

ONTARIO **FINANCING** AUTHORITY



2018

Annual Report

ONTARIO FINANCING AUTHORITY

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Mandate

The Ontario Financing Authority (the "OFA") 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 OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario (the Province);
- manages the Provincial debt;
- provides centralized financial services for the Province including banking and cash management;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies to borrow and invest money;
- acts at the direction of the Province in lending to certain public bodies;
- invests on behalf of some public bodies;
- with Ontario Power Generation Inc. (OPG), manages the investment activities of OPG's Used Fuel Segregated Fund and Decommissioning Segregated Fund; and
- carries out the day-to-day operations of Ontario Electricity Financial Corporation (OEFC) and provides a broad range of financial services to Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

In addition, the OFA's objects include:

- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

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Statement from the Chair and the Chief Executive Officer

The OFA successfully completed its annual borrowing program in 2017–18 raising \$33.9 billion on behalf of the Province and OEFC. Performance targets for Canadian-dollar and foreign borrowing were met or exceeded. Based on the *2018 Budget* projection of the Province’s interest on debt expense, a savings of \$281 million was generated when compared to the forecast in the *2017 Budget*. The OFA also generated additional savings of \$11 million from money market activities relative to the performance benchmark.

During the 2017–18 fiscal year, the OFA continued the review of business cases for borrowing requests from public bodies, such as colleges and crown corporations, resulting in loans to public bodies totalling \$120 million, excluding drawings against a total of \$2.5 billion short-term credit facilities for the Independent Electricity System Operator. The OFA also provided financial advice and implementation support with respect to on-going initiatives related to the Province’s assets, the electricity sector, a loan guarantee program to facilitate Aboriginal participation in energy infrastructure projects, and analysis and advice with respect to a number of Infrastructure Ontario projects. The OFA will also continue to engage in public-sector financing initiatives and provide advice and support on financial aspects of government assets and electricity sector developments.

The OFA leveraged its relationships with all of the Canadian scheduled banks to implement enhanced interest on the Province’s overnight cash deposits thereby contributing to higher returns on the Province’s liquid reserves.

In 2018–19, the OFA will continue to provide cost-effective borrowing, debt management and other financial services on behalf of the Province. To meet the Province’s borrowing requirements, staff will continue to be flexible, monitoring Canadian-dollar and international markets, issuing bonds in different terms and currencies and responding to investor preferences. The OFA plans to continue to issue green bonds in the Canadian-dollar market, building on the success of the last four fiscal years.

We are proud of the OFA’s diversity and remain committed to an inclusive and respectful environment. The organization continues to promote gender balance (currently the Board of Directors is over 60 per cent female), diversity, staff training and development, cultural sensitivity, and accessibility best practices.

We would like to thank the OFA staff for their hard work and the Board of Directors for their advice and oversight during the 2017–18 fiscal year. We look forward to working with staff and the Board in 2018–19.



Scott Thompson
Chair



Gadi Mayman
Chief Executive Officer

Management's Discussion and Analysis

Capital Markets Activities

Borrowing and Debt Management

Financial Reporting and Treasury Services

Financial Advice

Management's Discussion and Analysis

This section details management's discussion and analysis of the results achieved by the OFA for the Province in 2017–18 and its objectives for 2018–19.

Capital Markets Activities

Borrowing Program

Long-term borrowing for 2017–18 totalled \$33.9 billion, including \$11.5 billion in preborrowing for 2018–19, and took advantage of the low interest rate environment and strong demand for Ontario bonds. The weighted-average term to maturity of long-term Provincial debt issued has been extended from 8.1 years in 2009–10 to 12.1 years in 2017–18. This continued extension of the term to maturity allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's Interest on Debt (IOD) costs. This strategy, along with lower than forecast deficits and interest rates plus efficient and effective debt management by the OFA, has allowed the Province to project in its 2018 Annual Budget, \$281 million in interest on debt savings for the 2017–18 fiscal year.

Strong global investor demand for Canadian-dollar assets, the liquidity of Ontario benchmark bonds and continuing confidence in the Province allowed Ontario to borrow 62 per cent in the Canadian-dollar market in 2017–18. While this percentage was lower than the 74 per cent of 2016–17's borrowing completed in Canadian dollars, it remains roughly in line with the target announced in the *2017 Ontario Economic Outlook and Fiscal Review* — to complete approximately two-thirds of the total borrowing in the Canadian dollar market.

Investments

The OFA manages the Province's liquid reserve portfolio to optimize investment returns and to ensure sufficient funds are available to meet cash requirements. The average level of unrestricted liquid reserves in 2017–18 was \$30.1 billion. In the normal course of business, the Province may pledge or receive collateral for derivative transactions and repurchase agreements. Unrestricted liquid reserves are a more prudent measure of total liquid reserves as pledged collateral is netted out of the total liquid reserves calculation.

The OFA also invests on behalf of certain public bodies to help increase their returns by streamlining investment processes and reducing investment costs. In 2017–18, the OFA provided investment services to a number of agencies, boards, commissions and other public bodies, including Infrastructure Ontario, the Pension Benefits Guarantee Fund, Ontario Trillium Foundation, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario. Total funds managed were \$2.2 billion.

With OPG, the OFA continued to manage the investment activities of OPG's Used Fuel Segregated Fund and the Decommissioning Segregated Fund established under the Ontario Nuclear Funds Agreement (ONFA). As at March 31, 2018, the combined market value of the funds was \$21.3 billion compared to \$19.9 billion at March 31, 2017 and \$4.9 billion when the funds were formally established in 2003.

There are currently 33 external investment managers retained to invest ONFA funds in bonds, equities, and real assets. For the 12 months ending March 31, 2018, the ONFA funds' rate of return was 7.74 per cent, ahead of the market benchmark of 5.88 per cent. Since inception, the ONFA funds have returned 7.67 per cent annualized, outperforming the long-term target annualized rate of return of 5.15 per cent. This target is a real rate of return of 3.25 per cent annually, calculated by adding 3.25 to the rate of change in the Ontario Consumer Price Index.

Borrowing and Debt Management

The OFA manages the debt of the Province and OEFC.

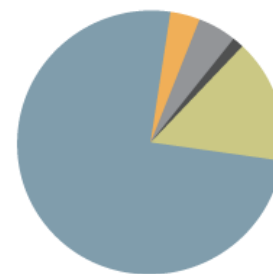
Total debt, which represents all borrowing without offsetting financial assets, was \$348.8 billion, interim as at March 31, 2018, compared to \$333.1 billion as at March 31, 2017, and a forecast of \$341.1 billion in the *2017 Budget*.

Ontario's net debt is the difference between total liabilities and total financial assets. Ontario's net debt is projected to be \$308.2 billion as of March 31, 2018 (March 31, 2017, \$301.6 billion). This projection for March 31, 2018 is \$3.7 billion below the forecast of \$311.9 billion in the *2017 Budget*. It includes the broader public sector's (BPS) net debt of \$13.3 billion (March 31, 2017, \$14.0 billion).

**Total Debt Composition
(Interim as at 2018 Budget)**

C \$348.8 Billion

Domestic Bonds	\$253.0 B (73%)
International Bonds	\$62.9 B (18%)
Treasury Bills	\$18.9 B (5%)
U.S. Commercial Paper	\$2.6 B (1%)
Non-Public Debt	\$11.4 B (3%)



Prudent risk management policies and practices mitigate the financial risks inherent in managing large debt and liquid reserve portfolios. A variety of financial instruments, such as swaps and forward contracts, are used to manage exposures to fluctuations in interest rates and foreign currency exchange rates. The OFA uses derivatives for hedging purposes to manage its foreign exchange and interest rate risks. The OFA's derivatives policy does not permit the creation of leverage using derivatives. The Province's financial risks are monitored on a continuous basis, and these risk exposures are marked-to-market daily and audited annually.

Risk management policies are reviewed annually and amendments are approved by the Board.

Performance

The OFA monitors and measures the performance of the borrowing and money market programs. The performance of long-term fixed rate borrowing for 2017–18 is measured by comparing the all-in borrowing cost against the statistical distribution of benchmark interest rates observed during the year, with the objective being to attain a low percentile rank. Regular long-term fixed borrowing achieved a percentile rank of 48.2, within the target range of 45-55 percentile; strategic foreign borrowing, achieved a percentile rank of, 49.8 outperforming the target range of 50-75 percentile.

The performance of liquid reserve investments (money market program) is measured relative to the returns of a custom benchmark with a term of approximately 61 days. The target is ± 2 basis points relative to the benchmark. The program returned 4 basis points more than the benchmark. Actual money market performance was \$11 million better than the benchmark for 2017–18.

Market Risk

Market risk is the risk of loss due to changes in interest and foreign exchange rates.

The OFA aims for a balanced debt maturity profile for the Province to mitigate the interest rate risk inherent in refinancing maturing debt and the floating-rate debt. The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign-exchange exposure of 5 per cent of debt issued for Provincial purposes.

The interim percentage of interest rate resetting exposure (net of liquid reserves) was 10.9 per cent of debt as at March 31, 2018. The interim foreign exchange exposure was 0.2 per cent of debt as at March 31, 2018.

All exposures were well within the Province's approved policy limits during 2017–18.

Credit Risk

Credit risk is the risk of loss due to default of bond issuers or counterparties of derivatives or other financial transactions. The lowest acceptable credit rating of counterparties for Ontario is A–. However, Ontario typically enters into swap transactions with new counterparties rated AA– or higher. Ontario's hedging transactions related to international borrowing result in credit risk exposure to its derivative counterparties. In order to manage and mitigate credit risk associated with derivative transactions, the Province has negotiated swap collateral agreements known as Credit Support Annexes (CSAs) with many of its derivatives counterparties. A CSA is a bilateral agreement between two parties that provides the terms and conditions for posting collateral in order to offset the credit exposure related to derivative transactions.

The Province's interim net credit risk exposure associated with the derivative portfolio as at March 31, 2018 was \$505 million, increasing from \$143 million as at March 31, 2017, largely due to an increase in exposure to counterparties without a CSA. Net credit risk exposure represents the loss that the Province would incur if every counterparty to which the Province had credit risk exposure were to default at the same time, less the mitigating impact of netting provisions as prescribed in contractual master agreements.

As at March 31, 2018, over 99 per cent of Ontario's credit exposure was to counterparties rated AA– or better, essentially unchanged from 99 per cent as at March 31, 2017.

Liquidity Risk

Liquidity risk is the risk that liquid reserves will not be sufficient to meet the Province's cash requirements. This risk is controlled through the management of operational cash flows, liquid reserve levels and the short-term borrowing program.

The Province's Treasury bill and U.S. Commercial Paper programs have authorized limits of \$33.0 billion and \$15.0 billion, respectively. As at March 31, 2018, the outstanding borrowing under the Province's Treasury bill and U.S. Commercial Paper programs stood at \$17.5 billion and \$3.8 billion, respectively.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The OFA manages operational risks through divisional procedures and contingency plans as well as appropriate staffing and training, all of which are reviewed on an ongoing basis. The OFA's Business Continuity Plan (BCP) ensures critical operations are completed in a timely manner in the event of an unforeseen business disruption. All BCP infrastructure and services were successfully tested in two corporate exercises held throughout the year.

The reliability of information technology (IT) and computing systems is crucial to ensure the OFA carries out its mandate efficiently and effectively. The Strategic Corporate Services Division (SCSD) supports the OFA by ensuring the efficient and effective management of business critical services including technology & communication systems, procurement, facilities, human resources, corporate business continuity and all related policies.

All systems and services were supplied within defined Service Level Agreements, with no major failures or breaches realized in 2017–18. With upticks in data creation and consumption, and rising global cyber security threats, continued resource investment contributes to the proactive maintenance and management of systems, and will continue to be handled with the highest diligence in defense of the systems that support the OFA.

Market Developments - The Canadian Depository for Securities (CDS) Fees

On December 22, 2016, CDS advised issuers that it had received regulatory approval to expand the scope of its fees, a process which CDS initiated in November 2014 in the face of significant concerns from various market participants, including several municipal and provincial issuers across Canada. In conjunction with other government issuers, the OFA undertook considerable advocacy efforts with CDS and its regulators to clarify the scope and applicability of these new fees which ultimately resulted in CDS withdrawing its initial proposal and introducing two new fee proposals. CDS began charging issuers on March 1, 2017 in connection with the two new fee proposals, however, some of the initial fees proposed in November 2014 were reduced and all existing debt was 'grand-fathered' meaning that the fees would only apply to new domestic securities issued after March 1, 2017.

Credit Rating Agency Relations

The Province requires ratings from recognized credit rating agencies to issue debt in the capital markets. The OFA ensures credit rating agencies understand government policies and budget direction as well as economic and fiscal performance, and properly reflect these in their reports and decisions. Through the OFA, the Province maintains a one-window contact with the rating agencies to ensure information provided to them is consistent and coordinated.

Capital Markets and Borrowing and Debt Management Objectives for 2018–19

The OFA will continue to diversify the Province's Canadian-dollar borrowing program using a combination of syndicated issues, bond auctions, floating-rate notes, medium-term notes and Ontario Savings Bonds. The OFA also plans on issuing green bonds in the Canadian-dollar market. These bonds are expected to be issued

at the same yield as Ontario's conventional bonds of comparable term and size. The Province announced a target in the *2017 Ontario Economic Outlook and Fiscal Review* — to complete approximately two-thirds of the total borrowing in the Canadian dollar market in 2018–19. This is in line with the historical average of issuing approximately three-quarters in that market, but represents a considerable decline in the reliance on foreign markets during the global financial crisis beginning in 2008. For example, in 2009–10, more than 50 per cent of the Province's issuance was in international markets.

Ontario will continue to be flexible, monitoring the Canadian-dollar and international markets, issuing bonds in different terms and currencies, and responding to investor preferences. Investor relations will remain a priority, with potential road shows in Canada, Europe and the United States.

The Province will continue to hedge foreign exchange and interest rate risks when borrowing in international markets. This hedging process may become more complex due to regulatory reforms in the derivatives markets under the U.S. *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank), the European Market Infrastructure Regulation (EMIR), and Bank for International Settlements *Basel III* regulations. These initiatives may increase the cost of hedging. Hedging may also become more expensive if proposals such as financial transaction taxes or mark-to-market derivatives taxes are legislated and implemented in Europe or the United States.

Cost-effective and prudent debt management strategies will continue to be key objectives in 2018–19. The OFA will comply with risk management policies and portfolio program limits approved by the Boards of Directors of the OFA and OEFC. Risk management policies will be reviewed and revised as required in response to an evolving regulatory and capital markets environment. On behalf of the Province, the OFA will continue negotiating CSAs with other major counterparties.

The OFA will also manage the Province's liquid reserves conservatively. With OPG, the OFA will continue to administer ONFA investments consistent with the objectives of ONFA, so the Province's contingent liabilities under ONFA are prudently managed. As well, the OFA will continue to invest on behalf of certain public bodies.

Financial Reporting and Treasury Services

In 2017–18, the OFA successfully leveraged higher deposit returns from the Canadian scheduled banks to strategically invest the Province's liquid reserves thereby contributing to higher overall returns.

The OFA continued to participate in the cross-ministry Working Group, Executive Governance Committee and Payment Card Industry (PCI) Enterprise Coordination Office to ensure that ministries maintain compliance with mandatory security requirements for debit/credit card acceptance.

The OFA provided advice to the Ministry of Government and Consumer Services (MGCS) on their corporate purchasing/travel card program as well as an analysis of related *Financial Administration Act* considerations. The OFA's contributions resulted in MGCS implementing changes to the guarantee of cash advances obtained by government employees under the travel card program which have significantly reduced risk exposure to the Province.

The OFA continued to engage with provincial and federal counterparts on treasury and cash management program issues throughout the year, including hosting a Federal/Provincial/Territorial Treasury Round Table meeting to discuss jurisdictional banking issues/development in May 2018.

The OFA continued to work with the other provinces to communicate concerns with the Financial Instruments standard to the Public Sector Accounting Board (PSAB). As a result, PSAB has delayed the implementation of this standard by two years to April 1, 2021 to address a number of issues.

The OFA continued to provide agency financial statements, as well as reporting of provincial debt, derivatives and investments. As in past years, the OFA's 2016–17 Financial Statements received an unqualified opinion from the Office of the Auditor General. As part of the audit of the Province's Public Accounts, the Office of the Auditor General audits the OFA's financial reporting of the Province's debt and interest on debt. The 2017–18 Public Accounts audit is currently on-going, the 2016–17 audit, in keeping with the past years, did not identify any material issues.

Financial Reporting and Treasury Services Objectives for 2018–19

While compliance with PCI Data Security Standards is now in its sustainment phase, the OFA will continue to work with the other OPS stakeholders and the credit/debit card acquirer to ensure that the mandatory external reviews continue to report that the Province is in compliance with all applicable PCI data security standards which are reviewed and updated periodically by the PCI Council.

The OFA will continue to work with TD Merchant Services, the Province's card acquirer, to explore options for the Province to begin accepting new value-added card products and technology.

The OFA will continue to work with the Ministry of Community and Social Services on refining the reloadable payment card as a more efficient payment mechanism for unbanked benefit recipients under the Ontario Disability Support Program.

The OFA will continue to work with the Office of the Provincial Controller on providing feedback on Chapter 2 of the Annual Report of the Auditor General of Ontario which deals with Ontario's Public Accounts.

The OFA will work closely with PSAB and the other provinces in continuing to communicate concerns to PSAB on the Financial Instruments Standard and to effectively use the two year delay in the implementation of the standard to effect essential changes. The OFA will continue to liaise with the Office of the Provincial Controller and, where required, the Office of the Auditor General of Ontario in communicating with PSAB.

The OFA will continue to maintain a leading edge Business Continuity Plan to ensure that timely payments are made to the BPS (including hospitals, municipalities and school boards) to manage the Province's financial risks in real time, and to ensure that adequate funds are available to settle all of the Province's multibillion dollar financial transactions even in the event of unforeseen disruptions.

Financial Advice

The OFA was active in providing financial advice and implementation assistance to ministries, Crown agencies and other public bodies on corporate and electricity finance policies and initiatives.

The OFA will continue to assist the Province in identifying efficient and effective public service delivery models by providing financial analysis and advice, and implementation support where applicable, with respect to potential opportunities for partnerships with the private sector and with respect to opportunities to optimize the returns on its government business enterprises and other assets.

Projects – Advisory Activities

The OFA continued to advise the Province on venture capital investments made by the Ontario Capital Growth Corporation through the Ontario Venture Capital Fund, the new Northleaf Venture Catalyst Fund, and the Ontario Emerging Technology Fund.

The OFA continued to provide analysis and advice in respect of a number of Infrastructure Ontario projects.

The OFA reviewed and provided advice on proposals received under the Jobs and Prosperity Fund (JPF) program.

The OFA provided analysis, advice and implementation support in respect of financing for electricity price mitigation measures.

Projects – Other Financial Services

The OFA's framework for financing public bodies mandates the OFA to provide long-term financing to Crown agencies, school boards, colleges, hospitals and specified Provincial corporations, boards and commissions. Under this framework, the OFA provided new loans to a number of public bodies, including Ontario colleges, school boards and Crown corporations totalling \$120 million excluding drawings against a total of \$2.5 billion short-term credit facilities for the Independent Electricity System Operator (IESO) in 2017–18.

The OFA provided financial analysis and support on financial transactions (e.g., Stelco restructuring).

The OFA provided financial analysis, advice and implementation support on initiatives related to government assets. This included the public offering of shares in Hydro One, which closed in May 2017, the sale of shares in Hydro One to First Nations in Ontario, and the sale of designated Provincial real estate assets. The OFA also provided analysis, advice and implementation support with respect to the associated financial impacts on OEFC from the sale of shares in Hydro One.

The OFA, on behalf of the Province, has received a number of applications for the Province's Aboriginal Loan Guarantee Program, which are in various stages of completion and are under review by staff and a third party due diligence provider. As at March 31, 2018, nine loan guarantees totalling approximately \$250 million have been approved under the program.

The OFA provided services to OEFC, including facilitating loan agreements between OEFC and OPG to provide financing for general corporate purposes and electricity supply projects. The OFA provided analysis and advice on and continued to implement various OFA and OEFC credit facilities to the IESO.

The OFA assisted in the continued implementation of ONFA, including reviewing OPG's 2018 annual budget for eligible expenditures under ONFA for nuclear waste management and advising the Minister of Finance on OPG's financial guarantee requirements to the Canadian Nuclear Safety Commission (CNSC) for the 2018 to 2022 period.

The OFA also provided analysis to the Minister of Finance and the government to support electricity policies and initiatives, focusing on potential fiscal and economic impacts on the Province and OEFC.

Financial Advice Objectives for 2018–19

In 2018–19, the OFA will continue to provide financial advice and assistance to the Minister of Finance, ministries, Crown agencies and other public bodies on financial policies and initiatives.

Activities will include advising ministries and agencies on cost-effective financing policies and structures, comprehensive advice on structuring and implementing financial transactions and accurate determination of value-for-money benchmarks.

The OFA will provide financial analysis and advice on managing the government's assets and measures to support government initiatives and to facilitate cost-effective borrowing by public sector organizations.

Financial analysis and advice will be provided to the Minister of Finance with respect to policy initiatives in the electricity sector, including the implementation of ONFA, managing the debt and other liabilities of OEFC, and electricity rate mitigation programs. Such financial analysis and advice includes the impact of policy initiatives on the Province's finances (including those of OEFC) and on the economy.

As required, the OFA will advise on electricity supply and demand initiatives, including facilitating potential financing to OPG for supply initiatives.

The OFA will continue to provide analysis and advice to the Minister of Finance on applications to and loan guarantees under the Aboriginal Loan Guarantee Program.

The OFA will continue to provide analysis and advice as required on current or proposed business support programs or initiatives. In addition, the OFA will continue to provide analysis and advice where requested on transformation opportunities for ministries, Crown agencies and other public bodies.

Summary of Financial Results

The Ontario Financing Authority (OFA) manages the Province's debt, interest on debt and investment of liquid reserves, and recovers the cost of these services from the Province. The OFA provides loans to Crown agencies and other public bodies on the direction of the Province. It also provides other financial services to Crown agencies and other public bodies. These costs are recovered on a fee-for-service basis.

The outstanding balance of the loans to public bodies at March 31, 2018 was \$5,740.2 million, a net decrease of \$263.3 million from \$6,003.5 million in March 2017, including a write-off of \$0.9 million in interest spread receivable from Ottawa Convention Centre (Note 5). The table below summarizes these changes:

(in thousands of dollars)

Borrower	March 31, 2018	March 31, 2017	Change
Colleges of Applied Art and Technologies	\$328,940	\$320,653	\$8,287
Independent Electricity System Operator	13,766	81,209	(67,443)
Niagara Parks Commission	4,214	4,553	(339)
Ontario Cannabis Retail Corporation	25,000	–	25,000
Ontario Lottery and Gaming Corporation	32,653	33,769	(1,116)
Ontario Northland Transportation Commission	2,158	2,564	(406)
Ottawa Convention Centre Corporation	47,115	48,016	(901)
Royal Ontario Museum	23,734	26,000	(2,266)
School Boards	5,254,496	5,473,075	(218,579)
University of Ontario Institute of Technology	–	5,501	(5,501)
			\$(263,264)

The OFA continued to provide investment management services to other public bodies in managing aggregate amount of \$2,144 million (2017 – \$1,904 million) (Note 6).

The OFA recovered operating costs from agencies and related parties amounting to \$5.0 million for the year ended March 31, 2018 (2017 – \$4.8 million) (Note 6). The OFA's annual surplus for the year amounted to \$3.2 million (2017 – \$3.7 million) from the retention of the interest rate spread on loans to public bodies.

Prudent financial management on the part of the OFA ensured that actual expenditures continued to be below the budget resulting in cost recoveries from the Province that were \$0.8 million lower than the budgeted amount. Interest revenue was \$0.8 million greater than the budget contributing to an equal increase in the annual surplus.

Financial Statements

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Financial Statements

Responsibility for Financial Reporting

The accompanying Financial Statements of the OFA have been prepared in accordance with Canadian public sector accounting standards. The preparation of the 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 June 15, 2018.

Management maintains a system of internal controls designed to provide reasonable assurance that 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 and Risk Management Committee of the Board.

The Board, through the Audit and Risk Management Committee, is responsible for ensuring management fulfils its responsibilities for financial reporting and internal controls. The Audit and Risk Management Committee meets quarterly with management and the internal auditors, and at least twice yearly with the external auditor, to deal with issues raised by them and to review the financial statements before recommending approval by the Board.

The Financial Statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the Financial Statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of management:



Gadi Mayman
Chief Executive Officer



Ken Kandeepan
Chief Financial and Risk Officer

Auditor's Report



**Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario**

Independent Auditor's Report

**To the Ontario Financing Authority
and to the Minister of Finance**

I have audited the accompanying financial statements of the Ontario Financing Authority, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net financial assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Financing Authority as at March 31, 2018 and the results of its operations, its change in net financial assets and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

20 Dundas Street West
Suite 1530
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-327-9862
tty 416-327-6123

20, rue Dundas ouest
suite 1530
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-327-9862
ats 416-327-6123
www.auditor.on.ca

Toronto, Ontario
June 15, 2018

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

ONTARIO FINANCING AUTHORITY

Statement of Financial Position

As at March 31, 2018

<i>(in thousands of dollars)</i>	2018	2017
FINANCIAL ASSETS		
Cash	\$ 28,653	\$ 21,664
Due from agencies & related parties (Note 6) (c)	1,970	3,555
Due from the Province of Ontario	2,176	1,743
	<hr/>	<hr/>
	32,799	26,962
LIABILITIES		
Accounts payable and accrued liabilities	2,176	1,743
Due to the Province of Ontario	3,637	1,422
Deferred revenue (Note 3)	1,621	1,504
	<hr/>	<hr/>
	7,434	4,669
Net financial assets	25,365	22,293
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 2)	1,240	1,196
Prepaid expenses	381	308
	<hr/>	<hr/>
	1,621	1,504
Accumulated surplus	\$ 26,986	\$ 23,797

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors:



Scott Thompson
Chair



Gadi Mayman
Chief Executive Officer

ONTARIO FINANCING AUTHORITY

Statement of Operations

For the year ended March 31, 2018

(in thousands of dollars)

	2018	2018	2017
	Budget	Actual	Actual
REVENUE			
Cost recovery from the Province of Ontario (Note 4)	\$ 21,752	\$ 20,073	\$ 18,280
Cost recovery from agencies & related parties (Note 6) (c)	4,859	5,004	4,841
Amortization of deferred capital contributions (Note 3)	789	768	831
Interest revenue (Note 5)	3,305	4,090	3,655
	<u>30,705</u>	<u>29,935</u>	<u>27,607</u>
EXPENSES			
Salaries, wages and benefits	22,175	21,103	19,257
Administrative and general	4,536	3,974	3,864
Bad debt expense	—	901	—
Amortization of tangible capital assets (Note 3)	789	768	831
	<u>27,500</u>	<u>26,746</u>	<u>23,952</u>
Annual surplus	3,205	3,189	3,655
Accumulated surplus at beginning of year	23,797	23,797	20,142
Accumulated surplus at end of year	<u>\$ 27,002</u>	<u>\$ 26,986</u>	<u>\$ 23,797</u>

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY
Statement of Change in Net Financial Assets
For the year ended March 31, 2018

<i>(in thousands of dollars)</i>	2018 Budget	2018 Actual	2017 Actual
Annual surplus	\$ 3,205	\$ 3,189	\$ 3,655
Acquisition of tangible capital assets (Note 3)	(817)	(812)	(826)
Amortization of tangible capital assets (Note 3)	789	768	831
Prepaid expenses	—	(73)	42
Change in net financial assets	3,177	3,072	3,702
Net financial assets at beginning of year	22,293	22,293	18,591
Net assets at end of year	\$ 25,470	\$ 25,365	\$ 22,293

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY

Statement of Cash Flow

For the year ended March 31, 2018

<i>(in thousands of dollars)</i>	2018	2017
Operating transactions		
Annual surplus	\$ 3,189	\$ 3,655
Less: Items not affecting cash		
Amortization of tangible capital assets	768	831
(Increase)/Decrease in prepaid expenses	(73)	42
Increase/(Decrease) in deferred revenue	117	(47)
Changes in non-cash working capital:		
Decrease/(Increase) in due from agencies & related parties	1,585	(467)
(Increase)/Decrease in due from the Province (net of accounts payable)	(433)	176
Increase/(Decrease) in accounts payable	433	(176)
Increase in recoveries due to the Province	2,215	76
Cash (used)/provided by operating transactions	7,801	4,090
Capital transaction		
Cash used to acquire tangible capital assets	(812)	(826)
Cash applied to capital transactions	(812)	(826)
Net change in cash	6,989	3,264
Cash at beginning of year	21,664	18,400
Cash at end of year	\$ 28,653	\$ 21,664

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY

Notes to Financial Statements

For the year ended March 31, 2018

BACKGROUND

The Ontario Financing Authority (the "OFA") 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 OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario ("the Province");
- manages the Provincial debt;
- provides centralized financial services for the Province including banking and cash management;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies to borrow and invest money;
- acts at the direction of the Province in lending to certain public bodies;
- invests on behalf of some public bodies;
- with Ontario Power Generation Inc. (OPG), manages the investment activities of OPG's Used Fuel Segregated Fund and Decommissioning Segregated Fund; and
- carries out the day-to-day operations of Ontario Electricity Financial Corporation (OEFC) and provides a broad range of financial services to Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

In addition, the OFA's objects include:

- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

The Memorandum of Understanding between the OFA and the Minister of Finance is an administrative agreement that serves as an important governance tool for the OFA in delivering on its mandate and objectives.

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

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting: These financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards for provincial reporting entities established by the Canadian Public Sector Accounting Board.

(b) Tangible capital assets: Tangible capital assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the assets, with a half-year

provision applied in both the year of acquisition and the year of disposal. The estimated useful life of the assets are as follows:

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

Funding received from the Province for the acquisition of tangible capital assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the tangible capital assets.

(c) Measurement Uncertainty: The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Items requiring the use of significant estimates include: useful life of tangible capital assets, accruals and the accrued benefit obligation. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

(d) Accounts Payable and Accrued Liabilities: Accounts payable relate to normal business transactions with third-party vendors and are subject to standard commercial terms. Accrued liabilities relate to accruals for salaries and benefits.

(e) Revenue and Expenses: OFA is funded from the Consolidated Revenue Fund (CRF) as part of Treasury Program. OFA can charge fees subject to statutory and regulatory authority and it earns revenues from public bodies outside of the CRF; the OFA retains revenues earned from the interest rate spread on its loans to public bodies.

(f) Financial Instruments: The OFA's financial assets and liabilities are accounted for as follows:

- Cash is subject to an insignificant risk of change in value so carrying value approximates fair value; and
- Accounts receivable, due from agencies & related parties, due from the Province of Ontario, accounts payable, due to the Province of Ontario and deferred revenue are recorded at cost.

The OFA does not use derivative financial instruments on its own behalf.

2. TANGIBLE CAPITAL ASSETS

	Year ended March 31, 2018			
	Computer Hardware	Leasehold Improvements	Furniture and Equipment	Total
<i>(in thousands of dollars)</i>				
Cost				
Opening balance, April 1, 2017	\$14,026	\$1,858	\$1,126	\$17,010
Additions	693	35	84	812
Disposals	(523)	—	—	(523)
Closing balance, March 31, 2018	14,196	1,893	1,210	17,299
Accumulated Depreciation				
Opening balance, April 1, 2017	12,948	1,790	1,076	15,814
Amortization	693	54	21	768
Disposals	(523)	—	—	(523)
Closing balance, March 31, 2018	13,118	1,844	1,097	16,059
Net Book Value, March 31, 2018	\$1,078	\$49	\$113	\$1,240

	Year ended March 31, 2017			
	Computer Hardware	Leasehold Improvements	Furniture and Equipment	Total
<i>(in thousands of dollars)</i>				
Cost				
Opening balance, April 1, 2016	\$13,650	\$1,833	\$1,093	\$16,576
Additions	768	25	33	826
Disposals	(392)	—	—	(392)
Closing balance, March 31, 2017	14,026	1,858	1,126	17,010
Accumulated Depreciation				
Opening balance, April 1, 2016	12,702	1,608	1,065	15,375
Amortization	638	182	11	831
Disposals	(392)	—	—	(392)
Closing balance, March 31, 2017	12,948	1,790	1,076	15,814
Net Book Value, March 31, 2017	\$1,078	\$68	\$50	\$1,196

3. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province for the acquisition of tangible capital assets as well as prepaid expenses to be allocated over the period the resources are consumed.

(in thousands of dollars)

	Year ended March 31, 2018		
	Tangible Capital Assets	Prepaid Expenses	Total
Balance, beginning of year	\$ 1,196	\$ 308	\$ 1,504
Additions	812	532	1,344
Amortization	(768)	–	(768)
Expensed in the current year	–	(459)	(459)
Balance, end of year	\$ 1,240	\$ 381	\$1,621

(in thousands of dollars)

	Year ended March 31, 2017		
	Tangible Capital Assets	Prepaid Expenses	Total
Balance, beginning of year	\$ 1,201	\$ 350	\$ 1,551
Additions	826	548	1,374
Amortization	(831)	–	(831)
Expensed in the current year	–	(590)	(590)
Balance, end of year	\$ 1,196	\$ 308	\$ 1,504

Amortization of \$768,000 (2017 – \$831,000) represents the offset to the contributions received for the purchase of tangible capital assets. The \$459,000 (2017 – \$590,000) expensed represents the amount allocated to the current year expenses from the prepaid expenses.

4. DEBT AND INVESTMENT MANAGEMENT FOR THE PROVINCE

The OFA manages debt on behalf of the Province amounting to \$348.8 billion, as at March 31, 2018 (2017 Actual – \$333.1 billion) as per the interim projection published in the 2018 Annual Budget. The OFA also manages investments amounting to \$55.6 billion as at March 31, 2018 (2017 – \$44.4 billion) including \$21.3 billion (2017 – \$19.9 billion) under the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the *Ontario Nuclear Funds Agreement (ONFA)*. The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to set aside funds necessary to dispose of nuclear waste and used fuel and to decommission nuclear power stations. The agreement came into force on July 24, 2003.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2018 was \$20.1 million (2017 – \$18.3 million).

5. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in these financial statements.

Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating \$18.9 billion expiring from 2036 to 2044. Principal repayments received from public bodies by the OFA are forwarded to the Province. The interest rates charged to public bodies is generally slightly higher than the rate charged by the Province on the advances to fund the loans ("the spread").

The OFA will generally retain a portion of the spread in order to recover the administrative costs of managing these loans. The spread retained by the OFA includes a cost recovery component and, where applicable, a proxy commercial interest rate spread. The inclusion of the proxy commercial spread results in an interest rate equivalent to what would be charged on the loan by a commercial lender and reflects the relative risk associated with the loan. During the year ended March 31, 2018, \$4.1 million in interest rate spread revenue was recognized (2017 – \$3.7 million) of which \$0.6 million is receivable at year end (2017 – \$2.1 million).

Loans to Public Bodies by the Province:

As at March 31, 2018, the principal amounts receivable by the OFA on behalf of the Province represent long term and short term loans. Interest accrued on the outstanding loans listed below amounted to \$91.1 million (2017 – \$93.9 million), of which \$90.6 million (2017 – \$92.7 million) will be flowed to the Province.

These are related party transactions, with the exception of those with the Corporation of the City of Windsor and the University of Ontario Institute of Technology.

(in thousands of dollars)

	March 31, 2018	<i>March 31, 2017</i>
Colleges of Applied Art and Technologies	\$328,940	\$320,653
Corporation of the City of Windsor	8,171	8,171
Independent Electricity System Operator	13,766	81,209
Niagara Parks Commission	4,214	4,553
Ontario Cannabis Retail Corporation	25,000	–
Ontario Lottery and Gaming Corporation	32,653	33,769
Ontario Northland Transportation Commission	2,158	2,564
Ottawa Convention Centre Corporation	47,115	48,016
Royal Ontario Museum	23,734	26,000
School Boards	5,254,496	5,473,075
University of Ontario Institute of Technology	–	5,501
Total	\$ 5,740,247	\$ 6,003,511

Colleges of Applied Art and Technologies have been loaned \$328.9 million (2017 – \$320.7 million) for various campus projects including new and expanded student residences, computer equipment, parking facilities, and an energy saving capital project. These loans bear interest ranging from 1.32 per cent to 5.75 per cent and mature from 2018 to 2042.

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. This is a 20 year loan bearing interest at 6.41 per cent and maturing in March 2021. The outstanding balance is \$8.2 million (2017 – \$8.2 million).

The Independent Electricity System Operator (IESO), a corporation established pursuant to Part II of the *Electricity Act, 1998*, had been provided a maximum \$975 million credit facility to primarily fund the Regulated Price Plan variance account. Under the amended agreement between OFA and IESO on November 6, 2017, this credit facility has been reduced to a maximum of \$475 million. This credit facility has been extended until November 30, 2019. As at March 31, 2018, the IESO has drawn \$13.5 million from this facility for Rural or Remote Electricity Rate Protection (RRRP) variance account bearing an interest rate at 1.52 per cent. In addition, under a new agreement entered into between the OFA and the IESO on November 6, 2017, the IESO has been provided a maximum \$2 billion credit facility for the purpose of supporting the IESO's role in implementation and administration of the *Ontario Fair Hydro Act, 2017*. This credit facility expires on September 23,

2022. As at March 31, 2018, the IESO has drawn \$0.3 million from this facility bearing interest rate at 1.52 per cent.

The Niagara Parks Commission, a Crown agency of the Province, operating under the *Niagara Parks Act, 1990*, has been provided a loan of \$4.2 million (2017 – \$4.6 million) to finance additional capital costs incurred for the redevelopment of phase I of Table Rock House in Queen Victoria Park, Niagara Falls. This loan bears interest at 5.07 per cent and matures in April 2027.

The Ontario Cannabis Retail Corporation (OCRC) is a Crown agency of the Province, operating under the *Ontario Cannabis Retail Corporation Act, 2017*, has been provided a loan facility of \$150 million for the purpose of funding the set-up and operating costs. As of March 31, 2018, OCRC has drawn \$25 million from this facility bearing interest rate of 1.79 per cent.

The Ontario Lottery and Gaming Corporation (OLG) is a Crown agency of the Province under the *Ontario Lottery and Gaming Corporation Act, 1999*, and has been provided loans totalling \$32.6 million (2017 – \$33.8 million) to fund several projects, bearing interest at 2.65 per cent and maturing from April 2018 to September 2022.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. ONTC's total borrowing of \$2.2 million (2017 – \$2.6 million) matures from 2020 to 2031 and bears interest ranging from 4.90 to 5.22 per cent.

Ottawa Convention Centre Corporation (OCC), a Crown agency of the Province governed under the *Ottawa Convention Centre Corporation Act, 1988*, was provided a 25 year loan of \$40.0 million in September 2011, bearing annual interest at 4.67 per cent with a maturity in September 2036. Pursuant to a directive signed by the Minister of Finance on November 2, 2012, the Province provided OCC with a repayment deferral of principal and interest up to five years, with interest to continue to accrue over the five year deferral period. In fiscal 2016–17, the Province had recorded an allowance for doubtful accounts of \$47.1 million for the principal and capitalized interest. Subsequently, in fiscal 2017–18, the OFA has written off \$0.9 million for its share of the capitalized interest. Two settlement agreements became effective as at March 31, 2018, in respect to OCC's outstanding principal and accrued interest. One agreement signed by the Minister of Finance, releases the OFA from all of its obligations (principal and interest) relating to advances made to the OFA, in consideration of the other release agreement between the OFA, OCC and the Ministry of Tourism, Culture and Sport. The latter agreement releases OCC for the full amount of any outstanding principal and interest in consideration of the OCC agreeing to make payments on or before March 31 in each fiscal year to the OFA in the amount of at least \$1 million annually, with the first payment to be made by March 31, 2019, which will then be transferred to the Province. If the OCC is not in a position to make full or partial payment, the Ministry of Tourism, Culture and Sport will make the payment to the OFA on behalf of the OCC. The agreement also requires OCC to pay to the OFA, on an annual basis, any surplus cash not required for operational purposes. This potential payment to the OFA is separate from the \$1 million annual payment.

The Royal Ontario Museum (ROM) is a Crown agency of the Province under a Special Act of the Ontario Legislature and has borrowed \$23.7 million (2017 – \$26.0 million) bearing a floating

interest rate, currently set at 3.24 per cent. All outstanding loans are scheduled to be repaid by March 2027.

School boards have been provided loans under various programs beginning in 2006. During the year ended March 31, 2018, school boards made semi-annual blended payments of principal and interest, leaving the total outstanding amount at \$5,254.5 million (2017 – \$5,473.0 million). These loans bear interest ranging from 2.43 to 5.38 per cent and mature from 2019 to 2042. The School Board loan program has been gradually replaced by a Ministry of Education capital grant facility model. Since April 1, 2017, this new funding model fully replaced the need for capital loans from the OFA. School Boards will, however, continue to make interest and principal payments until all outstanding balances are paid off.

The University of Ontario Institute of Technology (UOIT) is a corporation established under the *University of Ontario Institute of Technology Act, 2002*. The Province has provided a five-year term loan which matured in October 2017 and was repaid in full.

6. INVESTMENT AND DEBT MANAGEMENT FOR RELATED PARTY AGENCIES

- a. The OFA provides investment management services to the following related party agencies. Fees are aimed at recovering OFA costs and are charged on the basis of either the market or par value of the assets under management based on a range of up to 0.20 per cent.

Deposit Insurance Corporation of Ontario	Ontario Immigrant Investor Corporation
Northern Ontario Heritage Fund	Ontario Infrastructure and Lands Corporation
Ontario Capital Growth Corporation	Ontario Trillium Foundation
Pension Benefits Guarantee Fund	

Investments managed on behalf of these entities totalled \$2.1 billion at March 31, 2018 (2017 – \$1.9 billion).

- b. The OFA provides debt management services to the following related party agencies on a cost recovery basis:

Ontario Electricity Financial Corporation (OEFC)

The OFA provides financial services and advice on a cost recovery basis to OEFC and manages its debt portfolio of approximately \$19.1 billion (2017 – \$20.4 billion).

Ontario Infrastructure and Lands Corporation (OILC)

The OFA provides borrowing and other financial services and advice on a cost recovery basis to OILC and manages its debt of approximately \$3.2 billion at March 31, 2018 (2017 – \$3.7 billion) including loans from the Province, a provincial agency and third parties.

Metrolinx

The OFA provides services to Metrolinx with respect to its fuel commodity hedging program on a cost recovery basis.

- c. The total costs recovered and receivables outstanding for related party agencies at March 31, 2018 are set out below:

(in thousands of dollars)

	March 31, 2018	<i>March 31, 2017</i>
Costs Recovered:		
OEFC	\$ 3,832	\$ 3,765
OILC	672	740
Metrolinx	108	-
Investment Management	392	336
Total	\$ 5,004	\$ 4,841
Receivables:		
OEFC	\$ 1,083	\$ 1,070
OILC	166	187
Other	49	94
Investment Management	110	86
Interest Rate Spread (Note 5)	562	2,118
Total	\$ 1,970	\$ 3,555

7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The main risks that the OFA's financial instruments are exposed to are credit risk, liquidity risk and market risk. These risks are limited to the financial instruments reflected on the statement of financial position and do not extend to the financing provided to various public bodies, disclosed in note 5 to the financial statements.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment into which it has entered. This risk is minimal as most of the receivables are from the Province of Ontario.

The risk of not collecting the receivables related to OEFC, OILC and others is also considered to be minimal.

Liquidity risk

Liquidity risk is the risk that the OFA will not be able to meet its cash flow obligations as they fall due. The OFA's exposure to liquidity risk is minimal as all operating and capital expenses are cost recovered from the Province of Ontario.

Market risk

The market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the OFA. The OFA is not exposed to market risk.

8. FUTURE EMPLOYEE BENEFITS

(a) Pension Benefits

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan (PSPP), which is a multi-employer defined benefit pension plan established by the Province of Ontario. The Ministry of Government and Consumer Services (MGCS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGCS and is not reported in these financial statements.

(b) Accrued Employee Benefits Obligation

The legislated severance entitlement upon retirement for the Association of Management, Administrative and Professional Crown Employees of Ontario (AMAPCEO), excluded employees, management-excluded employees and other Management employees who retire after January 1, 2016, will be paid based on the salary in effect on December 31, 2015. The legislated severance entitlement upon retirement for the Ontario Public Service Employee Union (OPSEU), excluded employees who retire after January 1, 2016, will be paid based on the salary in effect on December 31, 2016.

For all other employees subject to terms set out in collective agreements who have completed five years of service, the OFA provides termination pay equal to one week's salary for each year of service up to a maximum of 50 percent of their annual salary.

The costs of this legislated severance entitlements earned by AMAPCEO and OPSEU, excluded employees, management excluded employees, management employees as at March 31, 2018 amounted to \$3,877,000 (2017 – \$3,918,000). In addition, the unused vacation entitlements earned by all employees as at March 31, 2018 amounted to \$945,000 (2017 – \$757,000).

On an ongoing basis, MGCS is responsible for funding the legislated severance entitlements, as well as unused vacation entitlements and accordingly no additional expense or liability is reported in these financial statements. Accrued employee benefits obligation is recorded at cost on the entitlements earned by employees up to March 31, 2018. A fair value estimate based on actuarial assumptions about when these benefits will actually be paid has not been made, as it is not expected that there would be a significant difference from the recorded amount.

9. COMMITMENTS AND CONTINGENCIES

Lease Commitment:

The OFA rents its premises under an operating lease which has been extended for another five years to June 30, 2022, and the minimum base rental payments for the lease are as follows:

(in thousands of dollars)

	<u>March 31, 2018</u>
2019	893
2020	952
2021	972
2022	972
Total	<u>\$3,789</u>

OFA is committed to pay its proportionate share of realty taxes and operating expenses for the premises for the year ended March 31, 2018, which amounted to \$995,438 (2017 – \$999,900).

Committed Credit Facilities:

At the direction of the Province, the OFA has committed to finance a number of public bodies for which funds have not yet been advanced. The details are as follows:

The Deposit Insurance Corporation of Ontario (DICO) was provided a maximum \$400 million revolving credit facility to ensure DICO's capacity to address systematic difficulties in the credit union system or the failure of large institutions that require resources above those in the Deposit Insurance Reserve Fund (DIRF) which is currently valued at approximately \$256.7 million. All principal and interest is required to be repaid by December 31, 2029. As of March 31, 2018, DICO had not utilized this credit facility.

The Ontario Infrastructure and Lands Corporation (OILC) is a Crown agency of the Province under the *Ontario Infrastructure and Lands Corporation Act, 2011* and has been provided a Revolving Credit Facility to a maximum amount of \$100 million maturing on March 27, 2023. As of March 31, 2018, OILC had not drawn any funds from this facility.

The Ontario Northland Transportation Corporation (ONTC) has been provided a Revolving Credit Facility to a maximum amount of \$5 million on March 16, 2018 maturing on October 30, 2020. As of March 31, 2018, ONTC had not drawn any funds from this facility.

The Ontario Lottery and Gaming Corporation has been provided a Non-Revolving Facility of \$87.5 million on July 18, 2017, which will be subsequently converted into 5 year term loan following substantial completion of the project. As of March 31, 2018, OLG had not drawn any funds from this facility.

In the event funds are advanced under the above facilities they will be disclosed under Note 5 – Transactions with Public Bodies.

Contingencies:

At March 31, 2018, there were no claims under which the OFA would be financially liable. The Province continues to guarantee the term deposits issued by the Province of Ontario Savings Office prior to 2003.

Corporate Governance

Corporate Governance

Financial Reporting Requirements

Board of Directors

Corporate Governance

Overview

The OFA is an agent of the Crown characterized by a Management Board of Cabinet Directive as a board-governed provincial agency.

Corporate governance for the OFA involves processes that permit the effective supervision and management of the OFA's activities by senior management, the Board of Directors supported by its committees, and the Minister of Finance. It includes identifying individuals and groups responsible for the Corporation's activities and specifying their roles.

Accountability and Responsibilities

The OFA's accountability structure flows from its governing statute, the *Capital Investment Plan Act, 1993* ("CIPA"). The Minister of Finance is the minister responsible for the administration of CIPA with respect to the OFA. CIPA, together with policies and directives issued by Management Board of Cabinet, form a framework under which the OFA is governed.

Each year, the Minister of Finance is required to table the OFA's Annual Report in the Legislature. In addition, the Minister reviews and approves the OFA's annual business plan. The Minister also maintains communications with the OFA, through its Chair, regarding government policies and issues relevant to the OFA.

The Chair is accountable to the Minister of Finance for the performance of the OFA in fulfilling its mandate. CIPA provides that the Deputy Minister of Finance is the Chair of the OFA. The Chair is responsible for providing advice and information to the Minister with regard to the operation and affairs of the OFA. In addition, the Chair provides leadership to the OFA. As Deputy Minister of Finance, the Chair ensures organizational capacity in the Ministry to monitor the OFA and ensures that it manages its risks appropriately.

The Board is appointed by the Lieutenant Governor in Council and is accountable to the Minister through the Chair. The OFA Board performs a supervisory role, overseeing the management of the business and affairs of the OFA to ensure the OFA's mandate is fulfilled. The Board is comprised of both public servants employed by the Crown and independent directors. The Board meets at least quarterly and receives regular reports from the CEO and OFA staff concerning the operations of the OFA and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board-approved Code of Conduct.

There are also three committees of the Board to assist it in supervising the management of the OFA. The Audit and Risk Management Committee reviews and recommends approval by the Board of an annual internal audit plan and receives reports from the OFA's internal auditors and the Auditor General of Ontario regarding internal controls and financial reporting. It also reviews financial policies and financial statements and recommends them to the Board. Another function of the Audit and Risk Management Committee is the review of the OFA's major risks and mitigation strategies. The Human Resources and Governance Committee assists the Board in ensuring appropriate policies and procedures are in place relating to compensation for staff in critical areas and with respect to corporate governance. The OFA ONFA

Investment Committee supervises the OFA's activities related to the investment of Ontario Power Generation's Used Fuel Segregated Fund and the Decommissioning Segregated Fund established under ONFA.

The CEO works under the direction of the Chair and the Board and reports the OFA's performance to the Board. The CEO is responsible for managing the day-to-day operations and ongoing activities of the OFA, including the supervision of staff, in accordance with government policies.

The OFA's employees are appointed pursuant to the *Public Service of Ontario Act, 2006*.

Financial Reporting Requirements

The OFA prepares annual financial statements in accordance with Canadian public sector accounting standards. The financial statements are reviewed and recommended by the Audit and Risk Management Committee and approved by the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly in accordance with Canadian public sector accounting standards. The Office of the Auditor General also issues an audit report whose findings are reviewed by the Audit and Risk Management Committee and the Board. The audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included in Volume 2 of the Public Accounts of the Province. Unaudited financial statements are prepared quarterly and presented to the Audit and Risk Management Committee and the Board.

Internal Controls

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting, to safeguard the OFA's assets and to manage its liabilities.

In meeting its responsibility for the reliability and timeliness of financial information, the OFA uses a comprehensive system of internal controls, including organizational and procedural controls. The system of internal controls includes:

- comprehensive business planning;
- written communication of policies and procedures governing corporate conduct and risk management;
- segregation of duties;
- maintenance and retention of detailed records;
- responsible delegation of authority and personal accountability;
- careful selection and training of personnel; and
- regularly updated accounting and financial risk policies and procedures.

As part of its annual business plan, the OFA conducts an assessment of corporate-wide risks and develops appropriate mitigation strategies.

The Ontario Internal Audit Division of the Treasury Board Secretariat develops an annual internal audit plan based on a review of the OFA's risk assessment and input from the OFA Audit and Risk Management Committee and Management. The internal audit plan is approved by the Board on the recommendation of the OFA Audit and Risk Management Committee. The Internal Audit Division reports to the OFA Audit and Risk Management Committee on the results of its audit work in the OFA.

Board of Directors

The following individuals were members of the Board in 2017–18. Changes to Board membership status and Committee membership which arose during the fiscal year are noted below. Where an individual's status as a Board member changed after March 31, 2018 but before publication of this Annual Report, this has also been noted.



Scott Thompson

Chair, OFA Board of Directors

Date of initial appointment to OFA Board of Directors: October 2014

Pursuant to Ss.5(3) of CIPA, the Deputy Minister of Finance is, by virtue of office, the Chair of the OFA. Deputy Minister of Finance Scott Thompson was appointed to the position of Deputy Minister in the Ministry of Finance in October 2014. In his previous position as Deputy Minister, Policy and Delivery in the Ontario Cabinet Office, his primary role was to work with all Ministries in the Ontario Public Service and the Premier's Office to establish and manage the government's policy and legislative agenda.

Prior to Scott's appointment to Cabinet Office, he was the Executive Lead for the Secretariat responsible for the Commission on the Reform of Ontario's Public Services (CROPS), otherwise known as the "Drummond Commission," at the Ministry of Finance.

Throughout his 33 year tenure with the Ontario Public Service, Scott has served in various senior management positions in the Ministries of Transportation, Municipal Affairs, Finance, and Northern Development and Mines, as well as several roles in Cabinet Office.

Scott has previously served as: Assistant Deputy Minister, Provincial Highways Management, Ministry of Transportation; Assistant Deputy Minister, Policy and Planning, Ministry of Transportation; Assistant Deputy Minister, Economic, Environment, Justice and Intergovernmental Policy, Cabinet Office.

Scott began his public service career in 1985 after completing a Bachelor of Environmental Studies degree in urban planning at the University of Waterloo and graduate work in transportation planning at the University of Illinois.

In 2012, Scott was a recipient of the Silver medal in the Federal/Provincial/Territorial/Aboriginal category of the IPAC/Deloitte Public Sector Leadership Award for his work with the Secretariat responsible for CROPS.



Constance L. Sugiyama, C.M., J.D., LL.D

Vice-Chair, OFA Board of Directors

Committee: Audit and Risk Management Committee, Member

Date of Initial Appointment to OFA Board of Directors: November 2014

End of Current Term: November 2020

Constance L. Sugiyama, C.M., JD, LL.D, is a corporate director and strategy advisor. Prior to retiring from practice, she was the Deputy Chair of a national law firm and a leading corporate, capital markets and mergers and acquisitions lawyer. She is a past-Chair of the Hospital for Sick Children. Ms. Sugiyama currently serves on a number of boards and her community involvement includes, among others, serving as an advisor to the Japanese Canadian Cultural Centre, Women in Capital Markets, and the 30% Club Canada. Ms. Sugiyama has been a Board member of the Ontario Financing Authority since 2014 and it's Vice Chair since 2016.

Ms. Sugiyama was appointed a Member of the Order of Canada in 2014. She holds a BA and JD from the University of Toronto and was awarded an Honorary LL.D from the University of Western Ontario in 2015.



Gadi Mayman

Chief Executive Officer, OFA

Date of initial appointment to OFA Board of Directors: August 2000

End of Current Term: July 2020

As CEO of the Ontario Financing Authority (OFA), Gadi is responsible for the Province's capital market activities, including borrowing and debt management, corporate and electricity finance projects, and its banking and investor relationships. He is also CEO and Vice-Chair of the Ontario Electricity Financial Corporation.

Prior to joining the Ontario Ministry of Finance, Gadi worked at Export Development Canada in Ottawa and in the International Division of the TD Bank. He received a Bachelor of Applied Science in Industrial Engineering from the University of Toronto in 1981, and a Master of Business Administration from the Ivey Business School at the University of Western Ontario in 1988.

Gadi is on the boards of Infrastructure Ontario and the Ontario Capital Growth Corporation, and is Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and Ontario Power Generation Committee.



John M. Beck

Committee: Audit and Risk Management Committee, Member

Date of initial appointment to OFA Board of Directors: January 2011

End of Current Term: January 2020

John M. Beck is founder and Executive Chairman of Aecon Group Inc. (TSX: ARE), Canada's premier construction and infrastructure development company. A leader in providing services to private and public sector clients throughout Canada and internationally, Aecon primarily serves the Infrastructure, Energy and Mining sectors.

A graduate in Civil Engineering from McGill University, Mr. Beck has more than 50 years of experience in the construction industry in Canada and internationally. His background includes corporate leadership in numerous construction activities including heavy civil projects and public-private partnerships for the development of infrastructure, such as airports, toll roads and transit systems.

Mr. Beck is currently a member of the Board of Directors of the Ontario Financing Authority and the Royal Conservatory of Music. He is a member of the Advisory Council for the School of Public Policy at the University of Calgary and is also a member of the Business Council of Canada. He was previously Chairman of the Board of the Ontario Power Authority, a government agency with responsibility for planning and procuring all of the province's power needs for the next 20 years. He was named P3 Champion of the Year by the Canadian Council of Public Private Partnerships in 2013. In recognition of his distinguished achievements and career-long service to the engineering profession, Mr. Beck was inducted as a Fellow into the Canadian Academy of Engineering.



Yim Chan

Date of initial appointment to OFA Board of Directors: January 2018

End of Current Term: January 2021

Yim Chan is a retired CIO and Chief Privacy Officer, her career spanned over 35 years with IBM in various Executive Management roles across IBM Canada, Asia Pacific and Corporate.

Yim's experience in the IT Sector covers a broad scope in Technical, Management and Privacy positions to enable organization to drive business innovation and transformation. She provided Business Visionary and led cutting-edge projects and innovative technologies that drove business value and business practice leadership in IT and Privacy Leadership. Her skills included business insights and expertise in IT challenges, and privacy and security solutions incorporating the latest technologies and methodologies.

Yim co-authored Privacy papers and held Board member positions for many years with the International Association of Privacy Professionals that manages the Privacy certification global programs. She was CIPP/C and CIPM certified. She holds 2 patents.

Yim has a Bachelor of Mathematics from the University of Waterloo and a Masters Certificate from George Washington University.



Angela Holtham, FCPA, FCMA, ICD.D

Committees: Audit and Risk Management Committee, Chair

Date of initial appointment to OFA Board of Directors: February 2011

End of Current Term: February 2020

Angela retired after eight years as the Vice President, Finance, and CFO of The Hospital for Sick Children in Toronto. Prior to that, she held a number of positions in both the for-profit and not-for-profit sectors, including 20 years with Nabisco Canada, the last five of which she spent as Senior Vice President and CFO.

Angela holds a Master of Business Administration Degree from the University of Toronto, and a Bachelor of Mathematics Degree from the University of Waterloo. She is an FCPA, FCMA and holds the ICD.D directors designation.

Angela has held a number of Board positions including chair of the Board of CMA Ontario, and Board Director of Sprinkles Global Health Initiative.

She currently serves on the Boards of two Canadian publicly held companies, Oncolytics Biotech Inc. and Jamieson Wellness Inc.



Heather-Anne Irwin

Committees: Audit and Risk Management Committee, Member

Date of initial appointment to OFA Board of Directors: October 2016

End of Current Term: October 2019

Heather-Anne is an Adjunct Professor of Finance at the Rotman School of Management since 2003. She is also the Executive Director of the Canadian Securities Institute Research Foundation. Prior to this, Heather-Anne spent 19 years in capital markets at TD Securities, Nesbitt Burns, and Citibank where she occupied various senior roles in corporate finance, fixed income and structured products.

Currently Heather-Anne is a board member of the public company InnVest REIT, and Chair of its Corporate Governance and Compensation Committees. She also sits on several private boards. She is the Founding President of Women in Capital Markets.

Heather-Anne's not-for-profit board work includes, Up With Women where she is the Chair, and Bay St. Deconstructed. She was a member of the board of the Centre for Addiction and Mental Health (CAMH) Foundation from 2002–2008.

Heather-Anne has a degree in Engineering Chemistry from Queen's University and an MBA from the Schulich School of School of Business, at York.



Peter Kay

Committees: Human Resources and Governance Committee, Vice-Chair
ONFA Investment Committee, Chair

Date of Initial Appointment to OFA Board of Directors: May 2013

End of Current Term: May 2019

Peter Kay is a retired financial services executive. His career spanned 32 years with Canadian Imperial Bank of Commerce including 15 years as senior vice president and as deputy chair of the CIBC Pension Fund Committee.

Peter's experience in the financial sector covers a wide variety of areas including large-scale and structured lending, Eurobond finance, and merchant banking. Treasury-related areas include corporate and international finance, long term debt financing in the domestic Canadian, US and Euro-bond markets, and capital management and pension fund management.

Peter is a Trustee of the Upper Canada College Foundation, a charitable foundation, where he is also chair of the Governance & Nominating Committee.

Peter was awarded a BSc in Engineering from the University of Toronto, an MSc in Management Science from Imperial College, University of London, England, and an LLM in Securities Law from Osgoode Hall, York University.



Marie MacDougall

Committee: Audit and Risk Management Committee, Member

Date of Initial Appointment to OFA Board of Directors: March 2016

End of Current Term: March 2019

Before her appointment to the OFA Board of Directors, Marie MacDougall was Vice President and Treasurer at Export Development Canada (EDC) for thirty-one years. During her tenure at EDC, Marie occupied various financial, investment, and accounting roles before she was promoted to Vice President and Treasurer in February of 2000. As head of EDC's Treasury group, her team provided financial and technical support to the lending and insurance operations of the corporation. Marie's team of capital market experts developed and executed financial strategies and transactions for the corporation's long-term debt issues, short-term borrowings, investments and foreign exchange transactions, all derivative and pricing activities, and investor relations. In addition, Marie attended the EDC's Board of Directors meetings to provide support to the Chair of the Audit Committee and address any questions regarding EDC's Treasury operations.



Diane McArthur

Committees: Audit and Risk Management Committee, Member
 Human Resources and Governance Committee, Member

Date of initial appointment to OFA Board of Directors: June 2016

End of Current Term: June 2019

Diane McArthur was appointed the first Chief Talent Officer of Ontario Public Service in January 2016. Prior to this, she was the Executive Lead for the Secretariat supporting the Premier's Advisory Council on Government Assets. The Secretariat worked with ministries to successfully implement one of the largest IPO's in Ontario's history and most significant reform of beverage alcohol retailing since prohibition.

Previous executive roles include Assistant Deputy Minister and Executive Officer of Ontario Public Drug Programs (OPDP), where she oversaw the administration of the second largest drug insurance program in North America; Assistant Deputy Minister of the Ontario Seniors' Secretariat; Executive Coordinator of Health and Social Policy in Cabinet Office.

Diane has gained extensive experience in health human resource policy and planning for health care provider training, education, supply and distribution initiatives, data and health information planning and analysis, health care provider negotiations, rural health policy, labour relations, and service delivery restructuring. Previous Board experience includes Ontario Electricity Financial Corporation (Audit Committee member), Canadian Agency for Drugs and Technology in Health (Chair, Audit and Finance Committee), and the Michener Institute of Canada.

Diane has a Bachelor of Public Relations from Mount Saint Vincent University in Halifax and a Master of Business Administration from the University of Ottawa.



Catherine McCall, ICD.D

Committees: Human Resources and Governance Committee, Chair
 Audit and Risk Management Committee, Member

Date of Initial Appointment to OFA Board of Directors: November 2014

End of Current Term: November 2020

Catherine McCall is a lawyer by training and is currently the Director of Policy Development at the Canadian Coalition for Good Governance, an organization comprised of representatives of Canada's leading institutional investors. She has over 20 years of experience advising boards and institutional shareholders on a wide range of corporate governance issues.

Previously, she was a Principal at Hugessen Consulting, a Vice-President and Director of ISS Canada and a Partner with Fairvest Corporation. She began her career practicing law with Davies, Ward & Beck in Toronto.

Catherine has a BA (Honours) in Philosophy from University of Toronto and a JD from Osgoode Hall Law School.

Catherine is past Chair of the Board of ADDUS, a non-profit organization that works with adults with developmental disabilities. She was previously a Director of the Foundation Board of OCAD University and Chair of the Governance Committee. She is a member of the Ontario Securities Commission's Continuous Disclosure Advisory Committee. Catherine received the ICD.D designation in March 2017.



Paul Potvin

Committees: ONFA Investment Committee, Member

Date of initial appointment to OFA Board of Directors: February 2017

End of Current Term: February 2020

Paul Potvin is a former derivatives trader and structurer with 26 years of experience in Canadian and international fixed income, equities and credit. Paul has held senior positions with Canadian and international banks, including National Bank of Canada, CIBC, and ABN AMRO / Royal Bank of Scotland. Paul also served as a consultant to the Caisse de depot et placement du Quebec in an initiative to reduce the credit risk it assumed following the Montreal Accord restructuring of the Canadian asset-backed commercial paper market. Before working in the financial services industry, Paul was an assistant professor of finance at the University of Toronto.

Paul holds a PhD in Business Economics from Harvard University, and an Honours Bachelor of Arts from the University of Toronto.



Vincenza Sera, ICD.D

Committees: Human Resources and Governance Committee, Member

Date of initial appointment to OFA Board of Directors: February 2011

End of Current Term: February 2020

Ms. Vincenza Sera is an experienced corporate director who served on the board of the Ontario Pension Board (OPB) for 12 years, nine as Chair of the Board and Chair of OPB's Investment Committee (2007-2016). She is currently Chair of the Board of Dream Industrial REIT and a member of the boards of Investment Management Corporation of Ontario, Equitable Bank, Dream Unlimited Corp and the Ontario Financing Authority. She is also involved with the Finance Committee of Hot Docs.

A former investment banker with more than 25 years expertise in debt and equity markets, corporate finance, mergers and acquisitions and corporate governance, Ms. Sera's career has included senior positions with National Bank Financial, First Marathon Securities and CIBC. She holds an MBA from the University of Toronto.



Lorraine Bell, CPA, CA

Committees: Audit and Risk Management Committee, Member
 Human Resources and Governance Committee Member

Date of initial appointment to OFA Board of Directors: October 2005

Term Expired: December 2017

Total Annual Remuneration paid to the Board of Directors: \$83,200.

Risk Management Policies and Procedures

OFA risk management policies and procedures provide for the management of risk exposures created by capital markets activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to the Province's debt and derivatives portfolios and capital markets transactions.

The policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada, the Bank for International Settlements and in consultation with Canadian bank representatives on their risk management practices.

The Board approves risk management policies and monitors the performance of capital markets activities.

Market Risk Policy

Market risk is the risk of financial loss attributed to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- **Foreign Exchange Limit:** unhedged foreign currency exposure is limited to 5 per cent of debt issued for provincial purposes. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.
- **Net Interest Rate Resetting Limit:** the interest rate resetting risk exposure is the sum of maturities and floating-rate debt (net of liquid reserves) over the next 12 months, and is limited to a maximum of 35 per cent of debt issued for provincial purposes.
- **IOD Loss Limit:** the total amount of financial losses resulting from market risk cannot exceed 3 per cent of budgeted IOD for a fiscal year. In addition, the CEO establishes a trigger level to ensure losses from market activities will not reach the debt cost loss limit.

The OFA identifies and quantifies current and potential exposures to market risk and ensures risk exposures and losses remain within approved exposure and loss limits. Exposure to market risk is measured and reported daily.

Credit Risk Policy

Credit risk is the risk of loss in which a counterparty does not meet or defaults on its obligations. Credit risk arises when the Province undertakes financial and derivative transactions. The minimum credit rating of a new swap counterparty is typically "AA-", and "R1-mid" (and "A-1" or "P-1") for money market investments. The resulting exposure is capped at mark-to-market limits depending on the counterparty's credit rating and capital base. Concentration limits are also in place to limit exposure. Credit exposure is measured and reported daily. The Province enters into collateral agreements, including Credit Support Annexes, with certain counterparties to reduce credit exposure.

Policy on the Use of Derivatives and Other Financial Instruments

Use of derivatives and other financial instruments is restricted to those which the OFA can price and whose risk exposures can be measured by the OFA. Derivatives are used to manage exposures arising from existing and planned debt issues in a sound and cost-effective manner. Risks arising from the use of derivatives are monitored and managed prudently.

Risk Management Reporting Policy

At its regular quarterly meetings, the Board is kept informed of the OFA's activities:

- The CEO provides the Board with a progress report on the implementation of the Province's borrowing and debt management programs for the year, staffing and other administrative and operational matters. The CEO also reports on the OFA's compliance with applicable government directives.
- The Chief Financial and Risk Officer reports on program exposures and performance as well as exceptions to policies.
- Management is kept informed of risk exposures and positions related to the Province's borrowing and debt management programs on a daily basis.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or external events. Each division manages operational risk through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA maintains a Business Continuity Plan (which covers OEFC's operations) that is regularly updated to facilitate the continuation of essential operational functions with a minimum of disruption in the event of an emergency.

Appendices

Ontario's Credit Ratings

Additional Sources of Information

Appendices

Ontario's Credit Ratings

A credit rating is a current assessment of the creditworthiness of a borrower with respect to a specified 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 rating within that category.

Long-term ratings are also assigned an outlook indicating the likely direction of an issuer's rating over the intermediate term, typically ranging from 6 months to 2 years. The outlook is denoted (P) for Positive Outlook, (N) for Negative Outlook or (D) for Developing Outlook. No identifier is attached to the rating if the outlook is Stable.

As of June 1, 2018, the long-term ratings of the Province are as follows:

- Moody's Investors Service Aa2 (N)
- Standard & Poor's A+
- DBRS AA (low)
- Fitch AA- (N)

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. As of June 1, 2018, the short-term ratings of the Province are as follows:

- Moody's Investors Service P-1
- Standard & Poor's A-1
- DBRS R-1 (mid)
- Fitch F1+

Additional Sources of Information

www.ofina.on.ca

The website provides information on Ontario's borrowing program and debt, and contains publications from the OFA.

Ontario Budget

The Borrowing and Debt Management chapter discusses the Province's borrowing and debt management activities for the fiscal year ended, and outlines the outlook for the upcoming fiscal year.

Quarterly Finances – OFA Fact Sheet

The OFA Fact Sheet provides quarterly updates of the government's annual budget forecast. The full set of quarterly finances information is also available on the Ministry of Finance website, www.fin.gov.on.ca.

Form 18-k

This is the Province's annual report to the U.S. Securities and Exchange Commission (SEC).

Contact Information

Investor Relations
Ontario Financing Authority
1 Dundas Street West, Suite 1400
Toronto, Ontario, Canada
M7A 1Y7
Telephone: 416-325-8000
Email: investor@ofina.on.ca

ONTARIO FINANCING AUTHORITY

www.ofina.on.ca

**Ontario Financing Authority
1 Dundas Street West, Suite 1400
Toronto, Ontario M7A 1Y7
Canada
Telephone: (416) 325-8000
investor@ofina.on.ca
www.ofina.on.ca**

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