|O|N|T|A|R|I|O|
Financing Authority

1998

Annual Report

Highlights in 1997-98

The Ontario Financing Authority borrowed $11.3 billion on behalf of the Province — $9.8 billion from the domestic public market and $1.5 billion from foreign capital markets.

■

The third Ontario Savings Bond Campaign raised over $1.5 billion.

■

Through successful timing of debt issues and effective risk management, the Authority saved the Province $56 million, on a present-value basis, the equivalent of borrowing six basis points below the market annual average interest rate over the fiscal year.

■

Liquid reserves were managed effectively, with the average return outperforming the industry performance benchmark by 28 basis points, equivalent to present-value savings of $11 million.

■

Financial policy advice was provided in support of the Government's White Paper on the future of the electricity industry in Ontario, alternative financing proposals, potential privatization candidates and other corporate initiatives.

Ontario Financing Authority
1 Dundas Street West
Suite 1400
Toronto ON M7A 1Y7
Canada

Office ontarien de financement
1 rue Dundas ouest
Bureau 1400
Toronto ON M7A 1Y7
Canada

Ontario

June 10, 1998

The Honourable Ernie Eves, Q.C.
Minister of Finance
7th Floor, Frost Building South
Toronto, ON M7A 1Y7

Dear Mr. Eves:

On behalf of the Board of Directors, I am pleased to submit the 1998 Annual Report of the Ontario Financing Authority for the year April 1, 1997 to March 31, 1998. Included in the Annual Report are the Authority's audited financial statements as at March 31, 1998.

Yours sincerely,

Michael L. Gourley
Chair, Board of Directors

Table of Contents

Statement from the Chair

Michael L. Gourley

I am pleased to present the 1998 Annual Report of the Ontario Financing Authority. The Report outlines the Ontario Financing Authority's objectives and responsibilities, reviews its achievements, operational highlights and financial results for the year April 1, 1997 to March 31, 1998, and outlines next year's priorities.

In 1997, the Ontario economy entered a period of renewed growth. Real Gross Domestic Product rose by an estimated 4.8 per cent, driven by robust domestic demand with both the consumer and business sectors thriving. Ontario's net exports also contributed to growth. Consumer prices in Ontario increased by only 1.9 per cent in 1997.

Looking ahead, strong and broadly based growth is expected to continue as the effects of lower taxes, low interest rates and a competitive economy promote confidence and investment. Private-sector forecasters expect Ontario to grow faster than Canada and all of the G-7 countries over the next few years. Despite a strengthening economy, inflation is projected to remain below two per cent over the next several years, below the midpoint of the Bank of Canada's current target band of one to three per cent.

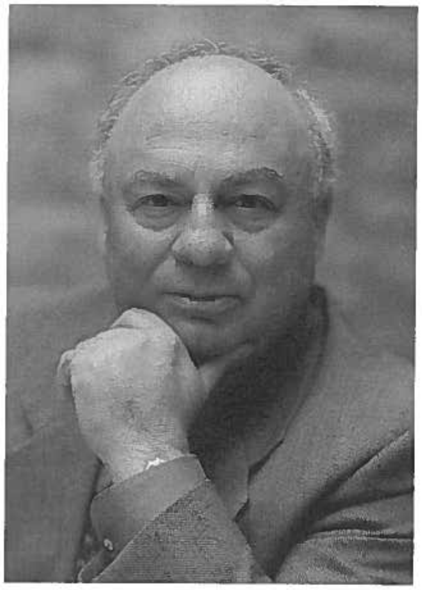
On the fiscal front, the Ontario Government has exceeded its deficit target for the third consecutive year. For 1997-98, the interim deficit at $5.2 billion is almost $1.4 billion below the 1997 Budget target of $6.6 billion. For 1998-99, the Province's deficit will be reduced to $4.2 billion, $0.6 billion lower than the target set out in the Balanced Budget Plan. The Government's Balanced Budget Plan, introduced in the November 1995 *Fiscal and Economic Statement*, established annual deficit targets for the Province, culminating in a balanced budget in 2000-01.

The Ontario Financing Authority plays a central role in raising and managing funds on behalf of the Province, its Crown corporations and other public bodies. Declining deficits and lower long-term interest rates, combined with efficient financing operations, have resulted in lower-than-anticipated debt costs. The fiscal 1997-98 year was the first year that financing requirements for maturing debt were greater than the deficit. As the deficit is being eliminated, the focus of the Province's financing operations has shifted more toward managing and refinancing maturing debt.

In June 1998, I will be leaving the Ministry of Finance. I would like to take this opportunity to thank the entire staff at the Ontario Financing Authority for the support, professionalism and dedication during a very challenging and interesting period in Ontario's history. Since signing on as Chair, I have enjoyed working with the other members of the Board and with the staff of the Ontario Financing Authority. I am confident that the Ontario Financing Authority team will continue to execute their responsibilities with the highest degree of professionalism in support of the Province's fiscal plan.

Michael L. Gourley
Chair

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER



Tony Salerno

Fiscal 1997-98 was an excellent year for the Ontario Financing Authority.

The Ontario Financing Authority fulfilled its primary goal by raising \$11.3 billion in long-term financing on behalf of the Province, its Crown corporations and other public bodies. In addition, risk management, performance measurement, cash management and banking processes were enhanced. With these improvements, the Authority will continue to provide efficient financing for the Province in support of the Province's fiscal plan.

In 1997-98, actual Public Debt Interest expense was \$462 million below the 1997 Budget forecast. A very conducive market environment and attractive financing opportunities have reduced the cost of servicing Ontario's debt. In addition, the Ontario Financing Authority's performance, once again, generated significant savings.

- Through successful timing of debt issues and effective risk management, the Authority saved the Province \$56 million on a present-value basis, the equivalent of borrowing six basis points below the market's annual average interest rate.

- Investment of liquid reserves outperformed the industry performance benchmark by 28 basis points, generating savings of \$11 million on a present-value basis.

- Simultaneously, the amount of new borrowing was minimized by paring down the average level of liquid reserves by \$2.8 billion over the course of the year.

Meeting the Province's financing needs requires prudent procedures and practices. These include comprehensive risk measurement and management systems, informative and timely risk management and performance reporting, sound cash management and banking services, and objective accounting and settlement policies and practices. Actions taken on this front include:

- Improved daily risk management and performance reports;
- Automated debt management systems by integrating transaction, pricing and holdings information;
- Updated risk management policies and practices;
- Reduced cost of banking services for the Province;
- Enhanced management and financial reporting processes; and
- Increased awareness of prudent cash management practices across the Ontario Government.

Looking ahead to 1998-99, the Ontario Financing Authority will continue to meet the Province's financing needs in a sound and cost-effective manner. The Authority will further expand its performance measures to encompass all debt management activities, integrating risk management activities associated with new debt issues and the existing stock of debt. Further refinements to information systems and management reporting are also planned.

In addition, we will play an expanded role in advising the Government on the financing aspects of several major projects, including the financial restructuring of Ontario Hydro and the review of privatization candidates, such as Highway 407 and the Province of Ontario Savings Office.

The coming year promises to be an interesting and challenging one. I have every confidence that the highly experienced and well-qualified staff at the Ontario Financing Authority will continue to provide the excellent service that the taxpayers of Ontario have come to expect.

Tony Salerno

Tony Salerno
Vice-Chair and Chief Executive Officer

Ontario Financing Authority

Objectives and Responsibilities

The Ontario Financing Authority (the "Authority") was established by the *Capital Investment Plan Act, 1993 (CIPA).* The Authority performs the following responsibilities for the Province, its Crown corporations and other public bodies:

Executes the Province's Borrowing, Investment and Financial Risk Management Activities

The primary goal of the Ontario Financing Authority is to meet the Province's financial requirements in a sound and cost-effective manner. As part of its operations, the Authority coordinates its borrowing strategy with Ontario Hydro to ensure orderly access to domestic and international capital markets.

Manages the Province's Debt

Effective debt management contributes to the Government's overall debt-reduction efforts. The key principles guiding the management of the Provincial debt and associated risks are soundness, efficiency, a smooth debt maturity profile and safeguarding Ontario's credit rating.

Advises the Government on Financial Policies and Projects

The Ontario Financing Authority provides the Government with financial policy advice on a wide range of corporate finance issues. These currently include electricity industry restructuring, privatization of public sector entities, sale of government assets and alternative financing proposals.

Provides Financial and Cash Management Services to Ministries

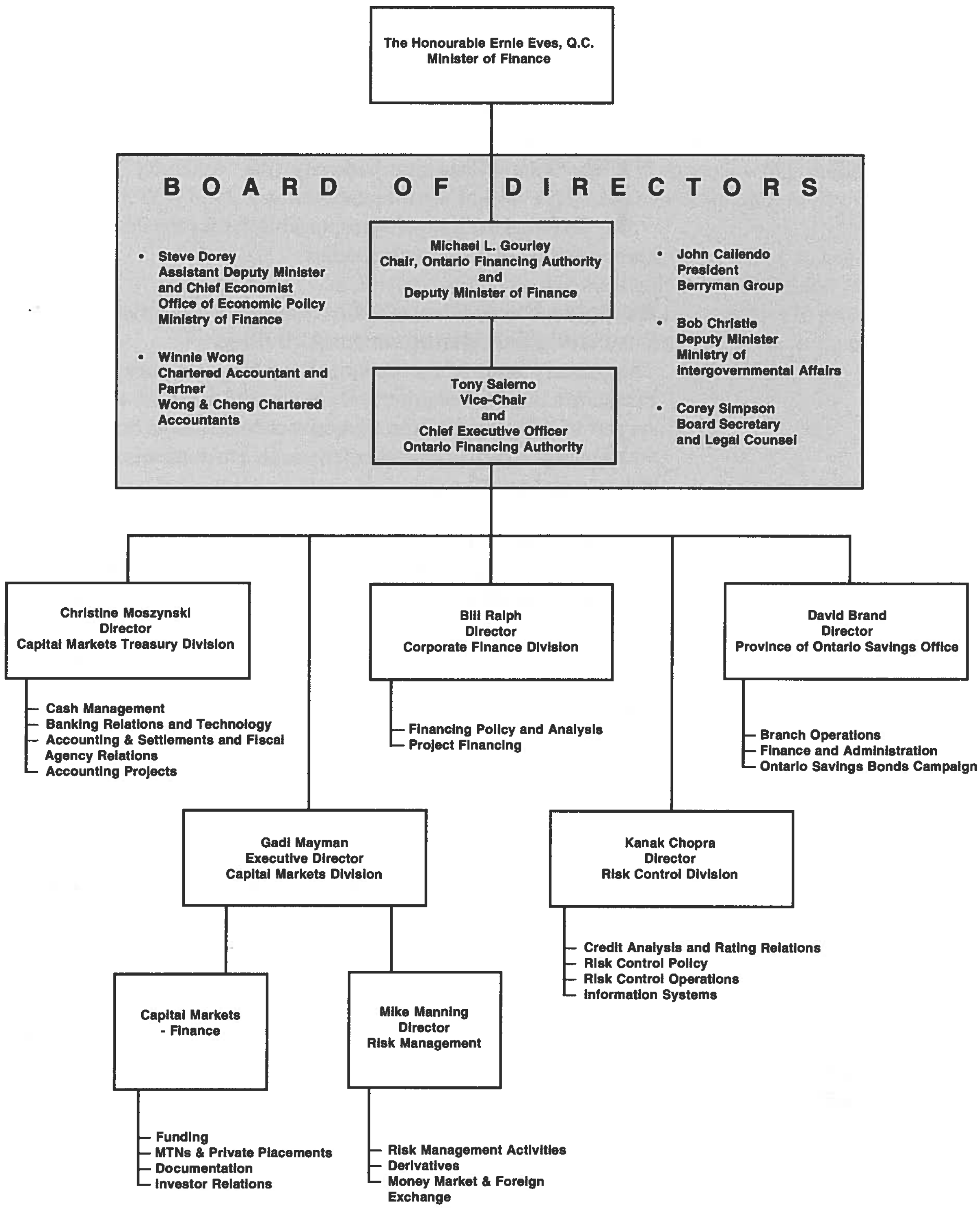
To reduce government-wide duplication and the overall cost of borrowing, the Ontario Financing Authority is in the process of centralizing several financial activities. The resulting efficiencies should further ease cash balance requirements, allow liquid reserve levels to be lowered and lead to lower Public Debt Interest (PDI) charges.

Operates the Province of Ontario Savings Office (POSO)

The Ontario Financing Authority operates the Province of Ontario Savings Office (POSO). Currently, POSO operates 23 branches and five agencies and has $2.2 billion in deposits.

The Ontario Financing Authority is committed to perform all of these activities to the highest professional standards and in a cost-effective manner.

ONTARIO FINANCING AUTHORITY



As at March 31, 1998

THE BOARD OF DIRECTORS

Appointed by the Lieutenant Governor in Council, the Board of Directors is committed to effective stewardship of the Ontario Financing Authority. Currently, the Board of Directors is composed of the Deputy Minister of Finance, the Chief Executive Officer of the Authority, two other senior members of the Ontario Civil Service and two members from the private sector. The directors' diverse backgrounds contribute to the effective supervision of the Authority.

The Board of Directors oversees the business of the Ontario Financing Authority. Specifically, it reviews and approves key policies related to capital market transactions and it supervises the Authority's management of the Province's debt and investment portfolios. The Board receives regular reports on the Province's actual exposures and on policy compliance through the Director of Risk Control. The Board of Directors also reviews and approves the annual Corporate Plan.

In addition, the Board of Directors approves the quarterly and annual financial statements of the Ontario Financing Authority. It reviews the findings of internal auditors regarding the adequacy of internal controls and discusses the annual financial statements with the Provincial Auditor. The efforts of the Board of Directors in these areas are supported by its Audit Committee.

The following individuals were members of the Ontario Financing Authority's Board of Directors in 1997-98.

Michael L. Gourley, Chair of the Ontario Financing Authority Board of Directors and Deputy Minister of Finance. Mr. Gourley has held leadership posts in fields ranging from academia (University of Western Ontario), to television (TV Ontario), to the railway industry (Canadian National Railway), to the Public Service in Quebec and Ontario. Mr. Gourley resigned from the Board effective June 1998 upon his departure to the private sector.

Tony Salerno, Vice-Chair and Chief Executive Officer of the Ontario Financing Authority. Mr. Salerno has held various senior posts within the Ontario Public Service. Prior to joining the Authority as Chief Executive Officer in November 1995, Mr. Salerno held the position of Executive Vice-President of the Ontario Transportation Capital Corporation.

Steve Dorey*, Assistant Deputy Minister, Office of Economic Policy and Chief Economist of Ontario. Prior to becoming Chief Economist, Mr. Dorey was Director of the Macroeconomics Analysis and Policy Branch. As a consultant and civil servant, Mr. Dorey has advised several provincial and territorial governments on macroeconomics, trade and economic development policies.

Winnie Wong*, Chartered Accountant and Partner, Wong and Cheng Chartered Accountants. Ms. Wong has worked for international banks in trade financing, credit and marketing, foreign exchange and corporate lending. Ms. Wong speaks on tax-related topics for the Canadian Chinese Broadcasting Corporation and is a frequent contributor to business publications. Ms. Wong joined the Board of Directors in September 1997.

John Caliendo, President, Berryman Group. In addition to his current position at the Berryman Group, Mr. Caliendo has held a number of senior posts in the financial services sector in Toronto, London and New York, working for the investment firms of Richardson Greenshields, Salomon Brothers and McLeod Young Weir. Mr. Caliendo is involved as Chair/ Director for various Toronto-area community and non-profit associations. Mr. Caliendo joined the Board of Directors in September 1997.

Bob Christie, Deputy Minister, Ministry of Intergovernmental Affairs. Prior to assuming this position, Mr. Christie was Assistant Deputy Minister Policy Co-ordination, Cabinet Office; Assistant Deputy Minister, Office of the Budget and Taxation, in the Ontario Ministry of Finance. He held various senior positions with the then Ministry of Treasury and Economics and the Ministry of Intergovernmental Affairs. Mr. Christie joined the Board of Directors in December 1997.

David Guscott*, Deputy Minister, Communications, Cabinet Office. Prior to rejoining the Cabinet Office, Mr. Guscott was the Deputy Minister of Labour; Assistant Deputy Minister, Policy Co-ordination, Cabinet Office; Assistant Deputy Minister, Policy and Planning in the Ontario Ministry of Transportation. He has also held various positions with the Ontario Ministries of Environment, Municipal Affairs and Treasury and Economics. Mr. Guscott's term as a board member of the Ontario Financing Authority expired in November 1997.

Kathryn A. Bouey*, Assistant Deputy Minister, Corporate Services, Ontario Ministry of Health. Ms. Bouey has held senior positions with the Ontario Government responsible for accountability and governance; business planning and allocation framework; negotiations and labour relations; financial and human resource management; and real estate and property development. Prior to joining the Ontario Public Service, Ms. Bouey was employed by the Government of Canada. Ms. Bouey resigned from the Board in December 1997 following her appointment as Assistant Deputy Minister in the Ministry of Health earlier in the year.

***Members of the Audit Committee:** Through the Audit Committee, the Authority's Board of Directors ensures that Authority staff adhere to appropriate standards of internal control.

CORPORATE GOVERNANCE

Corporate governance at the Ontario Financing Authority involves the implementation and ongoing review of processes for the supervision and management of the Authority's activities by senior officials including senior management, the Board of Directors and the Minister of Finance. It also includes identifying those individuals and groups who are responsible for the Authority's activities and specifying their roles. Corporate governance processes and policies are reviewed by the Board of Directors at least annually.

The Ontario Financing Authority's accountability framework flows from its governing statute, the *Capital Investment Plan Act, 1993* and from a *Memorandum of Understanding* between the Authority and the Minister of Finance. Together, they provide that the Minister of Finance is accountable to Cabinet for the activities of the Authority. The Chief Executive Officer reports to the Board of Directors. In turn, the Board reports to the Minister of Finance.

The Minister of Finance supervises the Authority with the aid of information reported through the Chair of the Board of Directors, who is also the Deputy Minister of Finance. The Minister of Finance reviews and approves the annual Corporate Plan, which contains long- and short-term objectives and reports on accomplishments for the preceding year.

The Board of Directors meets at least quarterly. It ensures that appropriate internal controls are in place and that it is provided with full and accurate information on a timely basis in order to carry out its supervisory responsibilities pertaining to the operations of the Authority.

The Chief Executive Officer (CEO) is responsible to the Board of Directors for day-to-day operations. The CEO also ensures that policies and procedures, including financial reporting, remain relevant and effective. Day-to-day responsibilities are carried out by highly professional staff of about 280 employees in five divisions. Staff are accountable, through senior management, to the Chief Executive Officer.

CORPORATE POLICIES

The *Capital Investment Plan Act, 1993* sets out a broad framework for the Ontario Financing Authority's operations. This is supplemented by internal policies that provide operational guidelines.

The Ontario Financing Authority's principal mandate is to meet the Province's financing needs in a sound and cost-effective manner. In carrying out its mandate, the Ontario Financing Authority faces the financial risks that are inherent in managing financial assets and liabilities. Risk management policies ensure that the financial risks that the Province faces are identified, monitored, evaluated and managed.

Risk Management Policy Framework

Risk management primarily entails managing interest rate risk, currency risk and credit risk while maintaining adequate liquid reserves. The objective of risk management is to minimize the long-term cost of debt while adhering to approved policies and annual borrowing and risk management strategies. Board-approved risk management policies define risk tolerance through exposure and loss limits. Compliance with these policies is monitored daily. The Ontario Financing Authority's risk management policies are reviewed annually with advice from industry experts. The results and any recommended changes are presented to the Board of Directors for review and approval.

A. Exposure Limits

1. Interest Rate Risk

Interest rate risk is the risk of increased debt servicing costs due to unanticipated changes in interest rates. Policy states that floating rate exposure, net of liquid reserves, cannot exceed 20 per cent of total outstanding debt.

2. Currency Risk

Currency risk is the risk of increased debt servicing costs and principal payments due to unexpected fluctuations in foreign exchange rates. Policy covering currency risk stipulates that unhedged foreign exchange exposure on the principal amount of debt cannot exceed five per cent of total outstanding debt.

3. Credit Risk

Credit risk is the risk of financial loss due to the failure of counterparties to meet their financial commitments. It is policy to transact swaps with counterparties rated single A or better. Counterparties for money market investments must have at least an "R-1 mid" rating from Dominion Bond Rating Service or an "A-1" or "P-1" rating from Standard & Poor's or Moody's, respectively. Exposure to individual counterparties is limited and concentration in any one class of category is monitored.

4. Refinancing Risk

Refinancing risk is the risk of having to replace maturing debt with new debt at significantly higher cost. Policies require consideration of the impact of new debt term selection on the debt maturity profile and interest rate exposure of the Ontario credit when the annual borrowing strategy is developed and when the actual transactions occur. The primary focus is to smooth maturities to a reasonable extent, given the Province's borrowing requirements and prevailing market conditions.

5. Liquidity Risk

Liquidity risk is the risk of having insufficient cash to meet current financial commitments. The Authority manages liquidity risk through its liquid reserves, Treasury Bill and U.S. Commercial Paper programs, as well as a U.S. syndicated line of credit.

6. Use of Financial Derivatives in Risk Management Activities

All financial instruments, including derivatives, are used only to advance the objective of meeting the Province's financing and liquidity requirements in a sound and cost-effective manner. New instruments must be approved prior to their use. Part of the approval process includes an analysis of their legal and financial implications. Derivatives commonly used are interest rate swaps, currency swaps, forward rate agreements, and interest rate and currency options and futures.

B. Loss Limits

Loss limits are established to cap potential losses from risk management activities. The *Public Debt Interest* Loss Limit prohibits actual Public Debt Interest (PDI) from exceeding budgeted PDI by more than three per cent as a result of unhedged foreign exchange or floating rate exposure. Because PDI is a Provincial Budget account, it is important that its volatility is managed. The *Risk Management* Loss Limit is a tighter constraint set by the CEO which limits the present-value of losses from all exposures to three per cent of budgeted PDI excluding any built-in contingencies.

Financial Reporting

The Ontario Financing Authority's Board of Directors receives reports at least quarterly of progress on borrowing and risk management plans and current risk exposures. In addition, the CEO provides the Board of Directors with a monthly assessment of performance relative to the Authority's benchmarks governed by the Board. Legal counsel and the Director of Risk Control report on the Authority's compliance with applicable laws and policies. The Deputy Minister of Finance, on behalf of the Minister of Finance, receives weekly financial and financing program reports.

The adequacy and effectiveness of internal controls are examined independently by the Audit Services Branch of the Ministry of Finance. Internal Audit also verifies compliance with policies, procedures and operational limits. The results of these audits are reported to management and the Audit Committee of the Board of Directors.

The Authority prepares annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP) for approval by the Audit Committee and the Board of Directors. The financial statements are reviewed by the Provincial Auditor who expresses an opinion on whether they are presented fairly and in accordance with GAAP. The Provincial Auditor's findings are reviewed by the Audit Committee and the Board of Directors. These audited financial statements are tabled in the Ontario Legislature as part of the Ontario Financing Authority's Annual Report.

SENIOR MANAGEMENT TEAM

Left to right, front row:
Bill Ralph, Christine Moszynski, David Brand
Left to right, back row:
Kanak Chopra, Mike Manning, Corey Simpson, Gadi Mayman

As at March 31, 1998

Tony Salerno
Chief Executive Officer

David Brand
Director, Province of Ontario Savings Office

Kanak Chopra
Director, Risk Control

Mike Manning
Director, Risk Management

Gadi Mayman
Executive Director, Capital Markets Finance

Christine Moszynski
Director, Capital Markets Treasury

Bill Ralph
Director, Corporate Finance

Corey Simpson
Board Secretary and Legal Counsel

Management's Discussion and Analysis

The Financial Markets Environment

During 1997-98, strong economic fundamentals in Canada continued to exert downward pressure on interest rates. Canadian interest rates were significantly below U.S. interest rates for much of the year, even for 30-year maturities. These low interest rates created an attractive domestic borrowing environment.

However, the Bank of Canada raised short-term interest rates in June 1997 to shift from an accommodative monetary stance to a more neutral level of monetary conditions. The net impact was a significant flattening of the Canadian yield curve, with short-term rates rising by one and a quarter percentage points by calendar year-end and long-term rates falling a similar amount, relative to the beginning of the year. In the first quarter of 1998, the Bank hiked short-term rates by a further 50 basis points while long-term rates continued to move lower.

In addition, the instability of the financial markets in Asia, particularly since the fourth quarter of 1997, affected Canadian interest rates and the value of the Canadian dollar, with short-term interest rates increasing by more than one percentage point and the dollar falling from 73 cents U.S. to just under 70 cents U.S.

The economic instability in Asian countries, especially the fragility of the Japanese economy has affected the value of the Yen and could increase the cost of financing while decreasing the availability of financing opportunities for Ontario in the Japanese market. The instability has led some investors to seek quality investments outside the Asian markets. In Europe, the lead up to the final enactment of the European Economic and Monetary Union in January 1999 could result in volatility initially as the markets test this new arrangement. While events in Asia and Europe could affect the cost of borrowing and demand for credit, it is not expected that these events would detract from the generally favourable conditions for cost-effective borrowing by the Province.

Capital markets demand and supply forecasts for 1998-99 indicate no capital shortage in international markets. A number of large government institutional funds — Canada Pension Plan, Kampo (Postal Life Insurance Bureau of the Japanese Ministry of Posts and Telecommunications), Dutch Civil Service Pension Plan — will be moving toward a greater proportion of market-oriented investments in their portfolios, helping to ensure sufficient liquidity in the capital markets for the full absorption of Ontario's borrowing program. In addition, the continued reduction in the Canadian Federal government's financing needs should facilitate Provincial issuance and reasonable rates for Provincial bonds.

KEY BUSINESS STRATEGIES IN 1997-98

The Ontario Financing Authority has adopted several strategies that have lowered the long-term cost of debt while adhering to risk exposure parameters.

Reducing the Amount of Borrowing

A key component of the Authority's strategy in minimizing the long-term cost of debt has been to reduce the amount of borrowing necessary to meet the Province's financing needs. The Authority has done this in a number of ways.

Reducing the Average Level of Liquid Reserves

Liquid reserves were reduced from an average of $6.9 billion in 1996-97 to an average $4.1 billion in 1997-98, a decline of $2.8 billion. The improved fiscal situation alleviated concerns about access to markets, allowing liquid reserves to be reduced significantly while safely meeting the cash needs of the Province. Maintaining a high average level of liquid reserves adds to Public Debt Interest, as liquid reserves are invested in short-term instruments but are financed by more expensive longer-term borrowing. Currently, this cost is less than $50 million per year. In the past, it has been as high as $100 to $200 million annually.

Surplus Funds of Agencies Brought into Consolidated Revenue Fund

In 1997-98, borrowing requirements were reduced by over $300 million through consolidation of surplus funds from agencies across the Government.

Emphasizing the Importance of "Time Value of Money"

The Authority undertook to sensitize senior management throughout the Ontario Government about the "time value of money" concept. This will assist in minimizing daily liquid reserve levels and in optimizing cash flows to ensure that revenues are collected and payments made on a timely basis. Work will continue with ministries to ensure that prudent cash management practices are applied across the Government.

Reducing the Cost of Borrowing

Selective use of foreign currency exposure and higher interest rate exposure can also add value to the borrowing program. These measures were undertaken without exposing the Province to undue risks.

Floating-Rate Interest Risk Exposure

In the past two years, the Ontario Financing Authority increased the use of floating rate debt (net of liquid reserves). As recently as two years ago, the Province had more liquid reserves than floating rate debt. In 1997-98, average floating debt (net of liquid reserves) increased from 3.7 per cent to about 7.3 per cent of total outstanding debt. The increase in floating-rate debt reduced PDI expense by more than $120 million in 1997-98.

Foreign Exchange Risk Exposure

In addition, the Authority makes limited use of foreign exchange exposure in conjunction with new financing to reduce borrowing costs. Almost one-third of the Provincial debt has been raised in foreign currencies. However, through swapping foreign currency issues into Canadian dollars, the actual exposure to changes in foreign exchange rates is less than one per cent of total debt, virtually eliminating the exposure of the fiscal plan to fluctuations in foreign exchange rates.

Diversified Financing Sources

In 1997-98, the Canadian market was the main source of financing. The Province also issued in Japanese Yen and French Francs. The domestic market will continue to be the main focus of the Province's borrowing program while foreign markets will be tapped when cost-effective financing opportunities arise. An active investor relations program has helped to create and maintain a diversified investor base for Ontario securities, facilitating a good reception for Ontario bond issues and minimizing the interest the Province needs to pay on its debt.

Lowering Other Financing Charges

The Authority reduced the Province's lines of credit by US$2.75 billion and negotiated lower standby fees and interest rates to save $1.5 million annually. The cost of banking services was reduced by an estimated $1.2 million per year by consolidating banking service requirements across the Government and by selecting the Province's lead cash management banks through a well-defined competitive process. Administrative costs of the Ontario Savings Bond campaign have been reduced by $3 million over the last two years.

Managing Risk

Risk control policies and procedures are used to limit the exposure to foreign currency, interest rate and credit risks. Risk exposures are monitored daily by the Risk Management Committee. The Authority also strives to be at the forefront of debt portfolio performance measurement. The cost-effectiveness of borrowing, risk management and investment activities is measured daily against Board-approved benchmarks. The policies and performance measures are reviewed annually to ensure appropriateness given the Authority's objectives and operational constraints.

CAPITAL MARKETS DIVISION

RESPONSIBILITIES

Execute Provincial borrowing program and risk management activities.

■

Manage legal requirements and securities commission filings.

■

Manage relations with investors and the investment community.

The Ontario Financing Authority's primary objective is to ensure that the Province's borrowing and liquidity needs are met cost-effectively and efficiently, minimizing interest costs within approved risk policies and exposure limits.

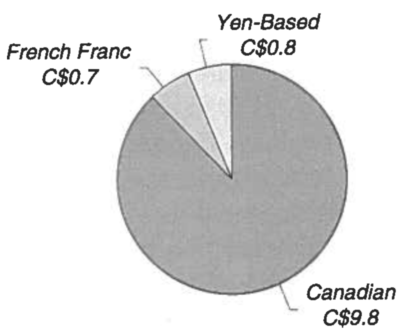
The Province's Financing Program

For 1997-98, the Province borrowed $11.3 billion in long-term capital markets to fund the deficit and refinance maturing debt. By the end of 1997-98, the average interest rate on Total Provincial Purpose Debt had declined to 9.0 per cent from 9.1 per cent the year before, reducing public debt interest expense by more than $135 million annually.

The Canadian domestic market remained Ontario's primary source of funds, accounting for over 86 per cent of long-term borrowing transacted during the year. The following were key features of the 1997-98 domestic borrowing program:

- Issuance of $6.0 billion of 30-year bonds at the lowest-ever interest rates achieved by the Province;
- Continued development of structured Medium Term Notes (MTNs) targeted to investors;
- Introduction of a benchmark bond issue to improve the liquidity and marketability of future long-dated MTN issues targeted to institutional investors; and
- Completion of a successful Ontario Savings Bond campaign, raising over $1.5 billion.

Total Public Borrowing of $11.3 billion completed in Fiscal 1997-98



Internationally, Ontario borrowed in Japanese Yen and French Francs — $0.8 billion was raised from Japanese investors via five separate issues, including Euro Medium Term Notes and a Samurai issue. As with its debut Euro-French Franc issue in 1996-97, Ontario's second Euro-French Franc issue of $0.7 billion was well received in the market. When converted back into Canadian dollars, these international debt issues offered attractive rates relative to domestic sources.

For 1998-99, the Province's total planned financing requirements are $14.1 billion. The Ontario Financing Authority plans to complete this program through long-term borrowing of $9.2 billion, short-term borrowing of $2.0 billion, a reduction of liquid reserves by $3.0 billion and a reduction of $0.1 billion in borrowing from other sources.

The Canadian domestic market will remain the Province's primary source of funds given the low interest rate environment in Canada and the overall reduction in borrowing by federal and provincial governments. Financial products, including structured MTNs, will be targeted to both retail and institutional investors. In June 1998, a fourth issue of Ontario Savings Bonds was offered to residents of Ontario. Finally, the Province expects to return to the Global Canadian dollar, US Dollar and Euro markets, subject to appropriate market conditions and arbitrage opportunities.

Risk Management Activities

As of March 31, 1998, the Province's total swap portfolio had a notional value of $79.3 billion. The volume of transactions during the course of 1997-98 totalled $42.3 billion in bonds, $6.6 billion in interest rate and currency swaps, $12.5 billion in forward rate and currency agreements, $3.4 billion in interest rate options and $2.7 billion in currency options.

	Risk Management Policy Framework	Status
1. *Interest Rate Risk*	Floating rate debt (net of liquid reserves) cannot exceed 20 per cent of total debt.	The percentage of net floating rate exposure was just under three per cent as of March 31, 1998. Throughout the year, exposure averaged 7.3 per cent and peaked at 9.3 per cent.
2. *Currency Risk*	Foreign currency exposure on the principal of debt cannot exceed five per cent of total debt.	Net foreign exchange exposure was 0.5 per cent of total debt as of March 31, 1998 and averaged 0.5 per cent throughout the year.
3. *Credit Risk*	Ontario only enters into arrangements with counterparties rated single "A" or higher.	At year-end, 96 per cent of the notional swaps outstanding were with financial institutions double "AA minus" or higher. The other four per cent were with financial institutions rated single "A".
4. *Refinancing Risk*	Term selection is sensitive to the Province's maturity schedule.	During 1997-98, debt refinancing amounted to $5.8 billion. In 1998-99, maturities to remain at $5.8 billion. Long-term maturities will remain high over the next several years.
5. *Liquidity Risk*	Liquidity risk is controlled through the management of liquid reserve levels, short-term borrowing programs and prearranged lines of credit.	Liquidity risk declined for Ontario as a result of the Province's improved fiscal performance and outlook and reduced competition in the capital markets. This enabled the Authority to cut the average level of liquid reserves from $6.9 billion in 1996-97 to $4.1 billion in 1997-98. The Province's Treasury Bill and U.S. Commercial Paper programs have authorized limits of $6.0 billion and $2.5 billion respectively. The Authority can also draw on the Province's US$1.25 billion line of credit.

RISK CONTROL DIVISION

RESPONSIBILITIES

Monitor and measure financial risks and performances associated with borrowing, risk management and investment of liquid reserves.

■

Develop risk management policies and monitor compliance with the Ontario Financing Authority's policies.

■

Forecast and analyze Public Debt Interest for the Provincial Budget and quarterly fiscal updates.

■

Assess counterparty credit risk and manage rating agency relations.

■

Provide systems development and information technology support for the Authority.

The primary responsibility for ensuring that the financial risks the Province faces are transparent rests with the Risk Control Division. This division also develops and updates risk management policies for Board approval, provides daily reports to management on the positions and exposures assumed by the Authority and analyses the performance of the Authority with respect to its funding, risk management and investment activities. Timely and accurate measurement of risk exposures and compliance, coupled with comprehensive policies that accurately reflect the Province's risk tolerance, are vital for sound and efficient debt management.

Information technology (IT) is also crucial for effective risk control and management. The division maintains the systems required by the Authority and monitors the market for new products or analytical approaches that might enhance the Authority's ability to deliver its mandate.

The Risk Control Division is also responsible for forecasting and monitoring Public Debt Interest and works closely with Ministry of Finance staff when developing Budget estimates and fiscal updates.

1997-98 Accomplishments

Following the Board of Directors' approval of the new risk management policies governing the use of derivatives, the Ontario Financing Authority revisited its credit policy and debt maturity policy. The credit policy was modified to allow for the use of Single A counterparties on a discretionary basis and to address the legal risks that arise from counterparty exposure. The debt maturity policy required the Authority to consider the impact of new debt term selection on the debt maturity profile and on future interest rate exposure. The intent of the policy is to achieve a smoother debt maturity profile.

A key change in the credit policy was the internal assessment of the credit-worthiness of counterparties. As a result, the division undertook a review of all existing counterparties. New counterparties will undergo a similar review and approval process.

The division also refined the performance benchmarks for its funding, risk management and investment activities to reflect the value added by staff through discretionary decisions. In addition, the frequency of performance measurement reporting was increased from monthly to daily.

One of the objectives of Risk Control is to minimize susceptibility to human error through process automation, incorporation of system checks and increased reliance on direct data feeds. In 1997-98, further developments in process automation improved the accuracy and timeliness of the Authority's mark-to-market system significantly and enhanced the existing money market performance measurement. The "Blotter" system, which facilitates debt management by tracking transactions and holdings and by pricing prospective trades, was completed. In addition, a corporate review was conducted to re-assess existing IT systems abilities relative to corporate needs. Specific areas examined were transaction recording, settlement, accounting, risk exposure reporting and analysis, portfolio management and data storage. Based on this review, a systems development strategy will be developed.

Value-at-Risk (VaR) is widely used in the financial sector to estimate the maximum expected loss that a portfolio could incur in normal markets over a defined period of time (i.e., one day) and with a defined probability (i.e., 95%). In 1997-98, the division started to monitor the VaR associated with its actively managed positions. In addition, the VaR methodology is also being employed to estimate potential counterparty credit exposure.

Initiatives for 1998-99

Policy developments and refinements will continue through 1998-99. The division plans to develop a global risk management policy framework to ensure that the risks facing the Ontario Financing Authority are measured consistently. Once this framework is formulated, existing market and credit risk policies will be reviewed and revised as necessary to ensure that they are comprehensive and consistent with the global risk management policy parameters.

The division also plans to strengthen management reporting by integrating and expanding the reports of position, exposure and performance.

The Ontario Financing Authority requires integrated and powerful IT systems to fulfill its core business objective of cost-effective government financing and debt management. Ongoing maintenance and development of these systems are critical to business operations to ensure reliability and efficiency. Current systems provide core risk management capabilities. Additional software applications are being employed to enhance risk analysis and reporting. In 1998-99, a comprehensive systems development strategy will be created and implementation will be initiated.

Performance benchmarks are being modified for 1998-99. The aim of these changes is to ensure the performance measurement process incorporates the impact of all market activities undertaken by capital markets staff.

YEAR 2000 CHALLENGE

With the new millennium approaching, organizations are implementing plans to ensure that their computer systems are Year 2000 compliant. The Year 2000 issue results from some computer programs' inability to process year-date sensitive data accurately beyond 1999. Computer programmers have frequently abbreviated dates by eliminating the first two digits of the year with the assumption that these two digits would always be "19". Any equipment that relies on a computerized clock or a chip that uses "year-abbreviated" dates for calculations is also part of the Year 2000 challenge.

Ontario Financing Authority's Response

The Ontario Financing Authority has been devoting significant efforts to address Year 2000 compliance.

The Ontario Financing Authority's business critical computer application systems at its 1 Dundas Street West, Toronto location have always used four-digit codes in order to correctly calculate cash flows associated with debt maturities beyond the year 2000. During 1998, as part of its normal technology upgrade process, the Authority will focus on any of its remaining, non-compliant computer technology. In particular, the Authority intends to upgrade or replace some of its industry-standard PC hardware and third-party PC software packages. The Ontario Financing Authority is also working to address Year 2000 compliance for its Province of Ontario Savings Office (POSO) operations.

Various clients and financial institutions, with whom there are critical business dependencies, are being contacted regarding their Year 2000 readiness. Other key non-financial service suppliers, such as landlords, are also being contacted for the same purpose.

The primary goal of the Ontario Financing Authority is to meet the Province's financial requirements in a sound and cost-effective manner. The Authority is on schedule in its plans to ensure internal systems will be Year 2000 compliant before January 1, 2000.

CORPORATE FINANCE DIVISION

RESPONSIBILITIES

Advise representatives from the Ministry of Finance on financial policy issues such as alternative financing, public-private partnerships and asset management.

■

Advise on project and infrastructure financing approaches.

■

Advise on the financial implications of potential privatizations.

■

Develop financial options for Ontario Government agencies and its Crown corporations.

1997-98 Accomplishments

The Corporate Finance Division was active on a number of issues during 1997-98. Substantial work was undertaken to support the development of the Government's White Paper on the future of the electricity industry in Ontario released in November 1997. Entitled *Direction for Change: Charting a Course for Competitive Electricity and Jobs in Ontario*, the White Paper announced the Province's intention to introduce competition into Ontario's electricity system by the year 2000.

The division provided policy analysis and advice with respect to alternative financing proposals and privatization candidates such as the Province of Ontario Savings Office, Highway 407, the sale of mortgage assets and the Metropolitan Toronto Convention Centre. Advice was also given on several corporate initiatives such as local government restructuring, a review of the Ontario Student Assistance Plan and the reform of debt management of the Canada Pension Plan.

Priorities for 1998-99

In 1998-99, the division, on behalf of the Ontario Financing Authority, will continue to provide advice and assistance to the Government in implementing the recommendations set out in the White Paper on the future of the electricity industry in Ontario. More specifically, the Authority will support the Province in areas such as determining appropriate capital structures for Ontario Hydro's successor companies and developing a strategy for phasing out the Provincial debt guarantee.

The division will continue to work closely with the Privatization Secretariat in the evaluation of privatization opportunities. In addition, the group will assist as needed in the implementation of the Government's decisions on Highway 407, the Metropolitan Toronto Convention Centre and the Province of Ontario Savings Office.

The division will continue to provide advice on corporate initiatives such as education finance reform, the Ontario Student Loans program and the implementation of local services realignment.

ONTARIO HYDRO'S RESTRUCTURING PLAN

In November 1997, the Government announced a proposal for the restructuring of Ontario's electricity system and for the creation of a competitive market by the year 2000 for both wholesale and retail customers. The objectives include:

- Providing the lowest possible electricity cost while safe guarding a reliable, safe, and environmentally sound electricity supply;
- Restoring the vitality and financial soundness of Ontario's electricity system; and
- Ensuring a level playing field for all participants through an independent regulator.

As part of the reform process, Ontario Hydro's existing debt will be held by a provincially-owned financial holding company. The existing debt will continue to be guaranteed by the Province and managed by the Ontario Financing Authority. Also, the Authority will work closely with Ontario Hydro to coordinate any future borrowing requirements of Hydro that will be guaranteed by the Province.

Starting in 1999, successor companies will borrow on their own credit. Investments by the new companies will be subject to the same capital market discipline as investments by privately owned companies. The Authority will work with Ontario Hydro to prepare for non-guaranteed borrowing.

In 1997-98, the Authority provided advice on the development of legislation for the restructuring of Ontario's electricity sector. In 1998-99, the Authority will expand its role in advising the Government on various financing aspects of the restructuring of Ontario Hydro.

CAPITAL MARKETS TREASURY DIVISION

RESPONSIBILITIES

Provide centralized financial and cash management services to ministries.

■

Perform settlements and cash flow management.

■

Manage banking and fiscal agency relations.

■

Carry out accounting, financial and management reporting.

■

Develop operational procedures and monitor risks.

■

Provide advice on accounting issues and assess impact.

The primary responsibilities of the Capital Markets Treasury Division are to provide cash management, payment and settlement, banking and accounting services to the Province, its Crown agencies and other public bodies. It also leads government-wide initiatives aimed at centralizing the Province's financial activities to achieve efficiencies and reduce duplication.

1997-98 Accomplishments

During 1997-98, the division implemented a number of initiatives to improve the provision of financial services and to enhance the management of cash flows.

The banking tender for cash management services was implemented, which accelerated the flow of tax revenue collected by the banks, and added three Crown agencies to the Province's banking arrangements. Implementation resulted in annual savings of $1.2 million to the Province and Crown agencies.

The ability to accept debit and credit cards as a means of payment for services was extended to more ministries and agencies. This advancement replaced more labour-intensive processes, reduced the incidence of "non-sufficient funds" cheques and improved service to the public. Working closely with Publications Ontario and the banking community, the division ensured that the banking technologies used by the Province for ordering and payment via the Internet met strict security and high customer service standards.

Syndicated bank lines of credit were renegotiated, resulting in the reduction of their size and lowering of their cost by $1.5 million annually.

The division participated in discussions on behalf of the Authority with the Canadian Depository for Securities Limited and its member banks to reduce the risks for government issuers in the new electronic clearing system for securities in Canada.

The Ontario Financing Authority spearheaded the cash-flow optimization initiative announced in the 1997 Ontario Budget with assistance from the staff in Ministry of Finance. This initiative is aimed at improving the timeliness of the Province's cash flows. Efforts were made to sensitize senior managers across the Government to the "time value of money" concept so that revenues are collected and payments are made on a timely basis. A cash management policy was developed that is expected to be implemented in 1998-99.

Initiatives for 1998-99

In 1998-99, the Ontario Financing Authority will continue its tendering process for the Province's debit, credit and stored-value card acceptance services. Opportunities for the use of new banking products such as electronic trust banking services and products including smart cards will be assessed.

Internally, the cash management computer systems will be redesigned for greater integration and added functionality. The new cash management system will aid in a more timely review of ministries' cash flows and will help to look for opportunities to bring these in line with good business practices.

A review of the settlement, accounting and payment systems is planned for 1998-99 as part of the corporate-wide review of systems. Also, accounting developments, in Canada and internationally, will be closely monitored to assess and address any impact on the Province's accounts.

PROVINCE OF ONTARIO SAVINGS OFFICE

RESPONSIBILITIES

Offer chequing/savings accounts, short-term deposits and Guaranteed Investment Certificates to the public.

■

Plan and execute the Ontario Savings Bond Campaign.

The mandate of the Province of Ontario Savings Office (POSO) is to supply financing to the Province while providing financial services to the public.

Currently, POSO provides deposit-taking services to the public through a network of 23 branches and five agencies. There is currently a total of $2.2 billion in deposits, ranging from demand deposits paying daily interest to five-year guaranteed investment certificates. Deposits made at POSO offer the depositor the same security as a holder of the Province's bonds.

Savings Office staff have managed the planning and execution of the Province's Savings Bond campaigns. A total of $4.1 billion was raised in the first three campaigns. In June 1998, a fourth issue of Ontario Savings Bonds was offered to residents of Ontario which raised almost $2.0 billion.

In April 1997, it was announced that the Savings Office was a candidate for privatization. In June 1998, the Honourable Rob Sampson, Minister without Portfolio with Responsibility for Privatization, announced that further work by the Privatization Secretariat has been suspended until the report of the Federal task force on financial institutions is received and the issue of competition in the banking industry is addressed by Ottawa.

FINANCIAL STATEMENTS

SUMMARY OF FINANCIAL RESULTS

The Authority's main source of revenue continues to be derived from the operations of the Province of Ontario Savings Office (POSO), which accepts deposits from the general public. The Authority operates POSO as agent of the Minister of Finance and POSO deposits are direct liabilities of the Consolidated Revenue Fund.

Total funds on deposit held by POSO as at March 31, 1998 were $2.245 billion representing an increase of over $95 million from the $2.150 billion reported as at March 31, 1997. The increase is mainly due to deposits made by the Ontario Clean Water Agency, Ontario Casino Corporation and Ontario Realty Corporation of $175 million. This is offset by a decrease in demand and GIC deposits of $82 million maturing within the year.

The effective average rate of interest paid on all POSO deposits decreased to 3.42% in 1997-98 from 4.05% in 1996-97, indicative of the lower interest rate environment.

The Authority's net income for the year ended March 31, 1998 declined by $1.4 million from the $7.7 million reported in the prior year. The decline in income is largely due to an increase of $1.2 million in POSO salaries, wages and benefits, resulting from increased employer pension contributions of $700,000 and severance payments. Also included in the increased expense is a provision for union dues to be paid on behalf of certain POSO employees. A recent decision rendered by the Ontario Labour Relations Board activated an agreement that the Province would pay dues of those employees who were excluded under amendments to the *Crown Employees Collective Bargaining Act, 1993*, in February 1996 and later reinstated.

Salaries, wages and benefits for the corporate Authority totalling $7.6 million increased $1.3 million over last year. The increase is comprised of salary revisions, including bonuses, for certain key positions, and the filling of vacancies totalling $800,000. Higher pension contributions due to the end of the pension holiday and severance payments totalled $500,000.

Administrative and general expenses for the Authority were held at the 1997 level as a result of cost-control initiatives.

Purchases of capital assets in 1997-98 of about $900,000, pertained mainly to computer workstation and technology infrastructure upgrades. These upgrades were made in order to meet the constantly increasing demands for more powerful computer systems required for the specialized financial applications used by the Authority in such areas as risk management, cash management, and in the monitoring of global markets.

As an agent for the Province, the Authority made loans to public bodies, the repayment of which is to be funded through third-party revenues. These loans are reported in Note 5 to the financial statements and consist of loans made to the Ontario Transportation Capital Corporation for the building of Highway 407, the Metro Toronto Convention Centre for expansion of its facilities, Ontario Casino Corporation for construction of the Niagara Casino (repaid by November 20, 1997), the Centennial Centre of Science and Technology for the construction of OMNIMAX Theatre, and the Corporation of the City of Windsor for the construction of the Windsor Justice Facility. The outstanding balance of these loans as at March 31, 1998 was $1.6 billion, including capitalized interest, an increase of $200 million from the $1.4 billion reported a year ago.

In addition, the Authority continued to provide investment management services to the Northern Ontario Heritage Fund Corporation. As at March 31, 1998, the Authority managed investments of $186 million, an increase of $14 million over last year.

The Authority also continues to administer the loans receivable and payable of the former Ontario Municipal Improvement Corporation (OMIC). OMIC assets of $80.5 million consist of debentures receivable from various municipalities and school boards. An equal amount of liabilities are payable to the Canada Pension Plan and the Province. During the 1997-98 year approximately $300,000 of loans receivable from municipalities matured, and a corresponding amount of related debt was repaid. The interest earned and paid annually on account of OMIC assets and liabilities amounts to $7.8 million and is expected to remain approximately at this level until 2011, when CPP loans start maturing.

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Ontario Financing Authority have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to May 29, 1998.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors, and the external auditor to deal with issues raised by them to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

Tony Salerno

Tony Salerno
Vice-Chair and
Chief Executive Officer

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 1998 and the statements of net income and retained earnings and of changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles.

Erik Peters

Toronto, Ontario
May 29, 1998

Erik Peters, FCA
Provincial Auditor

ONTARIO FINANCING AUTHORITY

BALANCE SHEET

(in thousands of dollars)	Corporate	POSO	Total March 31, 1998	Total March 31, 1997
ASSETS				
Current assets				
Cash	$ 111	23,507	23,618	$ 21,764
Receivable from the Province of Ontario (note 2i)	314	1,709,304	1,709,618	1,709,621
Accounts receivable	2,065	30,724	32,789	32,099
Loans receivable (note 4)	316	—	316	323
Total current assets	$ 2,806	1,763,535	1,766,341	$ 1,763,807
Long-term assets				
Capital assets (note 3)	$ 1,677	649	2,326	$ 2,500
Receivable from the Province of Ontario (note 2ii)	—	546,267	546,267	446,629
Loans receivable (note 4)	80,147	—	80,147	80,463
Total assets	$ 84,630	2,310,451	2,395,081	$ 2,293,399

LIABILITIES AND RETAINED EARNINGS				
Current liabilities				
Accounts payable and accrued liabilities	$ 3,642	27,738	31,380	$ 30,031
Funds on deposit (note 2i)	—	1,698,592	1,698,592	1,703,833
Due to the Province of Ontario (note 4)	316	—	316	323
Total current liabilities	$ 3,958	1,726,330	1,730,288	$ 1,734,187
Long-term debt				
Funds on deposit (note 2ii)	$ —	546,267	546,267	$ 446,629
Due to CPP and the Province of Ontario (note 4)	80,157	—	80,157	80,473
Total liabilities	$ 84,115	2,272,597	2,356,712	$ 2,261,289
Retained earnings	515	37,854	38,369	32,110
Total liabilities and retained earnings	$ 84,630	2,310,451	2,395,081	$ 2,293,399

Contingent liabilities (note 9)

See accompanying notes to financial statements

Approved on behalf of the Board:

Michael L. Gourley
Chair

Tony Salerno
Vice-Chair and Chief Executive Officer

ONTARIO FINANCING AUTHORITY

STATEMENT OF NET INCOME AND RETAINED EARNINGS

(in thousands of dollars)	Corporate	POSO	Total March 31, 1998	Total March 31, 1997
REVENUE				
Interest revenue	$ 7,808	93,592	101,400	$114,940
Cost recovery from the Province	10,199	—	10,199	8,625
Miscellaneous revenue	—	1,545	1,545	1,550
Total revenue	$ 18,007	95,137	113,144	$125,115
EXPENDITURES				
Interest on short term debt	$ 16	48,039	48,055	$ 57,602
Interest on long term debt	7,780	27,159	34,939	38,523
Salaries, wages and benefits	7,600	9,388	16,988	14,486
Administrative and general	1,939	3,863	5,802	5,841
Amortization	661	440	1,101	980
Total expenditures	$ 17,996	88,889	106,885	$117,432
Net income for the year	$ 11	6,248	6,259	$ 7,683
Retained earnings, beginning of year	504	31,606	32,110	24,427
Retained earnings, end of year	$ 515	37,854	38,369	$ 32,110

See accompanying notes to financial statements

ONTARIO FINANCING AUTHORITY

STATEMENT OF CHANGES IN FINANCIAL POSITION

(in thousands of dollars)	Corporate	POSO	Total March 31, 1998	Total March 31, 1997
Funds provided by (used in):				
Operating activities				
Net income for the year	$ 11	6,248	6,259	$ 7,683
Adjustments to cash provided by operating activities:				
Amortization	661	440	1,101	980
Increase (decrease) in accounts payable and accrued liabilities	175	1,174	1,349	(8,348)
(Increase) decrease in accounts receivable	71	(761)	(690)	5,874
Net income adjusted for non-cash items	$ 918	7,101	8,019	$ 6,189
Funds provided by operating activities	$ 918	7,101	8,019	$ 6,189
Financing activities				
Increase (decrease) in funds on deposit (note 2)	$ —	94,397	94,397	$ (124,560)
(Decrease) in indebtedness	(323)	—	(323)	(473)
Funds provided by (used in) financing activities	$ (323)	94,397	94,074	$ (125,033)
Investing activities				
(Increase) decrease in receivable from the Province of Ontario (note 2)	$ —	(99,635)	(99,635)	$ 89,627
Decrease in loans receivable	323	—	323	473
Purchase of capital assets	(896)	(31)	(927)	$ (919)
Funds (used in) provided by investing activities	(573)	(99,666)	(100,239)	$ 89,181
Net increase (decrease) in cash during the year	$ 22	1,832	1,854	$ (29,663)
Cash at beginning of year	89	21,675	21,764	20,480
Temporary investments at beginning of year	—	—	—	30,947
Cash at end of year	$ 111	23,507	23,618	$ 21,764

See accompanying notes to financial statements

(all tables are in thousands of dollars)

BACKGROUND

The Ontario Financing Authority (the "Authority") was established as an agency of the Crown, on November 15, 1993, by the Capital Investment Plan Act, 1993 (the "Act"). In accordance with the Act, the Authority's objects are:

- to assist public bodies and the Province of Ontario to borrow and invest money;
- to develop and carry out financing programs, issue securities, manage cash, currency and other financial risks on behalf of the Province, or any public body;
- to provide such other financial services as are considered advantageous to the Province or any public body;
- to operate offices as provided under the Province of Ontario Savings Office Act, as agent for the Minister of Finance; and
- any additional objects as directed by the Lieutenant Governor in Council.

The Authority is a corporation established under the laws of Ontario. The Authority is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act of Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

(i) **General:** The financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Canadian Institute of Chartered Accountants.

(ii) **Fixed assets:** Fixed assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset as listed below. Amortization is not taken in the year of acquisition.

Furniture and equipment	5 years
Computer hardware	3 years
Leasehold improvements	remaining life of lease

2. PROVINCE OF ONTARIO SAVINGS OFFICE

The Authority operates the Province of Ontario Savings Office (POSO) as agent of the Minister of Finance. POSO accepts deposits from the general public, government and other public bodies that form part of the Consolidated Revenue Fund and are direct liabilities of the Province. Administration costs of $965,000 (1997 — $1,110,000) relating to POSO are provided by the Ministry of Finance and are not included in these financial statements. The average rate of interest paid to depositors and earned from the Province in 1997-98 was 3.42% and 4.24% respectively (1996-97 — 4.05% and 4.89% respectively). These deposits are comprised as follows:

(i) **Receivable from the Province of Ontario and short-term funds on deposit**

	March 31, 1998	March 31, 1997
Short-term deposits	$ 115,040	$ 114,570
Demand deposits	1,151,414	1,184,308
GICs maturing within one year	432,138	404,955
Total short-term funds on deposit	**$ 1,698,592**	**$ 1,703,833**

Short-term funds on deposit include deposits made by Ontario Clean Water Agency (OCWA), Ontario Realty Corporation (ORC) and other government agencies of about $93 million (March 31, 1997- $15 million). The March 31, 1997 amounts have been restated to include $15 million held mainly on behalf of the Legislature Assembly of Ontario. Funds held on behalf of OCWA and ORC totalling $85 million earned a variable rate of interest of 4.00% to 4.86% at March 31, 1998. The total current 'Receivable from the Province' of $1,709,618 (March 31, 1997 — $1,709,621) includes short-term funds on deposit plus working capital mainly of POSO.

(ii) Receivable from the Province of Ontario and long-term funds on deposit

The long-term "Receivable from the Province" represents deposits with POSO that form part of the Consolidated Revenue Fund of the Province and for which POSO has issued long-term GICs. These deposits include $82 million of deposits made by the Ontario Casino Corporation (OCC). The OCC funds are invested in two-year GICs, earning a variable rate of interest of 4.06% to 4.62% at March 31, 1998 and can be redeemed at the option of the holder on quarterly basis. These deposits mature as follows:

	As at March 31, 1998		As at March 31, 1997	
Year ended March 31	**Principal Maturing**	**Effective Average Interest Rate (%)**	**Principal Maturing**	**Effective Average Interest Rate (%)**
1999	$ —	—	$ 159,438	5.97
2000	304,768	5.87	149,743	7.52
2001	82,754	6.16	53,815	6.87
2002	91,062	6.02	83,633	6.12
2003	67,683	5.63	—	—
Total	$ 546,267		$ 446,629	

3. CAPITAL ASSETS

The balance of capital assets, net of amortization, is as follows (amortization begins in the year following acquisition):

	Cost	Accumulated Amortization	Net March 31, 1998	Net March 31, 1997
Furniture and equipment	$ 1,078	$ (582)	$ 496	$ 659
Computer hardware	2,989	(1,482)	1,507	1,380
Leasehold improvement	1,175	(852)	323	461
	$ 5,242	**$ (2,916)**	**$ 2,326**	**$ 2,500**

4. ONTARIO MUNICIPAL IMPROVEMENT CORPORATION (OMIC)

In accordance with the Capital Investment Plan Act, 1993, the Ontario Municipal Improvement Corporation (OMIC) ceased to exist and its assets and liabilities were transferred to the Authority on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) and the Province, which OMIC used to make loans to municipalities and school boards under similar terms as its debt.

As at March 31, 1998, the portion of long term debt maturing in 1998-99 is $316,000 (March 31, 1997 — $323,000 maturing in 1997-98) and is due to the Province. Long-term debt (maturing in the year ended March 31, 2000 and onwards), is comprised of debt due to the Province of $1.15 million and to the Canada Pension Plan of $79 million (March 31, 1997 — $1.5 million, and $79 million respectively, maturing in year ended March 31, 1999 and onwards). The terms of the outstanding debt are as follows:

	As at March 31, 1998		As at March 31, 1997	
Year ended March 31	Principal Maturing	Effective Average Interest Rate (%)	Principal Maturing	Effective Average Interest Rate (%)
1998	$ —		$ 323	12.65
1999	316	13.06	316	13.06
2000	316	13.39	316	13.39
2001	326	13.58	326	13.58
2002	354	13.59	354	13.59
2003	64	11.55	—	—
1 - 5 years	$ 1,376		$ 1,635	
6 - 20 years	79,097	9.61	79,161	9.61
Total	$ 80,473		$ 80,796	

5. TRANSACTIONS WITH THE PROVINCE AND OTHER PUBLIC BODIES

(i) **Financing activities between the Province and other Public Bodies:** Acting as a financial conduit for the Province, the OFA provides financing to various public bodies, the repayment of which is expected from third-party revenues. The funds for these loans are advanced to the OFA by the Province under a credit facility of $2.16 billion. Repayments received from public bodies by the Authority are forwarded to the Province. These transactions are not reflected in these financial statements.

In compliance with an Ontario Financing Authority Lending Policy adopted by the Board on December 17, 1997, each advance received by the Ontario Financing Authority under the current facility bears interest at a rate that is equivalent to the rate of interest payable to the OFA on the corresponding loan to a public body(ies). Funds are generally advanced by the Authority to public bodies under interim financing arrangements, consisting of a number of promissory notes for terms not exceeding one year. As at March 31, 1998, these interest rates ranged from 3.05% to 5.10% (March 31, 1997 — 3.00% to 7.45%). Interest is payable on the principal plus any capitalized interest. It is the Authority's intention to replace these promissory notes with term debt, at which point repayment terms will be finalized. As at March 31, 1998, $500 million of notes held by the Ontario Transportation Capital Corporation had been converted into a debenture at 8.25% maturing on June 2, 2026.

As at March 31, 1998, $1.58 billion (March 31, 1997 — $1.37 billion), including accrued interest, was advanced by the Province to the Authority and must be repaid by the Authority on or before August 31, 2027. Repayments made by public bodies to the Authority are immediately forwarded to the Province.

The following represents amounts receivable by the Authority on behalf of the Province, including capitalized interest, net of financing costs. These are related party transactions, with the exception of those with the City of Windsor.

	March 31, 1998	**March 31, 1997**
Ontario Transportation Capital Corporation - Hwy 407	$ 1,424,246	$ 1,116,370
Metro Toronto Convention Centre	146,728	109,916
Centennial Centre of Science and Technology	1,629	—
Corporation of the City of Windsor	11,577	—
Ontario Casino Corporation*	—	146,990
	$ 1,584,180	$ 1,373,276

* Repaid by November 20, 1997.

The Ontario Transportation Capital Corporation (OTCC) is a Crown agency of the Province established by the Capital Investment Plan Act, 1993. The Board of Directors is appointed by the Lieutenant Governor in Council.

The Ontario Casino Corporation (OCC) is a Crown agency of the Province, established by the Ontario Casino Corporation Act, 1993. The Board of Directors is appointed by the Lieutenant Governor in Council.

The Metro Toronto Convention Centre Corporation (MTCC) is a Crown agency of the Province under the Metropolitan Toronto Convention Centre Corporation Act. The majority of directors on the MTCC board is appointed by the Lieutenant Governor in Council.

The Centennial Centre of Science and Technology is a Crown agency of the Province under the Centennial Centre of Science and Technology Act. Its Board of Trustees is appointed by the Lieutenant Governor in Council.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of a provincial division courthouse and city police headquarters.

(ii) **Investing for Related Parties:** In the normal course of operations, the Authority provides investment management services to other public bodies. Funds managed on behalf of other public bodies (which are not reflected in these financial statements) as at March 31, 1998 consist of $186 million held on behalf of the Northern Ontario Heritage Fund Corporation (March 31, 1997 — $172 million).

(iii) **Province of Ontario Savings Office:** Other related parties have deposited their funds as described in Note 2 (i) and 2 (ii). Total amounts deposited as at March 31, 1998 were $175 million (1997 — $15 million).

6. PENSION PLAN

The Authority provides pension benefits for its employees through participation in two pension plans of the Ontario Public Service established by the Province of Ontario: the Ontario Public Service Employees' Union Pension Plan and the Public Service Pension Plan. The Authority's pension contributions for the year ended March 31, 1998 were $1,312,000 (March 31, 1997 — $262,572); the increase is due to the termination of the pension holiday.

7. FINANCIAL INSTRUMENTS

The carrying amounts for cash, accounts receivable, receivables from the Province of Ontario, accounts payable and accrued liabilities and short-term funds on deposit approximate their fair values because of the short-term maturity of these instruments.

Given that the terms and amounts of the Authority's long-term receivables offset the Authority's long-term debt, providing fair values for these instruments would not add any more useful information to that which has already been presented in these financial statements.

8. SALARIES (absolute dollars)

Provincial legislature requires disclosure of Ontario public-sector employees paid an annual remuneration in excess of $100,000. The amounts paid in 1997 to individuals listed below include salary and performance-based pay, which is identified with an asterisk (*).

Name	Position	Remuneration Paid	Taxable Benefits
Charles Allain	Manager, Risk Management	$ 137,080*	$ 284
David Brand	Director, Province of Ontario Savings Office	$ 133,262	$ 273
James Devine	Manager, Fixed Income & Medium Term Notes	$ 125,782*	$ 224
Andrew Hainsworth	Manager, Funding	$ 125,782*	$ 224
Michael Manning	Director, Risk Management	$ 181,063*	$ 350
Gregory Martinez	Manager, Derivatives, Financial Engineering	$ 129,531*	$ 254
Gadi Mayman	Executive Director	$ 183,409*	$ 358
Tony Salerno	CEO - Vice Chair	$ 215,240*	$ 385
Corey Simpson	Legal Counsel	$ 124,067	$ 329

9. CONTINGENT LIABILITIES

The Province of Ontario Savings Office is involved in two legal actions, the outcome and ultimate disposition of which are not determinable at this time.

10. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year presentation.

APPENDIX

Financing Program Overview

Summary of Provincial Purpose Debt

Ontario's Debt Maturity Schedule

Credit Ratings

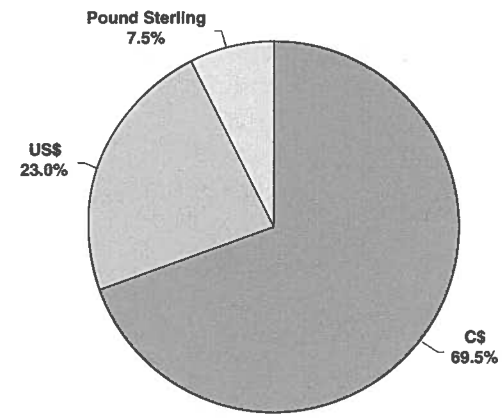
Exchanges Where the Province is Listed

Glossary of Terms

Sources of Information

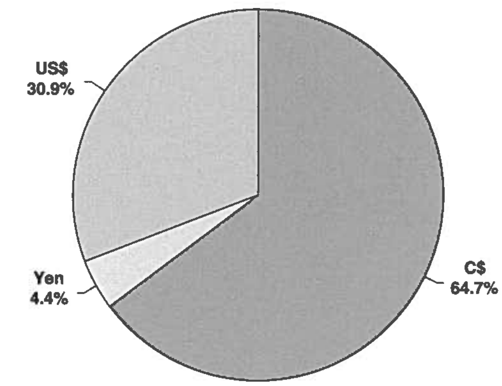
1990-1991

Total New Debt Issues: $3.0 B



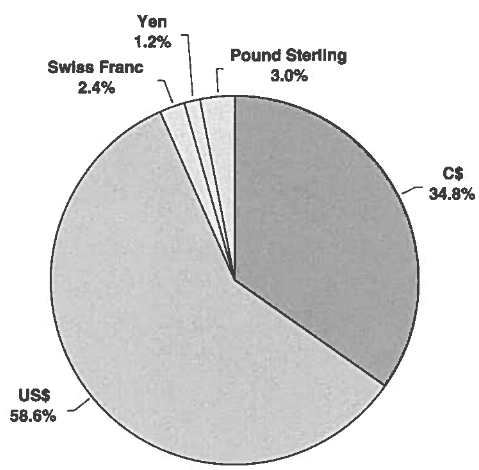
1991-1992

Total New Debt Issues: $9.8 B



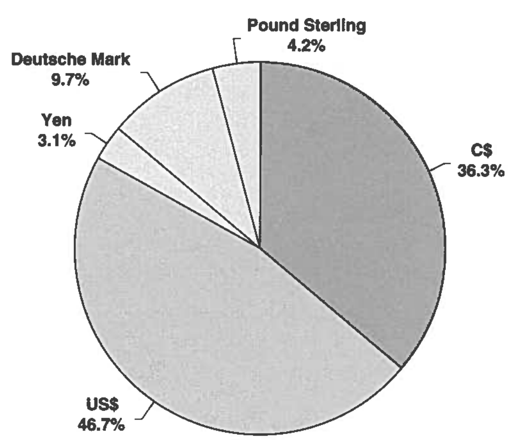
1992-1993

Total New Debt Issues: $14.9 B



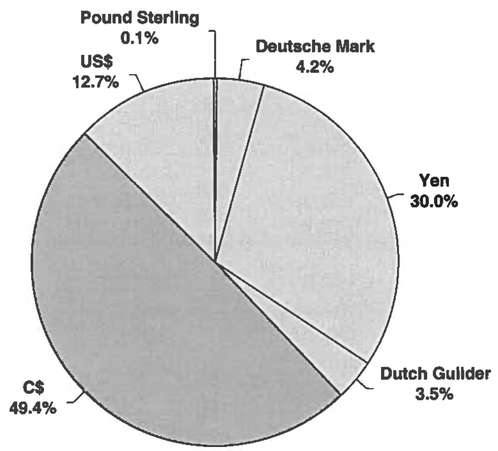
1993-1994

Total New Debt Issues: $12.0 B



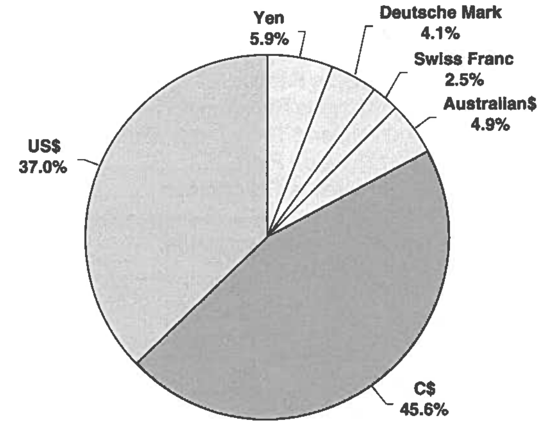
1994-1995

Total New Debt Issues: $11.0 B



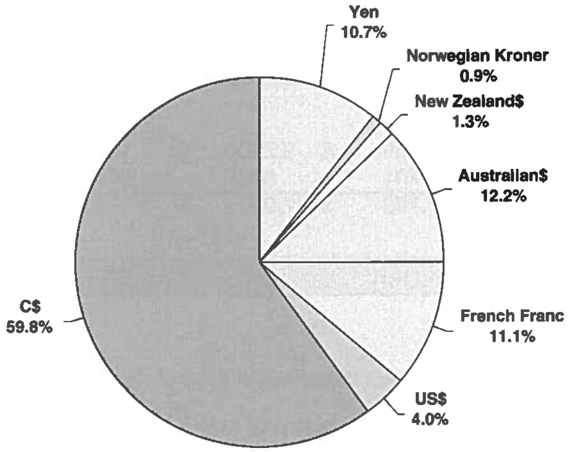
1995-1996

Total New Debt Issues: $11.4 B



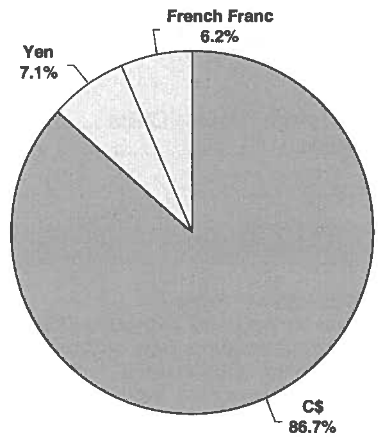
1996-1997

Total New Debt Issues: $7.2 B



1997-1998

Total New Debt Issues: $11.3 B



Note to Charts:

Charts reflect new long-term provincial debt issues in their respective fiscal year. The figures exclude Treasury Bills, US Commercial Paper, deposits at the Province of Ontario Savings Office and other liabilities. The 1997-98 figures are unaudited at the time of publication. Numbers may not add due to rounding.

SUMMARY OF PROVINCIAL PURPOSE DEBT (UNAUDITED)[1]

As at March 31,	1994	1995	1996[3]	1997[3]	Interim 1998[3]
			(in millions)		
Incurred by the Province					
Non-Public Debt					
Minister of Finance of Canada:					
Canada Pension Plan	$ 13,105	$ 12,404	$ 11,620	$ 10,807	$ 9,956
Other	14	8	4	—	—
	$ 13,119	$ 12,412	$ 11,624	$ 10,807	$ 9,956
Ontario Teachers' Pension Fund	14,648	14,584	14,386	14,049	13,822
Ontario Municipal Employees Retirement Fund (OMERS)[5]	1,164	1,015	742	722	697
Colleges of Applied Arts and Technology Pension Plan[5]	—	—	91	91	91
Ryerson Retirement Pension Plan	—	16	16	9	9
Canada Mortgage & Housing Corporation	270	264	258	251	244
Public Service Pension Fund	5,939	3,976	3,884	3,790	3,681
Ontario Public Service Employees' Union Pension Fund (OPSEU)	—	1,859	1,816	1,772	1,749
	$ 35,140	$ 34,126	$ 32,817	$ 31,491	$ 30,249
Publicly Held Debt					
Debentures and Bonds[2]	$ 38,225	$ 49,522	$ 60,888	$ 61,939	$ 68,199
Treasury Bills	2,884	1,921	1,716	2,071	675
U.S. Commercial Paper[2]	465	142	177	—	—
	$ 41,574	$ 51,585	$ 62,781	$ 64,010	$ 68,874
Total Debt Incurred by the Province for Provincial Purposes	$ 76,714	$ 85,711	$ 95,598	$ 95,501	$ 99,123
Incurred by Government Service Organizations					
Non-Public					
Canada Pension Plan[4]	$ 79	$ 79	$ 1,402	$ 1,402	$ 1,402
Canada Mortgage & Housing Corporation	—	—	1,038	1,021	1,002
Public					
Other	—	—	18	35	18
Collateralized Financing[2]	—	—	430	433	437
Total Debt Incurred by Government Service Organizations for Provincial Purposes	$ 79	$ 79	$ 2,888	$ 2,891	$ 2,859
Total Debt Incurred for Provincial Purposes	$ 76,793	$ 85,790	$ 98,486	$ 98,392	$101,982
Other					
Province of Ontario Savings Office	$ 2,059	$ 2,089	$ 2,220	$ 2,135	$ 2,183
Other Liabilities[4]	587	701	690	984	993
	$ 2,646	$ 2,790	$ 2,910	$ 3,119	$ 3,176
Total Provincial Purpose Debt[6]	$ 79,439	$ 88,580	$101,396	$101,511	$105,158

Source: Ontario Ministry of Finance

(1) Prepared on the basis of modified accrual and consolidation accounting.

(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.

(3) Figures for Interim 1997-98 and fiscal 1996-97 and 1995-96 reflect the change in status of Ontario Housing Corporation ("OHC") and GO Transit to Government Service Organizations, which are consolidated on a line-by-line basis. Fiscal 1994-95 and 1993-94 have not been restated and reflect OHC and GO Transit as Government Enterprises, which are consolidated on the modified equity basis. Therefore, comparisons of information from years prior to fiscal 1995-96 with fiscal 1995-96, 1996-97 and Interim 1997-98 may not be meaningful.

(4) Figures for fiscal 1993-94 through Interim1997-98 include the reclassification of $79 million from Other Liabilities to "Canada Pension Plan" debt.

(5) The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension Plan, in the amounts of $741.6 million and $90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.

(6) The total Debt incurred for Provincial Purposes does not include debt issued on behalf of Ontario Hydro, which is offset by bonds of Ontario Hydro bearing like terms and conditions to the Ontario obligations.

ONTARIO'S DEBT MATURITY SCHEDULE (UNAUDITED)[1]

Interim 1998
(in millions)

Year Ending March 31,	Debt Incurred for Provincial Purposes: Publicly Held Debt[2]	Non-Public Debt	Total	Ontario Hydro Purposes[4]: United States Dollar-Denominated[3]	Canadian Dollar-Denominated	Total Debt Incurred for Provincial Purposes and Ontario Hydro
1999 -----	$ 4,794[5]	$ 1,701	$ 6,495	$ 137	$ 0	$ 6,632
2000 -----	6,003	2,128	8,131	0	0	8,131
2001 -----	6,472	1,477	7,949	0	500	8,449
2002 -----	6,111	1,542	7,653	0	500	8,153
2003 -----	8,900	2,473	11,373	0	0	11,373
1999-2003	32,280	9,321	41,601	137	1,000	42,738
2004-08	19,256	11,488	30,744	0	508	31,252
2009-13	1,980	10,149	12,129	0	1,240	13,369
2014-18	141	1,279	1,420	0	0	1,420
2019-23	1,851	366	2,217	0	0	2,217
2024-48	13,821	50	13,871	0	0	13,871
	$ 69,329	$ 32,653	$101,982	$ 137	$ 2,748	$ 104,867

(1) Prepared on the basis of modified accrual and consolidation accounting.
(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.
(3) Debt of US $97.2 million, translated into Canadian dollar at the prevailing exchange rate in effect at March 31, 1998.
(4) This debt is offset by bonds of Ontario Hydro bearing like terms and conditions to the Ontario obligations.
(5) Includes $675 million in Treasury Bills for the Province.

Credit Ratings

A credit rating is a current assessment of the credit worthiness of a borrower with respect to a specific obligation. It indicates the capacity and willingness of a borrower to pay interest and principal in a timely manner.

Long-term Ratings

Long-term ratings are assigned a letter grade ranging from investment grade, to speculative grade, to highly speculative or default. Ratings within each category may include a "+" or "-" (or a high or low) to indicate the relative strength of the rating within that category.

The current long-term ratings of the Province of Ontario are as follows:

Moody's Investors Service (New York)	Aa3
Standard & Poor's Corporation (New York)	AA-
Canadian Bond Rating Service (Montreal)	AA, negative outlook
Dominion Bond Rating Service (Toronto)	A (high)

Short-term Ratings

Short-term ratings are for debt maturities of less than one year. Ratings are graded into several categories, ranging from the highest-quality obligations to default.

The current short-term ratings of the Province of Ontario are as follows:

Moody's Investors Service (New York)	P-1
Standard & Poor's Corporation (New York)	A-1+
Canadian Bond Rating Service (Montreal)	A-1+
Dominion Bond Rating Service (Toronto)	R-1 (mid)

Exchanges Where the Province is Listed

The Luxembourg Stock Exchange
The London Stock Exchange
The Stock Exchange of Hong Kong
The Stock Exchange of Singapore
The Frankfurt Stock Exchange
The Paris Bourse
The Stock Exchange of Zurich
The Amsterdam Stock Exchange

Glossary of Terms

All-In Cost: The cost of issuing debt, inclusive of all fees and commissions.

Arbitrage: The simultaneous purchase and sale of financial instruments to take advantage of inefficiencies between international capital markets and thereby lower the Province's cost of funds.

Banker's Acceptance (BA): A draft drawn and accepted by banks that is based upon funds that will pay its face value at maturity. Essentially short-term bank credit.

Basis Point: One one-hundredth of one per cent of yield, it is the smallest measure used in quoting yields on bonds and notes. For example, an addition of 40 basis points to a yield of 6.50 per cent would increase the yield to 6.90 per cent.

Bond: A debt security greater than one year wherein an issuer contracts to pay the owner a fixed principal amount on a stated future date. Typically, there are also interest payments over the life of the bond.

Canadian-Dollar Market: The market for bonds denominated in Canadian dollars including the domestic, Euro, and Global bond markets.

Commercial Paper (CP): Short-term note or draft typically issued by a government or corporation on a discount basis. In the United States, CP is limited to terms of 1 to 270 days and is usually supported by a back-up bank line of credit.

Domestic Bonds: Debt securities issued in the domestic market, clearing through a domestic clearing system.

Euro-Bonds: Debt securities issued in the international (non-domestic) markets and clearing through agencies such as Euroclear or Cedel. "Euro-Can" bonds are the Canadian dollar-pay version.

Fiscal Year: The Province operates on a fiscal year commencing April 1 and ending March 31.

Floating Rate Notes (FRNs): Debt instruments that bear a variable rate of interest. Coupons are linked to a floating interest rate index, and pay out at a predetermined yield spread to the index.

Forward Rate Agreement: An agreement between two parties to set future borrowing/lending rates in advance.

Futures: An exchange traded contract that confers an obligation to buy/sell a commodity at a specific price on a specific date. Futures contracts have standardized specifications such as contract size.

Global Bonds: Debt securities issued simultaneously in the international and domestic markets, settling through various worldwide clearing systems. These can be issued in a variety of currencies including Canadian and U.S. dollars.

Hedging: Making or entering into offsetting commitments to minimize the impact of market fluctuations.

Interest Rate Differential: The difference between yields in different currencies for the same maturity.

Issuance Spread: The difference between yield required by investors on a given bond issue and the yield on a relevant benchmark bond.

Liquid Reserves: Temporary investments arising from the non-synchronization of funding activities and cash needs.

Mark-to-Market: The revaluing of a security, commodity or futures contract according to its current market value.

Medium-Term Notes (MTNs): Debt instruments offered under a registered Program for the Issuance of Debt Instruments. MTNs are often structured to meet specific investor needs.

Non-Public Debt: Debt with covenants restricting the transferability of that instrument.

Option: Contract that confers the right, but not the obligation, to buy/sell a specific amount of a commodity at a specific price on a certain future date.

Private Placements: A debt issue that is negotiated with a single or a few investors as opposed to being offered publicly.

Public Debt: Any debt that is free to be publicly offered and traded in a secondary market.

Samurai Bond: Bonds issued into Japanese domestic market by non-Japanese entities.

Structured Financing: A process whereby an entity issues and simultaneously enters into one or several swaps to transform the cash received to meet its obligations.

Swap: An exchange of payment streams between two counterparties. Swaps vary in terms of underlying securities, such as currency, interest rate, equity and commodity.

Yield Curve: The relationship between market yields and their maturity. Often upward-sloping with maturity, due to investors' requirements for greater yield when committing their funds for longer horizons.

Sources of Information

PUBLICATIONS

Ontario Budget Series

- Paper D: *Ontario's Financing Operations* provides a discussion of the Province's borrowing and debt management activities for the year 1997-98 and an outlook for 1998-99.
- Financial Highlights.

Ontario Economic Outlook and Fiscal Review

- Semi-annual update to the economic outlook, fiscal and financing plan.

Ontario Financing Authority Bulletins

- Quarterly updates of key developments in Ontario's fiscal and financing plans and recent economic developments.

Open Financial Disclosure Report

- The Province's annual report to the U.S. Securities and Exchange Commission.

Ontario Financing Authority Annual Report

- The annual report provides investors and the broader investment community with information on how the Ontario Financing Authority met its financing and operational objectives.

Ontario Financing Authority Internet Site

- Current information on Ontario's debt, debt issues and retail products.

CONTACT ADDRESSES AND NUMBERS

Enquiries regarding the 1998 Annual Report should be directed to:
Investor Relations, Capital Markets Division
Telephone: 416-325-0918
Email: investor@ofina.on.ca

Enquiries regarding documentation or regulatory filing information should be directed to:
Documentation, Capital Markets Division
Telephone: 416-325-8142
Email: lsmith@ofina.on.ca

FOR ADDITIONAL COPIES OF THIS ANNUAL REPORT, PLEASE CONTACT:

Ontario Financing Authority
1 Dundas Street West, Suite 1400
Toronto, Ontario - Canada M7A 1Y7
Telephone: 416-325-8000

**This annual report is also available on the Internet at the following address:
www.ofina.on.ca**

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The Ontario Financing Authority on the Internet

The Internet has become a major medium for publishing information. Numerous Ontario ministries, government institutions, major banks and other financial institutions use the Internet to provide information to the world. The Ontario Financing Authority's web site contains information on Ontario's debt, debt issues and retail products, as well as general background on the Province of Ontario and the Ontario Financing Authority. It contains the Ontario Financing Authority's latest Bulletins, news releases and Annual Report. The site also provides quick-links to selected financial institutions, banks and securities dealers through which Ontario debt instruments may be bought and sold. Fixed-income investors, investment dealers, other financial institutions and the general public will find the site of interest.

To visit the Ontario Financing Authority web site, go to www.ofina.on.ca