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Financing Authority

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Annual Report

Profile

On behalf of the Province, its Crown corporations and other public bodies, the Ontario Financing Authority:

- coordinates borrowing and financial risk management activities;
- offers short-term investment management services; and
- advises on project financing.

In a related capacity, the Province relies on the Authority to provide centralized finance and cash-management services to ministries.

Another function is operation of the Province of Ontario Savings Office, which offers deposit-taking services to the public.

As a provincial agency, the Authority reports to the Minister of Finance through its Chair, Michael Gourley, the Deputy Minister of Finance.

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Table of Contents

Message from the Chair

For the second consecutive year, the Province has exceeded its deficit targets. In 1997-98, Ontario's deficit will be reduced to $6.6 billion, a decrease of over 40 per cent from the $11.3-billion deficit outlook in 1995-96.

The fiscal improvement in Ontario and nationally has contributed positively to lower market rates overall and narrower spreads. These developments, coupled with efficient financing operations, resulted in lower debt costs to the public purse in 1996-97. As annual deficits fall to zero, the focus of our financing operations will shift toward the refinancing of maturing debt. By 1998-99, borrowing to refinance maturing debt will be more than borrowing to finance new requirements. By 2000-01, the Province will be in a position to begin paying down its accumulated debt.

The Ontario Financing Authority (the "Authority") plays a central role in raising and managing funds on behalf of the Province and other Provincial public-sector organizations. Details of the year's activities are presented in this Report; the highlights are noted below:

- The review of ministry and agency financing activities was completed in 1996-97. Notably, this review identified opportunities to generate savings of about $4.6 million, increasing to more than $7 million annually in future years. These savings — achieved without service reductions — arise largely from reducing agencies' cash balances and from implementing a combined banking service contract on behalf of the Province and its agencies. Full implementation of the review recommendations will be completed in 1997-98.
- Another initiative was the adoption of several best practices as found in the private sector. Now firmly entrenched in our operations is the practice of multi-year planning — including the use of performance measurements and benchmarking practices. Last year, consultations with our major stakeholders resulted in a number of suggestions that have been incorporated into our corporate plan.

Developments such as strong economic growth coupled with declining fiscal requirements are boding well for the Ontario credit. In turn, this creates a positive environment ensuring that Ontario taxpayers continue to benefit from lower financing and debt costs.

Michael L. Gourley
Chair

Message from the CEO

The 1996-97 period was notable for the Authority on a number of fronts.

As always, our primary objective was to ensure that Provincial borrowing and liquidity needs are met cost-effectively and efficiently, minimizing interest costs within approved risk policies and exposure limits.

Borrowing sources were also diversified away from traditional market sources, such as the Global markets, through the issuance of 14 European medium-term notes, as well as the first French Franc and Samurai issues. These issues offered very attractive rates relative to domestic sources.

Our 1996-97 performance results were exceptional. The cost of debt issued was 36 basis points lower than the domestic cost benchmark, equivalent to present-value savings of approximately $230 million. These savings were calculated by comparing the actual cost of the borrowing program to the benchmark cost of issuing in the domestic market. Decisions on the timing of borrowing also produced significant cost savings. The cost of borrowing in 1996-97 was 21 basis points — or $107 million in present-value savings — lower than market averages for the same period. Clearly, the Province's borrowing requirements were met cost-effectively.

In completing the Province's borrowing program, we took advantage of changing market conditions to minimize costs. Historically low interest rates and the steepness of the Canadian yield curve presented opportunities to lock in a significant portion of last year's financing requirements at fixed rates while increasing floating rate exposure (net of liquid reserves) from negative two per cent to five per cent.

Despite a difficult market for fixed-income products, the Government's Ontario Savings Bond campaign raised in excess of $1 billion from over 80,000 retail investors, while the campaign's administration costs were reduced by 40 per cent compared to the previous year. The campaign's results were due in part to the introduction of choices for retail investors, including the traditional variable rate and the innovative step-up bonds. These products have since been copied in other jurisdictions.

The adoption of new risk limits was a significant initiative undertaken last year. In recent years, it became clear that the existing policies on foreign exchange and floating rate exposures were too restrictive for Ontario's large borrowing program and related risk management activities. Both internal and external studies indicated that a moderate increase in foreign exchange and floating rate exposure, managed judiciously, could result in reductions in public debt interest payments (PDI) with minimal increases in risk.

As a result, we initiated the following amendments to our risk limits:

- an increase in the limit on unhedged foreign exchange exposure on debt principal from two to five per cent;
- an increase in the limit on floating rate exposure (net of liquid reserves), from 15 to 20 per cent of total debt; and
- an increase in the limit on an adverse change to PDI, from two to three per cent of annual budgeted PDI.

The Minister of Finance approved these changes in January 1997, following review and approval by the Authority's Board of Directors.

The Capital Markets and Risk Control Divisions worked with financial industry advisors to augment performance benchmarks for borrowing and liquid reserves investment activities. We will continue to work with these advisors to refine our benchmarks so they will accurately reflect the performance and best practices of the financial industry.

Finally, I would like to note that substantial progress was made in updating the Authority's information systems. This is a key strategic initiative as these systems are crucial in supporting our borrowing and risk management activities.

Looking to 1997-98, we have identified a number of goals for the Authority, including:

Cost-Effective Completion of the Borrowing Program: Net cash requirements, refinancing of maturing debt and borrowing on behalf of agencies will total $15.2 billion. Our strategy is to size and time issues to market demand, and utilize Medium-Term Note programs and private placements to improve flexibility. Should conditions permit, we will also issue in the Global Canadian dollar and U.S. dollar markets and the Euro-bond markets.

Revisiting the success of the 1996 campaign, a third Ontario Savings Bond program is a part of our strategy. The Authority will also launch its own Internet site to aid in the marketing of Ontario debt — look for us at www.ofina.on.ca.

Focus on Risk Management: The Authority's capital markets activities will place more emphasis on risk management. In this regard, we will continue ongoing work with external advisors on the benchmarks for the Province's debt portfolio.

Improvement in Cash Management and Banking Services: Further changes are planned that will improve our management of cash flows, liquid reserves and banking services for the Province.

Once again, I would like to comment on my good fortune to work with first-rate and dedicated staff. I am committed to ensuring opportunities for staff to update their skills. In so doing, the Authority will continue to have the human resources necessary to deliver the vital functions of financing and debt management.

Tony Salerno

Tony Salerno
Vice-Chair and
Chief Executive Officer

Markets and the Economy: The Year in Review

Over the past year, financial markets have come to fully accept and price into bond yields "the Canada story" of low inflation, a competitive economy and fiscal reform. Ontario, by setting aggressive fiscal targets and exceeding them, was a major contributor to this good-news story.

Less than a year ago, economists were debating whether it was possible for Canadian bond yields to trade through comparable U.S. yields for any sustained period. The answer to that question was and remains, "only if there is a reasonable expectation that the Canadian dollar will outperform its U.S. counterpart."

The fact that Canadian 10-year bond yields have been consistently lower than corresponding U.S. yields provides a clear vote of confidence from financial markets in the Canadian economy and the Canadian dollar.

In 1996, Canada's goods and services trade surplus advanced 32 per cent to a record level. This increase brought back the current account to near balance, continuing the dramatic improvement from the $29-billion, current-account deficit recorded three years earlier. Markets took this as clear evidence that the Canadian economy is competitive and that the Canadian dollar is undervalued. Markets also recognized that the strong current-account improvement greatly reduces Canadian dependence on net foreign capital inflows to finance government spending and private investment. It also reduces Canadian vulnerability to interest-rate shocks and bouts of foreign unease about Canadian political developments.

The current-account improvement in the first half of 1996 reflected, in part, weak final domestic demand in Canada. Over the second half of the year, following the first instalment of Ontario's 30 per cent income-tax cut, domestic demand strengthened, with consumer spending, housing and private investment all recording sizable increases. This spending surge, which continued into 1997, has contributed to stronger government revenues and accelerated fiscal improvement. At the same time, the substantial import content in this spending growth has caused the current account balance to level off.

Over the coming year, the good-news Canada story will continue. Nineteen ninety-seven should see strong economic growth, modest inflation and further fiscal progress.

The positive response of financial markets and the public to the 1997 Ontario budget and recent evidence of strong economic performance suggest that Ontario will remain at the heart of this positive story.

S Dorey.

Steve Dorey
Chief Economist
of Ontario

Management's Discussion and Analysis

Lower borrowing was the result of declining provincial cash requirements and a strategic decision to decrease the amount of liquid reserves.

Capital Markets Activities

Financing

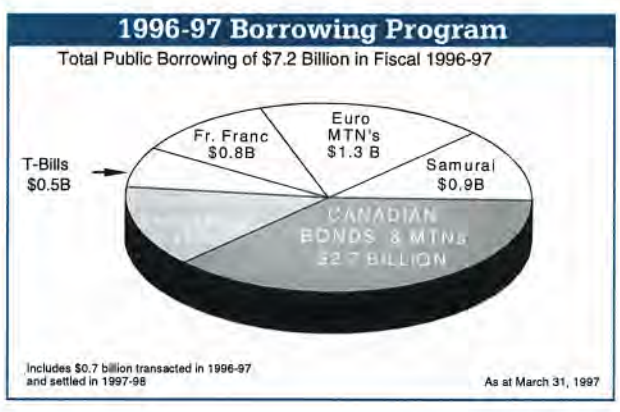
The Province continued to benefit from lower interest rates and narrower spread differentials relative to comparable government bond benchmarks throughout much of 1996-97. The trend to lower deficits, a stable credit rating, and reduced borrowing by both the Province and Ontario Hydro helped to reinforce investors' favourable perceptions of the Ontario credit.

The year's total estimated financing requirements were $12.3 billion. These consisted of the Province's net cash requirements of $5.9 billion, down from $8.8 billion expected at the start of the year (and including $0.3 billion on behalf of agencies, also down from a planned $0.5 billion) and $6.4 billion in maturing debt. Interim results indicate that these requirements were financed by $6.5 billion[1] in public market borrowing and a decrease in liquid reserves of $5.6 billion — a decrease from the projected $4.7 billion. The amount borrowed from internal sources was approximately $0.2 billion, in line with the $0.2 billion projected initially.

Net borrowing on behalf of Provincial agencies was $0.3 billion. This borrowing represents the cash advanced for projects such as Highway 407, a major new toll highway north of Toronto, and development of the interim casino in Niagara Falls, offset by principal repayments received from agencies such as the Ontario Clean Water Agency and Ontario Realty Corporation.

The Canadian domestic market remained Ontario's primary source of funds in 1996-97, accounting for over half — about $3.6 billion — of the total borrowing program. Domestic financing included:

- The second issue of Ontario Savings Bonds, which raised just over $1 billion;
- Straight bond issues in both 10- and 30-year terms, which accounted for $1.1 billion;
- Structured financing (Medium-Term Notes) of $1 billion, targeted to both retail and institutional investors; and
- An increase of $0.5 billion in outstanding Treasury bills.



[1] Excludes $0.7 billion transacted in 1996-97 but settled in 1997-98.

Other markets were also important sources of financing, as the Authority continued to diversify its use of financing instruments and broaden the Province's investor base. The Province issued its first Samurai bonds (bonds issued into the Japanese domestic market by non-Japanese entities). The three Samurai issues launched during the fiscal year comprised almost $900 million of the over $2 billion the Province raised from Japanese investors during the fiscal year. Ontario also made its debut appearance in the Euro-French Franc (FF) bond market, with a well-received FF3 billion ($800 million) issue.

For 1997-98, total financing requirements are $15.2 billion. Planned long-term public market borrowing is $9.9 billion, excluding $0.7 billion borrowed at the end of 1996-97 (but settling after March 31, 1997). To complete the program, a further $3-billion reduction in liquid reserves is planned, coupled with an increase of $1.5 billion in short-term borrowing and a small amount ($0.1 billion) of internally sourced borrowing.

The Authority will continue to meet the Province's financing requirements by targeting financial products attractive to both retail and institutional fixed-income investors worldwide. The Canadian domestic market will remain the Authority's primary source of funds. As opportunities arise, Ontario will issue bonds and Canadian Medium-Term Notes in the domestic market. For the third year, Ontario Savings Bonds will also be offered to Ontario residents.

International markets will be monitored for cost-effective borrowing opportunities. The Province expects to return to the Global Canadian dollar and U.S. dollar markets, if market conditions are appropriate. As well, the Japanese market should remain an important source of financing for Ontario.

Risk Control and Reporting

The Division's accomplishments of 1996-97 include:

- updated risk management policies governing the use of derivatives and other financial instruments;
- improved benchmarks for the Authority's funding, risk management and investment activities, to better reflect the best practices of the private sector;
- improved systems to facilitate capital markets operations, and to extend the middle-office database for improved risk monitoring and reporting capabilities; and
- initiating the development of VAR (Value-at-Risk) analysis to facilitate the assessment of the market risk on a portfolio basis, as opposed to an issue-by-issue basis.

Updated Risk Management Policies

In 1996, the Authority undertook an extensive review of its policies governing the use of derivatives. The review included a survey of studies published by industry participants and regulatory bodies, beginning with the Group of Thirty report *Derivatives: Practices and Principles*. Based on its review of the literature, the Risk Control Division updated the Authority's risk management policies to reflect current industry standards and practices. In April 1997, the Board of Directors approved these new risk management policies for implementation in 1997.

Benchmarks for Borrowing, Risk Management and Investment Activities

The Authority worked with investment dealers in 1996 to improve its performance benchmarks for borrowing, risk management activities and money market investment. The Authority's objective is to compare the cost of its borrowing and risk management activities, to the cost of financing entirely in the domestic market at fixed rates of interest. The returns from the investment of liquid reserves will be measured against a money market index-based benchmark structured to reflect the dual objectives of meeting the Province's short-term liquidity requirements and achieving competitive returns on investments.

Systems Development

The Authority undertook two major system initiatives in 1996-97. The first was the development of a "blotter" system to facilitate capital market operations by tracking individual positions and pricing transactions. While currently in use, the system will be further refined in 1997-98. The second major initiative was the creation of a comprehensive database to enable the Division to capture all transactions and associated details of the Authority's borrowing and risk management activities. This database permits daily valuation of the debt portfolio and related risk management and investment positions and serves as the primary data source for the Division's risk monitoring and position reporting.

In addition, in 1996-97, the Division undertook a major LAN (Local Area Network) upgrade and considerable workstation improvements, including hardware upgrades for 50 to 60 employee workstations and implementation of Internet access across the Authority.

Development of VAR (Value-at-Risk)

Value-at-Risk (VAR) provides a statistical estimate of the potential loss that a portfolio could experience over a specific period of time due to changes to underlying interest and foreign exchange rates. Work began in the fall of 1996 to develop a measure of the Authority's "value-at-risk" based on J.P. Morgan's Riskmetrics methodology. Once completed, VAR will assess the market risk inherent in the Authority's investment, derivative and debt portfolios.

Initiatives for 1997-98

The Authority will continue to refine its performance benchmarks. This will involve working with external advisors to ensure that benchmarks reflect the best practices of the private sector, and that changes to the Authority's financing and risk management strategies are reflected in the choice of benchmarks. For example, the performance benchmark for money market investments will be modified to reflect the recent decision to operate with lower liquid reserves than contemplated at the time the benchmark was developed.

Another project to be completed in 1997 is a thorough review of the Authority's credit exposure policies, which were originally drafted in 1991. Since that time, the types of financial instruments employed by the Authority have changed significantly. In light of these changes, the Authority intends to review its credit standards and counterparty approval process, as well as establish new policies governing documentation standards to ensure that the legal risks associated with the Authority's market operations are minimized. As well, the revisions will make the policy more comprehensive than its predecessor, by including clearer guidelines as to how the Authority will manage changes to the ratings of its counterparties.

Since 1995, the Authority has been meeting its risk management systems' requirements largely through in-house systems development. This approach has served the Authority well in establishing core risk management capabilities. However, additional functions will facilitate the implementation of other initiatives, such as performance benchmarking, portfolio optimality simulations and specific pricing models. Accordingly, the Division intends to re-examine current and future risk management requirements, assess in-house capabilities with respect to comparable entities, and survey the marketplace for possible vendor-provided solutions. The result of this project will be to define the Authority's system requirements for risk management and resolve what mix of in-house and vendor-provided solutions is best suited to meet those needs.

As noted, VAR is under development. Full implementation is expected in 1997.

Risk Management

The objective of risk management is to minimize the interest costs associated with the Province's outstanding debt and new borrowing, while strictly adhering to approved policies, borrowing plans and risk limits. As a government agency, the Authority has a risk-averse orientation and maintains a prudent and cautious approach in managing the Province's financial risks. Major risk management responsibilities include the planning and execution of financial transactions, as well as short-term borrowing, through the Province's treasury bill and U.S. commercial paper programs.

For 1997-98, the Division plans to develop a debt portfolio benchmark to guide the Authority in modifying the composition of the provincial debt to achieve the most cost-efficient portfolio possible within the policies approved by the Minister and the Board of Directors.

Currency Risk

Currency risk is the risk of increased debt servicing costs and principal payments due to fluctuations in foreign exchange rates. The policy covering currency risk stipulates that unhedged foreign exchange exposure cannot exceed five per cent of total debt. Net foreign exchange exposure was less than one per cent of total debt as of March 31, 1997.

Credit Risk

Credit risk is the risk of financial loss due to the failure of market participants to meet their financial commitments. The risk is reduced by dealing with highly rated counterparties and ensuring that exposures are not heavily concentrated with any one counterparty or group of counterparties. It is the Authority's policy that swap counterparties must be rated Single A or higher. However, our practice has been to enter into agreements with counterparties that hold "AA-" ratings or better. When there is concern over the outlook for specific counterparties, the Authority responds in one of two ways: exposures are transferred to other highly rated parties, or exposures are adjusted via contractual arrangements designed to reduce risk levels. Credit exposures are monitored daily to ensure compliance with credit and risk limits.

At year-end, 96 per cent of the notional swaps outstanding were with financial institutions holding an "AA-" or higher rating.

Counterparties for money market and foreign exchange transactions must have at least an "R-1 mid" rating by Dominion Bond Rating Service or an "A-1" or "P-1"rating by Standard and Poor's or Moody's,respectively.

Interest Rate Risk

Interest rate risk is the risk of increased debt servicing costs due to changes in interest rates. The policy states that floating rate exposure, net of liquid reserves, cannot exceed 20 per cent of outstanding debt. As of March 31, 1997, the percentage of net floating rate exposure was less than five per cent.

Liquidity Risk

Liquidity risk is the risk of having insufficient cash to meet current financial commitments. The Authority manages liquidity risk with the use of liquid reserves and through short-term borrowing. Interim results suggest that the Province's liquid reserves fell by approximately $5.6 billion in 1996-97. This decrease reflected both the cost associated with high liquid reserve levels and the improved fiscal outlook of the Province. Liquidity risk is also minimized by the Province's Treasury Bill and U.S. Commercial Paper programs, which are authorized for $6.0 billion and $2.5 billion respectively. As a back-up facility to the programs, the Authority also has US$2.5 billion in syndicated bank lines of credit involving 39 banks worldwide.

Refinancing Risk

Refinancing risk is the risk of replacing maturing debt with new debt at a higher cost. During 1996-97, the refinancing of debt amounted to $6.4 billion. For 1997-98, this amount decreases to $5.4 billion. Debt maturities will, however, remain high over the next several years. The policy stipulates that no more than 10 per cent of outstanding long-term debt can be rolled over in any year. This policy will be reviewed in 1997-98. To mitigate refinancing risk, term selection of the borrowing program factors in the existing and planned debt maturity profile. Where possible, the Authority issues debt with the aim of extending the maturity schedule.

Long-Term Debt Maturity Schedule

Notes
1 Excludes POSO, small pensions (LARA, DM, Judges), Trust & Reserve Accounts, T-Bills and US Commercial Paper.

Risk Management Activities

As of March 31, 1997, the total swap portfolio had a notional value of $83 billion. The volume of transactions during the course of 1996-97 totalled $27.3 billion in bonds, $16.7billion in interest rate and currency swaps, $36.6 billion in forward rate and currency agreements, $3.1 billion in interest rate options and $3.4 billion in currency options.

Corporate Finance

The Corporate Finance Division was active on a number of fronts during 1996-97.

A review of ministry and agency financing activities, initiated in 1995-96, successfully identified potential annual savings of $7 million that could be generated through more efficient financial management practices. Implementation of the recommendations will be completed in 1997-98.

The group provided financing advice to ministries and agencies on alternative financing approaches for correctional facilities, courthouses, schools and other capital projects. It advised on the potential disposition of various Provincial financial assets. The Division also continued to work with Metropolitan Toronto on financing alternatives for a large purchase of new subway cars.

The Division participated in a Canadian Council for Public-Private Partnerships' taskforce to develop a framework on private-sector financing for public infrastructure. In 1997-98, the Authority plans to further encourage alternative financing approaches to reduce the amount of Provincial borrowing raised in the traditional manner. In this regard, the Division will develop a policy for the appropriate use of financing alternatives for Cabinet approval and will work with the Ministry of Finance to develop guidelines for alternative financing and public-private partnerships. Once finalized, these guidelines will be shared with the investment community.

In 1997-98, Corporate Finance will continue to provide financial policy advice on a range of issues. It also expects to work closely with the Privatization Secretariat in the evaluation of privatization opportunities and proposals.

Financial Services

During 1996-97, a number of new initiatives to improve the provision of financial services to public-sector bodies were identified and implemented by the Capital Markets Treasury Division. In addition, work continued on projects initiated in previous years.

- Banking services for the Province for 1997-2002 were tendered jointly with services for eight Crown agencies. Total annual savings in banking fees of $1.1 million were achieved through the process. Implementation resulted in process improvements, which in turn increased resource efficiencies. For example, revenues will be higher by about $250,000 due to faster tax collection processes with financial institutions.
- The ability to accept debit and credit cards as a means of payment for services was extended to six more ministries in 1996-97, bringing the number of ministries using these services to 11.
- The Authority also supported the Ministry of the Attorney General's Civil Justice Review. In partnership with the Province's processing bank, the Ministry and private-sector law firms, the Authority worked to develop a pioneering pilot project to use banking technology to collect fees by electronic filing from lawyers.
- As a result of tendering for custody, settlement and safekeeping services, savings of $145,000 will be achieved once the Province's Treasury Bills are placed on Debt Clearing Services' system.
- A preliminary review of cash-flow patterns was undertaken, identifying certain cash flows as areas for possible improvement. In 1997-98 the Authority will examine these areas in more detail, with the objective of proposing feasible timing changes.

In 1997-98 the following initiatives are planned:

- Additional efficiency opportunities identified during the banking services tender process will be pursued. For example, the use of automation and electronic transmission of information will be increased in 1997-98. As well, other Crown agencies will be added to the group benefitting from the banking services and pricing arranged by the Province.
- A number of Crown agencies will also see reduced fees from participating with the Province in its credit and debit card acceptance program.
- Regarding debit cards, implementation for the remaining ministries will continue in 1997-98, as will strategic planning for future government acceptance of payment through various types of cards, including smart cards.

Province of Ontario Savings Office

The mandate of the Province of Ontario Savings Office (POSO) is to supply financing to the Province while providing competitively priced financial services to the public. Both aspects of the mandate have been achieved by focusing on the cost-effective delivery of personal customer service.

The Province of Ontario Savings Office provides deposit-taking services to the public through a network of 23 branches and five agencies. At year end, these deposits totalled $2.1 billion. Details of POSO's financial results are contained in the Summary of Financial Results.

In April 1997, the Government announced that it will review POSO as a candidate for privatization. The review will consider a variety of options, ranging from retention and revitalization, to public/private partnerships, to divestiture. Public input will be sought during the review process.

FINANCIAL STATEMENTS

Summary of Financial Results

The Authority's main source of revenue continued to be derived from the operations of the Province of Ontario Savings Office (POSO), which accepts deposits from the general public. Total funds held on deposit by POSO at March 31, 1997 decreased by $85 million, or 3.8 per cent over the year ended March 31, 1996. The decrease in funds is composed of a decrease in demand and short-term Guaranteed Investment Certificate (GIC) deposits of $109 million, offset by an increase in long-term GIC deposits of $24 million. The decline in short-term deposits reflects the migration of funds to higher-yielding securities, particularly mutual funds.

Interest paid on deposits decreased by approximately 28 per cent over last year largely due to lower interest rates. The effective average rate of interest paid on all deposits decreased to 4.1 per cent in 1996-97 from 5.7 per cent in 1995-96.

Interest is earned by POSO in respect of its contribution to the Consolidated Revenue Fund. These earnings decreased by 26 per cent over the prior year largely due to lower interest rates.

Miscellaneous revenue increased by $400,000 over the prior year due to commissions earned on the sale of the 1996 Ontario Savings Bonds (OSBs) in June 1996. Commissions earned on the 1995 OSB issue, of a similar amount, were included in revenue in fiscal 1994-95.

POSO administrative costs declined by 12 per cent over the prior year as a result of one-time expenditures made in 1995-96 for physical plant improvements and for various costs related to the introduction of short-term deposits. An increase of four per cent in salaries and benefits over the prior year is due to the discontinuation of the Social Contract.

Operations of the Ontario Financing Authority, excluding POSO (Corporate Authority), experienced an increase of nine per cent in salaries and benefits, as a result of the discontinuation of the Social Contract, filling of vacancies and salary adjustments for certain key positions.

Administrative and general costs in the Corporate Authority increased by 14 per cent primarily as a net result of higher rent for additional office space offset by reduced consulting fees.

Fixed-asset purchases of $900,000 made in 1996-97 pertained mainly to computer workstation and technology infrastructure upgrades. These upgrades were made in order to meet the constantly increasing demands for more powerful computer systems required for the specialized financial applications used by the Authority in such areas as risk management, cash management and in the monitoring of global markets.

As agent for the Province, the Authority made loans to related parties, the repayment of which is to be funded through third-party revenues. These loans are reported in Note 5(i) to the financial statements and consist of loans made to the Ontario

Transportation Capital Corporation for the building of Highway 407, the Metro Toronto Convention Centre for expansion of the Convention Centre, and Ontario Casino Corporation to finance the development of the interim Niagara Casino.

The Authority also continued to administer the loans payable and receivable of the former Ontario Municipal Improvement Corporation (OMIC). The OMIC's assets of $80.8 million consist of debentures receivable from various municipalities and school boards. The OMIC's liabilities are to the Canada Pension Plan (CPP) and the Province, as disclosed in Note 4 to the financial statements. In 1996-97, approximately $470,000 of loans receivable from municipalities matured, and a corresponding amount of related debt was repaid. Interest earned and paid on these loans in 1996-97 amounted to $7.8 million. The interest earned and paid annually by OMIC is expected to remain at this level until 2011, when CPP loans start maturing.

In addition, the Authority continued to provide investment management services to public bodies. At year end, the Authority managed investments of $172 million on behalf of the Northern Ontario Heritage Fund Corporation, as disclosed in Note 5(ii) to the financial statements.

Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Financing Authority have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 9, 1997.

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

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

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

On behalf of Management:

Tony Salerno

Tony Salerno
Vice-Chair and
Chief Executive Officer

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

AUDI ALTERAM PARTEM

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Auditor's Report

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 1997 and the statements of net income and retained earnings and of changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles.

Erik Peters

Toronto, Ontario
June 9, 1997

Erik Peters, FCA
Provincial Auditor

Balance Sheet

(in thousands of dollars)	Corporate	POSO	Total March 31, 1997	Total March 31, 1996
ASSETS				
Current assets				
Cash	$ 89	21,675	21,764	$ 20,480
Temporary investments	—	—	—	30,947
Receivable from the Province of Ontario (note 2)	314	1,694,217	1,694,531	1,823,134
Accounts receivable	2,136	29,963	32,099	37,973
Loans receivable (note 4)	323	—	323	461
Total current assets	$ 2,862	1,745,855	1,748,717	$ 1,912,995
Long term assets				
Fixed assets (note 3)	1,442	1,058	2,500	2,561
Receivable from the Province of Ontario (note 2)	—	446,629	446,629	422,743
Loans receivable (note 4)	80,463	—	80,463	80,798
Total assets	$ 84,767	2,193,542	2,278,309	$ 2,419,097
LIABILITIES AND RETAINED EARNINGS				
Current liabilities				
Accounts payable and accrued liabilities	$ 3,467	26,564	30,031	$ 38,379
Funds on deposit (note 2)	—	1,688,743	1,688,743	1,797,279
Funds on deposit - other public bodies	—	—	—	55,000
Due to the Province of Ontario (note 4)	323	—	323	461
Total current liabilities	$ 3,790	1,715,307	1,719,097	$ 1,891,119
Long term debt				
Funds on deposit (note 2)	—	446,629	446,629	422,743
Due to CPP and the Province of Ontario (note 4)	80,473	—	80,473	80,808
Total liabilities	$ 84,263	2,161,936	2,246,199	$ 2,394,670
Retained earnings	504	31,606	32,110	24,427
Total liabilities and retained earnings	$ 84,767	2,193,542	2,278,309	$ 2,419,097

See accompanying notes to financial statements

Approved on behalf of the Board:

Michael L. Gourley
Chair

Tony Salerno
Vice-Chair and Chief Executive Officer

Statement of Net Income and Retained Earnings

(in thousands of dollars)	Corporate	POSO	Total March 31, 1997	Total March 31, 1996
REVENUE				
Interest revenue	$ 7,970	106,970	114,940	$ 154,971
Cost recovery from the Province	8,625	—	8,625	8,660
Miscellaneous revenue	—	1,550	1,550	1,135
Total revenue	$ 16,595	108,520	125,115	$ 164,766
EXPENDITURES				
Interest on short-term debt	$ 95	57,491	57,586	$ 94,598
Interest on long-term debt	7,849	30,690	38,539	38,289
Salaries, wages and benefits	6,285	8,201	14,486	13,620
Administrative and general	1,954	3,887	5,841	6,145
Amortization	388	592	980	835
Total expenditures	$ 16,571	100,861	117,432	$ 153,487
Net income for the year	24	7,659	7,683	11,279
Retained earnings, beginning of year	480	23,947	24,427	13,148
Retained earnings, end of year	$ 504	31,606	32,110	$ 24,427

See accompanying notes to financial statements

Statement of Changes in Financial Position

(in thousands of dollars)	**Year-ended March 31, 1997**	**Year-ended March 31, 1996**
Funds provided by (used in):		
Operating activities		
Net income for the year	$ 7,683	$ 11,279
Adjustments to cash provided by operating activities		
Amortization	980	835
(Decrease) increase in accounts payable and accrued liabilites	(8,348)	1,942
Decrease (increase) in accounts receivable	5,874	(2,848)
Net income adjusted for non cash items	$ 6,189	$ 11,208
Funds provided by operating activities	$ 6,189	$ 11,208
Financing activities		
(Decrease) increase in funds on deposit	$ (139,650)	$ 161,238
(Decrease) in indebtedness	(473)	(1,650)
Funds (used in) provided by financing activities	$ (140,123)	$ 159,588
Investing activities		
Decrease (increase) in receivable from the Province of Ontario	$ 104,717	$ (136,698)
Decrease in loans receivable	473	1,150
Purchase of fixed assets	(919)	(613)
Funds provided by (used in) investing activities	$ 104,271	$ (136,161)
Net (decrease) increase in cash and temporary investments during the year	$ (29,663)	$ 34,635
Cash and temporary investments at beginning of year	51,427	16,792
Cash and temporary investments at end of year	$ 21,764	$ 51,427

See accompanying notes to financial statements

Notes to Financial Statements

(all tables are in thousands of dollars)

BACKGROUND

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

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

In accordance with the provisions of the Act, the Authority is incorporated under the laws of Ontario. The Authority is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act of Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

2. PROVINCE OF ONTARIO SAVINGS OFFICE

The Authority operates the Province of Ontario Savings Office (POSO). POSO accepts deposits from the general public, which form part of the Consolidated Revenue Fund of the Province. The average rate of interest paid to depositors in 1996-97 was 4.05% (1995-96 - 5.68%). These deposits are comprised as follows:

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

	March 31, 1997	March 31, 1996
Short-term deposits	$ 114,570	$ 88,438
Demand deposits	1,169,218	1,218,752
GICs maturing within one year	404,955	490,089
Total short-term funds on deposit	$ 1,688,743	$ 1,797,279

The current amounts receivable from the Province of $1,694,531 (March 31, 1996 - 1,823,134) consist of short-term funds on deposit plus working capital of the Authority.

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

Long-term receivable from the Province was $447 million at March 31, 1997 (March 31, 1996 - $423 million). This represents long-term funds on deposit with POSO and is composed of GICs (Guaranteed Investment Certificates) that mature as follows:

	As at March 31, 1997		As at March 31, 1996	
Year ended at March 31	**Principal Maturing**	**Effective Average Interest Rate (%)**	**Principal Maturing**	**Effective Average Interest Rate (%)**
1998	$ —	—	$168,084	7.18
1999	159,438	5.97	95,681	6.77
2000	149,743	7.52	111,972	8.24
2001	53,815	6.87	47,006	7.08
2002	83,633	6.12	—	—
Total	$446,629		$422,743	

3. FIXED ASSETS

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

	Cost as at April 1, 1996	Accumulated Amortization April 1, 1996	Net Fixed Assets April 1, 1996	Amortization Expense April to March	Cost of Acquisitions April to March	Net Fixed Assets March 31, 1997
TOTAL						
Furniture & equipment	$ 979	$ 179	$ 800	$ 196	$ 55	$ 659
Computer hardware	1,360	314	1,046	453	787	1,380
Leasehold improvements	1,057	342	715	331	77	461
	$ 3,396	**$ 835**	**$ 2,561**	**$ 980**	**$ 919**	**$ 2,500**
CORPORATE						
Furniture & equipment	$ 112	$ 20	$ 92	$ 23	$ 17	$ 86
Computer hardware	1,087	232	855	362	786	1,279
Leasehold improvements	26	2	24	3	56	77
	$ 1,225	$ 254	$ 971	$ 388	$ 859	$ 1,442
POSO						
Furniture & equipment	$ 867	$ 159	$ 708	$ 173	$ 38	$ 573
Computer hardware	273	82	191	91	1	101
Leasehold improvements	1,031	340	691	328	21	384
	$ 2,171	$ 581	$ 1,590	$ 592	$ 60	$ 1,058

4. ONTARIO MUNICIPAL IMPROVEMENT CORPORATION (OMIC)

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

The current portion of long-term debt at March 31, 1997 (which will mature during 1997-98) is $0.3 million (year ended March 31, 1996 - $0.5 million) and is due to the Province. Long-term debt at March 31, 1997 (maturing in 1999 and onwards), is composed of debt due to the Province of $1.5 million (March 31, 1996 - $1.8 million) and debt due to CPP of $79.0 million (March 31, 1996 - $79.0 million). The terms of the outstanding debt are as follows:

	As at March 31, 1997		As at March 31, 1996	
Year ended at March 31	Principal Maturing	Effective Average Interest Rate (%)	Principal Maturing	Effective Average Interest Rate (%)
1997	$ —	—	$ 461	12.02
1998	323	12.65	325	12.65
1999	316	13.06	318	13.06
2000	316	13.39	319	13.38
2001	326	13.58	329	13.51
2002	354	13.59	—	—
1-5 years	$ 1,635		$ 1,752	
6-20 years	79,161	9.61	79,517	9.61
Total	$ 80,796		$ 81,269	

5. RELATED-PARTY TRANSACTIONS

(i) **The Province and Other Public Bodies:** Acting as agent for the Province, the Authority provides financing to various public bodies, the repayment of which is expected from third-party sources. The funds for these loans are advanced to the Authority by the Province under a credit facility of $1.74 billion. Repayments received from public bodies by the Authority are forwarded to the Province. These transactions are not reflected in these financial statements.

Funds outstanding under the current facility bear interest at the 90-day Province of Ontario Treasury Bill rate, reset every 90 days (March 31, 1997 - 3.186%; March 31, 1996 - 5.086%) and must be repaid by the Authority on or before August 31, 1998. As at March 31, 1997, $1.31 billion (March 31, 1996 - $0.67 billion) has been advanced to the Authority.

The following represents amounts receivable by the Authority on behalf of the Province, including capitalized interest and financing costs to March 31:

	1997	1996
Ontario Transportation Capital Corporation - Hwy 407	$ 1,116,370	$ 684,418
Ontario Casino Corporation	146,990	—
Metro Toronto Convention Centre	109,916	7,345
Humber College	—*	6,002
	$ 1,373,276	$ 697,765

* Repaid on November 29, 1996.

Ontario Transportation Capital Corporation (OTCC) and Ontario Clean Water Agency (OCWA) are capital corporations incorporated under the "Capital Investment Plan Act." A capital corporation is an agent of the Province. The Board of Directors, the Chair and Vice-Chair of the Board are appointed by the Lieutenant Governor in Council.

The Ontario Casino Corporation (OCC) is an agent of the Province, incorporated under the "Ontario Casino Corporation Act." The Board of Directors, the Chair and Vice-Chair of the Board are appointed by the Lieutenant Governor in Council.

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

Humber College is a Schedule III agency of the Province of Ontario. The College's Board of Governors is appointed by the Ontario Council of Regents, which in turn is appointed by the Lieutenant Governor in Council.

(ii) **Investing for Related Parties:** In the normal course of operations, the Authority provides investment management services, as principal or agent, to other public bodies. Funds held on deposit on behalf of other public bodies at March 31, 1997 were nil (March 31, 1996 - $55 million on behalf of Ontario Clean Water Agency). Funds managed on behalf of other public bodies (which are not reflected in these financial statements) at March 31, 1997 consisted of $172 million, on behalf of Northern Ontario Heritage Fund Corporation (March 31, 1996 - nil).

6. PENSION PLAN

The Authority provides pension benefits for its employees through participation in two pension plans of the Ontario Public Service established by the Province of Ontario: the Ontario Public Service Employees' Union Pension Plan and the Public Service Pension Plan.

The Authority's contributions related to the pension plans for the year ended March 31, 1997 were $262,572 (March 31, 1996 - $299,755).

7. FINANCIAL INSTRUMENTS

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

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

8. SALARIES

Provincial legislature requires disclosures of Ontario public-sector employees who are paid an annual salary in excess of $100,000 in 1996. The individuals are listed as follows:

Name	Position	Salary Paid	Taxable Benefits
Gadi Mayman	Executive Director, Capital Markets Division	$ 113,070	$ 325.00
Mike Manning	Director, Risk Management	$ 109,375	$ 318.00
Corey Simpson	Legal Counsel	$ 114,236	$ 329.00

9. COMPARATIVE FIGURES

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

APPENDICES

Appendix 1

Corporate Governance

By effectively discharging their various responsibilities, the Ontario Financing Authority's Board of Directors, senior management staff and the Minister of Finance ensure a high standard of corporate governance with respect to the operations of the Ontario Financing Authority.

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

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

Appointed by the Lieutenant Governor in Council, the Board of Directors is committed to effective corporate governance for the Authority. It supervises the business of the Authority through a number of processes. The Board participates in the development of the annual Corporate Plan, which it approves each year. The Board also approves key policies applied by the Authority in its capital market transactions and management of the Province's debt and investment portfolios. It receives regular reports on the Authority's compliance with those policies from the Director of the Risk Control Division.

The Audit Committee of the Board of Directors reviews the quarterly and annual financial statements of the Authority for recommendation to the Board. It also oversees internal audits and receives the advice of internal auditors regarding the adequacy of internal controls. The Provincial Auditor is the auditor of the Authority. He reports the results of his audit directly to the Audit Committee and the Board.

Board of Directors

Michael L. Gourley, Chair of the Ontario Financing Authority Board of Directors and Deputy Minister of Finance, Ontario since June 1995. Michael has held leadership posts in fields ranging from academia (the University of Western Ontario), to television (TV Ontario), to the railway industry (Canadian National Railway). Michael has also held positions in both the Ontario and Quebec public service.

Tony Salerno, Vice-Chair and Chief Executive Officer of the Ontario Financing Authority and Assistant Deputy Minister, Office of the Treasury, in the Ontario Ministry of Finance; B.A., Economics; M.B.A., York University; M.A., University of Western Ontario; has held various senior posts within the Ontario public service. Prior to joining the Authority in November 1995, Tony held the position of Executive Vice President of the Ontario Transportation Capital Corporation.

Steve Dorey*, Assistant Deputy Minister, Office of Economic Policy and Chief Economist for the Ontario Ministry of Finance. Steve joined the Ministry of Finance in 1988. Prior to becoming Chief Economist, Steve was Director of the Macroeconomics Analysis and Policy Branch of the Ontario Ministry of Finance. Steve taught macroeconomics and public finance at the University of Regina. As a consultant and civil servant, Steve has advised several provincial and territorial governments on macroeconomics, trade and economic development policies.

David Guscott*, Assistant Deputy Minister, Policy Coordination, Cabinet Office. Prior to joining Cabinet Office, David was Assistant Deputy Minister, Policy and Planning in the Ontario Ministry of Transportation. He has also held various positions with the Ontario Ministries of Environment, Municipal Affairs and Treasury and Economics; B.E.S. Urban and Regional Planning, University of Waterloo; M.P.A. Queen's University.

Kathryn A. Bouey*, Assistant Deputy Minister, Program Management and Estimates Division, Management Board Secretariat. Since joining Management Board Secretariat in 1992, Kathy has held senior executive positions with the Ontario government responsible for accountability and governance; the business planning and allocations framework; negotiations and labour relations; financial and human resource management; and real estate and property development. Other experience with the Ontario government includes automobile insurance, pensions and intergovernmental finance. Prior to joining the Ontario Public Service in 1982, Kathy was employed for 11 years by the Government of Canada in progressively more responsible positions.

** Members of the Audit Committee*

Appendix 3

Directors and Officers

As of March 31, 1997

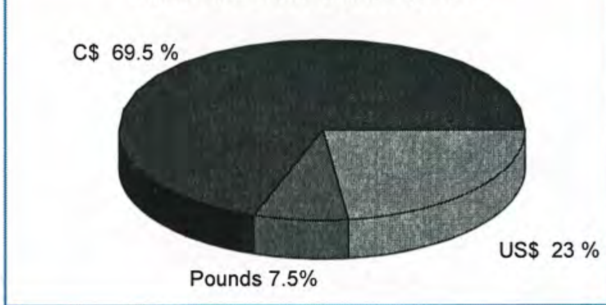
David Brand, Director, Risk Control
Mike Manning, Director, Risk Management
Gadi Mayman, Executive Director, Capital Markets Finance
Christine Moszynski, Director, Capital Markets Treasury
Bill Ralph, Director, Corporate Finance
Qaid Silk, Director, Province of Ontario Savings Office
Corey Simpson, Legal Advisor and Board Secretary

Year-Over-Year Comparison of Financing Program - By Currency

Issues are by the currency of final obligation

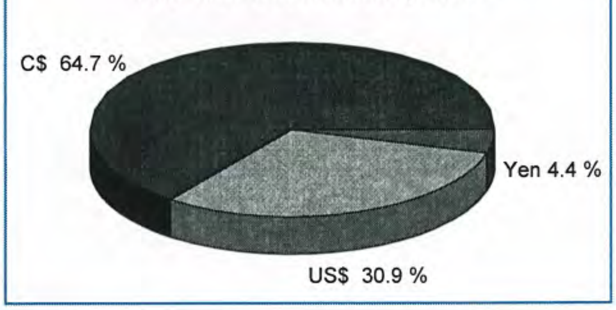
1990-1991

Total New Debt Issues: $3.02B



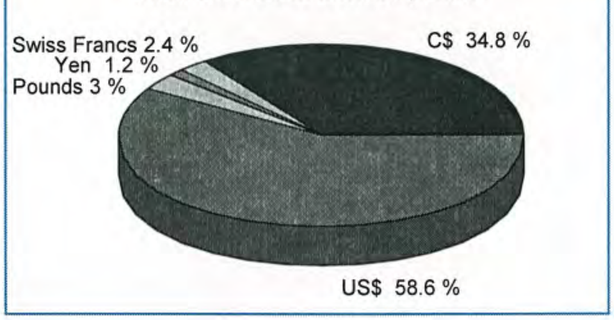
1991-1992

Total New Debt Issues: $9.80B



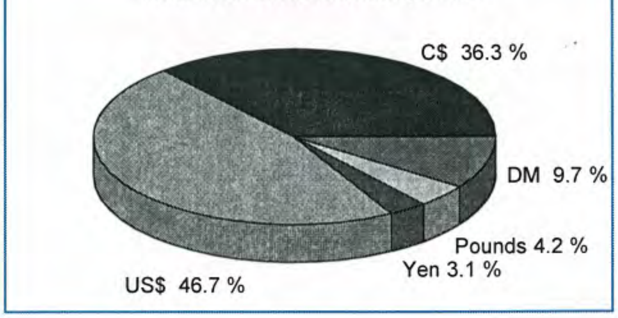
1992-1993

Total New Debt Issues: $14.9B

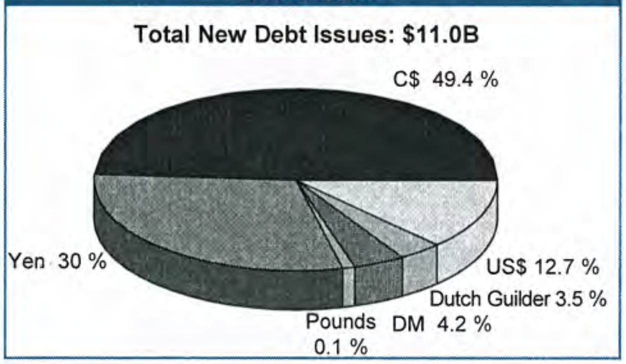


1993-1994

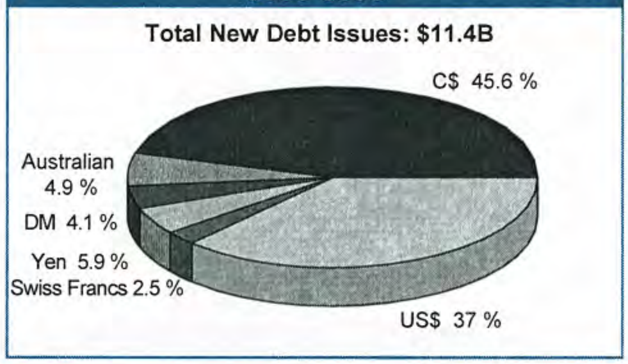
Total New Debt Issues: $12.0B



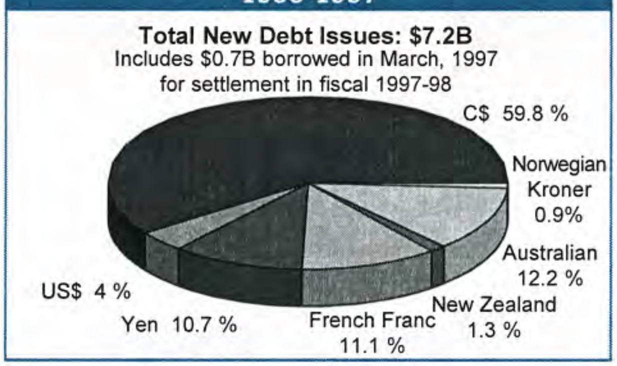
1994-1995



1995-1996



1996-1997



Footnote to Charts:

Reflects long-term provincial debt and excludes Treasury Bills, US Commercial Paper, the Province of Ontario Savings Office and other liabilities, Ontario Housing Corporation and the 1994-95 pension restructuring. The 1996-97 figures are unaudited at the time of publication.

Glossary

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

Bank for International Settlements (BIS): The BIS is an independent body that serves as a forum for monetary cooperation among the major central banks of Europe, the United States and Japan. It monitors and collects data on international banking activity, and serves as the clearing agent for the European Monetary System. The BIS has no regulatory authority but designs standards for use by banks worldwide.

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

Basis Point: One one-hundredth of one percent of yield, it is the smallest measure used in quoting yields on bonds and notes. For example, an addition of 40 basis points to a yield of 7.50% would increase the yield to 7.90%.

Bond: A certificate of debt whereby an issuer contracts to pay the owner a fixed principal amount on a stated future date. Typically there are also interest payments over the life of the bond.

Canada Deposit Insurance Corporation (CDIC): The CDIC is a federal agency that insures deposits of financial institutions. The CDIC also promotes the development of standards of sound business and financial practices for member institutions.

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

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

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

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

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

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

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

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

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

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

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

Medium-Term Notes (MTNs): Debt instruments with maturities generally ranging from one to 15 years, offered under a Program for the Issuance of Debt Instruments. MTNs are often structured to meet specific investor needs.

Net Cash Requirements: The key determinants of borrowing requirements. The net cash requirements are the difference between revenues recognized when cash is received and expenses recognized when cash is disbursed. The deficit is determined on an accrual basis and reports the gap between revenues and expenses attributed to the reporting period.

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

Office of the Superintendent of Financial Institutions (OSFI): OSFI is a regulatory agency for federally incorporated financial institutions.

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

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

Public Debt: Any debt that is free to be publicly offered.

Repurchase Agreement (REPO): An agreement between two parties to sell and subsequently repurchase a security at a specified price on a specified date.

Revenue Bond: A bond secured by revenue from tolls, user charges or rents derived from the facility financed.

Self-Supporting Debt: Debt that finances a project, where the revenues will be adequate to pay off the bonds.

Spread: In terms of swaps, the basis points added to benchmark government bond yields to determine the all-in swap cost.

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

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

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

Exchanges where the Province is listed

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

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Information on the Ontario Financing Authority, including information on the Province of Ontario's financing and debt management programs is accessible on the Internet, at www.ofina.on.ca.

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Ontario