

## Ontario Overview

- The Province of Ontario is located in a prime area with close ties to the United States. Ontario has a population of 14.2 million and GDP of \$830 billion in 2017, representing roughly 40 per cent of Canada.
- Ontario has a diverse economy, with extensive manufacturing, financial and business services and a smaller energy sector compared to the rest of Canada. It has direct taxation powers and stable growth. Services account for 78 per cent of the overall economy.
- The 2018–19 *First Quarter Finances* includes information as of the end of the first quarter of the 2018–19 fiscal year (June 30, 2018), the final reporting period of the previous government. The deficit projection reported in the 2018–19 *First Quarter Finances* is unchanged from the 2018 *Budget* projection of \$6.7 billion



## Borrowing Program

- The Province's total long-term borrowing forecast remains unchanged at \$31.7 billion.

(\$ Billions)	2018–19		
	Budget Plan	Outlook as of June 30	In-Year Change
Deficit/(Surplus)	6.7	6.7	–
Investment in Capital Assets	14.2	14.2	–
Non-Cash Adjustments	(7.1)	(7.1)	–
Loans to Infrastructure Ontario	0.4	0.4	–
Other Net Loans/Investments	1.5	1.5	–
Debt Maturities	21.5	21.5	–
Debt Redemptions	0.1	0.1	–
<b>Total Funding Requirement</b>	<b>37.3</b>	<b>37.3</b>	–
Canada Pension Plan Borrowing	(0.0)	(0.0)	–
Decrease/(Increase) in Short-Term Borrowing	–	–	–
Increase/(Decrease) in Cash and Cash Equivalents	6.0	6.0	–
Pre-Borrowing from 2017-18	(11.5)	(11.5)	–
<b>Total Long-Term Public Borrowing Requirement</b>	<b>31.7</b>	<b>31.7</b>	–

Note: Numbers may not add due to rounding.

- The Office of the Auditor General of Ontario's *Review of the 2018 Pre-Election Report on Ontario's Finances* recommended that projected expense for 2018–19 be increased by a total of \$5.0 billion. This accounting treatment would have no impact on the province's borrowing requirement. However, if the government were to make a policy decision that the province, rather than Ontario Power Generation and the Fair Hydro Trust, would borrow in order to make payments to power generators, the Province's borrowing requirement would increase by \$1.4 billion to \$33.1 billion in 2018–19.

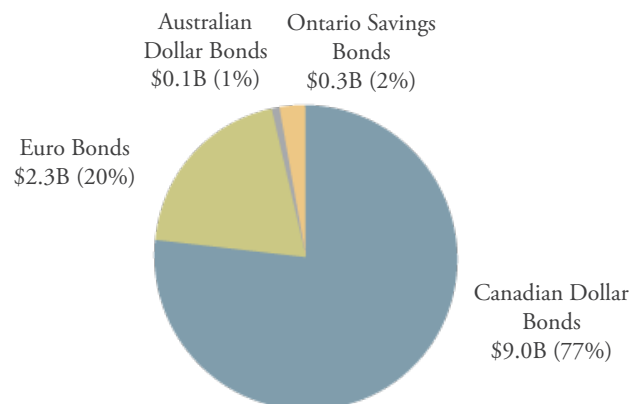
## Ontario Bonds

- Exceptional secondary market liquidity with a wide range of offerings provide extensive investment and trading opportunities across the yield curve. Attractive spreads provide opportunities for investors to achieve higher returns
- Benchmark Canadian provincial borrower. Primary focus on Canadian dollar borrowing with likely issuance in U.S. dollars and Euros
- In January 2018, Ontario issued its fourth and largest Green Bond issue of \$1.0 billion

Current Ratings (Long-Term/Short-Term)	
Moody's	Aa2 (N) / P-1
Fitch	AA- (N) / F1+
DBRS	AA (low) / R-1(mid)
S&P	A+ / A-1

## Diverse Borrowing Program 2018–19

As of August 14, 2018, borrowing completed for 2018–19 totalled \$11.7 billion.



Note: Numbers may not add due to rounding.  
Source: Ontario Financing Authority.

## Long-Term Borrowing

- Total long-term borrowing is forecast to be \$31.7 billion in 2018–19, unchanged from 2018 Budget. As of August 14, 2018, borrowing completed for 2018–19 was \$11.7 billion.
- Since the beginning of fiscal year 2010–11, Ontario has issued \$74.5 billion of bonds with terms of longer than 30 years to lock in low interest rates. As a result, the average term of Ontario's debt portfolio has been extended, from 9.7 years in 2009–10 to 10.8 years as of June 30, 2018.

Fiscal Year	Canadian Dollar (\$Billions)	Foreign Currencies (\$Billions)	Total Long-Term Borrowing (\$Billions)	Weighted-Average Term (years)	Debt Portfolio Average Term (years)
2009–10	21.4 (49%)	22.4 (51%)	43.8	8.1	9.7
2010–11	23.5 (59%)	16.4 (41%)	39.9	12.8	10.0
2011–12	28.4 (81%)	6.5 (19%)	34.9	13.0	10.1
2012–13	26.4 (72%)	10.2 (28%)	36.6	12.4	10.1
2013–14	29.4 (82%)	6.6 (18%)	36.0	13.6	10.4
2014–15	31.4 (79%)	8.4 (21%)	39.8	14.1	10.7
2015–16	25.8 (81%)	6.3 (19%)	32.1	14.2	10.9
2016–17	19.9 (74%)	7.1 (26%)	27.0	13.9	10.9
2017–18	21.1 (62%)	12.8 (38%)	33.9	12.1	10.7
2018–19	9.3 (79%)	2.4 (21%)	31.7	16.1	10.8*

Note: Numbers may not add due to rounding. 2018–19 figures as of August 14, 2018. \*The debt portfolio average terms are on a forecast basis for 2018–19 as of June 30, 2018.

## Canadian Dollar Issuance

- Ontario accounted for 59.0 per cent of Canadian provincial bond trading in 2017. As of December 31, 2017, Ontario accounts for 14.0 per cent of the FTSE TMX Universe Bond Index, 18.8 per cent of the FTSE TMX Mid Bond Index, and 19.5 per cent of the FTSE TMX Long Bond Index.
- Regular issuance of 5-year, 10-year and 30-year issues, which are re-opened to achieve benchmark size (10 syndicated issues so far in 2018–19).
- Large order procedure initiated in 2011 (57 issues totalling approximately \$30.3 billion).

### Canadian Dollar Benchmark Bonds (as of August 14, 2018)

	Ontario		Canada	
5 year (old)	1.35% March 8, 2022	\$5.00B	1.00% September 1, 2022	\$15.60B
5 year (new)	2.60% September 8, 2023	\$3.00B	1.75% March 1, 2023	\$15.00B
10 year (old)	2.60% June 2, 2027	\$7.65B	1.00% June 1, 2027	\$15.00B
10 year (new)	2.90% June 2, 2028	\$3.60B	2.00% June 1, 2028	\$11.30B
Long (old)	2.80% December 2, 2048	\$12.70B	3.50% December 1, 2045	\$16.40B
Long (new)	2.90% June 2, 2049	\$6.10B	2.75% December 1, 2048	\$14.90B

## Foreign Issuance

- The Province regularly accesses foreign markets to diversify its borrowing program and expand its investor base.

### U.S. Dollar Borrowing

- The U.S. dollar market remains an important source of funding for Ontario with \$6.0 billion issued in 2015–16, \$6.8 billion issued in 2016–17, and \$9.0 billion issued in 2017–18.

### EMTN Borrowing

- The Euro Market is also an important source of funding for Ontario with \$4.6 billion issued in 2017–18 and 2018–19.
- In May 2017, Ontario issued its first Pound Sterling bond since 2011 and in June 2017, Ontario issued its first Swiss Franc bond since 2010.

## Green Bonds

- Ontario is currently the largest issuer of Canadian dollar Green Bonds, with four outstanding green issues totaling \$3.05 billion.
- On January 25, 2018 the Province successfully launched its fourth Green Bond issue of \$1.0 billion. This is the largest Green Bond offering from the Province of Ontario.
- In 2014, Ontario successfully launched a Green Bond program, with an inaugural 4-year Canadian dollar Global bond of \$500 million. This was followed by a 7-year Canadian dollar Global bond of \$750 million in 2016 and an \$800 million reopening of its January 2023 Global Green Bond in 2017.

## Ontario's Green Bonds:

- Carry the full faith and credit of the Province of Ontario
- Rank *pari passu* with Ontario's other bonds and are payable without any preference or priority
- Are direct unsecured obligations of the Province of Ontario and investors do not assume any specific risk related to the funded projects
- Help finance transit and other environmentally friendly projects across the Province

## Assurances and Features:

- Ontario's Green Bond Framework was developed in consultation with the Center for International Climate and Environmental Research – Oslo (CICERO)
- Ontario's Green Bond program aligns with the Green Bond Principles maintained by the International Capital Markets Association
- An assurance audit is performed by the Auditor General of Ontario verifying amounts allocated to selected projects and tracking the amount of Green Bond proceeds

## Risk Management and Short-Term Borrowing

	Exposure	Policy Limit
Foreign Exchange	0.15%	5.00%
Net Interest Rate Resetting	11.80%	35.00%

Of outstanding debt, as of June 30, 2018.

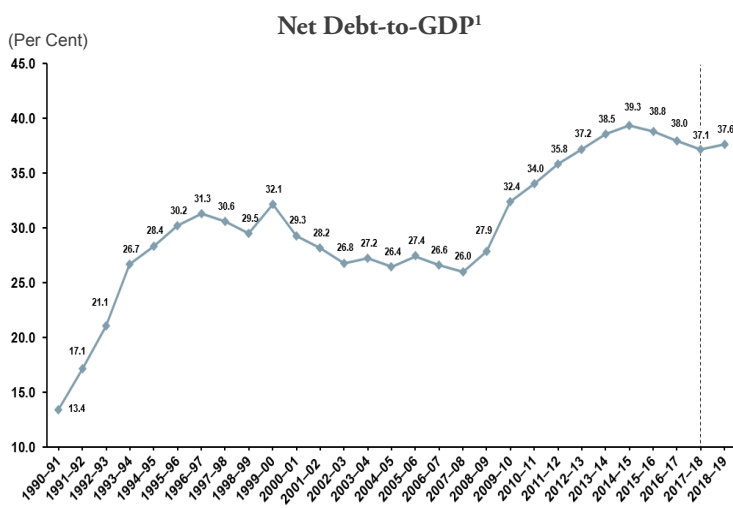
- Ontario's maximum net interest rate resetting exposure is 35 per cent and its maximum foreign exchange exposure is 5 per cent of debt issued for provincial purposes.
- Average Unrestricted Liquid reserves were \$36.0 billion as of June 30, 2018.
- As of June 30, 2018, capacity for short-term borrowing: \$48.0 billion authorized and \$19.4 billion outstanding, leaving \$28.6 billion available.

## Fiscal Plan

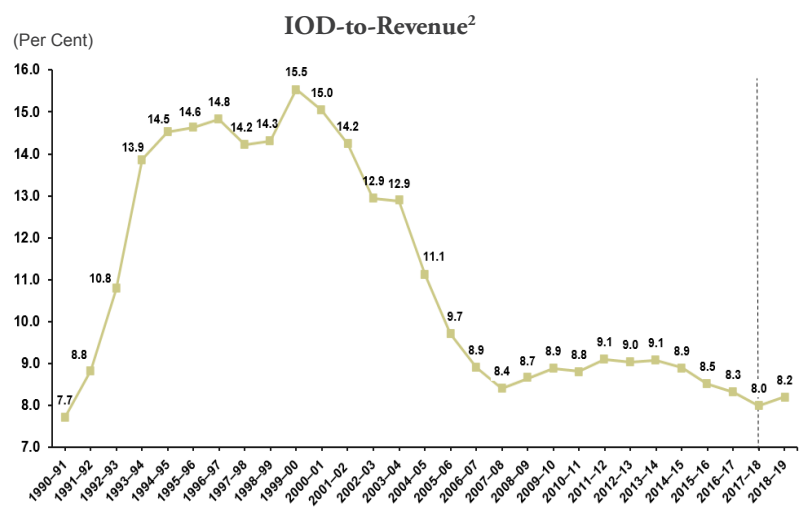
- Given that the end of the reporting period for the first quarter coincided with the swearing in of the new government, recent actions undertaken by the new government will be reflected in subsequent fiscal updates.
- As of June 30, 2018, the projected fiscal outlook is unchanged from the *2018 Budget* forecast, with a deficit of \$6.7 billion in 2018–19.

Fiscal Plan (\$ Billions)	Actual								Interim	Outlook as of June 30
	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
<b>Revenue</b>	102.6	113.6	116.4	120.3	123.0	126.2	136.1	140.7	150.1	152.5
<b>Expense</b>										
Programs	112.7	117.6	118.8	118.7	122.3	125.2	128.1	130.0	137.5	145.9
Interest on Debt	9.1	10.0	10.6	10.9	11.2	11.2	11.6	11.7	12.0	12.5
<b>Total Expense</b>	121.8	127.6	129.4	129.5	133.4	136.5	139.7	141.7	149.5	158.5
Reserve	–	–	–	–	–	–	–	–	–	0.7
<b>Surplus/(Deficit)</b>	(19.3)	(14.0)	(13.0)	(9.2)	(10.5)	(10.3)	(3.5)	(1.0)	0.6	(6.7)

Note: Numbers may not add due to rounding.



<sup>1</sup>Net Debt has been restated to include broader public sector net debt, starting in 2005–06.



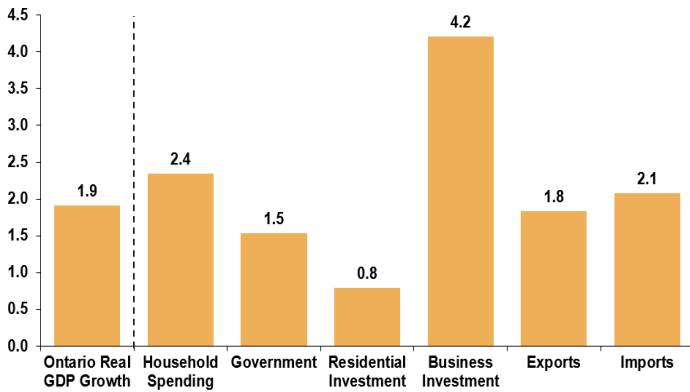
<sup>2</sup>2005–06 to 2018–19 have been restated for broader public sector line-by-line presentation.

## •• Economic Update

- Ontario's real GDP increased by 2.7 per cent in 2017, following up on a 2.6 per cent growth in 2016.
- Ontario's economy is expected to keep growing, but at a more modest pace. Private-sector forecasters project Ontario's real GDP to increase by 1.9 per cent per year, on average, between 2018 and 2021.
- There are a number of risks that could affect Ontario's economic outlook. Trade tensions could disrupt Ontario exports and dampen business confidence and investment. There is also a risk that faster-than-expected interest rate increases could lead to a more significant moderation in consumer spending growth and housing activity.

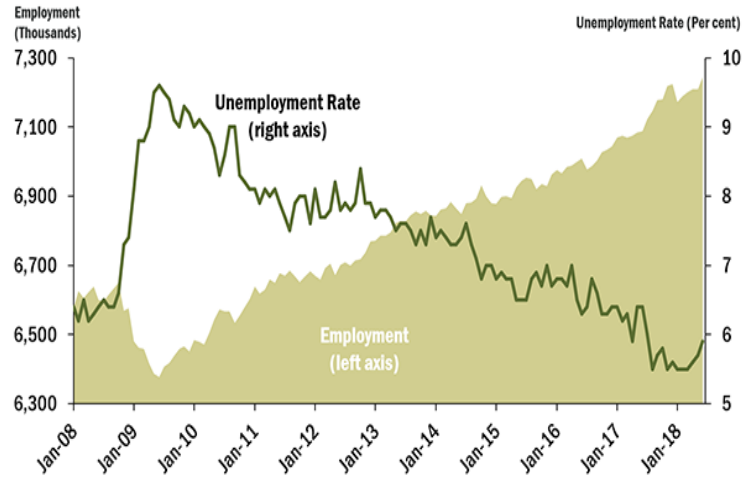
### Business Investment Important Contributor to Growth

Forecasted Average Annual Per Cent Change, 2018 to 2021



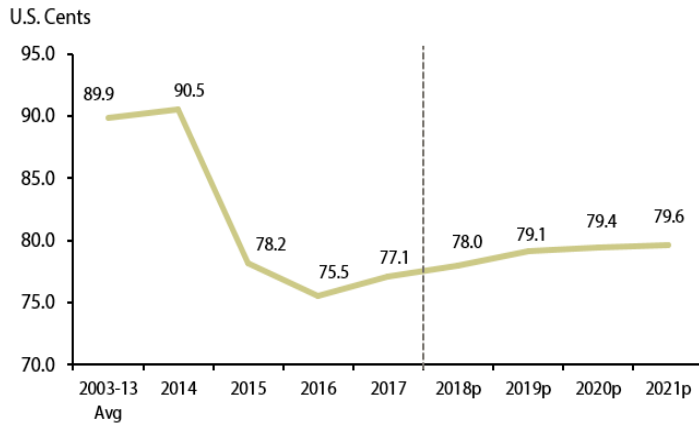
Notes: Government includes investment and consumption expenditure. Business investment includes investment in plant, equipment and intellectual property products.  
Source: Ontario Ministry of Finance (2018 Ontario Budget).

### Ontario's Labour Market



Sources: Statistics Canada and Ontario Ministry of Finance.

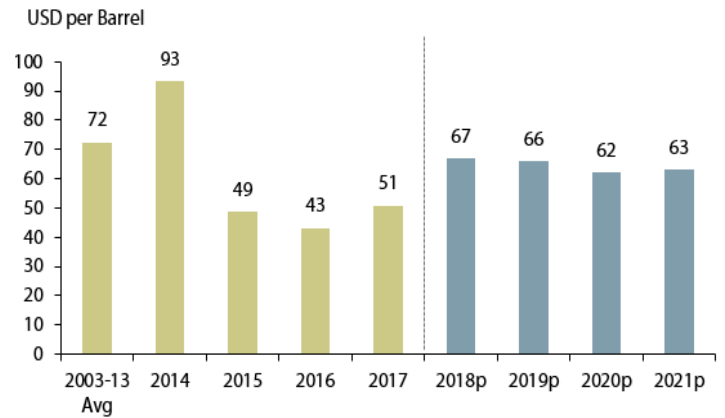
### CAD/USD Exchange Rate



p = private-sector average

Sources: U.S. Energy Information Administration, Bank of Canada, U.S. Bureau of Economic Analysis, Blue Chip Economic Indicators (March and July 2018) and Ontario Ministry of Finance Survey of Forecasters (July 2018).

### WTI Oil Prices



The Ontario Financing Authority is an agency of the Province of Ontario responsible for provincial borrowing and debt management activities.

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