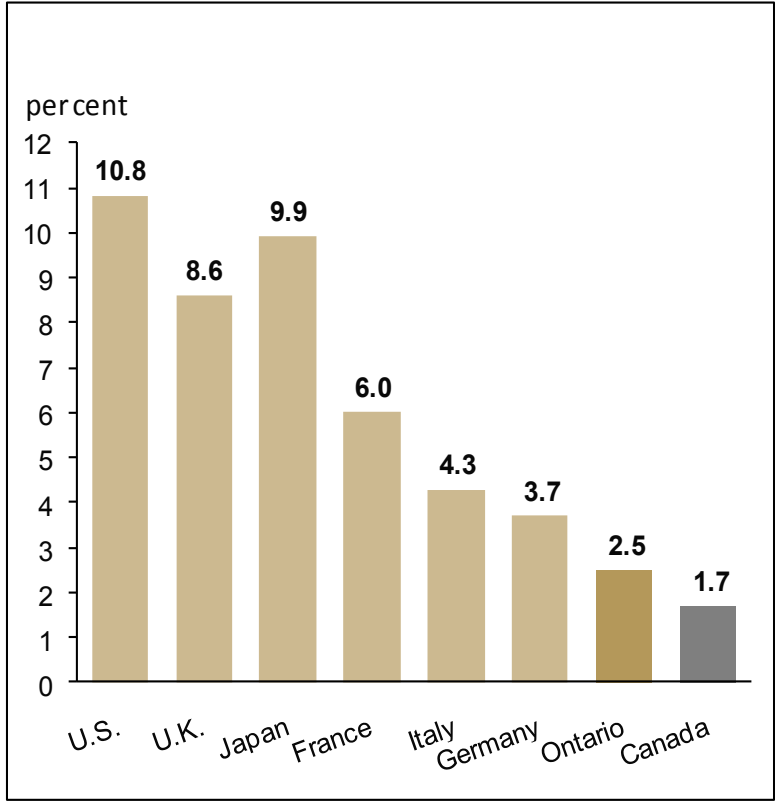
Sources: Consensus Economics (March 2011), Blue Chip Economic Indicators (March 2011) and Ontario Ministry of Finance Survey of Forecasts (March 2011)

# Strong Government Fiscal Position

**Net Debt-to-GDP G7 Countries, 2010**



**Projected Deficit-to-GDP G7 Countries, 2011**

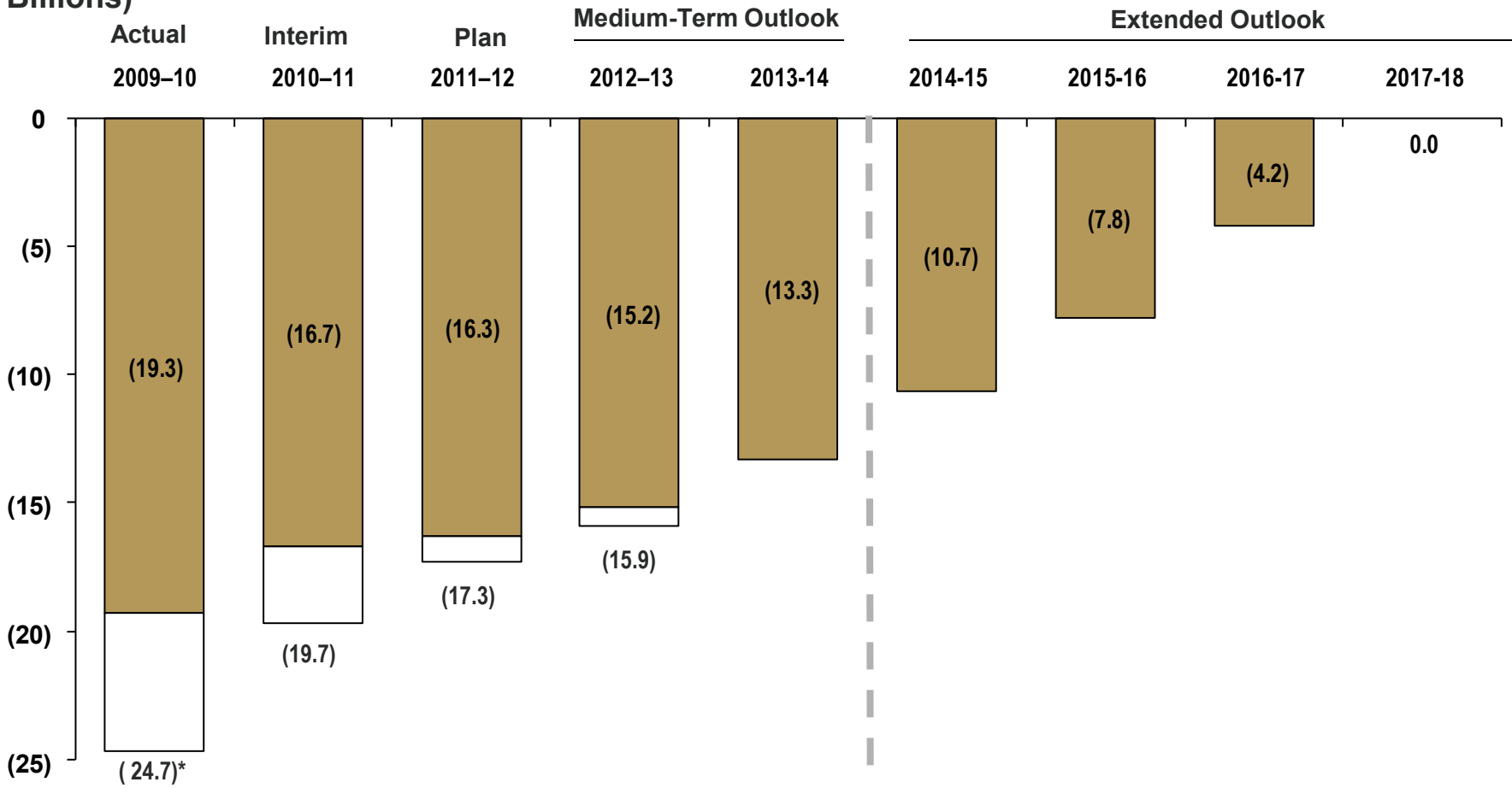


Source: IMF *World Economic Outlook* (April 2011) and Ontario Financing Authority

Source: IMF *World Economic Outlook* (April 2011), Ontario Financing Authority and Canada Department of Finance *Budget 2011*, March 2011.

# Ontario's Fiscal Balance

## Fiscal Balance (\$ Billions)



\* Fall 2009 Projection

2010 Budget  
 2011 Budget

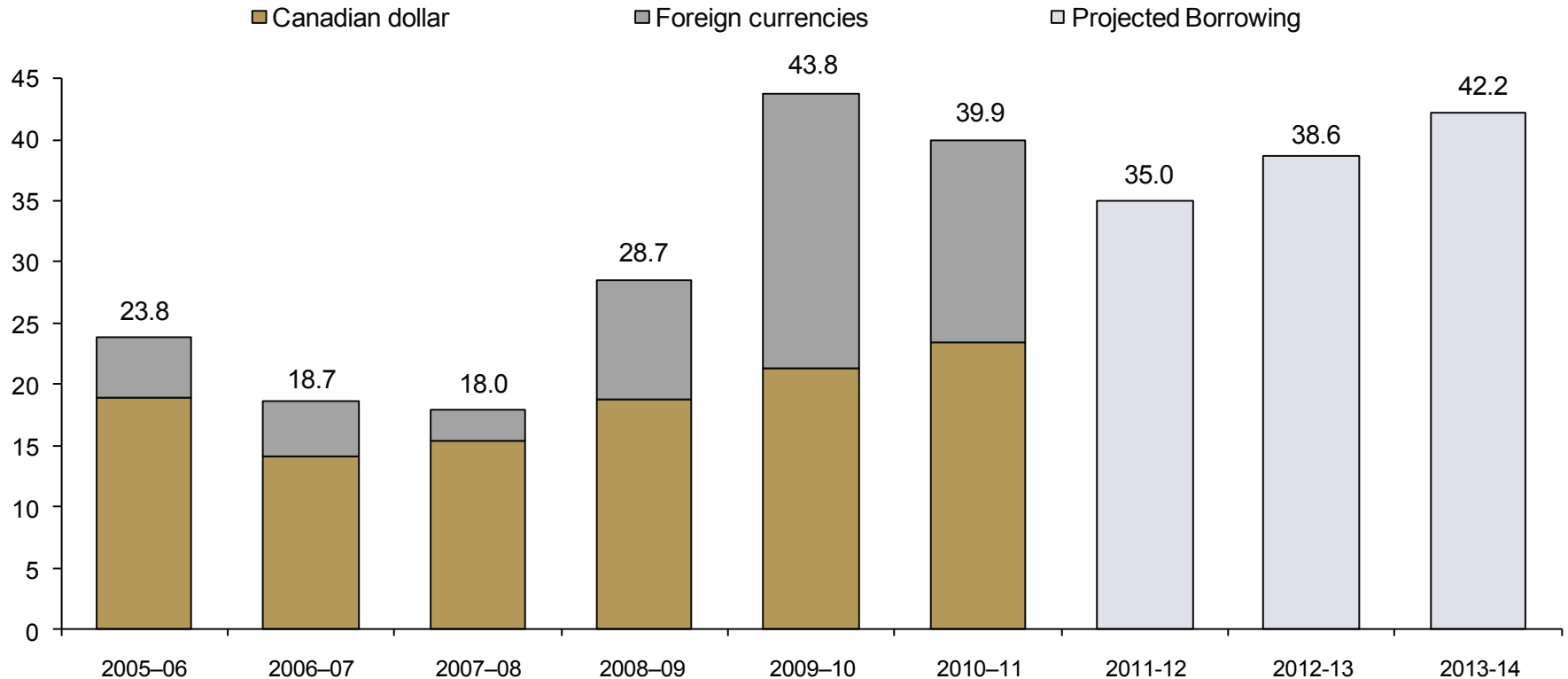
# Medium-Term Borrowing Outlook

	Plan	Outlook	
(\$ billion)	2011-12	2012-13	2013-14
Deficit	16.3	15.2	13.3
Investment in Capital Assets	10.9	11.5	10.5
Non-Cash Adjustments	(3.6)	(3.4)	(3.9)
Net Loans/Investments	2.7	1.2	1.1
Debt Maturities	13.9	17.4	23.7
Debt Redemptions	0.5	0.5	0.5
<b>Total Funding Requirement</b>	<b>40.7</b>	<b>42.3</b>	<b>45.3</b>
Canada Pension Plan Borrowing	(1.1)	(0.8)	0.0
Decrease/(Increase) in Short-Term Borrowing	0.0	(3.0)	(3.0)
Increase/(Decrease) in Cash and Cash Equivalents	(4.6)	0.0	0.0
<b>Total Long-Term Public Borrowing</b>	<b>35.0</b>	<b>38.6</b>	<b>42.2</b>

Note: Numbers may not add due to rounding

# Ontario – Highly Diversified Borrowing Program

- As at March 29, 2011, the Province of Ontario completed \$39.9 billion of its long-term funding requirements for 2010–11, \$16.4 billion of which was borrowed in international markets.
- The Province has been responsive to strong demand in Canada, allowing it to increase the proportion borrowed domestically compared to recent years. Depending on market conditions, the Province plans to borrow at least 60 per cent in the domestic market in 2011–12.
- Over the past year, as domestic investors have shown a strong preference for longer-term maturities, Ontario has been able to extend the term to maturity of its debt and take advantage of the lower interest rate environment.

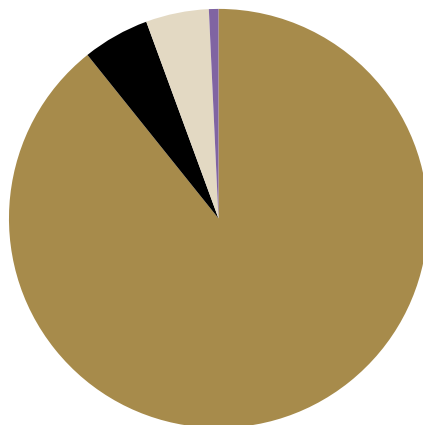


As of March 29, 2011

# Ontario Domestic Market Issuance

## 2010–11 Domestic Market Issuance \$23.5 billion (as at March 29, 2011)

- Syndicated Bonds  
\$21.0B (89%)
- Floating Rate Notes  
\$1.2B (5%)
- Ontario Savings Bonds  
\$1.1B (5%)
- Medium Term Note  
\$0.2B (1%)



- Ontario is a benchmark borrower in the Canadian bond market, issuing syndicated bonds, floating rate notes, real return bonds, medium-term notes, auctions and Ontario Savings Bonds to retail investors.
- Well-defined yield curve maintained through regular issuance of 5-year, 10-year and 30-year issues, which are re-opened to achieve benchmark size
- Large and diverse domestic underwriting syndicate makes active markets in Ontario bonds
- Ontario bonds have accounted for about 57 per cent of Canadian provincial bond trading in 2010<sup>1</sup>

Source: IIROC  
<sup>1</sup>Nine months ending September 30, 2010

Note: Numbers may not add due to rounding

Source: Ontario Financing Authority

## Outstanding Benchmark Size: Canada vs. Ontario (as at March 29, 2011)

	Ontario		Canada	
<b>5 yr (old)</b>	3.15% September 8, 2015	\$2.25 billion	2.5% June 1, 2015	\$9.0 billion
<b>5 yr (new)</b>	3.2% September 8, 2016	\$1.0 billion	2.0% June 1, 2016	\$9.9 billion
<b>10 yr (old)</b>	4.2% June 2, 2020	\$8.4 billion	3.5% June 1, 2020	\$13.1 billion
<b>10 yr (new)</b>	4.0% June 2, 2021	\$1.5 billion	3.25% June 1, 2021	\$9.0 billion
<b>Long (old)</b>	4.6% June 2, 2039	\$9.7 billion	5.0% June 1, 2037	\$14.0 billion
<b>Long (new)</b>	4.65% June 2, 2041	\$6.2 billion	4.0% June 1, 2041	\$15.8 billion

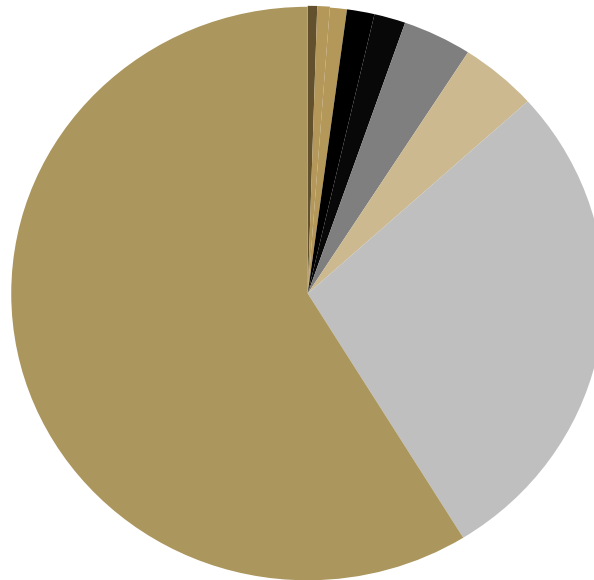
Source: Bloomberg

# 2010–11 Ontario International Borrowing

- For fiscal 2010–11 as at March 29, 2011, the Province borrowed \$16.4 billion in international markets

## 2010–11 Borrowing – \$ 39.9 billion (as at March 29, 2011)

■ Hong Kong dollars	\$0.2B, 1%
■ Australian dollars	\$0.3B, 1%
■ Swiss francs	\$0.4B, 1%
■ U.K. pounds sterling	\$0.6B, 2%
■ Norwegian kroner	\$0.7B, 2%
■ Japanese yen	\$1.5B, 4%
■ Euros	\$1.7B, 4%
■ U.S. dollars	\$11.1B, 28%
■ Canadian dollars	\$23.5B, 59%



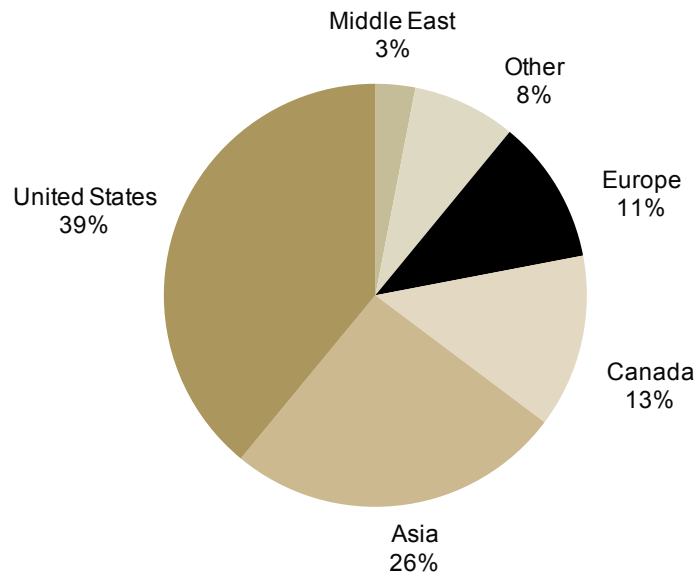
*Note:* Numbers may not add due to rounding

*Source:* Ontario Financing Authority

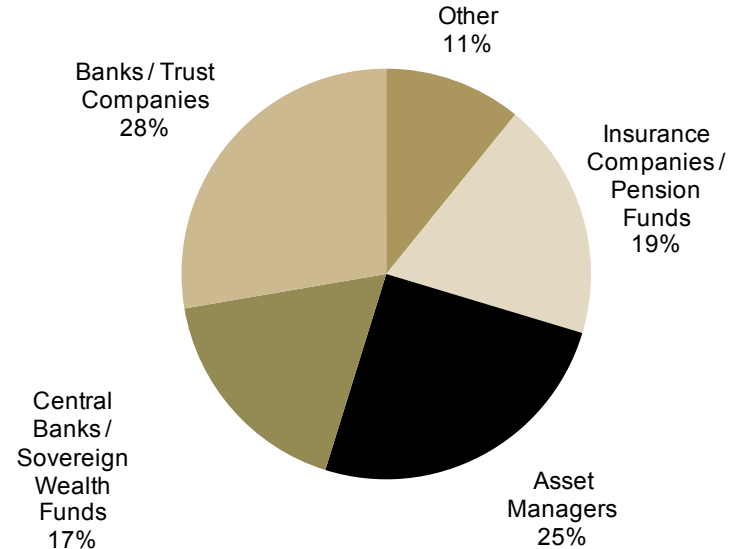
# 2010–11 U.S. dollar Market

- Since 1991, core market with several issues annually
- Increased benchmark size starting in 2009–10
- U.S. dollar investors diversified both geographically and by type

**USD<sup>1</sup> by Geography**



**USD<sup>1</sup> by Investor Type**



<sup>1</sup> Ontario U.S. dollar-denominated bonds issued in fiscal 2010–11

Source: Ontario Financing Authority, March 18, 2011

# 2010–11 U.S. dollar Market

## 2010–11 U.S. dollar Issuance

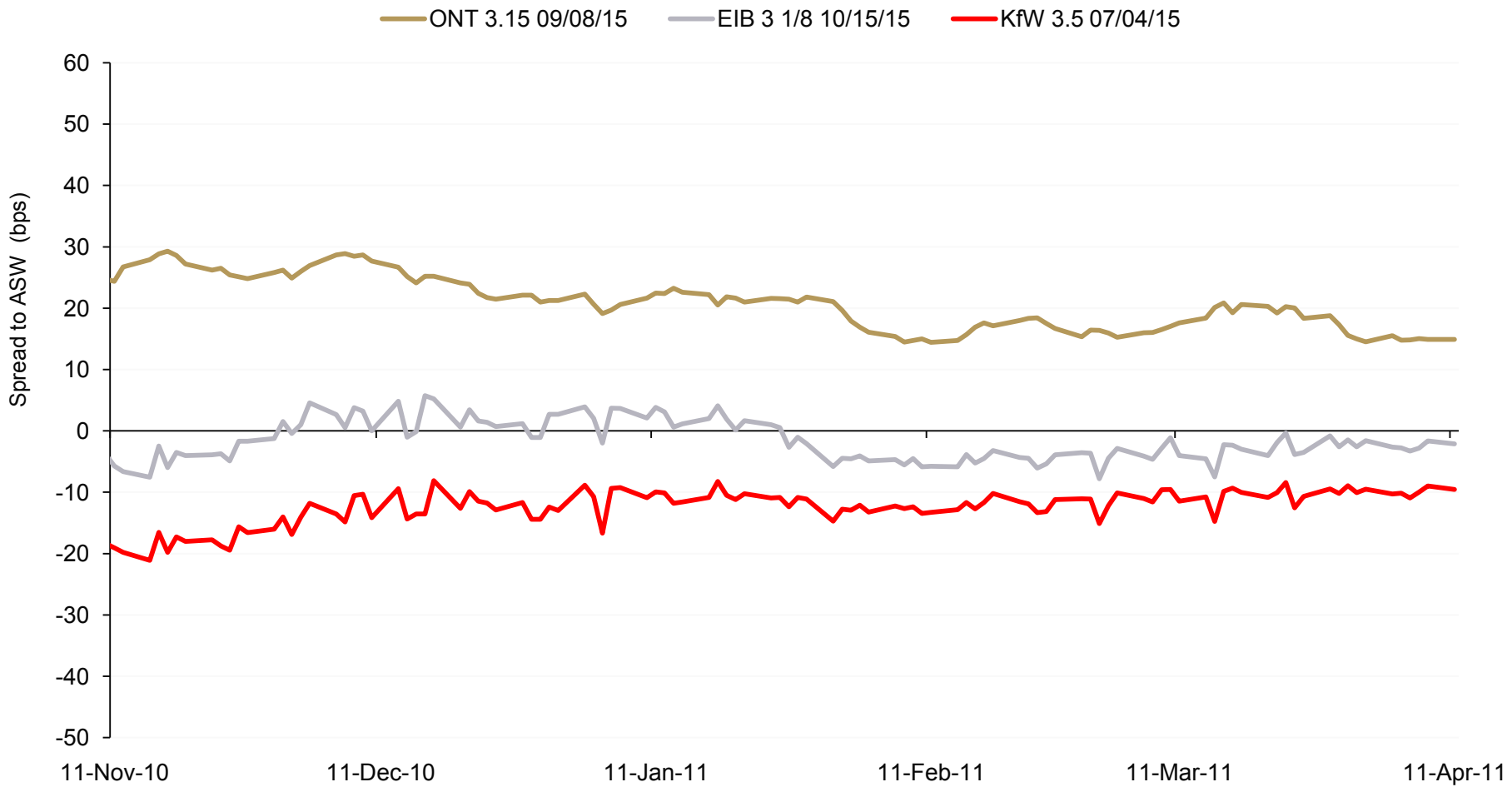
Size	Coupon	Maturity
USD 3.5 billion	1.375%	January 27, 2014
USD 1.25 billion	3.15%	December 15, 2017
USD 1.25 billion	1.875%	September 15, 2015
USD 2.5 billion	2.70%	June 16, 2015
USD 0.5 billion(FRN)	3-month U.S. LIBOR +16 basis points	May 7, 2013
USD 2 billion	4.40%	April 14, 2020

- Ontario has been expanding its U.S. dollar global investor base which has allowed it to increase its benchmark issue size while still offering attractive spreads and the potential of positive spread performance.
- Issues have tended to be oversubscribed, with some deals having more than 100 investors

Source: Ontario Financing Authority, March 29, 2011

# U.S. Dollar – Performance

### Asset Swap Spread: 5-Year U.S. Dollar

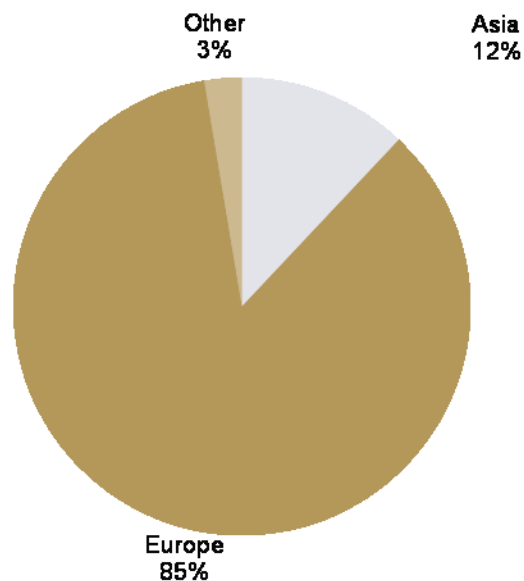


Source: Bloomberg Analytics, April 11, 2011

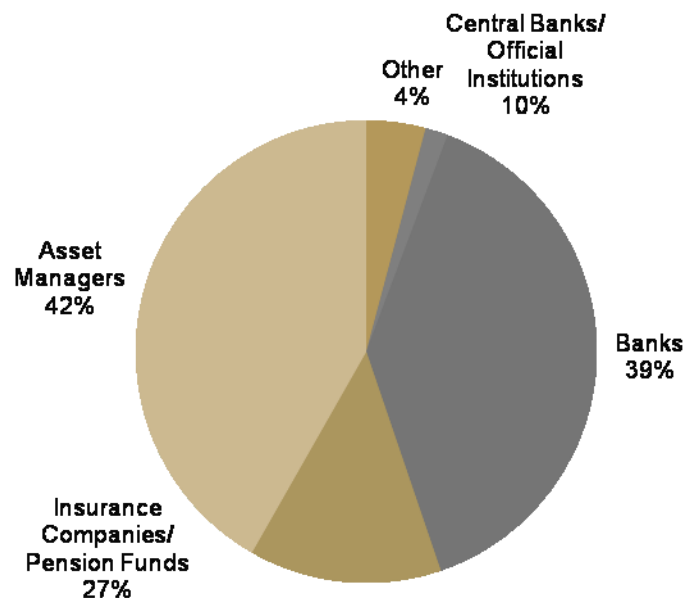
# 2010–11 Euro Market

- Core market for Ontario with more regular issuance over the past two years
- Provides good opportunity to expand investor base and diversify across Europe

euro<sup>1</sup> by Geography



euro<sup>1</sup> by Investor Type



*Note:* Numbers may not add due to rounding

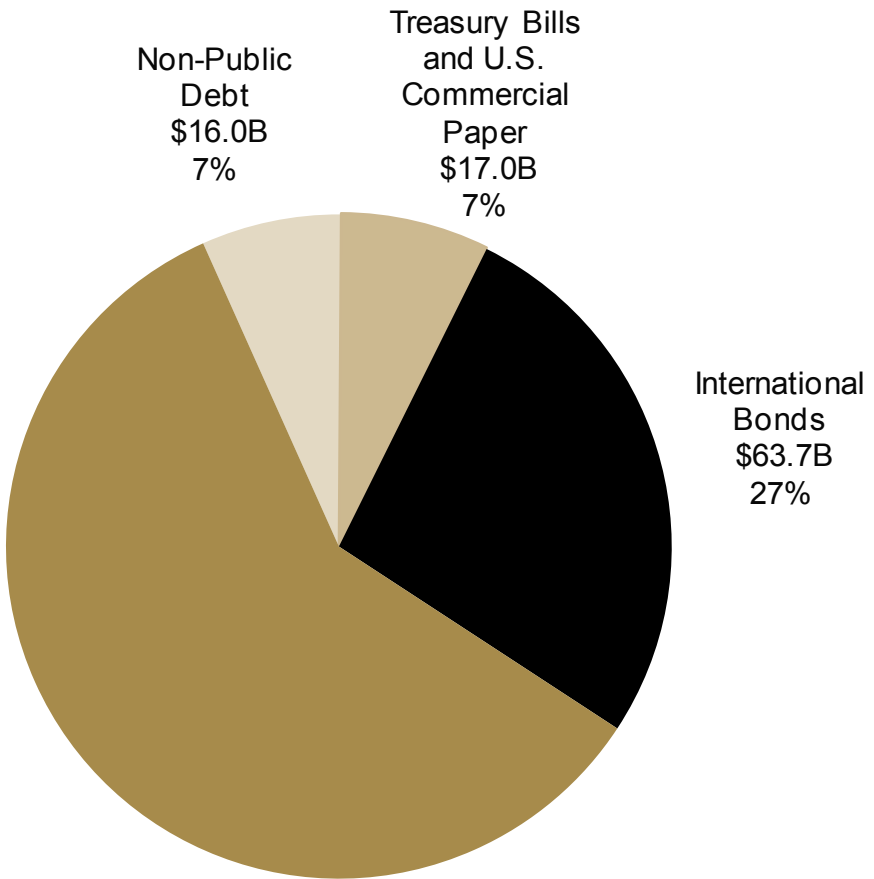
<sup>1</sup> Ontario euro-denominated bonds issued in fiscal 2009–10

*Source:* Ontario Financing Authority, March 29, 2011

# Total Debt Composition

- Total debt of \$236.3 billion composed of bonds issued in both the short- and long-term public capital markets, non-public debt, treasury bills and U.S. commercial paper

- International Bonds**
- Canadian dollars
  - U.S. dollars
  - Euros
  - New Zealand dollars
  - Norwegian kroner
  - Swiss francs
  - Japanese yen
  - Australian dollars
  - U.K. pounds sterling
  - South African rand
  - Hong Kong dollars



Projected to March 31, 2011

# Risk Management

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- Foreign exchange exposure of 1.0 per cent of outstanding debt as at February 28, 2011. Policy limit is 5.0 per cent of debt
- Floating rate exposure of 6.9 per cent as at February 28, 2011 (i.e., net floating rate exposure plus debt maturing within one year). Policy limit is 35.0 per cent of debt
- Monitor and manage debt maturity profile to limit refinancing risk
- Strict credit limits for financial and investment counterparties
- Developing collateralized swap agreements for swap counterparties
- Ontario treasury bills and U.S. commercial paper are very well received in the money markets and provide additional borrowing capacity if required.

*Note:* Excludes OEFC debt

# Credit Ratings

	<b>Current Ratings (Long-Term / Short-Term)</b>
<b>S&amp;P</b>	AA - / A-1+
<b>Moody's</b>	Aa1 / P-1
<b>DBRS</b>	AA (low) / R-1 (mid)

- Ontario's debt has a zero risk-weighting in Canada, U.S., Australia, Singapore, U.K., France, Germany, Italy, Luxembourg, Belgium, Norway, Finland, Denmark and Ireland.

# Summary

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- Backed by Ontario's diverse economy, Ontario bonds offer an attractive combination of safety, liquidity and yield.
- Ontario's flexible fiscal policy and extensive taxation powers allow for greater financial autonomy than many other sub-national issuers.
- Relative to its peers, Ontario's economic performance and potential for growth remains positive.
- Further information is available on the Ontario Financing Authority website:

[www.ofina.on.ca](http://www.ofina.on.ca)

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# APPENDIX

# Federal Framework

CANADA			GERMANY	
	Federal Government	Provinces	Federal Government	Länder
<b>Federal Provincial Powers</b>	<p>Jurisdiction within respective sphere of assigned responsibilities.</p> <p>Can exercise federal spending power in areas agreed to by the provinces and territories</p> <p>Can also legislate in areas not specifically defined in Constitution</p>	<p>Jurisdiction over constitutionally defined areas of responsibility</p>	<p>Jurisdiction within respective sphere of assigned responsibilities</p> <p>Can provide general supplementary grants or financial aid for particularly important investments.</p> <p>If Länder acts on federal commission, then federation finances the expenditure</p>	<p>Jurisdiction over constitutionally defined areas of responsibility</p> <p>All responsibilities not expressly given to the federal government are responsibility of the Länder</p> <p>Participates in federal legislature through representation in upper house</p>
<b>Taxation Powers</b>	<p>Power to raise money by any means of taxation</p> <p>Occupies majority of tax fields (e.g. GST, personal income taxes)</p>	<p>Power to raise revenue through direct taxation within the province (e.g. provincial sales, corporate and personal income taxes and property taxes)</p>	<p>Exclusive power to legislate on all forms of taxes</p> <p>Imposes 95 per cent of taxes. Some tax revenue accrues to the federation (e.g. customs duties, capital transactions)</p> <p>Revenue from income taxes, corporate taxes and taxes on imports is shared as determined by federal law</p>	<p>Power to legislate local taxes on consumption and expenditures if not substantially similar to federal taxes</p> <p>Some tax revenue accrues to the Länder (e.g. property tax, beer tax)</p>
<b>Transfers</b>	<p>Equalization payments, health and social programs, direct transfers to individuals</p>	<p>Receive federal health and social transfers</p> <p>Alberta, British Columbia, Saskatchewan and Newfoundland and Labrador do <u>not</u> receive Equalization</p>	<p>General supplementary grants are provided to equalize financial capacities of the Länder</p> <p>Financial aid is provided for specific investments</p>	<p>Länder may make agreements with each other for delivery of programs/services</p> <p>Länder are also able to make grants to communes (municipalities) to support projects</p>
<b>Areas of Authority</b>	<p>Defence, foreign affairs, trade and commerce, fisheries, postal and telecommunications, employment insurance, national pension plan and equalization payments</p>	<p>Health care, education, social services, highways, natural resources and municipal governments.</p>	<p>Foreign relations, currency, citizenship and immigration, customs/ trading, air transport, railways, nuclear energy. Concurrent jurisdiction includes public welfare, labour law, agriculture, forestry. Federal law takes precedence over Land law</p>	<p>Education, internal security, policing. Länder may enact laws at variance with federal laws in specific areas, including natural protection, regional planning and water resource management. Obligated to administer federal laws</p>

# Federal vs. Provincial Division of Powers

- Expenditure responsibilities of federal and provincial governments are described in the *Constitution Act, 1867*:
  - Provincial government responsible for: hospitals, health care, education (including universities and colleges), highways, social programs and municipal governments
  - Provinces retain discretion over expense decisions and are free to modify their expenses to meet policy objectives
  - Provinces have ability to borrow, but do not control monetary policy
  - Provincial governments do not require a vote or supermajority, as in some American states, to raise revenues or cut expenses

***“Canadian Provinces are similar to Euro zone sovereigns, in that they control every aspect of their fiscal policies, receive transfers from a central entity but do not have control over monetary policy ”.***

*Moody's Investors Services*

# Distribution of Taxation Powers

- Federal government has unrestricted power to levy taxes
- Provincial governments are limited to direct taxation within their provincial boundaries (i.e., income, sales, property and commodity taxes)
- Provinces have the authority to set their own tax policies. Under tax collection agreements with the Federal government, the federal government administers and collects Ontario's personal income (since 1962), corporate income (since 2009) and sales taxes (effective 2010)

	Federal	Ontario
<b>Common revenue sources</b>		
Personal income taxes	√	√
Corporate income taxes	√	√
Sales taxes	√	√
Payroll taxes	√	√
<b>Unique provincial revenue sources</b>		
Resource royalties within provincial jurisdiction		√
Gaming, liquor profits		√
Property taxes		√
<b>Unique federal revenue sources</b>		
Customs import duties	√	
Taxes on non-residents	√	

Source: Department of Finance Canada

# Federal Transfers to the Provinces

- Federal transfers to the Provinces support provincial program spending
- All Provinces receive health and social transfers from the federal government; some Provinces receive equalization payments
- Provinces have considerable flexibility in how transfer payments are used, in contrast to U.S. states which receive conditional transfers

<b>Transfer</b>	<b>Used for..</b>
Canada Health Transfer	Supporting health care spending in Provinces and territories
Canada Social Transfer	Supporting postsecondary education and social programs
Equalization	Addressing fiscal disparities among Provinces

# Equalization

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- Equalization is the federal government's transfer program for addressing fiscal disparities among Provinces.
- Ontario will receive a revised Equalization payment of \$2.2 billion in 2011-12. This is up from the \$972-million payment in 2010-11.
- Ontario's entitlement is \$170 per capita compared to other receiving-provinces whose average per capita entitlement is \$1,154.

# Federal Transfers to Ontario

\$ million	2008–09	Actual 2009–10	Interim 2010–11	Plan 2011–12
Canada Health Transfer	8,942	9,791	10,186	10,713
Canada Social Transfer	4,079	4,204	4,330	4,460
Equalization	-	347	972	2,350
Infrastructure Programs	151	990	1,708	538
Labour Market Programs	797	1,253	1,214	891
Social Housing	520	498	487	482
Wait Times Reduction Fund	235	97	97	97
Other Federal Payments	1,867	1,440	4,004	2,200
<b>Total Government of Canada Revenue</b>	<b>16,591</b>	<b>18,620</b>	<b>22,998</b>	<b>21,731</b>

Source: Ministry of Finance

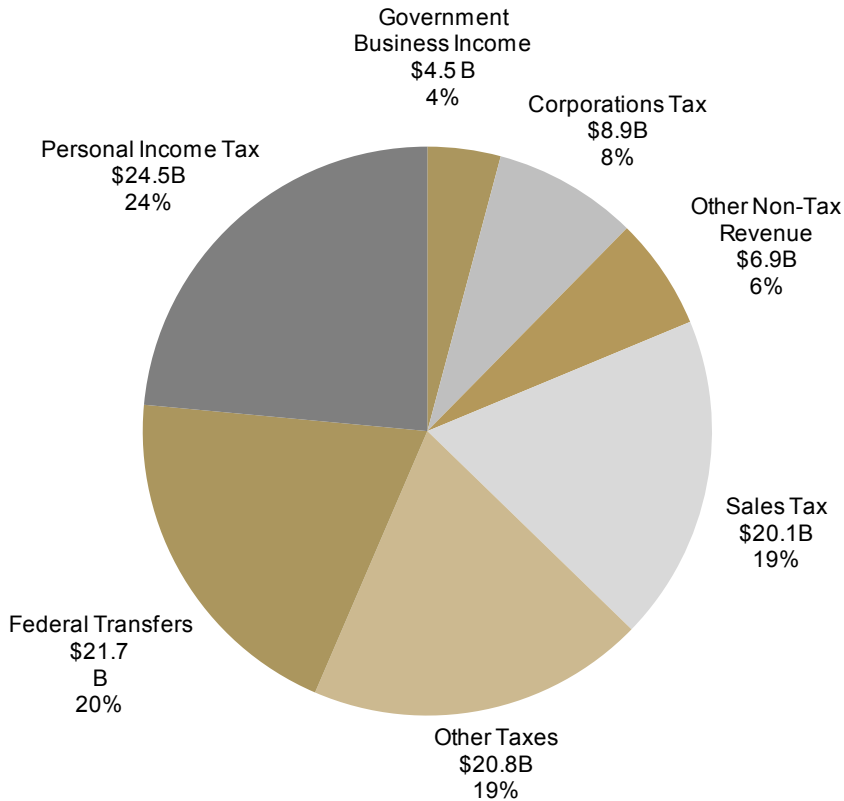
# Medium-Term Fiscal Plan and Outlook

(\$ billion)	Interim	Plan	Projected Outlook	
	2010-11	2011–12	2011–12	2012–13
<b>Total Revenue</b>	<b>106.2</b>	<b>108.5</b>	<b>111.8</b>	<b>117.0</b>
<b>Expense</b>				
Programs	113.3	113.8	114.6	116.7
Interest on Debt	9.5	10.3	11.4	12.6
<b>Total Expense</b>	<b>122.9</b>	<b>124.1</b>	<b>126.0</b>	<b>129.3</b>
Reserve	-	0.7	1.0	1.0
<b>Surplus / (Deficit)</b>	<b>(16.7)</b>	<b>(16.3)</b>	<b>(15.2)</b>	<b>(13.3)</b>

*Note:* Numbers may not add due to rounding

# Composition of Revenue - Plan 2011–12

Revenue \$108.5B



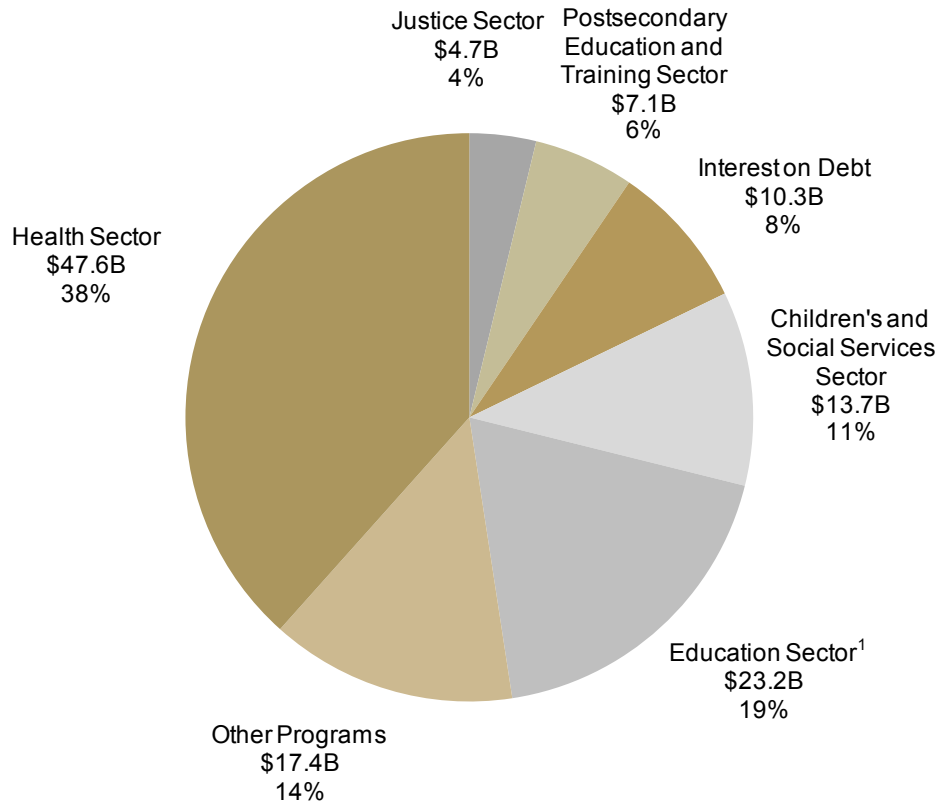
- Highly diversified revenue sources
- Revenues have stabilized and are beginning to recover
- Federal payments account for 20 per cent of total revenue
- Corporate taxes represent 8 per cent of revenue

Note: Numbers may not add due to rounding

Source: Ministry of Finance

# Composition of Expense - Plan 2011–12

Total Expense \$124.1B



- Health and education remain the largest expenses
- The government continues to review and adopt efficiency practices

Note: Numbers may not add due to rounding

Source: Ministry of Finance

<sup>1</sup> Excludes Teachers' Pension Plan

# Ontario Asset Swap Levels

## U.S. dollar Benchmark

<b>Bond</b>	<b>Spread to LIBOR (bps)</b>	<b>Spread to TSY (bps)</b>
ONT 4.375 per cent Feb. 2013	2.7	17.0
ONT 3.5 per cent July 2013	12.9	-5.0
ONT 1.375 per cent Jan. 2014	5.4	20.0
ONT 4.1 per cent June 2014	8.5	42.0
ONT 4.5 per cent Feb. 2015	9.2	74.0
ONT 2.7 per cent June 2015	9.6	93.0
ONT 1.875 per cent Sept. 2015	13.4	10.0
ONT 4.75 per cent Jan. 2016	28.4	35.0
ONT 4.95 per cent Nov. 2016	30.2	68.0
ONT 3.15 per cent Dec. 2017	34.1	40.0
ONT 4.0 per cent Oct. 2019	47.2	32.0
ONT 4.4 per cent April 2020	50.7	44.0

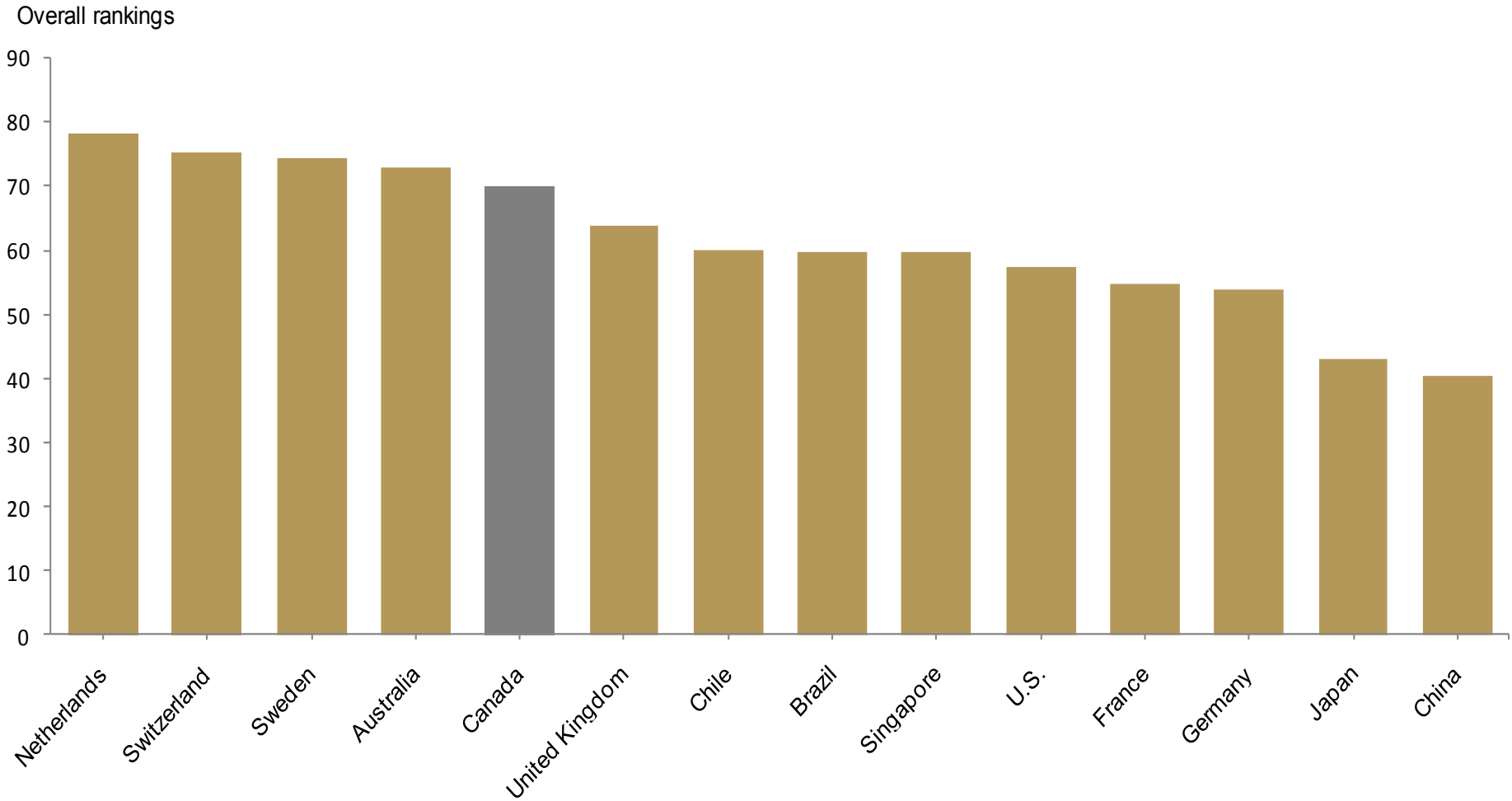
Source: Dealer daily run, April 11, 2011

# Canada's Sound Pension System

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- Canada has a well diversified, public & private pension system.
- The proportion of Canada's retirement incomes coming from private pensions and other financial assets is one of the highest among OECD countries.
- Canada highest for all G7 nations and 5th overall in the latest Mercer Global Pension Index.
- The Canada Pension Plan is fully funded with total assets of \$138.6 billion and increasing on average by \$ 1 billion per month.

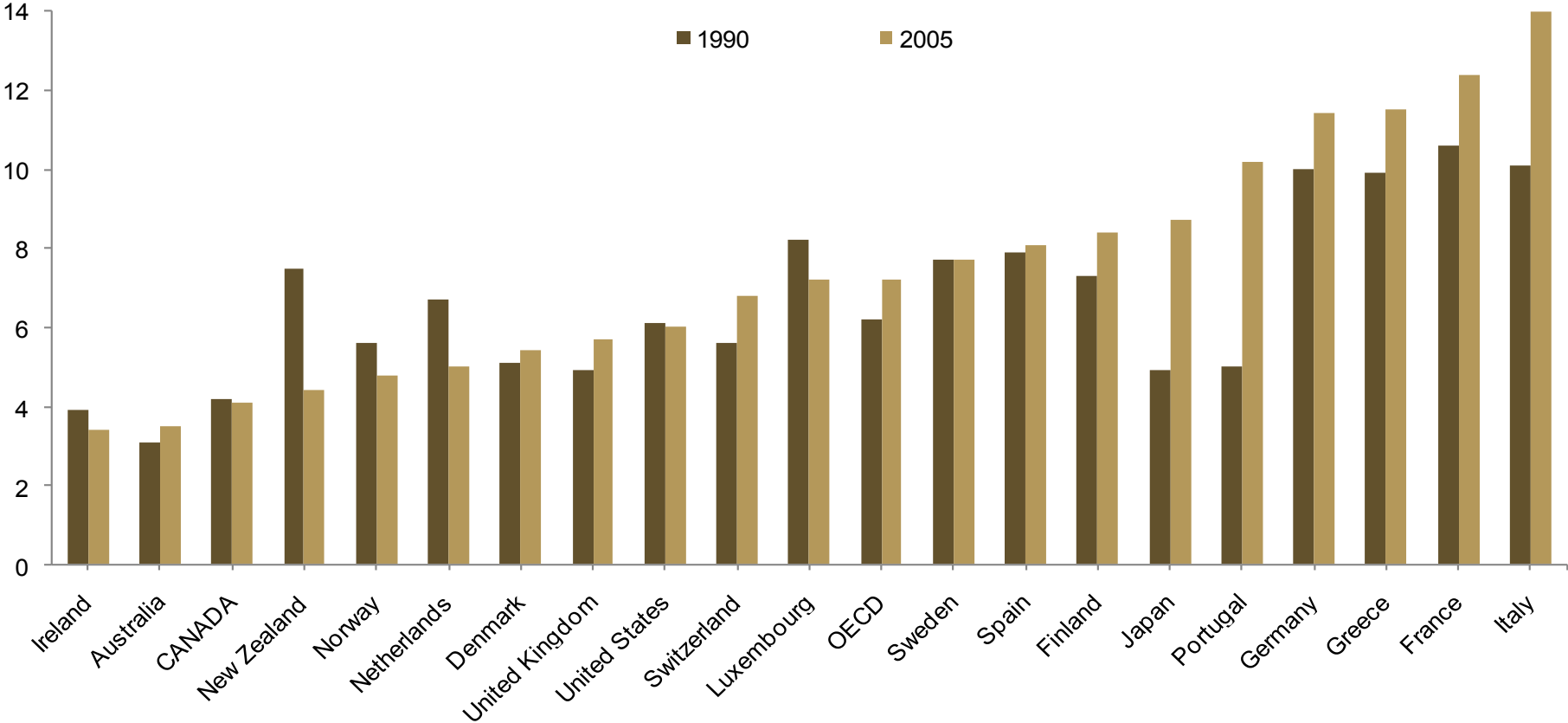
# Mercer Global Pension Index



Source: Australian Centre for Financial Studies, 2010 Melbourne Mercer Global Pension Index

# Public Expenditure on old-age benefits

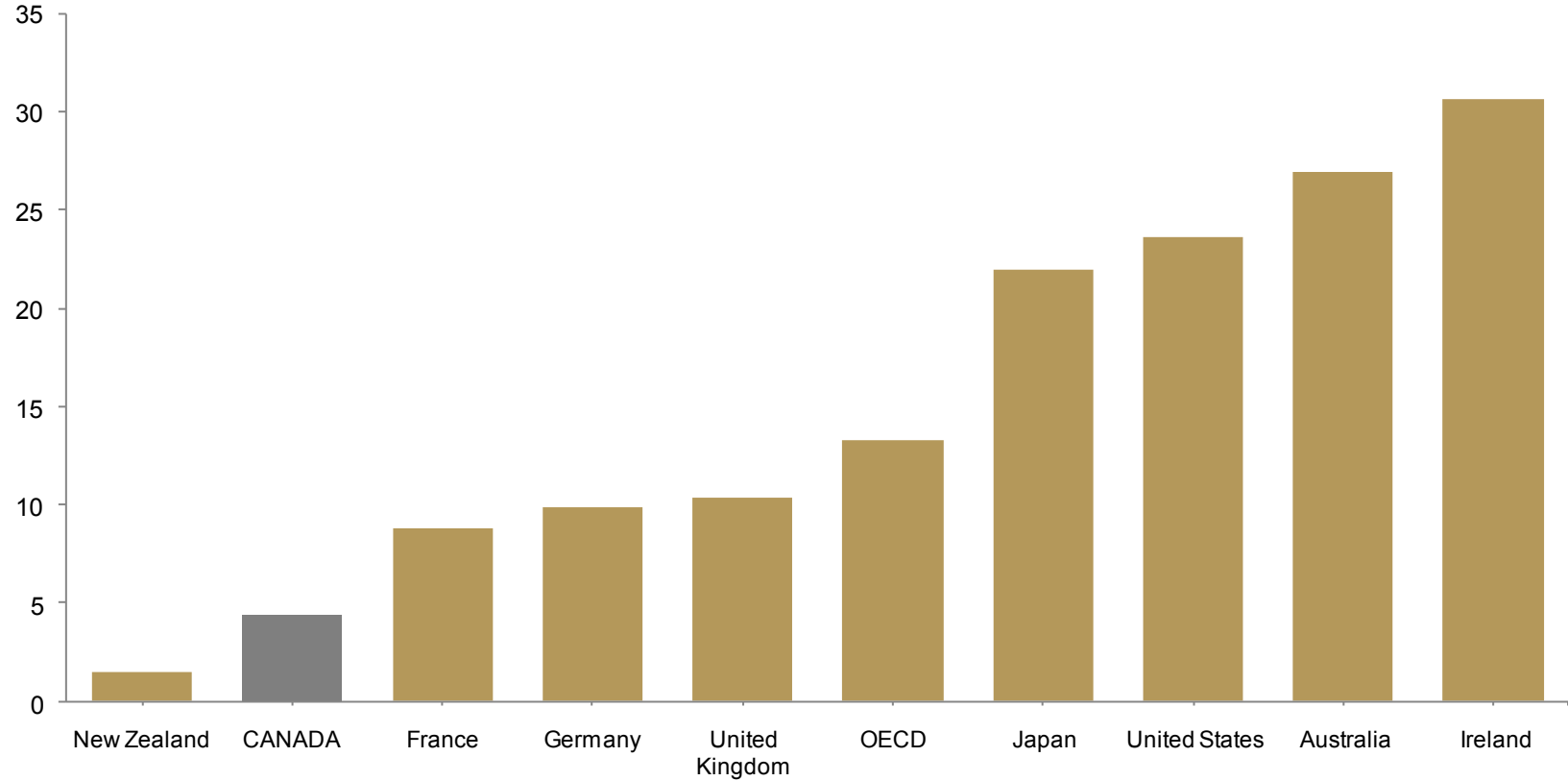
Per Cent of GDP



Source: Pensions at a Glance 2009: Retirement-Income Systems in OECD Countries

# Old-age income poverty rates in an ageing society

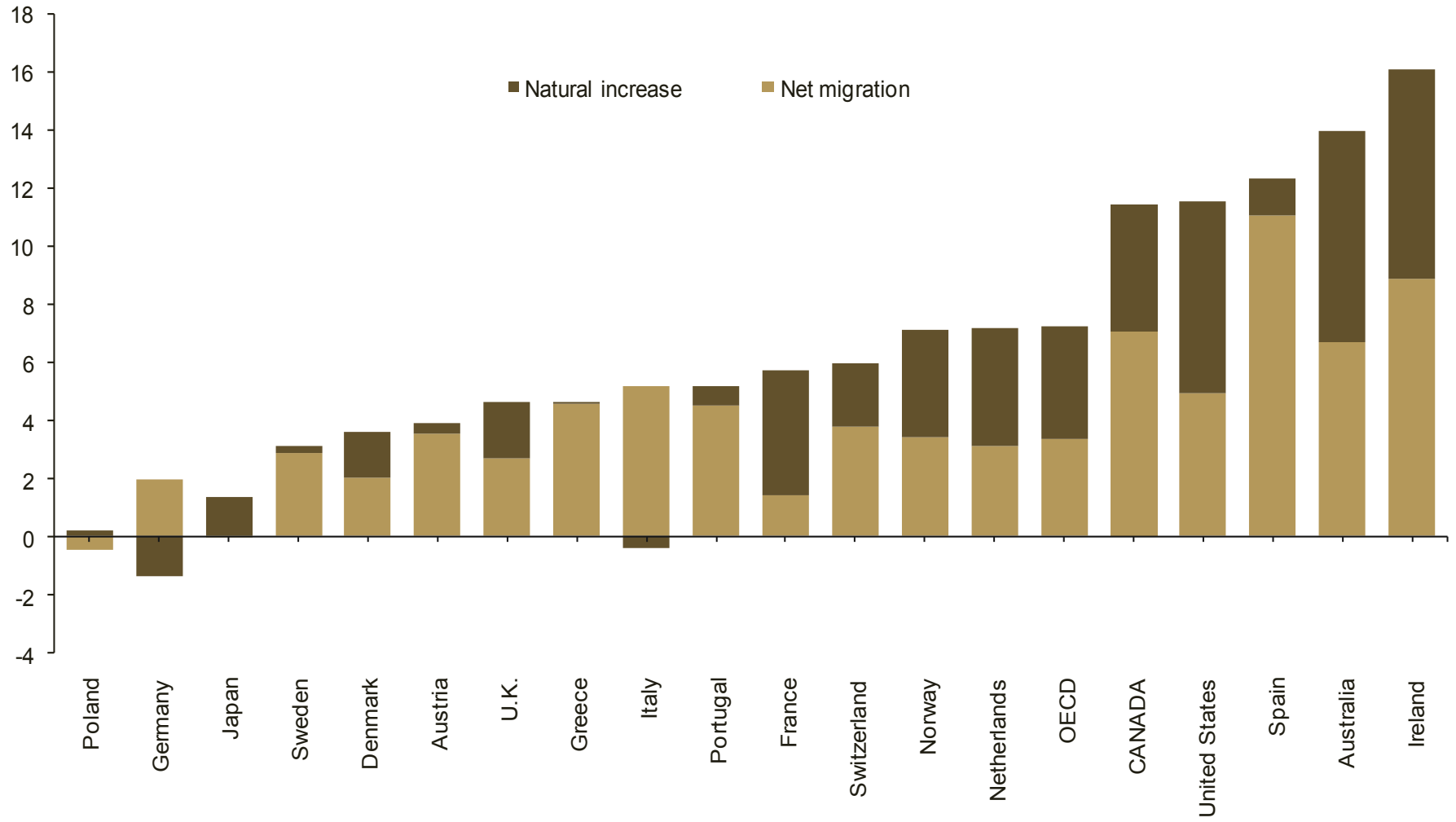
Per cent of population over 65 years old with incomes below half of the population median



Source: OECD (2009), Pensions at a Glance: Retirement-Income Systems in OECD Countries

# Sustaining Population Growth through Migration

Percentage change in population 1996 to 2006 and contribution of net migration



Source: Society at a Glance 2009: OECD Social Indicators - OECD © 2009 - ISBN 9789264049383

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